Ignition Guide to Efficient Cost Management in I&O

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Initiatives: Infrastructure and Operations Leaders

Due to uncertain economic conditions, I&O leaders face increasing pressure to manage their costs. I&O leaders can use this step-by-step guide including documents and tools that will help them set up a process for evaluating and selecting cost management initiatives for I&O.

Overview

This guide will help you:

- Identify and implement cost management initiatives.

- Communicate the benefits and impacts of the cost management plan.

- Minimize disruption to normal business operations and mitigate other cost-management-related risks.

- Prepare for long-term value optimization.

Time: 4-6 weeks

Effort: 1-2 FTEs

Inputs: Overall IT-level cost management objectives

*Time refers to the total duration for completing the activity end-to-end.

**Effort refers to the total number of FTEs required to execute the activity.

ESSENTIAL   Steps marked as Essential have been identified as critical for the successful execution of this project.

Steps

Phase

Step 1 of 5: Plan Effective Cost Management in I&O

Validate the project outcomes and problems addressed and ensure that participants understand their responsibilities, project timelines and expected outcomes.

Project Objectives

Project Outcomes	Problems Addressed
■ A list of cost management opportunities is created. ■ An evaluation framework is created to select cost management opportunities. ■ For each finalized cost management initiative, cost savings are calculated and implementation plans are created. ■ Stakeholders are clear about the impacts of cost management initiatives.	■ Cost cutting without a clear view on its impact. ■ Lack of clarity in prioritizing cost management initiatives to pursue. ■ Uncoordinated approaches and ad hoc attempts to manage or reduce costs. ■ Reservations among stakeholders such as the CFO (believing that cost cutting is not deep enough) and I&O staff (believing that there would widespread job losses as a result of cost management exercises).

Roles and Responsibilities

Role	Responsibilities
CIO	■ Provide executive guidance and review and sign off on the cost management initiatives.
Head of I&O	■ Set the cost management plan's objectives. ■ Evaluate key I&O service metrics and benchmark against peers. ■ Identify I&O staff tasked with discovering cost management opportunities. ■ Provide guidance to identify cost management opportunities.

I&O Staff Working on Cost Management Idea Discovery	■ Identify and prioritize cost management opportunities.
	■ Assess savings that can be achieved from the finalized opportunities.
	■ Provide regular updates to the head of I&O.
Cost Management Initiative Lead	■ Create the cost management initiative plan.
	■ Track the progress of the initiative and provide regular updates to the head of I&O.
IT Finance Partner	■ Provide guidance on arriving at actual I&O spends and vet the cost management initiatives.

Before You Start

■ Validate the need, timeline and scope of the cost management exercise with the CIO and other stakeholders, such as the CFO.

■ Identify I&O staff who can identify cost management opportunities.

■ Provide access to cost data to individuals working on identifying cost management opportunities.

Common Pitfalls and Keys to Success

Common Pitfalls	Keys to Success
■ Cutting costs across the board instead of a well-evaluated cost management approach.	■ Evaluating each cost management initiative individually for its complexities and potential cost savings.
■ Lacking the criteria to assess cost management opportunities.	■ Evaluating the implications of current cost reduction initiatives to future growth.
■ Taking too long to establish the cost management process.	
■ Cutting costs that are easy to do rather than assessing their value.	

Step 2 of 5: Set the Cost Management Objective and Analyze Current I&O Spend

Establish cost management objectives and analyze I&O spend.

Tasks

2.1 Set the objective and scope for the cost management plan.   **ESSENTIAL**

Determine the objective to be achieved from the cost management plan. Align this objective to the overall IT cost management objectives and revise it as more information becomes available. Define the scope of this exercise based on the objective to be achieved. The scope can then be used to determine the areas to look for cost management (see Table 1).

Objectives can be in the form of mandated targets with some conditions attached, like not touching certain key initiatives. Objectives can also be a planned scenario, rather than a mandate, to impending impact on the enterprise. However, the objectives should be clear and measurable to act as a barometer for the plan's performance.

