

COVID-19: IT Cost Implications for Businesses

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Over the last few months, the Coronavirus pandemic has unleashed a human tragedy, affecting millions of people. In parallel, it is also having a disruptive and devastating effect on the global economy and on businesses. This article puts forth insights and best practices, drawn from our experiences and expertise on how IT Leaders can navigate this turbulent downturn

The humanitarian crisis is posing unprecedented challenges for all Business and IT leaders. Most organizations are finding that the rapidly escalating situation is impervious to known remedial actions.

The strongest leaders deal with the short term – by acting rapidly to protect employees, customers and their organizations, whilst preparing for the long term opportunities that lie around the corner. Winners view IT cost take-outs as a chance to strengthen the business.



Responding to the immediate challenge

Businesses will struggle for profitability as demands shift and pricing fluctuates. Those with low cash reserves or unstable cash flows are particularly vulnerable. Given the importance of cash flow in these uncertain times, we have put together some **steps focused around cash flow optimization and cost saving for short and medium term.**

Start inward to quickly trim IT costs and eliminate costs that IT leaders can act unilaterally on:

- Decrease out-of-pocket expenses (travel, training, social activities, overtime)
- Extend non-critical refresh cycles as far as possible
- Reduce third party spend. Utilize less expensive internal staff where possible in place of higher priced contractors
- Defer or cancel non-critical projects and push out roadmaps. Consider stopping new investments
- Rationalize or eliminate non-critical services or offerings. Reduce service levels where feasible

Reducing discretionary costs through tighter policies will help free up the budget for mission-critical activities required for survival and aid in positioning for longer term measures

There are no reasons not to start today. Uncertainty is everywhere. Even if your organization is not adversely affected yet, we recommend management teams actively evaluate their cash flow requirements, assess risk to their employees, customers and other stakeholders and develop appropriate actions under scenario modeling. To enable fast delivery of results, KPMG has developed “**Private Equity Lens**”, a prevent methodology based on disclosing the full cost value potential, executed in a virtual manner and one that prepares you for all scenarios.

Private Equity (PE) Lens is a KPMG accelerated cost take-out approach that rapidly cuts through opaqueness to arrive at the most impactful opportunities. The key to the approach is a six-phase process that involves applying a “top-down” analysis of options in a small team in a short timeframe and can be executed virtually:

- 1 Baseline:** Rapidly disaggregate the cost base into major drivers to identify potential cost optimization opportunities
- 2 Hypotheses and scenarios:** Identify improvement hypotheses for each possible future scenario
- 3 Comparators:** Utilizing data, make comparisons with peers to understand where other models deliver a cost advantage
- 4 Evidence:** Use supporting evidence to prove or disprove each of the hypotheses per scenario
- 5 Opportunity per scenario:** Identify and prioritize improvement opportunities per scenario
- 6 Value delivery:** Translate opportunities into financial and operational targets with key stakeholders



Longer term considerations

When faced with financial constraints, IT organizations tend to cut costs without considering their strategic needs. These spur-of-the-moment cost reductions often come at a significant price: missed opportunities in simplifying, re-organizing and bolstering your IT organization so you can position yourself for the long haul. Our “**Strategic IT Cost Transformation**” offers companies a better way: position cost-cutting initiatives by thinking through opportunities to restructure IT and strengthen capabilities.

Our Cost Transformation related services include:

- 1. IT Strategy:** Re-align IT towards new business priorities and emerging trends. Selectively invest for quantifiable business benefits
- 2. IT Transformation:** Re-shape IT through org re-designs and supporting models to become nimbler and improve revenues, costs and experiences
- 3. Cost and Price Modeling:** Modern cost modelling that drives decision making, using techniques such as Activity Based Costing, Zero Based Budgeting and Technology Business Management
- 4. Cost Take-Outs:** Principles based full-stack rationalization and cost take-out while safeguarding value creation (Products, Services, Applications, Infrastructure and associated resources)
- 5. Demand & Portfolio Management:** Integrate Strategy with Operational Performance to enable right work to be completed at the right time with the right resources

Despite the public-health and economic crisis, IT Leaders need to continue improving the integration of their business and technology strategies. **KPMG Economics predicts* a “V” shaped impact**, downturn for the present and then a quick rebound in the second half of the year. IT can accelerate growth in the post-crisis world, but only if leaders and organizations can begin laying the foundations during leaner times.

For more – economic analysis, business implications, and insights on how to respond, restore, and plan – please visit our COVID-19 Resource Center**.

(* - <https://www.kpmg.us/content/dam/kpmg/pdf/2020/covid-19-impact.pdf>

** - <https://home.kpmg/nl/nl/home/insights/2020/03/impact-coronavirus-op-organisaties.html>)

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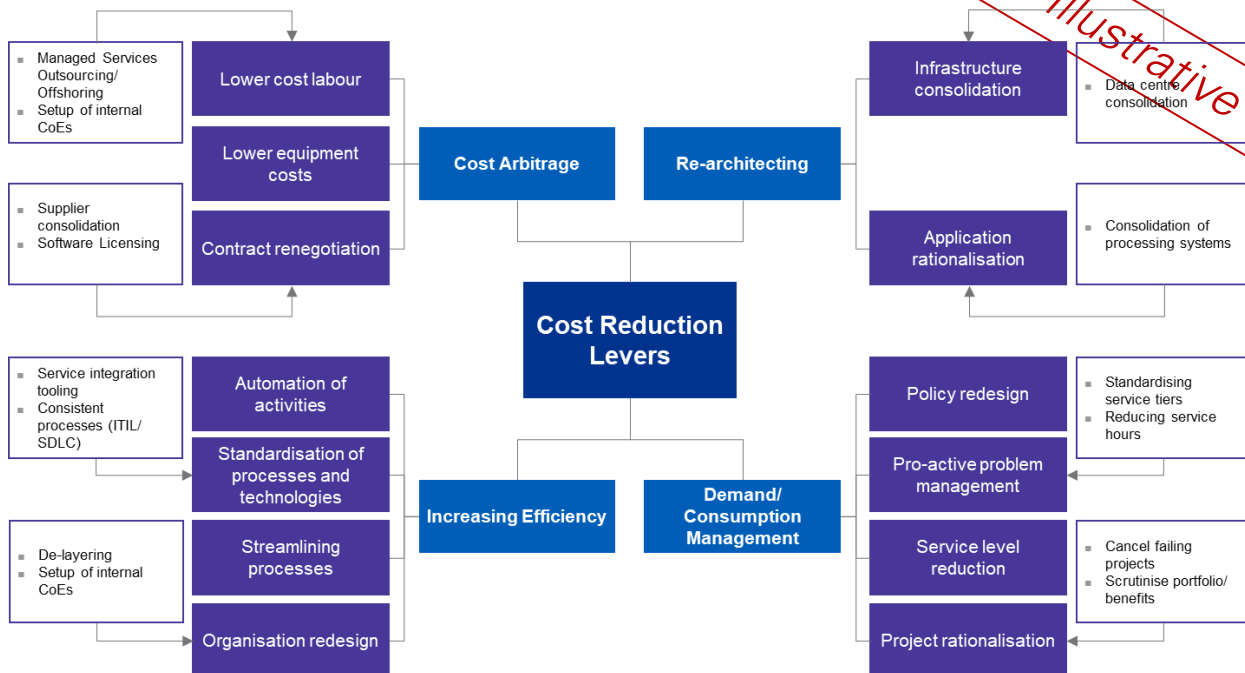
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PE Lens: We have an inventory of 100+ IT cost reduction hypotheses to hone in on high value opportunities



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