



Driving Cost Optimization in Business Applications

Yvonne Genovese, VP Distinguished Analyst
John Van Decker, Research VP

29 July 2009

Gartner Webinar

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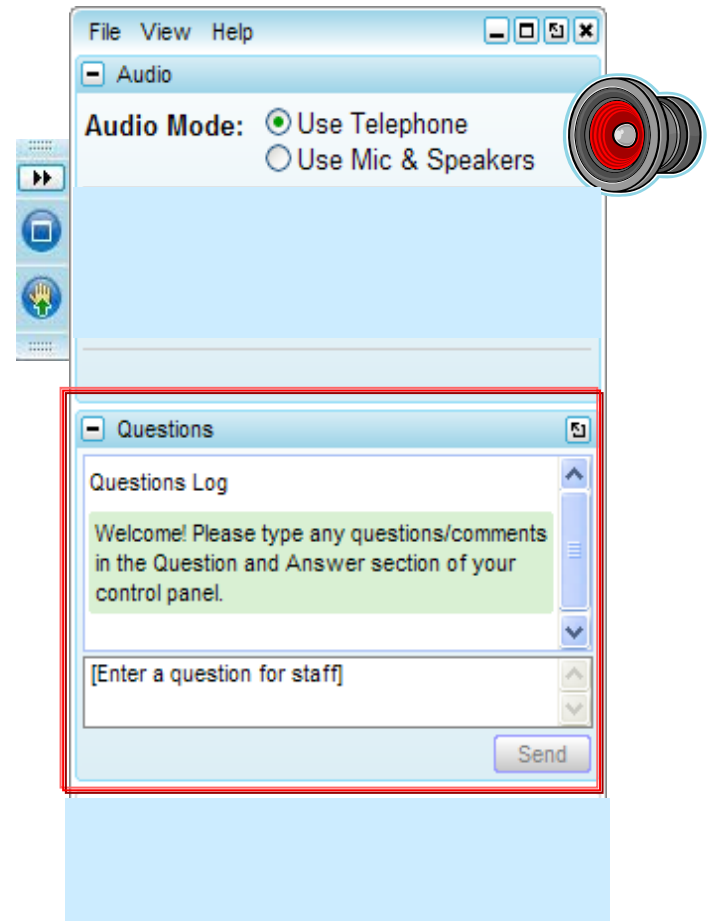
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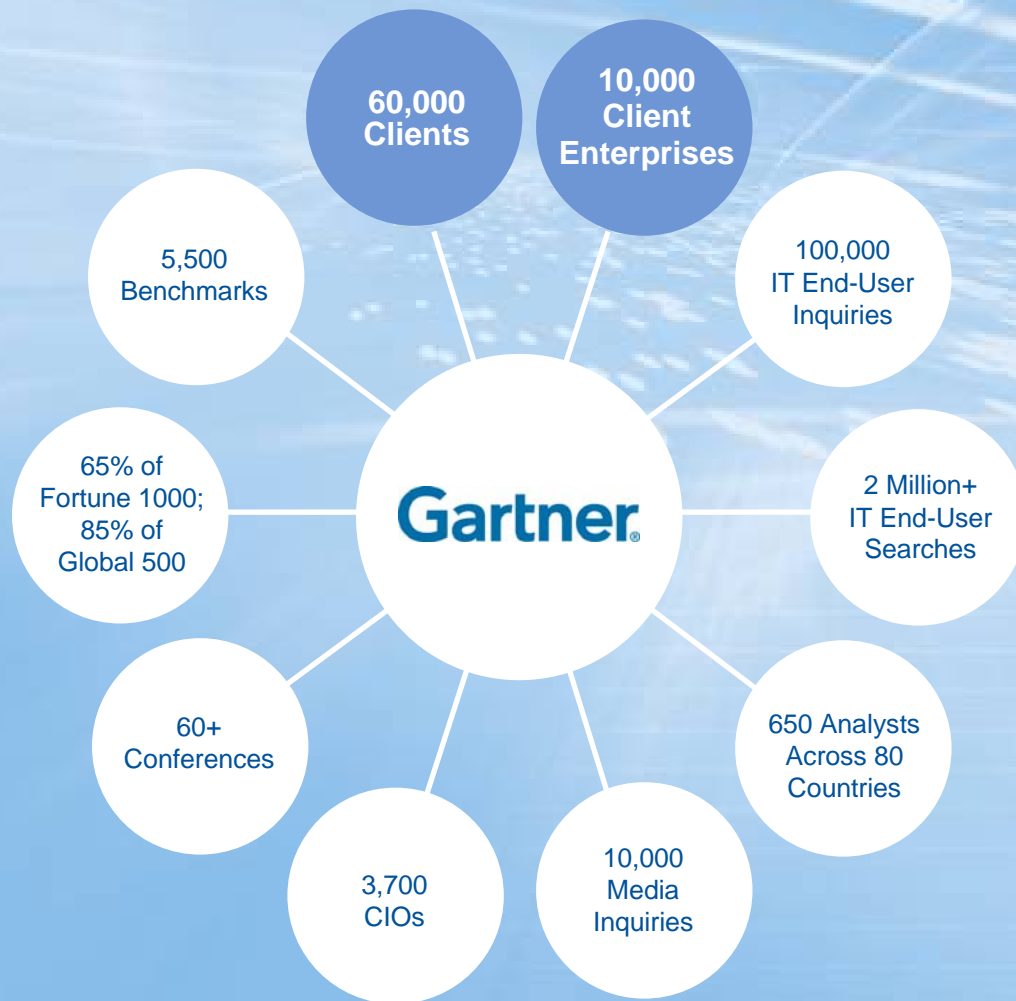
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Driving Cost Optimization in Business Applications

- **Key Issues:**
 - **How can you drive business efficiencies through investments in business applications?**
 - **Where can you help your organization make business improvements and optimize costs for CRM, Finance, HR, and SCM?**

A Framework for Cost Optimization



Execution of various types of cost optimization will involve different parts of the organization and varying levels of control by IT alone.

Cost Optimization Decision Framework

For each initiative to cut costs:

- What's the upside?
- Is it worth the effort?



Potential Benefit

- How big is the saving if the action is implemented and how does it affect cash flow?

A \$ number here

A \$ number here

A \$ number here

Customer Impact

- What impact will this have on customers?

Negative

None

Positive

Time Requirement

- Can you capture the savings in this fiscal year?