Table 1: Illustrative Cost Management Objective

Objective Type	Sample Objective	Pros	Cons	Areas Out of Scope
Hard Target Objectives	Reduce overall I&O spends by 10% to 15% by the end of 3Q.	Easy to estimate because there are fixed targets	Not enough room for flexibility	Products/services/initiatives that are strategically important
Benchmarking Objectives	Bring I&O spends to industry standards.	Easy way to figure out what good looks like	Your organization might be operating differently from the industry	Domains where you want to be above industry standard

Scenario Planning Objectives	If oil prices reduce by x% and the corresponding revenue goes down by y%, then costs need to be cut by z%.	Helps prepare for unfavorable conditions	Planned scenario might not accurately reflect the future events	Products/services/initiatives that are strategically important

Source: Gartner (July 2020)

2.2 List I&O services/products/platforms and evaluate key service metrics.

List the relevant I&O services/products/platforms for your function and evaluate their performance based on key metrics. Use the attached I&O key metrics analysis tool to evaluate the performance of your I&O offerings.

2.2 I&O Key Metrics Analysis Tool

2.3 Benchmark I&O performance against peers and determine impact on I&O services/products/platforms.   ESSENTIAL

Benchmark I&O performance using the attached IT key metrics data toolkit. Reflect upon your performance in the industry and identify areas for improvement. Also identify the impacted products/services/platforms and their relative value to the customers.

2.3 IT Key Metrics Data 2020

How to Set Up for Success

Success Criteria	Red Flags
■ Clearly defined, achievable and realistic objectives that help set the scope for the cost management program ■ A data-driven I&O key metrics analysis that is current, transparent and fully accepted by all stakeholders	■ Objectives that are inadequately defined, unmeasurable and unrealistic and that cannot be used to track the progress of the cost management plan ■ An analysis of I&O services and offerings based on gut feeling and personal preferences

Step 3 of 5: Identify and Prioritize Cost Management Opportunities

Identify and prioritize cost management opportunities to implement.
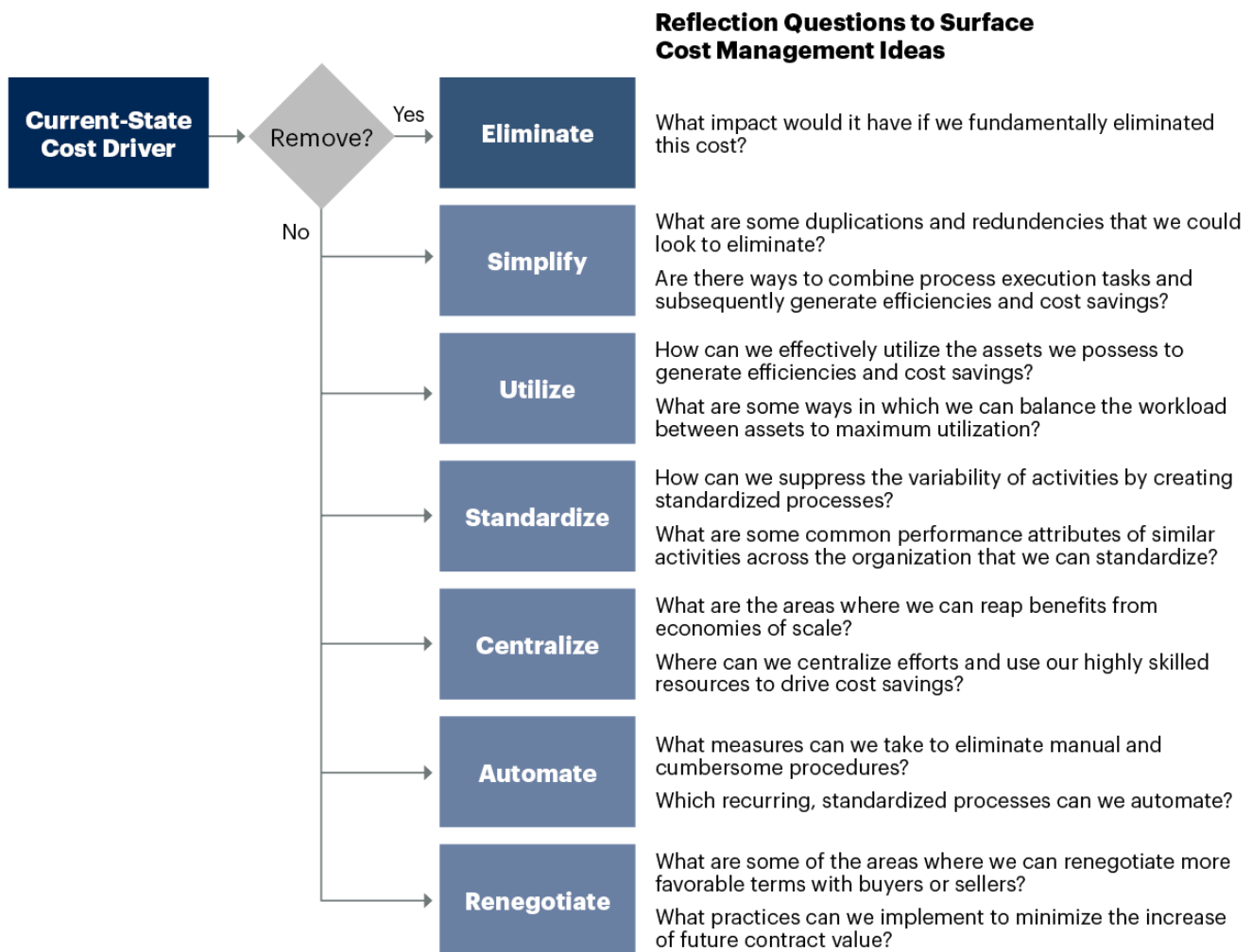
Tasks

