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Finalist

A leap of faith: how IT finance is CREATING OPERATING LEVERAGE TO FUEL GROWTH

An American Express case study

Executive summary

American Express Technology has taken a leap of faith, collaborating with corporate leadership and leveraging strong financial management principles to achieve impressive results. What began as a strategy to streamline chargebacks and forecasting has become a holistic approach to IT cost transparency that enables product owners to own their P&L and Technology to drive an agile transformation. Leveraging TBM, the Technology organization has reduced expenses by 4% CAGR over the past 5 years, at a time when the company has continued to grow. They've accomplished this while delivering equivalent or better capacity and capabilities and positively impacting topline performance in areas critical to growth.

American Express corporate overview

American Express is a global services company, providing customers with access to products, insights, and experiences that enrich lives and build business success. Each day, American Express makes it easier, safer, and more rewarding for consumers and businesses to purchase the things they need, and for merchants to sell their goods and services. An engine of commerce, American Express provides innovative payment, travel and expense management solutions for individuals and businesses of all sizes.

AMERICAN EXPRESS

Industry // **Financial Services**

Revenue // **$32.1B**

Employees // **56,000**

Benefits

- Reduced expenses leading to 4% CAGR over the past 5 years
- Freed up funding through transformation (including co-location, agile processes, test automation, etc.), driving $300M in annual savings
- Reduced time to market on key products by months
- Optimized resource capacity allocation resulting from ability to manage vendor contracts
- Used TBM applications to shift from single-point to full-process analysis: able to look at enterprise in totality across all infrastructure and platforms

"The principles of TBM run through our transformation, the central premise of which is to make technology a stronger driver of company performance. Today we're significantly lowering costs compared with a couple of years ago, but we're delivering the equivalent amount of capacity or capabilities. And it's starting to translate into measurable results, in terms of how the company is performing."

Alex Hopwood, CFO of Global Technology

According to J.D. Power, in 2017, American Express ranks highest in overall customer satisfaction among all U.S. card issuers. Digital technologies are a key factor, as satisfaction scores across all issuers rank highest where customers indicated they use both mobile and online channels.

"We're proud to have achieved our highest overall score ever, which is consistent with the feedback we receive directly from our Card Members. It's a clear sign that the entire American Express team is focused on delivering exceptional products, experiences, and service to our customers," said Kenneth Chenault, the company's chairman and chief executive officer.

Reclaiming this top spot is gratifying to American Express and particularly its Technology team, which has focused on shifting to a product management approach to developing digital capabilities over the past 4 years. Says Alex Hopwood, CFO of Global Technology, "You want to be a technology-driven, digitally-powered service company. You want your expenses to be tech driven. It's not really optional. But like every innovator, we first had to solve the dilemma of how to get from there to here."

Improving IT efficiency to increase investment capacity

Based on benchmarks a few years back, the Technology organization's assessment was that development teams weren't where they needed to be in terms of speed-to-market, operational efficiency, and proprietary knowledge. The team had an extremely outsourced footprint with very little automation and limited investment capacity to improve the situation.

Today, the company is in the midst of a transformation, the central premise of which is to make technology a stronger driver of company performance. A large focus is moving from waterfall to agile processes. At the same time, the team is benefitting from comprehensive technology business management (TBM) applications that give senior leadership better insights into how technologies are deployed and help unlock IT efficiencies that go back to the bottom line.

One aspect of this focus is purely financial: technology needs to contribute operating leverage for the company and an ability to divert those generated savings to investments for growth. "In many respects, the transformation we're on is really all about doing more with less," said Hopwood. "And I would say that much of it is about IT cost transparency. It's understanding the cost of our systems and platforms in order to identify where key levers can reduce cost in some of our IT products. The TBM implementation has been very critical to give us the information that we need to do that."

Agile transformation

On the applications development side, the Technology team has made a large investment in agile transformation. Perhaps the most visible manifestation of this effort is the major insourcing initiative the team has undertaken. Approximately 2,500 engineers have been added to the cost base and nearly twice as many vendor contractors have been released. Instead of relying on contract staff, who are not necessarily incented to automate processes, today Technology is taking those capabilities in-house and starting to free up some of that shareholder value.

"We actually do agile project tracking in our accounting system," said Hopwood. "We've co-located our 'scrum' teams—to use the agile terminology—with product owners from across different business units. And we've upgraded our recruitment and built out tools for test automation."

It hasn't all been smooth sailing. In the midst of this initiative, American Express had an expense re-set moment when a key co-brand relationship with Costco ended. To stay competitive in this environment required significant operational efficiencies and scrutiny of virtually every expense category across the company.

As a result, the Technology team has embarked over the past year on a significant adjustment in reducing infrastructure and development expenses. The team is currently tracking to over $100M in reduction of IT run costs in 2017. In addition, the team is on track to deliver $400M of application development funding, three-quarters of which is coming through efficiencies from co-location, adoption of agile practices and test automation.

The Technology team has put the crux of their innovation efforts against the four to five platforms that mean the most to the company's success. "We're throwing those resources at the platforms that tend to bog us down and are an inhibitor to big application development activities and big product launches," Hopwood noted.

