



IT power in an uncertain world

Using Zero-based Technology to free up spend for new investment



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As the health and humanitarian impacts of the COVID-19 pandemic evolve, so do the business and economic challenges. Organizations looking to balance their immediate needs with longer-term opportunities will see the trade-offs play out across three waves of impact: **the Now, the Next and the Never Normal.**

The Now has included an emphasis on supporting people, customers and suppliers. The Next features sustaining changes and refocusing the business to withstand new threats and seize new opportunities. And the Never Normal will require navigating rapid shifts in cultural norms, values and behaviors to ground a return to growth for the longer term. Technology underpins it all.

This is the moment to reinvent business models, recalibrate technology investments and reintegrate the value organizations provide into a new societal landscape. Now is the time to shape a mindset of bold business transformation powered by new approaches to technology and responsible leadership.



Client challenge: Where are we **NOW?**

Expanding IT investments to support new business models and customer interactions has always been challenging amid spending constraints. Just 10% of companies successfully optimize the value of their IT investments, scaling innovation across their organizations for significantly higher revenue growth.¹

Then COVID-19 changed everything overnight.

This global crisis has intensified cash pressure across the business. At the same time, it accelerated digital transformation. In a flash, 2020 became 2023; what we thought would happen in three years happened in three months. Consumers are flocking to digital channels. Employees are working remotely. Organizations are doubling down on scenario planning to respond to events as they occur.

Rotating technology spend to put the right dollars against the right investments has never been more important. Uncertainty abounds. But there are no-regret moves to make—from investing in digital customer interactions and remote workforce tools to strengthening security infrastructures and adopting cloud solutions. But forget slashing and burning across IT. This chokes growth and ignores reinvestment.

Companies that dramatically cut spending during a recession have only a 21% chance of coming out ahead when it ends. Those that balance reducing costs with investing in growth emerge stronger.²

Challenge 1

Technical debt from years of underspending or “wrong spending” makes investing to materially improve IT seem like an insurmountable challenge.

Challenge 2

COVID-19 has accelerated the pace of digital transformation, raising the stakes on making the right IT investments at scale with speed.

Challenge 3

Traditional ways to cut IT costs by slashing and burning do not set companies up to succeed in the Never Normal.

What needs to happen **NEXT**

There is an alternative to slashing IT costs. Zero-based Technology, or ZBT, is a value-based alternative to traditional IT cost reduction. By applying a zero-based lens to IT spend, ZBT rotates the IT cost base, freeing funds to invest in technology-enabled business transformation.³ ZBT creates efficiencies and optimizes core IT spend by identifying cost levers and modeling savings and investment scenarios. By generating cash for reinvestment in new IT capabilities that drive growth, ZBT puts technology at the heart of business transformation.



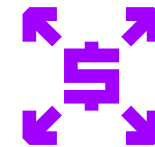
01 Develop a new spend profile

Focus on the right IT spend, not the lowest to make the necessary technology investments to compete in volatile markets.



02 Create a variable cost structure

Trade benchmarks for value levers for a more flexible approach to addressing and targeting savings potential over time.



03 Increase value transparency

Assess all categories of IT spend with an approach that views IT costs as a whole through a services lens.



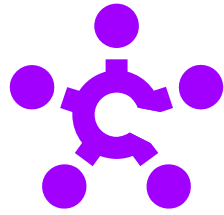
01 Develop a new spend profile: The right IT spend, not the lowest

Many companies have historically gotten IT spending wrong, believing that operating well below median, or at median, IT spend equates to high performance. Before COVID-19, only 13% invested in technology to bring agility and efficiency to their organization.⁴

The story is all too common. To get “lean and mean,” companies cut technology muscle. IT struggled to support employees, and the business struggled to support customers. So decision-makers ratcheted up IT spend to course correct. But it’s often too late to catch up with competitors. This still applies during the COVID-19 crisis. In fact, the crisis is forcing leaders to walk straight into this truth—and its implications.

The real challenge now is to determine how IT can translate short-term cost cutting into a sustainable cost base to support the business in a volatile economic climate. It’s about reconfiguring the cost base to ensure that there is variability in the entire cost structure. Even in today’s climate, superior performance takes the **right** IT spend, not the lowest.

