

Strategic change through emerging IT trends

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Presentation key points

- ▶ Current Business Environment
- ▶ Top 10 Global Business Risks
- ▶ Strategic Alignment & Strategic Options
- ▶ Emerging Trends

We live in a volatile world

2008 was a traumatic year for the global economy.

2009 continues in the same manner.

*A decade of global economic growth has suddenly
come to a grinding halt ...*

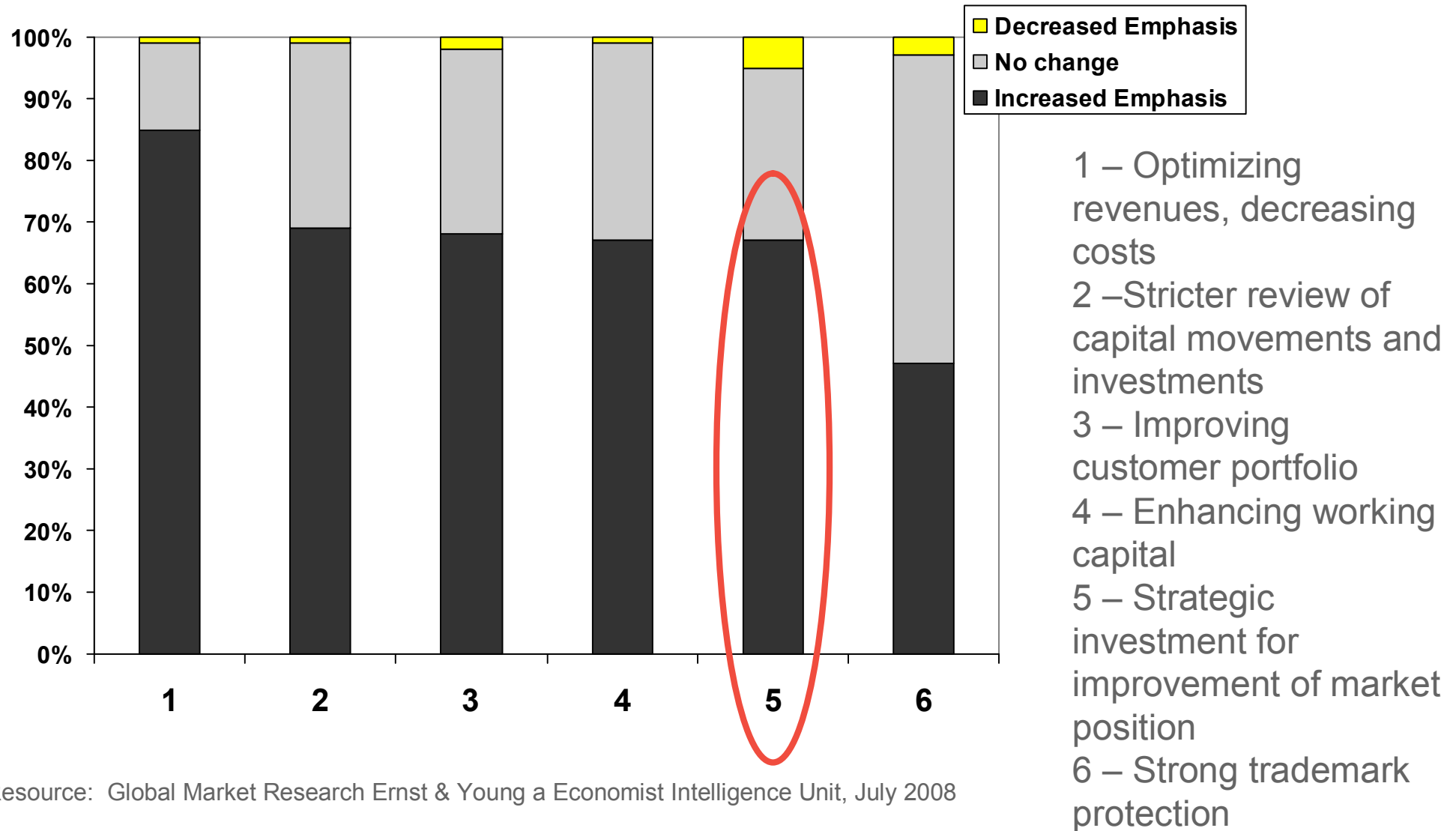
Market Research “Economic crisis 2008”

Respondents: Multinational companies with a presence in Slovakia

- ▶ 78.6% companies have already prepared counter-measures against impacts of the financial crisis :
 - ▶ 57.1% respondents plan to invest in new technologies
 - ▶ 46.4% respondents prepare specific plans for restructuring
 - ▶ 10.7% respondents plan to move to more favorable geographic locations

