

Application Portfolio Cost Reduction Strategies

A multi-perspective approach to reducing the cost of owning
and operating your IT application landscape



The application landscape today. The challenge for the CIO.

In the majority of organizations, the application landscape has been growing for decades – as the value of IT to the business has increased, we have added new functionalities, new services and new applications. All of these additions cost money, and require continued investment to ensure these applications continue to operate effectively and are maintained and upgraded accordingly.

In recent times, however, a combination of challenging economic climate and increased demands on IT by the business has left CIOs in a difficult position. The application landscape is spiraling out of control, with the lion's share of the budget being eaten up by operational or maintenance activities (keeping the lights on). Whether it be a desire to cut costs as part of efforts to protect the bottom line, or a desire to free up funds so as to better support the business in its pursuit of top-line objectives, for many organizations, the need to reduce the cost of owning, operating and maintaining the application landscape is clear and pressing.

Application Rationalization is often identified as a means by which to address this need. Application Rationalization is an umbrella term that encompasses a variety of different actions or destinies for applications (think 'standardization', 'decommissioning', 'replacement', 'upgrade', 'consolidation', 'migration' amongst others). While Application Rationalization serves as a solid starting point, it subsequently leads to a series of questions: How do you go about deciding which actions make most sense for each of the applications in your portfolio? How do you capture the 'big picture' view that ensures you don't take actions that will cause you to miss out on opportunities elsewhere? What is the best way of quantifying benefits? How do you ensure that reducing costs doesn't also mean that you reduce performance or the ability to generate value?

How do you reduce costs without undermining performance and strategic objectives, and how do you build the business case for the action you plan to take?

This paper proposes the use of Capgemini's Cost Reduction Strategies methodology as part of a broader portfolio analysis in which cost reduction is a key objective. This methodology is based around the use of a set of 'lenses', each of which is used to analyze the application landscape from a different perspective. While each lens and perspective is different, the common objective of the exercise remains the same: to reduce the overall costs associated with the ownership and operation of the application portfolio.

This white paper explains in detail how the findings from these analyses are brought together to build a complete picture of the total cost saving potential that exists within an organization's application portfolio (either the entire portfolio, or a specific subset of applications). The findings generated during this exercise are used to build a rock-solid business case for a rationalization exercise. While driving down cost is the main focus of the exercise, the strategies are underpinned by a simple, yet powerful, principle – cost reduction without compromise.

This approach has been used to great effect for a wide and diverse range of clients. In this paper we look at how a global pharma giant was able to exceed its cost-saving objectives thanks to Capgemini's Application Portfolio Cost Reduction Strategies.

What is Capgemini's approach to Application Portfolio Cost Reduction?

The Capgemini suite of Cost Reduction Strategies is a set of independent lenses used to analyze an application portfolio from different perspectives.

The lenses used for these analyses fall into three main categories:

- Application;
- Operational;
- Environment.

Within these broad categories, there are seven individual lenses:

- Retirement;
- Functional redundancy;
- Technology architecture;
- Vendor consolidation;
- Licensing;
- Outsourcing;
- Operational Excellence.

For these lenses to effectively ascertain what cost reduction potential exists within the portfolio and how to achieve it, a host of cost drivers are analyzed. These cost drivers consider the major avenues of cost reduction, which are as follows, in no particular order:

- Operational efficiency;
- Obsolescent technology;
- Support infrastructure;
- Vendor relationships;
- Redundant functionalities;
- Risk management;
- Feasibility of new technology adoption.

