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# 12 Rules of IT Cost Management

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**FOUNDATIONAL** This research is reviewed periodically for accuracy.

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Initiatives: IT Cost Optimization, Finance, Risk and Value

CIOs challenged with better managing IT costs – cost cutting, asset optimization and investing in deliverables that matter most to the businesses' mission and objectives – should apply these 12 rules to their strategic cost optimization efforts.

### Additional Perspectives

- Summary Translation: 12 Rules of IT Cost Management (11 August 2020)

## Overview

### Key Challenges

- Many IT organizations lack a formal process and a common language for continuously refining costs, optimizing IT spend or programmatically investing to create business value.
- Cost cutting is a reactive exercise and fails to consider the real impact to business outcomes, objectives and risk.
- CIOs do not actively drive their teams to manage IT spend with a clear strategic alignment to business goals and objectives.

### Recommendations

CIOs that desire more strategic approaches to IT cost optimization should:

- Elevate the cultural focus and priority of strategic cost management by implementing a programmatic and proactive cost management approach.
- Demonstrate IT stewardship of corporate funds by continually harvesting undervalued investments to recover and reinvest funds.

- Improve IT's capacity for greater business impact by improving the efficiency and productivity of current services and assets.
- Move beyond cost cutting and optimization by investing IT resources in new or incremental business-valued opportunities.

## Strategic Planning Assumption

Through 2025, CIOs who implement these 12 rules will be 60% more successful in elevating their strategic contribution to their organizations' mission and improve IT spending efficiency by over 45%.

## Introduction

For CIOs striving to better manage IT costs, the following 12 rules are critical to a successful cost management program.

## Analysis

Leading organizations benefit from a proactive and persistent cost management discipline, an ingrained culture that regularly looks for ways to recover current spend on projects and services that are underperforming or in which there is overinvestment. Cost optimization is often a euphemism for cost cutting or spend reductions that are driven by demands to cut costs in the wake of a business need or an economic-driven requirement. Cost management suggests an ongoing discipline of analysis, review, recovery, productivity improvements and reinvestment.

CIOs should use these rules as a starting point for framing and guiding the execution of their cost management strategies. For each of these rules consider:

- How does this rule apply to our organization?
- Where and how should we customize this rule for our organization?
- Are we actioning this rule in our efforts to manage spend and deliver value to the business? If so, how?
- What should we do differently to save money and drive greater asset efficiency?
- When can we put this rule into action in cost management efforts?

Each rule is supported with a summary of the implications, a brief list of recommendations and links to additional reading that will provide greater detail in support of the defined rule. We suggest that you read the related research to gain a deeper understanding of these recommendations, and reach out to the appropriate analysts to discuss the specific implementation opportunities and challenges (see Table 1).

