



The CFO in the New Normal

As companies worldwide come to terms with greater uncertainty, less cash, and more regulation, there is a growing consensus that the current landscape has become the 'new normal' – a status quo that will stay long after the economy has recovered.¹

Many CFOs have gone back to basics by focusing solely on risk management and cost control only to find that this siloed approach is fundamentally flawed. That's because it fails to address the real challenge, which is to keep day-to-day operations running, while also innovating the business to deliver higher levels of productivity, service and agility.

This challenge has itself become a catalyst for change as finance starts to work more closely with all areas of the business – IT in particular.

In this new partnership, the CFO continues to set the capital structure and operating budget for the company, but considers also new approaches to financing that will allow for fewer assets on the balance sheet and more money for investment. For their part, CIOs are being asked to show greater appreciation of prudent risk-taking and IT projects that show true 'line of sight' to business objectives.

The extent to which this CFO-CIO partnership can work effectively will largely determine success in the new normal.

¹The New Normal: McKinsey, March 2010

Looking beyond survival

The new normal is characterised by McKinsey² as a time of great uncertainty, restricted credit, reduced consumer spending, and increased government involvement in business. Powerful forces, some arising directly from the financial crisis, some that were at work long before, have shaped it. For example, organisations have long been under pressure to recreate their operations in a way that made them more agile, more dynamic, and able to quickly capitalise upon new market opportunities.

CFOs and CIOs are at the forefront of this challenge, but their remits appear to be in conflict. Three areas currently dominate the CFO landscape: A ruthless watch on cost control; shrewd investment to furnish growth; and the burgeoning demands of risk and compliance.

Recent reports into the strategic concerns of CFO's further support the findings of the primary research undertaken by McKinsey. For example, Deloitte³ research looking at CFOs financial strategy in 2010 highlighted the following top three priorities: Reducing costs (51 percent), increasing cashflow (51 percent), introducing new products and services (46 percent). In addition, an Ernst & Young report⁴ found that 67 percent of financial executives leveraged IT to support company risk management during 2009.

Meanwhile, the CIO is looking to spend on new technology-driven ways for the organisation to become more productive and more agile. Although risk is a consideration, the role of the CIO is first and foremost to champion innovation. This implies breaking new ground and pioneering rather than simply waiting for others to prove and then copying them.

These contrasting remits can be a source of tension between the CFO and CIO. A common example being how CFO concerns about missed financial targets and dwindling returns on invested capital clash with CIO frustrations over budget cuts at a time when they see total cost of ownership (TCO) rising.⁵

This has led to a growing realisation that continuing to work in the same tired old ways, only with fewer people, is not the long-term answer. The time is right for a rethink. Companies are looking to master the dynamic tension between managing cash flow while investing for future growth. Those who succeed will emerge further ahead and in a much stronger position than competitors relying purely on defensive, cost-cutting measures.

In short, executives are acutely aware that intelligent use of IT will be a key factor in determining those who survive and thrive in the new normal.

²Time to Raise the CIO's Game, A Call to Action for European Companies: McKinsey, November 2009

³The Deloitte CFO Survey: 2009 Q4 results

⁴Ernst & Young: Future of risk study 2009

⁵As equipment replacement cycles are pushed out and maintenance and repair costs increase.

The CFO agenda

The intelligent use of IT is also a key enabler for all three areas of CFO concern: it increases productivity, reduces maintenance and service costs and lowers energy usage; it provides borderless architectures that deliver new levels of collaboration and business agility; it improves data visibility while ensuring protection against data leakage, security threats and potential network (and trading) downtime.

But, in the CFO's world matters are not always so black and white. Compared to easily controllable costs such as office space or marketing however, IT projects, such as network technology refreshes or data centre performance improvements, are often capital intensive while being prone to delay and overspend. The business case supporting them is sometimes poorly evidenced or wildly optimistic. The new normal era of financial prudence requires pragmatism on both sides.

For the CIO the message is clear: to receive approval projects that manage to survive budget cuts are expected to provide faster payback with less risk. This mandate has placed greater emphasis on not just selecting the right technology, but also choosing the best method of acquisition. For example, trading CapEx with OpEx to spread costs and improve financial ratios. This ability, for a company to legitimately move something from the balance sheet to a predictable cost on the P&L account, will become even more important in the new normal.

Many CFOs are actively considering such alternative IT funding models as a means to: boost profitability (because the expense is discounted from the cash flow); lower the company's Corporation Tax bill (because the company does not own any assets); and reduce indebtedness ratios (which analysts use as a measure of the company's overall financial health, stability and profitability). Moving an item to OpEx also eliminates the need for CFOs to conduct complex depreciation calculations.