A 60/40 split between non-discretionary and discretionary spend is key to optimize the IT cost structure with room to invest in new technology for the Never Normal of business during and after COVID-19.



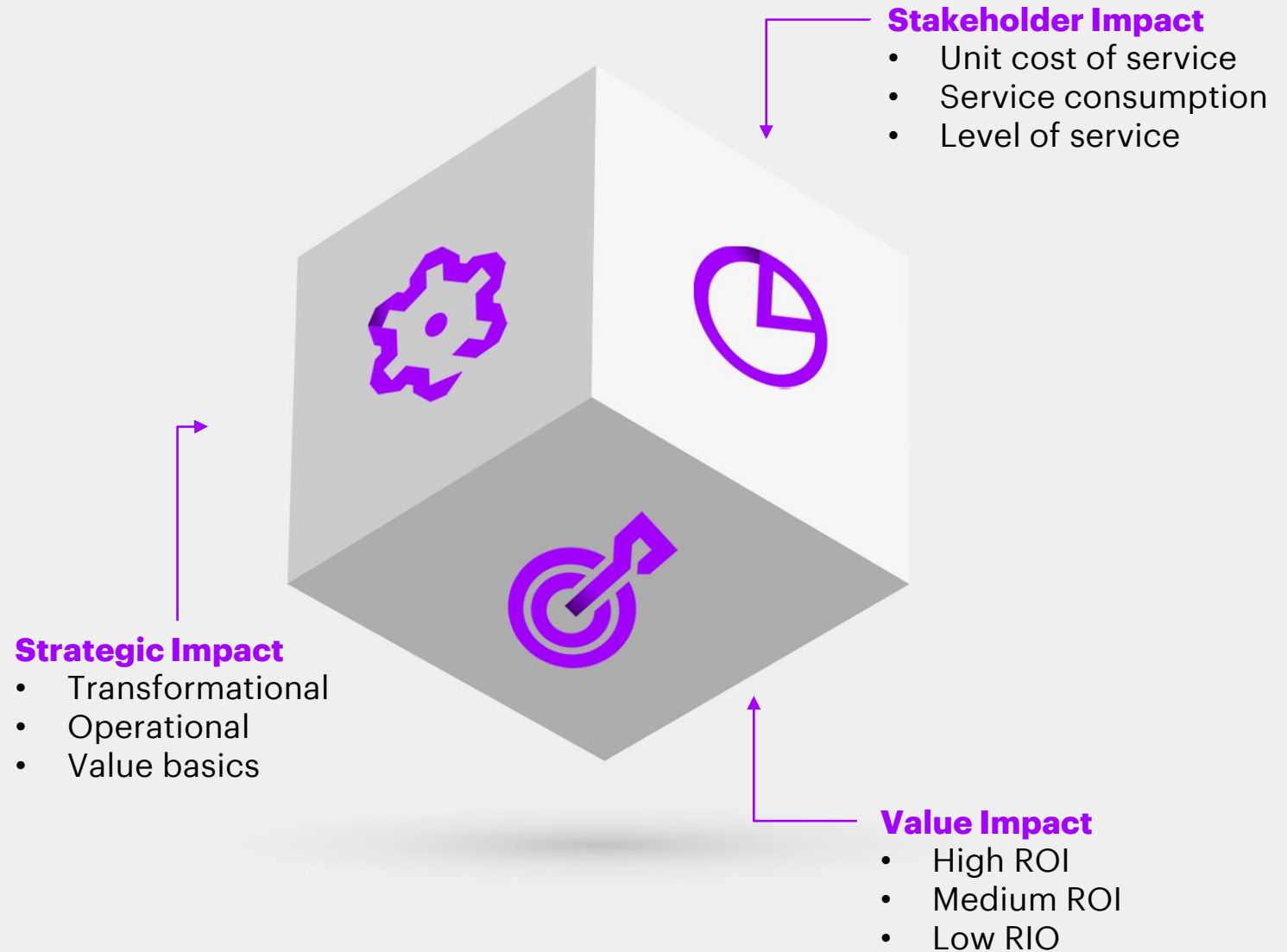
02 Create a variable cost structure: Value levers, not benchmarks

While COVID-19 has impacted industries in different ways, most companies are adjusting for a Never Normal of less revenue amid predictions that the global economy will shrink significantly this year.⁵ With urgent cost take out completed, it's time to develop the right spend mix for the longer term. After all, as the world learns to live in the midst of this virus, priorities will look very different.