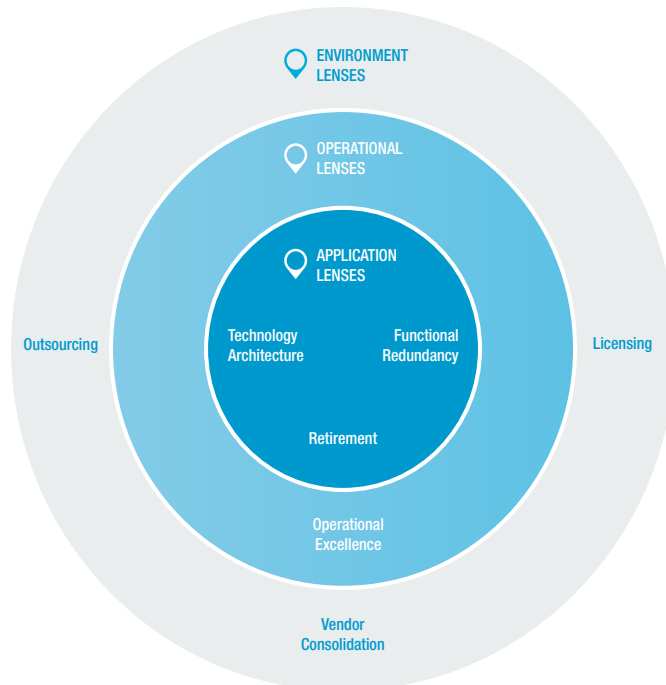
The lenses used are carefully selected to provide the most complete view of the cost reduction potential available within the portfolio. The lenses selected vary from engagement to engagement – a lens that provides valuable insight in one engagement, for example, may not be relevant in another. Similarly, decisions about which lenses are used depend on the availability of relevant, high-quality data.

The diagram on the following page shows the various lenses within Capgemini's Cost Reduction Strategies suite. They are arranged according to the level of impact they have on the applications themselves.

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This multi-perspective analysis is an integral component of WARP or, to give it its full name, Wide-angle Application Rationalization Program. WARP is Capgemini's proprietary methodology for application rationalization.”

Cost Reduction Strategy Analyses Suite



Application Lenses:

The recommendations generated as a result of analysis through these lenses directly affect the destiny of the application itself.

- **Retirement Analysis (RA)**

This identifies those applications that are suitable for decommissioning by analyzing some of their attributes, including criticality, stability, technology used, user base, etc.

- **Functional Redundancy Analysis (FRA)**

A process that identifies applications fit for consolidation by analyzing the functionalities they perform, identifying where functionalities are performed by more than one application, and then determining which applications can be considered redundant.

- **Technology Architecture Analysis (TAA)**

Here, opportunities to consolidate and upgrade applications' core technologies are identified. This is achieved by analyzing the portfolio technology stack, in particular: the applications' database, programming language, operating system and middleware.

Operational Lenses:

The recommendations made here affect the operation of the applications.

- **Operational Excellence Analysis (OEA)**

This identifies opportunities for increasing the efficiency with which the applications are currently operated. Recommendations are provided for optimizing the present SLA level support, and for reducing the cost of fixing incidents and change requests.

Environment Lenses:

The recommendations proposed as a result of this analysis impact the factors active in the applications' external environment, such as geographical spread of support staff, portfolio license structure, existing vendor relationships, etc.

- **Vendor Consolidation Analysis (VCA)**

Here, opportunities for consolidation of application vendors are identified. Should these opportunities be acted on, the client organization will benefit from a simplified vendor landscape and, resultantly, lower costs. This is achieved by analyzing the coverage of applications by vendor, and the extent of their strategic relationship with the client.

- **Licensing Analysis (LA)**

This identifies the possibilities for optimization of license usage across the application portfolio. This is accomplished by analyzing the number of licenses used, as well as the nature, terms and validity of those licenses.

- **Outsourcing Analysis (OSA)**

This looks at the scope for moving application support to countries or regions where an attractive balance of cost per resource and skill availability exists. This makes use of Capgemini's proprietary framework, Rightshore®, which utilizes an optimal mix of onshore, offshore and nearshore IT resources to satisfy a client's skill, cost and responsiveness requirements.

What is the process?

The exercise starts by determining the suitability of the different lenses to the client's individual circumstances. There are two factors typically at play here:

Relevance of the lens: Strategic constraints on the client's side could mean that lens analyses like Vendor Consolidation Analysis or Outsourcing Analysis are not appropriate.

Data availability: The client may find it difficult to obtain useful data pertaining to, for example, license costs and validity of licenses, which makes a Licensing Analysis difficult or impossible.

