

# IT Cost Optimization Should Be an Ongoing Discipline

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Many organizations attempt to optimize IT costs, but industry leaders treat cost optimization as an ongoing discipline, rather than a one-time exercise. CIOs who handle IT cost optimization as a reactive, one-time action fail to maximize cost optimization activities and opportunities.

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## Additional Perspectives

- Midmarket Context: 'IT Cost Optimization Should Be an Ongoing Discipline' (2 October 2018)

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## Key Challenges

- Effective cost management often takes a backseat to the effective delivery of IT projects and services.
- When cost reduction targets are mandated by executive leadership, CIOs are in a reactive position to cut IT costs, many times under emergency cost-cutting situations, rather than having a measured and studied response.
- CIOs fail to maximize the benefits of their cost optimization activities by not institutionalizing these efforts as an ongoing program.
- CIOs stop their IT cost optimization initiatives when the enterprise meets its targets rather than creating a culture of continuous improvement.

## Recommendations

CIOs seeking to manage ongoing cost optimization should:

- Proactively manage cost optimization as an ongoing discipline by acculturating it throughout the IT organization.

- Choose initiatives and set targets for cost optimization activities using frameworks, such as Gartner's Four Levels of Cost Optimization, the Universal Cost Optimization Framework and the Decision Framework for Prioritizing Cost Optimization Initiatives.
- Develop cost optimization teams including IT leaders and business unit leaders in examining IT costs in the context of business processes and services.

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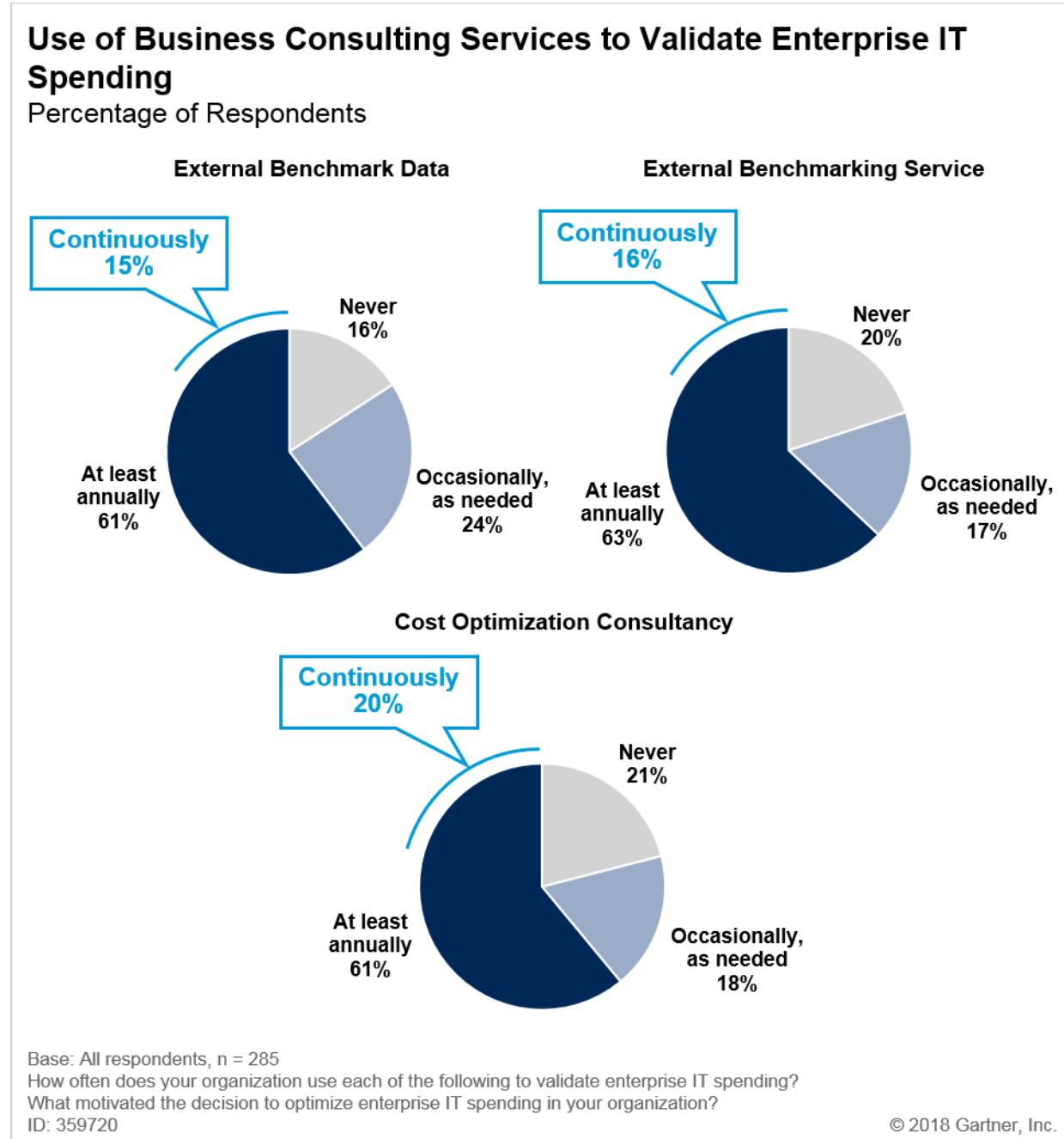
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## Introduction

