

Path to IT Effectiveness:

# *Outsource or Excellence?*

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# Today's agenda

- The basis for outsourcing decisions
- ANZ's path to IT effectiveness: Selected examples of our program
- Program outcomes
  - Cost
  - Alignment, collaboration & teamwork
  - Innovation
- Path to IT effectiveness: Outsource or Excellence?

# Technology plays a key role in ANZ's strategies

## Specialise

- Building a portfolio of stand-out businesses with distinctive business leadership and a sustainable top 3 position that work as one ANZ

## eTransform

- Embracing technology to drive radical change, boost productivity, accelerate innovation and dramatically improve service and value

## Perform

- Ensuring "best in class" performance for shareholders, customers, staff and the community

## Grow

- Demonstrating strong growth momentum in core businesses and positioning ourselves in attractive new high growth categories

## Breakout

- Being bold and different, a high performance culture with a human face, technological leadership and a strong domestic and regional strategic position

# Core & context\* has been suggested as a basis for outsourcing decisions

**CORE**  
Any process that contributes directly to competitive advantage in target markets

**CONTEXT**  
All other processes required to fulfill commitments made to one or more stakeholders in the enterprise

## Objectives

- Extend or create competitive advantage
  - Existing markets
  - New opportunities

- Minimise disadvantage
  - Find someone else to do it for you
- Look to create new opportunities & advantages
  - Make a context process core

## Execution Control

- Internal
  - In-house
  - Strategic joint venture

- External
  - Outsource
  - New venture

\*Source: Geoffrey Moore, The Chasm Group

# Three other considerations when making an outsourcing decision

## Cost:

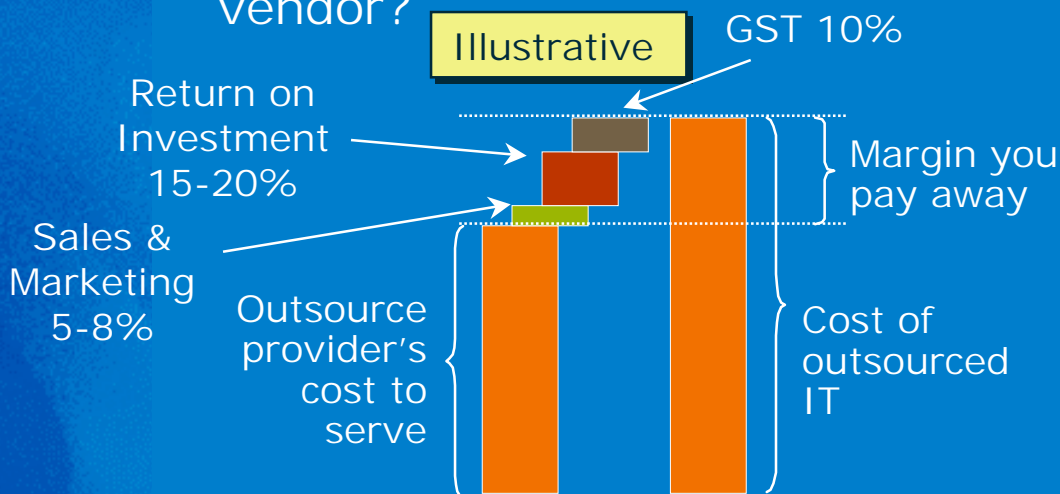
- Can you achieve at or near world class best practice?
- Can you achieve efficient & reliable services?
- Are you willing to pay away a margin to an outsource vendor?

## Alignment, collaboration & teamwork:

- Does outsourcing enhance alignment with BU customers?
- What is the partnership model with Business Units?

## Innovation:

- How will outsourcing achieve competitive advantage?
- What will be the impact on the ability to create innovative IT solutions?
- How will open architectures & new technologies be funded & deployed?



