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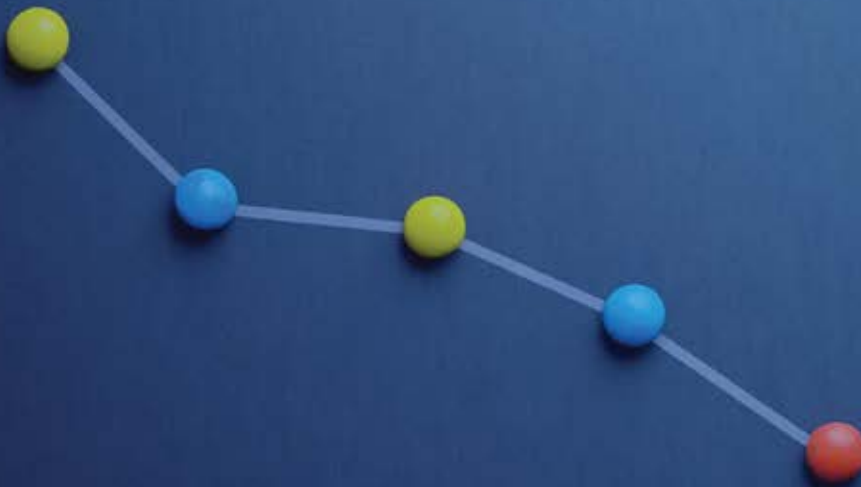
Reducing IT Spend in 90 Days

15 Pragmatic Ideas for PE Firms
and Portfolio Companies

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Like their publicly held counterparts, many Private Equity (PE) owned companies are severely impacted by the pandemic, and are working at a frantic pace to cut cost and manage the cashflow. But it has not been easy. Cutting costs indiscriminately or too quickly might lead to anaemic growth when the economy bounces.

It is a very difficult trade off, and more when it comes to the IT cost.

In the last few years cost of technology as a percentage of revenue has inched to up to 5% or higher in some industries. To complicate matters further, many portfolio companies that were growing fast before the pandemic hit, are in the middle of complex transformation programmes like ERP modernization. These investments were being made on the premise that tech transformation would help business scale better and add to valuation. Now the difficult choice is between mothballing an initiative adversely impacting exit valuation or funding the programme when revenue has dropped so sharply.

How should PE firms and their portfolio companies restructure their IT spend given these challenges?

The answer lies in deploying a two-pronged strategy: **short-term initiatives** that can be implemented within a quarter to take out cost and preserve cash, without compromising valuations and **strategic technology interventions** needed to strengthen competitive differentiation and support higher exit valuation.

This viewpoint focuses on carefully curated 15 short-term initiatives to reduce cost, conserve cash and improve the health and agility of IT within a quarter.

1. Reduce Project Cost

About 40% of IT budget is spent on projects. Many of these projects can either be postponed or abandoned in the post-Covid world. Some in-flight projects are difficult to be stopped midway. In those cases, the **resourcing model** could be changed to reduce cost, especially if you are using expensive **sub-contractors** or are **not using resources in low-cost locations**. In the last few weeks, LTI has taken over multiple in-flight projects and transitioned them remotely using tools like Webex and MS Teams. This has helped clients cut their cost by 40-50% without losing knowledge and momentum.

Time to benefit: 2-4 weeks.

2. Minimise Non-essential Demand on IT

Now is the time to eliminate or minimise non-essential demand on IT e.g., non-P1 incidents, out-of-business hour support, problem tickets, stringent SLAs, daily health checks. When done rigorously, this initiative can help companies cut down their BAU IT spends by 15-20%.

Time to benefit: 4 to 6 weeks.

3. Adopt Managed Services

If you have 20 or more staff in IT, you should consider a managed services delivery model. These contracts could be structured in a way so as to **frontload savings**, which then eases the cashflow. Further, it might be possible to protect jobs by transferring certain staff to the provider, in alignment with employment regulations.

Time to benefit: 8 to 10 weeks.

4. Consolidate Vendors

Many portfolio companies run their IT with a complex mix of partners: niche providers, sub-contractors, retired technical experts who chip-in part time etc. This is sub-scale and inefficient. Consolidation helps lower management cost, get better commercial terms, and the scale allows more work to be done remotely. For example, for a PE owned, UK based SME in Construction sector, LTI is the sole partner of IT across their SAP landscape, manufacturing applications, IT infrastructure and collaboration tools. A multi-skilled LTI team provides all services, as per SLA and almost all of it remotely, which helps the company run its business with a very low IT budget.

Time to benefit: 8 to 10 weeks.

5. Reduce 3rd Party Spend – Licenses and AMC

Time now to take stock of all software and hardware you are paying for and reconcile this inventory against actual usage. This audit often reveals unused licenses or subscriptions e.g., user licenses for ERP, unused desktop apps, etc. This is especially applicable whenever there are job cuts or furloughs.

Time to benefit: 2 to 4 weeks.

6. Reduce 3rd Party Spend – Telecom

There are multiple opportunities to save on telecom costs: expensive mobile and data plans that do not offer corresponding business value, multiple collaboration tools, expensive network contracts no longer aligned to market benchmarks. The best way to unearth these opportunities is through a two-day audit of all telecom expenses, then working out a fast and effective game plan to optimise.