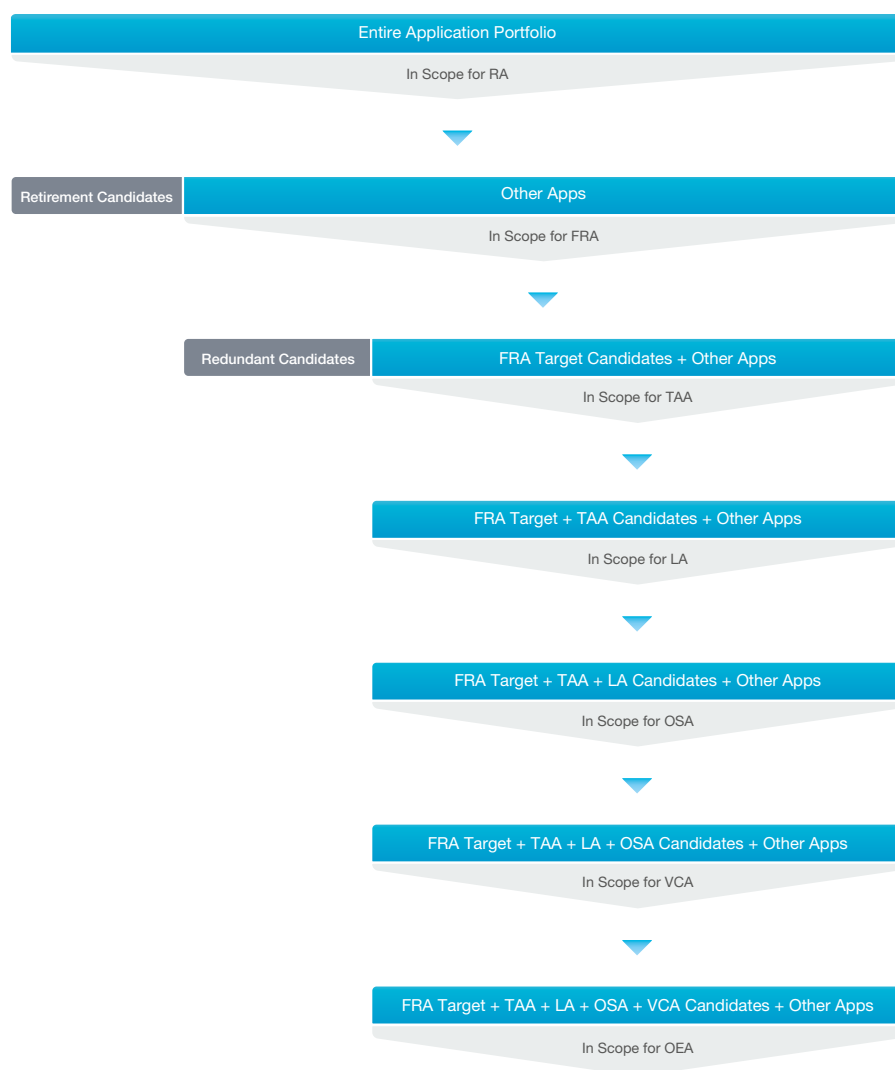
Lens Data Applicability

		LENS						
		RA	FRA	TAA	VCA	LA	OSA	OEA
Attribute	Criticality	A measure of how important a particular application is to the business.	X	X		X	X	
	User Base	Total number of users using a particular application.	X	X			X	
	Complexity	Measure of how technically complex the application in question is.	X			X		
	Ticket Count	Number of disruptive incidents (i.e. bugs) reported during the last 12 months.	X	X				
	No. of Change Requests	Number of requests related to functional augmentation and enhancements during last 12 months.	X	X				X
	Age	Number of years since implementation of the application.						
	Documentation level	Measure of how complete and up to date the documentation for the application is.		X				X
	Source Code Availability	Measure of availability of source code for a custom or custom-COTS application.		X		X		
	Staff Information	Availability of knowledgeable support staff for a particular application.		X		X	X	X
	Vendor Information	Information on product, AD/AM and infrastructure vendor support (from contractual, expertise and relationship perspectives).		X		X		
	Technology	Information on technologies currently present in the portfolio, (e.g. database, programming language, operating system technologies).			X			
	Version Details	Information on versions of the individual technologies present in the portfolio (e.g. databases, programming languages and OS)			X			
	License Information	Information on licenses currently present in the portfolio, including details on number of licenses, license type, validity and cost.					X	

Once the scope of analysis has been established, the process of data collection begins. This is primarily a client-driven activity, with active support from Capgemini. Data is collected for the various individual application attributes that affect one or more of the lenses within the project scope. The general areas in which data is collected and their relevance to the various lenses is shown in the Lens Data Applicability table.

