

CIOs can help CFOs ease the pain  
of a tough economy





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## Executive summary

As business leaders navigate the currents and eddies of the worst global economic crisis in decades, finding ways to invest for business growth poses a major challenge.

CIOs, in particular, are under the gun. It's their job to plan, build, and maintain the information technology engine that drives business success. In the face of broad-brush corporate cost-cutting initiatives, making financial commitments to enhance—or even maintain—the IT infrastructure becomes increasingly difficult.

Yet those firms that make sound decisions in tough times by strengthening their infrastructure will be best positioned when the economy recovers and demand picks up.

### **Take advantage of advanced strategies**

To make that happen, CIOs need to use the most advanced strategies available. One positive approach is to engage with the CFO to discuss how IT resources can be more effectively managed, refreshed and financed.

Bringing the CFO into a conversation about IT spending and investment can elevate the discussion from a search for short-term cost cuts to a deeper consideration of long-term corporate vitality. For example, industry analysts note that, on average, only 30% of the typical corporate IT spend goes to acquiring hardware; the vast majority goes to maintenance and ongoing support—labor.

Understanding this dynamic steers savvy executives away from financial “quick fixes,” such as deferring scheduled equipment refresh programs, which sacrifice business performance and increase long-term costs. Far better to take a comprehensive approach to managing the IT portfolio lifecycle through planned replacement programs.

### **Leasing offers advantages**

In managing a planned replacement program—especially in a challenging economy—equipment leasing offers many advantages. Preservation of capital is one. Leasing turns what is otherwise a capital investment—requiring borrowing and/or a significant upfront commitment of cash—into a level operating expense.

Leasing easily can be incorporated into a planned program of equipment replacement and modernization designed to minimize the lifecycle costs of IT equipment and ensure that when the economy picks up, your organization's IT “engine” is ready to accelerate your business.

Sale-leaseback of IT assets is another option, which can provide an immediate infusion of cash and set the stage for a lifecycle approach to managing technology updates.

CIOs and CFOs share essentially the same challenge. They must maneuver carefully through today's challenging economic conditions, yet do so in ways that position the organization for future growth. By working closely together and incorporating equipment leasing into their approach, both they and their business can prosper.

## Coping with a shrinking IT budget

Twenty-first century business thrives or dies on the performance of its IT infrastructure. But in a volatile economy, not even IT is sacrosanct. Just as for any other business function, paring budgets and justifying spending programs are familiar exercises for CIOs. These tough jobs simply become more challenging—and crucial—in an economic downturn.

As sales slow and capital sources dry up, the pressure will intensify. CIOs can expect to face escalating demands to slash budgets and slow or eliminate programs—at the same time they’re being asked to use technology to generate efficiencies.

CFOs are responsible for managing risk and ensuring the corporation’s financial health. In the realm of information technology and management information systems, CIOs share these responsibilities. Indeed, the risk of trying to achieve competitive and financial success using an ineffective, outmoded or broken-down IT infrastructure would be hard to exaggerate.

### **CIO role transforming**

Results of a new annual “State of the CIO”<sup>1</sup> survey reveal the role is undergoing a significant transformation, with an increasing number of CIOs reporting to the CEO and actively participating in executive management committees. Correspondingly, CIOs are deeply engaged in aligning IT initiatives with business priorities. In fact, nearly 75% of surveyed CIOs cited strategic planning as their most critical leadership competency.

CIOs and CFOs share a common interest in ensuring the enterprise allocates adequate resources to build

and maintain IT systems that the business needs to compete and grow. And not a dollar more.

It can be a mutually rewarding relationship. As noted by Forrester Research, an independent technology and market research company, “CIOs can be valuable partners to the CFO in leading programs to find, fund, and implement small process changes that shave percentages off a firm’s costs.”<sup>2</sup>

Absent insight and counsel from the CIO, CFOs may respond to an economic downturn by tightening budgets across the board, including IT. On the surface this approach may appear fair and equitable. But it overlooks the myriad risks in maintaining an aging IT infrastructure, and penalizes those already running a tight ship.

### **Indiscriminate cuts cause problems**

“At the very time executives should be carefully aiming their information technology to make their organizations more productive, they often cut indiscriminately,” write Harvard Business Publishing bloggers Howard Rubin and John Sviokla, “and that usually creates more costs and problems later.”<sup>3</sup>

Success hinges on how executives manage IT spending. By working with CFOs to develop a comprehensive strategy for technology development, refreshment and financing, CIOs increase their chances of deploying a technology infrastructure that achieves the shared goals: both propelling the business and delivering significant savings.

Bringing the CFO into the conversation about IT investment broadens the perspective and changes the dynamic.

## Changing the conversation

As the resource that enables business transactions, informs decision making and supports innovation in product development, geographic expansion and process improvements, IT is too important to be treated casually. The CFO-CIO partnership should focus not on uniform, across-the-board budget reductions, but instead on a deeper analysis of where IT spending is taking place and how each category contributes to the welfare of the enterprise.

