“Keeping up”
versus
“stepping up”

The race is on to win your customers

CGI

Experience the commitment®

“Keeping up” versus “stepping up”

The race is on to win your customers

In every industry, the race to drive differentiation and growth through business transformation is accelerating. As a key transformation driver, IT is squarely at the top of executives’ priorities, but many companies are grappling with how to invest in “step up” activities – those critical to achieving differentiation in their markets – while meeting the demands for investment in “keep up” activities – those essential to running their business.

This paper takes a look at what leading companies are doing to drive market leadership through their IT investments and provides recommendations for those that seek to do the same.

IT: A game of opposites

Or, so it seems! The combination of stagnating revenues, contracting budgets, increasing regulation and fast changing markets are making the job of CIOs close to impossible. On the one hand, the business side is critical of IT's drag on the company's competitiveness; on the other hand, the CEO and the CFO are forced to hold down IT budgets barely sufficient to keep the business ticking along.

Executives are confronted by the need to fund "keep up" activities — those activities essential to run the business — without starving "step up" activities — those needed to change the business.

Every year, as part of CGI's Voice of Our Clients program, we conduct face-to-face interviews with client executives to get a pulse on their industry trends and to learn more about their business and IT priorities. In 2015, we interviewed 965 executives – 44% from the business side and 56% from IT – across 10 industries and 17 countries.

The results show that both business and IT executives are largely aligned regarding their business objectives and how IT should ultimately support them; **but the picture that emerges is also one of increasing tension between business and IT in the face of budget constraints, with many companies struggling to achieve the right balance between "keep up" activities – those activities essential to *run* the business – and "step up" activities – those needed to *change* the business.**

Cleary the top trends revealed from these interviews demonstrate that executives share a business imperative to deliver more and new value through digital transformation.

Their top technology priorities all point to changing the business, including:

- Driving **IT modernization** to become more agile, reduce the cost of running the business and invest in changing it
- Developing capabilities to deliver the benefits of **big data and business insight**
- Transforming and connecting with all stakeholders to become **digital enterprises**
- Protecting stakeholders through enhanced **cybersecurity**
- Embracing **new delivery models** – SaaS, cloud, managed services/outsourcing, etc. – to align revenue and costs

Yet, organizations are struggling to transform in light of top-line pressures and rising costs. On average, 82% of IT budgets are allocated to the mandatory operations needed to run the business, leaving 18% for changing the business. To make matters worse, most of the executives interviewed indicated that they now have to not only attract and motivate new talent to support new platforms and digitize processes, but also retain *aging* talent to maintain legacy platforms well past their "sell-by date." In many cases, this is adding costs to an already insufficient budget envelope, while increasing operational risks.

How deep are your pockets?

Faced with these challenges, many companies are pursuing an expensive option. They acknowledge they are forced into an IT arms race against competitors and see no other option but to throw resources at IT and, in some cases, insource activities previously outsourced and grow in-house teams. In particular, companies in sectors such as banking, multi-channel distributors, transportation and healthcare have allowed their IT budgets to grow ahead of the business (see exhibit 1).

Yet, to avoid throwing good money after bad, CEOs and the business profit and loss (P&L) owners need to look carefully at their companies' plans to overhaul their technology roadmaps and build IT empires. Moreover, this cannot just be about P&L owners giving their blessing and stepping back from execution. P&L owners need to drive the transformation program top down, while putting in place the right governance and accountability to drive the execution of the IT roadmap and deliver the business goals. Leaders need to carefully weigh where, when and how IT investments should be made.

To avoid runaway IT budgets – or, at the opposite end of the spectrum, overly constrained ones – **it is imperative to adopt a clear division between the contribution of IT toward competitive differentiation and the basic running of the business.** For companies that do so, activities that differentiate – such as wireless everything, omni-channel delivery, web content management, collaborative toolsets and predictive analytics – are tightly managed by the CEO and business P&L owners, creating an ecosystem of internal resources and external partners. On the other hand, undifferentiating activities are outsourced to third parties, including infrastructure, storage, ERP, CRM and testing.

Even in second- and third-generation outsourcing contracts, CGI often reduces "keep up" budgets by 30-40% over time, with a strong emphasis on IT modernization, the retirement of old applications, and the adoption of automation tools and processes (for example, the CGI ProAction-AS methodology, which drives productivity improvements in application management). For typical budgets, redeploying these savings equates to doubling or tripling "step up" investments and dramatically increasing competitiveness.

Such a division is particularly critical in those sectors that are increasingly dependent on IT, and where IT is becoming the core business. For example, in the case of music and video retail, the old models collapsed years ago, and similar transformations have or are now taking place in fashion, travel, hospitality, retail banking, car insurance, logistics, parts distribution and many other sectors.

