Portfolio Management Techniques Help Rationalize IT Budgets in Tough Economy

Transcript of a BriefingsDirect podcast on managing IT departments in the face of an economic downturn and an infusion of stimulus cash.

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Dana Gardner: Hi, this is Dana Gardner, principal analyst at Interarbor Solutions, and you're listening to BriefingsDirect.

Today, we present a sponsored podcast discussion on the importance of managing IT departments in dynamic business environments. The current economic downturn has certainly highlighted how drastically businesses and, of course, the IT operations within them need to change, whether in growth, in terms of cutting out business units, functions, or processes, and then also setting themselves up for either a change in market direction or renewed growth in existing businesses.

For the past year or so, organizations may have watched their revenues decrease, their customers slide, and their supply chains change drastically right before their eyes. So, as budgets in the IT department have reacted to this reality, they've been managing change, but they also need to manage the horizon, keep their eye on what's coming next in terms of growth. For many industries, that includes a large amount of stimulus money being driven into certain activities.

We're here to talk to an executive from Compuware about how IT organizations can better understand managing change, how they can employ IT portfolio management techniques and products and processes, and better manage their short-term shrinkage or reduction needs, while maintaining an opportunity to be flexible when the tide turns.

So please join me in welcoming Lori Ellsworth, Vice President of Changepoint Solutions at Compuware. Hi, Lori.

Lori Ellsworth: Hello.

Gardner: We're also joined by David A. Kelly, Senior Analyst at Upside Research. Hello, Dave.

David A. Kelly: Hey, Dana, great to be here with you.

Gardner: Dave, let me start with you. We have seen over the years, complexity increasing in IT organizations. They've taken on more activities that IT departments are responsible for and that includes people, process, products, and technologies. Tell me, if you will, about the lay of the land when it comes to IT portfolio management, perhaps a little historical context, and then we can get more into the problems that we are facing nowadays.

Kelly: Sure, Dana. The place to start with IT portfolio management is the idea that it's really hard to improve, if you don't have a way to measure how you're doing or a way to set goals for where you want to be. That's the idea behind IT portfolio management, as well as project and portfolio management (PPM), which is an early nomenclature for a similar type of goal. That was to take the same type of metrics and measurements that organizations have had in the financial area around their financial processes and try to apply that in the IT area and around the projects they have going on.

It measures the projects, as well as helps try to define a way to communicate between the business side of an organization that's setting the goals for what these projects or applications are going to be used for, and the IT side of the organization, which is trying to implement these. And, it makes sure that there are some metrics, measurements, and ways to correlate between the business and IT side.

What we've also seen recently is this move toward IT portfolio management, where the focus is not just upon the projects themselves that are going on in the IT organization, but also on the applications and the resources that the IT group has deployed and measuring how well those are meeting the business needs.

Gardner: Now, correct me if I'm wrong, but it seems that for the last several years, managing growth and complexity has been paramount for these technologies and approaches.

Sea change in IT

Kelly: Absolutely. That's where the economy was and that's where a lot of organizations have been over the past three or four years in terms of ramping up new services and deploying new things. As you said in your intro, there has pretty much been a sea change over the past nine months or so in terms of the economy as well as how organizations need to react to it.

Now, there's an opportunity for organizations to step back, take the same type of tools, and begin to apply them to tougher economic times. They can make sure they're making the right decisions for today, as well as to lay the groundwork for future growth.

Things are going to turn around maybe later this year or next year. When that happens, resources are going to be tight and constrained. So, organizations are going to have to have the right information to be making the best decisions to capitalize upon that growth when it comes, as well as to get them through this tough period, where they have to optimize the limited resources they have to deal with the current business situation.

Gardner: Lori Ellsworth, perhaps you could share with us what you're hearing from your customers. It seems the keyword here is "change." How does this change management relate to IT portfolio management from where your customers are sitting now?

