

Media Room 'Rare opportunity to spend up on IT as recession bites.'

Article by Adam Gifford – NZ Herald – Heraldjobs.co.nz

Cuts in downturn can hurt your ability to benefit when times take an upswing.

As the world economy slows down and the recession bites, many firms will be looking to their information technology as a place to cut spending. It's an area fraught with risk. Businesses are now so dependent on IT that ill-considered cuts weaken organisations' ability to react to changes in markets conditions.

Consulting firm McKinsey say downturns give companies a chance to buck conventional wisdom and increase their IT Investments.

In the latest *McKinsey Quarterly*, consultants James Kaplan, Roger Roberts and Johnson Sikes says such investment can deliver value to a company's top and bottom lines by creating new efficiencies and increasing revenues.

While a traditional IT cost reduction in the range of 15% may add 0.5% to the bottom line, organisations can boost profits 1 to 5% by through investments in technology for merchandising support, supply chain optimisation and better pricing.

Unnecessary discounting and poor sales force management costs organisations millions in revenue, which can be recouped by understanding better information already in the system.

Ian Black, the New Zealand manager of business software make SAP, says most organisations will have duplicated or inefficient systems that they can switch off. "It could be an opportunity to retire legacy systems and get capacity in the business to fix things so when the economy does pick up, they can take a breather and improve their processes. People will tolerate a lot of inefficiency when times are good".

Rooting out that inefficiency requires collaboration between businesses and IT managers to understand what is really going on in an organisation and what the options are.

IT should only be bought based on the business case – what it can deliver to the business rather than the geeks in the back room, if they still exist. Black says the kind of projects he is seeing in the market reflect a desire by organisations to get more efficiency and improve the quality of their decision-making.

Supply Chain Optimisation is still popular, as are customer management systems and business intelligence tools which give managers better ways to view the data in their production systems.

There is also continued spending in middleware, as organisations modernise their systems to bring them in line with current thinking about software architectures that are more flexible and internet-driven.

Scott Green, Chief Executive of IT services firm, Axon, says it's a good time for organisations to review IT spending. He says many companies will see sweating their assets as a logical step. "Your refresh cycles get pushed out from three to four years, you live a bit longer with an older laptop or desktop and make it work." He says they need to make smart decisions about what assets they sweat. "If it's a choice between a new laptop or upgrading services for resilience, I'd say go for the investment in the back-end." Business cases need to look at hard savings. "It can be difficult, but if I think something will drive efficiency in the organisation, I need to show where the impact is in the budget." He says if staff numbers are reduced through redundancies or attrition, managers need to look at investment in new tools and technology allowing remaining staff to maintain acceptable levels of customer service. "If you think you can take head count out and achieve the same outcomes, just consider that it is unusual in organisations today to find people sitting around doing nothing."

He says continuity of service can be critical in maintaining customer confidence in an organisation, especially if competitors start falling by the wayside. For example the failure of an ATM could spark a run on a bank in times of low confidence. "So you have to invest in those areas that matter to the end user and customer confidence." Green says it may be a good time for organisations to review whether they still need in-house IT, or if they should outsource to a service provider who can recruit and retain the specialist staff needed to maintain systems remotely. "For many years companies have said they need their own IT people. It's like a car pool needing it's own mechanic," he says.