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In the article below, a CIO attributes creative vendor financing with allowing him to succeed & help his firm gain market share even with dramatic cost savings & cash preservation mandates.

Financing is strategic when mapped to your customers' business drivers and internal MBO's – all of this is covered simply and with great clarity – making the CIO look good in hard times makes you a valued partner even more in the future. Financing helped him achieve his objectives in a challenging environment – he was forced to ASK the vendors for creativity – shorten the sales cycle – volunteer it!

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Innovative financing strategies for IT bring big rewards for CIO

By Linda Tucci, Senior News Writer
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If, as F. Scott Fitzgerald famously wrote, "The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time, and still retain the ability to function," Randy Howe is one smart fellow. Howe is CIO of Commercial Vehicle Group Inc. (CVG), a New Albany, Ohio, manufacturer of heavy-vehicle parts that is simultaneously growing and contracting as the economic recession takes its toll. And he reports doing more with less -- really -- by using innovative financing strategies to get new equipment for less than he was paying before.



Randy
Howe

CVG makes the cabs, seats, instrument panels, wiper systems, mirrors and more for the world's big vehicles: Peterbilt trucks, Caterpillar backhoes, Deere & Co. excavators. Revenue of \$763.5 million in 2008 increased 10% over the previous year, mostly from acquisitions, but income fell 14%. Last month, CVG **announced several measures aimed at saving about \$10 million, including cutting 150 jobs and closing five of its smaller facilities. Senior management gave itself a 10% reduction in salary.**

Howe was recruited from Silicon Valley in September 2007, when CVG was still in heavy acquisition mode; it gobbled up three businesses in Howe's first three months on the job. Since then, "we've shifted focus to survival," he said. Going into 2009, Howe absorbed a 20% reduction in an IT staff that now numbers about 30 people worldwide. His IT capital budget has been slashed to nil.

Yet CVG is still picking up new business as competitors fail and their customers ask survivors like CVG to make those products and provide those services. IT must be ready to provide whatever is needed, even crafting innovative financing strategies. How do you run a vibrant IT operation in these circumstances? A first-rate intelligence probably helps. Audacity doesn't hurt.

With a zero capital budget and staff cuts, how do you manage?

Lhowe: We've gotten very creative in working with our vendors, who are partners, on creative financing. One example is a rental agreement with our storage company. We are renting our new storage [of about 40 terabytes] this year, for a period of one year, and then we'll buy it out next year. And we are renting it for purely the cost of money, so it is literally \$500 bucks a month. Then next year, we will invest the capital.

It sounds like your vendors appreciate you have to do more with less money.

Lhowe: They are very open. As you can imagine, the economy is impacting everybody. They are looking to make a sale just about any way they can, or get it on the books. Another vendor has put together a deal that is just phenomenal. It's kind of a buy-one-get-one free server deal, and all we pay for in '09 is the VMware licenses. The rest of the deal calls for leasing this year, for just over the cost of money. But the other part of this is that, in our Czech Republic facility, we were outsourcing SAP. By getting these new servers we'll be able to bring that in-house, so that \$10,000 check we write every month will be no more. And we'll be paying it to the leasing company, instead of to the third-party outsourcing firm.

We're also doing a huge Cisco Voice over IP [unified communications] rollout. We've spent nearly a year costing that out. We've determined that it will be cheaper to spend nearly \$2 million on the Voice over IP rollout than paying out to carriers today for long distance. By optimizing our network and doing least-cost routing through the Voice over IP system, we will reduce our spend more than enough to pay the lease payment.

As long as you're naming names, who is your storage vendor and where are you getting the servers from?

Lhowe: The storage company is Compellent. We haven't notified server vendor No. 2 yet that they haven't made it, so I can't say.

Have you ever done deals like this before?

Lhowe: Yes. I've worked in Silicon Valley for about 15 years with some startups and companies where cash is king, more so than at your typical Midwest manufacturing company. I am used to creative financing, because in the Valley you have to get creative.

Did you propose these financing structures?

Lhowe: Yep. Crafted them. And the proposal went something like, "I really, really want to buy this stuff, but my hands are tied. In the spirit of partnership, I'd like to propose, can we do this, can we do that?" Then worked with the salesperson and their superiors and in some cases their superiors to get the deal done.

How high up did you have to go in the companies?

Lhowe: Definitely senior VP level, or VP -- that was the lowest.

And did you confer with your chief financial officer (CFO) before doing the deals?

Lhowe: I did talk with our CFO. We had a candid conversation about what are the drivers this year. Is it cash? Is it deferred payment? Is it reduced spend? No capital? What do you really need from me? When he made it clear that it was definitely no capital and definitely cash to the bottom line, then I went out and crafted the deals, came back and proposed them to him. And, really, it is hard for a CFO to say no to: "We are spending *this* in hard dollars today and I'd like to write checks for *Y* tomorrow, which is X-

amount less than what we are spending today." In every case, we are doing implementations, we are getting new equipment and we are spending less on a monthly basis than we were yesterday.

The inevitable question: What about total cost of, in this case, non-ownership?

Lhowe: In all cases, we have reduced. Let's say you have equipment that's 4 years old today. You are paying a higher maintenance fee for that than you would with today's money, because computer equipment basically is better, faster, cheaper than it was four years ago. So, we have better performance, better equipment and lower total cost of ownership.

One of the things that I told my boss, and also the CFO, is that the only way I can participate in this headcount reduction is to do some of these other projects. We are, for instance, replacing PCs that were out on the manufacturing floor with thin clients -- a lot less maintenance, a lot less touching. A receptionist at a plant can replace a thin client versus having to have an IT staffer there or a third-party contractor.

What we are also doing with the rollout of the thin clients is reduce our laptop count to about 25% of what it is today. We can put a thin client at somebody's house for about \$300. Unless a person is traveling, they can work from home or, if they're traveling from plant to plant, as soon as they get to their destination all they do is log in and their desktop looks just as it did yesterday.

How else do you make do with less? Does the service level have to go down?

Lhowe: We have only looked at it as a situation where we have to provide more with less. Service cannot suffer. The business can't suffer during this period. In fact, the business needs to flourish where it can. We need to be able to take on these new products and services, and we need to be able to do it quickly and efficiently because we want to impress the customers. They may come to us first, but you can bet that they're putting it out to somebody else also.

I couldn't help but notice that as you're contracting here, the company is expanding its facility in China. How do you feel about that?

Lhowe: We've had a plant in China, in Shanghai, for several years, and our facility was built to address the Chinese market. We do do some exports out of China into Australia and maybe even back to Europe. But primarily it is there to address the Far East market. We didn't build a facility in China so that we could ship stuff back to the U.S. I'd love to get that message out. We've costed it out and China, more often than not these days, is not the answer to reduce costs.

It's kind of inspirational to hear from somebody who is at a company that is having to tighten its belt and yet also thrive. To have IT play a critical part in areas such as crafting innovative financing strategies must be, in some ways, invigorating.

Lhowe: A blast. It is just so fun, because you can effect so much in so many areas of the business. I love my job.

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