The CIO response

Developing winning IT strategies – aided by a wave of open innovation, collaborative technologies, and resource sharing tools – is the role of today's CIO.⁶ At a recent Cisco CIO Summit, discussions were dominated by three themes: restructuring and aligning IT operations to deliver greater business value; closing performance gaps and making IT more efficient; and driving business change and transformation.

Although thinking is crystallising, actually executing the strategy is still a big concern. Only 18 percent of European IT executives thought their companies introduced new technologies faster or more effectively than competitors.⁷ IT spend is coming under increased pressure with 82 percent of companies expecting a flat or decreased IT budget. Not surprisingly, global enterprise IT spending in 2009 declined by 6.8 percent and is not forecast to recover to 2008 levels before 2012.⁸

⁶ The CIO in the New Normal: Cisco, January 2010

⁷ Time to Raise the CIO's Game, A Call to Action for European Companies: McKinsey, November 2009

⁸ Balancing Cost, Risk and Growth: The 2009 Gartner Symposium Analyst Keynote; Gartner, December 2009

Pulling in the same direction

The conjunction of these factors has created common ground on which the CFO and CIO can develop a more collaborative partnership: one that still recognises the need to manage shareholder value and immediate commercial targets, but is not just focused on short-term survival tactics. Again, this is where a rethink in the CFO's deployment of capital and the introduction of CapEx to OpEx solutions can assist by moving IT investment to a more manageable monthly expense.

Top priorities for this joint CFO and CIO agenda include the following.

Achieving operational excellence

Here the main focus for the CFO and CIO is to work together to create a 'save to invest' strategy that focuses on improving processes and reducing spend on day-to-day operations, thereby freeing-up savings that can be used to fund innovation-led initiatives that change the way business is done.

Saving to invest

Cisco's own intelligent network saved Cisco \$2.1 billion last year in everything from factory operations to worker training. Cisco handled 2.6 million support questions online and took 90 percent of its orders electronically, saving almost a billion dollars. It put training and meetings online and saved a further \$800 million. The convergence of Cisco's ICT and building-management networks has improved energy efficiency by an estimated 44 percent, reduced total energy usage by 30 percent or more and cut space by 40 percent.

As well as creating budget to pay for IT projects that provide differentiation and competitive edge, a save to invest strategy is also important for another reason. With companies looking to conserve cash, the average age of hardware (servers, storage and network equipment) is increasing. So too are failure rates. For example, around one million servers are estimated to have had their replacement delayed by one year during 2009.

In 2010, this number is expected to double. If replacement cycles do not change, 10 percent of the server installed base will be beyond scheduled replacement by 2011 and that will negatively impact enterprise risk.⁹ The effects of downtime and an inability to trade in today's economic environment could leave many companies in a disadvantaged position from which they may struggle to recover.

By taking a more holistic IT lifecycle management approach, funded by a save to invest strategy, companies can significantly improve enterprise risk management (ERM) and better protect their business. As part of their review of current equipment write-off periods, CFOs should encourage CIOs to consider OpEx-based funding models to minimise continuity risks. Such an approach ensures new hardware can be procured when needed, while allowing for a degree of budgetary flexibility.

Return on investment, or rather the notion that IT will hand back sack loads of cash, is a frequent cause of CFO-CIO dispute. However, when you look instead at TCO both parties do share common ground – they just find it difficult sometimes to make the connection. For example, sanctioning a project to virtualise the data centre enables the CIO to reduce risk by ensuring data packets travel through fewer devices and optimisation of servers. New savings are created from a reduction in IT maintenance, cabling, power and energy costs. The upside for CFOs is not having to field business case after business case every time IT wants to launch a new application or service.

⁹ Balancing Cost, Risk and Growth: The 2009 Gartner Symposium Analyst Keynote; Gartner, December 2009

Creating a borderless organisation

Collaboration and Web 2.0 technologies, including video conferencing, blogs, even twitter, for many CFOs, lie at the 'softer' end of the technology spectrum, but their business impact cannot be overlooked. To remove geographical barriers CFOs and CIOs can dramatically increase people productivity and effectiveness, while creating new cost savings and carbon gains from travel avoidance. Driven by globalisation and outsourcing, supply chains are becoming longer and more complex. Companies operating in the new normal will also depend more and more on collaborative technologies to support these ecosystems of suppliers, partners and customers.

