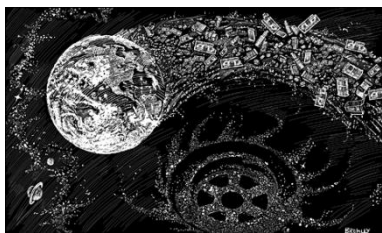




## Will your IT Cost Reduction programmes deliver enough savings for you to survive the Credit Crunch?

*Here's why they won't (and what you can do about it)*

As a senior executive you are almost certainly under severe pressure to accelerate the delivery of significant cost reductions within your IT and back office functions without compromising service quality severely. Simply implementing cost containment strategies that hold IT and back office costs steady is no longer a sustainable approach if you are to survive the pressures of the Credit Crunch on your earnings. How has this difficult situation arisen and what can you do to respond successfully?



The 'credit crunch' has wreaked havoc across financial institutions; not only in the USA but across Europe and Asia. Some estimates suggest that the total losses, related to US sub-prime mortgages and leveraged loans, could hit \$1 trillion (source Guardian 12 August 2008). The UK saw its first bank run since 1866 with the collapse of Northern Rock, which required the UK government to nationalise the bank and ensure its survival with a £24 billion loan.



In his quarterly report, Mervyn King, the Governor of the Bank of England, declared that "the nice decade is behind us" (14 May 2008).

In response, major financial institutions are being forced to reexamine their business models and seek to make structural reductions in their operating costs, in order to ensure their long-term viability. Those banks who are unable to make the adjustments face being taken over by stronger rivals as we've seen with the takeover of Alliance & Leicester bank in the UK by Santander.

The CEO agenda in those financial institutions that are determined to be survivors rather than acquisition victims has moved to focus on how to deliver significant cost reductions in IT and back office processes.

The reason for this is simple; IT and back office costs are amongst the largest cost drivers within financial institutions. Typically IT represents 20-30% of operating

costs and back office admin a further 10-20 % of operating costs.

At the same time your IT and back office functions need to support a dynamic business environment that has to cope with fluctuating workloads, staff shortages and ever increasing demands from the rest of the business.

Your success as a senior executive will depend on how well you can deliver significant cost reductions while meeting these conflicting demands.

One thing is certain; you cannot deliver significant sustainable cost reductions by using the same solutions you have turned to in the past.

For a start, let's take a more detailed look at some of the problems you are probably facing right now.

**"John changed how we thought. He brought an intellectual framework to analyse how our businesses were performing and what needed to change. That is where John adds a lot of value"**  
 Andy Homer - Towergate Insurance (Group Chief Executive)

## 7 COMMON PROBLEMS

### Problem 1

#### **The complexity of large-scale IT systems**

IT systems and back office processes within financial institutions are extremely complex and everything appears to be connected to everything else. So where do you start? You can't afford to set off a damaging domino effect on service quality by inadvertently cutting out a critical function. But if you are overly cautious, you risk your cost reduction programme delivering too little too late. But who wants to rush across a minefield?

### Problem 2

#### **Large-scale complex projects are high-risk**

Delivering strategic projects within IT and back office operations is a difficult, high-risk endeavour. Everyone knows that the capability to translate 'strategy' into 'execution' is critical to business performance, but that doesn't make it easy. Far from it. The failure rate on strategic projects can run as high as 60-80% (see the Working Council for CFOs at [www.executiveboard.com](http://www.executiveboard.com)).

The greater your project complexity, then the higher the risk your project will suffer budget overruns, time delays and shortfalls against the benefits case. Failure to deliver sufficient cost reductions frequently occurs when your overall cost reduction programme is overly dependent on too many large-scale projects with protracted timescales and over extended teams.

### Problem 3

#### **Offshoring and outsourcing can create significant service delivery issues**

Offshoring offers significant savings of 20-65% whilst outsourcing offers attractive savings of 20-30% savings on your current costs. Yet implementing these strategies puts

you at substantial risk of seriously damaging service delivery to critical revenue earning business units and clients. The savings from both strategies can unravel as offshored units demand additional staffing and outsourcers exploit their negotiating power to hold you to ransom on 'change requests'.

