# Content

**Preface**

From the Editors’ Desk

**Perspectives on IT Optimization**

1. Shed Light on your ‘RTS’: Driving Optimization through Financial Transparency 05
2. Outsourcing Trends in IT Optimization: A Survey-based Article 13
3. IT Optimization: Roadmap to Cost Reduction 19
4. IT Optimization Driven by Information Lifecycle Management (ILM) Program: A Case Study 31
5. Post-Merger Optimization: Defining a Roadmap to Success 43

**IT Optimization Models and Techniques**

6. IT Optimization on the Cutting Edge: Opportunities via Joint IP Creation and Divestment of IP Assets 49
7. Tapping into Saas and Pre-packaged Models to Drive Optimization 57
8. Virtualization: A Cornerstone of Infrastructure Optimization 67
9. UoW Model: Optimization through Innovative Pricing 77
10. Effective IT Optimization by Process Optimization 85
During a downturn, it is very common for businesses to either shed extra flab or acquire ailing organizations. Similarly, during favorable economic cycles, organizations must remain diligent about seeking out and executing cost cutting and competitive advantage supporting activities. In either scenario, improving and automating business processes supports these activities and drives value realization. This article focuses on enabling IT Optimization through effective Process Optimization.

Introduction
The recent downturn in the economy has led to marketplace consolidation stemming from a spate of merger & acquisition activity, especially in the financial services area. The market has seen several prominent consolidations, including those of Bear Sterns with JP Morgan Chase, US Trust and Merrill Lynch with Bank of America, and Wachovia with Wells. These organizations are not merely adding complimentary lines of businesses (LOBs) through these actions, they are quite often increasing their overhead in existing lines of business. The overhead increase often leads to margin erosion and declines in productivity. To realize the synergies created by a combined entity, one of the first courses of action the business must take is to invest heavily in consolidation of their IT operations.

Take for example a simple loan origination process - while the underlying fundamental principles would be the same in both organizations, the way these principles are enforced/implemented would be different. How do we then conclude which set of processes is better than the other? Are there guidelines to arrive at that decision? What factors affect the decision making process? A thorough analysis of business processes, aided by established processes/frameworks and tools, can help organizations find answers to these questions, and many more.

We expect that most IT spending in the next couple of years will be dedicated to streamlining operations across these merged organizations. Failure to do so will likely lead to process inefficiencies and increased
operational costs. For the foreseeable future, Business Process Improvement should be foremost on the minds of CIOs, as businesses strive to rationalize their operations.

Though the economy shows signs of a turnaround, there's little doubt that IT spending will be under greater scrutiny and will be viewed through a magnified lens in the years to come. Most IT budgets were already stagnant or growing slowly, as firms sought to cut their spending to maximize efficiency and profitability. However, the lack of timely investment in business process reengineering may lead to more complex and costly IT systems in the merged entities.

We expect many organizations to stay away from new IT development projects in the near-term, instead looking to improve existing processes and focus more on capturing growth through increased process efficiency and resource productivity. This entails the redesigning of business processes to be more efficient. The remainder of this article highlights process optimization focus areas for the streamlining organization.

**Process Optimization - A Way to Drive Business Value**

Process Optimization focuses on deriving more out of services in order to produce higher business value. Business owners now demand the ability to collect, analyze, and act on information on a real-time basis. To be able to do that, organizations need to optimize business and IT processes and synchronize both of these functions to achieve better business results.

Do IT optimization and Process Optimization go hand in hand? Is it possible to achieve one without the other?

While it's possible to optimize IT processes without changing the associated business process, it's rarely possible to ignore IT optimization when trying to achieve process optimization. For example, when we talk about process optimization, the first thing that comes to mind is opportunities for automation. Automation cannot be achieved without IT.

To compete more effectively in a challenging business climate, many organizations consolidate operations to drive business growth. When consolidating operations, it is important to analyze the key business and IT processes that support revenue growth. Identifying opportunities to improve and, where possible, automate these processes will accelerate the realization of value, assuming the underlying IT infrastructure is scalable and agile.