>18 months

6-18 months

<6 months

Degree of Organizational Risk

- Will your leaders ensure the changes are made? Is your organization capable of adapting to the changes?

Staff redundancies, and re-engineering of processes and structures

Limited changes in roles, structures and processes

No staff reduction, nor changes in organization and processes

Degree of Technical Risk

- Is there a risk that the change will undermine the ability of your systems to deliver?

Impacts OS, DB, middleware and applications

Moderate impact on few components of the architecture

Little more than "moving boxes"

Investment Requirement

- Does the change require a large upfront investment before savings can be captured? Is the organization willing to make an investment at all?

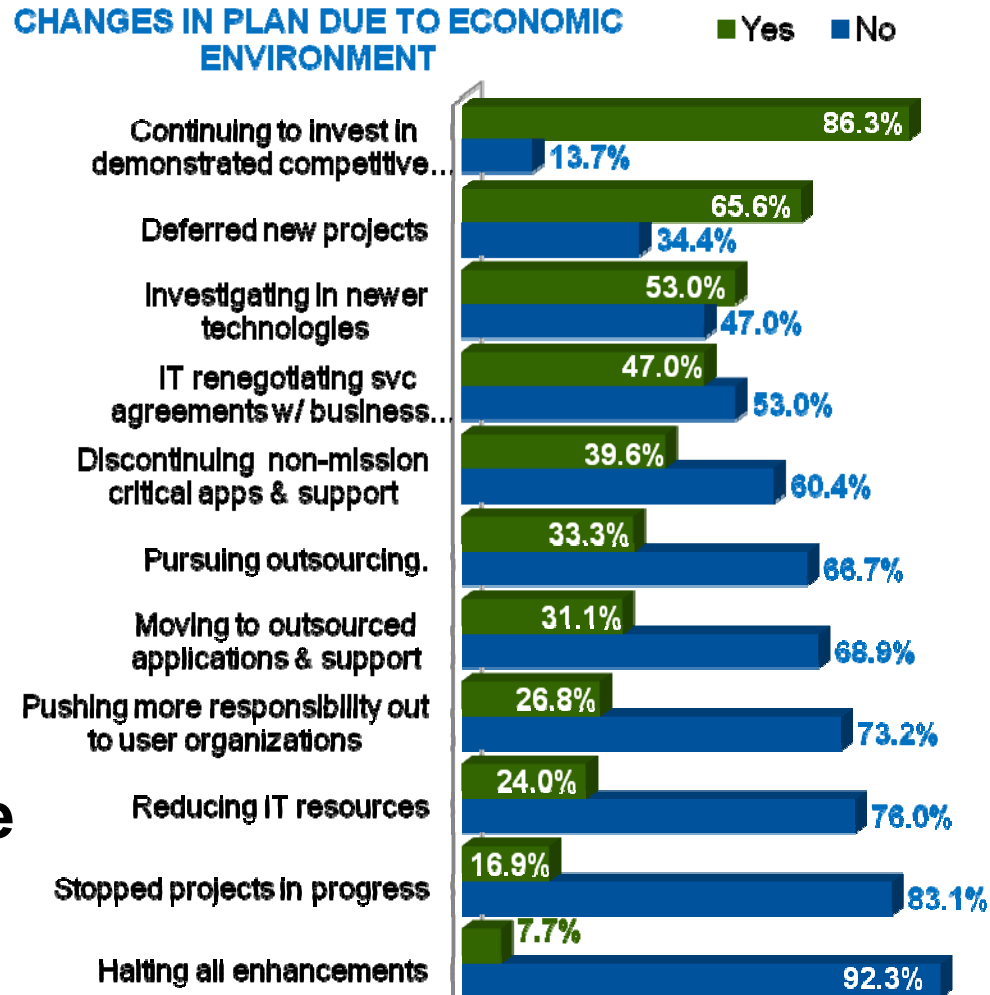
High

Moderate

Low/None

What Are Firms Doing During the Recession?

- New projects being deferred (65.5%)
- Firms are continuing to invest where they see a competitive advantage (86.3%)
- Only 7.7% halting all enhancements
- The study presents the senior financial executive perspective



Source: Gartner FEI Technology Study 2009

Participant Poll

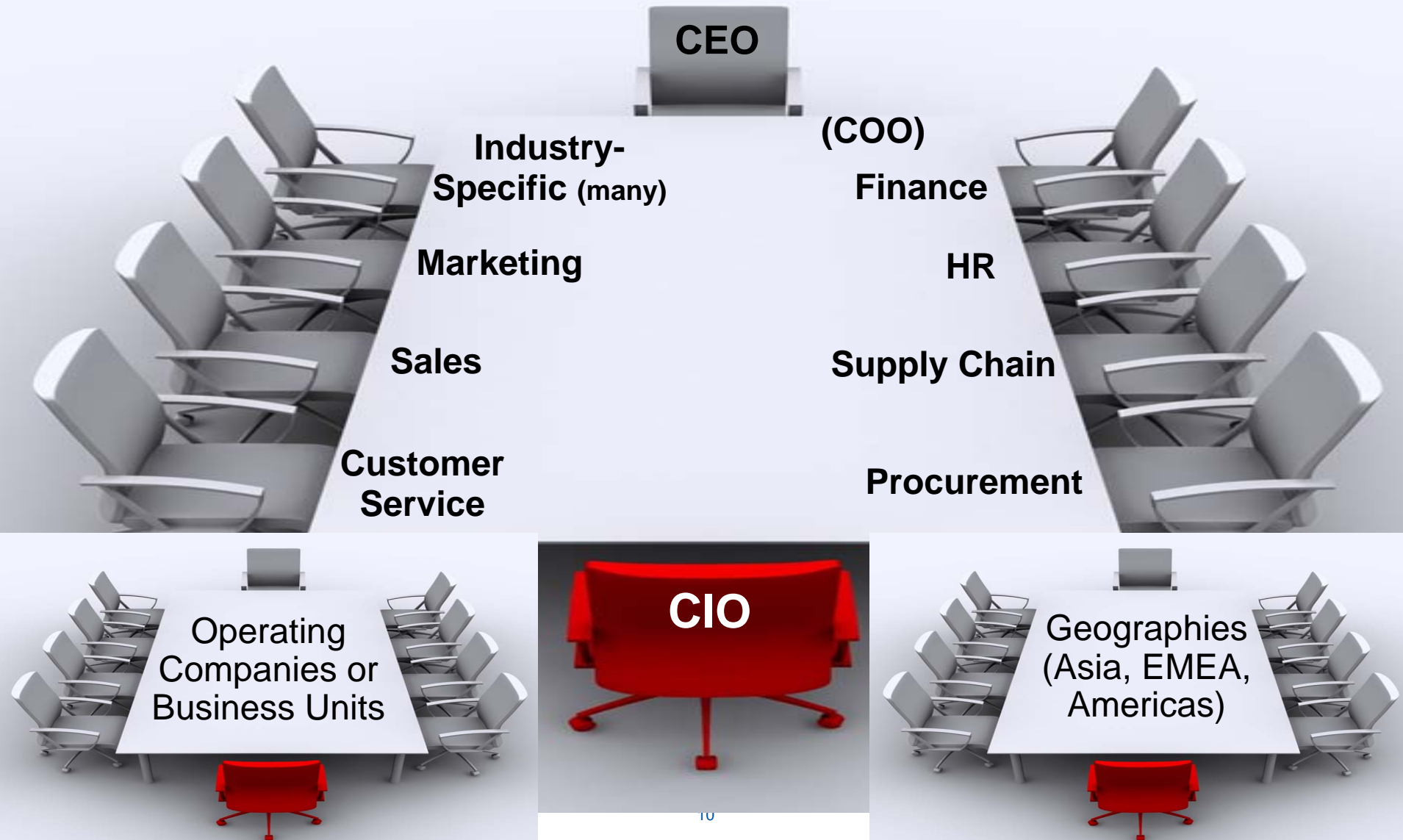
What best describes your response to the recession for business application support (select one)?