# IT excellence is dependent on strong performance in four key areas

1998: Low satisfaction, inward focused, weak process, complex infrastructure\*

## People

- Leadership deficiencies: people skills, accountabilities & management layers
- High staff turnover: >18%
- Many distinct & separate cultures

## Customers

- Lack of customer focus & connection
- Poor understanding of business imperatives
- Service levels technical only & poorly understood by businesses

## Process

- Inadequate disaster recovery
- Fragmented management of platform architecture
- Cost & schedule overruns typical for large projects

## Infrastructure

- Inflexible, complex & high cost environment
- 15 Australian data networks
- Multiple "core" systems
- Multiple hardware platforms & desktop/office applications

\*Note: In comparison to best practice

# Key commitments we made

## People

- Improve alignment, collaboration & teamwork
- Build an environment where individuals can excel
- Develop & retain individuals critical to our success

## Customers

- Institute customer feedback processes
- Meaningful service levels
- Align with Business Units
- Accountability for customer satisfaction
- Implement TQM

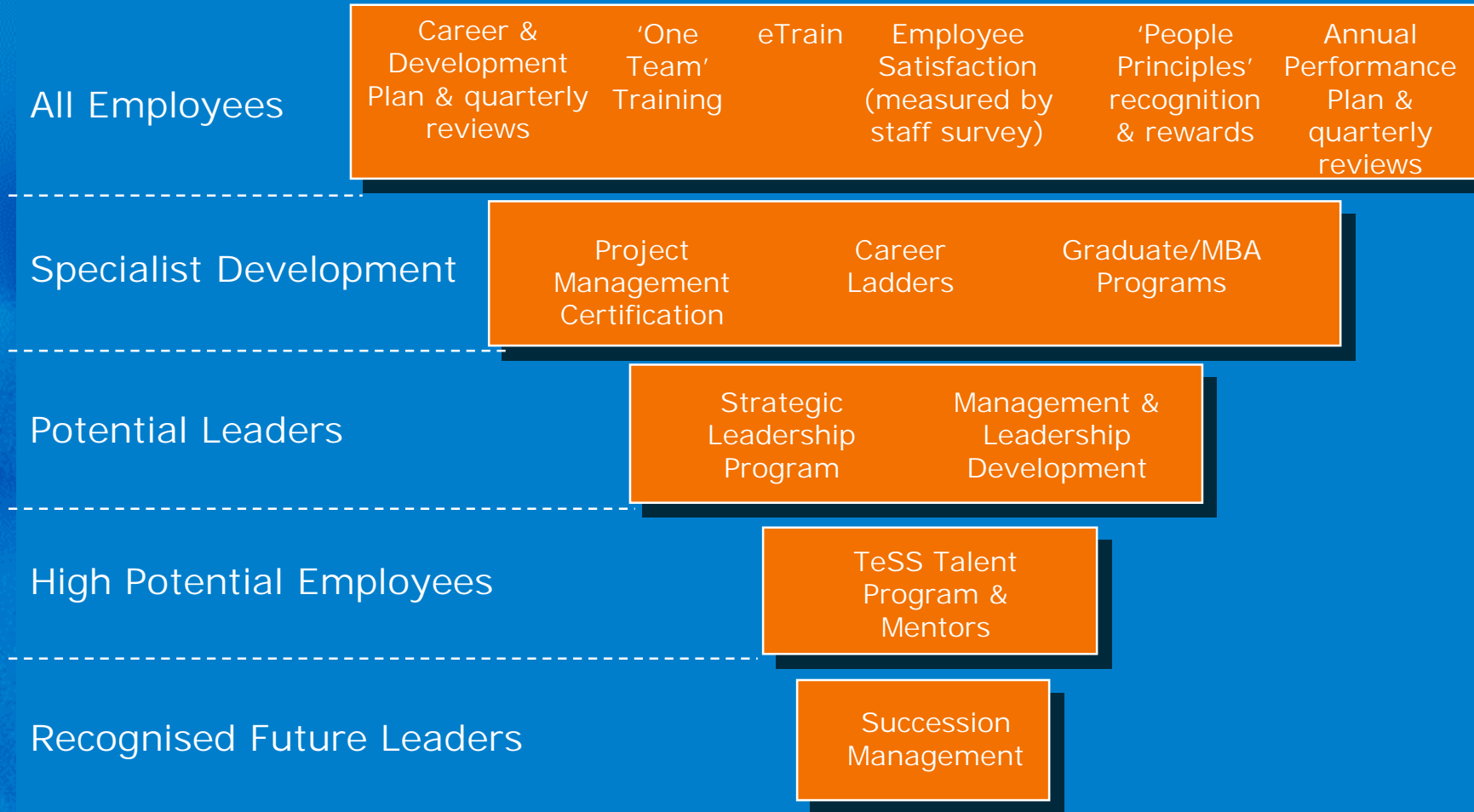
## Process

- Use of consistent project management standards
- Define strict criteria for new investment in technology applications
- Rationalise & standardise operational processes

