

technology viewpoints

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ABOUT THIS DOCUMENT

This issue of CGI's Technology Viewpoints takes a look at the topic of application portfolio rationalization (APR).

This document is a complementary transcript to a podcast on the topic with Steven Maienza, a CGI director of consulting services.

This viewpoints issue discusses how APR is both an immediate and long-term strategy for reducing costs and maintaining profitability, which is particularly important in these challenging economic times.

Application Portfolio Rationalization

Let's start with the basics. What is APR and how can it help organizations?

Studies have shown that IT organizations are spending a great deal of their resources maintaining existing applications. That's application maintenance and production support. Those studies show that the percentages of the total IT budget can range between 60 to 80 percent, with 70 percent a commonly named statistic. Of that, 10 to 20 percent can be spent just on maintaining duplicate or underutilized applications. If you do the math, there's a significant amount of opportunity for taking costs out of the organization.

With the APR assessment, we identify that waste, which typically we find to be somewhere in the order of 10-30% of that application maintenance and production support budget.

The assessment identifies applications that are candidates for retirement or consolidation—and that can include the underlying infrastructure—and to eliminate and consolidate the application software licenses that may be part of those applications. They also look to pinpoint opportunities to reduce IT labor costs and potentially labor costs on the business side.

All types of organizations can benefit from this type of assessment. Typically, we find the best candidates are companies that have been involved in mergers and acquisitions activity, or companies that have had multiple independent business units growing organically and have functional or technical redundancy, especially if they have multiple lines of business or different types of products. Also, companies that have been aggressive with technology are good APR candidates; we find that as new technologies and applications get introduced, it's very rare that companies retire applications, yet they frequently add them, leading to many generations of applications.

Also, governments have opportunities to benefit from an assessment given that there are redundant applications across several agencies. We've had cases where we've been able to identify rationalization opportunities there as well.

With that background in mind, can you describe what an application portfolio rationalization initiative encompasses?

We start with an APR assessment, and see if the organization has an application portfolio management capability in place. We then work with that, suggest upgrades or introduce one. Once we create that capability, we inventory the applications, essentially to create a list and document what's there. Then we go through a process of assessing those applications, identifying rationalization opportunities, and drafting a roadmap to figure out how to move from the current state that the IT organization has into a future state. We also document the business case in terms of the investments that are required and the expected benefits to show that there is a beneficial payback period or to document the net present value of the investment.

As part of that, we use a five-phase process, which has been tested on many engagements and used for many years. Once the assessment is completed, we provide a management summary for the client where we present the findings, essentially the results of the application inventory, and statistics on what we have found. It is usually very enlightening for the client to see what they have and where the redundancy lies. We also provide a recommendation for the overall portfolio by application. From this we deliver our rationalization roadmap, which we have worked to merge with any existing IT roadmaps that are already in place. Again, as part of this we develop a CFO-ready business case for the CIO to present, working with the client and their finance organization to understand what represents the winning business case.

The assessment can identify both near-term and long-term initiatives and savings for the application portfolio. Instead of suggesting consolidations that will achieve savings in year three or four, we specifically target retirement opportunities within the first three to six months after the assessment. We look for applications that can be retired, that have minimal use, or aren't providing significant value.

Once this inventory is in place, the client has a much more robust application portfolio management capability. They have a better ability to plan for their long-term business needs and other IT transformation programs. They are able to focus on application modernization to identify what the complete portfolio needs in terms of upgrades, and put business intelligence, IT governance and application management programs in place.

For organizations to find immediate savings, how should they get started and what kind of results can they expect?

The best place to start is with an assessment, and the assessment length will vary by the size of the application portfolio. We've seen a lot of assessments that can be completed in six to eight weeks; depending on the size of the organization, they can go up to 12 to 14 weeks for very large portfolios. In these assessments, we typically identify 10 to 30 percent of savings in the maintenance budget. The near-term savings we identify are frequently in the range of 1 to 3 percent of that spend, which essentially pays for the assessment a number of times over. The short-term savings by itself is a very good business case, and the long-term roadmap provides clarity and direction for the organization.

This dual approach is very popular. A few years ago, companies were more interested in the longer term strategic plan. Now having the ability to identify the short-term cost reductions, allowing some of the IT expenses to be reduced in the short run, is very attractive. By doing this, organizations can reduce their IT expenses to be more aligned with reduced revenue, or by identifying short-term opportunities, they can reduce their production support and maintenance spend, freeing up those dollars for new investment initiatives.

THE BENEFITS

To sum it up, application portfolio rationalization helps clients spend less on maintenance and production support, realign expenses with revenue levels, and reallocate IT dollars for critical business initiatives.

Before we close, can you share some examples of how we're helping our clients with APR?

We've implemented these assessments in multiple industries – financial services, life and property and casualty insurers, government, utilities – and have found we have four differentiators in these types of engagements.

One, we have a proprietary process for designing an application portfolio management data dictionary, which is essentially a knowledge base of all of our engagements. We put together a data dictionary that describes the applications in very quick order, which helps the client understand the pieces of information they need to track to support their strategic decision making.

We also put together a roadmap that is actionable, which is key. A lot of organizations develop their application inventory, but do not know how to turn that into an actionable plan. So the roadmap is very important. We also build a CFO-ready business case that identifies the cost savings and the transition costs to go from the current to future state where the rationalization has been achieved.

In addition, we're able to provide flexible contracting arrangements, such as benefits funding arrangements, where some of the savings can be shared between the client and CGI. This gives the client a lower cost to go through the engagement.

The work that we've done for clients has resulted in the consolidation of many systems, the reduction in licensing requirements, and the overall, continuous improvement to the evolution of the portfolio, including rolling new technologies in and expanding the use of service oriented architecture.

At the end of the day, it's about increasing effectiveness and decreasing those fixed costs – the maintenance and support costs. For one client, we helped put together a plan to rationalize over 40 percent of their applications, reducing production support and maintenance costs by over 30 percent. For an auto insurance company, we reduced their environment from three separate mainframe insurance application platforms down to one.

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COMPANY PROFILE

At CGI, we're in the business of satisfying clients by helping them win and grow. For 33 years, we've operated upon the principles of sharing in clients' challenges and delivering quality services to address them.

As a leading IT and business process services provider, CGI has a strong base of 26,000 professionals operating in 100+ offices worldwide, giving us the competitive advantage of close proximity to our clients. Through these offices, we offer local partnerships and a balanced blend of global delivery options to ensure clients receive the optimal combination of value and expertise required for their success.

We define success by helping our clients achieve superior performance and gain competitive advantage.