

Hold on Tight, We Are In For A Bumpy Ride

IT Strategies For Navigating the Approaching Economic Downturn

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Section 1: Introduction

The negative drumbeat in the financial media has been increasing in intensity over the last several quarters. The bursting of the housing market bubble and the subsequent seizing up of the credit markets in the US and across the globe have been the lead stories. The failure of Bear Sterns and the Federal Reserve and Treasury Departments brokering of shotgun mergers seems to have marked a turn away from the abyss of a total collapse of the financial markets.

Yet the impact of the housing and financial market crisis seems to be spreading to other sectors of the US economy and is likely to begin affecting a wide range of businesses. In a recent Fuqua School of Management Survey of CFOs, 54% of CFOs said that the US is now in recession with another 24% of the remaining CFOs expecting a recession this year. Furthermore, this same group of CFOs expected capital spending to slow to a 3.3% rise with inflation of nearly 3% eating up this increase, with recovery not expected until late 2009.¹

For the next 12 to 18 months, we are likely to see a tightening of capital and expense budgets with a significant impact on IT projects and staffing. This paper is intended to explore some of the implications of the emerging economic downturn and to lay out prudent IT management strategies for proactively navigating through the downturn.

Section 2: We’ve Been There Before

An analysis of past economic downturns produces some predictable patterns in anticipating their impact on IT operations. Initial signs of trouble occur with a downturn in sales and revenue growth. As management begins to respond, one of the first steps is to begin the downward modification of annual business plans and to begin preparing investors for these revisions. The requirements of financial disclosure and regulations growing out of the last major wave of bankruptcies have sped up the management cycle for ongoing business assessment, action, and public notification.

Simultaneously, an initial wave of cost cutting starts to occur across the entire business structure. This is likely to have three significant impacts on IT organizations. The first is a general tightening of expense budgets resulting in expense containment programs like travel curtailment and new headcount freezes. The second impact is likely to be expense and headcount reductions, initially through attrition, but followed by actual downsizing. The final impact will be delays or cancellation of capital projects, sometimes even those that have already received management approval.

Section 3: Yet This Time It's Different

As much as the cycle can be predictable during economic downturns, there are always subtle differences as the current situation unfolds. One major difference in this cycle is the fact that many firms are in the middle of a communications infrastructure upgrade cycle. Traditional TDM PBXs are reaching the end of their economic and reliability lifecycles. The last major upgrade peak was almost eight years ago with the modifications and upgrades resulting from the Y2K preparations. Most enterprises are either in the middle of or have migration plans to move to IP Telephony platforms, implementation of Unified Communication applications, and the upgrading of Call Centers to Contact Centers. Given the "middle of the river" state of this communications technology migration, IT organizations will find it even more difficult to manage the inevitable downturn in spending and tightening of resources to accomplish their missions.

It is also likely that key customers of the IT organizations such as sales and marketing and customer service, who are being pressured to hold the line on revenue generation and customer satisfaction, may actually be calling for more support and new application capabilities while IT budgets and headcounts are shrinking.

IT organizations are likely to be even more squeezed than normal by these factors.

Section 4: The Situation May Not Really Be That Bleak

Despite the pressures on IT organizations arising from the tough conditions created by an economic recession, there are ways to be proactive in responding to the situation. Effective strategies can be adopted to address your operational needs during tight times. These include shifting your primary focus from capital expenditure projects to three types of cost containment projects.

The first type of cost containment project involves exploring opportunities for Expense Management initiatives that focus on achieving measurable operational cost savings. Expense management often gets neglected in strong economic times, because it requires unflinching and unglamorous analysis of existing practices that generate significant telecommunications cost. For example, network services procured from network carriers, while declining in unit costs, have continued to expand in absolute terms as the use of communications to achieve business goals has expanded. By analyzing these costs, carefully identifying their creators and allocating appropriate costs back to the generators, (as opposed to permitting these costs to be absorbed into general overhead expenses) IT organizations can focus lines of business organizations to target reductions in a more granular and effective manner.

Another form of expense management that merits consideration is a serious analysis of staffing for functions currently performed or planned in your organization and an evaluation of potential alternatives to in-house staffing. With pressures on headcount needs increasing during economic downturns, it can make sense to consider out-tasking projects and functions that require scarce and specialized skills that are in short supply within your organization.

A second type of cost containment project that should be evaluated is Operational Management. Projects within this category improve the operational performance of telecom management and delivery that do not require undertaking new capital expenditures either for systems or applications. By analyzing current processes and the use of existing or available tools as opportunities for improvement, your organization can find ways of delivering equal or better telecom service to your overall business with less resources and expense. Increasing efficiency through reengineered processes and the application of automated tools can free up resources previously consumed with service delivery.

Cost displacement is yet another type of cost containment project that merits consideration. Cost displacement initiatives reduce business costs by introducing either lower cost substitutes or restructuring processes and technology used to reduce labor costs. Call center operations are a prime target for this type of analysis and action, having many processes and functions that can be re-evaluated and replaced with more productive and less costly processes and technology. By reviewing best practices and the use of modestly priced applications, businesses can achieve quick financial paybacks and ongoing operational savings.

Section 5: Consider How Avaya Services Can Help

Avaya has a number of services that can help you with addressing the threats and opportunities presented during the current economic downturn.