And, this is not just about driving differentiation in terms of consumer-facing products and services. **Business user expectations have increased** based on new services from Amazon, eBay, iTunes and other innovators. Business users now expect similar levels of digitization in their business-to-business (B2B) dealings. For example, in the Nordic countries, the purchase-to-cash process for B2B services is now fully automated and integrated with the banking system, with appropriate controls embedded.

To avoid throwing good money after bad, CEOs and the business P&L owners need to look carefully at their companies' plans to overhaul their technology roadmaps. Leaders need to carefully weigh where, when and how IT investments should be made.

Exhibit 1: Most sectors are forecasting to increase their IT budgets or at least to maintain their current levels of spending (Source: CGI Voice of Our Clients – 2015)

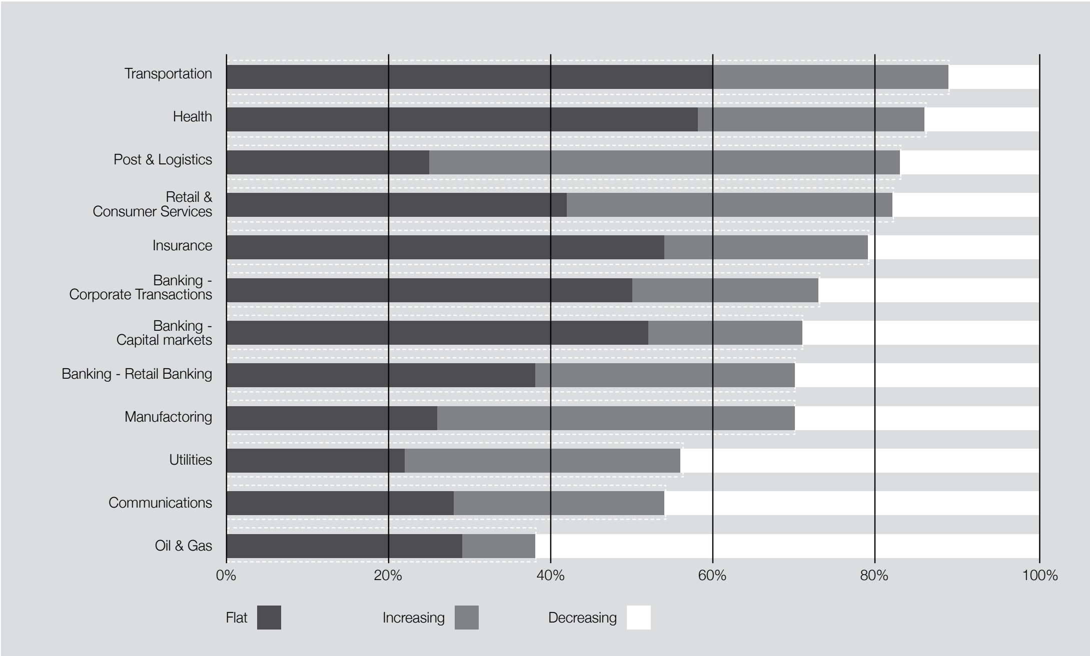


Exhibit 2: “Stepping up” is pursued in different ways by different sectors (Source: CGI)

Industries	**Leaders**	**Followers**
Customer-intensive	Second-generation cloud enablement, wireless everything, digital employees and agents, collaborative toolsets, ecosystem partnerships and connectivity, and predictive analytics	Legacy modernization and replatforming, driven by departmental initiatives; omnichannel experience not yet implemented
Asset-intensive	End-customer relationships, social media, aggressive paper elimination, promotion of mobile self-service across employees, clients and agents	Planning, analyzing and looking for the right solution; automating processes; struggling to modernize legacy systems and fund digitization
Risk-intensive	Common platforms and data sets, investing in digital employee tools, running eservices, facilitating internal collaboration and cybersecurity	Open architecture, social media and mobile devices, implementation of point solutions, digital content management testing

“Stepping up” to win

If one looks at the evolution of IT operating costs, the old rule of costs equaling about two percent of revenue, if it was ever true, no longer holds true. Some companies are now spending up to 20 percent of their revenue on IT and up to 80 percent on their capital expenditures. Different sectors exhibit different IT intensities structurally; hence, the success of companies in the sectors with the greatest IT intensity depends increasingly on the effectiveness of their IT programs.

In practice, this means driving huge savings in “keep up” activities to increase the headroom for investing in “step up” activities; and aligning those activities with business priorities.

In turn, this is forcing companies to rethink how they dovetail their business and IT teams. The traditional separation between the two sides no longer works well. IT has become a front-line activity involving mixed teams. Sales, marketing, operations and technology work together to develop new products and services and launch new market campaigns, as well as manage redesigns, logistics, payments and more. And, they are now using Agile and DevOps approaches to avoid the constraints of traditional IT development environments.