Ellsworth: It ties into the business environment that David was just talking about. IT organizations now are moving towards acting in a more strategic role. As we've just talked about, things are changing rapidly in the business environment, which means the organizations that they're serving need to change quickly and they are depending on, or insisting on, IT changing and being responsive with them.

It's essential that IT needs to watch what's going on, participate in the business, and move quickly to respond to competitive opportunities or economic challenges. They need to understand everything that's underway in their organization to serve the business and what they have available to them in terms of resources and they need to be able to collaborate and interact with the business on a regular basis to adjust and make change and continue to serve the business.

I can contrast that historically to different times, where IT played a different role, and there were different economic conditions, where it was much easier to make decisions and work on a project and go off and work on that project for a year. That's not the world we live in today, and IT needs to be as responsive as the rest of the business.

Gardner: I'm sure IT is not alone in needing to very firmly rationalize their spending, both operationally and on new spending. It also appears to me that you have to be able to have the actual data in hand. You can't go to a budget-minded executive -- a COO, for example, or a CFO -- and rationalize your budget with estimates or soft approaches to this. What is it about IT portfolio management that puts data into the process?

Ellsworth: First of all, we have to think about it as a company. Those COO's who you've just referred to, are investing money in IT. It may be coming from the business units, but they're making an investment in technology to serve the business. IT needs to understand how they, in collaboration with the business, are making decisions to use that money, what they're investing it in, and where they have an opportunity to make changes to better serve the business.

If IT wants to engage in a conversation about moving investments, about stopping something they're working on so they can respond to a market opportunity, for example, they need to understand who are the people, what is the cost, and where can we make changes to respond to the business.

Gardner: Making those priorities requires a comparison. So, a cost-benefit analysis might be one approach. Again, if you don't have the details about what it is that IT is doing and what it's capable of, you're not able to bring a true cost benefit analysis into this discussion.

Cost-benefit analysis

Ellsworth: Absolutely. And, this approach as you suggested, the cost-benefit analysis, that's about a business approach. In other words, this isn't about IT deciding on different projects they could work on and what benefit it might deliver to the business. The business is at the table, collaborating, looking at all the potential opportunities for investment, and reaching agreement as a business on what are the top priorities.

Gardner: Dave Kelly, what else do you see in terms of the problem set here, when it comes to this dynamic environment and managing change, whether it's growth or whether it's contraction across people and process? We seem to have, of course, the need for the data, for the information, but then, once we get to the point of execution, it seems to me that this insight into the portfolio can also be important.

Kelly: Yes, it is important. I'm going to key on a couple of words that Lori mentioned in responding to your question. The other thing that's needed is consistency. When you're making these kinds of decisions, for a lot of IT organizations and organizations in general, if times are good, you can make a lot of decisions in an ad hoc fashion and still be pretty successful.

But, in dynamic and more challenging economic times, you want the decisions that you or other people on the IT team, as well as the business, are making to be consistent. You want them to have some basis in reality and in an accepted process. You talked about metrics here and what kind of metrics can you provide to the COO.

You need consistency in these dynamic times and also you need a way to collaborate, as Lori brought up. That's a really good point, in terms of being able to collaborate between the business and IT, because you are always making these trade-offs.

Unless you have all the money in the world, for these decisions about applications or projects within the IT organization you need to collaborate within the IT organization and have a consistent view on what's going on, as well as collaborating with the business stakeholders and making sure that you are making the right decisions there. Those are couple of key points to think about in these turbulent and dynamic times.

Gardner: I think you're also pointing to the need for automating those labor-intensive manual processes. Perhaps you're using spreadsheets or perhaps using a siloed approach of just looking at certain elements of the IT environment, rather than a comprehensive view that doesn't scale in terms of complexity or time. We need to reevaluate a budget now in two months, rather than on a yearly or six-month cycle. Let me take it back to Lori. To what degree do manual processes break down in terms of how IT manages its portfolio?