Following the economic downturn, when CIOs were focused on meeting aggressive cost optimization targets in response to business pressures, they have adopted a continuous evaluation of enterprise IT spending. Gartner's 2018 Cost Risk and Value Optimization Survey asked respondents to best describe how often their organization used business consulting services to validate enterprise IT spending. At least 60% of respondents used either a cost optimization consultancy (61%), an external benchmarking service (63%), or external benchmarking data (61%) at a minimum annually (see Figure 1).<sup>1</sup> The survey data further shows that 20% of respondents used a cost optimization consultancy, 16% used an external benchmarking service, and 15% used external benchmark data to *continuously* validate enterprise IT spending.

Figure 1. Organizations Validate Enterprise IT Spending at a Minimum Annually



Source: Gartner (August 2018)

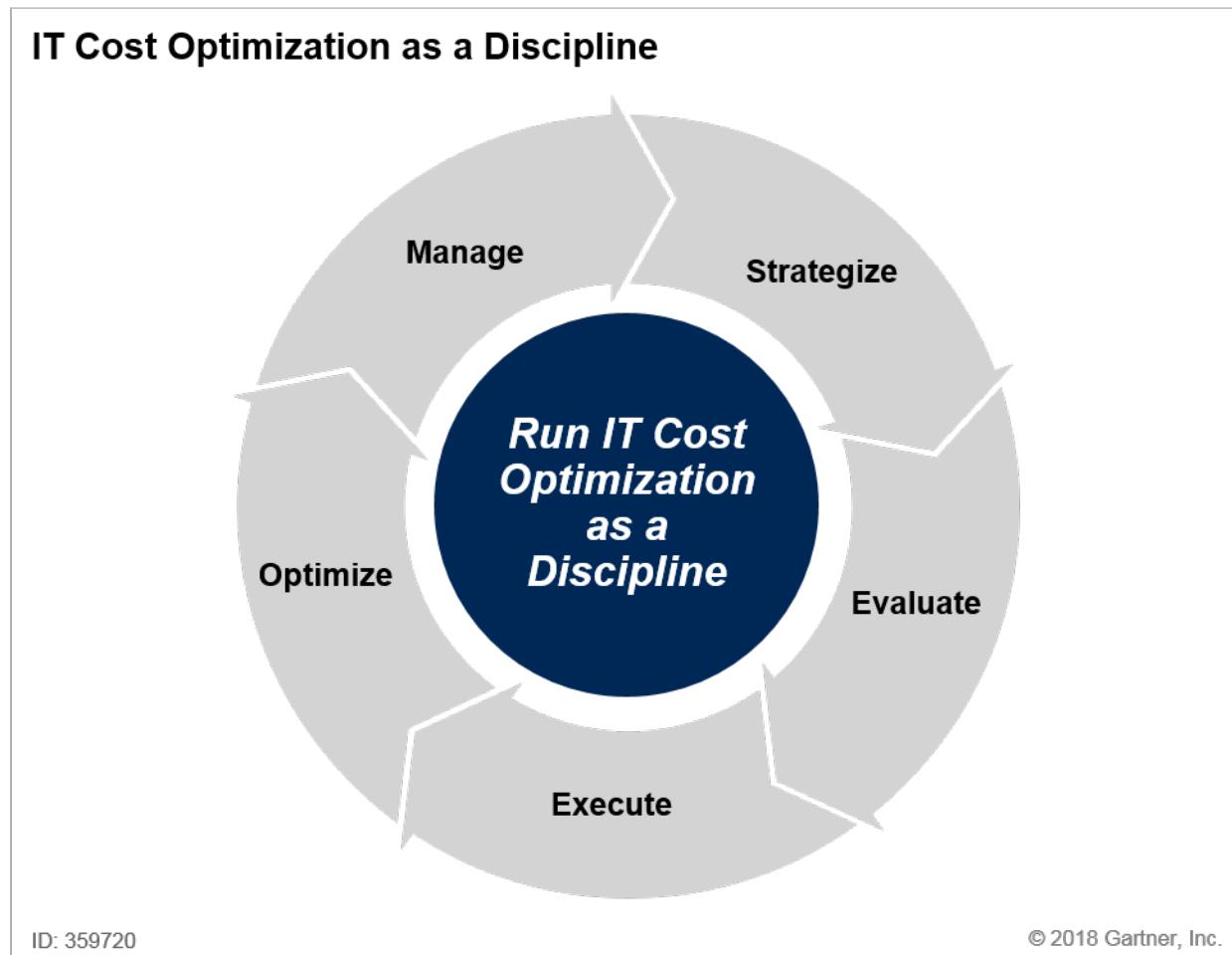
Increasingly, CIOs are proactively communicating with their CFOs to establish the level of enterprise IT spending that will maintain business processes while also agreeing on investments regarding innovation. With a majority of survey respondents (62%) looking to save money in order to invest in digital business transformation, developing a systematic methodology to optimizing IT costs will be