Following data collection, analysis of the individual lenses begins. To ensure that all applications within the scope are covered adequately, and for accurate calculation of the benefits associated with the recommendations from each lens, the analysis is carried out in a pre-defined order, as shown in the Order of Lens Analysis diagram that follows.

Order of Lens Analysis



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Benefits drawn from the lenses should be comprehensive and mutually exclusive. Each lens is carefully applied to avoid double counting estimated savings. This due care ensures that the cost benefits promised are accurate and authentic.”

Finally, the results from each lens analysis are collected, recommendations are generated and an estimate of the potential cost savings that these recommendations will bring is presented.

Case Study:

Global pharma giant uses Capgemini's Cost Reduction Strategies to exceed cost-saving objectives

To help the client realize this goal, Capgemini was asked to conduct a WARP exercise. Central to this exercise was the Application Portfolio Cost Reduction Strategies methodology.

Firstly, it was agreed with the client that, out of the seven possible lenses, Licensing Analysis and Technology Architecture Analysis would not be performed due to the difficulty in collecting license information and technology component version details.

Once the scope of the analysis had been established, application portfolio data was collected, and analysis was conducted using the five remaining lenses. The findings were as follows:

Retirement Analysis (RA)

- Seventeen applications were identified for retirement.
- Retirement Analysis contributed 31% of the identified cost reduction.

Functional Redundancy Analysis (FRA)

- The need for consolidation of three separate CRM solutions was identified.
- Eleven instances of the same application were identified for consolidation.
- A total of twenty-seven applications across four functional groups in the business intelligence domain were identified as candidates for consolidation.
- Functional Redundancy Analysis contributed 40% of the identified cost reduction.

Vendor Consolidation Analysis (VCA)

- Six applications were identified as targets for moving from disfavored to strategic vendor support.
- Vendor Consolidation Analysis contributed 5% of the identified cost reduction.

Outsourcing Analysis (OSA)

- Seventy applications were identified as having support resources that could be relocated to more cost-effective locations without compromising service quality.
- Outsourcing Analysis contributed 41% of the identified cost reduction.

Operational Excellence Analysis (OEA)

- Eighteen applications were identified as having extremely high cost-per-ticket levels and appropriate recommendations for fixing this issue were provided.
- Operational Excellence Analysis contributed 7% of the identified cost reduction.



A global pharmaceutical company had a corporate objective to achieve 15% savings on the cost of ownership of its IT landscape.

During the exercise, a pre-determined order was followed. This ensured that applications falling within the scope of one lens were suitably accounted for when employing subsequent lenses.

A summary of these findings was then presented to the client. The cost reduction target had not only been reached, but was actually exceeded by 24%. A breakdown of how these potential savings can be found in the Cost Savings per Individual Lens table.

Cost Savings per Individual Lens

			IDENTIFIED SAVINGS
			Target Savings \$100
LENS	Retirement Analysis	(RA)	\$31
	Functional Redundancy Analysis	(FRA)	\$40
	Technology Architecture Analysis	(TAA)	N/A
	Vendor Consolidation Analysis	(VCA)	\$5
	Licensing Analysis	(LA)	N/A
	Outsourcing Analysis	(OSA)	\$41
	Operational Excellence Analysis	(OEA)	\$7
			Actual Savings \$124



The cost reduction target had not only been reached, but was actually exceeded by 24%.

Note: Technology Architecture Analysis and Licensing Analysis were considered to be unsuitable due to lack of available data.

This is just one example of how the Cost Reduction Strategy Analyses suite shows itself to be a valuable tool in those engagements where there is a specific focus on reducing the cost of owning and operating the IT applications landscape.

The recommendations that are produced at the end of Capgemini's Cost Reduction Strategy Analyses do not result in a decline in the performance of the IT landscape. Simply put, the focus is cost reduction without compromise. Capgemini's Cost Reduction Strategy Analyses serve as an important component within a WARP engagement. By identifying the cost-reduction possibilities within an application portfolio (or a subset of applications), and in harmony with the other activities that take place within a WARP engagement, it is possible to build a solid business case and justification for subsequent rationalization exercises.