3.1 Recognize multiple ways to manage costs.

Recognize that there are multiple ways to manage costs and cost cutting is not the only option. Familiarize yourself with the various ways to manage costs in order to surface cost management ideas (see Figure 1).

Figure 1. Guidance to Surface Cost Management Ideas

Guidance to Surface Cost Management Ideas

Source: Gartner
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3.2 Identify cost management opportunities. ESSENTIAL

Look for cost management opportunities as determined in Task 2.3. Assign the I&O staff working on cost management idea discovery to look for a mix of cost management ideas that will bring immediate cost savings as well as bring improvements over a longer period of time. Leverage the attached toolkit to identify cost management ideas that best suit your needs and list them.

3.3 Evaluate the cost management opportunities.   ESSENTIAL

Evaluate the cost management opportunities arrived at in Task 3.1 based on potential financial benefit, business impact, time to realize cost savings, investment requirement, and degree of organizational and technical risk. Assign weight to these parameters based on the needs of the enterprise. Arrive at a final list of cost management opportunities to implement.

3.3 Opportunities Prioritization Tool

3.4 Select top cost management opportunities to implement now and cost optimization opportunities for the future.   ESSENTIAL

Select the top cost management opportunities from the cost management map in Task 3.3's Opportunities Prioritization Tool that are most suitable for your enterprise in the current scenario.

Use the attached "Ignition Guide to Creating a Sustainable IT Cost Optimization Roadmap" to set up cost optimization for the future in your organization. Use the ideas you have already identified with the list of ideas in Task 3.1 of the "Ignition Guide to Creating a Sustainable IT Cost Optimization Roadmap." Follow the rest of the tasks to create your own cost optimization roadmap for the long-term.

How to Set Up for Success

Success Criteria	Red Flags
■ Prioritize cost management opportunities based not only on expected financial benefits but also other criteria such as the business impact, needed investments, risks involved and time to realize savings ■ Select cost management initiatives based on current and future business requirements	■ An evaluation of IT cost optimization initiatives based solely on expected financial benefits ■ Selection of cost management initiatives because they are easy and will provide quick wins

Step 4 of 5: Create Implementation and Communication Plans for Cost Management Initiatives

Create action plans for each cost management initiative and communicate their impact to stakeholders. Also, prepare for value optimization in the future.