### Problem 4

#### **Over reliance on 'silver bullet' enterprise level solutions**

Many financial institutions turn to large, global technology firms for advice on how to reduce technology costs. It shouldn't be surprising that they frequently advise you to undertake large-scale complex 'enterprise level' IT transformation programmes requiring significant investments on your part. Alternative strategies that emphasise simpler, lower cost approaches that still deliver significant cost reductions can often be overlooked. Your promised cost reductions can so easily evaporate as the implementation timescales for these 'silver bullet' programmes slip further and further.

### Problem 5

#### **IT infrastructure costs are profoundly difficult to rollback**

Your largest IT operating costs relate to IT infrastructure and yet this is your most difficult area to tackle. The situation is made more difficult by the remorseless increase in demand for IT storage, network capacity and the latest technology devices. If you turn for advice to large global technology firms to help you reduce your significant IT infrastructure, network and desktop costs the proposed solutions can require significant capital investments that are unlikely to be agreed to by your CFO.

### Problem 6

#### **Financial Service companies are a lot more complicated than car plants**

Strategies, tools and techniques that work in car plants may not work as well in financial services. Complex regulatory and compliance obligations, 'invisible' products and services rather than physical products and dependency on large-scale IT legacy systems all combine to make delivering meaningful cost reduction in IT and back office operations supreme challenges.

Methods such as Six Sigma and Lean may provide initial benefits however such approaches cope poorly with the variability and complexity of the IT and business architecture of financial institutions and trying to force a square peg solution into a round hole problem causes disappointment.

### Problem 7

#### **Investments in automation and workflow have a mixed track record**

You understand the potential of automation and workflow to increase productivity - but these investments have a mixed track record. Many automation projects end up recreating the manual processes they replaced and unsurprisingly the productivity improvements and cost reductions achieved are disappointing. The key challenge is to refocus the project team's efforts to streamline and enhance key processes from a customer perspective first and foremost. This should come before starting coding with automation and workflow software tools.



## Why traditional approaches fail – a potential death spiral

To address the issues of complex projects, inappropriate techniques and the need to improve performance many large organisations adopt IT cost reduction approaches that are destined to under-deliver.

### Does this death spiral look familiar to you?

1. An IT transformation programme is set in motion as an answer to demands for significant long-term IT cost reductions.
2. The focus of the programme is often the implementation of an enterprise level IT transformation – the ‘silver bullet’.
3. If approved, the new solution typically takes much longer and costs more than planned.
4. Funding is constrained, so your enterprise level IT transformation is then de-prioritised / de-scoped / scrapped.
5. If eventually partially implemented, delivering the original targets for commercial benefits is problematic.
6. In the interim your focus turns to less technology dependent cost reduction approaches (such as postponing hardware refreshes).
7. Time for programme rescue – a new approach, such as SOAS or Lean Six-Sigma, becomes the way forward.
8. You establish a team of ‘experts’ to analyse the business.
9. The ‘experts’ seek buy-in and support and spend 3-4 months analysing the current state.
10. They design, blueprint and implement ‘new’ efficient processes. The project team then moves on before benefits are secured.
11. Go back to step 1 above...and start again

## SO AFTER ALL THIS EXPENSE, TIME AND EFFORT WHY DOES SO LITTLE CHANGE?

We believe there is one simple reason why all this effort and

activity produces so little in terms of sustainable cost reductions. It’s because the underlying productivity of your people and processes has not been addressed. Typically in IT and back office processes within financial institutions up to 50-70% of activities and costs are non-value added from a customer perspective. The principal root cause of this wasted energy and costs is over-complexity. The focus of our unique combination of tools, techniques and methods is to enable you to eliminate complexity rapidly and redeploy effort towards ensuring successful customer outcomes. As a result you can enjoy significant cost reductions and higher staff productivity whilst improving service quality. We know this is an approach that works from our direct practical experience of working with leading financial institutions over the past twenty-five years.

“Exceptional and transforming. This should be on every corporate agenda”  
**President**  
**US Pharmaceutical**

## 7 TIPS FOR SUCCESS

We would like to share 7 key tips that you should consider before embarking on a large-scale IT transformation programme. These tips can help you to improve productivity and customer service significantly whilst achieving accelerated cost reductions.

