Application rationalization for superior ROI: Building a lean and cost-effective IT portfolio

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Abstract

Addressing the challenges of exponential growth in the number of IT applications and increasing complexity of the application landscape are some of the challenges keeping CIOs up at night. Business growth coupled with creation of functional silos in most organizations often leads to a disparate IT environment with several redundant elements in the IT application portfolio.

In today's hyper-competitive business environment as organizations strive to achieve leaner operations, rationalizing the application portfolio is a critical first step. A comprehensive exercise in portfolio rationalization not only optimizes the total cost of ownership (TCO) of IT investments but also aligns the IT environment with business needs, enabling the creation of an enterprise-wide integrated IT environment.

This paper discusses the key steps of an application rationalization roadmap and the value an experienced IT services partner can bring in accelerating the exercise and driving superior gains.

Multi-faceted challenges of technology-driven businesses

Organizations across industries are increasingly converging to become technology companies in the face of digital disruption. Global leaders such as Uber, Amazon, Walmart, GE, and Tesla are shifting the traditional mindset of how IT is perceived: from a cost-center to that of a profit-generator. At the same time, the role of modern CIOs has expanded from technology managers to that of business enablers focused on driving growth. The good news: the emergence of NextGen technologies such as Internet of Things (IoT), big data, and analytics has opened up a new paradigm of leaner operations coupled with highly customer-centric services.

However, as an enterprise climbs the growth curve, the organizational structure becomes increasingly complex, resulting in several business units operating as silos. While the IT infrastructure is often centrally managed due to its physical nature and high CapEx requirements, IT applications tend to become more business unit and function specific. This creates a fragmented application portfolio fraught with duplicate and redundant features. For CIOs looking to trim duplicate applications to lower costs, the challenge is two-fold: convincing the different function-leaders to let go of their existing applications and adopt new ones, and controlling the app-sprawl to mitigate unfocused IT

> ***The constant need for business and technology changes in organizations translate to overlaps in the IT application portfolio, leading to a fragmented, complex and sub-optimal IT environment.***

Another contributor to redundancy and application duplication is inorganic organizational growth, resulting from mergers and acquisitions. Other reasons such as business unit autonomy and different market and regulatory standards may also cause overlaps in the application environment.

Such scenarios call for an unbiased application portfolio review - one that includes an evaluation of the business, operational and technical maturity of applications to determine an effective application portfolio streamlining strategy.

Conducting a comprehensive application portfolio assessment: Three questions to ask

Most organizations often undermine the importance of a holistic application portfolio assessment because of the discomfort it causes to different business and function units in the short-run, by forcing them to give up their autonomy. The true value of such reviews, however, only becomes apparent in the long-run. As enterprise-level, IT costs become leaner and the application environment becomes simplified, modernized and integrated, focus on future business goals increases.

For organizations undertaking a holistic application portfolio assessment, here are three important questions to consider:

#1 When and how often should a review be conducted?

While a thorough assessment should follow any organizational change such as mergers, takeovers, diversifications, and new market entry, periodic assessments need to be conducted even under stable business-as-usual conditions.

#2 Who is the right candidate to conduct the assessment?

The evaluator should bring sound business/industry knowledge, with the ability to map any IT application with the business problems that need to be solved, thereby easily identifying redundancies and duplications in the environment. Such assessments can be prone to biases, the primary one being the evaluator-bias. Care should therefore be taken to ensure that the rationalization team does not consist of any application stakeholders. Ideally, an external advisor should assume the role of the evaluator to bring in objectivity in the assessment. The second type of bias that typically arises in these situations is the rating-bias. When application owners are asked to rate their application on different parameters, they typically tend to overrate the application. A better approach would be to ask the owner data-centric questions such as "How many incidents in a month does this application face?" The evaluating team can then take the data and normalize it across the portfolio to arrive at a rating.

Another best practice is to iterate the entire assessment to achieve near-perfect rationalization. The results from the first iteration should be shared across different business leaders in the organization to corroborate the consistency of the assessment scores with their opinions, and if required, conduct a second, more focused assessment.

Application portfolio rationalization assessments, especially for critical core applications, should be conducted annually to identify problems in the portfolio at an early stage to help build relevant action plans.

This means Application Portfolio Assessments should form an integral part of the annual IT Plan of every organization.

#3 What is the scope of the assessment?

