Reducing OPEX to fund Innovation

for Professionals of IT
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G2

The Critical Need of Value

REDUCING OPEX TO FUND INNOVATION

IT is like a living creature under continuous evolution. The ability to head this evolution towards a permanent alignment with business operational and strategic needs is one of the most wanted skills in the CIOs, together with the art of empowering and retaining the skilled and talented resources needed to realize the evolution.

Given these tough economy times, most organizations are not allowed (or incapable) to assign additional funds to new projects and initiatives. As a consequence, IT spending is frozen or even further reduced. In the mean time, the business requires IT to participate in the innovation needed for their market differentiation, either through the delivery of new capabilities to the user communities or to the business processes, or by reducing production costs. Operational budget (OPEX) is intended to run the business as usual, while investment funds (CAPEX) will generate new ways to run the business that will act as an additional component for the expected differentiation. Therefore, CIOs need to be able to transfer part of the budget from OPEX to CAPEX sections.
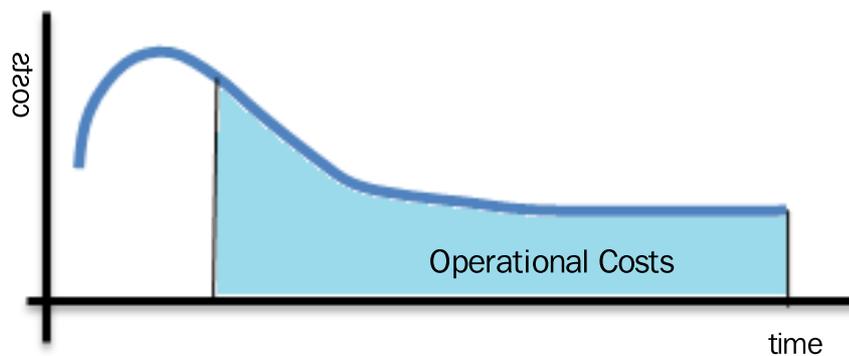

Fig. 1 Operational Costs

This message is not new. It has been sent out for years, and actually this has been one of the most important marketing messages used by many IT Operations Automation vendors. Traditionally, these vendors claim to be able to reduce your IT Operating costs by huge percentages, just by using their product to automate parts of your operations. However, this promise usually fails due to the fact that the IT Organization simply moves the money from one side (traditional IT operations) to the other side (automated IT Operations) while globally the OPEX is scarcely reduced.

We can imagine the curve describing the annual incurred costs for a single IT service (Fig. 1), but keep in mind that this is a simplistic approach just right for explaining purposes. Under this curve, we can see that there is a peak in the IT spending at the beginning, when the new service is designed and built (needing high levels of investment). Then, the new service goes live and the operational costs go down until they reach the equilibrium and are more or less stabilized. This stable phase will span several years, causing the OPEX part in the TCO of the Service to be considerably larger than the initial investment.

Therefore, we can picture the whole IT Services spending as a series of curves shaped this way, with the asymptotic axes (the "OPEX long tail") higher or lower, depending upon the operational costs incurred to provide the service as the business need it (Fig. 2).
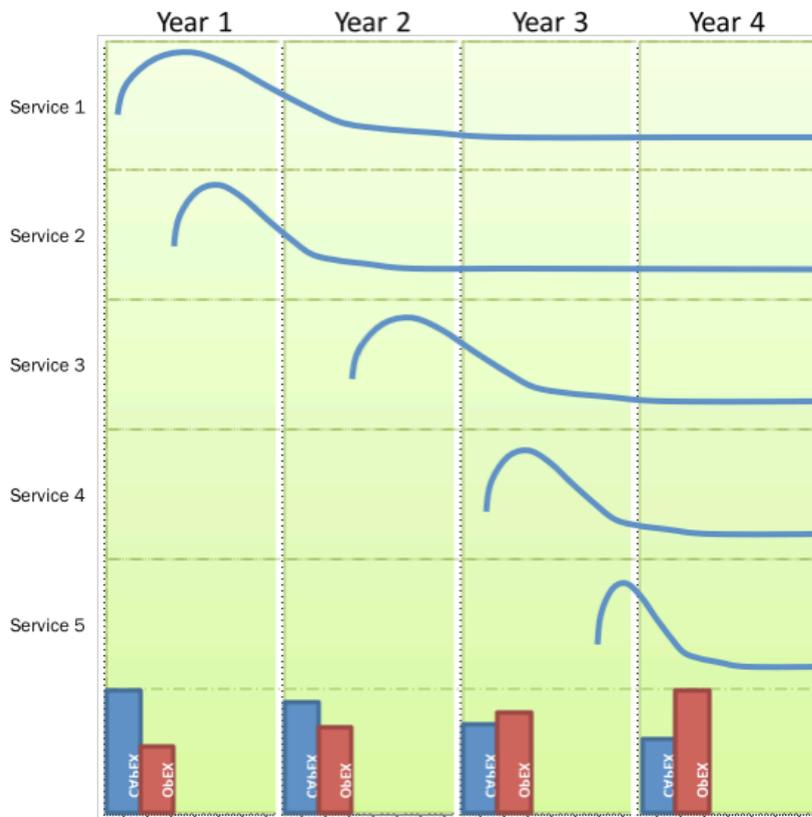
As we can see in Fig. 2, given a fixed or slow growing budget, OPEX will grow with each new service we deploy into the production environment, leaving less money for CAPEX year after year.