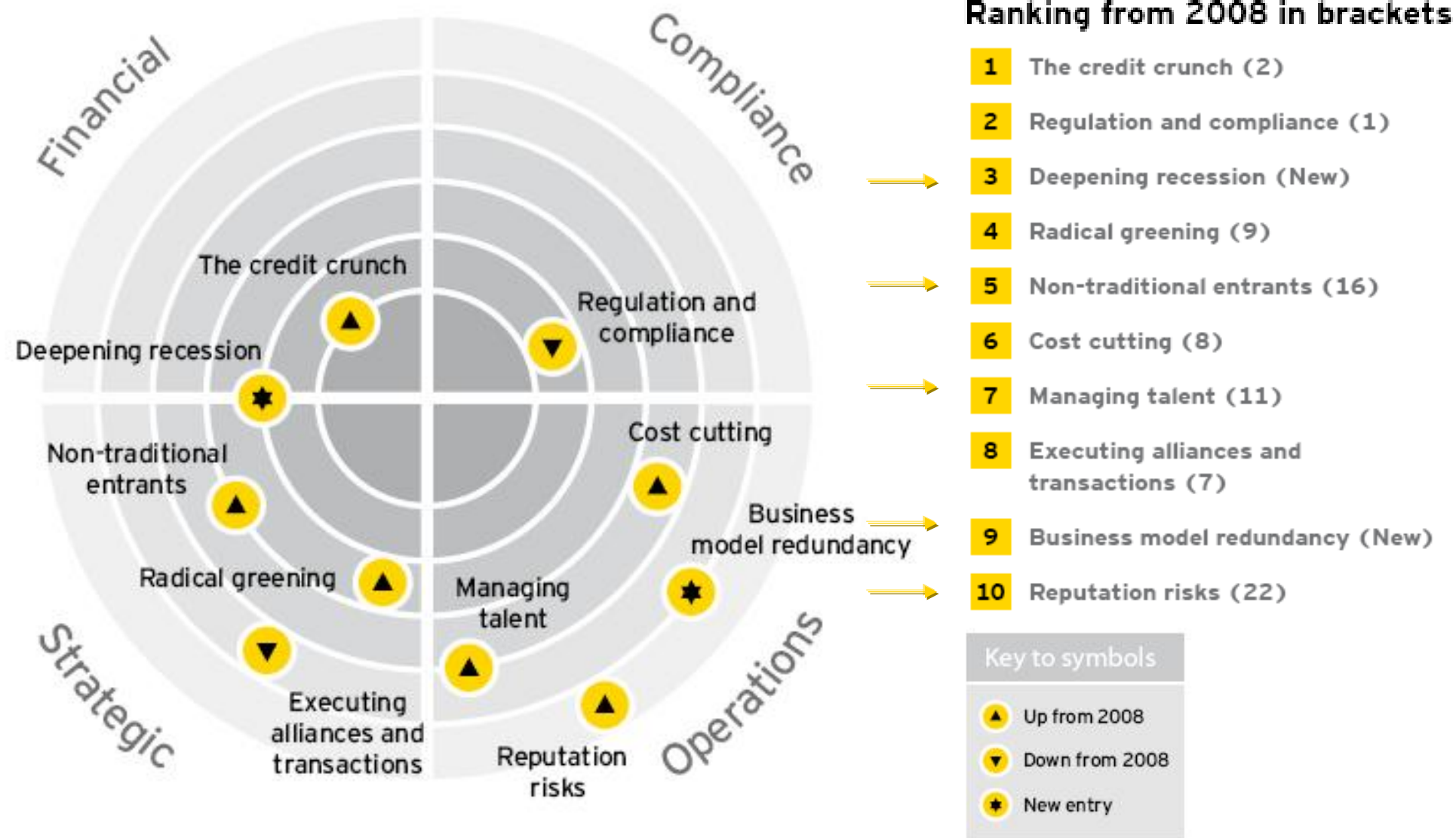
- ▶ 37% companies decided on use of cheaper materials
- ▶ 63% keep with current structure/ composition of materials
- ▶ 38.5% consider acquisitions as a result of decreased value of companies
- ▶ 14.3% prepare to sell a part of an enterprise

Main activities based on own experience with recession



Resource: Global Market Research Ernst & Young a Economist Intelligence Unit, July 2008

The 2009 Ernst & Young business risk report — Top 10 risks for global business



Top 10 Global Business Risks

1 The credit crunch

The credit crunch and its aftershocks pose existential threats to leading global firms in asset management, real estate, insurance and banking, while capital-intensive sectors such as life sciences and power and utilities are under pressure from a tighter credit environment. (Rising from Number 2 in the 2008 report.)

2 Regulation and compliance

Regulatory risk — last year's number one threat — remains near the top of the list. This risk may not have such an obvious impact as the global credit crunch, but regulatory risks continue to be keenly felt by leading firms in sectors such as life sciences, telecoms, oil and gas and power and utilities. Furthermore, uncertainty regarding the regulatory response to the global financial crisis has caused this risk to become more important in asset management, banking and insurance. (Falling from Number 1.)

3 Deepening recession

The global financial crisis and house price declines have delivered a shock to consumer confidence and sparked a flight of capital from emerging markets, raising the specter of the retraction in developed economies becoming a truly global recession. (New this year.)

4 Radical greening

Environmental and sustainability challenges continue to escalate, most dramatically in carbon-intensive sectors such as automotive, real estate, oil and gas, and power and utilities. The change of administration in the US raises the possibility of concerted government regulation. (Rising from Number 9.)

5 Non-traditional entrants and competitors

New competitors are emerging from adjacent markets and geographically distant areas. National oil companies now compete with the majors in oil and gas; banking, insurance and asset management companies now compete for the same customers; as do internet, telecom and media companies; and emerging market companies are more competitive in the automotive sector. (Up from Number 16.)

