REAL WORLD CASE 4 Wyndham International and Amazon.com: Cost-Effective IT

Having spent the past two years paring back staff, consolidating servers and storage equipment, renegotiating vendor contracts, and conducting selective outsourcing, CIOs are struggling to find new ways to reduce costs while still developing and implementing the new or improved business systems their companies need. "We've done all those things, and yet management still wants us to cut costs further," says a CIO at a Midwestern bank who requested anonymity. "I just don't know where else to cut." In their quest to come up with even more ways to keep a lid on costs, dauntless IT leaders are exploring everything from barter agreements with vendors to reselling services and joining purchasing consortiums for volume price discounts on equipment.

Wyndham International. A good example is Wyndham International Inc.'s (www.wyndham.com) chief technology officer, Mark Hedley. Like many IT executives, Hedley has taken advantage of the cutthroat competition that the economy has stirred up in the telecommunications sector and has reworked the hospitality firm's private branch exchange, data, and voice networking agreements, thus paring $850,000 from the Dallas-based company's annual telecom budget. Now Hedley is evaluating a shift from Wyndham's private frame relay network to a virtual private network on the Internet as a way to further reduce data communications costs by as much as 50 percent annually. But he is still weighing the major money-saving benefits of doing so against the security, stability, and reliability issues involved with moving to the less secure public network infrastructure of the Internet.

Amazon.com. Like a lot of people who buy software for their businesses, CIO Rick Dalzell saw his budget frozen last year. Unlike most of those people, though, that still leaves Dalzell with about $200 million to spend—but then, as chief information officer at Amazon.com (www.amazon.com), he has a lot to do. Most important, Dalzell has to maintain Amazon's edge in technology—an edge that is more critical than ever as Amazon increasingly squares off against sophisticated e-commerce survivors like eBay.

But that's why Jeff Bezos hired Dalzell away from Wal-Mart five years ago. In Bentonville, Arkansas, Dalzell made a name for himself by slashing $1.4 billion out of inventory costs; he has continued in the same vein in Seattle. Just two and a half years ago, Amazon spent 11 cents on information technology for every $1 in sales. Now, under Dalzell's new austerity regimen, the company spends only about 6 cents per sales dollar. All told, Dalzell has cut Amazon's tech spending 25 percent from its September 2000 peak, even as the company added nine new categories to its retail lineup, and signed on dozens of new corporate partners. Here are the strategies Dalzell has followed to success at Amazon.

Embrace open source. Dalzell says the single most effective move he made was to replace Sun servers with Linux boxes from Hewlett-Packard. For every $1 spent on the new hardware, he saved $10 in license fees, maintenance, and expected hardware upgrades. Some companies, Microsoft chief among them, have long warned that Linux savings are deceptive, certain to be offset by the costs of maintaining an operating system unsupported by a corporate proprietor. Dalzell doesn't buy it. "I haven't found any of the hidden, secret costs that others would make you believe exist for Linux," he says.

Recognize when you have to spend to save. Amazon maintains its own warehouse-management software, even though ready-made alternatives like Logility might cost as little as $375,000. But with its own software, Amazon can tweak inventory algorithms whenever it wants—so that, for example, a book isn't shipped to New York from a Nevada warehouse when it could be sent faster and cheaper from Delaware.

Help your partners help you. Dalzell recently began to invest in Web services—tools that make it easy for partners to hook into applications Amazon had developed for its own use. Now retailers like Nordstrom and Gap can feed their inventories into Amazon's new apparel store without a lot of custom coding. It also means that freelance programmers and retailers can build their own online stores using Amazon's payment, fulfillment, and customer services. (These associated stores get a 5 to 15 percent cut of the orders they bring to Amazon.) For example, a Romanian coder created www.simplest-shop.com, which uses Amazon's Web services tools to extract product data from Amazon and other websites and then fashion side-by-side comparison tables.

Use a tight budget as an excuse to get creative. Austerity forces you to focus on what really works. And in a perverse way, that frees up creativity. "First you think about the problem in a million different ways," Dalzell advises. "You'll come up with something really innovative. Then you apply the real world constraints, and figure out how to solve the problem." Dalzell looks at his stagnant budget as an engineering challenge. And as every engineer knows, it's the constraints that make a problem interesting.

Case Study Questions

1. Are the resource acquisition challenges faced by CIOs any different than those faced by other business managers in times of tight budgets? Why or why not?
2. What are the business benefits and limitations of Rick Dalzell's IT resource acquisition strategies for Amazon?
3. Are Dalzell's strategies applicable to small as well as large businesses? Explain your answer.

Sources: Adapted from Thomas Hoffman, "Squeeze Play," *Computerworld*, February 10, 2003, pp. 41–42; and Owen Thomas, "Amazon's Tightwad of Tech," *Business 2.0*, February 2003.