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IT cost pressure.

IT from cost factor to
turbocharging innovation.

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Contents.

Introduction.

Many companies have already been through several rounds of cost cutting in order to stay competitive. But continuing to trim IT budgets would be absurd amid the digital transformation. On top of that, various streamlining programs in the past have meant that IT is already pushing the limits of its efficiency. A survey of 201 decision makers responsible for cost and/or process optimizations in IT at German firms conducted by techconsult in September 2023 and commissioned by Campana & Schott confirms these findings. According to the survey, about four out of five companies (79.1 %) have implemented measures to cut costs in IT this year or last year. Only 2.5 percent do not take this approach and have no plans to do so going forward (see Fig. 1).

	Total
Have measures to save on IT costs been implemented at your company?	
Yes, every year as a general rule.	35.8 %
Yes, just this year.	16.9 %
Yes, last year.	26.4 %
Yes, in the past two years.	13.9 %
Yes, in the past five years.	2.0 %
No, but we are planning to do so.	2.5 %
No, and we have no plans to do so.	2.5 %
Number n=	201

Has your company taken measures to save on IT costs (outsourcing, offshoring to low-wage countries, consolidation of IT, general IT budget cuts, application costs)?

Fig. 1: Timing of measures to cut costs in IT at German companies

At the same time, more than nine out of ten companies (91.6 %) report that these measures have been exhausted, at least in large measure (see Fig. 2). Key challenges in streamlining IT include the complexity of the measures involved and shortages of resources (see Fig. 3). Looking ahead, respondents are especially concerned about the shortage of skilled workers, security, and the ongoing digital transformation (see Fig. 4).

	Total
Have you fully exhausted the possibilities of the measures taken to save on costs? We have exhausted the measures taken …	
… in full.	20.9 %
… where possible for us.	40.3 %
… for the most part.	30.4 %
… in part.	7.9 %
… to a lesser degree due to other constraints.	0.5 %
Number n=	191

Fig. 2: Options for cutting costs in IT have largely been exhausted.

	Total
Why were you unable to fully utilize the measures you took to save on costs?	
Complexity of the measures	29.8 %
Lack of resources	24.5 %
Internal doubts (past or ongoing) regarding the effectiveness of the measures	20.5 %
Management resistance	20.5 %
Prioritization of other projects	20.5 %
Lack of control and monitoring	20.5 %
Time, effort, and expense greater than expected	19.9 %
External factors (such as market fluctuations, changes in customer requirements, or supply chain issues)	17.2 %
Unforeseen problems (such as the COVID-19 pandemic)	17.2 %
Difficulties identifying potential for savings	17.2 %
Lack of acceptance of measures by staff	17.2 %
Other reasons	1.3 %
None of the above	0.7 %
Number n=	151

Fig. 3: The biggest obstacles to cutting costs in IT (multiple responses possible)

What are your main concerns as you look to your organization's future?	Total
Shortage of skilled workers	32.8 %
Security, data protection, and privacy	31.8 %
Digital transformation	30.8 %
Agility of IT processes	27.9 %
Cost optimization	25.4 %
Complexity of innovative technologies	22.9 %
Increasing workforce retirement	21.4 %
Shortage of know-how and expertise	18.4 %
Agility and flexibility of IT hardware	18.4 %
Sustainability	16.9 %
Our organization has no concerns about the future.	4.0 %
Other	2.0 %
Number n=	201

Fig. 4: Main future concerns for decision makers at German companies (multiple responses possible)

Since this means that IT costs have already been largely optimized, further budget cuts would make it practically impossible to keep the lights on in IT. Technical infrastructure – that is, core services – and business services would no longer be available reliably. The vast majority of business processes are already dependent on the underlying core services, applications, and data. If those processes are unusually slow to respond, the business is adversely affected – and worse, if they are entirely unavailable, the company grinds to a halt. If budgets are cut further, IT structures will be unable to keep up with changes in the business. Beyond that, the IT organization will no longer be able to actively forge ahead with the digital transformation and aspects such as integrating acquisitions. With the pressure to compete being as it is, no company should go down that road.

In service-oriented IT, professional IT services are already provided in response to requests from the business side. IT handles this largely as a service provider. These days, however, this role is no longer sufficient. By now, IT should be acting as an engine, turbocharging innovation at the business. That's how it can further increase the concrete value added for the business through innovative solutions. The greater value unlocked ranges from higher efficiency and improved

competitiveness to development of new markets and business segments and beyond to enhancing the company's appeal as an employer. To achieve this, IT needs to take a broader view, from performing IT services to how its services and business capabilities contribute to achieving the business objectives of the company as a whole.