In the past, companies would have turned to benchmarks to set IT spend levels. Yet in a world that time-hopped three years after a “black swan” event, benchmarks are meaningless. The lessons of history do not apply. Even before this crisis, IT spend benchmarks were directional at best because of the rapid pace of technology change. The solution to this challenge is to look through the lens of value levers that have been specifically applied to your own cost base.

Figure 1: Value levers are a structured approach to identify cost management opportunities

ZBT goes beyond financial benchmarks to understand a company's value management maturity. By applying a set of "value levers" that dive deeper into strategic impact, stakeholder impact and value impact, IT can understand savings potential—and how to target it. Companies can apply different levers to help reduce costs, make improvements and address underfunding. Some results are realized quickly with minimal investment, while others require more time and investment.



Source: Accenture Strategy

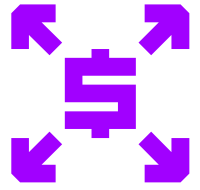
By applying value levers in areas including sourcing, application and infrastructure spend, a global energy provider beat benchmarks and identified 25% in potential savings to direct toward transforming the entire IT organization, making it faster, more flexible and more proactively innovative.⁶

One executive's lesson in the power of levers is particularly relevant today. At a consumer goods company with a history of managing to a median benchmark, the CIO was skeptical that more savings were possible. However, looking at value levers identified 12% of non-discretionary spend that could be repurposed as discretionary. This helped the company fund innovative technology offerings to support the business, spurring new growth through reinvestment.⁷

Value levers help IT understand cost drivers to get to a variable cost structure

A fixed cost structure makes it very difficult to absorb the shock of the pandemic. Consider the airline industry. For example, after near-term cost cutting, airlines need the flexibility to continue rapid adjustment. They now need to rethink the technology footprint to align with the new size and capabilities of the workforce. It's a situation that many never imagined they would be in. But this is their reality for today and for the foreseeable future.

Most companies have already addressed the "value basics" levers. Now they can analyze the operational and transformational value levers to determine where costs can be variable. In our experience, organizations that apply all value levers can identify cash redirection opportunities of 20-40% in IT spend.⁸ Where benchmarks are a number from yesterday, levers are a playbook for tomorrow. Applying a lever is a better way to help determine the optimal level of technology spend to provide maximum value from IT investments.



03 Increase value transparency: Services, not silos

Value transparency is critical right now. And it will be for the coming months and years. Navigating uncertainty demands an ability to be hyper-responsive at every turn—from product, operational and cost perspectives. This cannot happen without a new level of transparency and visibility into the IT cost base.

ZBT enables this transparency. Applying value levers successfully and identifying savings for reinvestment inherently means looking at the IT function as a whole. Consider the alternative. A one-dimensional view of costs ignores natural interdependencies and trade-offs among categories. For example, companies that look only at operating expense may avoid investments in cloud and SaaS that push dollars from the balance sheet to the income statement. Or, looking only at internal staff to reduce spend ignores how IT combines internal staff, external contractors and managed services to get work done.

In the wake of COVID-19, companies will look to accelerate digital transformation to respond to changing consumer habits. Before the pandemic, companies across multiple industries turned to ZBT to help fund their digital transformation. Using an IT services-based approach that looked at capital expense (Capex) and operating expense (Opex) created a sliding-scale spend baseline for making service and cost tradeoffs. These companies in turn identified up to 35% cost savings and cost efficiency opportunities, used to invest in capabilities and fuel their digital future.