Ellsworth: There are a couple of problems with manual processes. As you suggested, they're very labor-intensive. We've talked about responsiveness. We need information to drive decision-making. So, the moment we rely on individual efforts or on people who have to go out and sit through meetings and collect data, we're not getting data that we can necessarily trust. We're not getting data that is timely to your point and we're not able to make those decisions to be responsive.

You end up with a situation where very definitely your resources are busy and fully deployed, but they're not necessarily doing the right things that matter the most to the business. That data needs to be real-time, so that, at multiple levels in the organization, we can be constantly assessing the health and the alignment in terms of what IT is doing to deliver to the business, and we have the information to make a change.

Kelly: Dana, if I could interject here. To me, it's a little bit analogous to what we saw maybe 10 years or a little longer ago in software development, when a whole bunch of automated testing tools became available, and organizations started to put a lot of emphasis in that area.

As you're developing an application, you can certainly test it manually and have people sitting there testing it, but when you can automate those processes they become more consistent. They become thorough, and they become something that can be done automatically in the background.

Fewer resources, higher quality

It takes fewer resources and less money to get much higher quality and a better result. We're seeing the same thing when it comes to managing IT applications and projects, and the whole situation that's going on in the IT area.

When you start looking at IT portfolio management, that provides the same kind of automation, controls, and structure by which you can not only increase the quality of the decisions that are being made, but you can also do it in a way that almost results in less overhead and less manual work from an organization.

You are always making a trade-off between the amount of investment required to effect a change like this and manage it on an ongoing basis and the benefit that it's going to pay back to you. So, you do want something that's going to be able to be automated and yet help deliver good results for you.

Gardner: Dave, to go further on your points, it seems that IT has been very busy for 10 or 15 years helping other aspects of the business do precisely this, which is to mature to gain access to data across different aspects of a process, a part of the supply chain, or manufacturing or transportation activity. Then, they allow that to be centralized and analyzed and then they implement what changes seem appropriate back into what's going on within those applications.

So, IT is basically now at a point where it needs to start drinking its own tea, if you will. Lori does that make sense?

Ellsworth: Oh, absolutely. In the last several years, would we be running a business without visibility into the finance organization or the finance side of the business or into the sales forecast? The technology organization is now becoming more and more strategic to the success of the company. We need to understand what we're investing and what return we're getting for that investment.

Gardner: So, we're back to the economic environment and this need to mature more rapidly. Perhaps, like an adolescent, IT needs to have a growth spurt, rather than go through a long pleasant trip.

Now that we've recognized the dimension of the problem, how does one get started? How does one begin to look at this as a solution and a maturation process for IT and not just, "Oh, let's pick out a product and drop it in?" It's really not a technology solution, is it Lori?

Ellsworth: Correct. What the IT organization has to start with is looking at that investment lifecycle that they're managing, from the demand coming into the business, through execution, managing what they're delivering back to the business, in this case, the application or the business service. They need to look across that entire lifecycle that they are managing and they need to do a couple of things.

They need to understand where their greatest pain points are. Many organizations, once they start a project, are quite comfortable and efficient in delivering effectively. Their pain point is collecting, managing and driving decision-making around the demand. So, it's important to understand the biggest pain points and to understand the organization's maturity. Choosing a tool is not going to be the answer to any of your challenges, unless you understand the business problem and the level of maturity, and you can embark on a combined people, process, and technology solution.

Gardner: Dave Kelly, just to keep the bean counters happy, I think it's important for us to look at a fairly short horizon for payback of some sort from any investments in IT portfolio management. Can you think of what might be low-hanging fruit in terms of where you could apply IT and portfolio management. Perhaps, it would be a consolidation or modernization factor, and we'd then say, "Aha, we've recovered the cost of this and now we can apply it to these other more strategic and transformative types of activity?"