This white paper discusses how this works in practice and what specific points should be kept in mind in the process. It also shows how to measure just how much value IT is adding for the business side. Furthermore it highlights how, as the next step, IT can go from cost center to engine driving innovation and sales. For some companies, IT itself even becomes the business model.

From service IT to business capability IT.

IT modernization in Germany making good progress

As part of measures taken to ensure cost effectiveness, a large segment of German companies have already updated their IT organization and infrastructure. For example, Campana & Schott has found that about 70 to 80 percent of decision makers view their task of modernizing IT as complete (see Fig. 5). Another ten to 15 percent are making progress toward that goal.

As a result, the modernization of IT has already made great strides (see Fig. 6). The majority say that IT has a clear business mission with regard to innovation and cost efficiency, for example, and that there is full transparency on the IT portfolio and business processes and their interdependencies can be modeled in full. IT processes have been standardized and automated to a great degree, and IT services

are completely transparent and protected. The IT and business sides work together to everyone's full satisfaction, and IT creates demonstrable value for the business and supports its digital transformation. Beyond that, the existing IT operations model is resilient and forward-looking. So, is everything fine as it is? Not exactly. Most respondents only agree "somewhat" with these points. Only 25 to 36 percent see each of these points as being fulfilled "completely." This means there is still room for improvement. In everyday consulting operations, Campana & Schott frequently finds that all of the fundamental factors that create leverage are known and have largely been exploited, but in many cases, this only applies in a selected area. In addition, process, security, and architecture teams still frequently operate alongside each other rather than being managed as a single overall system.

IT self-image	Objectives and requirements defined
IT architecture management	Transparency across the service portfolio
IT service management	Clear processes and responsibilities
Operating model and business partnering	Organizational resilience
Legacy dismantling and standardization	Modern IT services and standards
Outsourcing of commodities	Focus on core value creation
Workflows and self-service	Automation

Fig. 5: Measures already taken to cut costs in IT

To what extent do you agree with the following statements?

■ Completely agree. / Somewhat agree.　　■ Somewhat disagree.　　■ Completely disagree.

The business mission of IT with regard to innovation and cost efficiency is clearly defined within my organization.
82.1 % | 15.4 % | 2.5 %

There is complete transparency internally regarding the IT portfolio.
73.6 % | 19.9 % | 6.5 %

We can model factors from business processes and data architecture through to IT applications and systems and their interdependencies.
72.6 % | 23.4 % | 4.0 %

Our IT processes have been standardized and automated to a great degree, and the associated roles are clearly defined.
76.2 % | 18.4 % | 5.4 %

I have complete transparency about the scope and quality of IT services for internal and external customers at all times.
74.7 % | 22.3 % | 3.0 %

The need for protection has been defined for all IT services in my organization, and there are coordinated protection concepts, which are reviewed regularly.
84.1 % | 13.4 % | 2.5 %

My IT operations meet the security requirements that are customary on the market (ISO 27001, BSI Grundschutz, or similar) in full.
79.1 % | 16.9 % | 4.0 %

The model of cooperation between IT and the business units meets the business units' requirements for IT in full.
75.1 % | 18.9 % | 6.0 %

IT creates demonstrable value in its work with the business units.
72.7 % | 22.9 % | 4.4 %

IT acts as a driver of the digital transformation of our business.
72.1 % | 22.4 % | 5.5 %