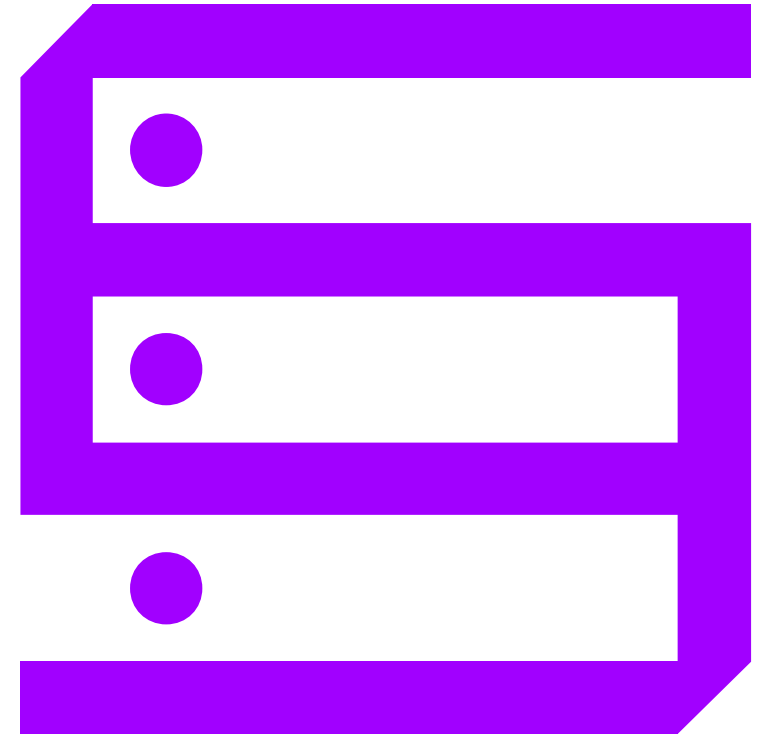
A siloed approach to analyzing spend can be misleading

A siloed approach can paint an inaccurate picture of the cost base or make the picture worse by taking it in the wrong direction. Imagine a company assesses cloud spend as a part of Opex in isolation and identifies a high rate as a red flag. But in practice, relatively high cloud spend can indicate that a company is in a good position in terms of investing in transformative technologies.

Companies can avoid such pitfalls with ZBT. It takes a service cost orientation that includes all categories of technology spend—inside and outside of IT:

- Opex
- Capex
- Internal and external workforce
- Depreciation
- Amortization

A few of these costs at the service level creates a baseline for IT and the business to understand the relationship between cost and service in a very useful way.



Actions for the NOW, the NEXT and the NEVER NORMAL

In the early days of pandemic response, companies frequently made wholesale cuts to IT spend. Now the priority is moving toward a sustainable cost base. Where will the economy be in a year? What will markets look like? Which competitors will leapfrog ahead? There are imprecise answers to these questions right now. However, we do know that IT will figure heavily into companies' recovery and rebirth.

ZBT's ability to rotate the cost base now will have lasting impact on an overall business. After companies complete the "Now" actions of cutting costs, getting total transparency into the cost base, determining which IT costs can be variable, and performing lever analysis to prepare an actionable plan, they can look to the longer term. These are the fundamentals of success.

Spend for lasting growth

Disavow the notion that the right spend level is always the lowest. Spend based on the disruptive value of technology, business priorities, growth platform, and current and future IT and business needs. Factor in technical debt. Do not rely on historical spend patterns.

Always refresh your levers

Know which levers to key-in on to start, but always remain flexible. Levers will naturally evolve in the post-pandemic world. Failing to revisit levers regularly consigns IT to older ways of delivering. If you don't look at levers often, you might as well never look at them.

Build a strong baseline

Assess all spending categories including Opex, Capex, labor, non-labor and technology spend inside and outside of IT. Know technology unit cost to serve based on spend drivers. Use other zero-based approaches to get forensic-level analysis to complete the picture.