However, many companies are unprepared for such a revolution. For example, they may succeed in achieving speedy alignment with market opportunities, but pay the price in lower reliability. And, ultimately, the disruption that results from their transformation programs may not be justified by the market differentiation achieved.

To avoid the pitfalls and ensure success, leading companies are focusing on IT transformation while carefully avoiding the latest IT fads. The role of the CIO is to support a practical, coherent IT roadmap, prioritizing transformation while preventing day-today operational platforms from taking over.

“The role of the CIO is to support a practical, coherent IT roadmap, prioritizing transformation while preventing day-to-day operational platforms from taking over.”

"Stepping up" against competitors all trying to gain an edge is easier said than done. With multiple platforms supporting business functions and continued pressure to evolve those platforms, business owners, starting with the CEO, must have a clear differentiation strategy in mind and how IT supports that differentiation.

Most companies operate in one of three broad environments:

1. **Consumer-intensive** (e.g., communications and retail)
2. **Asset-intensive** (e.g., manufacturing and utilities)
3. **Risk-intensive** (e.g., oil and gas and healthcare)

"Stepping up" in each these environments is driven by different priorities (see exhibit 2). For example, in consumer-intensive sectors, differentiation is achieved by industry leaders through cloud enablement, wireless everything, digital employees and agents, collaborative toolsets, ecosystem partnerships and connectivity, and predictive analytics. On the other hand, companies catching up are still mired in modernizing legacy systems and replatforming. Their focus also remains on departmental rather than enterprise initiatives, and they have not yet started planning for an omni-channel experience.

Leading companies operating in asset-intensive industries focus on end customer relationships, social media, paper elimination and mobile self-service across employees, customers and agents. Companies catching up are exploring, analyzing, planning and automating in these areas but struggling with legacy modernization and digitalization.

Finally, leading companies in risk-intensive industries are moving toward common platforms and data sets, investing in digital employee tools, implementing customer platforms that facilitate internal collaboration, and strengthening cybersecurity. Companies catching up are starting to exploit open architectures, social media and mobile devices, as well as implement point solutions and test digital content management.

As industry leaders reduce the burden of their everyday operating expenditures and invest in transformation projects, the gap between leaders and followers is increasing. The race to differentiate is on.

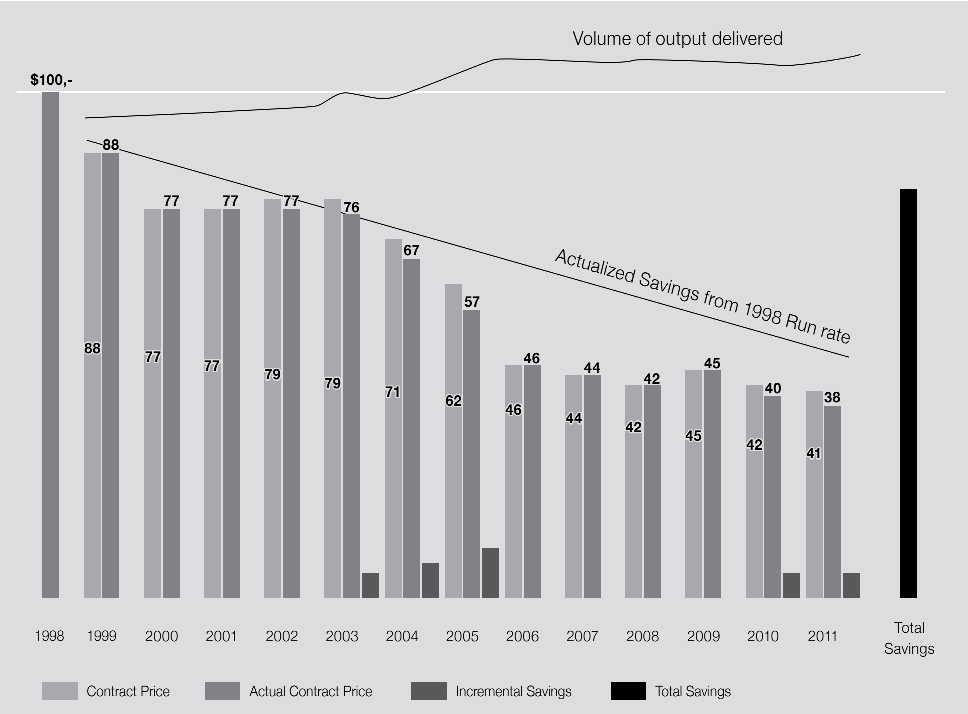
Driving success

Leading companies are leveraging partnerships to drastically reduce their “keep up” expenditures and divert resources to where IT enables transformation. For example, from 2004 to 2014, a leading media and telecommunications company reduced its maintenance costs for core IT platforms by 60 percent through a comprehensive IT outsourcing contract with CGI. The 60 percent in savings was redeployed to convergent billing solutions, omnichannel platform development, web content management, data analytics and more (see exhibit 3).

