

THE
CREDIT
CRUNCH



Would you credit it?

With potential recession looming and signs that the worldwide credit crunch could be beginning to bite in earnest, technology projects that mean more red figures on the balance sheet could be less likely to get the green light, writes Sue Norris.

Rather too reminiscent of Private Fraser in Dad's Army ("We're doomed!") scare-mongers in the city, the media, and even down the local, currently seem intent on talking the UK (and probably the rest of the world) into recession. Unfortunately – though perhaps slightly overblown – these fears are not without foundation. →



Interest rates, inflation, and property markets are ever more volatile and uncertain. These problems are being compounded by factors such as consumer (over) spending and major hikes in fuel and food pricing. And then there are the worrying noises coming from the US driven by nasty-sounding issues like sub-prime lending.

Like it or not then, some belt-tightening looks to be on the cards.

The question is, what will be the likely extent of the slowdown in business terms? What will any upheaval – large or small – mean for technology investments in 2008 for example? What will be the likely fate of that strategic but credit-reliant project you had planned? Will the accelerating credit crunch see budgets frozen and finance getting harder and harder to come by, and if so is there a way to avoid getting bitten?

Contrary to the noises coming from the more pessimistic quarters of the markets, the answers to the latter questions are respectively, no not necessarily, and yes quite probably.

First of all, are things really that bad? Maybe, maybe not. There's a strong argument that the world's markets were bound to take a hit after a period of such strong and sustained growth. And whilst it's tempting to take the headline figures at face value (early January's £77billion stock market drop sounds like a hell of a lot on the face of things) underlying indicators would seem to paint a different picture for those who care to heed them.

In addition, specific to IT, the nature of the business dictates that many long term contracts remain in situ despite the climate (many deals are struck mindful of precisely the kind of economic fluctuations we're now experiencing). Furthermore, talk to people in and around the IT industry and, more often than not, deals are still being struck, businesses are still investing big in technology, and targets still being met and surpassed.

Moreover – and here's a novel thought – maybe a credit pinch isn't such a bad thing. To put another perversely positive spin on it, any emerging spending and borrowing restrictions should force companies to ensure that any surviving projects add genuine value to the business. (Which will, in itself, make such projects more attractive for potential lenders.)

Also, just as it has been proven that companies that slash their marketing spend during quieter periods (and neglect their public profiles) double their chances of losing sales, there's a strong suggestion that cutting IT budgets at the first sign of financial trouble risks making a bad problem worse.

Indeed, firms shelving or cancelling carefully rationalised IT projects could well be risking throwing the baby out with the bathwater, cautions Russell Leighton, VP of Finance EMEA at Insight.

After all, businesses embark on IT initiatives for a reason; is that reason likely to go away of its own volition? Probably not. If anything in fact, worsening market conditions may magnify and exacerbate such drivers, and make addressing them more, not less urgent. Establishing the areas of opportunity – as well as the potential areas of risk and false economy – is therefore critical, says Leighton.

In terms of investment success, there are two immediate areas where organisations under pressure can improve their chances. One is to address everything being done badly, or at the very least wastefully; the other lies in reassessing the areas in which tangible business value can be added quickly and to sharpen the business case by striving for short-term, bite-size gains from large-scale projects that are ultimately focused on broader goals.

“...maybe a credit pinch isn't such a bad thing...”



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As well as giving the business a welcome boost during a potentially tricky period, this too will give the board and other financial backers more confidence when approached for budgetary support.

So where might a business be haemorrhaging money without realising it?

“Mid-sized businesses are often characterised by fairly ad hoc IT procurement processes, leading to them having a variety of versions of (standard) software, such as Microsoft XP and older versions,” observes Fran Howarth, principal analyst with Quocirca.

There are two ways, she says, to streamline here. One is to simply get on with it and standardise on a single, more up-to-date platform, improving system efficiency while reducing admin and support costs. The alternative is to shelve upgrade plans until the storm has passed, and reallocate budget to projects that may have a more dramatic impact on business performance.