## Infrastructure

- Reduce costs
- Rationalise, consolidate & automate networks & platforms
- Position for the future
- Reposition existing host systems as “back-end” product functions, behind an integrated service “front-end”

# People: Development programs accessible to all staff



- Maximises the value of individual's contributions
- Developing & retaining individuals critical to our success
- Structured development funded & available

# People: Skilled & committed



Management tertiary qualifications policy



Breakout cultural transformation workshop



Online training courses



Fixed pay increases no longer the main strategy



Half yearly staff survey with action teams to address issues raised



Casual dress policy instituted



pcs@home: heavily subsidised packages for staff to acquire PC's

# Customers: Achieving Business Unit focus

Business Managers

Solutions Teams

Example - Personal Financial Services

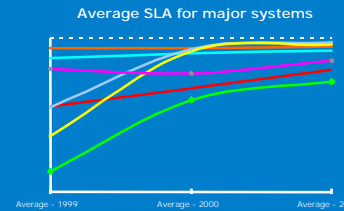
Head of Customer Technologies

*Overall management of delivery, quality & people*

MD Business Unit 1

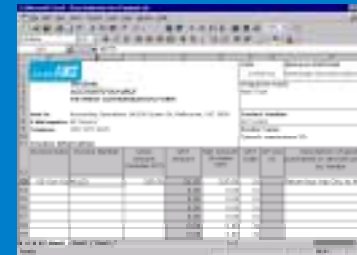
Business Technology Manager

**Business Solutions Team**  
(Located with the business. Delivers projects & enhancements)



Service level agreements in place for each Business Unit

Partnership model between Technology & Business Units



Detailed billing to Business Units for IT services



Customer survey / feedback process on 6 monthly basis. Linked to individuals' performance measures.



Electronic timesheet capture for IT project tracking, reporting & billing

# Process: Designed to improve execution ability



## Project in a Box

- Enhanced project execution capability with 'best of breed' project management tools
- Central repository of standard performance reports & risk register for all projects with open access to all users



## Reengineering in a Box

- Standard tools, templates & process for fundamental re-design of business processes



## Capability Maturity Model

- Significant productivity & quality improvements
- First Australian bank to attain CMM level 2 certification
- Bangalore, India recently attained level 4 certification



## Project management training

- Generic training courses tailored with ANZ specific content & latest PiaB tools

# Process: Continuous improvement & quality driven by “One Team”



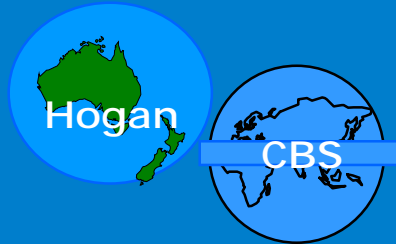
- Key initiative driving real culture change
- Program consists of a series of workshops for all staff:
  - Introduction to Quality
  - Team Development
  - Continuous Improvement
  - One Team Refresher
  - Decisions Based on Facts
  - Re-engineering
- Continuous Improvement program has resulted in \$53m benefits to date across the division

# Infrastructure: Rationalisation & standardisation

## Core Systems

1998:

6 major systems



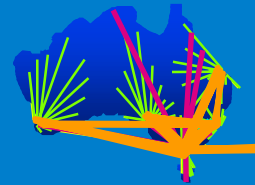
2001

- Simpler systems & platforms reduce cycle times

## IP network

1998

Multiple data networks



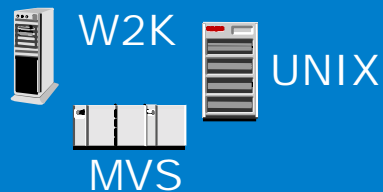
2000

- Single IP Network provides universal connectivity

## Platforms

1998:

8+ major platforms



2002

- Greater ability to leverage new technologies
- Lower hardware, software licence fees & support costs

