IT in an economic downturn

Three things for IT to focus on before and during recession

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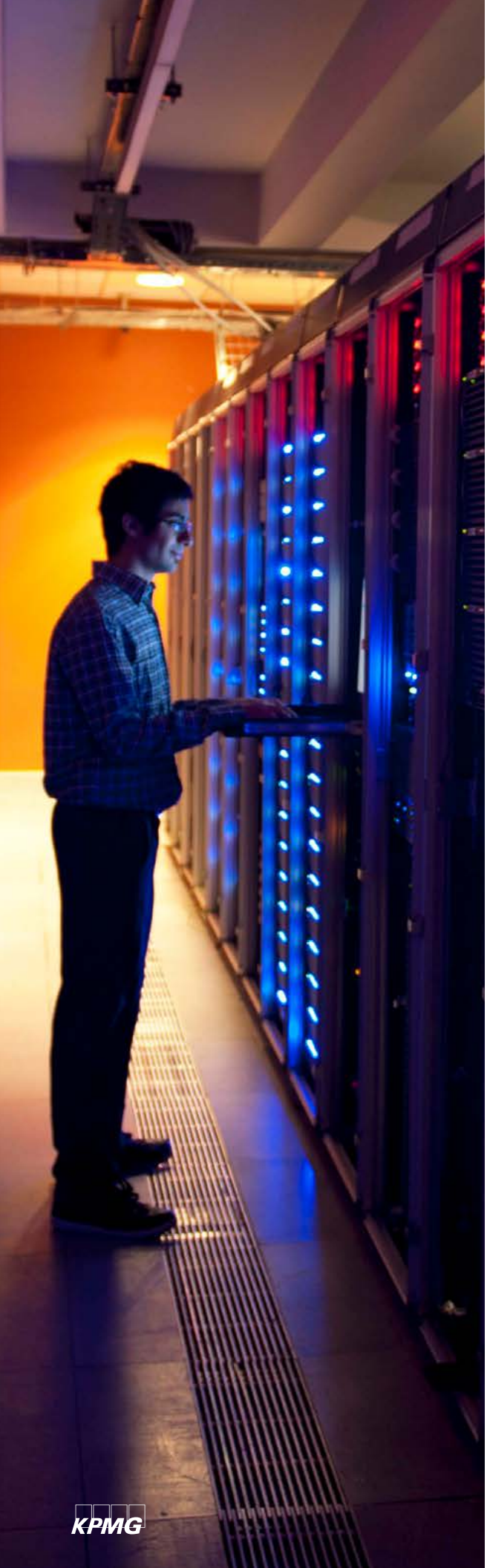

IT organizations face significant strain during recession. Belts tighten but expectations for stable operations remain as strong as ever. More importantly, IT's business partners may very well need exceptional service from IT for the business's products and services to win in a highly competitive market. IT must not only provide stable operations, but may need to up its game for the business to be successful!

The simultaneous belt tightening, business as usual stability, and stepping up product/service support is a lot to ask, yet recessions are inevitable. So what can IT do in order to prepare for or navigate the demands of a recession? The answer lies in changes to the IT operating model.

The IT operating model

KPMG describes the IT operating model in two ways. First, the operating model is made up of the capabilities required to provide IT services. Many of these capabilities—innovation or talent management, for example—may not actually reside in an IT organization. Still the operating model must include these capabilities if it is to be fully understood and if all the capabilities that drive IT performance are to be properly managed. Second, the operating model can be described as having six layers—people, process, technology, service delivery model, governance, and performance insights—that must be orchestrated in order for the IT services to be delivered in a way that meets the business's needs.

So, if the business needs change, as they do during a recession, the IT operating model needs to change. These changes are especially challenging during a recession. Ideally they would be made before the effects of the recession are felt.

IT operating model capabilities

Strategy & Architecture
Capabilities that align IT priorities with those of its business partners and ensure an overall architecture that allows market speed technology development.

IT Security & Risk
Capabilities that ensure security and risk management policies and practices protect the enterprise.

Talent Management
Capabilities that ensure access to and retention of the talent that fuels the IT operating model.

Data & Analytics
Capabilities that define and manage the data supply chain to enable the organization's ability to harness the power of data.

Digital Delivery
Modern delivery capabilities that enable development of technology products and systems of engagement at market speed.