Such restraint can certainly make the CIO's job easier. Yet the CIO's best strategy may be to change the conversation entirely. Instead of cutting budgets and projects, the enterprise may realize greater gains and avoid disruption by adopting a comprehensive approach to managing the IT portfolio lifecycle.

### **IT is integral to the business**

Information technology is as integral to contemporary business as products and customers or revenue and expenses; its value is unquestioned. It also can be expensive to acquire, and costly and complex to maintain. Technology advances constantly, meaning IT infrastructure requires regular replacement and frequent expansion.

By planning and implementing a refresh cycle that spans a wide range of IT assets and anticipates succeeding generations of technology, companies can deploy an IT infrastructure that drives their business and effectively manage costs.

According to Forrester Research, the MOOSE (Maintenance, Operations and Ongoing support of Systems and Equipment) costs add up to about 70%

of IT budgets.<sup>4</sup> These expenses continue even if the enterprise shuts off new IT investment entirely. The MOOSE, however, can be controlled—and even reduced—when the entire IT portfolio is managed consistently across the technology lifecycle.

## Lifecycle management through leasing

IT infrastructure is a complex system with components requiring replacements or upgrades on a relatively predictable basis. New generations of IT equipment typically outperform their predecessors in outright processing speed, energy efficiency, performance-per-dollar, labor savings and operational innovations (typically provided as new or improved software). Nursing additional service from outmoded equipment foregoes these benefits and brings escalating maintenance costs.

IDC studies have found that systematic, managed change is far more efficient and less expensive than ad-hoc, tactically implemented change. For example, an analysis of different approaches to PC replacement found that optimized deployment practices can reduce replacement cost by as much as 75%, or \$400 per machine.

A tightly managed IT environment, with systematic and consistent lifecycle analysis driving a disciplined equipment renewal process, will ultimately produce better and more consistent IT functionality at lower total cost across multiple generations of IT equipment.<sup>5</sup>

In other words, lifecycle management produces a higher return on investment (ROI).

### **Regular technology refreshes**

Leasing IT equipment facilitates an ongoing lifecycle management program and establishes regular, scheduled technology refreshes. It also fits well in an IT management approach focused on minimizing total lifecycle expense and ensuring that IT infrastructure meets business needs at all times. Leasing makes it more likely that the enterprise can bring new equipment on board, take advantage of improvements in performance and efficiency, and dispose of outmoded gear before repairs escalate—all with a comprehensive understanding of the costs.

In difficult economic times, when it's increasingly important for companies to preserve liquidity, effective cash management becomes critical. Leasing allows companies to conserve capital and expands their buying power by eliminating the need to deplete budgets or borrow for a cash purchase. At a time when lending for capital purchases may be restricted and internal capital sources may be limited by slow business conditions, leasing reduces the quest for cash.

### **End disposition worries**

Another advantage: most lease arrangements free the enterprise from worry about end-of-life disposition issues, including compliance with ever-stricter environmental laws. These become the responsibility of the lessor.

For companies with an embedded IT infrastructure on their books, sale-leaseback can be an attractive option. By selling their existing technology assets to an IT financial services provider and leasing them back, companies can realize an immediate infusion of cash and establish a lifecycle management approach to IT—including a regular, scheduled technology refresh.

## **A strategic examination**

Challenging economic times require the CIO to join the CFO in a thoughtful, strategic examination of business options. Beyond that, economic uncertainty focuses new attention on business fundamentals:

- How effectively do we run the enterprise day-to-day?
- How can we become more efficient and more effective?
- How do we address the realities of today's global economic crisis and invest for better times ahead, when our attention returns to business growth and expansion?

IT leasing can provide an important piece of the answer.

HP Financial Services makes it easy and economical to deploy world-class technology in ways that meet customers' business needs. Representatives can provide a total cost of ownership (TCO) analysis that demonstrates the value leasing offers. The company also manages retirement of IT equipment in a way that helps safeguard customers' proprietary information, complies with applicable environmental laws and regulations, and may even provide a financial return on remarketable equipment.

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<sup>1</sup> "The State of the CIO '09," p. 33, CIO Magazine, January 1, 2009, © 2009, CIO Magazine.

<sup>2</sup> "Managing IT When Times Get Tough," p. 7, by Alex Cullen and Phil Murphy, March 25, 2008, ©2008, Forrester Research, Inc.

<sup>3</sup> "Don't Cut IT During a Downturn," by Howard Rubin and John Sviokla, February 13, 2008, Harvard Business Publishing, [http://conversationstarter.hbsp.com/2008/02/dont\\_cut\\_it\\_during\\_a\\_downturn.html](http://conversationstarter.hbsp.com/2008/02/dont_cut_it_during_a_downturn.html)

<sup>4</sup> "Managing IT When Times Get Tough," pp. 2-3, by Alex Cullen and Phil Murphy, March 25, 2008, ©2008, Forrester Research, Inc.

<sup>5</sup> "Strategies for Managing IT Equipment Renewal and Replacement," p. 5, by Joseph C. Pucciarelli, November 2007, ©2007 IDC

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