Legacy transformation

Kelly: That's an excellent point. Areas such as legacy transformation or modernization are good for this, because you do have to make a lot of decisions, and Lori may have some other perspectives here as well. Any situation, where there are a number of stakeholders driving that decision-making may be difficult for some organizations, where you need to gain consensus. It's a good application for this type of solution.

It applies to any opportunity for managing new projects -- whether it's a legacy transformation or modernization, a new application or project that may have high dynamic components. It may be something that's not going to be a one hit wonder that you are just applying once, but is going to require some level of ongoing change. If you can justify the maintenance of that change and future changes through the use of the solutions like this, it can certainly help deliver that return on investment (ROI) much faster.

Gardner: How about that, Lori? Do you have any sense of where initial and speedy paybacks are available, perhaps even in regards to energy use?

Ellsworth: One of the things I see with customers is that some of the low-hanging fruit, as you described, is really in the area of redundancy. It sounds pretty basic, but the moment an organization starts to inventory all of the projects that are under way and all of the applications that are deployed in production serving the business, even just that simple exercise of putting them in a single view and maybe categorizing them very simply with one or two criteria, quite quickly allows organizations to identify those rogue projects that were underway. They are investing resources. There is just no logical reason to keep them going.

Similarly, on the application side, they will quickly learn, "We thought we had 100 applications, and we've now discovered there are 300." They'll also quickly identify those applications that no one is using. There is some opportunity to start pulling back the effort or the cost they're investing in those activities and either reducing the cost out of the business or reinvesting in something that's more important to the business.

Gardner: So, employing IT portfolio management quickly will allow you to discover what application inefficiencies you have, which then, of course, translate back to infrastructure inefficiencies around utilization. Perhaps, you start deploying virtualization and taking the required or remaining applications in, and then deploying them with the most bang for the buck.

Ellsworth: Yes. It's an opportunity first of all to reduce the total number of applications, and the follow-on is an approach to being more efficient or investing in the applications that are strategic to the business.

Gardner: I guess I just wanted to affirm that the savings don't always just come from what you would get from reducing the number of applications. A secondary benefit would be in the way in which you produce these applications in production environment. Therefore, there could be savings on the infrastructure side as well.

Ellsworth: Absolutely.

Consolidation opens doors

Kelly: You could go through consolidation. As you said, it opens up new opportunities for cloud computing or other potential deployment opportunities.

Gardner: There is, of course, a lot of talk about more dynamic sourcing options, but if you want to take advantage of what you might perceive in that regard, you need to know what you have in place and what is required in terms of mission critical versus perhaps expendable.

Kelly: Exactly.

Gardner: Let's look at this again from another perspective for some industries. They may have seen a decrease very rapidly, but federal governments, both in the US and in other countries, have been injecting quite a bit of stimulus money into the environment for public sector and certain industries.

That should give these decision makers in IT and their counterparts on the business side some opportunities to say, "How should we take the stimulus money and most effectively invest it in our organization?" To me IT portfolio management should be in the top tier. Would you agree with that Lori?

Ellsworth: I absolutely would. There is no time where the investment being given to an organization, and in particular to IT, has been more visible. In addition to the money that's being invested as an ongoing course of doing business, there's an additional investment.

Organizations need to make timely and intelligent decisions about how to invest that money. They need to understand the different possibilities, create different potential views of what the future might look like, and really agree as a business, how to invest and keep the visibility in terms of how you are using those investments as well.

Gardner: Dave Kelly, the payback here, as we discussed, can be short-term, medium-term and then long-term, if we look towards that cloud or mixed sourcing future. What necessary steps are there for organizations, whether it's the reaction to stimulus money or just a renewed interested in investment for productivity sense? Where does the decision process for IT portfolio management need to come from? Is it just a CIO-level decision or an engineering VP decision? Where does this really become a purchase?

Kelly: It's generally the higher level, the CIO level. The senior management can drive it, as well, and maybe an enlightened engineer also has some good ideas, wants to optimize things, and may be able to bring this process forward. But, It's clearly someone that you want to be able to drive this kind of change across different processes, projects, and applications and make it part of the foundation for an organization.