Our existing IT operating model is well suited to overcoming the challenges we will face going forward (pressure to digitalize, new/emerging technologies, sustainable transformation, inflationary pressure, etc.).
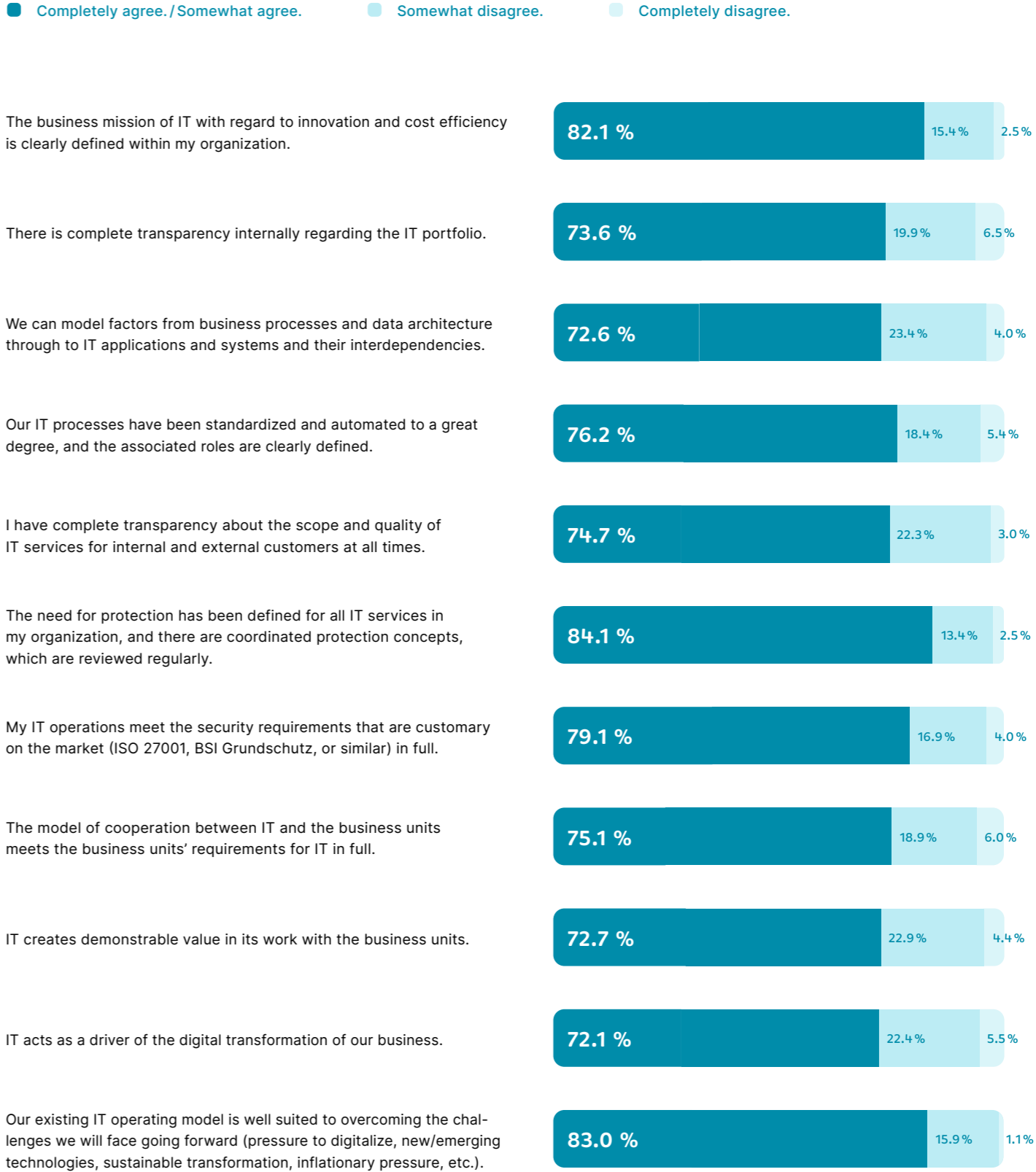**83.0 %** | 15.9 % | 1.1 %

Fig. 6: Companies have made good progress in modernizing their IT.

Focusing on innovation

Corporate culture is another area where it is apparent that while German companies have made great strides, they have not yet reached the goal. On a scale from 0 to 10, survey respondents give their companies a score of 6.5 for being driven by innovation. The values for agility, focus on the future, and willingness to take risks are similar (see Fig. 7).

	Total
What do you think best describes your company's general alignment?	
Innovation-driven	6.5
Willing to take risks	5.9
Focused on the future	6.6
Flat hierarchy	6.1
Agile and agile with scaling	6.6
Prone to experimentation	5.9
Number n=	201

Fig. 7: Decision makers' assessment of their companies' alignment

The prioritization of goals demonstrates that decision makers are well aware that they still have a ways to go. In keeping with this view, innovation and the digital transformation are top priorities for IT at German companies – well ahead of cost efficiency and savings (see Fig. 8).

		Total
Please rank the following three IT goals according to priority within your company.		
Cost savings	1st priority	26.4 %
Number n=		197
Cost efficiency	1st priority	27.6 %
Number n=		196
Innovation and digital transformation	1st priority	46.4 %
Number n=		196

Fig. 8: Prioritization of IT goals at German companies

So, IT managers know that innovative solutions are the only way to counter pressure from the competition, lack of options for savings, and the shortage of skilled workers. For example, automation and service partners are two ways to cushion the impact of the skilled worker shortage. That, in turn, is another reason that cutting costs is counterproductive. What is needed instead is efforts to relieve the burden on IT, which is already working with limited resources, to create room for innovation.