## Servers & Desktops

1998



2002

- Provide all staff with best tools possible
- Low cost of ownership through standard solution

## Outcomes: Cost

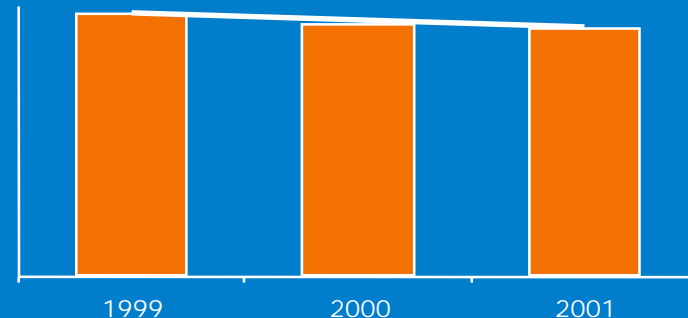
# Significant business volume growth absorbed as IT expenses have declined

Absorbing higher volumes over past 4 years.

Examples:

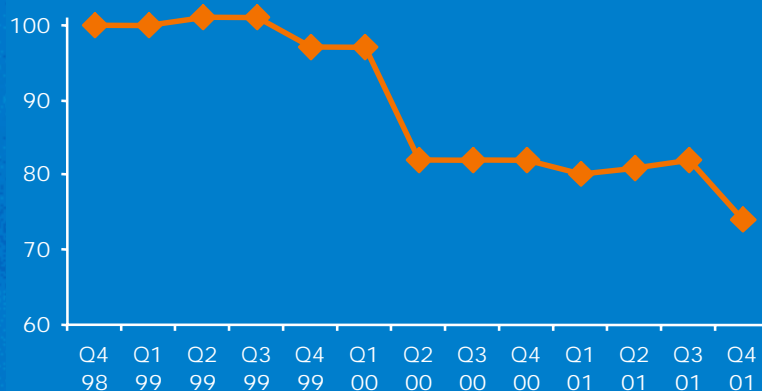
- 17% CAGR POS Transaction volume growth
- 22% CAGR in Mainframe online production transactions
- Installed Mainframe CPU capacity 24% CAGR
- Online storage disk capacity 48% CAGR
- Four-fold increase in total network traffic between ANZ sites during 2001

## Technology\* spend: 3-year trend



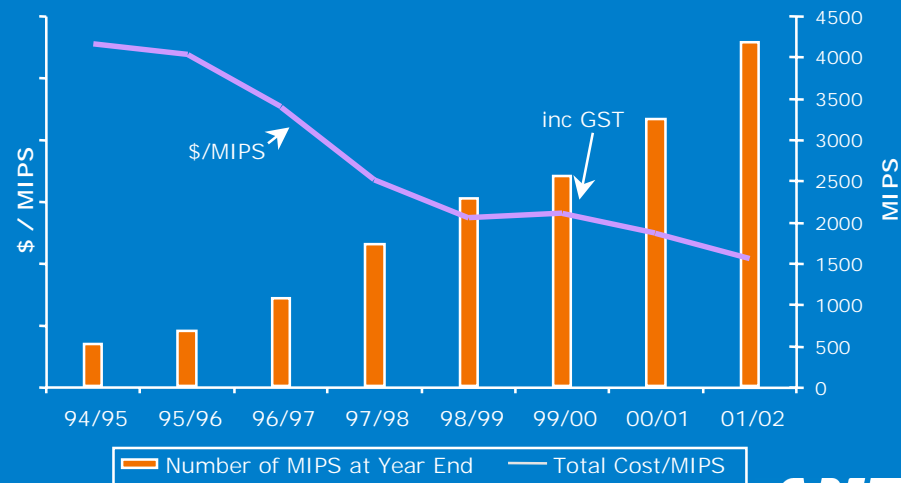
\*Central IT costs, excluding ancillary Business Unit spend