That doesn't mean it has to spread across the complete organization or complete IT system all at once. You can start in very tactical ways, but the vision is how you make these kinds of consistent decisions in a timely, intelligent, and reliable manner.

So, someone more senior is going to help drive a solution like this. As Lori said, it's a great time, if there's economic stimulus money coming into an organization. You want to make sure that it's well spent and used efficiently and effectively to set the foundation for the organization to deliver on what they are supposed to deliver on, as well as lay the foundation for going forward.

Gardner: And, the visibility that IT portfolio management provides, in my thinking, gets comprehensive in nature. That's almost to think about an architecture-level decision. Lori, have you seen architecture getting involved with the requirements set around IT portfolio management or are the frameworks like ITIL, TOGAF, and DoDAF spurring on interest in getting this comprehensive view?

Benefiting from visibility

Ellsworth: I'll make a couple of comments. From an architecture perspective, I'm not necessarily seeing that area of the business driving this exercise, but they are participating. They're participating, because they are going to benefit from the visibility. They're driving initiatives across the IT organization. Certainly, the IT portfolio management solution plays a role in an ITIL initiative.

The other comment I would like to add may further David's comment. I'm also seeing an increased interest in participation, from a finance perspective, outside the IT organization. Often, the CIO and the executive in the finance area are working together.

The line of business executives -- the customers, if you will, the CIO -- are starting to be more mature, if I can use that expression in terms of their understanding of technology and of how they should be working with technology and driving that collaboration. So, there is some increased executive involvement even from outside IT, from the CIO's peers.

Gardner: Even at a general level, we're hearing the mentality that no crisis should go wasted, and, if you agree with me that the economic downturn provides an opportunity for transformation and not just for retrenchment, does IT portfolio management allow for a conversion within IT in terms of how it relates to its customers and perhaps even charges them?

That is to say, is this utilization of IT portfolio management a necessary step towards getting into an IT shared-services environment or a discrete charge back, where IT services are defined in business terms and charged accordingly. I'll direct this at Lori.

Ellsworth: It does provide another catalyst to IT behaving more like a business and, as you've described, really managing the relationship with their customers, understanding their customers' priorities, and the customer understanding the cost of what they need. Together, they're starting to work in that customer-supplier -- with a financial aspect -- type relationship.

That's something that IT has been moving towards for several years. Maybe they've been getting a little more push back from their internal customers, but the current economic conditions and the scrutiny on investment are more of a catalyst to get that customer-vendor type relationship going.

Gardner: David, we talked about what IT portfolio management can do. What are the penalties if you don't, if you continue to have manual and even paper-based or spreadsheet-based approaches to keeping track of your assets and resources? It seems to me that the complexity, those choices around sourcing, has been out of control. Furthermore, if I'm on the financial side of the house and I see that IT is floundering in its ability to run itself, I might be tempted to outsource significant portions of it. Right?

Kelly: Absolutely. I think you've highlighted some of the risks there for organizations that don't have good control in terms of the IT decision-making processes. Certainly, there are job-security issues for senior IT people, if they're not able to respond adequately to the CFO or COO or the business need changes.

The answer to your question of what happens if organizations don't move towards IT portfolio management depends upon the organization. If you have a slow-moving organization that doesn't have to make a lot of decisions and doesn't have a lot of investments, maybe they are just fine doing what they're doing, doing it ad hoc or doing it with the spreadsheets.

Consistent rational approach

But, as we've talked about throughout this podcast, any organization that is facing dynamic business conditions, that is investing in new applications or projects, that wants to be able to increase the efficiency in its IT organization, as well as increase the effectiveness of the application solutions it's bringing to the business, absolutely needs to have some kind of consistent rational approach to gathering information, collecting metrics, being able to collaborate with the business and being able to make decisions in a consistent and rational way.