By implementing the recommendations generated by this exercise, the application landscape can be streamlined and operational efficiency improved. Not only does this reduce costs, it also makes the IT landscape better able to support the changing needs of the business.

What is WARP?

WARP is Capgemini's proprietary approach to modernizing your IT landscape and industrializing your IT processes. It is a hypothesis-driven approach that combines hard fact-finding with deep business insight and sensitivity.

The WARP Framework – Four streams underpinned by two engines.


WARP consists of four 'streams' underpinned by two 'engines'. These streams are **path** (vision, architecture and solution), **bizz** (business analysis), **case** (the business case – from both a financial and value perspective) and **plan** (change planning, change scenarios and the roadmap).

WARP - Wide-angle Application Rationalization Program				
Engine AMBI	Landscape Governance and Industrialization			
Stream PATH	Vision, Architecture and Rationalization Design			
Stream BIZZ	Business Process Analysis			
Stream CASE	Business Case and Value			
Stream PLAN	Change Readiness and Transformation Roadmap			
Engine APPS	Application Portfolio Assessment			
	PLOT	SCAN	CRAFT	SOLVE

The two engines – **apps** and **ambi** – are highly industrialized 'lenses' that are used to analyze both the technology, or **apps** landscape (the application portfolio), and also ambient factors. While the apps engine provides an industrialized analysis of the portfolio, **ambi** looks beyond the technology and analyzes the context in which the application finds itself, including the relationship between the business, the processes and data harmonization.

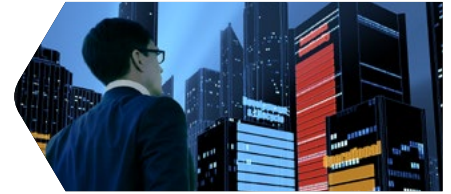
Within the context of a WARP exercises in which cost reduction is the main objective, the **case** stream is particularly relevant. The findings generated during the Cost Reduction Strategy Analyses are used to create the business case for a subsequent rationalization exercise. These findings are complemented by the findings from the other streams. For example, the findings generated through the **plan** stream provide insight on how to implement the recommendations put forward, while the **path** stream is used to show future operations, and serves as an assurance that business operations will not be adversely affected by the actions recommended.

This framework of streams and engines ensures that each WARP engagement follows a comprehensive and structured approach. The streams focus on the core activities of a rationalization program, while the engines use industrialized patterns to generate powerful insights. The findings are used to identify opportunities to dramatically modernize the application estate, industrialize IT processes and improve the operations of the client organization.


 Find out more at www.capgemini.com/warp

- **Application Retirement Analysis Framework**
White Paper

Capgemini's Application Retirement Analysis Framework serves as a tool for identifying which applications within the application portfolio can be considered for retirement. The framework itself is based on measuring the overall impact that retiring an application can have on the portfolio and organization as a whole.



- **Application Retirement Methodology**
White Paper

Capgemini's Application Retirement Methodology represents a first step in identifying applications suitable for retirement, and making the transition from intent to implementation. This Methodology provides the means by which to progress from identifying opportunities for application retirement to actually reaping tangible benefits for the business.



- **Assessment of Application Risk & Mitigation Recommendations**
White Paper

Capgemini's proprietary Risk Assessment Model is a tool that will help IT decision makers to gauge the level of risk in their application landscape and better understand where that risk lies, what form it takes, and what its impact on strategic business objectives is. Based on insight generated by multi-angle analysis, a selection of strategies and recommendations is suggested aimed at mitigating risks discovered.



- **Holistic Assessment Model to Determine Application Value**
White Paper

The Capgemini Holistic Assessment Model is proposed as a means of determining the true value delivered by an IT application to the organization. It enables decision makers to focus on increasing the overall technical, functional and business value of the application landscape, and improving its overall cost effectiveness.



- **WARP: Wide-angle Application Rationalization Program**
Brochure

Capgemini's WARP Methodology is also supported by a comprehensive four-page brochure. This brochure showcases, holistically, the value that Capgemini's WARP can add to the business, and highlights the underlying mechanisms that are at the core of the framework. It also acts as a facilitator, of sorts, tying together the WARP story told by the five white papers.



Find out more about WARP and download the white papers at www.capgemini.com/warp

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