## Total ANZ telecommunications spend trend



\*Using an Index = 100 as of Q4 1998, based on annualised spend data

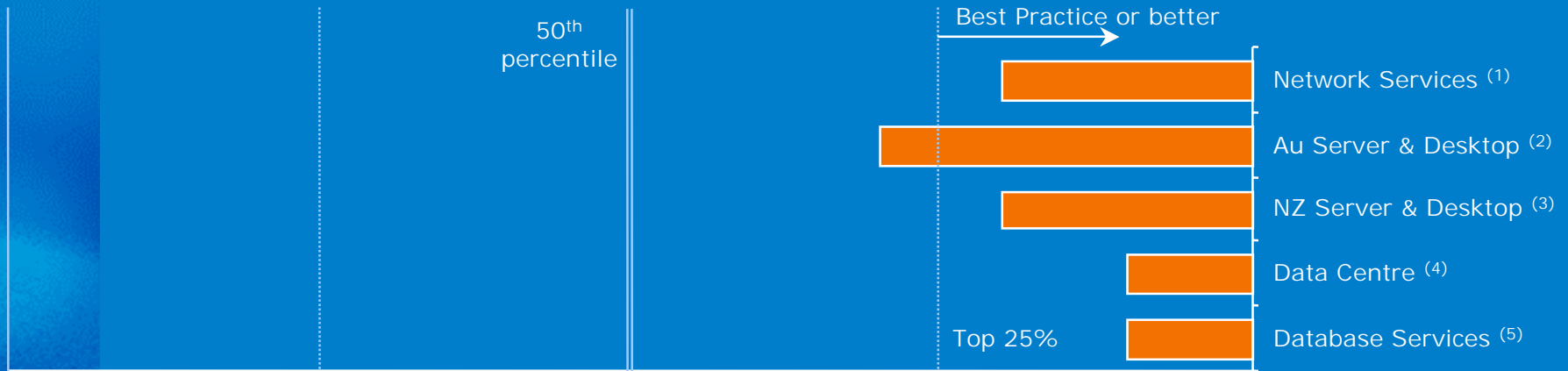
## Total Mainframe Unit Cost



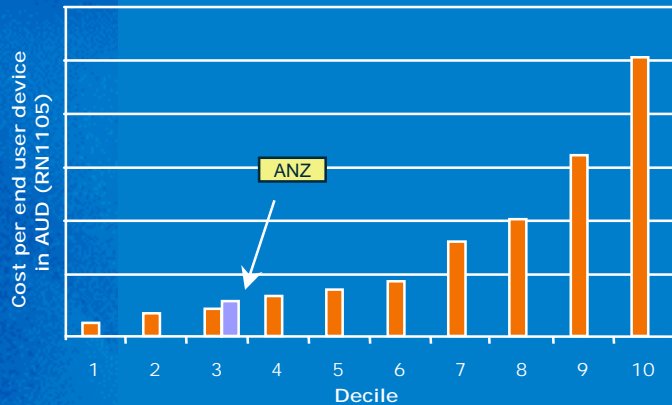
# Outcomes: Cost

## External benchmarks show us at or near global best practice in many areas

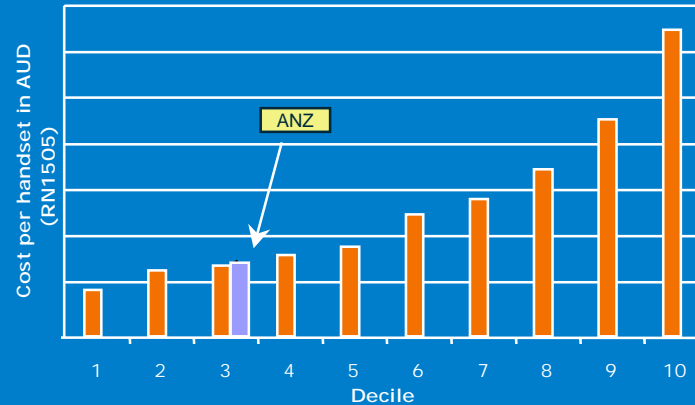
### Global performance benchmarks



### Decile Distribution - Data Network Cost



### Decile Distribution - Voice Network Cost



- Unit costs without telecommunications carrier costs
- Dataset grouped in deciles
- Shows ANZ position versus Database average <sup>(1)</sup>