### TIP 1

#### It pays to get the basics right first

By focusing on eliminating complexity prior to embarking on process re-engineering or technological change you will derive greater benefits sooner. This approach delivers to you many of the cost reductions, productivity uplifts and improvements to service you were hoping to gain through a large-scale transformation without the associated costs. You should

expect to deliver 10-15% productivity improvements within 90 days by using straightforward techniques that help you eliminate complexity rapidly.

### TIP 2

#### Back office automation is not a panacea

Our research shows re-engineering of processes or automation of poorly performing operations may well boost productivity in some cases but these approaches are expensive and, at best, deliver a one-off limited increase in productivity. They also tend to mask inherent issues and weaknesses in your business, failing to address the root causes of poor productivity. Automation is not the panacea to process problems and will frequently make things worse. Increased manual workarounds become the norm with a negative impact on staff morale and engagement.

### TIP 3

#### Buy only what you need

As the price performance of PCs continues to increase with ‘Moore’s law’ the capability of the humble commodity PC today far outstrips the performance of the highest specification PC from 3-4 years ago. There is a tremendous temptation to buy the latest PC model with the latest software and yet it’s worthwhile to verify what the PC will be used for. At one client, the intention was to carry out a major refresh programme with the latest high specification PCs until it was realised that the vast majority of staff would be using their PC to log onto their mainframe system through a ‘3270’ terminal emulation piece of software that only needed a fraction of the computing horsepower available.

We would suggest purchasing lower cost PCs with extended refresh cycles for the majority of staff who are carrying out administrative tasks while limiting the purchase of high performance PCs.

#### TIP 4

Keep things simple and reduce standard configurations  
Your cost structure is directly related to the complexity of your operations. Seek to minimise the number of different hardware, operating system, application software and desktop environments in use. If you want to understand the cost differences, simply ask one of the leading outsourcing firms to provide you with desktop outsourcing quotations based on alternative configurations.

#### TIP 5

##### **Avoid allocations – move to charging that reflects usage**

Many organisations seek to charge back IT costs based on an allocation method. This can encourage gaming as the smartest negotiators over allocations end up with reduced allocation charges. However if the business users can't significantly reduce their IT charges by changing their usage patterns then the allocation method is almost useless in terms of incentivising the business to reduce its demand for IT services. A more effective approach is to move to a 'user pays' charging structure that reflects as much of your underlying IT costs within the monthly charges applied to the business units. For example, if you provide a commodity PC at the fraction of the cost of a premium PC and charge the costs back to individual business departments – this will provide a strong incentive for departmental heads to economise on 'fit-for-purpose' PCs. The same principal applies for encouraging the take-up of simple mobile phones compared to sophisticated 'must-have' accessories such as the latest Blackberries.

#### TIP 6

##### **An up-to-date asset register is a gold mine**

With continuing staff turnover, acquisition and disposal of business

units and admin functions, it's all too easy for you to end up paying for far more software licenses and maintenance charges than you need to. In some organisations, we've found the ratio of individual software licenses and maintenance contracts in excess of 2 to 3 per employee. You can exploit an up-to-date asset register by allocating charge backs to business units and department heads based on the hardware and software assets they are considered to be using. Allow the business unit heads to reduce their charge by identifying those assets they are no longer using. You'll find within 30-60 days substantial savings as superfluous assets are released by business heads who don't want to pay for unneeded resources.

#### TIP 7

##### **IT and back office investments need to be self-funding**

In these difficult times, initiatives that call for large upfront investments are unlikely to be approved. The cost reduction strategies that are most likely to be cash positive in this financial year are improved sourcing arrangements with suppliers (target savings of at least 13%), simplifying key processes (10-15% productivity increases within 90 days) and possibly outsourcing where the contract terms can be arranged to ensure that you are cash positive in Year 1.