Ideally, a comprehensive assessment should aim at optimizing all the three aspects of people, process and technology, to understand the technical and operational maturity of a portfolio. However, such a bottom-up approach can become time-consuming and complex as the size of the portfolio increases. It is therefore advisable to carry out such comprehensive assessments only when an organization needs major re-structuring or is experiencing significant growth - either organically or inorganically. The most widely-accepted approach for a typical portfolio assessment is top-down (see Figure 1).

A portfolio assessment should ideally follow a top-down approach wherein the assessor first evaluates the business capabilities of the portfolio compared to the actual business needs and then conducts a deep-dive to measure the fitness of each application.

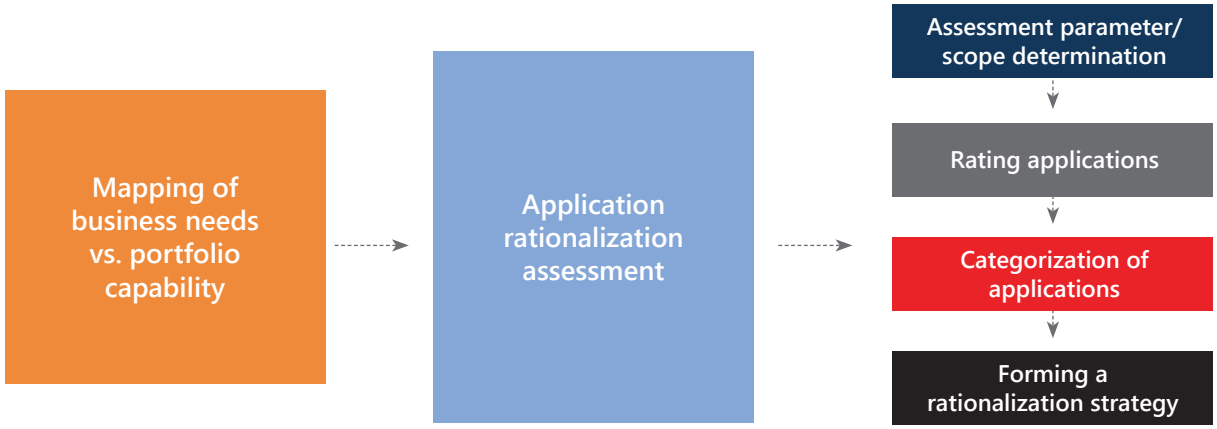

Figure. 1: Overview of a typical application portfolio assessment

Application evaluation: Four key parameters to consider

The assessment is likely into translate to beneficial gains only if all major factors or perspectives are taken into consideration while determining the fitness of an application. Four key parameters that need to be considered are:

#1 Business focus and acceptability

This parameter considers aspects such as the degree to which the application meets its pre-defined business capabilities, the level of readiness to support known future business needs, the ability to understand and react appropriately to abnormal input conditions, the acceptability of the outputs, and the utilization of the application across the organization.

#2 Technical maturity

This parameter determines how well an application is aligned to the IT standards and architecture of the organization, the maturity and the obsolescence-level of the underlying technology, and the efficiency of processing and execution.

#3 Costs

The costs associated with the application usually encompass the total application lifecycle costs including the licensing and maintenance costs, as well as the allocated cost for the underlying hardware and software components.

#4 Operational risks

Operational risks include managing complexities associated with the application, the degree of scalability provided, and the ease of application support.

Weightages for each of these factors should be determined based on the organization and its ecosystem characteristics such as the competitiveness of the industry, risk-appetite of the company, the volatility and life-span of the products/services offered, and so on.

Developing the roadmap: Categorizing applications and creating an optimization strategy

The final step in rationalization assessment is categorizing the different applications according to their need for action in order to develop a focused application optimization strategy. Gartner suggests the grouping of applications into four categories - Tolerate, Invest, Migrate and Eliminate - based on the business value created, and their technical efficiency and safety (see Figure 2).

Action plans can be drawn out accordingly based on the categorizations. In essence, here are some of the important factors that need to be considered while determining whether a particular application needs to be eliminated, consolidated, migrated, repositioned, invested or maintained: long-term business benefits, technology obsolescence, and creating an integrated, streamlined IT environment.

Other popular categorization techniques include the Pace-Layered Approach which categorizes applications into different pace-layers namely: systems of record, systems of differentiation and systems of innovation - based on the uniqueness and the value derived from them.