Balance cost and service

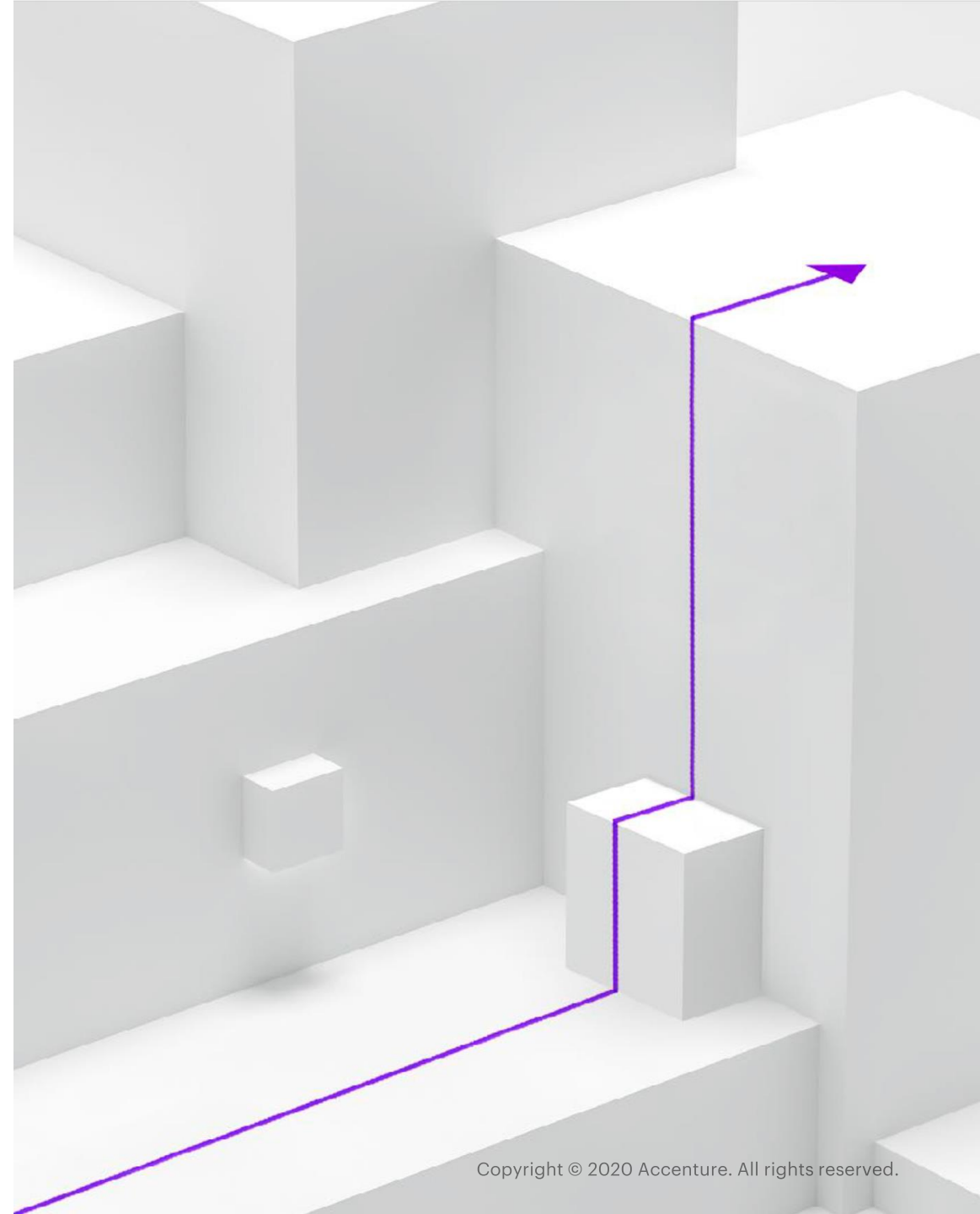
Go beyond creating cost efficiencies and optimize IT spend versus value delivered. Seek out opportunities to realize material savings with "pain-free" reductions in rate consumption that make sense based on the business need. Be flexible on service levels.

Optimize with automation

Take advantage of the step-change efficiencies that happen when using AI in the business and intelligent automation in IT. In addition to reinventing how work is done, these technologies can create a self-funding approach that generates cash for reinvestment.

How Accenture Can Help

Companies will rely on their IT foundation to emerge stronger in the Never Normal. Using ZBT, decision-makers can get new visibility and control of IT costs, creating a variable cost structure and focusing spending on the right investments. We can help your organization through this process, helping you make spending decisions with newfound confidence—optimizing IT—and the overall business—for an uncertain world.



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³ Accenture, “Full Value. Full Stop.” 2019, <https://www.accenture.com/us-en/insights/future-systems/future-ready-enterprise-systems?src=SOMS>

⁴ Accenture, “Beyond the ZBB Buzz, 2018, <https://www.accenture.com/us-en/insights/strategy/beyond-zbb-buzz>

⁵ At the time of publication, the International Monetary Fund projected global GDP to shrink 4.9% this year.