Tasks

4.1 Create implementation plans with a review cadence for each cost management initiative.
    ESSENTIAL

Plan implementation and set a review cadence for each cost management initiative with expected completion date, milestones and expected cost reductions. Also, set a review cadence with the initiative leads to track progress.

4.1 Implementation Plan Template

4.2 Create a communication plan for stakeholders   ESSENTIAL

Design a plan to engage all affected stakeholders, provide regular status updates, and communicate the planned changes and their impacts across all stages of the cost management plan. Clearly articulate the connection between these cost management initiatives with broader IT cost management goals.
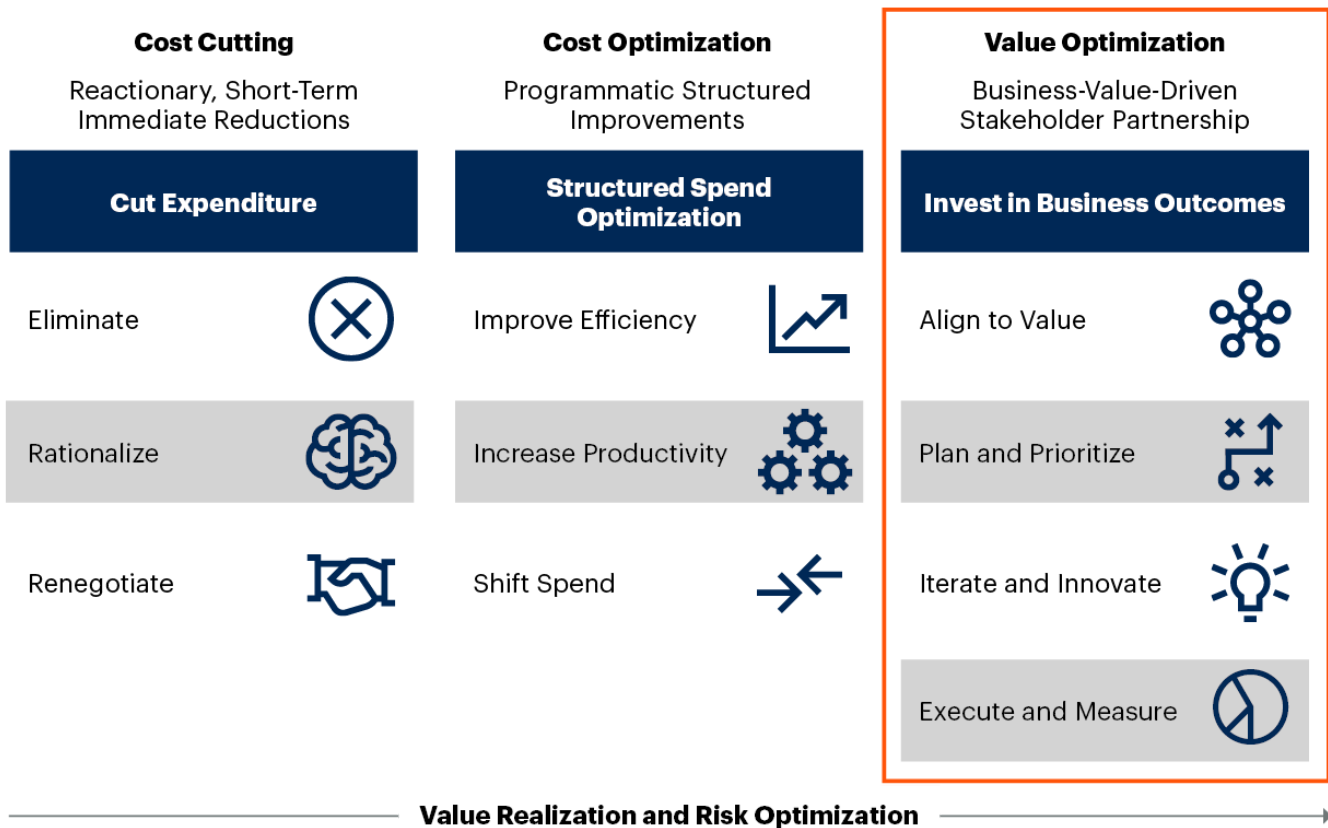
4.2 Communication Plan Template

4.3 Prepare for value optimization in the future.

Cost cutting helps eliminate waste and free up vital resources, and cost optimization helps improve efficiency for organizations to catch up to and keep up with peers. Organizations should also think about value optimization to invest in new capabilities that are required for the organization to get ahead of peers and industry expectations. Good cost management is about ensuring a strategic balance of funding, time and resources being allocated to all three disciplines to enable the business to thrive.