"Steve introduced simple and different concepts which are path breaking and easy to understand and deploy"  
Abishek Randive  
- JP Morgan Chase (Director)

### **OUR THREE STEP PROCESS Accelerated Cost Reduction™**

#### **STEP 1 - OPPORTUNITIES**

Our initial step is to carry out an opportunity scan for rapid cost reductions and productivity improvement opportunities. We work with your managers and finance functions to identify

opportunities. We have rapid diagnostic tools to help us identify those processes that offer the most fruitful opportunities for productivity increases. We use our benchmark data to identify sourcing opportunities. We can rapidly determine opportunities to optimise your IT project and investment portfolio to deliver greater cost reductions at a faster pace at lower cost and execution risk. In addition we explore additional opportunities for outsourcing and offshoring to be accelerated where appropriate.

#### **STEP 2 - DESIGN**

We design a programme to deliver the opportunities identified in Step 1. Typically our focus is implementing significant performance improvements within 90 to 120 days. Our guarantee is to deliver meaningful productivity improvements within 30 days leading to 25-40% productivity improvements in IT and back office processes.

#### **STEP 3 - EXECUTE**

We then work alongside your managers and front-line staff to execute the cost reduction and productivity targets within 90-120 days. Our programme is conducted entirely within the workplace and is delivered in a way which benefits the day to day running of the business, resulting in progressive performance gains.

We operate a briefing programme for those stakeholders not directly involved which includes senior management across the organisation.

Finally, we conduct a thorough Post Implementation Review. The purpose of this review is to ensure the benefits are continuing to be achieved and your staff are fully versed (and certified if required) in improved business and operations management techniques. We will once again benchmark your performance and report back.

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## BUT DO THESE APPROACHES REALLY WORK?

Andy Homer (Group Chief Executive - Towergate) has grown Towergate to be worth over £3 billion (\$6 billion USD) in 5 years by applying the techniques we've discussed. It's now Europe's most valuable privately owned insurance company. Hear more about these strategies and what Andy has to say on their impact at:

<http://www.cityprojectmanagement.com/Interviews/AndyHomerValueCreation.mp3>

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## TAKING THE NEXT STEP

**But, you ask, couldn't we do all this for ourselves?**

Reducing cost shouldn't be rocket science. However, there are two questions you should answer before you attempt to do this in-house.

**Question 1:** Do you realistically have the time, skills, experience, techniques and toolkits to develop these capabilities and create and embed a culture that progressively reduces costs, improves productivity and improves service simultaneously – all while running large-scale IT and back office service operations?

**Question 2:** If the answer is "yes", why haven't you done so already? Selecting an outside advisor is not without risk. We would be the first to admit this and we suggest you consider a number of consultants before you decide. But here are the questions we would encourage you to ask:

- Do they have experience as senior executives with your situation and the pressures you face?
- Do they have a process and a system for realising accelerated costs reductions, increasing your productivity and improving service quality rather than simply providing general advice?
- Have they a track record of reducing IT costs by 25-40%?
- Can they increase productivity

within back office functions by 10-15% within 90 days?

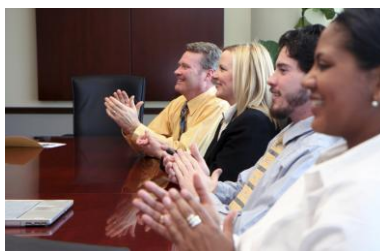
- Will they commit to sustained improvements a year after implementation?
- Will they guarantee their results?
- Are they 'your kind of people'?

We provide a range of Accelerated Cost Reduction™ related services:

- Accelerated Cost Reduction
- Productivity Improvement
- Service & Quality Improvement
- Process Improvement
- Training and Capability Development

For further details go to:

<http://www.cityprocessmanagement.com/cpm-service-programmes.html>



"Our concern going in was that the process would drag on for many months. However John's methodology meant that we were actually realising tangible results within 120 days"  
Lee Gladwell - AXA Insurance  
(Head of Corporate Markets)

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## CASE STUDY

### AXA Shared Services –

**Delivering the promised benefits of Shared Service Optimisation**

**How we helped reduce IT operating costs by 25% following**

**deployment of a shared services business model.**



Fortune 500 list AXA as the 15<sup>th</sup> largest financial institution in the world by revenue (2006). AXA has 67 million clients, employs 175,000 people across the world and generates revenues of

\$94 billion (2007).