- **We are continuing to invest in applications that can create differentiation and transformation, providing a competitive advantage for our enterprise**
- **We are halting all new business applications projects**
- **We are deferring all enhancements**
- **We are renegotiating most large enterprise software service contracts**
- **None of the above**

Please select the one option that best fits your situation

Responses are confidential

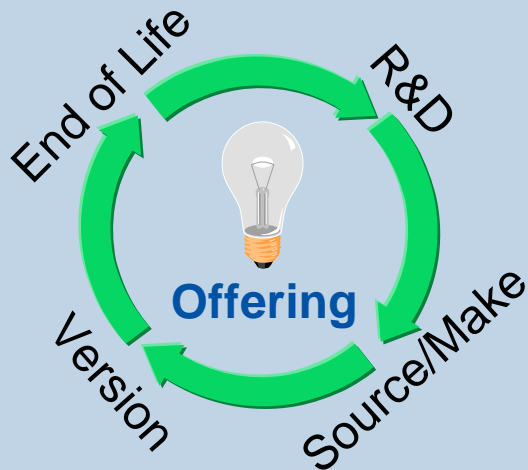
Business Leaders Each Drive A Business Strategy – Should Support Overall Strategy



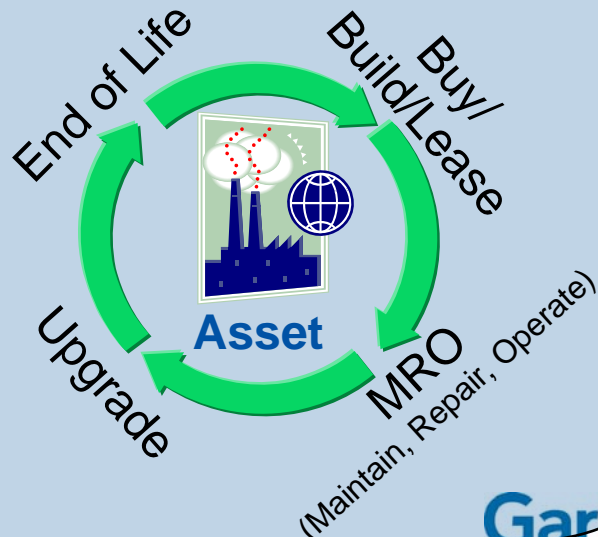
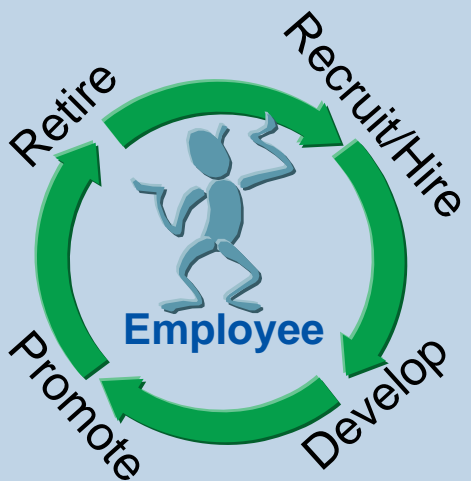
Potential Cost Savings in Business Application Technology Investments

People	Process	Technology	Business
<ul style="list-style-type: none"> Reduce headcount Reduce salary costs Increase span of control Develop process experts Centralize customer service 	<ul style="list-style-type: none"> Reduce transaction processing times Eliminate non-value-added tasks Minimize errors/rework Standardize processes Implement self-service Implement best practices 	<ul style="list-style-type: none"> Increase reliability and quality Reduce complexity Lower future development costs Reduce software purchase prices and license fees Reduce on-going support costs 	<ul style="list-style-type: none"> Improve brand image Create new revenue sources Shorten product development Enable premium pricing React faster to business change
Infrastructure			
<ul style="list-style-type: none"> Increase future scalability, flexibility and agility Enable incremental change at lower cost Decrease facilities and management costs 			

Foundation: Business Leaders Manage Major Core Business Activities/Lifecycles



Finance



Joint Business/IT Cost Savings: Process Standardization, Instance or Solution Consolidation

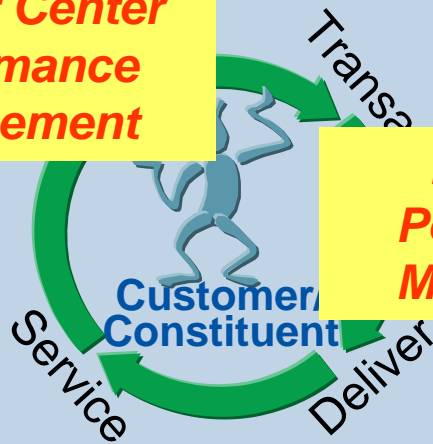
- Situation: Disparate business units within the same company with different solutions, same solution different instances, or different solution with different processes/data.
- Opportunity: Combining similar processes and data for customers, vendors, business partners, financial reporting can have significant business benefits and cost savings (business and IT).
- At issue: These are typically large multi-year selection or process standardization projects. ROI is long term. Business led projects have higher return. IT led projects are more typical.

