

Driving Cost Optimization Across the Enterprise: An Executive Perspective

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Leaders across the business must connect cost optimization efforts to the organization's larger objectives. Gartner's research helps leaders in numerous business areas determine how they can work individually and together to optimize costs without undermining strategic objectives.

Scope

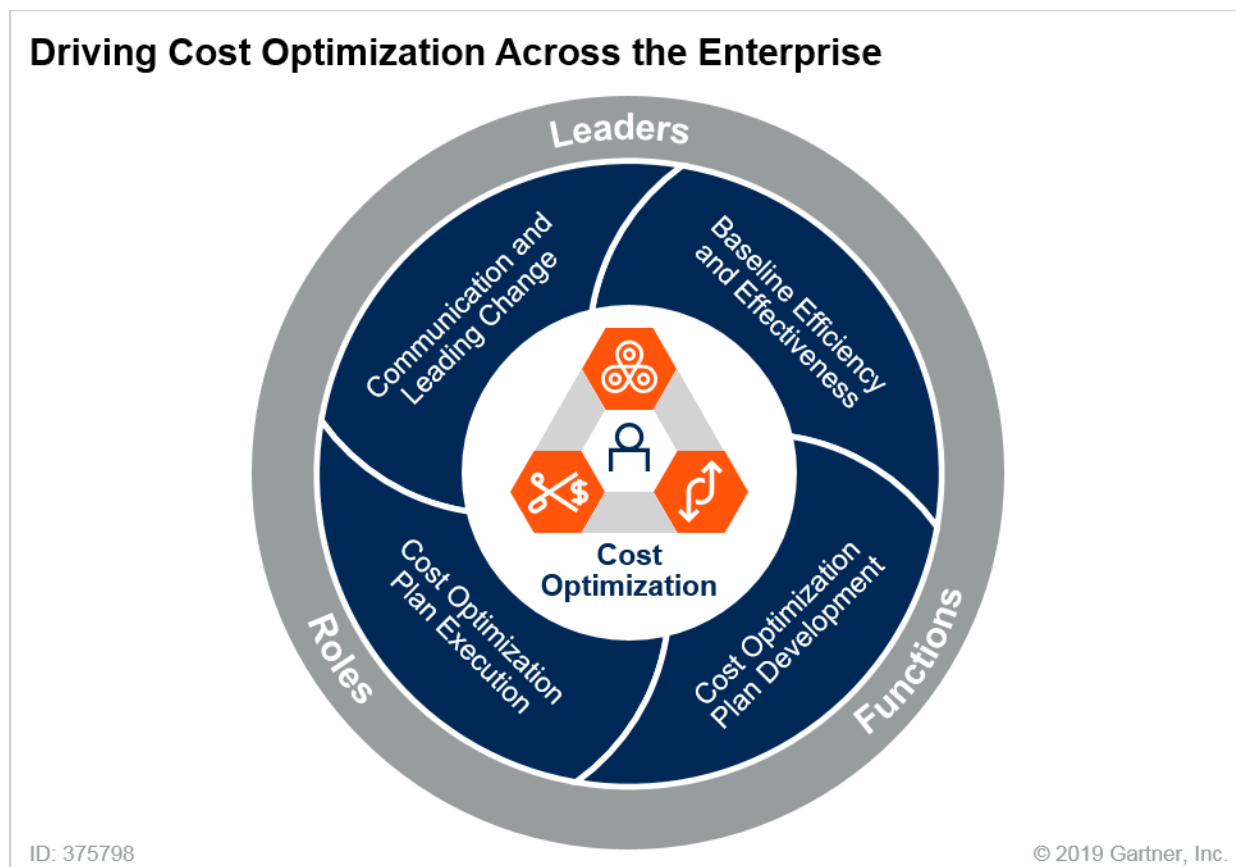
To maximize cost savings in each area of the business, pursue cost optimization through function-specific and enterprisewide practices.

This initiative covers several core steps:

- Baseline efficiency and effectiveness
- Cost optimization plan development
- Cost optimization plan execution
- Communication and leading change

Analysis

Figure 1. Driving Cost Optimization Across the Enterprise Overview



Source: Gartner (January 2019)

Gartner defines cost optimization as the continuous process of using resources to create and protect the sources of value while reducing costs as much as possible. To sustain cost reductions, both management and functional leaders have to collaborate on shared cost-management practices. Too often, cost management is a siloed effort.

