



IT ADVISORY SERVICES

Managing IT through Market Turbulence

ADVISORY

As managers from around the globe prepare for the impact of the global credit market meltdown, a rapid, decisive response is key to success. We anticipate intense pressure to cut technology costs, improve operational performance, and realign to meet new business needs. There may also be rare opportunities in some key industries to absorb talent or market share from weak competitors.

Proactive leaders will likely use a variety of tools to turn the turbulence to their company's advantage, creating a sustainable platform for emerging as the marketplace winners of the next growth cycle.

Management Top Technology Priorities

Main focus areas with regard to technology for companies impacted by the credit crisis typically include:

- Technology Costs
- Radical Business Change
- Crisis Communications
- Information Asset Protection
- Technology Talent
- IT Value Creation

Market Turbulence Management Strategies for the Technology Organization

KPMG's Technology Agenda Leadership team have observed that many companies are responding aggressively to recent market changes by increasing their pressure on C-Level management to take immediate action. It is highly likely that the business will demand deep cost cuts, refocused service levels, or in some cases the rapid integration of newly acquired business assets. Technology's support for reduced working capital requirements through the optimization of accounts receivable, payable, and inventory levels appears very likely. This prioritization on liquidity and working capital is expected to have a significant impact on the overall priorities and budgets for IT.

Reduce Technology Costs

Anticipating lean times, many businesses will respond to the fiscal crisis by negotiating significant reductions in technology budgets. The business may also ask IT to help liquidity challenges by freeing up cash from operations. Increased spending will simply not be an option.

KPMG's Cost Optimization for IT advisory services can provide a fair and rational approach to the realignment of IT costs with business expectations. Some rapid cost cutting and cash flow optimization strategies can often be deployed almost immediately, such as reducing power costs, rationalizing unnecessary technology, and rightsizing software license fees. Other opportunities focus on trimming project portfolios, user license fees, and staff reductions. These areas can offer both cost savings and liquidity. A careful examination of the timing of cash payments for vendor services is a key source of liquidity. Some well established strategies for cost cutting include:

- Reduce spending on technology
- Rationalize, reprioritize, and reduce application, project, and service portfolios (e.g., focus on cost-cutting)
- Reduce compliance costs through integrated controls
- "Dial-down" business demand levels, possibly through Service Level Agreement (SLAs)

Managing Radical Business Change

Well governed technology organizations have anticipated the need for dramatic business changes in response to the market crisis and many are already adjusting their service priorities.

By working with their business counterparts, C-Level IT executives are offering IT's full capabilities to help execute on new priorities. KPMG's global member firms are anticipating a push for the IT support of improved liquidity, reduced borrowing costs, and the consolidation of business operations.

KPMG's IT Strategy and IS Governance advisory services offer practical performance improvement strategies and service delivery models that are adaptable to both crisis response and the day-to-day operational needs of IT. We have helped clients develop rapid crisis management plans and capabilities, such as:

- Project Management Office (PMO) to organize the crisis response
- Change Management Center (CMC) to communicate effectively and positively align institutional behavior
- Transformational Methodology Approach to design new organizations, processes, technologies, and controls
- Performance Measures to focus and monitor business results (e.g., scorecards)
- Leading Practices interpreted by experienced advisors

Develop, Execute, and Communicate the Crisis Action Plan

Proactive C-Level Technology Communications

It is essential that technology management's response to the crisis include timely communication to the field. Effective communication of an action plan can demonstrate proactive leadership with positive results for morale, productivity and employee retention. Likewise, the preparation of a plan for senior leadership can help C-Level executives in the technology area to enhance their business presence. The market challenges can become an opportunity to advance key elements of the IT leadership agenda. Key actions to consider include:

- **Have a Plan Ready in Advance:** Nothing inspires confidence like good preparation. Seize the initiative and approach the business first.
- **Build Agreement With the Business:** Circulate the action plan among business executives to understand their perspective and the plan's impact on initiatives.

- **Proactively Communicate:** Clearly set expectations of what IT can and can't do during the crisis. Explain what you are doing to reduce costs and how you plan to take advantage of the changing market. Position IT as a leader on top of the change and not as reactive.

Protect Information Assets

Technology leaders are taking proactive steps to protect corporate information and knowledge assets. The speed and dramatic impact of the current credit crisis suggests that CIO action in key areas may help to reduce the impact of the crisis on information security, integrity and consistency. Key threats include:

- **Internal Security and Data Protection:** A heightened need for internal security and data protection follows cost cutting and staff reductions. Protecting against data loss, damage or theft is a key priority.
- **Loss of Know-How:** Steps to document and preserve process, client and product know-how are key as resources redeploy and business operations consolidate. Don't let business knowledge "walk-out-the-door."

- **Increased Errors:** Increasing complexity and productivity pressures can tempt information management into "sloppiness." The pressure to respond quickly should not tempt IT to abandon formal development processes, information standards and security policies. Many firms have learned the hard way that crisis-related letdowns led to a future systems meltdown.

- **External Security Threats:** Heightened external security threats may exist for industries facing heightened attention or which hastily changed operations in response to crisis financial pressures. Security controls remain important.