Best Busapps Cost Optimization Initiatives: Performance Management and Web 1.0/2.0

- Performance Management: *Performance management is the combination of management methodologies, metrics and IT (applications, tools and infrastructure) that enable users to define, monitor and optimize results and outcomes to achieve personal or departmental objectives while enabling alignment with strategic objectives across multiple organizational levels (personal, process, group, departmental, corporate or business ecosystem).*
- Web 1.0: *Use internet as a platform to enable self service and external enterprise access to enhance business performance and eliminate costs*
- Web 2.0: *Use internet as a platform and leverage network effect to harness the collective intelligence in a cost-effective manner*

Performance Management Strategies for Business Leaders (Examples)

Contact Center Performance Management



Marketing Performance Management

Supply Chain Analytics

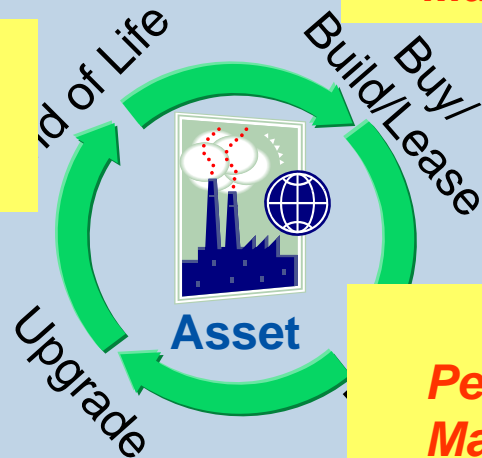
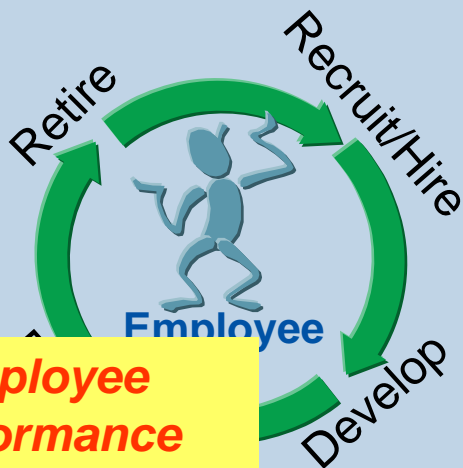
Inventory Analytics