Top 10 Global Business Risks

6 Cost-cutting

With the global economy slowing, cost-containment is now crucial to survival in sectors such as automotive, media, and consumer products. It has an impact on both suppliers and consumers. (Rising from Number 8.)

7 Managing talent

What was the “war for talent” is now more complicated: attracting talent is still important, but so is retaining key talent during a downturn and (especially in banking) the growing dissent over compensation structures that are misaligned with risk management or longer-term returns. (Rising from Number 11.)

8 Executing alliances and transactions

Tightening credit conditions have lessened the pace of M&A activity. Yet alliances and partnerships remain crucial to the business strategies of leading firms in sectors such as telecoms, life sciences, utilities and media. Furthermore, the financial crisis has led to dramatic and sudden ‘rescue mergers’ for which due diligence must be undertaken after the event. (Falling from Number 7.)

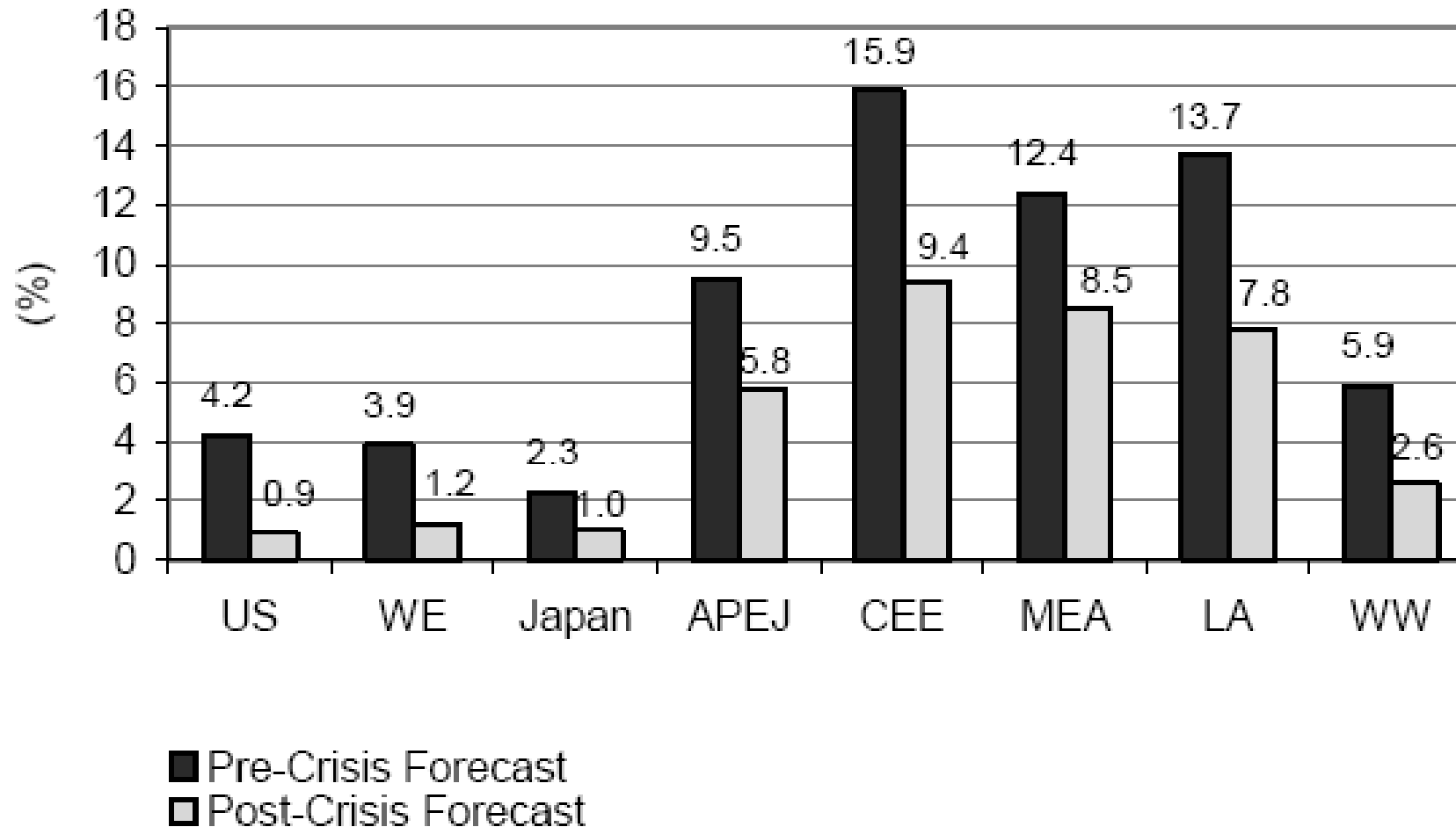
9 Business model redundancy

In sectors such as asset management, life sciences, media, and telecoms, technological change and industry transitions are rendering long-established business models obsolete, forcing industry-leading firms to reinvent their corporate strategies and structures. (New this year.)

10 Reputation risks

Not only the reputations of firms but those of entire industries are increasingly under threat. Environmental and climate concerns threaten oil and gas and utilities companies; pressures to provide wider access to life-saving drugs threaten funding for innovation in life sciences; and the credit crunch is weakening public trust in banking and asset management companies. (Up from Number 22.)