Figure 2. Cost Management Approaches

Cost Management Approaches
Evolving Cost Management Approach With Enterprise Needs

Cost Cutting	Cost Optimization	Value Optimization
Reactionary, Short-Term Immediate Reductions	Programmatic Structured Improvements	Business-Value-Driven Stakeholder Partnership
Cut Expenditure	**Structured Spend Optimization**	**Invest in Business Outcomes**
Eliminate	Improve Efficiency	Align to Value
Rationalize	Increase Productivity	Plan and Prioritize
Renegotiate	Shift Spend	Iterate and Innovate
		Execute and Measure

Value Realization and Risk Optimization →

Source: Gartner

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How to Set Up for Success

Success Criteria	Red Flags
■ A clearly defined implementation plan with defined targets and review cadence	■ An absent or inadequate implementation plan that does not help monitor the progress of the initiative
■ A clearly defined roadmap for implementing cost optimization and value optimization, and not just immediate cost reduction	■ A short-term focus on cost reduction without a long-term view of cost optimization and overall value optimization

Step 5 of 5: Review Your Performance

Review the progress of the cost management initiatives against their targets and modify the implementation plans based on changing business conditions.

Review Your Performance

- Ensure that the objectives for both the cost management plan and individual implementation plans are tangible and measurable.

- Ensure that initial objectives, scope and guardrails are adequately met and accounted for.

- Track and periodically report against identified success metrics for each objective.

- Seek feedback from users and stakeholders for the subsequent phases of cost management.

Gartner Ignition Project Reviewer Cost Mgt Plan

Keys to Continued Success

Key	Description
Cut costs to eliminate waste	Cut costs to eliminate waste and remove capabilities that are no longer part of the strategic plans, thus freeing up vital resources, time and funds to reallocate on prioritized areas. This should be a one-time exercise.
Optimize costs to improve efficiency	Use cost optimization to improve the efficiency of capabilities that are required to enable the organization to catch up to and keep up with its peers. This should be a continuous exercise.
Sustain long-term digital transformation	Align current actions with longer-term plans to ensure that the current quick fixes do not hamper future growth.

Recommended by the Authors

"Executive Leadership: Cost Management Primer for 2020"

Executive leaders can use this research as a guide to understanding the best practices and techniques of driving cost management across the enterprise.

"Ignition Guide to Creating a Sustainable IT Cost Optimization Roadmap"

This step-by-step guide helps identify and prioritize IT cost optimization initiatives and create a sustainable roadmap to communicate and implement planned initiatives.

"Avoid 3 Common Mistakes of Cost Reduction Campaigns"

Avoid these mistakes and ensure I&O teams stay viable during an economic downturn by looking at value streams holistically.

["IT Key Metrics Data 2020: Working With Gartner IT Budget and Comparison Tools"](#)

Benchmark results from these tools help identify where smarter spending opportunities may exist to improve cost management practices.

["Toolkit: Real-World Guidance for Optimizing I&O Costs in 7 Key Areas"](#)

I&O leaders are facing increasing pressure to respond to cost optimization while supporting digital ambitions. Use these guides to brainstorm and prioritize cost optimization ideas, as well as to learn from examples of other companies that have achieved desired results.

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Recommended For You

[Avoid 3 Common Mistakes of Cost Reduction Campaigns](#)

[Video: Cost-Cutting Actions for I&O Leaders](#)

[Toolkit: Real-World Guidance for Optimizing I&O Costs in 7 Key Areas](#)

[How to Maintain Operational Viability as I&O Experts Retire](#)

[How to Determine If DRaaS Will Save Money](#)

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