Supplier Performance Management

Finance

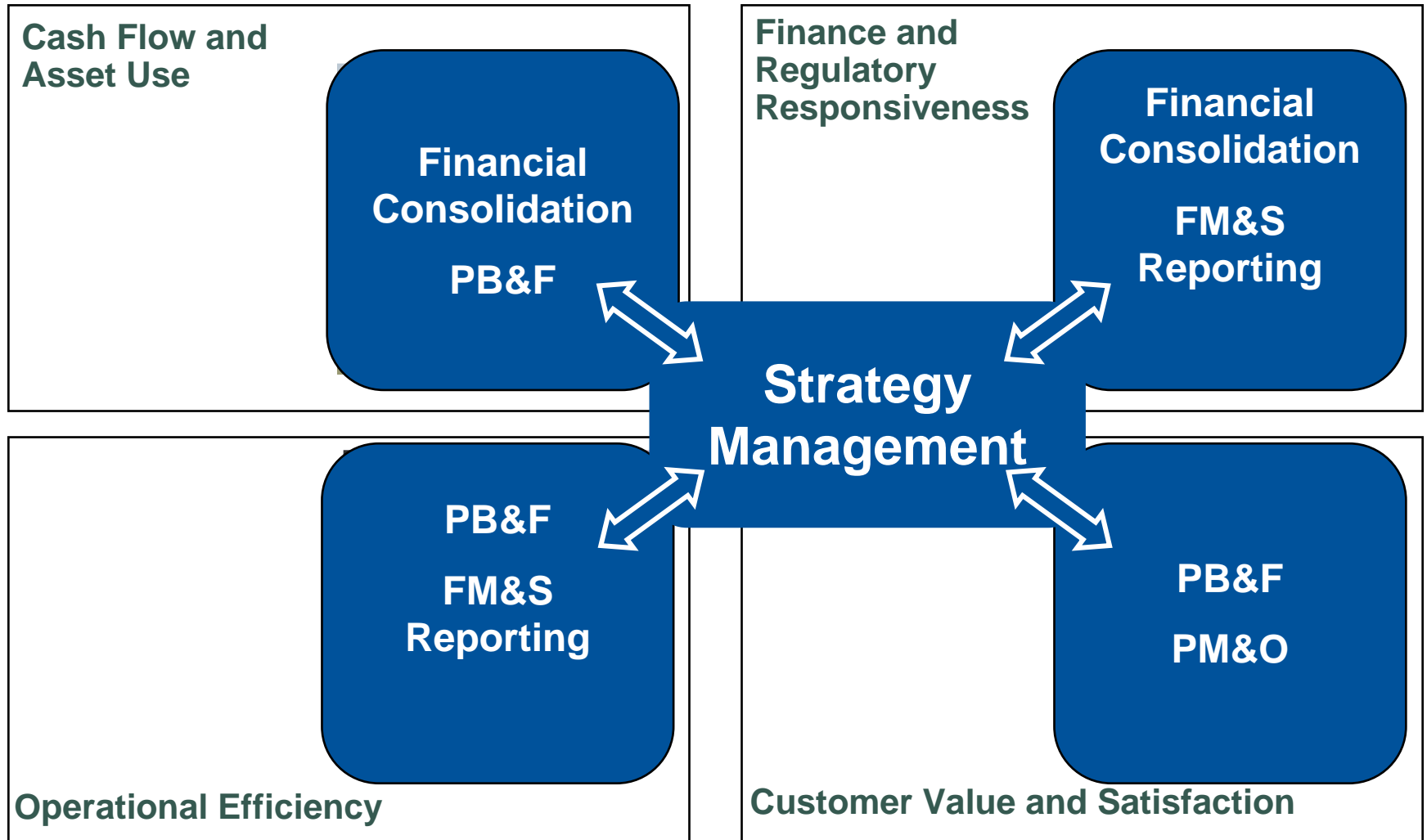
Corporate Performance Management

Employee Performance Management

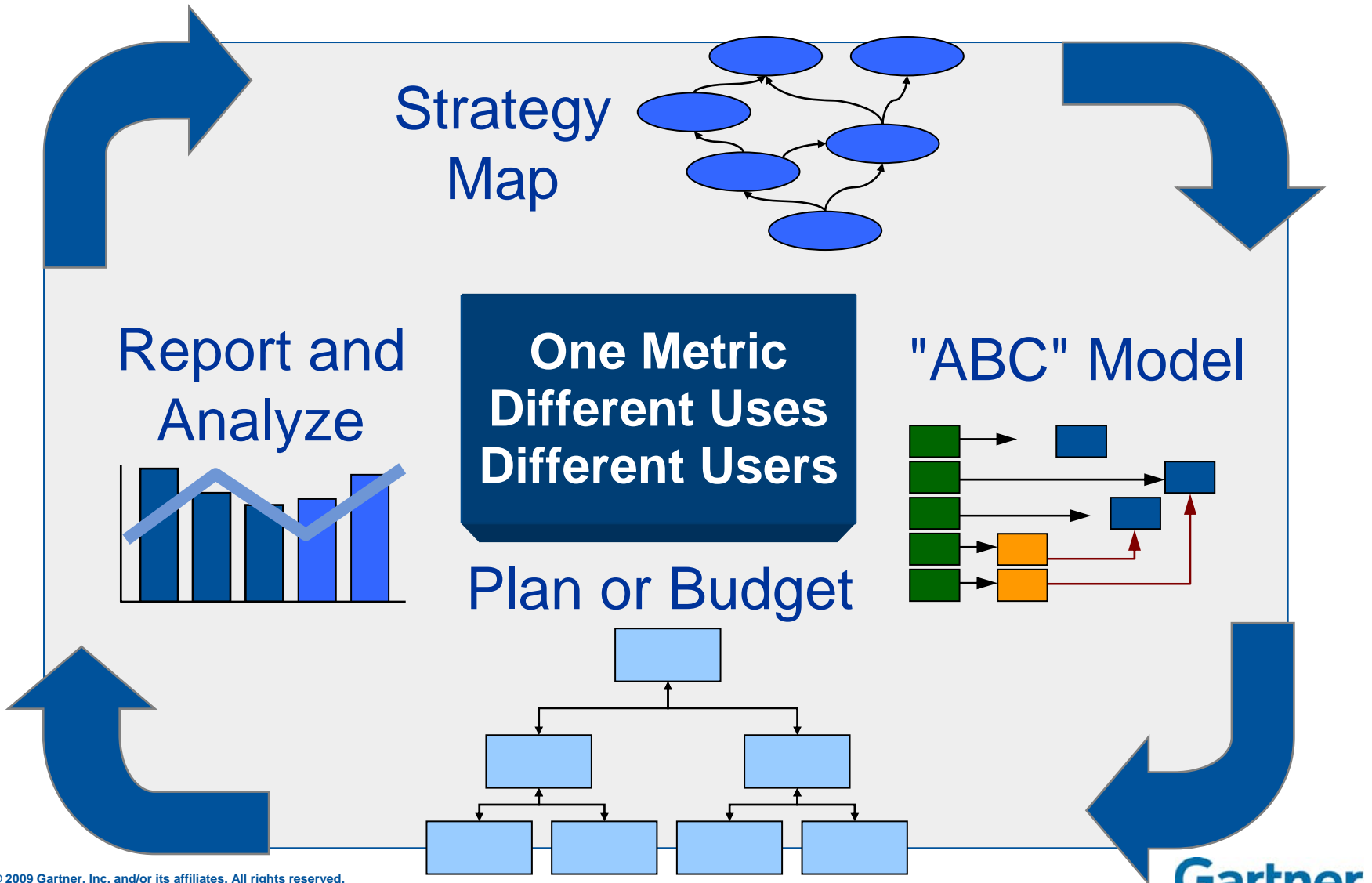


Asset Performance Management

Corporate Performance Management



CPM Can Close the Loop With Metrics



Marketing Example: Marketing Performance Management

	Marketing Performance Management
Potential Benefit	Measurable and increased marketing ROI
Customer Impact	Increased relevancy of customer communications
Implementation Time	9 to 24 months
Time to ROI	3 to 9 months
Degree of Organizational Risk	Politics: Difficult to get buy-in for global view
Degree of Technical Risk	Immaturity of vendor's solutions
Investment Requirement	\$150,000 to \$2,000,000