That really points very strongly towards IT and IT portfolio management or some similar type of solution. There is a little bit of investment required for any solution like this -- time, resources, and money -- but for organizations that have those conditions, it's a really strategic investment.

Gardner: Lori, did we miss anything? Is there a risk here that we didn't bring up yet about resisting a comprehensive view of assets in IT or perhaps even a downward spiral at some kind of that could ensue?

Ellsworth: No. The answer was comprehensive. You are absolutely correct that IT needs to recognize that there are competitive alternatives, and certainly, if IT isn't delivering, the business will go and look elsewhere. In some simple examples, you can see line-of-business customers going out and engaging with a software-as-a-service (SaaS) solution in a particular area, because they can do that and bypass IT.

The other side of that as well is when IT is executing. If they're not making the right decisions and doing the things that have the highest return to the business or if they are delivering poorly, it's really about missed opportunity and lower ROI. So, while IT might be engaged and they might be delivering, they are minimizing the impact or the value they could be delivering to the business.

Kelly: Dana, let me just add one other thing in here. I really see these kinds of things as an opportunity for IT. We've talked about some of the challenges they may face and some of the problems that there could be going on, but, if you are able to implement a solution like this, it really frees up IT to be able to consider new opportunities.

As you noted, if you can do some application consolidation, you may be able to consider new deployment opportunities and cloud-based solutions. It will make the decision-making process within IT more nimble and more flexible, as well as enable them to respond more quickly to the line of business owners and be able to almost empower them with the right information and a structured decision-making process.

That enables them to take greater risks and take advantage of new opportunities that they might not have been able to, if they just proceed with whatever solutions they have in hand.

Moving toward strategies

Ellsworth: That's a really good point, because the one metric, if I can use that word, that is understood by executives outside of the IT organization is how much of our investment is just going towards keeping things running or of keeping the lights on and how much is towards strategic work. Certainly the lower amount is strategic today. Anytime the CIO can show progress towards moving from keeping the lights on toward more investment strategies, that's something that's easy to understand outside of IT.

Gardner: And on that same topic of metrics, Lori do you have examples perhaps even used cases where the proper deployment of IT portfolio management has the demonstrated tangible result?

Ellsworth: Sure. To just speak generally, we have customers who are seeing improvement, first of all, on the execution side, and those improvements are in the area of being able to deliver projects. So, let's assume for a moment, that we're doing the right things. You're starting to see a

30 percent improvement in delivering a project on time, on budget, and meeting the business need.

If you start to back up, just thinking about that project as strategic, it will have an impact on the business, maybe even a revenue-generating impact. I can increase the probability of delivering it, when it's needed for the cost and meeting the business need, and you can start to translate that into the value back to the business.

Something a little less tangible is making better business decisions. Now, we're not wasting our resources. We're investing them in the right things and looking for a higher return to the business. Most of our customers will start to see what I'll call the supply and demand side of the business, and start to see some tangible returns in that area for certain.

The other area is in your utilization or productivity of resources. Customers are seeing significant increases in that area.

Gardner: Well, we're almost out of time. We've been digging into the need for better-managed processes in IT for how IT operates itself. We're looking at contraction and the requirements to reduce cost at an operating level, but at the same time, needing to prepare for a transformation of IT into perhaps more of a mature business unit to be able to ramp up for growth and take advantage of what stimulus money might be available.

We've been joined by Lori Ellsworth the vice-president of Changepoint Solutions at Compuware. Thank you, Lori.

Ellsworth: Thank you very much.

Gardner: We've also been joined by David A. Kelly, senior analyst at Upside Research. Great to have you with us, David.

Kelly: Great to be here, Dana. Thanks for inviting me.

Gardner: This is Dana Gardner, principal analyst at Interarbor Solutions. You have been listening to a sponsored BriefingsDirect podcast. Thanks for listening and come back next time.

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