AXA decided to create a shared services organisation within the UK based on the IT systems, infrastructure & operations of three UK-based businesses with combined IT spend of £150+ million.

The challenge was to reduce overall IT spend by at least 20% whilst improving IT service delivery and customer service provided to their three UK businesses.

The original cost reduction strategy and plan fell substantially short of the savings target and was based on high-risk complex integration projects. The UK business units were sceptical that the shared service organisation could deliver on the complex strategy which itself fell somewhat short of what was needed in terms of cost reduction and service improvements.

We formed a joint team with secondees from the UK businesses to develop a more ambitious savings target which came with a substantially reduced execution risk.

Significant savings were delivered from procurement and operational efficiency improvements which were relatively straightforward to deliver.

The end result was an integrated cost reduction and service improvement programme which reduced IT operating costs by 25% (£38 million) whilst delivering improved service and capabilities for the 3 UK businesses.

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## HOW CAN CITY PROCESS MANAGEMENT HELP YOU?

We specialise in working with the senior executives of leading financial institutions who need to accelerate sustainable cost reductions within their IT and back office operations.

We've worked closely with leaders of some of the world's most successful financial institutions including AXA, Barclays, Capital One, Prudential, Citicorp and Nationwide Building Society.

For case studies on where we've helped other senior executives make significant cost reductions in IT and back office operations, please visit:

<http://www.cityprocessmanagement.com/cpm-case-studies.html>

To hear personal interviews with some of the key senior executives we have helped, please visit:

<http://www.cityprocessmanagement.com/cpm-our-clients.html>

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## MANAGING PARTNERS

### John Corr

#### (Managing Partner - Europe)



25+ years senior management and consulting expertise in financial service and technology businesses

including: A.T. Kearney, Alliance and Leicester, AXA, Barclaycard, Capital One, Citicorp and EDS. His earlier career includes senior executive positions with Nationwide where he was responsible for over £5 billion per annum mortgage, savings and insurance new business sales.

Key expertise in IT cost reduction, profitability turnarounds and large-scale programme management.

### Steve Towers (Associate Advisor, USA)



25+ years senior executive and consulting expertise in financial services including: All State Insurance, Bank of

America, Cahoot, Citicorp, Egg, Goldman Sachs, HBOS, Lloyds TSB, Nationwide Building Society and

Prudential.

Key expertise in business process transformation, service excellence and customer experience enhancement.

Author of several leading specialist books on Business Process Management (BPM) and Customer Experience Management (CEMM).

"Not a lot of theory about what might work...rather a practical programme that actually increased our profitability significantly in less than 120 days"  
**Artur Niemczewski - Capital One (Director)**



## WHAT CAN YOU EXPECT IF YOU WORK WITH US?

You have a choice of working with a number of great firms, so what can you expect if we work together?

### Our 'no quibble' guarantee is to:

- Increase back office productivity by 10-15% within 90 days
- Reduce your sourcing costs for external goods and services by an average of 13%
- Optimise your IT project portfolio to reduce spending by 25% while significantly

increasing the financial benefits delivered to the business and cost reductions within IT budgets

- Accelerate and extend your current savings from further outsourcing and offshoring
- Reduce the service quality gap between outsourced or offshored functions and your in-house staffing by 50% within 90-120 days.

If you are interested in exploring how you can accelerate costs reductions, improve productivity (in the order of 25-40%) and enhance service with meaningful results delivered within 30 days then perhaps you should invest 45 minutes of your time for a discussion on how our expertise at City Process Management can help you be more successful.

Just to be clear, all discussions are confidential and our initial meetings to see if there is a potential fit are on a 'no obligations - no fee basis.'

We're sure that you will find the meeting to be insightful and a good investment of your time.

We look forward to hearing from senior executives like you who are determined to deliver significant cost reductions within your IT and back office functions to secure the future of your bank.

Thank you for reading and we look forward to being of help to you in the future.

John Corr.

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## CONTACT US

Initial meetings can be in person or by conference call. You can reach us at:

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