Investing in implementation of TBM requires a leap of faith. The benefits of IT cost transparency, agile practices, rigorous prioritization and enhanced business engagement, cloud deployment, APIs, and developing proprietary talent, can individually be qualitative in nature and hard to measure. "But when you start seeing 5X improvement in release frequency or throughput, it's really pulling *all* those things together," said Hopwood.

The new approach is underpinning American Express' key growth initiatives, such as a major refresh of the Platinum Card® in early 2017, one of the top-rated cards in the J.D. Power study. The company has seen share price tick up as a result of delivering topline performance around initiatives like this one.

"We've made tremendous progress against the ongoing strategy and transformation we've embarked on," Hopwood continued. "In our infrastructure run costs, we've been able to reduce expenses by 4% CAGR over the past five years, at a time when the company has continued to grow. And we've provided all this operating leverage for the company to reinvest and compete. At the same time, we've been working double-time to create a common repository or system that integrates all of the different subsystems, removing our reliance on tribal knowledge to access opportunities to gain efficiencies."

Creating a single source of truth

"When we first engaged in TBM, we were really looking for a more efficient model for charge-outs to the business," said Julie Bush, VP of Finance. "We were trying to manually process and implement charge-outs with a custom solution that was very labor-intensive for many organizations across American Express."

The Technology team needed a better mousetrap. This applied to forecasting as well, where a single version used to take weeks to create. "We were using an activity-based costing database that didn't allow us to visualize the information," recalled Hopwood. "You could pull it into a spreadsheet if you were creative and had time to do that, but there were no tools for trending or extrapolating forward."

With over 100 people working in IT Finance, there was little to no consistency and it was difficult to figure out what was driving the model because the team couldn't easily access the underlying data. "If you were proficient at working with large data sets in a spreadsheet, you had an edge up. If you were really good at working pivot tables you might be able to understand where there were opportunities to optimize. Frankly, I wasn't super good at that," Hopwood confessed.

IT Finance had a lot of the right processes in place, just not consolidated and accessible.

"TBM applications are providing hooks into multiple tools and systems, creating a nerve center. It's stitching together different inputs to make a comprehensive big-picture view of our environment."

Alex Hopwood, CFO of Global Technology

Today, IT Finance is staffed with 40 people and gets high marks for its contribution to business value. Additionally, portfolio and business-facing leaders rely on TBM-generated information to understand where Technology has capacity aligned to products, what those costs are, what the investments will look like, and how they're planning for 2018. This allows them to have key conversations about agile transformation.

"What we're doing now is taking our application development information to higher levels within the organization," said Melyssa Olsen, IT Director. "We're using a services concept to get all of our data—labor largely—accessible to people who are managing business-facing relationships and investment decision-making around our application development growth."

"We're able to understand the distribution of that work across our platforms, and how platforms are being leveraged to support our business, something that wasn't readily available to us before," Olsen continued. "We're able to take that down to applications and understand the application costs that are being incurred across our application-level views, which is significantly helpful for people who are application managers. So, we're going all the way from the business down through the Unit CIOs, through application managers, and even having the project-level information available to those who are in the portfolio and project management space."

Reigning in vendor contract and budget variance

Another thing TBM has enabled is the ability to manage vendor contracts in order to optimize resource capacity allocations. "We've taken our contractor views and created an entire capability around managing vendor partners," said Olsen. "This helps us optimize vendor skill sets, as well as align our resources where we have excess or limited capacity to support application development. Now we can make sure we're fully maximizing our contract rebates with given vendors based on what we can see in the TBM applications."

Budget variance has improved, too. Prior to TBM, there wasn't a universal understanding of what went into costs, who was accountable, or how the budget was set up. There was an unspoken acceptance that variance in the tens of millions was inevitable. "We went on a mission to get our arms around it. But back then, you had to know the right person, to really get under the covers and understand what was driving the expense base. And it always took a lot of time to bring it all together," said Bush. "What we've really focused on over the last few years is making that information accessible to everyone, putting it at everyone's fingertips so that they know what the goal is and how much IT costs them.

"We've been able to really do some great things in terms of reducing that cost and getting it to a point where we really understood the growth, the re-engineering, the expense of certain platforms and applications, and the integration of cloud into our environment," Bush continued.

Why TBM?

The TBM solution has helped Technology bring a lot of information together that was housed separately before. It has also given the IT Finance team the speed they need to act on information and make better decisions. As a result, they are much nimbler than they were a few years ago.

Now they focus on the key priorities of the day as opposed to a general accounting mindset that is all about process. The team is a decision support organization driving analytics, and one that can direct and shift the Technology team in response to changing circumstances.

"TBM is critical to achieving transformation. We're only as good as our tools. You can't have tools that are cumbersome—you have to have tools that are readily available and enabling. TBM gives us the ability to look out across our landscape at the level of granularity that we need to point to opportunities and to prove that we're making progress," said Olsen.

The operating leverage that Technology has provided to the company has been fuel for the company's growth. The IT run cost has actually shrunk over the past five years. And that's in an environment of continuous volume growth at the company level and very significant investment in critical areas like information security.

"In my 20+ years of experience, [this transformation] is one of the most successful things I've engaged in, in terms of business outcomes. We needed to transform and, you know, there was a leap of faith involved. But I hesitate to say where we would be now, given the old waterfall methodology coupled with a severe contraction in investment. This has helped facilitate a huge transition the company needed to make," said Hopwood.

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