Portfolio Delivery
Traditional delivery methods that provide risk-managed technology development for systems of record.

Business Partnering & Innovation
Capabilities that allow the organization to continuously spot opportunities to innovate or disrupt itself.

Service Integration & Orchestration
Operational processes that ensure technology develops and delivers the services that enable its business partners' ability to operate.

Six layers of the IT operating model

Key layers to consider when designing an operating model:

1 **Functional Process**
The processes and interdependencies of the organization by which all work of the functioning enterprise is carried out, except for those that have been outsourced.

2 **People**
The structure, reporting, and accountability hierarchy, capabilities, skills, culture, and performance expectations for people and organizational units.

3 **Performance Data & Insights**
The data and analytics required by the organization to support the execution of processes and inform the business of the success of the business initiatives.

4 **Technology**
The information technology required by the organization to manage information/data and support the execution of processes.

5 **Service Delivery Model**
The locations and means by which services are delivered, ranging from decentralized with the same functions and processes replicated in multiple areas of the business to centralized functions providing shared services across the organization, and whether these are insourced.

6 **Governance**
The approach to align the organization's governance, risk, and compliance processes to its strategy. This allows for convergence and transparency of information to drive performance and resilience in a dynamic economic business environment.

IT's focus before and during a recession

Successfully navigating a recession means creating financial flexibility and ensuring that the most important products and services receive the attention they require. More specifically, KPMG believes that IT must focus on three things.

Paying off technical debt

Pay off technology debt in order to avoid putting a business at risk at a time when financial resources are relatively scarce.

Transforming costs

Reduce the fixed cost base with new asset and delivery models to enable the IT organization to scale its "run" costs to better align with the business.

Modernizing delivery

Build rock-solid modern delivery capabilities to support technology-enabled products and services that are necessary to win in a hypercompetitive market.

Paying off technical debt

Technical debt (or tech debt) is a term that has its roots in software development but is taken to have a broader meaning now. It results from the chronic underspending on technology and technical capabilities or spending on the wrong technologies or capabilities. It means you've either not been able to keep key aspects of your technology landscape current, or that you've invested in areas that are not creating business value. In a growth context, technology debt is frustrating because it serves as a boat anchor, handicapping an organization's ability to move at market speed. In a recession, however, technical debt exposes an organization to risk at a time when unplanned IT costs can have very negative consequences. So, organizations need to pay down high-priority aspects of technology debt before a long-term recession. Priority should be placed on the technologies and capabilities that create significant business risks. Oftentimes operational data and business impact analyses can spot these priorities.

Sometimes urgency to pay down technical debt can highlight opportunities to make significant improvement to the IT operating model. For example, a migration to the cloud, and the development of the capabilities to effectively operate in a cloud environment, can accelerate the paydown of technical debt and allow IT to better serve its business partners by providing a cost-effective technical platform. Sourcing models may also enable the pay down of technology debt by effectively "selling" that debt to a third-party service provider. Effective contracting in this context can position an organization to better weather the storm of a recession as well. For example, managed services contracting can be structured in a way that allows an organization to benefit from managed services providers' use of AI to automate things that the organization would otherwise not be able to automate. These kinds of changes don't happen overnight, however. It is critical to spot the opportunity and move before the recession takes hold.

Operational data can highlight performance problems that can be addressed by paying down technical debt. Business impact analyses can help to spot the technologies that create the most business exposure as well as sources of risk that can be mitigated.

Transforming costs

A challenge IT organizations face in a recession is that they are genuinely unable to tighten their belts—costs are largely fixed and can't be reduced without turning off capabilities or functionality that are critical to the business. This is especially frustrating as this inflexibility is being experienced as business activity may be falling off.

A careful review of cost levers can spot opportunities to reduce operational cost and create financial flexibility. Four levers—efficiency, cost arbitrage, rearchitecting, and consumption and demand management—are commonly assessed.

— The **efficiency** lever looks at process standardization, automation, and organizational proficiencies as sources of value.

— **Cost arbitrage** looks for lower cost sources of technology and services.

— **Rearchitecting** looks at technology standardization and rationalization including the identification to leverage cloud technologies.

— **Consumption and demand management** looks at opportunities to make better consumption decisions (e.g., whether all services need to be a white glove level of service).