Introducing innovative solutions creates good prerequisites at the interface between IT and the business side. This makes it possible to efficiently balance the IT objectives and business requirements of a future-oriented and innovation-driven enterprise. At the same time, though, the IT and business sides have to have the same understanding of what "innovation" means. And that requires digital capability – an understanding, forged through education and experience, of the potential of emerging technologies and how they will affect a company's bottom line in the years to come. Sharing that understanding with the top management is a key element in the success of the company's transformation.

IT as business partner

But how can companies go one step beyond in enhancing their agility and ability to innovate? In today's digital business world, this is only possible if further thought is given to the role of IT as well. An enterprise IT organization needs to move from being purely a service provider that supports business processes to a business enabler. In a model of maturity levels made up of five levels for the service provided by IT, this corresponds to adding business capability functions to services (see Fig. 9).

|	Technology	Process	Service	Business capability	Business model
Type of IT delivery	IT is focused on technology and provides IT assets to the company. *Typical characteristics: provides devices, applications, licenses*	IT is focused on evolving through the establishment of processes. *Typical characteristics: establishes demand management*	IT is focused on the needs and satisfaction of its users. *Typical characteristics: defines services and SLAs, establishes business partners*	IT is focused on actively contributing to the company's value creation. *Typical characteristics: collaboration in mixed teams, fusion with business*	IT is focused on actively developing / enhancing the company's products. *Typical characteristics: large number of IT professionals in business units, IT focused on core IT*
Role	Reactive IT	Reactive IT	Proactive service provider	Business partner	Part of the business
Focus	Run IT	IT as factory	IT works for the business.	IT to enhance and grow the business	IT to transform the business

Fig. 9: The five levels of IT services for a company's success

CIO office and boards
Providing global principles, processes, reporting and budgeting

Product teams
Addressing nuanced, diverse and innovative business requirements, shared responsibility encompassing both business and IT

Communities
Focus on information flow across teams and identifying synergies

Enterprise services
Consolidated business services operated by IT with strong business alignment

Core IT
Efficient and stable delivery of mainly standardized IT services

Fig. 10: The various levels for cooperation between the business and IT sides

This requires interdepartmental project and operations teams with members from both the IT and business sides so the optimum solutions can be developed and operated efficiently (see Fig. 10). These setups create room for the various stakeholders to learn from each other. A survey conducted by Campana & Schott shows that the business and IT sides are already jointly driving forward-looking IT projects at 43.5 percent of German companies. Still, not only is that figure not enough, it also needs to be expanded to encompass strategic business projects as well.

The crucial consequence here is that as a business partner, IT assumes responsibility for how it can improve the business in terms of efficiency, resilience, scalability, and innovation. Thus, the CIO is looking at more than just ensuring that the team provides the best possible IT solutions; those solutions also need to enhance the company's profitability.
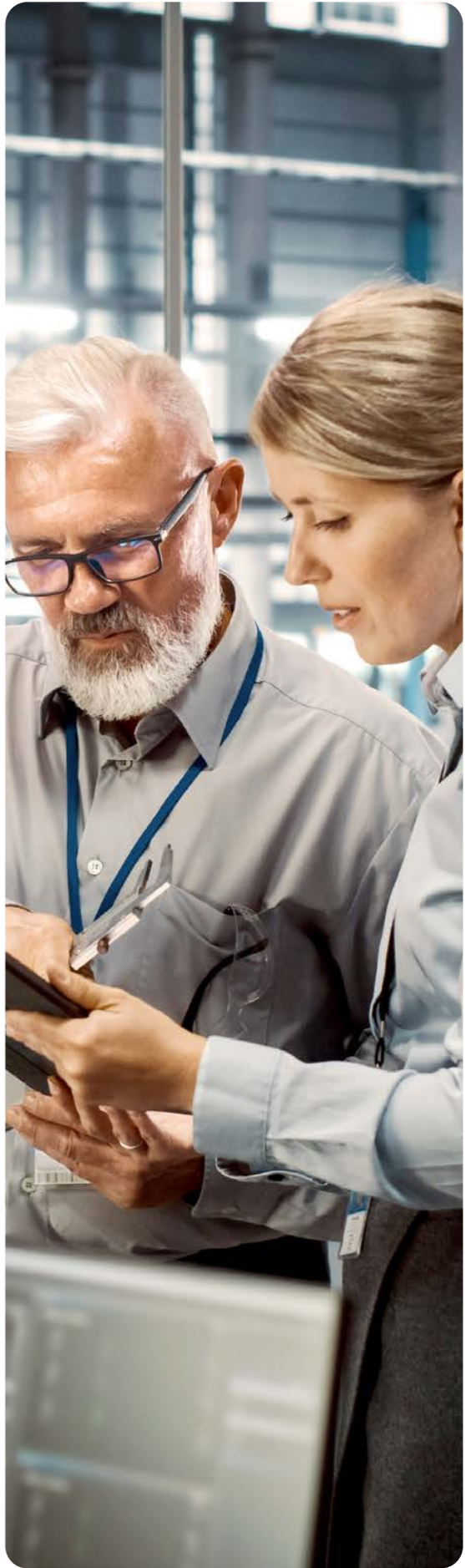
There are various steps a company's IT organization can take to level up from purely providing services to supporting the company's actual business capabilities:

- The IT team must grow and deepen its applied technical skills relating to innovative technologies such as AI, big data, and the cloud. That's how it can advise the business side on incorporating these technologies to advance the company's competitive advantage.

- The IT organization should actively help to build digital skills, not just within its own purview but also on the business side. To achieve this, employees on the business side should be encouraged to view themselves as digital pioneers, and the IT team should provide services that solidify its own sense of shared responsibility for business success. This brings about a cultural shift throughout the company.

- The IT team should view citizen development as an opportunity to establish mixed product teams and introduce budgetary responsibility for IT products on the business side.

- Business partnering should be expanded from operational cooperation at the level of demand management to encompass the strategic level as well, addressing which business objectives IT should help to achieve. Establishing interdisciplinary teams brings all stakeholders closer to value creation, while IT costs become costs associated with the overall department.

- The focus should shift from IT availability (IT service management) to measurement of process availability in an enterprise service management structure that cuts across the entire company.

- Wherever possible, links should be forged between technical architecture planning and the business architecture so investments can be identified directly based on business objectives. This makes architecture management a tool for shaping the company's transformation.

- Projects should be prioritized according to their value contributions, and the IT and business sides should work together to track achievement of targets as an effective way to strengthen shared responsibility for project outcomes. Projects between business and IT can become "fusion projects" with greater potential impact on innovation if processes are adjusted at the same time.

- The IT organization must advance the security architecture from peripheral safeguards to a zero-trust paradigm.

- The organization should embrace increased modularity and interoperability among the IT systems used, which enhances adaptability in the IT architecture. There should also be increasing use of standardized and proven change management, DevOps, data and IT, workload automation, and project management services instead of constantly reinventing the wheel.

Depending on the company's maturity level, it may be necessary to build these skills and capabilities from scratch or to expand on existing ones so the IT organization can deliver created value. Increasingly interweaving the business and IT sides and harnessing the potential of new technologies will bring about a thriving digital culture. This makes it possible to introduce new ways of working and work processes, at the same time enabling greater flexibility and agility in responding to new challenges as well as changes on the market. The concrete benefits are as follows:

- Enhanced business profitability

- Boosting efficiency by increasing the degree of digitization of business processes (automation)

- Free up IT capacity, even with scaling, and unlock innovations

- Issues are identified faster and more efficiently, lowering risk

- Ensuring that the business and IT sides work together in combined project teams allows the IT organization to identify business needs faster while also streamlining projects (competitive advantage)

IT maturity levels. What value does IT create for the business?