paramount to the CIO's success.<sup>2</sup> Rather than struggling to put together a list of new ideas necessary to meet a cost reduction target, CIOs should evaluate IT spending they directly control first. Then, they should work with business stakeholders on how best to utilize information technology across the enterprise to optimize business costs.

This discussion is the beginning of a disciplined approach to optimizing IT costs where the CIO focuses on five distinct areas (see Figure 2):

- Strategize — Define how IT will align its strategy to meet business goals.
- Evaluate — Determine which areas IT can directly impact or work with business units to develop initiatives to optimize IT costs; calculate current spending levels.
- Execute — Initiate activities which tie back to initiatives developed during the evaluation stage.
- Optimize — Track all IT costs, especially those associated with cost optimization initiatives developed during the evaluation stage.
- Manage — Create and monitor activities within each area to ensure costs are maintaining or decreasing as anticipated.

Figure 2. Cost Optimization Is an Ongoing Discipline



Source: Gartner (August 2018)

## Analysis

### Proactively Manage Cost Optimization as an Ongoing Discipline

Organizations that treat IT cost optimization as a reactive, one-time action fail to maximize cost optimization activities and opportunities. Failing to maximize opportunities occurs because once the “fire drill” is over and the cost reduction target has been met, both IT and business units return to conducting their business as they did before the cost optimization action was initiated.