Benefits and Risk

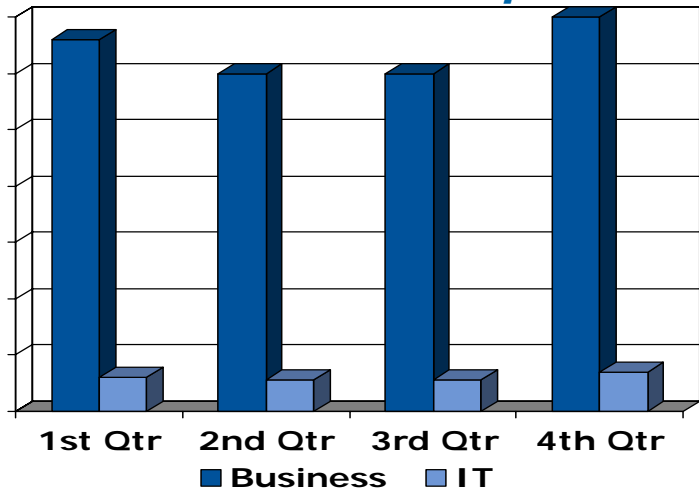
Fair

Good

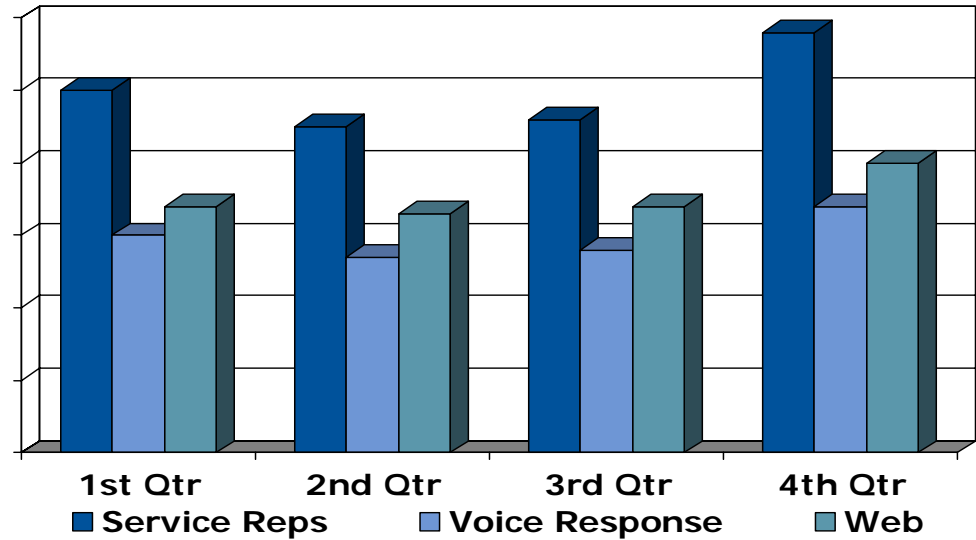
Excellent

CRM Customer Service Performance Management

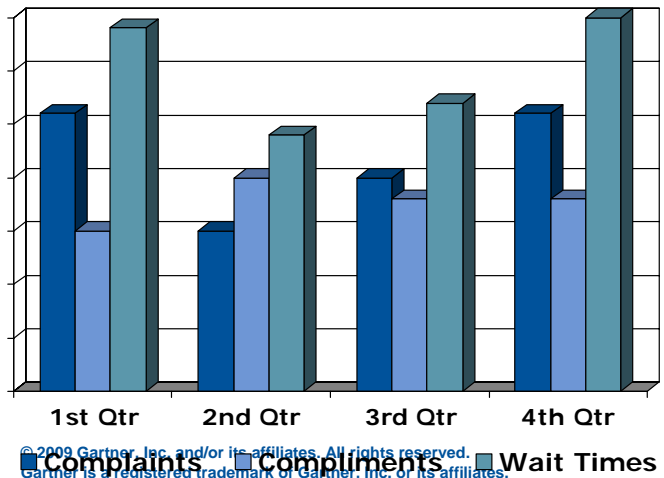
Customer Service Business & IT Expense



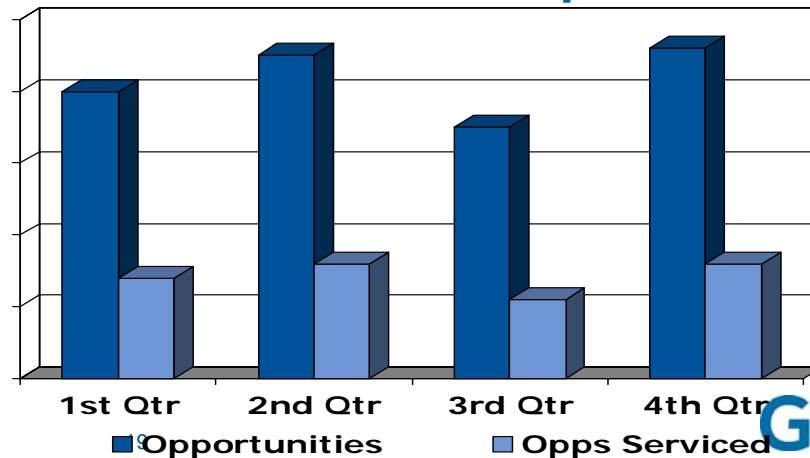
Customer Interaction Volumes



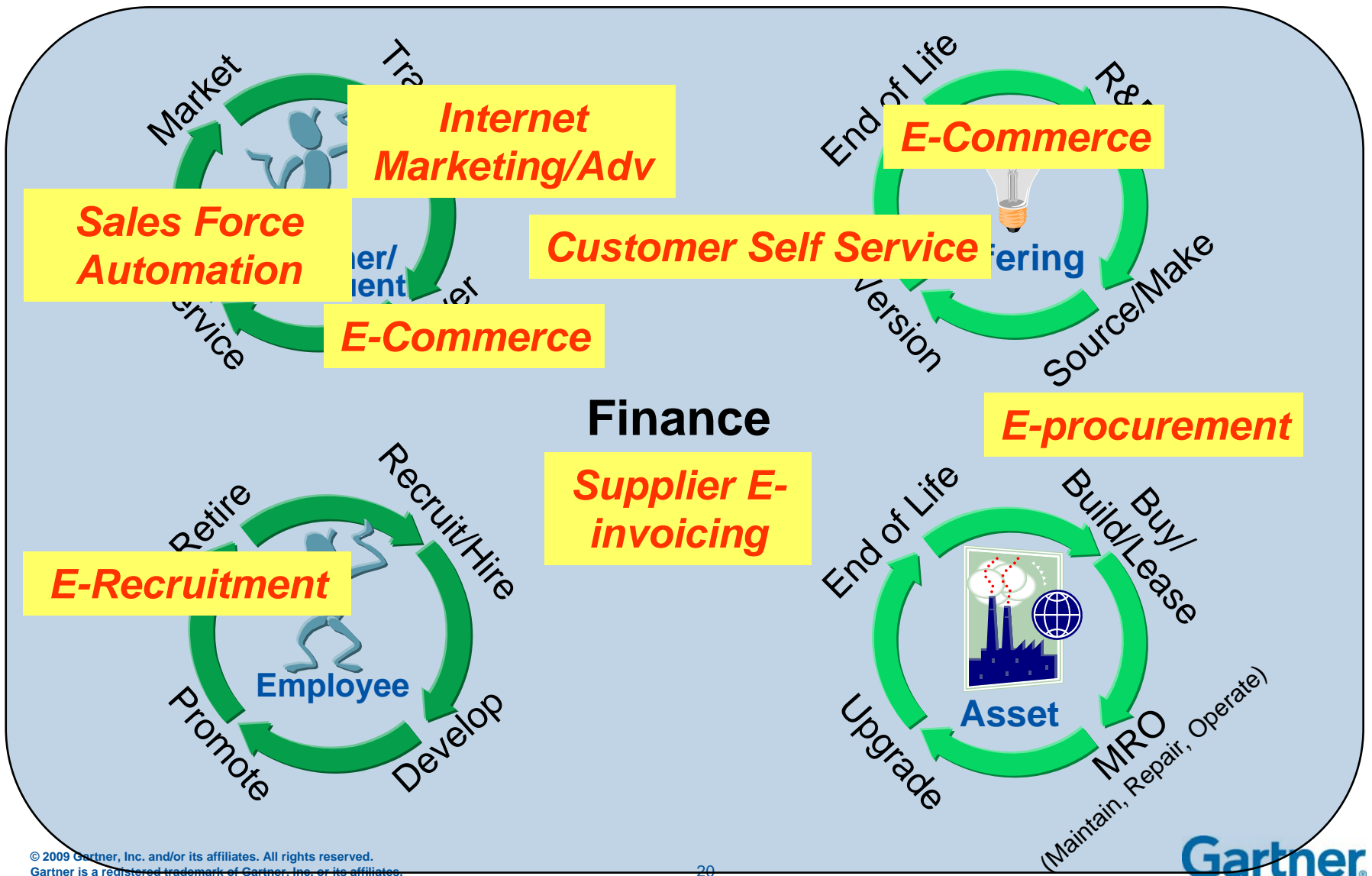
Customer Satisfaction



Cross-Sell Report



Core Business Activities Web 1.0 : Self Service/Internet Enablement



Finance Example: Supplier e-Invoicing

	Supplier e-Invoicing
Potential Benefit	40% to 50% AP staff reductions, 70% to 90% lower invoice processing costs, better discounts
Customer Impact	No impact on customers
Implementation Time	Implementation time <3 months, but will take six to 18 months for supplier recruitment depending on your relationship with suppliers
Time to ROI	Can be less than 1 year but recruiting critical mass of suppliers may push ROI into year 2
Degree of Organizational Risk	Requires education of suppliers, changes to AP processes and elimination of staff
Degree of Technical Risk	SaaS delivery model, integrates with existing onpremises systems
Investment Requirement	No major upfront investment required, generally opex based on invoice volumes

Benefits and Risk

Fair

Good

Excellent

E-Procurement

	E-Procurement
Potential Benefit	10-20% savings when leverage enterprise spend; significant savings if delay or deny spend
Customer Impact	Could impact customers if defer key spend
Implementation Time	Implementation time <3 months, but will take six to 18 months for supplier recruitment depending on your relationship with suppliers
Time to ROI	Immediate savings if delay or deny spend; reductions in 6-18 ms with catalog rationalization
Degree of Organizational Risk	Economic conditions are optimal to break down cultural barriers
Degree of Technical Risk	E-procurement applications are mature
Investment Requirement	Rebates can offset costs; often application is already owned with procurement buy

Benefits and Risk

Fair

Good

Excellent

Strategic Use of Applications Investments to Reduce Business Costs and Increase Productivity

- During challenging economic times, IT leaders should be looking for opportunities to deploy technologies that will help the business reduce operating expenses.
- Many business processes suffer from inefficiency in and an over-reliance on manual intervention, yet they add little value in terms of competitive differentiation.
- These inefficiencies are often overlooked during times of growth, but are now prime candidates for any cost optimization initiative.
- New technologies have been emerging during the past five years that can address some of these inefficiencies, but many organizations have yet to investigate how these technologies can help.

HCM Talent Management Applications

Action	Talent Management App Investment	Measurement
Manage Critical Role/Leadership Risks	Succession management	Critical role gap analysis, bench strength, percent of employees eligible to retire in five years, high potential turnover rate, leadership turnover rate, percent critical/key positions filled