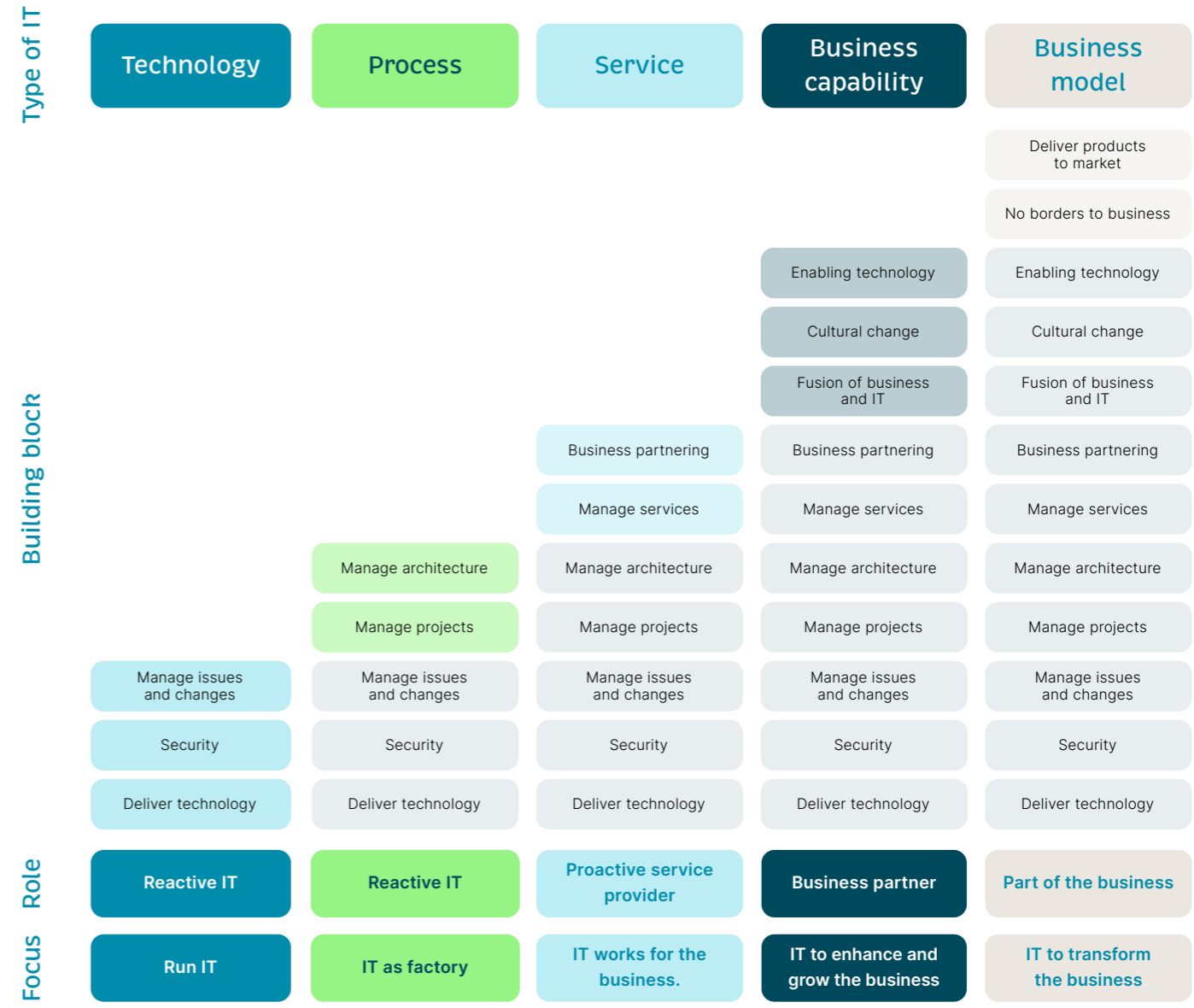| Type of IT	Technology	Process	Service	Business capability	Business model
Building block					Deliver products to market
					No borders to business
				Enabling technology	Enabling technology
				Cultural change	Cultural change
				Fusion of business and IT	Fusion of business and IT
			Business partnering	Business partnering	Business partnering
			Manage services	Manage services	Manage services
		Manage architecture	Manage architecture	Manage architecture	Manage architecture
		Manage projects	Manage projects	Manage projects	Manage projects
	Manage issues and changes	Manage issues and changes	Manage issues and changes	Manage issues and changes	Manage issues and changes
	Security	Security	Security	Security	Security
	Deliver technology	Deliver technology	Deliver technology	Deliver technology	Deliver technology
Role	Reactive IT	Reactive IT	Proactive service provider	Business partner	Part of the business
Focus	Run IT	IT as factory	IT works for the business.	IT to enhance and grow the business	IT to transform the business

Fig. 11: The value of IT to the business

Close cooperation between IT and the business side in mixed teams is important at all levels of the organization, right up to the executive management. For example, the CIO must be involved in all key business decisions – and those responsible for individual subjects should also be involved in all IT decisions. This is the only way for IT and business to work hand in hand, identifying and advancing the optimum solutions together. In this approach, the IT organization becomes a business partner and is able to efficiently improve and expand on the results of business operations (see Fig. 11).

At the final stage of development, IT itself becomes the business model, and the CIO role transitions to that of CDO. The IT organization itself develops the company's products and brings them to market, so there is no longer any dividing line between IT and business activities. IT becomes a part of the business, transforming business processes. In practice, this stage has currently only been reached by the IT industry itself and by companies that require new digital products on a very rapid timeline, such as fintech and insurance firms.

Measuring and managing IT's contribution.

OKRs and KPIs

The IT organization can significantly increase its value to the company by evolving from a service organization to one that provides business capabilities. But how can this increase in value to the business be measured accurately? Tools used to achieve this include OKRs, for setting objectives, and KPIs, for measuring the degree to which targets are met (see Fig. 12).