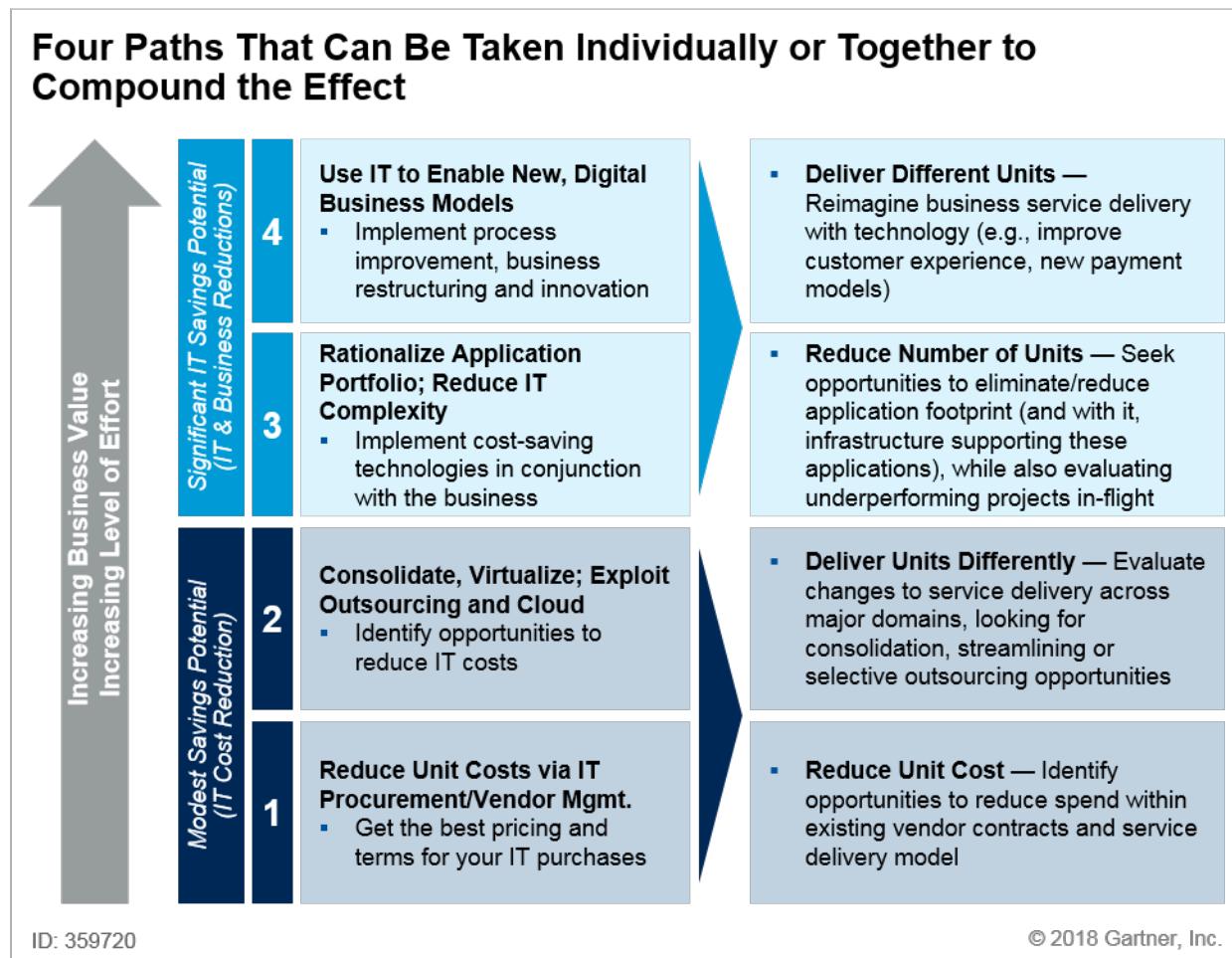
Transitioning and maintaining a proactive approach to cost optimization allows for the process to be centrally planned and managed by the CIO. Although CIOs are ultimately accountable for how IT manages its costs, the lack of involvement from IT and business unit leaders, whose departments utilize IT services throughout the enterprise, also contributes to cost savings not being realized. To sustain this process, CIOs must provide leadership to work with the IT organization, then evangelize

it throughout the enterprise by embedding cost optimization within the IT organization's core function and processes.