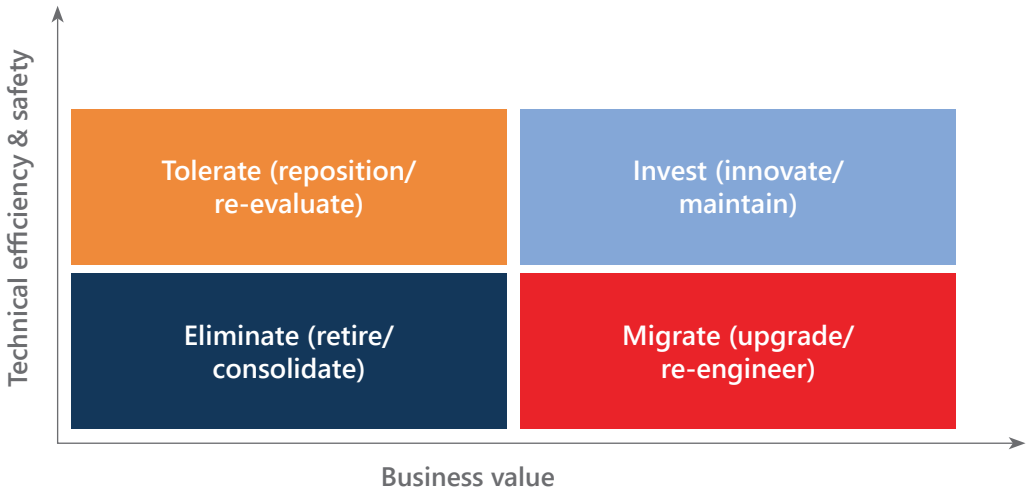

Fig 2: TIME approach to application portfolio rationalization (source: Gartner)

Identifying the right partner for application rationalization: Why it matters

At a time when 30-40% of the total IT costs in a typical organization is attributed to the application environment, effective application rationalization can make a significant impact on the bottom line. Partnering with an IT services vendor having extensive experience across industries means you get to reap the benefits in a timely and competitive manner. But how do you identify the best-fit partner?

The right vendor must offer well-defined application scoring matrices enabling an exhaustive detailed application environment optimization exercise. The matrices should ideally be available in both heavy and light versions. The heavy version covers all aspects of people, process and technology optimization, while the light version can be applied where only IT application rationalization is needed. The light version is recommended for organizations looking to rapidly transform and maximize their ROI on application investments. Done correctly, the assessment should help organizations develop a sound and effective application rationalization strategy designed to meet future business needs and bring long-term gains.

Partners with additional capabilities in automation and analytics, and proprietary frameworks and tools, can drive a significantly expedited yet comprehensive assessment for organizations, guaranteeing a leaner IT application environment and superior ROI.

Partners with extensive experience across various industries in application portfolio rationalization leverage proprietary well-defined application scoring tools. This ensures that organizations are able to develop an effective application rationalization strategy aligned with their future business goals to enable long-term gains.

Delivering on today's needs while future-proofing IT infrastructure

Application rationalization is the key to building a robust IT infrastructure by replacing the traditional 'black hole' image of IT with one characterized by 360-degree visibility. At a time when 'dynamic' and 'agile' are the two most important aspects that serve as the yardstick to measure IT success, application rationalization is a critical imperative for modern enterprises. It is key to enterprises replacing their built-to-last approach with a built-to-change approach to cater to fluid customer expectations.

About the author

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Avishek is a Business Manager at Microland and is responsible for conceptualizing and executing various initiatives for Application Management Services.

He works closely with various customer-facing teams as an advisor for application management services, including consulting and assessments, implementation, transformation, and operations.

Avishek combines his experience in category, product management and application portfolio management with expertise in insurance and ecommerce domains to bring in innovative ideas, and drive strategic business and technology initiatives.

He holds an MBA in Information Management from SP Jain Institute of Management & Research and an engineering degree in Information Technology from Jadavpur University.

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About Microland

Microland accelerates the digital transformation journey for global enterprises enabling them to deliver high-value business outcomes and superior customer experience. Headquartered in Bangalore, India, Microland has more than 3,800 professionals across its offices in Australia, Europe, India, Middle East and North America. Microland partners with global enterprises to help them become more agile and innovative by integrating emerging technologies and applying automation, analytics and predictive intelligence to business processes. For more information visit www.microland.com or email us at info@microland.com

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