Before an organization embarks on a Process Optimization exercise, some fact finding needs to be done. The first and foremost exercise is to analyze where the organization currently is and where it wants to be in the future. The facts unearthed during the current state analysis form the foundation of what improvements are required to achieve the optimized future state. Future state outcomes are mostly based on the findings of current state processes and some additional improvements required by the business. Once the findings from this exercise are listed, a Process Optimization evaluation may be done to map the desired state.

**IT Optimization Roadmap**

Process optimization is crucial for achieving IT optimization. Figure 2 displays the step-by-step approach for achieving IT process optimization.

**Step 1: Process Identification and Prioritization**

To identify and diagram a list of processes that need to be improved or optimized, it is important to first understand critical
Process Optimization - Key Considerations

- Assess status of firm’s IT Infrastructure
- Identify gaps and improvements
- Identify synergies

IT Optimization Framework

- Identify & Prioritize Key Business Processes:
  - Analyze key business processes
  - Prioritize business processes by in-depth analysis of key functions
  - Identify each business process as a change lever to either achieve cost reduction or increase revenue

- As-Is Process Analysis and Mapping:
  - Understand and create current process maps
  - Identify IT touch points in the process
  - Identify human touch points
  - Define process and application requirements

- Identify & Finalize Optimization Opportunities:
  - Requirements fitment
  - Application considerations
  - Process automation
  - Time, cost, capability consideration
  - Validate and finalize optimization opportunities

- To Be Process Mapping:
  - Streamline business processes with optimization techniques as per the optimization decisions
  - Facilitate, socialize the case for change
  - Gain key stakeholder buy-in

- System Implementation:
  - Lead new process start-up
  - Enforce Process Change
  - Implement and manage performance
  - Continuously improve process performance
business processes along with the factors that are driving costs or are causing operational inefficiencies. Each of these business processes is measured across three different parameters - **WHAT** are its key business drivers, **WHERE** does it fit into the overall organizational goal, and **HOW** can optimizing this process help in achieving the overall organizational goal (see Figure 3).

**Step 2: AS-IS Process Analysis**

The primary focus of AS-IS process analysis is to understand **WHAT** activity is being performed, and **WHY** this activity is being performed. It drives the creation of high level and detailed business process flows, covering the tasks performed by these processes, the dependencies, if any, and how these are interrelated.

A typical AS-IS process analysis would help in:

1. **Defining the process boundaries that mark the entry and exit points of the process as a whole.**

2. **Creating a process flow diagram, illustrating the various sub-process activities and how they interface with the IT infrastructure.** Specific details around system interactions should also be captured here. These would become the IT touch points.

3. **Calculating the cycle time for each of the sub-processes and identifying processes that are 'bottlenecks', i.e., those accounting for delays in the overall process.** There could be multiple causes for delays. For example, the interfacing IT systems may not be responsive enough or the processes could be manual, process-driven, 'human' touch points. The data collected here would help in drafting the To-Be process.

4. **Deep dive into the processes that are indentified as bottlenecks, and evaluate further limitations in order to quantify the impact of the bottlenecks.** Use this analysis to make operating decisions and to optimize the bottlenecked process.
Questions that need to be answered at each step of the IT Optimization AS-IS process are shown in Figure 4.

The current state process gives the organization a platform to identify gaps in infrastructure capabilities, facilitate brainstorming to identify opportunities to synergize their IT infrastructure, and envision the process improvements that can also optimize their IT infrastructure.

**Step 3: Identify and Finalize Optimization Opportunities**

In aligning company goals in business and IT, the company must achieve a level of

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**Criteria to Finalize IT Optimization Opportunities**

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Benefits</th>
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| Enable New Business Capability| • Create a flexible, dynamic infrastructure  
                                 • Leverage information more effectively |
| Improve Internal Efficiencies | • Improve infrastructure responsiveness  
                                 • Establish global consistency of IT management |
| Reduce overall IT Cost        | • Reduce IT cost structure  
                                 • Improve energy efficiency |
| Promote Customer Satisfaction | • Improve service reliability |
process orchestration that will bring greater agility and adaptability to operations. Firms need to choose the best possible solution that can reduce IT spending.

Based on current infrastructure capabilities, a detailed needs analysis of the IT infrastructure should be performed in conjunction with analyses of new technologies, product implementation opportunities, application considerations, and process automation opportunities which strive to improve the efficiency of the IT staff by standardizing common processes across all platforms, automating repetitive tasks, and consolidating workload.