Identify Optimum Span of Control	Workforce planning, workforce analytics	Span of control
Optimize Sourcing Costs	E-recruitment, performance management, workforce planning	Cost per hire (by source), internal placement percentage, existing candidate pool placement percentage, offer to accept ratio, decline to offer ratio, percent diverse hires
Create an Optimal Sourcing Mix	Workforce planning, contingent workforce management, e-recruitment, talent profile	Sourcing mix (by job or job family)
Better Align Pay With Performance	Performance management, compensation management	Percentage of variable compensation paid at each performance level, retention and reward survey analysis
Optimize Training Expenditures	Learning, workforce analytics	Learning and development hours per employee, post-learning manager feedback, impact on business metrics

SCM: Transportation Planning and Execution (TMS)

- **Transportation planning applications (see "Magic Quadrant for Transportation Management Systems, 2007") can help reduce overall transportation costs by almost 10% or more in some cases by enabling companies to make better mode selections, by consolidating orders for shipment by lower-cost modes (such as moving from less than truckload to truckload) and by selecting the lowest cost carrier, considering all rules, constraints and costs.**
- **Transportation execution helps shippers limit tenders to the lowest cost carriers that meet the customer's delivery requirements.**
- **Freight payment and audit is also helping companies reduce costs by minimizing the overpayment and duplicate payment of invoices, and catching unwarranted charges (such as unplanned accessorial charges).**
- **TMS applications have excellent ROI — license costs run about 1% to 3% of annual freight spending, and cost savings can exceed 10% of freight spending in the first year after implementation.**

Marketing Resource Management Applications

	Financial Management	Creative Production Management	Marketing Asset Management	Marketing Fulfillment
Potential Benefit	1-15% reduction on marketing costs	5-30% improved productivity; 1-3% cost savings	10-15% reduction in agency spending	Cut 10-50% of fulfillment
Customer Impact	More relevant campaigns; improved customer experience	Stronger brand that relates to customer experience and corporate goals	Improved brand management	Stronger and more consistent brand experience, relevant for locale
Implementation Time	9 to 24 months	1 to 6 months	3 to 9 months	3 to 12 months
Time to ROI	1 to 2 years	3 to 9 months	1 to 2 years	3 to 9 months
Degree of Organizational Risk	Politics: Difficult to get buy-in for global view	User adoption; Documenting processes	Few if any disruptions	User and partner adoption should not be too difficult
Degree of Technical Risk	Solution selection and data requirements	Workflow flexibility	Solution selection to store the dif types assets	Integration with print channel & Web
Investment Requirement	\$100,000 to \$500,000	\$50,000 to \$350,000	\$60,000 to \$500,000	\$75,000 to \$1 mil