KPMG's Information Systems Governance and Enterprise Resource Planning Advisory (ERP-A) Services offer a variety of strategies for protecting information assets, including:

- Timely reviews of security threats
- Communications efforts to reinforce the importance of IT standards
- Effective alignment of ERP, HR and IT processes to manage employee events
- Rapid efforts to capture process and client knowledge



Key Questions for Leadership

Organizations facing the market crisis will likely place increasing demands on their leaders. Signs that KPMG may be of assistance in the IT area include:

Are IT budgets and project portfolios under pressure for reductions?

Has IT management developed a crisis management plan?

Has IT management developed a crisis communications plan?

Will market changes cause IT to support a business restructuring?

Is information security at an increased threat level?

Will weakened competitors or other forces provide a market opportunity (e.g., gain talent or grow)?



Source: *Managing IT Through Market Turbulence*, KPMG International, 2008

KPMG's IT Advisory Services

KPMG has developed the Technology Agenda to help address the performance, growth and governance challenges faced by executives with responsibility for technology. We have developed an integrated portfolio of IT services that includes:

- Cost Optimization for IT
- IT Value
- IT Sourcing
- IT Portfolio Management

Technology Value Creation - Opportunities to Consider

The current market climate also offers opportunities for IT to enhance its future value to the business.

Effective Business Intelligence: The speed and volatility of current markets suggests that effective information sources will be a key factor to sorting out winners and losers. Timely market information is even more important as commodity and equity markets have increased volatility. KPMG offers Business Intelligence and Corporate Performance strategies that can help IT create practical strategies that help immediately.

Winning the War for Talent: The market for technology talent is likely to realign. By paying close attention to the cost and value for key skills, a proactive IT organization can reposition itself for success by cherry picking top talent,

renegotiating vendor contracts based on reduced cost assumptions, and maintaining internal IT productivity, focus and morale.

Driving IT Value from Market Change:

Understanding how new technology can mitigate or create value in turbulent markets can be a powerful tool to help unleash new strategies or uses for information that were not possible in the past. Market turbulence can also reduce barriers to change.

KPMG has market perspectives on key technology trends, including:

- **Distributed Company Business Models:** Manufacturing companies are using flexible, interlinked technologies to work together across traditional boundaries, leveraging global scale.
- **Direct Consumer Linkage Technologies:** Retailers are building real-time customized products based on continuous feedback from customers or focused "community oriented" on-line sales channels.
- **Customer Relationship Mining:** Using data at the point of customer interaction, some sales channels are finding they can extract significantly more value by finding cross-selling opportunities.
- **Global Talent:** Technology permits centralization of decision-making with distributed talent.
- **Expanding Automation:** Technologies that leverage of RFID, extended supply chain optimization, and other new standards are changing the future of many business processes.
- **New Advertising Models:** Networked advertising through new leaders such as on-line search engine and video sharing services is expanding beyond early adopters.
- **Managing the "Sea of Information:"** Dramatic rises in information availability are leading to information creating products, mega-access to information, and increasing transparency for management action.

About KPMG

KPMG's Advisory practice offers a suite of high-impact services that can help organizations build value during times of change.

The practice is comprised of a dedicated team of IT Advisory professionals who assist clients in the development of IT strategies, governance and project risk assessments. Some of the key strengths of our Advisory Services practice include:

- **Objectivity.** KPMG is not beholden to software and hardware vendors, therefore our advice is not biased towards certain technologies or vendor solutions.
- **Depth of Skill.** KPMG has professionals with both IT and public sector experience that understand how IT affects Business operations and decision making.
- **Established Methodologies.** Our globally consistent Advisory Services offerings are based on standardized methodologies and tools that KPMG has developed and successfully implemented worldwide.
- **Relevant Experience.** KPMG has a long history of successful, long term working relationships with private and public organizations throughout the world. We stand by our work.
- **Reputation.** We have established an excellent track record of providing practical, relevant and timely assistance and advice at competitive rates.
- **Specialization.** KPMG member firms operating in more than 717 cities in 145 countries provide industry-focused audit, tax, and advisory services.
- **Accounting Experience.** Based on our extensive experience as an accounting firm, we can leverage from deep insight in finance and IT policies, processes and procedures in varying kind of organizations.



Contact Us

Our Team's Experience

Our IT Advisory practice and professionals have assisted organizations with technology management challenges across a broad spectrum of industries, including the following industry segments:

- Banking
- Healthcare
- Insurance
- Software
- Power and Utilities
- Retail services
- Pharmaceuticals
- Federal and State Governments
- Telecommunications
- Oil and Gas
- Automotive

For more information about our services, please contact our IT Advisory professionals:

Andris Brieze
Head of IT Advisory in the Baltics
Tel.: +371 67 038 042
abrieze@kpmg.com

Girts Kronbergs
IT Advisory Manager
Tel: + 371 67 038 045
gkronbergs@kpmg.com

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Visit KPMG on the World Wide Web at www.kpmg.com.

© 2008 KPMG International. KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Document code: GSC074