Worldwide IT spending (IDC)

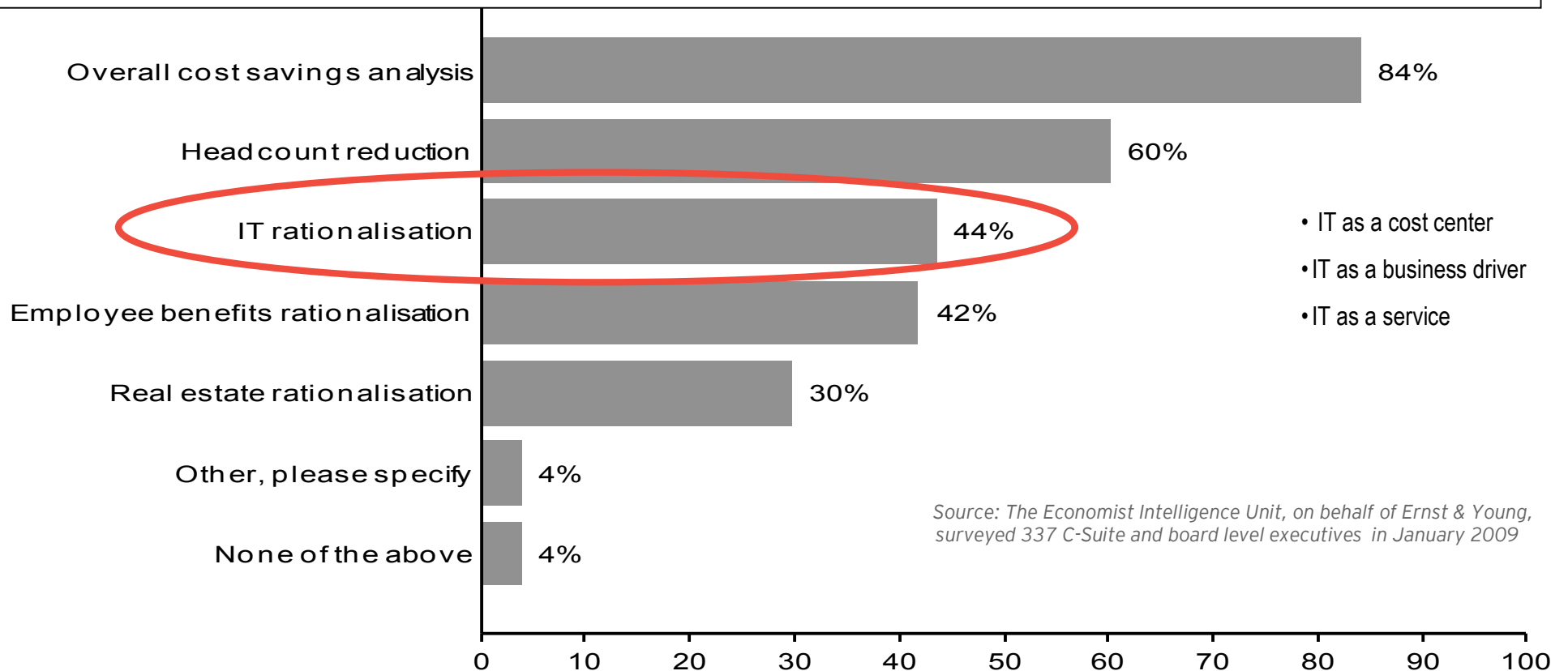


Source: IDC's Q2 and Q3 2008 Worldwide Black Books

The pressure to reduce costs alias “cost cutting evergreen”

- ▶ Pressure originates from changing market conditions, a revised enterprise strategy, business model or other external factors.

Which of the following cost reduction initiatives have you already implemented or started to implement?



Source: The Economist Intelligence Unit, on behalf of Ernst & Young, surveyed 337 C-Suite and board level executives in January 2009

- ▶ It is imperative to find a balance between improving performance, cost reduction and maintaining effectiveness