Fig. 2 IT spending over years – The unstoppable growth of OPEX

Under these conditions, there are two main initiatives that a CIO can boost to make sure the OPEX costs will be reduced at least in the mid-term:

- Ensure that the OPEX long tail value for each service going into production is as low as possible. The CIO needs to ensure that in the first stages of design, build and transition, the quality of the transitioned service is the highest possible under a reasonable balance between costs, quality, risks and time.

- Reduce the OPEX long tail value for services already in production, by applying problem management as the main process to ensure that the OPEX footprint of the services currently in production is the lowest possible.

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The <u>first initiative</u> can be supported by putting in place relevant and enhanced Change Management activities, that enforce validation and verification of the IT Services before going live, and that ensure that all the operational processes are ready for that new Service (i.e. monitoring systems ready, Service Desk informed and tools adapted, operational procedures written and published, technical teams trained and users ready to use the new service).

This means moving some of the money that actually is spent reactively in the operational domain, to proactively reduce the impact in operations, ensuring a better Service quality. This is illustrated in Fig. 3 as a Transition overhead.
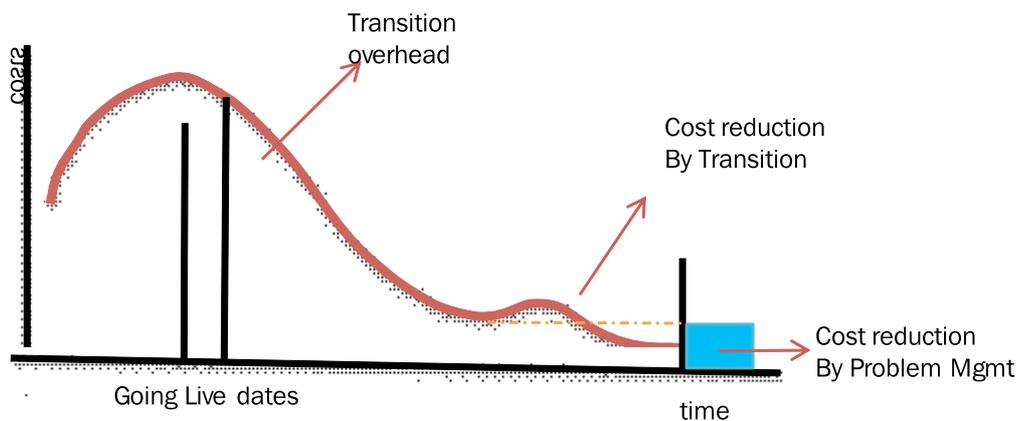

Fig. 3 Costs comparison before and after using PM and CM

The <u>second initiative</u> is possible by applying continuous improvement in terms of Problem Management. This process is the most forgotten of all the Service Support "implementations". The majority of the IT shops have set up Incident Management, but have forgotten to implement Problem Management. That means that essentially they are being very intensive in reaction, but not in resolution. Using Problem Management to reduce the operational cost of the IT Services will ensure that the OPEX curve is lower after each improvement cycle, assuming that there will be a business case for each solution and that those solutions should be cost-effective.