Sources: <sup>(1)</sup> Compass Consulting  
<sup>(2)</sup> Compass Consulting

<sup>(3)</sup> Gartner  
<sup>(4)</sup> META

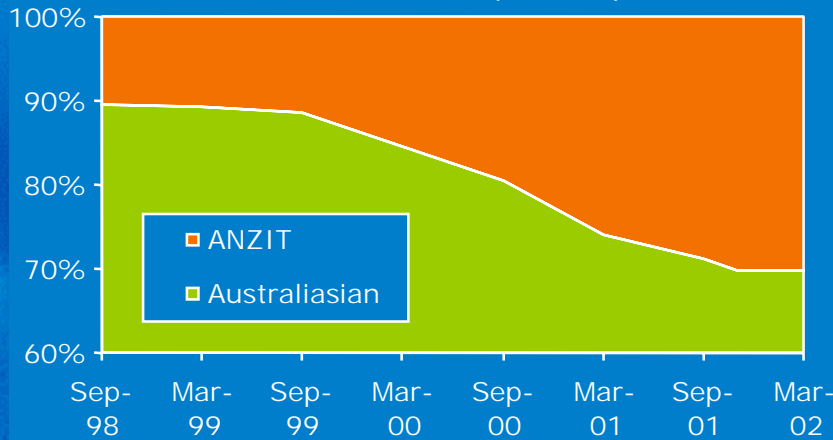
<sup>(5)</sup> META



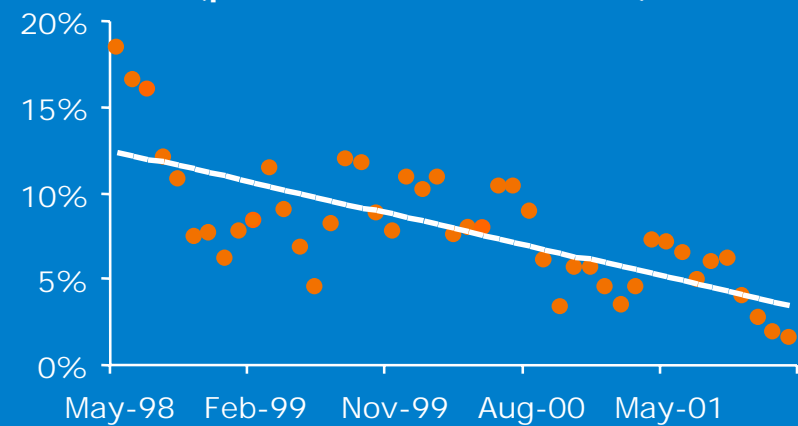
Outcomes: Alignment, collaboration & teamwork

# Flexibility to attract & retain highly skilled staff cost effectively

Developer FTE: Increasing use of ANZIT (India)

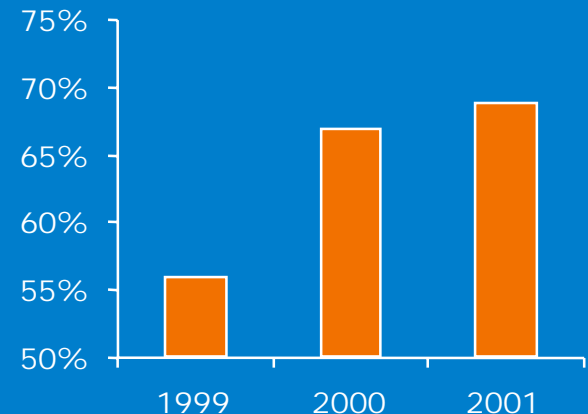


Monthly turnover trend (post 1998 initiatives)