Because IT cost optimization needs to be an ongoing discipline, CIOs should establish a structure by which cost optimization initiatives can be implemented. For example, in the “strategize” phase, CIOs can focus on particular areas within IT that vary from external benchmarking data or year-over-year trends internally. “Evaluate” the potential cost drivers causing these variations and institute policies and procedures that will curb spending in these areas. If a potential cost savings can be realized, ensure this is documented to compare expected savings with realized savings. CIOs should then “execute” on these initiatives and track all IT costs and savings during the “optimize” phase. To close the loop, monitor IT costs to quickly isolate new cost drivers if spending begins to increase again.

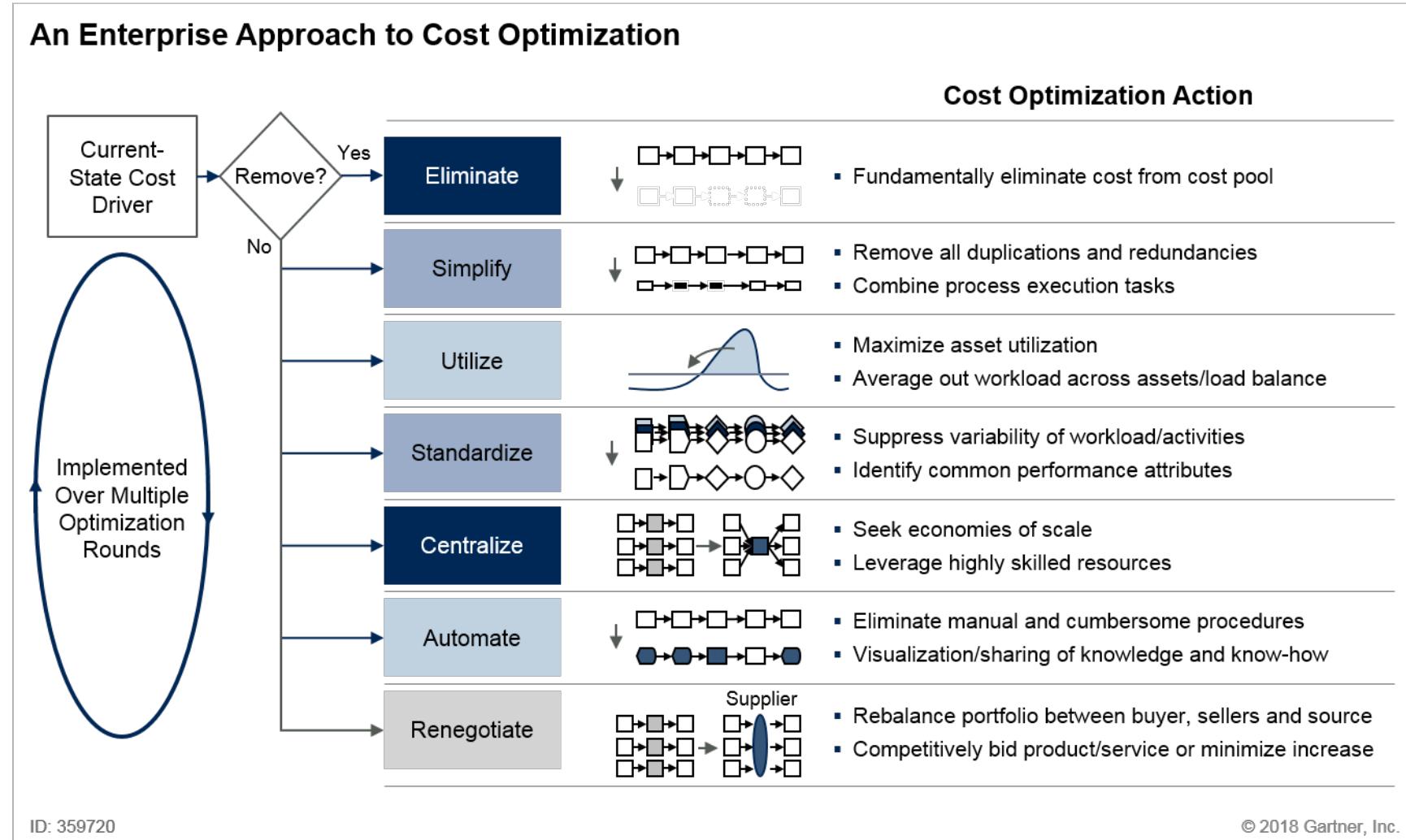
CIOs can leverage Gartner's frameworks, such as the “Four Levels of Cost Optimization” (see Figure 3) or the Universal Cost Optimization Framework (see Figure 4), which provide CIOs with methodologies that focus on IT supply-side or demand-side spending.