Many IT organizations already automatically collect information on KPIs relating to aspects such as efficiency and service quality. The tendency to outsource IT services for cost reasons has meant that KPIs tend to focus first and foremost on efficiency and profitability, so existing KPI structures concentrate mainly on costs and SLAs. Existing practices should be critically reviewed and reconsidered, and the focus of efforts centering on KPIs should be shifted toward risks and resilience and toward value contribution, innovation capability, and scalability.

This is where systems such as the OKR (objectives and key results) approach come into play. These systems can help to break down the overall organization's strategic goals into objectives for parts of the organization, such as the IT team. What impact does the organization want to have, how can success be measured, and what does IT contribute? This can relate to both the value chain and supporting end-to-end processes.

Business strategy

Profitability

OKRs

KPIs

IT strategy

Fig. 12: The business and IT sides can use OKRs to identify goals together and KPIs to measure how well those goals are achieved.

For example, a manufacturing company's strategic goal might be to produce in batches as small as one item in order to give their customers a leg up on the competition. So how does IT contribute to reaching that objective? What capabilities does it need to build to get there? The OKR framework functions as a shared communication tool, helping the business and IT sides to work together toward objectives, integrate those targets into the IT strategy, and translate them into terms the CFO can understand. COBIT assessments and innovation assessments can help to identify gaps between the existing concrete capabilities and those needed to achieve the goals set with the business side.

Fig. 13 presents another example of this kind of cascade of goals.

Your success partner for a secure digital future

Collaborative and global

We act as global business partners and create solutions jointly with the respective departments. We work globally and in an agile way. We focus on value-creating activities.

Secure and standardized

We rely on secure, standardized technologies and processes. The associated rules and regulations and the knowledge required to use them are provided transparently and kept up to date.

Innovative and open

We proactively support innovation and digital business solutions with our expertise. We're open to new technologies and ideas.

Curious and enterpreneurial

We continuously educate ourselves, create a broad understanding of IT and deepen specific knowledge. We live an open culture of error and promote entrepreneurial thinking and independent action.

	Global service usage	Cross divisional project teams	Location with group IT staff or aligned KU	% of projects with a positive business case	% of business service projects	Customer satisfaction	% of project spend on CFI
Why is this key figure useful?	Measures the global provision and support of the organization by IT	Measures co-creation with the business	Measures successful global communication/ alignment	Measurement of projects that are not only monetarily value-adding	Shows the number of projects that have a visible effect on users	Shows satisfaction of business with IT	Measures customer focused expenditure
How can it be calculated?	Number of global services and applications used compared to location/nation-specific services	Project with company employees as experts and permanent project workers in %	Location with group IT employees or agreed main users		Number of business service projects / number of all IT projects	Survey	Expenditure on CFI projects / total expenditure on IT projects
System mapping							
Objectives	Year 2023: Year 2025: Year 2027:	Year 2023: Year 2025: Year 2027:	Year 2023: Year 2025: Year 2027:	Year 2023: Year 2025: Year 2027:	Year 2023: Year 2025: Year 2027:	Year 2023: Year 2025: Year 2027:	Year 2023: Year 2025: Year 2027:

