



Navigating towards revival:

A CFO and CIO collaborative approach to business and technology planning

There is no question that many organisations are feeling the pain of the current global environment. However, despite reports of profit warnings, loss of market confidence and businesses failing, many companies are looking beyond survival and are actively laying the foundations for longer-term success.

With the CEO at the helm, the CFO and CIO are instrumental in leading this process. They must balance the need for prudent financial strategy with investment in technologies that will, ultimately, decide how competitive their organisations will be when the economy starts to recover.

Looking towards business revival

CFOs and CIOs are under more pressure than ever to streamline costs and keep the organisation running. At the same time, they are anticipating disruptive change that will transform the way business is conducted. This wave of open innovation, collaborative tools and resource-sharing enabling technologies will determine new winners and losers when the economy starts to revive.

Following the 1998-2002 recession, just 60 per cent of companies previously in the top quartile remained there afterwards¹. There is an increasing consensus that those companies that can master the tension of navigating towards revival and investing for future growth will re-emerge further ahead and in a much stronger position than those relying purely on defensive, cost-cutting programmes.

¹McKinsey Quarterly Survey, 2009

Balancing corporate finance and strategy

CFOs have a busy agenda. It is naturally assumed that they must understand how price and demand volatility will affect performance, constantly re-examining earnings and growth assumptions and implementing measures for cost effectiveness and improving working capital. All departments, including IT, can expect a tough time as control of capital and operating expenditure comes under closer scrutiny.

The traditional response – ‘do more with less’ – has some value. Yet many argue that it does not go far enough. Headcount reductions, for example, are often cash negative in the first year when severance payments and notice periods are factored in. Office and plant closures tend to generate shutdown and lost opportunity costs.

As a result, forecast savings are not always realised in the shorter term. It also raises a number of questions. How sustainable is this strategy? And what happens once the organisation has cut expenditure to the absolute minimum?

The real challenge for CFOs is to strike the right balance. This means ensuring prudent financial control to improve cash flow, profitability and balance sheet strength. Equally, CFOs must make sure that the business does not miss out on countercyclical investment opportunities that will put real distance between it and the competition.

The key to mastering this challenge lies in achieving greater alignment and transparency between IT innovation and business strategy. Both must be synchronised in complete harmony. The aim is to enable CFOs to make faster and more informed decisions through improved visibility of metrics, such as return on investment, payback and total cost of ownership ratios. Rather than viewing this approach as a short-term fix, it should be embedded as an intrinsic part of the business change process that will continue beyond revival.

Managing IT for competitive advantage

It would be easy for CIOs, in a difficult economic climate, to feel that they are being marginalised by deep budget cuts. Actually, the reverse is true: their contribution to the organisation has never been more important or valued.

And this role does not just mean ‘keeping the lights on’ during the downturn. Cisco’s experience of working closely with CIOs around the world is that forward-looking organisations continue to look to the CIO to help champion and deliver business transformation.

Three key themes that the CIO needs to drive forward stand out:

- **operational excellence to enable innovation**, 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 IT projects.
- **implementing collaboration and web 2.0 tools** that remove organisational borders and increase productivity and effectiveness, while creating new cost savings and carbon gains from travel avoidance.
- **increasing efficiencies of IT services to improve business profitability** through standardised architecture, virtualisation (of networks, systems, applications, data centres) and improved operations, support and development processes – all of which positively impact the company’s balance sheet and environmental impact.

The downside is that most have limited room to manoeuvre. Up to 90 per cent of budget may be reserved for IT maintenance and operations, with only a small remainder left to spend on new improvement projects.

Alternative funding models

Creating a robust business case in support of an IT strategy is critical, but in today's climate can be hard. Projects must provide faster financial payback, with less operational risk in order to be considered for approval. The situation is further compounded by traditional funding models that are unable to satisfy standard key financial metrics, such as cost of capital and return on investment, or to reduce IT costs per user.

Novo Nordisk

Faced with the prospect of writing off its large legacy network, Danish-based pharmaceutical company, Novo Nordisk, had difficulty getting its IP telephony business case to stack up.

Moving to a Cisco Unified Communications system has provided an instant path to improved business performance. Lower total cost of ownership – achieved through network convergence, ease of use and reduced maintenance and provisioning costs – is expected to save Novo Nordisk DKK 9 million (around US\$ 1.4 million) over the next four years.

Flexible commercial terms – offered by Cisco Capital – have helped to make all of this possible by delivering return on investment within 24 months. Cash flow management is improved, as a result of not having to purchase the equipment outright or pay for both the old and new systems over the same period. The technology investment has been future-proofed with built-in refresh options.

These factors are driving a stronger three-way partnership between the CEO, CFO and CIO. This team is collectively responsible for combining IT investment tightly with both business strategy and financial decisions. The aim is to intelligently reduce costs and streamline the budgetary approval process.

Aided by new alternative funding models, companies are increasingly looking for greater business flexibility by replacing the need to make large upfront capital payments for IT with predictable monthly installments financed out of operational budgets. According to the management consultancy,

“Cash is once again king, and all systems and decisions must be geared to preserve it while companies make conscious trade-offs to achieve their longer-term strategic objectives”¹

Integration with existing strategy

Finance strategy has, in the past, tended to be geared around financial performance and profitability. Many lenders have increased the margins between their cost to borrow money and the price at which they lend. This situation means there are less funding sources available, and those who are still lending money do so at higher rates. Therefore, CFOs must also find new ways to protect cash and existing credit lines.

Alternative funding models address these needs by allowing CFOs to sanction – rather than shelve – important IT projects designed to save costs and increase efficiencies. They can also unlock hidden value from these investments, for example, by freeing up funding for other projects, smoothing cash flow, enhancing key financial indicators (such as ROI and payback period) and accelerating business improvements.

¹ McKinsey on Finance, Number 30, 2009

AR Telecom

In order to attract and retain new customers, Portuguese operator AR Telecom has invested in an IP Next-Generation Network (IP NGN) to increase coverage and accelerate service delivery in major cities like Lisbon and Porto.

By deciding to finance as opposed to purchase, AR Telecom was able to avoid upfront investment and spread the project's costs. Not only will this improve ROI, it will also ensure that the achievement of break-even targets are not jeopardised. The Cisco Capital solution allowed the operator to borrow at a lower rate while preserving existing credit lines in case they have to be used for other requirements in the future. As well as helping to reduce financial risk, the contract mitigates against obsolescence with in-built refresh options that enable AR Telecom to 'ride' the technology wave.

Joao Faria, Chief Financial Officer for AR Telecom comments: "We were keen to reduce the cost of capital (interest payments). We also wanted to avoid taking a direct hit on EBITDA while still treating the asset as a tax-deductible item. The various models Cisco Capital produced helped us to develop our thinking, validate the cost benefit analysis and ensure the right commercial framework."

For further information

To find out how Cisco Capital can help your company to re-emerge from the current economic situation stronger and better placed to maximise future opportunities, please contact your Cisco Capital or Cisco partner representative.

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