Figure 3. Four Levels of Cost Optimization



Source: Gartner (August 2018)

Figure 4. An Enterprise Approach to Cost Optimization



Source: Gartner (August 2018)

Taking those savings, investing them in digital business transformation activities and incorporating them into a larger IT strategy are critical to the success of proactive cost optimization. Because the success of the IT strategy will in part be contingent on how IT is able to optimize costs, initiatives should be managed as part of a program of work. CIOs should assign a resource to lead and report progress against key milestones and targets needed to achieve the desired results, report on any risks/opportunities against delivery of the initiatives, and schedule monthly meetings to discuss performance. All of these elements further instill the disciplined approach necessary to continuously manage cost optimization.

## Set Targets and Choose Initiatives for Cost Optimization Activities

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Working with the IT organization and business stakeholders, CIOs should begin generating ideas and objectively measuring them by evaluating the financial and business impact to the organization for their cost optimization initiatives. In generating cost optimization ideas, CIOs should establish suitable and achievable targets within a time frame that would yield savings in the shortest time possible. CIOs must take into consideration the resources necessary to complete the project and the risk tolerance both the enterprise and IT would bear should the project move forward. Evaluate cost optimization ideas and activities along six dimensions using “Gartner’s Decision Framework for Prioritizing Cost Optimization Initiatives” (see Figure 5 and “Toolkit: Using Gartner’s Decision Framework for Prioritizing Cost Optimization Initiatives”) to objectively determine which initiatives should be pursued and whether they are viable.

Figure 5. Decision Dimensions for Cost Optimization

Decision Dimensions for Cost Optimization			
Potential Financial Benefit	Small Potential to minimally improve cash flow or generate hard/soft savings	Medium Potential to moderately improve cash or generate hard/soft savings	Large Potential to significantly improve cash flow and generate hard/soft savings
Business Impact	<b>Negative</b> The initiative will have an adverse impact on business operations	<b>None</b> The initiative will neither have a positive nor negative impact on business operations	<b>Positive</b> The initiative will have a positive impact on business operations
Time Requirement	<b>Long Term</b> Savings may be realized either within months or not at all upon full implementation	<b>Intermediate Term</b> Expect savings to be realized within months of full implementation	<b>Short Term</b> Expect savings to be realized within weeks of full implementation
Degree of Organizational Risk	<b>High</b> Staff redundancies; re-engineering of processes and structures	<b>Moderate</b> Limited changes in roles, structures and processes	<b>Low</b> No staff reduction or changes in organization and processes
Degree of IT Technical Risk	<b>High</b> Impacts OS, DB, middleware and applications	<b>Moderate</b> Impacts few components of the architecture	<b>Low</b> Little more than "moving boxes"
Investment Requirement	<b>High</b> The initiative requires a large, upfront investment before savings can be realized	<b>Moderate</b> The initiative requires a moderate, upfront investment before savings can be realized	<b>Low/None</b> The initiative requires little to no upfront investment before savings can be realized

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DB = database; OS = operating system

Source: Gartner (August 2018)