In conclusion, enhanced Change Management and good Problem Management activities are key to a) permanently reduce the operational costs in an IT environment and b) to become a funding agent for innovation which will make the difference between a company that is able to survive post-crisis times and a company that is not.

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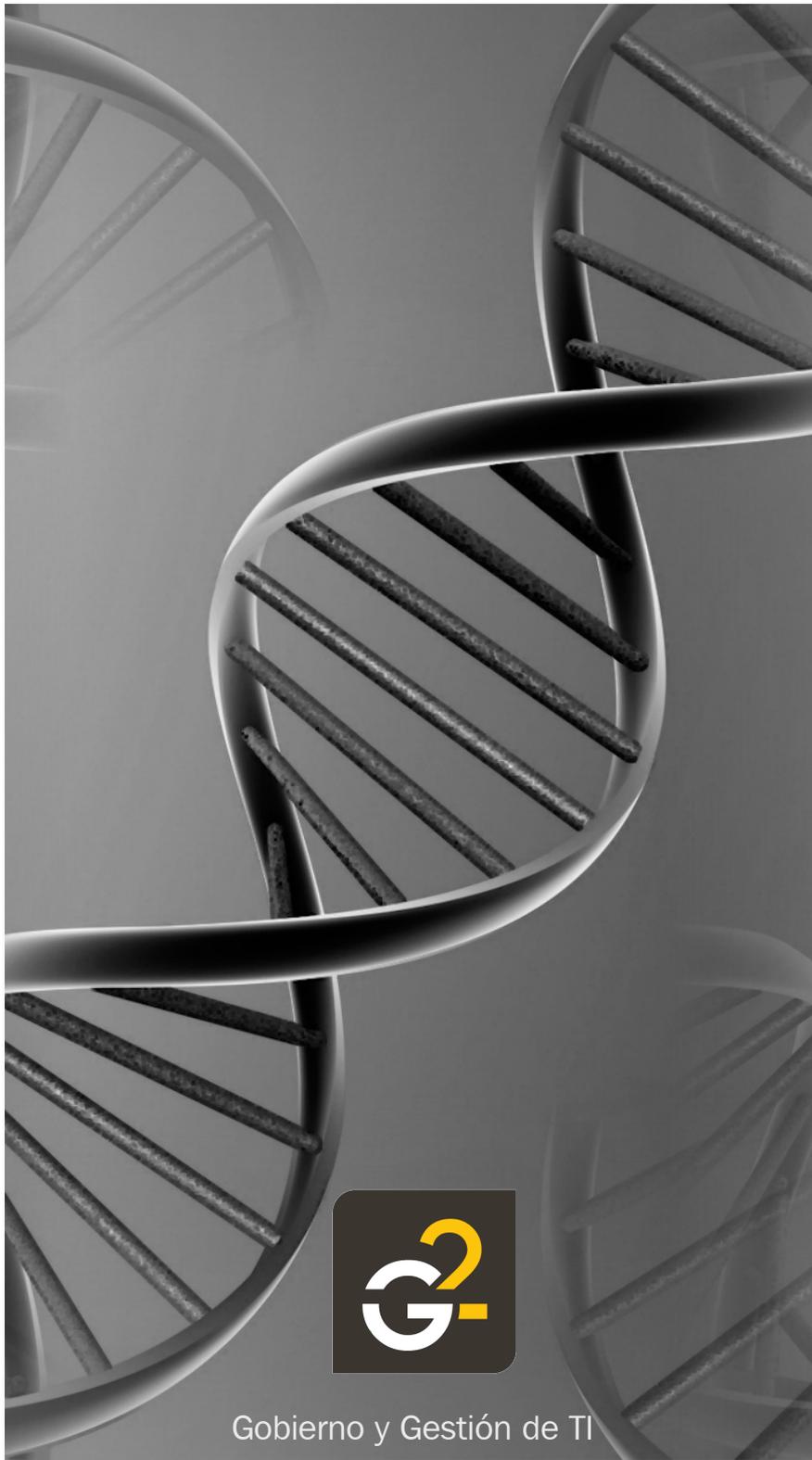
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