

## Optimizing Shared IT Services in a Federalist Organization

### Industry & Client Situation

This diversified manufacturing company was dissatisfied with the return on its investment in information technology. IT did not have a prominent role in the manufacturer's business strategy, yet the company found itself spending significantly more on IT as a share of revenue than any of its nearest competitors. Furthermore, an informal study of companies in the manufacturer's peer group concluded that high spending on IT as a share of revenue was in all cases correlated with poorer overall company performance rather than innovative new products or a more highly automated operation. IT expense simply ate into margin, in a business where margins were already perilously thin, and plants were being relocated to lower cost countries such as China at an ever increasing pace.

### Approach

Our analysis concluded that at the heart of the manufacturer's overspending on IT was a fundamental failure to address the challenges of a "federal" organization model (i.e., one that assigns a great deal of authority to subsidiary units that bear profit and loss responsibility). The company's IT organization was highly decentralized, with business units, divisions within business units, and even individual plants having their own independent IT groups. Key issues included a proliferation of ERP applications, many tailored to the needs of just a single plant, a fragmented IT spend that failed (in dramatic fashion) to maximize the company's leverage on vendors, a chargeback system that encouraged business units and divisions to opt out of the shared infrastructure, and generally weak governance from the center.

The keys to solving the company's IT problem, given constraints in place, were to:

- Redesign the chargeback system to encourage desirable behaviors (e.g., consolidating onto a smaller number of ERP applications) and discourage undesirable ones (e.g., maintaining one's own data center)
- Convince business units to participate together in negotiations with vendors to maximize leverage on them;
- Begin transitioning selected development and maintenance responsibilities to proven IT service providers in India; and
- Expose IT to the discipline of competition by allowing business units and subsidiary entities to choose their own providers, albeit with a pricing bias in favor of internal IT where scale benefits associated with combining the efforts of several groups exceeded the value of allowing them to go their own way.

The company's CIO took the comprehensive plan to its board of directors and received the blessing of board members. Margins were under pressure and any opportunity to reduce costs without damaging service levels was most welcome. In the spirit of federalism, the CIO socialized the final roadmap with divisional CIOs. A council of IT leaders directed the implementation of the broad plan.

### Results

The project had set a goal of reducing IT's budget by 20% over 18 months without negatively impacting service. The very next year's IT budget was reduced by 20 percent, with the subsequent year's budget projected to decline by a further 15 percent – all while delivering the same level of service to internal customers throughout the organization

Offshoring and centralized procurement accounted for over half of the benefits case. Bridge was retained to assist the sourcing organization in corralling rogue spending and establishing vendor contracts that went a long way toward generating the targeted savings.

The company's CIO recently reported that demand for IT services had begun to rise.