Firms often cut costs without a clear plan or framework. Most leaders divert focus to matters other than cost management and cut costs only in times of emergencies. Worse, leaders often optimize costs in silos, isolating adjacent stakeholders who have their own, equally significant objectives.

To be sure, enterprises tend to approach cost cutting as an exercise in “shared pain,” where everybody needs to help equally in reaching a cost savings target. This leads to approaches such as every part of an enterprise needing to meet the same target reduction percentage (e.g., all budgets will be cut by 15%). Leaders also focus on spend that is easy to defer or cut, which means that project spend (capital spending) is often disproportionately impacted compared to ongoing spend (operating budget), even though operating expenses are usually a much larger budget.

While this equitable approach to cost cutting appears both logical and “fair,” it often leads to every part of an enterprise being hampered. It is often followed by additional rounds of cost cutting as well as needless conflict between business leaders debating about how savings should be counted.

A better approach is to move from a mindset of cost cutting to one of cost optimization, which has a few key differences:

- Do *not* cut all budgets equally. Rather, identify parts of the enterprise that should be cut dramatically, potentially even divested or shutdown. In doing so, strive to cut more spend than is required to merely meet the reduced budget and actually invest money in parts of the enterprise that will provide the greatest near-term positive impact (e.g., make digital investments).
- Reduce operating budget by identifying the biggest parts of operational spend and retiring/shutting down the highest budget items that provide the least value and are not absolutely necessary for operations.
- Work as a team with finance to agree on how savings will be counted with respect to savings in the current quarter, current year and future years. Focus on the largest parts of each budget.
- Use key business processes and business capabilities to identify opportunities for cost optimization. Enterprises can often achieve more lasting improvements in cost efficiency (and value) when they “optimize” by business process.

To sustain cost optimization efforts, companies cannot begin only when sudden financial pressures arise. An organization should be optimizing costs well before an unexpected drop in share price or quarterly earnings. Put another way, cost optimization should be a continuous discipline for the entire enterprise.

Top Challenges and How Gartner Can Help

The research produced in this initiative will help leaders understand cost optimization options while considering how the practices and experiences of other units combine to uphold larger business goals. Our coverage of this topic includes core cost optimization practices that any leader should use as well as function-specific cost optimization practices. It explores how leaders can optimize costs in their functions while supporting their C-level counterparts in enterprisewide initiatives.

The topics we cover in our research include these areas:

- **Baseline efficiency and effectiveness:** Use cost benchmarks and key performance indicators to measure how the enterprise is currently performing.
- **Cost optimization plan development:** Decide on an overall approach, prioritize cost optimization ideas and identify milestones.
- **Cost optimization plan execution:** Implement the changes identified in the cost optimization plan with a goal of making cost optimization a continuous discipline.

- **Communication and leading change:** Ensure that all stakeholders are aware of the cost optimization plan, and engage change management to support the effort.

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Our research addresses the following common client questions:

How can I achieve a baseline for cost optimization?

Comparative metrics are essential for effective cost optimization efforts. Benchmarks help leaders analyze which resources and initiatives may require additional funding or optimization. Benchmarks also help identify and protect strategic cost categories. This research explores how leaders can orient optimization around standard comparisons of costs.

Planned Research

- Best practices on using and interpreting benchmarks (based on Gartner's own benchmarks of various business functional costs)

How can I identify critical resources to protect?

To bring more clarity to the optimization decision-making process, this research guides leaders to review budget items in order to recognize the many impacts and benefits of each. These include the potential financial benefit of reduction or elimination; the likely business impact of reduction or elimination; and the business risk and time requirement of replacing the item with seemingly less costly workarounds or proxy measures. In terms of impact, the effectiveness of the cost optimization initiative is partly contingent on whether business unit leaders and their staffs can adapt to alternative approaches and processes.

Planned Research

- Budget assessment best practices for functional leaders
- How to work effectively with the head of HR during cost optimization

How can I identify noncritical resources to reduce or eliminate?

Leaders should also identify resources that can be eliminated or reduced. This research will help leaders identify and quantify potential cost reductions and build a plan for preventing costs from creeping back into the business over time.

Planned Research

- Budget assessment best practices for functional leaders

How can I determine the right cost optimization approach?

Leaders need to balance short- and long-term needs when considering which cost optimization options to pursue. Some categories of cost optimization include emergency cost reductions; selective cost reductions; preserving costs and business value; and increasing costs for added business value. This research will examine the approaches that leaders can implement for short- and long-term benefit.

Planned Research

- Best practices around data and transparency needed to support cost optimization

How can I communicate plans to stakeholders?