Trying to construct robust ROI and payback calculations for IT projects of this kind can be extremely difficult, but evidence suggests that savvy CFOs understand the overwhelming business logic. Most European companies surveyed by McKinsey are achieving measurable benefits – whether in products and services, processes or business models – from their use of Web 2.0 collaboration technologies and 79 percent plan to maintain or increase their level of investment over the next three years.¹⁰

In the last year alone, Cisco has saved \$4.4 billion from exploiting web 1.0 and 2.0 collaboration tools, ranging from basic web-enablement – of its manufacturing supply chain, learning, HR, service and support – to collaboration applications which connect people intelligently and dynamically across all sorts of traditional boundaries. Web 2.0 is also about bringing the expert to the problem, rather than the other way round. Cisco's use of wikis and blogs has helped it boost collaboration internally, enabling faster response to customer questions, as well as fostering 'out of the box' thinking around challenging issues.

Looking beyond cost savings

Working with the Cisco Internet Business Solutions Group (IBSG), Italian insurance group Generali conducted a systematic planning process with the goals of accelerating growth and innovation, improving operational performance and optimising capital. The process revealed potential benefits in the range of €100 million to €130 million per year. "With our concept, we could show the business units and IT organisations that the economic impact on our business model, core business processes and productivity was about 10 times greater than a pure cost-saving view resulting from a change to IP technology," says Generali Group's CIO, Dario Scrosoppi. The new Cisco solution has helped the group to re-engineer technology-enabled processes in turn improving workforce productivity and accelerating business-model changes. A new high-speed video-conferencing system has cut costs, while improving collaboration effectiveness. The introduction of IP telephony has also saved around 10 percent on call charges.

¹⁰ Time to Raise the CIO's Game, A Call to Action for European Companies: McKinsey, November 2009

Building a joint platform for innovation

In order for their business to succeed in the new normal, CFOs and CIOs must find a common language for developing and supporting new technologies. However, this means doing things differently rather than reworking old ideas. From a technology standpoint, this can be achieved through migration to standardised architecture, virtualisation (of networks, systems, applications, data centres) and investment in new technologies (such as moving from owned to shared IT service models and 'pay-as-you-go' cloud computing) that improve operations and lower costs – all of which positively impact the company's balance sheet and environmental impact.

This shift from capital-intensive IT brings with it an increased reliance on external suppliers and service providers. The rigour finance departments can bring to managing (and enforcing contracts) will be vital to minimising the inherent risks of the managed services model, whilst enabling the CIO to focus on ensuring the business makes the most of IT innovations.

Rather than viewing this approach as a short-term fix, it should be firmly embedded as an intrinsic part of the business change process.

Aligning IT with business benefits

Tesco operates in 14 countries worldwide, with 65 percent of its revenue coming from the United Kingdom and the remainder coming from Asia, Europe and the United States. International expansion is key to achieving its goal of double-digit growth. Working with the Cisco IBSG, Tesco has developed an operating model consisting of a common set of business processes and IT systems. Collaboration tools, such as the Cisco TelePresence solution, are at the heart of this model, supporting innovation by enabling scalable and effective knowledge sharing, faster decision-making and higher productivity. Faster deployment of business and IT processes in new markets has also enabled Tesco to roll out operations in new markets more quickly and cost effectively.

Making the transition

Cisco can help at every point of the way.

Define joint long-term objectives

Drawing upon strategic engagements and proven best practice from around the world, our [Internet Business Solutions Group](#) can help CFOs and CIOs to increase their chances of success. The focus here is to formulate a joint technology action plan that is aligned with long-term capital market strategy.

Identify and ring-fence budget for key IT programmes

Run as a parallel activity, Cisco's [Advanced Services](#) organisation can work alongside technical teams, carrying out a facts-based audit of their IT infrastructures to pinpoint weaknesses and intelligently prioritise remedial action – all vital inputs for the CIO and CFO action plan.

Develop a more flexible CapEx to OpEx funding model

[Cisco Capital](#) can help to build the business case and provide alternative funding options that replace the upfront CapEx burden of purchasing technology with a predictable monthly expense. This allows the CFO to save money and improve cash flow management, while the CIO can accelerate time to benefits and lower risk because the transaction is underwritten end-to-end by Cisco Capital.

Create new synergies from outsourcing

Following implementation, [Cisco Managed Services](#) offer CFOs a second wave of benefits plus the assurance of cost predictability. Managed services enable CIOs to drive down TCO, improve risk management and increase IT support without the overhead of taking on extra staff.

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