⁶ Accenture client experience

⁷ Accenture client experience

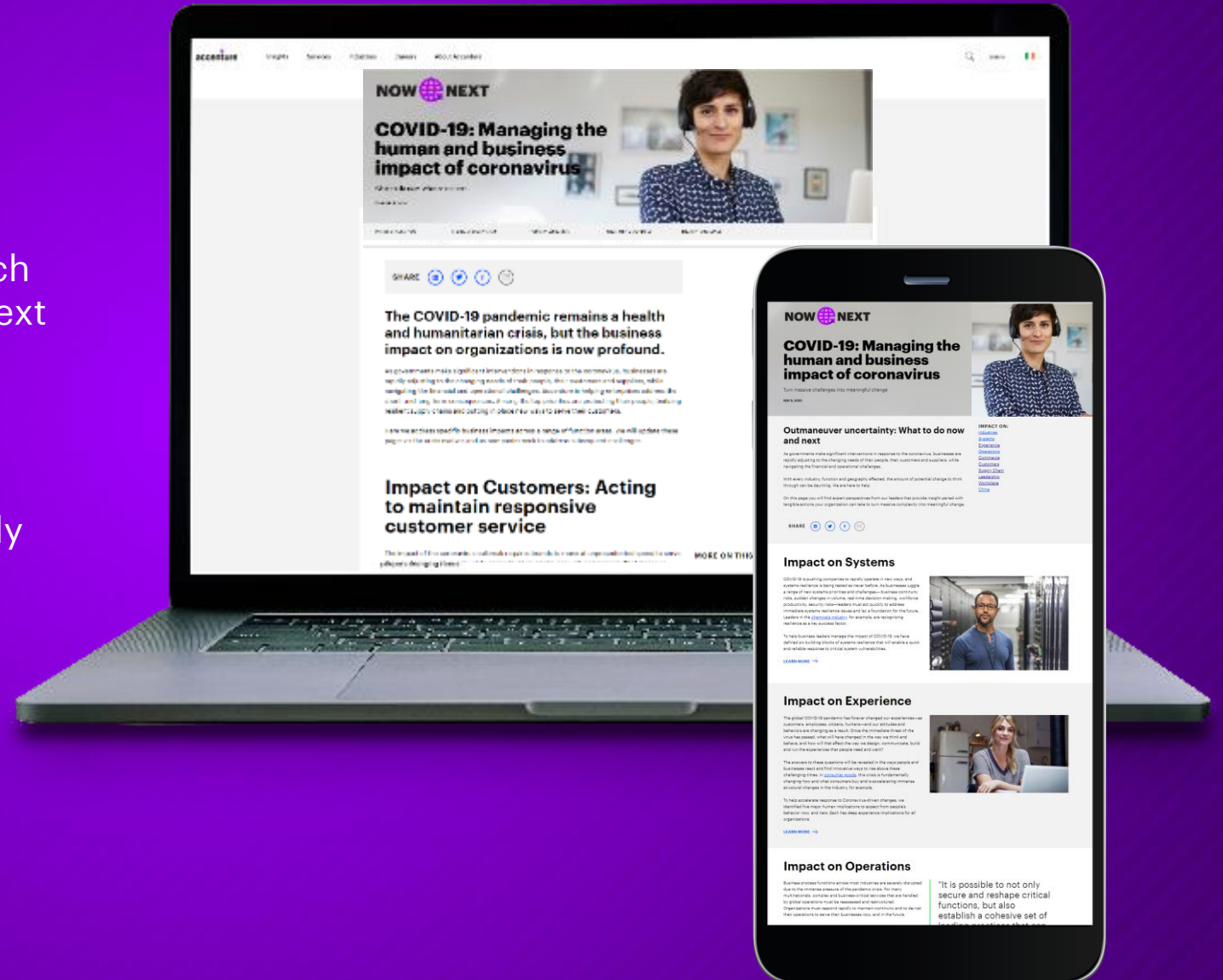
⁸ Accenture client experience

To help our clients navigate both the human and business impact of COVID-19, we've created a hub of all of our latest thinking on a variety of topics.

Each topic highlights specific actions which can be taken now, and what to consider next as industries move towards a new normal.

From leadership essentials to ensuring productivity for your employees and customer service groups to building supply chain resilience and much more, our hub will be constantly updated. Check back regularly for more insights.

[VISIT OUR HUB HERE](#)



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