Back to the original example: for a typical loan origination platform of a newly-merged entity, the touch points for optimizing IT are as follows:

- Sourcing and collecting the loan application
- Application validation
- Credit and Patriot Act check
- Loan decisioning
- Mode of communicating decision
- Collecting and storing the supporting documents
- Disbursing funds

While performing Optimization opportunities decision analysis, firms need to consider the requirement fitment and also the time, cost, and capabilities needs. The key activities that help identify optimization opportunities are:

- Cause & effect analysis
- Working sessions with key stakeholders
- Identification of sub-processes which:
  1. Have high failure rates
  2. Account for increased execution time
  3. Are being duplicated and can be removed or combined with other processes
  4. Require a lot of rework
  5. Have potential to be automated

**Step 4: To-Be Process Mapping and System Implementation**

Finalizing the optimization requirements - process and IT - will lead firms in building the To-Be processes. These To-Be process flows account for identified changes to the existing process and IT infrastructure. Possible changes include building new advanced systems, synergizing the existing capabilities, and trimming non-performing assets. Buy-in from key stakeholders needs to be obtained to ensure the viability of the process changes.

Figure 6 highlights what a successful IT optimization initiative should position an organization to do, from a technology and business perspective.

Finally, the value created by the optimization initiative needs to be measured and monitored to evaluate opportunities for further process improvement.

**Challenges in IT Optimization**

IT Optimization comes with many challenges; these are highlighted in Figure 8.

**Conclusion**

IT optimization will be a key initiative in the coming years as organizations look to reduce spending and increase efficiency. Organizations, industry-wide, should be looking to improve their business processes in order to optimize their IT operations. There is always scope for improvement in every process, be it because of the advent of a new technology or an organization's drive to reduce operational costs.
**Effective IT Optimization Perspective - Technology and Business**

| Anticipate and manage change | T |
| Adopt, integrate, standardize and automate it process | T |
| Expand on the value of existing investments in virtualization and server consolidation | T |
| Increase the value of revenue - generating services | T |
| Better manage cost and risk | B |
| Support business innovation | B |
| Comply with current regulations and best practices | B |
| Satisfy customer expectations | B |
| Meet service levels, remain competitive | B |

**Challenges in IT Optimization Process**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Risk Details</th>
<th>Mitigation</th>
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| People Skills | • Availability of people who can understand end-to-end business functionality  
• Experience in handling such a huge business transformation exercise | • Create resource pool with Enterprise Architecture capability  
• Place right people at right place at right time |
| Firm Business Strategy | • Conflict between the Business strategy vs IT Optimization  
E.g., Company’s business strategy may favor a decentralized approach to data centers as opposed to a highly centralized system of data centers | • Need to create a strong business case that can showcase the value realized by initiating IT Optimization |
| High Budget and Long Duration | • Huge investments may be required to drive this initiative  
• Time required to execute these engagements is typically high | • Proper planning and budget allocation is required  
• Prioritize requirements and schedule the releases periodically  
• Engage a business transformation consultant who is experienced in running these initiatives |
| Multiple Dependency | • Collaboration between multiple units at multi locations is required  
- multiple business units, IT groups, infrastructure groups | • Socialize the importance of initiative and benefits that would be derived through IT Optimization |
Though firms understand the importance of IT optimization, uncertainty in the economy has jeopardized their desire to execute IT initiatives. In their thirst to improve shareholder value, firms, by implementing a process-driven approach in IT optimization, achieve high operational efficiencies and reduce IT spending while minimizing economic risk.

Reference
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FINsights
Technology Insights for the Financial Services Industry

Virtualization
Rationalization
Process Optimization
Business - IT Alignment
Robust Governance
Knowledge Management
Cloud Computing
Automation
Integration

Standardization
Simplification
Managed Services
Consolidation
Streamlined RTS
SaaS
UOW Pricing

IN THIS ISSUE
- Shed Light on your ‘RTS’: Driving Optimization through Financial Transparency
- IT Optimization on the Cutting Edge: Opportunities via Joint IP Creation and Divestment of IP Assets

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