Howarth believes the second scenario is the more likely. “In the current credit climate, companies will tighten their belts and set aside refresh programmes such as upgrading to Vista and other newer software”, she notes. One of the side benefits of holding off here until say, 2009, being that next-generation applications are likely to be available (or certainly emerging) by then, enhancing perceived ROI.

She suggests that delaying plans for strategically important applications, on the other hand, probably shouldn't be an option, warning that mid-sized businesses in particular cannot afford to under-invest in this area.

One clever choice here – financially as well as operationally – can be to explore alternative procurement options such as remotely-hosted, managed application services, which are paid for monthly at a predictable cost, and which don't count as capital outlay.

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Once known as ‘Application Services Provision’ (ASP) but more commonly referred to these days as ‘Software as a Service’ (SaaS see iQ1. Ed), such models usually offer the flexibility to pay as you go, enabling companies to better match expenditure to need and to draw on more resources during peak times, and less when business is quieter.

They also let you exploit the latest technology extremely quickly, with minimal risk. You don't own the software, so you're not responsible for maintaining, securing or keeping it up to date – and if it's not working you just switch it off and stop paying for it.

Here too, should an application turn out to be a huge success, many providers now offer the flexibility of switching to an internal implementation without penalty. Customisation isn't usually a problem either, as some degree of optimisation is usually possible even on hosted, pay-as-you-go schemes.

Outsourcing areas such as network administration and disaster recovery is another option, notes Howarth.

“Because of (the associated) economies of scale and the need for robust, up-to-date, carefully maintained facilities, it often makes more sense for specialist organisations with state-of-the-art, off-site facilities to take care of critical yet non-core activities. This leaves the internal IT department to get on with more strategic initiatives.”



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Managed service costs can be further reduced through technologies like virtualisation, which allow more applications and companies to be hosted on single servers, she says.

But what if the capital freed up from such initiatives doesn't stretch far enough? What if credit is the last option? Will it be harder to come by?

“Banks are likely to tighten the credit available to consumers and businesses alike. On one hand, this will lead to credit being harder to obtain at any level. But there is also a parallel trend, where banks are increasingly reluctant to provide (less profitable) credit facilities – for example, I recently heard of a small business turned away by its existing bank, which would no longer provide credit below the £5million level.”

Taking a gamble on a larger loan may be more appealing for the borrower too – assuming a strong business case of course – enabling organisations to be more ambitious, not less so. Just make sure you get as good a fixed rate as you can.

There are certain to be extra hoops to jump through, however. “To gain credit, businesses will have to develop a serious value proposition and provide cost-benefit analyses for all planned spending,” Howarth advises. “Spending that helps increase revenue-generating opportunities, or that can increase security posture... will continue to be important and should be prioritised. Everything else can wait.”

For those that can't wait, or won't, other options for freeing up budget or introducing extra lines of credit include leasing. As explored in the last edition of iQ, increasing numbers of sophisticated, flexible arrangements are now available.



It shows. Credit recession or no, IDC estimates that the worldwide IT leasing and financing market exceeded \$70bn in 2006 and will pass the \$100bn mark by 2010, boosted by a compound annual growth rate of more than 8% during that time.

Finally, just as companies cutting back on essential application, network, back-up, and security spending, risk coming unstuck, so organisations tempted to lower their costs by deploying dodgy software could double their trouble.

Never one to miss an opportunity to spread the word, John Lovelock, CEO of The Federation Against Software Theft warns that cutting financial corners by buying ‘questionably sourced’ software risks penalties even a 10-year jail sentence for company directors.

There can be a fiscal upside of greater vigilance however. “Reassessing IT budgets can result in cost savings in the area of software licensing” notes Lovelock, explaining that most firms ‘over-license’ their software assets for fear of non-compliance.

“By gaining a proper understanding of their IT landscape, directors can usually make cost savings by deleting unused software and matching the licences to the number of users.”

In conclusion, 2008 will be as gloomy as companies decide to make it. You could listen to Private Fraser – fire your staff and slash your budgets – and watch his prediction come true for your business. Or, if you don't think Old England's done, you could send your way carefully out of the doldrums and see your organisation become one of the few optimised to capitalise when the threat of recession lifts.

Over to you Captain Mainwaring. ■