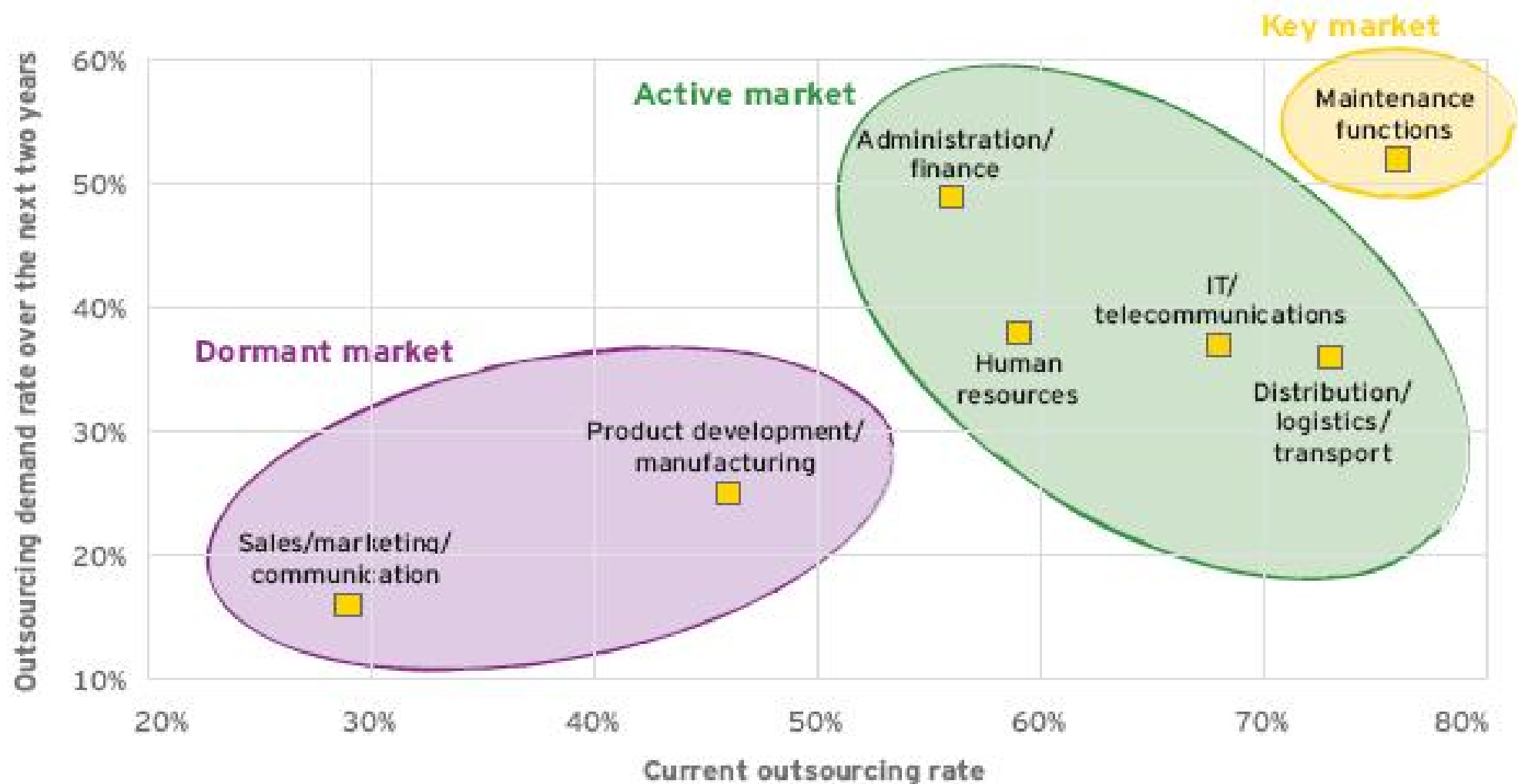


Strategic Alignment & Strategic Options

Strategic risks – Implications for IT

- ▶ As our recent survey of executives showed, **IT** is a major area for potential cost-saving and, since it is critically embedded into all parts of the business, the IT function is probably one of the departments most affected whenever cost-saving initiatives are underway.
- ▶ However, with the current economic situation causing unprecedented trading conditions, putting the IT function under pressure when it is having to adapt the business to respond to those changing market conditions should be carefully considered.
- ▶ For the first time, businesses may want to look to their IT function as a means of creating value, as a way of rationalizing costs throughout the business and as a way of managing the overall risk position.
- ▶ **More than ever, it is crucial that IT continues to be aligned with the business and its overall strategy, improves its efficiency and can measure and demonstrate its ongoing value.**

Outsourcing market and position of IT



Resource: Ernst & Young Outsourcing survey 2008 (UK, France, Germany, Italy, Spain, Belgium)

IDC's top 10 Outsourcing predictions

- 1. Providers Will Need to Offer a Full Array of Cost-Saving Capabilities to Meet Cost Imperatives**
- 2. Outsourcers Will Focus on Providing Targeted, Value-Added Services via New Offerings and Acquisitions**
- 3. There Will Be an Acceleration in Offering New Technologies and New Delivery Options as Part of Outsourcing Engagements**
4. Deal Making Will Undergo a Makeover
5. Vendors Will Adopt a Conservative Approach to Asset Transfer But Shift Trajectory Toward Asset-Based Service Delivery
6. In HR Business Process Outsourcing, Focus Will Be on Basics in Payroll and Benefits, with a Decline in Talent Management, Recruiting, and Learning
7. There Will Be an Increase in Consolidation/M&A of Outsourcing Market
8. There Will Be an Increased Focus on the "M" in Application Development and Maintenance
9. Partnerships Will Expand Between Traditional and Newer "Web 2.0" Players, with Some Partnerships Likely as Testing Ground in Building New Capabilities
10. The Outsourcing Services Industry Will Enter a New Phase of Restructuring

EXAMPLE: Strategic considerations – delivery options

As you consider alternative options for the delivery of corporate functions, a number of key strategic decisions are required

Sourcing options for process and technology:

Process activity Outsourced?	Yes	Business Process Outsourcing In-house IT Delivery	Business Process Outsourcing IT Outsourcing
	No	In-house Process Delivery In-house IT Delivery	In-House Process Delivery IT Outsourcing
		No	Yes
		IT activity outsourced?	

- ▶ As stated, recent BPO / ITO deals have seen a multiple vendor strategy, leveraging solution-specific capabilities rather than a one-stop-shop approach
- ▶ At the outset, need to establish a corporate strategy for off-shoring and outsourcing to help drive the decision-making process:

▶ **What are the Enterprise-wide strategic considerations?**

- ▶ Bundle BPO and ITO?
- ▶ Adopt a cross-functional strategy?
- ▶ Single vendor or multi- vendor?