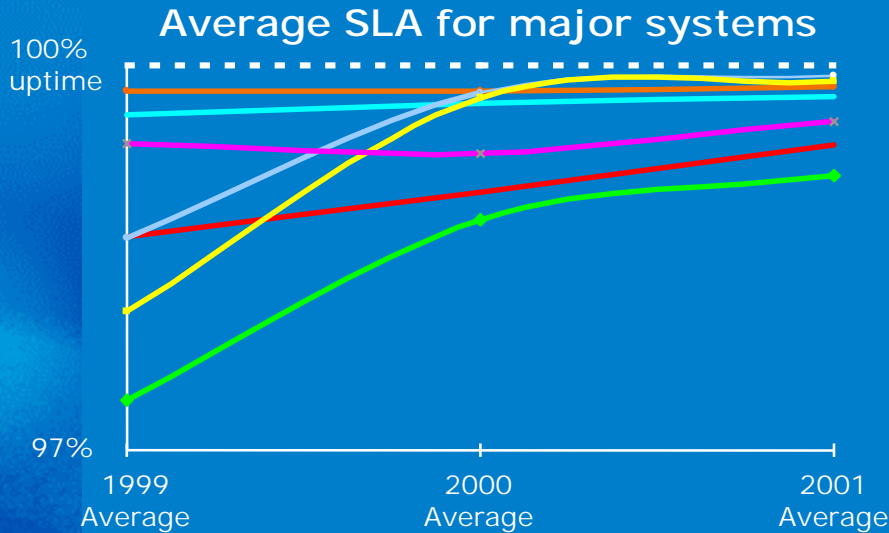
- Optimising mix of staff between Australia, NZ & India allows ANZ to pay at or above market in each country & affords flexibility in obtaining necessary skills
- Low blended cost results in high quality & superior cost advantage
- Lower turnover reduces training costs

IT staff satisfaction

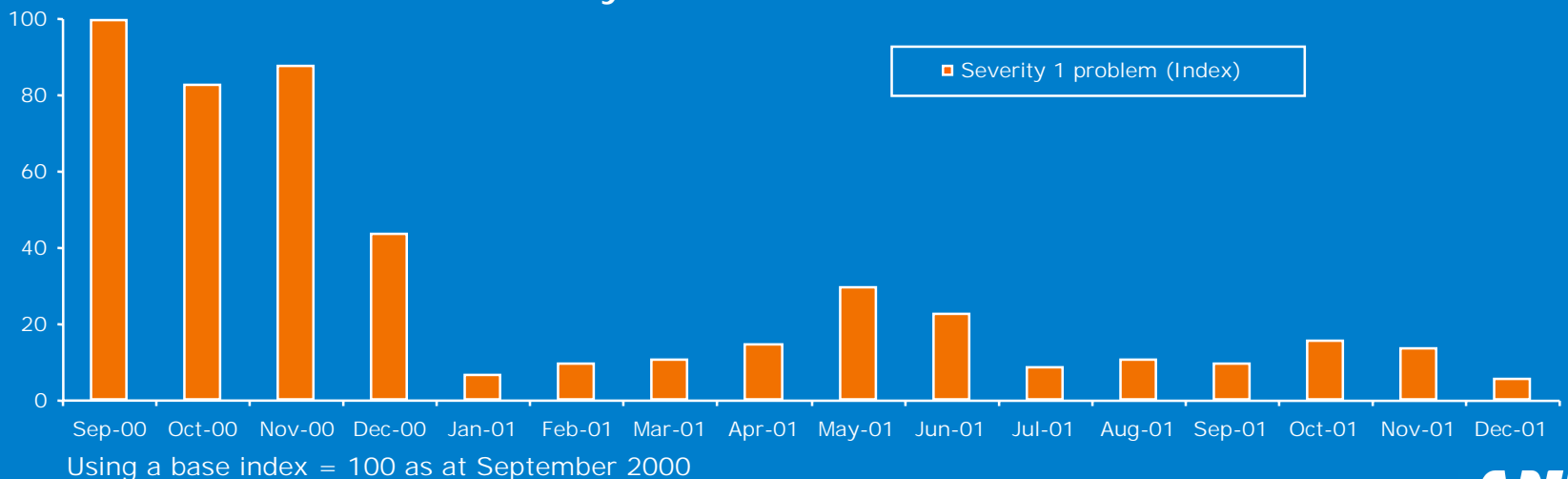


Outcomes: Alignment, collaboration & teamwork

# Business Unit service levels & satisfaction have also improved



### Severity One Problem Trend



Outcomes: Innovation

# Our technology innovation has created revenue opportunities



PKI



Trust & Authentication

StaffSmart Enterprise

# Path to IT effectiveness: Outsource or Excellence?

- Focusing on people, customers, process & infrastructure, we achieved:
  - Better outcomes for our Business Unit customers
  - Great place to work
  - High quality, more productive staff
  - Simpler infrastructure - robust processes supported by a continuous improvement focus
- We continue to actively benchmark our operations to best practice to ensure continued IT effectiveness & review potential selective outsourcing opportunities

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