PSR Reviews

Contents

Quick Guide To Show The Value You Provide Your Firm

Some of our best ideas come from our clients. Recently, a very successful operations executive from the financial services industry shared his secret for success. He told of how he uses three questions to drive his management team. The questions are very simple and yet give great insight to what makes a company a winner or a loser.

Whenever he talks with his managers for the first time he asks them:

○ Who is your customer?
○ Why are you on the payroll?
○ What value do you add to the company and its customers?

Once these three questions are answered and understood, the VALUE ADDED by the individual and the function is easily identified. In looking back over the last few years, it has been verified that those organizations that have forgotten their customers are the ones that no longer exist or are now no longer successful. Some classic examples in Southern California include Ashton-Tate, Flying Tiger, and Lear Siegler to name a few.

For every customer there is a cost associated for dealing with your firm. For example, an executive in the food service industry would always measure the value of his actions by the "number of hamburgers" that his restaurants would have to sell in order to pay for his action or in-action. Yet when another executive applied the cost of his service logic to the finished product he sold, he said: "Every oil drill bit manufactured had $52.34 of IS cost in it."

There are successful organizations that know how to provide value and make markets. One of the most striking examples of this is Bergen Brunswig. Here is an organization whose IS function was integral with the changing business environment and is able to provide significant value to the firm. ◈
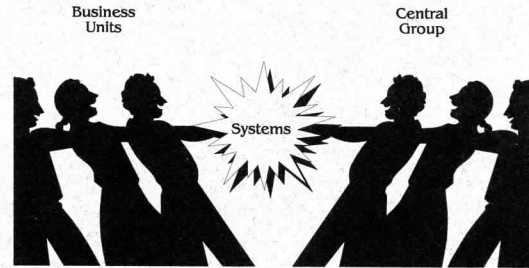
Are Your Business Units Pulling To Get Control Of Systems?

As we come out of the recession there is a lot of pressure on centralized corporate functions being applied by business operating units. The business units have been made accountable for profitability so they want to control their own destiny. One of the first areas the business units are looking at is IS. They are asking questions like "What are we getting for all the money we are spending on IS?" And "Why do we have to have a central group to manage the business unit's system development and operation functions?" During the recession a number of IS executives were under great pressure to provide better service at lower cost. Now these same executives must respond in a proactive way or they will see the corporate systems infrastructure come apart.

Centralized groups that add value are in a much better position to respond to this new challenge. Given the worst case scenario, there are a number of givens (they are more than laws but not quite commandments).

○ There is more computing capacity in the market than is needed by industry. The odds of selling excess resources to other companies are very low.

○ The facilities for computer operations are larger than they need to be. If there is a way to break your lease and move to a smaller, less costly building you would save money.

INSOURCING™ A New Concept For The 1990's

Are You Ready To Lead Your Company In Restructuring ?

by Robert Laskey

Improving your company's Earnings Per Share, Shareholder Value and Productivity are your marching orders for today. INSOURCING is rapidly proving to be the best means to improve your company's bottom line. It is a solution not a quick fix.

In the last two issues of the PSR Reviews, we have touched on some of the critical issues facing IS in the 1990's. Most senior IS executives have or will be facing tough decisions about their future direction. IS executives are being mandated to take a firm position about improving the productivity of their internal operations. Our experience indicates that few IS executives are leading the parade. Instead of seizing the opportunity, many managers are content to justify their operations by proving that they are well positioned in their internal costs. Lets look at two scenarios, the Norm and the Opportunist.

The Norm

An outsourcing study is performed. IS management says: "We are doing a fine job because our cost structure is good relative to other shops of our size. Outsourcing is not for us!" The study gets put on the shelf. Corporate management moves on (grumbling under its breath) until the next productivity exercise strikes.

The Opportunist

Savvy IS executives see this as a time to seize on a new leadership role to re-position the IS function and to lead their company in the 1990's. They build on their internal expertise to take the battle to the user functions (where significant opportunities lie). They aggressively seek business restructuring opportunities (which includes downsizing, decentralization, and other techniques) and become a role model for the company.

The focus over the last two decades has been on building, not restructuring (or re-engineering). As readers of today's headlines we can see the days of unlimited resources are behind us. The limiting factor, as most bankers will tell you, is scarcity of capital. Gone are the days of the easy corporate buy-out, funded by junk bonds and other ready sources of capital. Mergers are continuing to occur, but they are followed by the inevitable 15 or more percent restructuring layoffs. Resources to fund growth must now come from internal sources. Downsizing and restructuring have become the norm.

INSOURCING is a program that provides the foundation to bridge the gap between expectations and resources. It is built upon a strong base, consisting of specialized tools and techniques. It may employ the selective (and effective) use of outsourcing, downsizing and other appropriate means. Unlike outsourcing, INSOURCING is a means to an end, not an end in itself. By developing a high-performance INSOURCING program, IS will gain the necessary experience to help other functions effectively restructure their business operations.

Unfortunately, few IS executives and staff managers possess the skill set or training to effectively lead their company in this major endeavor. Somehow this skill set has been lost in the fast growth shuffle. We all know the typical posture: "IS builds automated systems. It does not develop user procedures." Many

> ...skill set has been lost in the fast growth shuffle

IS functions view the adaptation of systems capabilities within the business function as clearly a "user" role, or "not my job." Let's face it, the focal point for staff skill development has been directed toward building, not downsizing and restructuring. The two mind (and skill) sets are very different.