▶ **Is there a functional strategy?**

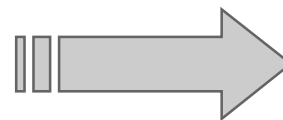
- ▶ Broad or narrow functional process scope?

▶ **Will a BPO deal include elements of ITO?**

- ▶ Processes only?
- ▶ Include IT in scope?

▶ **What is your preferred transition approach?**

- ▶ Lift and shift?
- ▶ Transformation?



The answers to these questions will drive the options for the business operations models for each function

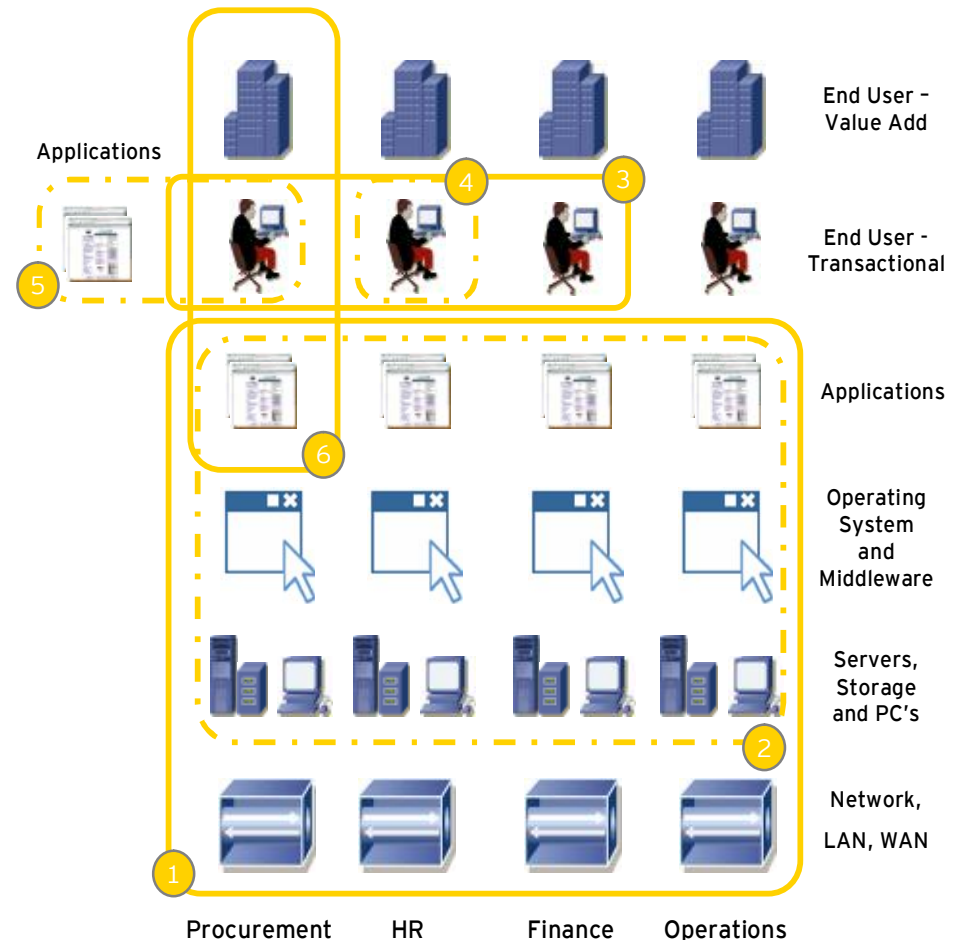
Regardless of the strategy selected, the solution is complex

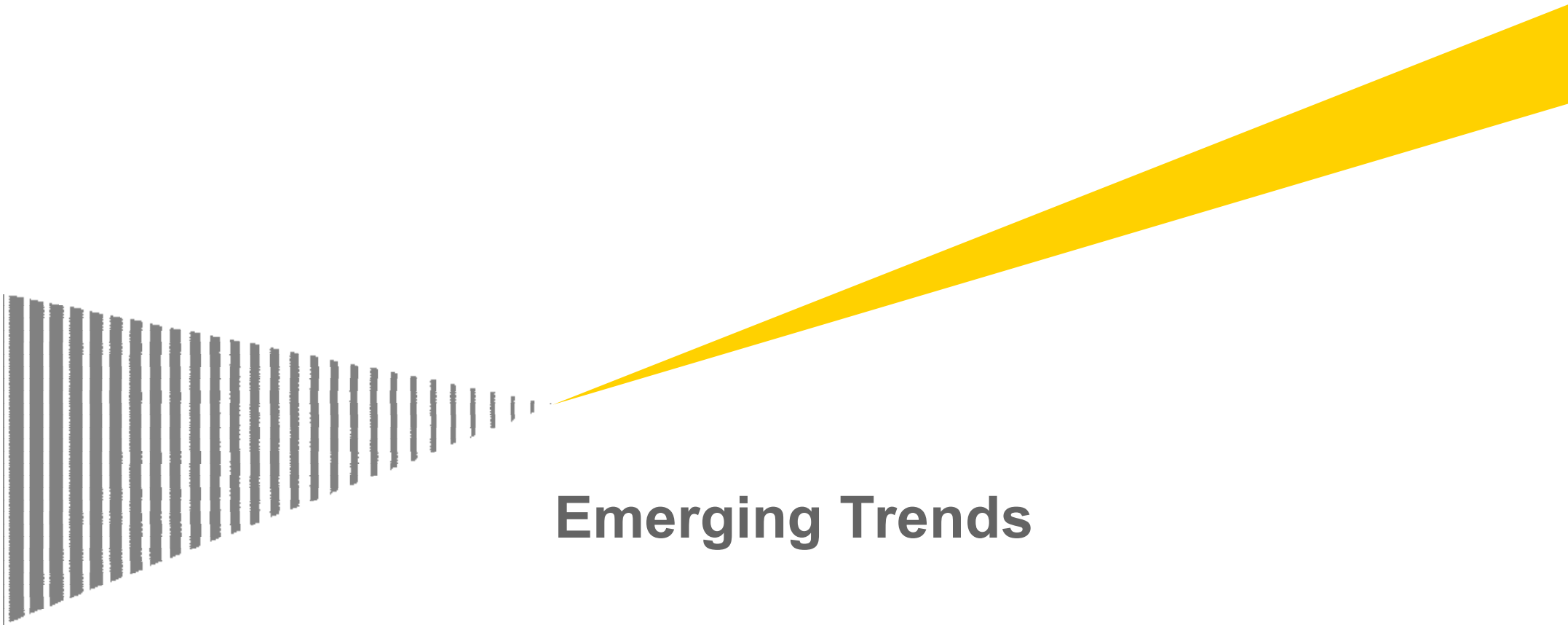
Whatever the strategic direction selected, the impact on the business operating model, current and future, is likely to be complex