## Establish Cost Optimization Teams by Including Both IT Leaders and Business Unit Leaders

Each business is different. Therefore, the level of formality in how a team is constructed will vary. CIOs and their leadership teams may find it more efficient and successful to establish formal IT cost optimization teams, while others may find it suitable to have a less-formal structure. Regardless of which approach CIOs choose, they must solicit and work with business unit stakeholders to

simultaneously focus on cost optimization within the IT and throughout the enterprise. The list below provides common cost optimization practices CIOs have employed:

- Making the CIO the champion of the initiative
- Making an IT leader responsible for overseeing the IT cost optimization program
- Leveraging key IT staff throughout the organization (not only IT leaders)
- Motivating IT leaders and staff to effectively optimize costs
- Setting targets and cost-saving initiatives with defined start and end dates
- Engaging business leaders to identify ways of using IT to reduce costs in the business
- Providing effective IT financial transparency to enable the creation of initial baseline costs and actual savings tracking
- Benchmarking IT spending against peers to identify areas to further optimize costs
- Holding staff accountable for delivering against targets
- Including cost optimization targets in each IT staff member's performance objectives
- Meeting regularly with IT staff to review and track successes and failures
- Celebrating success and encouraging continued participation
- Develop an effective progress report as an accountability tool and regularly reviewing and refining during monthly budget/planning cycles

These teams should document what the initial state of the cost optimization activity is to evaluate whether what was estimated was actually realized.

## Conclusion

The key to sustainable IT cost optimization has less to do with who develops a great cost-savings idea, but rather more to do with effectively managing IT cost optimization. By increasing the focus, visibility and accountability of IT spending throughout the enterprise, CIOs can work to continuously optimize IT spending while also leveraging savings for innovation investments. CIOs should leverage multiple sources for cost optimization ideas — external sources such as Gartner, business leaders and stakeholders, or even IT leadership and staff. Sometimes the best ideas come from those who are closer to the “floor.” Such discussions require CIOs to make IT cost optimization a priority and dedicating the time to effectively operationalize it within your organization. Effectively optimizing costs, minimizing risk and ensuring the delivery of maximum business value require a proactive approach to cost optimization. Without an ongoing focus on cost optimization, you may find yourself scrambling to cut costs — often the wrong costs for the business/organization’s ongoing success.

## Gartner Recommended Reading

*Some documents may not be available as part of your current Gartner subscription.*

“Driving Cost Optimization Across the Enterprise: An IT Perspective”

“Effectively Communicating Cost Optimization Across the Enterprise: An IT Perspective”

“Three-Year Roadmap for IT Cost Optimization”

“Toolkit: The Gartner Cost Value Matrix, 2018: A Framework to Measure IT Efficiency and Business Value”

“Toolkit: Gartner's Top 100 IT Cost Optimization Ideas”

“Toolkit: Use Gartner's 2018 IT Key Metrics Data to Optimize IT Costs”

“Use Universal Cost Optimization Opportunities to Drive Successful Outcomes”

## Evidence

<sup>1</sup> Primary Research: 2018 Cost Risk and Value Optimization Survey

Gartner conducted this research in May and June 2018 to examine how organizations' IT spending priorities are changing. A total of 285 IT and business leaders were qualified and surveyed. The bulk of the research was conducted via telephone interview (180); an additional 105 surveys were achieved online. All respondents were screened for knowledge of the IT shared-services budget across the enterprise, with at least \$250 million in revenue for FY17.

The sample by region as follows:

- North America: U.S. (n = 80), Canada (n = 21)
- Western Europe: U.K. (n = 33), Ireland (n = 10), Germany (n = 30)
- Latin America: Brazil (n = 31)
- Asia/Pacific: Australia (n = 21), Singapore (n = 14), New Zealand (n = 9)
- Middle East: United Arab Emirates (n = 20), Saudi Arabia (n = 11)

The survey was developed collaboratively by a team of Gartner analysts that examines IT's role in business, and was reviewed, tested and administered by Gartner's Research Data and Analytics (RDA) team. The results of this study are representative of the respondent base and not necessarily business as a whole.

<sup>2</sup> Ibid.

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