Effective communication is essential for collaborative, transparent cost optimization. Companies should set up mechanisms to communicate and share planned cost optimization activities across the firm. Leaders should also highlight alternative cost optimization options that were considered along with detailed explanations outlining why the alternative options were not selected.

Planned Research

- How to communicate cost optimization outcomes to the board of directors

Role Perspectives

Gaining perspective on how functional peers are approaching cost optimization is invaluable for any leader. The following research will help functional leaders understand the priorities of their peers and identify opportunities to collaborate on cost optimization efforts.

The Role of Customer Service and Support in Driving Cost Optimization

Any cost optimization strategy for service and support leaders will ultimately involve a balance between costs and the customer experience. While cost and customer experience levers generally have expected outcomes, one efficient way to control for the impact on the customer experience is through conjoint analysis. Conjoint analysis is a research method that helps identify the right balance of features that customers prefer against the prospect of not having them, as features are naturally a finite resource. As an example, Gartner research has performed this analysis across a random sample of customers to identify general trade-offs in service that customers are willing to make. The key finding was that customers tend to show a preference for roughly 30 seconds of hold time before reaching a live representative, which is ostensibly due to the customer valuing time to collect their thoughts before articulating their request. This kind of insight allows organizations to find smarter levers to pull and how far to pull them when attempting to optimize costs.

Related Research

“Driving Cost Optimization Across the Enterprise: A Customer Service and Support Perspective”

The Role of Finance in Driving Cost Optimization

In Gartner's research, CFOs ranked revenue growth the No. 1 2018 priority over generating free cash flow. The implication is that significant growth initiatives, such as launching a new digital business model, could kick off and accelerate in 2019. This research will examine how CFOs can build a cost structure that supports growth and will help functional leaders make a case for increased resources.

Related Research

"Driving Cost Optimization Across the Enterprise: A Finance Perspective"

The Role of Human Resources in Driving Cost Optimization

There are clear links between positive engagement of employees and successful cost optimization initiatives. Cost optimization savings vary depending on existing conditions within the organization. This research examines the multiple approaches that can be taken in terms of deploying human capital management (HCM) technology initiatives to optimize business costs, including improved scheduling, lower attrition and increased productivity.

HR functions need to proactively seek cost optimization opportunities. Chief human resources officers (CHROs) need to work with their teams to design cost optimization programs that treat cost optimization as an ongoing, business-focused discipline, balancing short-term efficiency gains and long-term impact on business performance, and focusing on both the function and the enterprise. Essential areas of cost optimization plans are HR service delivery, HR spend and workforce cost. These areas provide the fundamentals for how CHROs can successfully optimize cost in their own function, as well as how they can best support their board colleagues in enterprisewide cost optimization initiatives.

In addition, especially when the economy declines, CHROs need to prepare for how to support the enterprise in exceptional circumstances, such as times of crisis. Gartner offers a comprehensive framework to address the need for planning, designing and executing HR support initiatives during a decline in economic activities across the organization.

Related Research

"Driving Cost Optimization Across the Enterprise: A Human Resources Perspective"

"The Gartner Top 10 Recommended HR Cost Optimization Ideas, 2018"

The Role of Information Technology in Driving Cost Optimization

IT cost optimization has been at the forefront of many CIOs' objectives over the past decade. CIOs understand that cost optimization initiatives are important for the efficient delivery of IT services, but they often struggle to maintain momentum and end up in a repeated cost-cutting cycle.

IT organizations that develop a culture of optimizing IT costs are able to identify areas of opportunity for cost optimization both within and outside of IT. They do this by establishing credibility as both efficient financial managers and service delivery providers.

In the age of digital business, cost optimization takes on new dimensions. The pressure to remain competitive and invest in digital initiatives is increasing. Digital initiatives embed information and technology in products and services and are, thus, joint IT-business endeavors. Cost optimization in the age of digital business means looking beyond IT and including business costs in the initiative.

Related Research

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

“Three-Year Roadmap for IT Cost Optimization”

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

“IT Cost Optimization Should Be an Ongoing Discipline”

The Role of Marketing in Driving Cost Optimization

Marketing budget challenges are a fact of life. Accountable for an increasingly complex set of investments, chief marketing officers (CMOs) must be prepared with cost optimization strategies that prioritize marketing investments based on cost and value. Alongside the traditional areas of spend, such as media, campaign and agency costs, CMOs are now responsible for technology, innovation, analytics and customer experience.