| Not Exhaustive |

Potential Delivery Models:

- | | | | |
|--------------------|---|--|---|
| ITO Only | 1 | Enterprise-wide ITO: | ▶ Transfer of the IT function, in full, to an external service provider – single vendor |
| | 2 | Enterprise-wide application / infrastructure managed service: | ▶ Transfer of management responsibility of one or more IT applications or functions – single vendor |
| BPO Only | 3 | Transactional BPO across Corporate functions: | ▶ Transfer of management responsibility for corporate functions, e.g. training, accounts payable, purchasing |
| | 4 | Single function (HR) BPO – Transaction-related: | ▶ Transfer management of transactional activities, e.g. pay-roll, recruitment |
| ITO/BPO Cross-over | 5 | Single function (Procurement) / transactional BPO including Application Service Provider (ASP): | ▶ ASP - hosting of a vertical (web-based) application for a specific function e.g. PO application
▶ Transactional functional activities, e.g. Requisition and PO generation |
| | 6 | Function (Procurement) BPO including application managed service: | ▶ Transfer of management responsibility of functional IT applications
▶ Transfer management of end-to-end functional activities, e.g. strategic sourcing to order fulfilment |





Emerging Trends

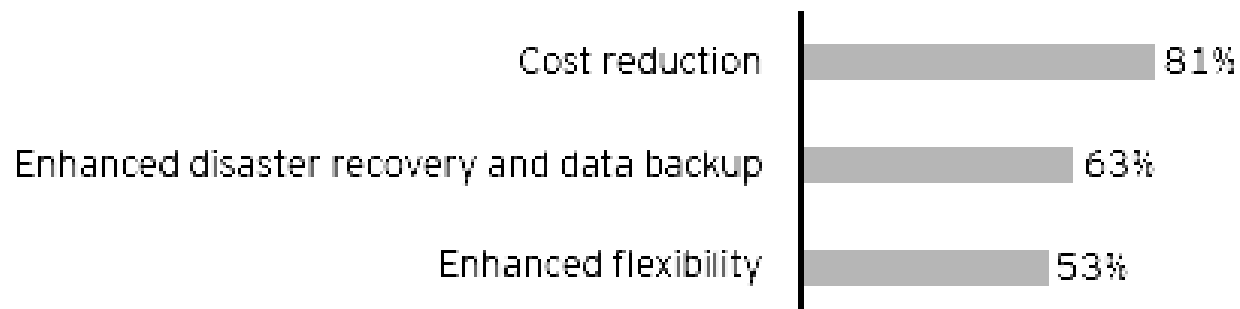
Top 10 strategic technologies for 2009

1. **Virtualization**
2. **Cloud computing**
3. **Computing fabrics**
4. **Web-oriented architecture**
5. **Enterprise mash-ups**
6. **Specialized systems**
7. **Social networking**
8. **Unified communications**
9. **Business intelligence**
10. **Green IT**

Source: *Gartner Group*, survey of IT leaders at Gartner Inc.'s Symposium ITxpo in October 2008

Primary reasons for pursuing virtualization

Primary reasons for pursuing virtualization



Source: CIO.com, January 2008 study of 300 CIOs.

Virtualization

- ▶ Virtualization is the pooling and sharing of physical IT resources (e.g., networks, servers, storage)
- ▶ Virtualization can cut your energy, hardware and software infrastructure and real estate-related costs
- ▶ Implementing virtualization, however, is not without challenges and risks, most notably around controls, management of parallel environments and security

Making computing resources virtual and savings real

- ▶ Rising costs and infrastructure needs are forcing IT departments around the globe to examine the distribution of computing resources. In particular, business and IT leaders are investigating whether they would benefit from re-allocating computer processes to machines that might otherwise be sitting idle or operating well below capacity.
- ▶ By migrating IT applications to a virtual infrastructure — virtual servers, virtual network devices (e.g., routers, switches, firewalls), and virtual storage — companies can reduce their operating expenses significantly, especially those related to real estate, data center power, cooling and hardware.
- ▶ Virtualization can also significantly improve load-balancing, application provisioning, disaster recovery and systems management. As a result, virtualization was ranked as the top strategic technology for 2009 by Gartner Group (see Figure 1).