Fig. 13: Cascading goals

AI as helper

The introduction of artificial intelligence serves as a concrete example of the use of new technologies to reach the business objective of increasing profitability through digitalization. The green boxes in Fig. 14 stand for the solutions developed. These solutions contribute toward OKRs and KPIs to optimize the cooperation between the business and IT sides while also expanding on existing IT capabilities.
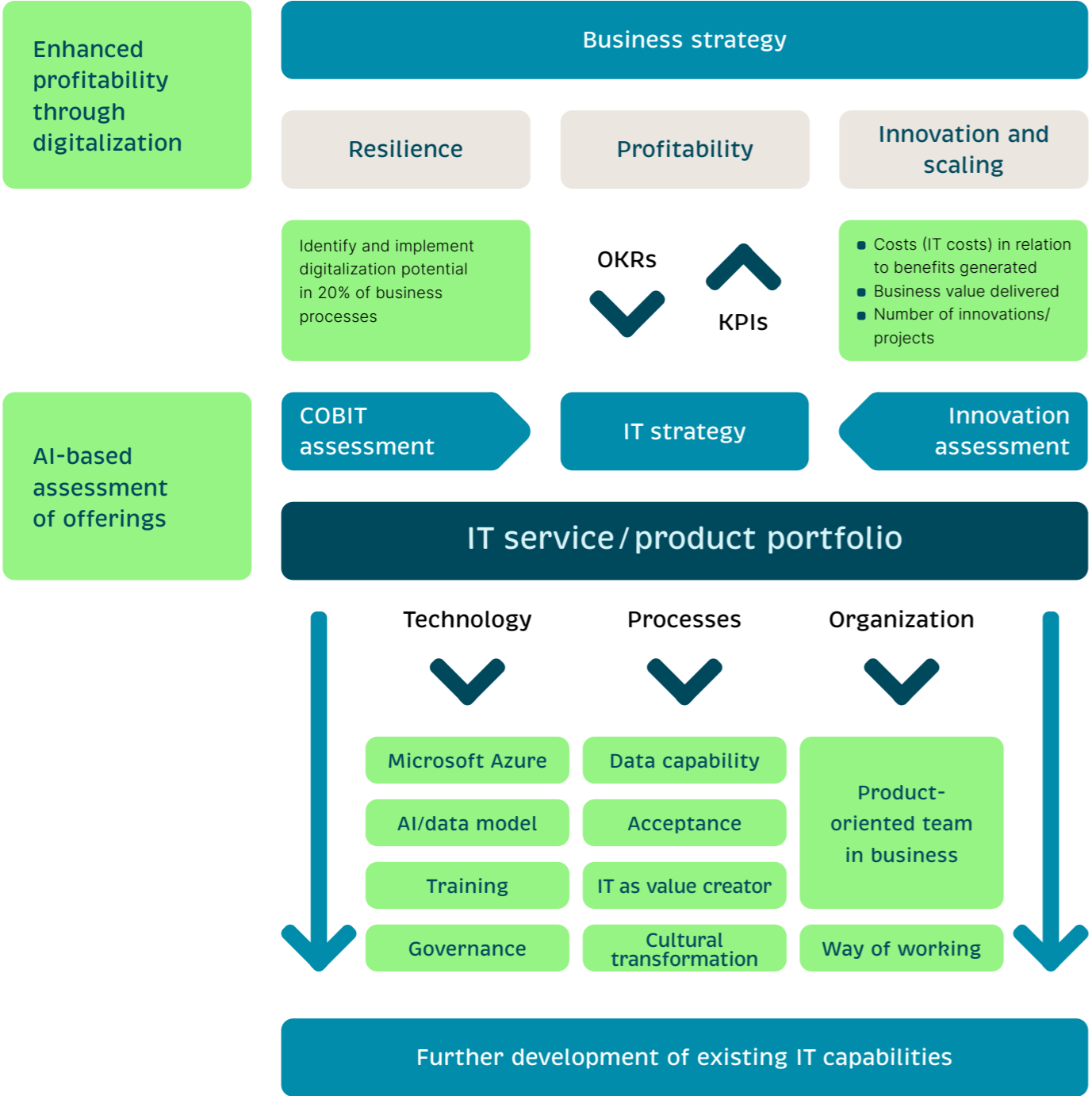

Fig. 14: AI supports OKRs, KPIs, and IT capabilities.

Campana & Schott as a partner.

The Innovation and IT Quick Assessment from Campana & Schott lets companies quickly zero in on untapped potential and action fields in IT.

In a four-hour workshop, partially structured interviews are conducted with business and IT managers and assessed directly by a team of experts from Campana & Schott.

The COBIT framework is used in the process to determine not only the maturity of the IT organization but also that of the existing capabilities and identify where there are gaps in capabilities.

Findings are presented in the form of a heat map. The Campana & Schott team of experts uses this map to identify where action is needed and craft a roadmap, including priorities. These items form the basis for further action.

Conclusion

IT costs will continue to rise, since the costs of developing and operating innovations themselves remain IT costs. The only new aspect here is the establishment and traceability of factors such as transparency or benefit to the company in connection with merging the IT and business sides. As the perspective on IT shifts, however, these rising IT costs will come to be viewed from the business case standpoint as necessary investments to increase sales and EBIT, just like a new production line. However, the IT organization itself also needs to seize the opportunity to shape its own future and that of the company by turbocharging innovation and the digital transformation. The white paper titled "IT at a Crossroads" discusses where IT departments stand today, the challenges they are grappling with, and the possible solutions when it comes to positioning themselves as shapers of innovative processes.

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Campana & Schott

Campana & Schott is an international management and technology consultancy with more than 600 employees in Europe and the U.S. We are passionate about supporting our clients with the most significant changes of our time and ensure that transformation projects and major projects are successful in the long term. Our areas of focus include transformation projects in the areas of digitalization, New Work, and sustainability along with business unit and organizational transformations. Our client base includes 33 out of 40 DAX companies as well as large mid-size sector companies. A follow-up contracting rate of over 90 % and excellent customer satisfaction values confirm that we regularly surpass expectations at the highest level.

Additional information: www.campana-schott.com