Benefits and Risk

Fair

Good

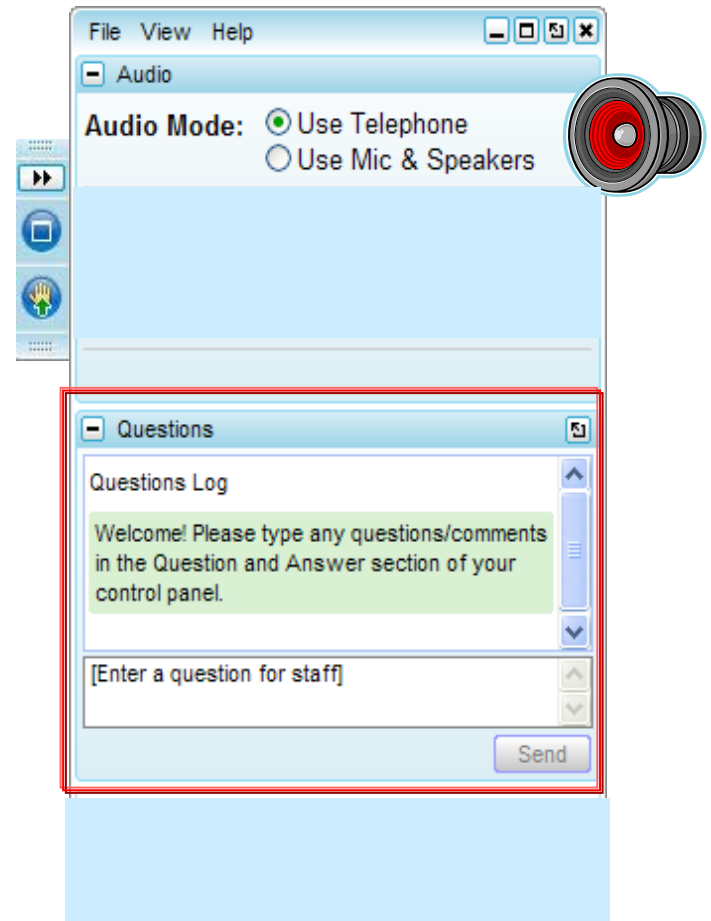
Excellent

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- We will answer as many of your questions as time permits.



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IT and The Economy

Cost Optimization

FEATURED VIDEO
Four Levels of Cost Optimization
Kurt Potter, Research Director

Research Director Kurt Potter discusses the use of Gartner's Four Levels of Cost Optimization framework as a planning and communication structure.

Cost Optimization Spotlight

Method to the Madness: Applying a Methodological Approach to Cost Optimization
Cost optimization typically proceeds without methodological guidance. Our research develops a methodologically sound set of guidelines, frameworks, and intervention strategies to redefine and recharge the critical art of cost optimization.

Cost Optimization Fundamentals

Cost Cutting in IT: When to Use Zero-Based Budgeting
Ken McGee

It's Time to Prepare for a Return to Business Growth
Ken McGee | Mark Raskino

Key Issues for Cost Optimization, 2009
Kurt Potter

Proceeding from Innovations: Why Your IT Vendor is in Financial Difficulty
Debra Logan

CEO Concerns 2009: Dealing With the Downturn
Jorge Lopez | Mark Raskino

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- Identify major cost-saving opportunities
- Implement cost-saving technologies
- Implement cost-saving process improvement

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Appendix: Business Application Cost Optimization Investments



HCM Talent Management Applications

Action	Talent Management App Investment	Measurement
Improve Quality of Hire	E-recruitment	Post-hire manager feedback, performance appraisal results
Improve the Onboarding Experience	E-recruitment/onboarding	Time to productivity, new hire engagement, 90/120-day retention rates
Provide More Effective Training and Development	Learning, workforce analytics	Learning and development hours per employee, post-learning manager feedback, impact on business metrics
Provide Better Internal Mobility	E-recruitment, performance management/career development, succession planning	Internal promotion rate, internal placement percentage, voluntary turnover rate, employee engagement
Leverage Monetary and Nonmonetary Rewards	Compensation management	Reward and retention surveys, employee engagement

SCM: Freight Sourcing and Procurement (Bid Optimization)

- **Transportation planning applications can optimize operational decisions on a day-to-day basis, but most costs and rules are set during the freight sourcing and contracting process.**
- **Target cost-containment initiatives i sourcing exercise**
- **Freight sourcing is an increasingly important exercise, and shippers of all sizes will benefit from automated freight sourcing solutions that include sophisticated optimization.**
- **Given enhanced capabilities and more-holistic support for the freight sourcing life cycle, freight procurement is worth consideration by most midsize to large (that is, greater than \$25 million annual freight spending) shippers.**
- **Companies not using sophisticated freight procurement tools that include bid optimization can save 5% or more on annual freight spending.**
- **A midsize shipper spending \$50 million a year in freight could reduce transportation costs by about \$2.5 million.**

SCM: Strategic Network Design

- **A significant percentage of supply chain cost is designed into the supply chain network and, once in place, operational systems are limited in what they can do to lower costs.**
- **Redesigning a logistics network can affect costs more fundamentally than optimizing a specific network design.**
- **Simulation tools are needed that enable companies to evaluate decision trade-offs and test numerous strategies by tweaking planning assumptions and parameters.**
- **These will become increasingly important for evaluating trade-offs that affect transportation costs (such as where to locate facilities, pool points, delivery frequency and the impact on modes and costs) and cost trade-offs between carrying the cost of inventory and transportation costs.**

SCM: Inventory Optimization

- **Although dependent on the current state of a company's inventory, inventory strategy optimization tools can typically reduce inventories 3% to 5% or more.**
- **Assuming a carrying cost of 25%, a company with average on-hand inventory of \$50 million could reduce inventories by as much as \$2.5 million, and carrying costs by \$625,000 per year.**
- **Inventory Optimization tools:**
 - **Support business requirements for various objective functions, such as profit maximization and cost minimization, as well as the identification of non-profitable network structures.**
 - **Determine supply chain inventory policies across your customer and supplier value chains, while taking into account global inventory, and forecast error and supply-side lead-time variability.**
 - **Extend management control and decision making across longer and more-complex global value chains.**
 - **Model various cost strategies and cost elements from material, capacity, storage, movement, processing or conversion, or additional user-definable cost elements; at some point, modeling total delivered (landed) cost to customers.**
 - **Support scenario planning and "what if" features to compare alternative business plans with scenario comparison data.**

SCM: Analytics and Performance Management Applications

- **Supply chain performance management capabilities enable organizations to evaluate multiple performance criteria to help them identify underperforming functions and unresolved problems – reducing costs and improving productivity.**
- **SCM Analytics and PM applications can help monitor internal operations, carriers, logistics service providers, and customer and supplier performance. (e.g. in a freight operation, understanding metrics will help shippers avoid unnecessary accessorial charges; identify areas for performance improvement; and provide scorecards for carriers, customers, suppliers and the shipper's operations department)**
- **SCM analytics, with the appropriate level of data and cost granularity, are critical to identifying opportunities to reduce supply chain costs.**
- **Analytical applications will also support root-cause analysis to determine where corrective action is required.**