Oftentimes this review results in three types of opportunities—tactical, strategic, and "survival."

Increasing technology services deployed on the cloud will allow organizations to better understand the true internal consumption of technology by the business, actual demand, and the true costs associated with running the business. In the past, most businesses have not been charged back for their consumption of on-prem technology resources and hence demanded that IT make concessions and work with less when times are tough. But, the ability of cloud to provide transparency to what's being consumed and by whom, through fine-grained billing, allows IT to be able to pull the right levers in helping the business make informed decisions on the required financial adjustments to IT spending.

The outcome of cost transformation is a reduction in operating costs that creates financial flexibility. In a downturn, it can help avoid the need for "survival" tactics and in times of relative prosperity it allows additional IT spending—to grow or transform the business, not to run it.

Successfully delivering cost savings means appreciating all layers of the operating model that are impacted by cost savings opportunities, and the interdependencies between these layers, so that they can be effectively choreographed to achieve the savings. For example, a decision to outsource means designing not just the service delivery model, but all aspects of the IT operating model. Failure to do so is likely to create risk and perhaps additional cost.

Tactical opportunities represent an opportunistic response to improve performance based on current capabilities and technologies. Examples include reducing discretionary spend, delayering organizations, process improvement and automation, and contract renegotiation.

Strategic opportunities are long term focused, probably require investment, and result in significant changes in cost structure. Examples include outsourcing, strategic divestiture, location optimization, and fundamentally shifting underlying technology platforms.

Survival opportunities are those that focus on cash preservation and may range from discontinuing nonessential spend to selling assets. Clearly, these opportunities are uncomfortable, but they are often the only opportunities readily available if you have not been looking at tactical and strategic opportunities in advance of the downturn and now cash is tight.

Modernizing delivery

Modern delivery refers to a number of capabilities—agile software development, CI/CD delivery, technology product management, etc.—that ultimately serve the purpose of helping the business succeed in a competitive marketplace. Many products and services depend on the technology that enables them, and these products and services are under pressure during a recession. Winning in the marketplace may well depend on the ability to quickly respond to market opportunities (new functionality, emerging consumer preferences, etc.) and provide a solution for them before the competition.

A first question to answer in tackling the modern delivery opportunity is "Where do I start?" The answer is rooted in "Where does technology play the biggest role in our competitiveness?" If you can answer this question, then you can answer the next, "What modern delivery capabilities do I need to establish in order to enable that competitiveness?" It's important to note that the answers to these questions are not one size fits all. The answers for a technology platform provider are very different than those for a retailer, but answering the questions will provide focus and that focus is required if IT is to develop capabilities quickly.

Building modern delivery capabilities takes time. In order to accelerate capability delivery, these capabilities are generally built in an agile way with sprint after sprint of capability rollout and maturation. It is very easy to lose the thread in this deployment model—organizations have a tendency to pilot themselves into a false sense of victory only to realize their pilot experience has not resulted in institutional capabilities or the delivery of meaningful business value. It is imperative that organizations have a mechanism to ensure these sprints build on one another and ultimately result in mature capabilities that support the business's high-priority products and services.

KPMG worked with a leading financial services organization that was facing a significant competitive threat in its core service. The organization needed to simplify and transform its technology foundation in order to compete in this hypercompetitive market. Its approach was to rationalize redundant technology products and replatform them so they would be cloud native. This enabled them to reduce costs and offer a technical product that could better meet their customers' needs and ultimately win in their market. This shift required significant change, however. They needed to develop cloud native technology development processes and dev ops operating processes. They were ultimately able to succeed in this core market, however.

Conclusion

The three things that IT must do to best survive a recession are not mutually exclusive—it is conceivable to pay down technology debt while transforming costs and beefing up modern delivery capabilities. In fact, this trifecta is the preferred approach. These kinds of outcomes do not happen on their own, however. Success depends on a plan to reshape the IT operating model. It's important to note that this reshaping may not need to be radical. Businesses these days are investing in IT as the distinction between business strategy and IT strategy has faded. Many organizations are well down the path of addressing technology debt and developing modern delivery capabilities. While progress has been made—mostly over the last 10 years of sustained economic growth—what will happen when we experience a recession? Now is the time to answer that question.

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