At face value, some IS executives might perceive that INSOURCING is nothing but the old efficiency study revitalized for the 1990's. They might view it as a concept that is only appealing to the "bean counters." We happen to believe that PSR's INSOURCING program is the concept for the 1990's. Several leading edge companies strongly agree, as they are now deploying successful INSOURCING programs throughout their companies. In today's environment, there is clearly a vacuum. Who provides the skill set necessary to support restructuring in your company? Your company is looking for leadership. What better place to look than the IS function. Clearly the old rules don't hold anymore. For many IS functions, they may be looking at INSOURCING whether they like it or not. The question is: "Will IS be leading the parade or will they be run over in the process?" ◈

Cost Too High For Application Maintenance Support

Bad Design Causes Much Of The Waste In IS

With the focus on productivity and reducing costs, a number of clients have been looking at their allocation of application development resources -- particularly resources devoted to supporting application maintenance.

What are the steps to evaluate your current resource deployment? Sometimes, the simple things work best. By comparing the cost of maintenance to the age of the application, over time, frequently an unfavorable trend can be quickly spotted. In one case, an application which was in the worst position was not the oldest but rather a relatively new application (less than four years old). Maintenance costs for this minor application alone were in excess of 5% of the total IS budget for the year.

Clearly this was a serious problem. It will only get worse (particularly in terms of IS customer satisfaction). The recommended approach was to perform a quick performance audit of the maintenance process. A key output of the performance audit was the creation of a maintenance cost baseline.

The baselining approach established a series of performance metrics to measure warrantee (that which is broken) versus adaptative (that which must be changed to meet business requirements) versus structural (that which is overhead to accommodate poor design) maintenance. A corrective program was constructed to redeploy the staff resources. A 20% savings was identified as achievable almost immediately. Through selective re-engineering, an additional 20% savings was targeted to be available within the next 12 months. ◄☞►

Business Units Are Pulling To Get Control Of Systems

○ Head count will stay flat. Except in those rare cases of legislated requirements, there will be no increase in the number of people in the development organization. CASE technology will be driven by budget constraints.

○ A key executive in the company will find a way to create a new system for a business operating unit that will not conform to your system's infrastructure. This will be viewed as an IS failure for two reasons.

✔ *The business unit was able to create a solution in less time and for a lower cost than IS could.*
✔ *The IS system is not easily modified therefore it is not as good as it should be.*

Given all of these issues, the battle will rage on for the next several quarters. By the middle to the end of this decade, the business units may have control of the development process, production scheduling and distribution. Only the technical functions may continue to reside with the central group.

Will this happen? That is a question that we all have to answer as we move forward. ◄☞►

Forecast Of The Southern California MIS Job Market

Supply and demand is very snug in Southern California

The summer has seen the recession come to an end. Organizations are now looking firmly ahead. However, most are making do with the staffing that has been in place for the last several months. In the many conversations we have had we found organizations are keeping head counts at levels about 3%-4% below the levels of last year at this time.

At least two major employers are looking at what has to be done to retrain / re-educate their staffs to re-align the way they do business. There is a definite shift away from the larger centralized MIS development and maintenance functions. Now the focus is on development and maintenance originating in user organizations. Computer operations for most transaction based systems are also being decentralized. In addition, pressure is being applied by EDS and Anderson Consulting to do this processing. It is a new ball game.

The message here is to make sure you are positioned for the shift in IS opportunities. One of the most striking aspects of this movement is the way firms are now looking for the same types of people that were hired as systems engineers in the late 1960's. Do you know what an 80-80 list is? If you do, your old skills are in style again.

Some people that were let go at the lowest point of the recession are now starting to run out of company paid benefits and termination pay. If they do not find a home in the next few weeks, they will have to deal with the holiday lull that will start in the middle to end of October.

The announced closing of military bases in Long Beach and El Toro has and will continue to hold the recovery back in Southern California. The GM plant closing is more bad news. Along with the increase in sales and income taxes it is just enough to continue to make this a "snug" market with a very slow recovery in process.

Another one of the "Big 6" consulting firms is looking to reduce it staff size because of slow sales. The Partner in Charge said he is facing an uphill battle with limited demand and "high billing rates" for his staff. It looks like this firm will not be hiring many new employees in the spring.

Health care continues to be the one major bright spot in the market. The

> *...make sure you are positioned for the shift in MIS*

entertainment industry is now stabilized and starting to hire again. With luck, the year end film releases will interject more money into those firms and accelerate their growth. With talk of elimination of the luxury tax, the auto industry is looking much brighter.

The job market has firmed up and a limited number of key positions will be filled before the holidays. With the number of people still out there looking, the competition will continue to be stiff.

Vic

Industry	Prospects Short Term	Prospects Long Term
Defense	Poor	Poor to Worse
Distribution	Good to Poor	Good
Entertainment	Good to Excellent	Good to Excellent
Financial Services	Poor to Good	Good
Health Care	Excellent	Excellent
Manufacturing	Poor to Good	Good
National Consulting	Poor to Good	Good