**Table 1: Rules for Strategic Cost Cutting**

Key Observation	Implications	Actions	Research
1. Cost management is a key strategic capability for organizations to succeed in a competitive market.	Organizations that fail to manage costs effectively risk losing market share and profitability. Cost management is a key strategic capability for organizations to succeed in a competitive market.	• Review current cost structure and identify areas for optimization. • Implement cost management best practices, such as standardizing processes and reducing waste. • Monitor costs regularly and adjust as needed.	• Cost Management: A Strategic Imperative for Organizations • Cost Management: A Key to Success in a Competitive Market
2. Organizations should focus on reducing costs in areas that have the greatest impact on the bottom line.	Organizations should focus on reducing costs in areas that have the greatest impact on the bottom line. This includes areas such as procurement, operations, and sales and marketing.	• Identify areas of high cost impact and focus on reducing costs in these areas. • Implement cost reduction initiatives in these areas, such as renegotiating contracts and optimizing processes. • Monitor the impact of cost reduction initiatives on the bottom line.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
3. Organizations should use data and analytics to identify cost-saving opportunities.	Organizations should use data and analytics to identify cost-saving opportunities. This includes using data to identify areas of waste and inefficiency, and using analytics to predict future costs and identify areas for optimization.	• Collect and analyze data on costs and operations. • Use analytics to identify areas of waste and inefficiency. • Predict future costs and identify areas for optimization.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
4. Organizations should consider outsourcing non-core functions to reduce costs.	Organizations should consider outsourcing non-core functions to reduce costs. This includes outsourcing functions such as IT, HR, and legal services.	• Identify non-core functions that can be outsourced. • Evaluate the cost and quality of outsourcing options. • Implement outsourcing for non-core functions.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
5. Organizations should invest in technology to improve efficiency and reduce costs.	Organizations should invest in technology to improve efficiency and reduce costs. This includes investing in automation, cloud computing, and data analytics.	• Identify areas where technology can improve efficiency and reduce costs. • Invest in technology solutions in these areas. • Monitor the impact of technology investments on efficiency and costs.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
6. Organizations should focus on reducing costs in areas that are most vulnerable to competition.	Organizations should focus on reducing costs in areas that are most vulnerable to competition. This includes areas such as procurement, operations, and sales and marketing.	• Identify areas that are most vulnerable to competition. • Implement cost reduction initiatives in these areas. • Monitor the impact of cost reduction initiatives on competitive advantage.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
7. Organizations should use benchmarking to compare costs to industry best practices.	Organizations should use benchmarking to compare costs to industry best practices. This includes comparing costs to industry peers and identifying areas for improvement.	• Identify industry best practices for cost management. • Compare costs to industry best practices. • Identify areas for improvement and implement cost reduction initiatives.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
8. Organizations should focus on reducing costs in areas that are most difficult to cut.	Organizations should focus on reducing costs in areas that are most difficult to cut. This includes areas such as procurement, operations, and sales and marketing.	• Identify areas that are most difficult to cut. • Implement cost reduction initiatives in these areas. • Monitor the impact of cost reduction initiatives on the bottom line.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
9. Organizations should use cost management to improve profitability and competitive advantage.	Organizations should use cost management to improve profitability and competitive advantage. This includes using cost management to identify areas for optimization and reduce costs.	• Implement cost management best practices. • Monitor costs regularly and adjust as needed. • Use cost management to improve profitability and competitive advantage.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
10. Organizations should focus on reducing costs in areas that are most important to the business.	Organizations should focus on reducing costs in areas that are most important to the business. This includes areas such as procurement, operations, and sales and marketing.	• Identify areas that are most important to the business. • Implement cost reduction initiatives in these areas. • Monitor the impact of cost reduction initiatives on the bottom line.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
11. Organizations should use cost management to improve operational efficiency and reduce waste.	Organizations should use cost management to improve operational efficiency and reduce waste. This includes using cost management to identify areas of waste and inefficiency and optimize processes.	• Identify areas of waste and inefficiency. • Optimize processes to reduce waste and improve efficiency. • Monitor the impact of cost management on operational efficiency and waste reduction.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations
12. Organizations should focus on reducing costs in areas that are most critical to the business.	Organizations should focus on reducing costs in areas that are most critical to the business. This includes areas such as procurement, operations, and sales and marketing.	• Identify areas that are most critical to the business. • Implement cost reduction initiatives in these areas. • Monitor the impact of cost reduction initiatives on the bottom line.	• Cost Management: A Key to Success in a Competitive Market • Cost Management: A Strategic Imperative for Organizations

As you work to apply these rules to your unique situation please book an inquiry call with a Gartner analyst to help you apply and adapt these rules or to review and provide feedback on your adaptations.

## Acronym Key and Glossary Terms

TCO	Total cost of ownership – the inclusion of all IT-related costs of providing solutions/services/technologies.
Cost Model	Representation or visualization of costs, structured to answer audience-specific questions about cost (see “CIOs Must Master Four Views of Spend to Manage IT Finances”).

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## Recommended by the Authors

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