In light of the budgetary and talent constraints faced by most companies, diverting resources to “keep up” activities is, at best, wasteful and, at worst, a serious threat to losing market share. Leading companies are focusing attention on transformation. They also recognize that today’s transformation is tomorrow’s legacy; therefore they choose wisely how to underpin their transformation, reducing ownership of assets, leveraging cloud and Software as a Service (SaaS) solutions, and avoiding bespoke developments.

Leading companies are leveraging partnerships to drastically reduce their “keep up” expenditures and divert resources to where IT enables transformation.

Exhibit 3: Leading media and telecommunications company reduced “keep up” by 60 percent to reinvest in “step up” (Source: CGI)



Outsource “keep up” IT activities to drive down costs while guaranteeing high levels of availability and cybersecurity.

CGI’s experience in working with clients across industries suggests the following 10 best practices for “stepping up”:

1. Get CEO engagement: Have the CEO drive the “step up” IT agenda directly. This is easier said than done. It requires close alignment between the CEO and CIO, a CEO not easily intimidated by new technologies, and a CIO willing to relinquish the day-to-day running of anything that is not on the critical path for market differentiation.

2. Classify IT assets: Classify platforms and applications according to whether they support the running of the business or whether they enable true differentiation in the eyes of customers.

3. Outsource “keep up” activities: Outsource IT activities to drive down costs while guaranteeing high levels of availability and cybersecurity. Let external suppliers worry about retiring legacy platforms and systems. Let them focus on driving productivity improvements, system performance enhancements and modest innovations.

4. Choose wisely between single- or multi-sourcing: Depending on how mature your IT organization is, choose between single- or multi-sourcing, but bear in mind that rampant multi-sourcing requires significant overhead for managing integration, collaboration, accountability and risks. Multi-sourcing can become a distraction from pursuing the transformation agenda single-mindedly; the idea is to focus exclusively on “stepping up.”

5. Focus on competitive differentiation: Focus your organization’s energies and creativity on developing the differentiating benefits that IT can deliver. Evaluate the best platforms and suppliers to support your customer-facing differentiation, your service excellence and your innovation pipeline. Choose best-of-breed platforms but avoid being the guinea pig for a start-up that may or may not succeed.

6. Get the business P&L owners involved: Have the P&L owners drive the “step up” priorities and IT deployment. Keep them from delegating the execution to IT exclusively; both need to be committed.

7. Keep pace with technology: Stay on top of the technology supporting your market differentiation. Technology is changing all of the time and at an ever accelerating pace; stay away from inflexible solutions that will rapidly become the new legacy.

8. Invest in the best talent: Handpick the talent to drive your differentiation program. Do not distract them with undifferentiating tasks. Motivate them to make your company the leader in your sector. Ensure your talent understands how the “keep up” engine works to maintain alignment, but make sure the “keep up” and “step up” activities are well delineated and kept separate.

9. Invest in partnerships: Develop true partnerships with your IT suppliers while monitoring their performance very closely. Set a robust governance process, demand meaningful KPIs, introduce frequent milestones, and commit time to managing all of these.

10. Prioritize, prioritize, prioritize: You will not be able to do everything at once, focus and measure rigorously the progress against razor-sharp objectives, but be ready to adjust rapidly as new challenges emerge.

For many companies, IT is now squarely at the center of operations. It is, in many cases, the most critical enabler of a company's strategy, and the failure to deliver a well-balanced IT roadmap can jeopardize the very viability of the business.

Recent headline-grabbing events and the resulting consequences – from a massive cybersecurity breach at a leading Internet company to the breakdown of a core banking system at a recovering national bank – remind us that few companies can afford not to put IT at the center of their strategy. **Increasingly, IT *is* the business.**

Most companies have the opportunity to achieve dramatic savings in their "keep up" operations, which can then be diverted to "step up" transformation. Determining what really matters in IT versus what is only necessary is critical. Winning comes from choices; focusing on what matters remains the winning choice.

About the authors

João Baptista is a member of CGI's Executive Committee and President of CGI's Eastern, Central and Southern Europe operations.

Penny Hembrow is the Global Lead for Industry & Practice Center of Expertise and Vice-President of Global Banking.

About CGI

Founded in 1976, CGI is a global IT and business process services provider delivering high-quality business consulting, systems integration and managed services. With 65,000 professionals in 40 countries, CGI has an industryleading track record of delivering 95% of projects on time and within budget, aligning our teams with clients' business strategies to achieve top-to-bottom line results. Visit cgi.com or contact us at info@cgi.com for more information.