In the Expense Management category of cost containment, Avaya has two service offerings that can help you reduce your organization expenses. The first of these is **Telecom Expense Management**, which provides your businesses with the ability to establish department and user accountability through the allocation of cell, broadband and telephone expenses. This service can help you automate and more accurately manage communication expenses. It sets up internal “departmental” charge-back capabilities through the detailed tracking of IT expenses and usage. Paybacks for this service result from giving you the ability to reduce hard dollar and soft dollar costs, through the allocation and management of cell, broadband, and telephone expenses.

The second Avaya service in this category of cost containment is **Avaya Expert Resource (ER) Services**, providing a range of expert resources to help add temporary support to a specific technical project; such as a migration to IP, or consolidation of a network, call centers or messaging platforms to ensure success. Expert Resources can also provide tailored Training or Knowledge Transfer Services to existing IT staffs to get the most out of their Avaya solutions. ER services can be delivered on-site or remotely and engagements can be structured in daily, weekly or monthly increments.

The payback for this service is the flexibility to supplement your existing staff without generating the costs of training existing staff. It will allow you to achieve the temporary augmentation, specific expertise or replacement of your IT staff without incurring the costs of recruiting, managing, and eventually separating direct resources.

In the Operational Management category of cost containment, Avaya offers **Self Management Solutions**. These solutions provide both a powerful and simplified means of performing system administration, provisioning and network management, and fault and performance management. The engagement service uses Avaya's Integrated Management Suite (IMS) and Converged Network Analyzer (CNA) suite of tools, combined with best in class consulting to achieve improved operation performance. Some of the benefits include the application of Best Practice management of Voice over IP traffic, improvements in overall systems/network uptime, elimination of unnecessary rework, delays and cost over-runs, optimization of network Quality of Service (QoS), creation of the ability to pinpoint and resolve network issues before they affect business operations, and real-time remediation of network problems and deficiencies.

The paybacks from this service are an increase in staff productivity and a reduction of operating costs through the use of advanced tools and best practices. The service will also increase your overall network efficiency and protection of your existing network infrastructure investments, while providing new and enhanced functionality from the current network.

Avaya also offers **Call Center Performance Evaluation**, which provides an assessment of key functions within your contact center, identifies areas for improvements, and recommends adjustments to achieve significant gains in overall efficiency. The paybacks for this type of overall call center evaluation include: optimization of call flows – resulting in increased efficiencies of agent use, improved use of Call Center metrics to maximize investments in people and technology, and recommendations for staffing to achieve desired balance between cost and revenue objectives.

Operational management opportunities also exist in the area of desktop performance improvements. In this space, Avaya offers **Desktop Optimization Consulting**, which identifies and evaluates ways to integrate and streamline agent tools, applications and work processes. These engagements can reduce hold, call handling and after call times, integrate scripting for consistent cross-channel experiences, reduce agent error rates from manual data entry, and lower agent training requirements and costs.

To aid customers in the final cost reduction strategy of Cost Displacement, Avaya has several services that are appropriate for tough economic times. The first of these is **Intelligent Contact Center Applications**, which consists of designing and applying proven applications that provide automation of certain tasks, reducing agent time per customer contact. There are three specific applications that deserve consideration. The first is the setup of an automated **Agent Greeting**, which maximizes the time a live agent spends on interacting with a caller by automating the task of greeting a customer with a prerecorded announcement. The second is the **CTI Screen Pop** application, which maximizes the time a live agent spends interacting with a caller by automating the task of pushing the caller's call data to the agent desktop. The third is the **Appointment Reminder** application, which can reduce the amount of calls a live agent will have to answer and automates a call to confirm an appointment with a company representative. This is applicable to the hospitality, healthcare and insurance vertical markets.

Callback Assist is an additional application to consider when using the cost displacement approach. This application allows customers the choice of scheduling a call back from the customer service agent instead of waiting on hold. This option improves ability to handle peak call volumes without the cost of increasing staff or high network utilization. The Callback option also reduces customer hold times, helping to improve customer satisfaction.

The payback for these applications is the displacement of the costly agent expense with automated functions in the Contact Center. For example, at an insurance company, achieving a 10-second reduction in agent time per call resulted in annual savings of \$162,000.²

The second set of cost displacement services available from Avaya include its **Teleworker and Mobility Assessments**. These technical, operational and financial assessments provide the identification of the best targets and potential cost savings plans for business tele-worker and mobility programs. By reviewing requirements and operations of your specific business, Avaya consultants can help you tailor and cost justify the implementation of tele-worker and mobility programs.

The payback for these assessment services comes from cost savings including reduced employee commute time, real estate and energy consumption costs, and mobile carrier costs by rerouting calls through less costly facilities particularly for international calls.

Section 6: Summary

There is little doubt that the US economy is headed for a tough period in the near term. Those IT organizations that can anticipate the potential impacts of the lurking economic downturn for their businesses can still achieve many of their objectives. Shifting priorities to cost containment projects can reduce the damaging impact rough economic times bring to IT operations management.

Avaya can be an important partner in helping your IT group cope with this wave of business challenges by helping you to strategize and execute effective programs that are designed to meet the pressure on budgets and staffing.

References

1. Duke University News, <http://faculty.fuqua.duke.edu/cfosurvey/08q2/PressRelease.pdf>.
2. Customer Contact Council, 2005

About Avaya

Avaya is a global leader in enterprise communications systems. The company provides unified communications, contact centers, and related services directly and through its channel partners to leading businesses and organizations around the world. Enterprises of all sizes depend on Avaya for state-of-the-art communications that improve efficiency, collaboration, customer service and competitiveness. For more information please visit www.avaya.com.



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