Time to benefit: 4 to 6 weeks.

7. Reduce 3rd Party Spend – Data

Companies spend considerable money on third-party data e.g., stock market data, risk models, credit scores. Many of these contracts are not tied to usage. Further, Open Source has made it possible to acquire good quality data at a much lower cost. A good example of this is the risk data used by underwriters. This line item should be reviewed, especially focusing on assessing the incremental business value from expensive external data when the business volume has dropped.

Time to benefit: 4 to 8 weeks.

8. Reduce 3rd Party Spend – Real Estate

[Remote working is now mainstream.](#) Can you follow a flexible work from home policy, move infrastructure to 3rd party data centres, or cloud, adopt managed services model and save on real estate cost? Every little helps and the real estate savings in many parts of the business can start to add up.

Time to benefit: 8 to 10 weeks.

9. Use Freebies

Don't overlook free offerings from hardware, product, and software partners. Many cloud providers like Amazon, Azure and Google Cloud, as well as top software providers like SAP ([Ariba Discovery](#)), Salesforce, and Qualtrics ([Supply Continuity XM Pulse](#)) are currently offering gratis software solutions tailored for post-Covid recovery phases. Explore if you can use these offerings to ease cost pressure.

Time to benefit: 1 to 4 weeks.

10. Accelerate Cloud Adoption

If you are already on Cloud, it would be good to do an audit and find out if you are paying more than what is needed. LTI research has identified at least **10 areas** where companies end up over-spending on Cloud. And if you are not yet on Cloud, it is time to accelerate your adoption. There is an excellent [article](#) by my colleague on how Cloud could be used for the post-Covid economy.

Time to benefit: 8 to 10 weeks.

11. Optimise DR Infrastructure

Your Disaster Recovery infrastructure might be overengineered for the current business levels. For example, are you paying for a hot stand-by DR, when a weekly back up could do considering the sharp drop in business? Secondly, on-premise DR infrastructure is an order of magnitude more expensive than Cloud-based DR. Moreover, Cloud-based DR can be easily dialled down to save money in a crisis. If there is a way to terminate your on-premise DR contract and move to Cloud, you should do this now.

Time to benefit: 8 to 10 weeks.

12. Move Desktops to Cloud

In most likely scenario, many of your employees are already working or would be working remotely at least for next six months. One way to enable safe and secure working from home without spending a lot of money on software and high-spec laptops is to adopt Workplace offerings from Cloud providers. In fact, both Amazon and Azure are offering their modern workplace setups gratis, or at low cost. Take advantage of these offers if you can before they expire.

Time to benefit: 4 to 6 weeks.

13. Adopt Open Source

Open Source software costs less and can be used in many areas: databases, monitoring tools, middleware, reporting, service desk etc. To make migration easier, LTI offers

self-funded commercial construct where you do not pay for migration and get the savings from day 1.

Time to benefit: 4 to 8 weeks.

14. Reduce Contact Centre Cost

You can explore two techniques to reduce call centre costs. First one is **Chatbot**. This technology has matured considerably and can handle many customer queries without human support. Both Amazon and Azure offer Chatbots on Cloud for quicker deployment. This technology is useful if your agents are not able to take calls from home or you are experiencing a spike but cannot afford to expand the team. Second one is to move to a Cloud based Contact Centre like **Amazon Connect**. This is a cost-effective solution and you should consider this before investing any more in the current contact centre solutions.

Time to benefit: 8 to 12 weeks.

15. Focus on Cybersecurity

As anticipated, cyberattacks on businesses have gone up. Don't wait to **audit your cybersecurity infrastructure** and address vulnerabilities—because a cyberattack could be far more costly than any short-term savings. **Isolate your critical applications** including cutting them off from internet if feasible. But if you notice vulnerabilities, don't hesitate to spend the last dollar to fix it. This is one stitch that will save more than nine.

Time to benefit: 4 to 6 weeks.

The IT function provides some viable near-term saving opportunities. Importantly, each of these opportunities will also make your IT future ready and resilient. It is in the interest of both the PE firms and their portfolio companies to not let the Covid crisis go waste, but use it to strengthen the IT foundations and get ready for the future.

About the author



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Satya Samal is SVP and Chief Business Officer with LTI, leading the company's Europe and Africa business.

Satya started his career with SAP where his last role was as Development Manager for SAP's industry solution for Hi-Tech industry. Subsequently he worked with McKinsey & Co for several years, serving C-level executives on a variety of topics such as business strategy, restructuring, cost reduction, merger and acquisitions. After McKinsey, Satya worked with Infosys for close to a decade, spearheading their business, first in the UK for Retail & CPG vertical and later for Manufacturing vertical across Europe.

Over the years, Satya has partnered with leading companies in the world to design and implement their strategic business and technology initiatives. In the recent years, his work has focused on two most powerful Digital technologies: AI & ML and Cloud, including mentoring select start-ups in the UK and India.

Satya is a Post Graduate in Management from Indian institute of Management, Calcutta and did his graduation in Engineering from BITS, Pilani.

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