Marketers should aim to build a proactive, balanced cost optimization strategy that accounts for the breadth and depth of marketing’s costs. Leaders must develop an approach that allows them to balance the complex needs of the marketing organization in the future alongside the need to deliver business results today.

Related Research

“Driving Cost Optimization Across the Enterprise: A Marketing Perspective”

“How Marketing Leaders Can Work Effectively With CFOs to Optimize Cost”

The Role of Supply Chain in Driving Cost Optimization

The pressure to reduce supply chain cost has intensified across many industry sectors as revenue and profitability growth have failed to maintain their previous pace. While supply chain has become increasingly recognized as a competitive differentiator and growth enabler for leading companies (see “The Gartner Supply Chain Top 25 for 2018”), cost management is still a core responsibility. Enterprises with world-class supply chains typically enjoy 20% to 50% lower supply chain costs than average performers, which can lead to millions of dollars in savings.

Supply chain plays a central role in cost optimization for the business by leveraging a broad scope of control to reorient stakeholder focus beyond functional silos and financial reporting conventions. Cost optimization is embedded in every successful operating strategy. It results from conscious choices in the design and configuration of supply networks, organization structures and incentives. Cost optimization requires investment in the right operating and decision processes enabled by technology, talent, data visibility and analytics.

Gartner defines and conducts research in six themes for supply chain cost optimization:

- Manage suppliers for total cost
- Manage and fulfill demand effectively
- Optimize network balance with integrated planning
- Invest in efficient operating capabilities
- Design products and networks for optimized supply
- Enable cost optimization with aligned values and practices

Related Research

“Driving Cost Optimization Across the Enterprise: A Supply Chain Perspective”

“Gartner’s Cost Optimization Playbook for Supply Chain Strategy and Planning Leaders”

“Gartner’s Cost Optimization Playbook for Manufacturing Operations”

“Gartner’s Supply Chain Cost Optimization Playbook for Logistics and Fulfillment”

“Supply Chain Leaders Must Orchestrate Three Decision Categories for Inventory Excellence”

“Gartner’s Top Actions for Supply Chain Inventory Reduction”

Related Priorities

Table 1. Related Priorities

Priority	Focus
Driving Digital Business Transformation for Industry Leadership	This initiative explores the challenges and opportunities that enterprises and functions face when building new business and operating models around digital technologies.
Leading the Next-Generation Workforce	Leading the next-generation workforce helps organizational leaders prepare for and optimize the performance of the future workforce.

Source: Gartner

Suggested First Steps

- “Driving Cost Optimization Across the Enterprise: A Finance Perspective” — Provides leaders in the finance function with advice on how to guide enterprise cost optimization
- “Driving Cost Optimization Across the Enterprise: An HR Perspective” — Provides leaders in the HR function with advice on how to support enterprise cost optimization
- “Driving Cost Optimization Across the Enterprise: An IT Perspective” — Provides leaders in the IT function with advice on how to support enterprise cost optimization
- “Driving Cost Optimization Across the Enterprise: A Marketing Perspective” — Provides leaders in the marketing function with advice on how to support enterprise cost optimization
- “Driving Cost Optimization Across the Enterprise: A Supply Chain Perspective” — Provides leaders in the supply chain function with advice on how to support enterprise cost optimization

Essential Reading

- “Gartner’s Top Cost Optimization Techniques: An IT Perspective” — Highlights the most popular and impactful techniques that CIOs can use to optimize costs in their function
- “How Supply Chain Leaders Work With CFOs to Optimize Costs” — Outlines approaches that supply chain leaders can use to engage their CFOs around cost optimization objectives
- “How CIOs can Work Effectively With CFOs to Optimize Cost” — Examines the critical partnership between CIOs and CFOs during cost optimization initiatives
- “Ignition Guide to Creating an M&A IT Integration Plan” — Helps IT leaders align mergers and acquisitions plans to the objectives of the deal, identify key stakeholders, and communicate relevant information in a timely manner
- “Toolkit: Gartner’s Top 100 IT Cost Saving Ideas” — Assists CIOs in cost optimization idea generation and execution
- “Toolkit: Marketing Cost Saving Ideas” — Presents a collection of the most popular and impactful marketing cost saving ideas
- “Effectively Communicating Cost Optimization Across the Enterprise: An IT Perspective” — Helps CIOs communicate effectively with stakeholders around cost optimization
- “Effectively Communicating Marketing Cost Optimization Across the Enterprise: A Marketing Perspective” — Helps marketing leaders communicate effectively with stakeholders around cost optimization

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