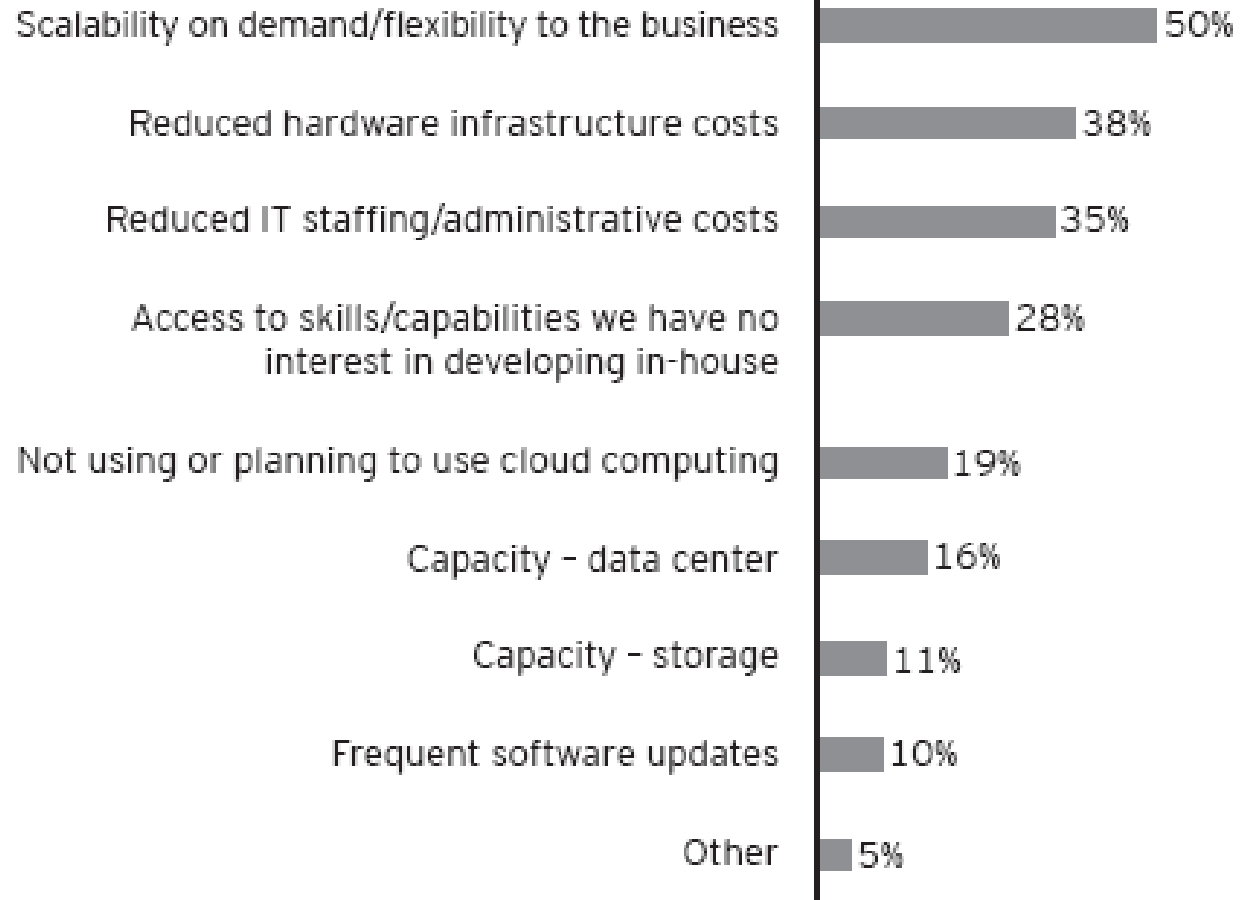
Cloud computing

Cloud computing essentially involves the outsourcing of computing capacity through third-party services over the internet.

- ▶ Cloud computing can help cut your power, storage, hardware, personnel and real estate-related costs
- ▶ There are a number of challenges to business and IT leaders in making the move to cloud computing, principally around increased privacy and security risks

Primary reasons for using cloud computing

Spending on IT cloud services will reach US\$42 billion by 2012, driven in part by the economic crisis and companies looking to reap the expected benefits of cloud computing. (Source: IDC, survey of 244 IT leaders released October 2008)



Respondents selected up to three criteria

Source: *CIO magazine* survey involving 173 IT and business leaders, October 2008

Main drivers for the future

- ▶ Careful selection of IT strategies and proper alignment to Business Strategy
- ▶ Any strategy chosen has to clearly show value for business, enhanced efficiency and management of business risk
- ▶ Investments to innovative technologies and skilled people provide competitive advantage
- ▶ Suppliers need to offer a full array of service offerings that ensure scalability and flexibility for the business needs
- ▶ Suppliers have to be ready for new hybrid models of co-operation
- ▶ **IT Capability supports the long term viability of the business**



Thank You