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Executive Essentials: Develop a Strategic Approach to IT Cost Reduction, Optimization and Investment

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CIOs that take a proactive approach to strategic cost management will enable their organizations to not just avoid deep cuts in the tough times, but also to outperform their peers as they optimize and reallocate funds to the most valuable business outcomes.

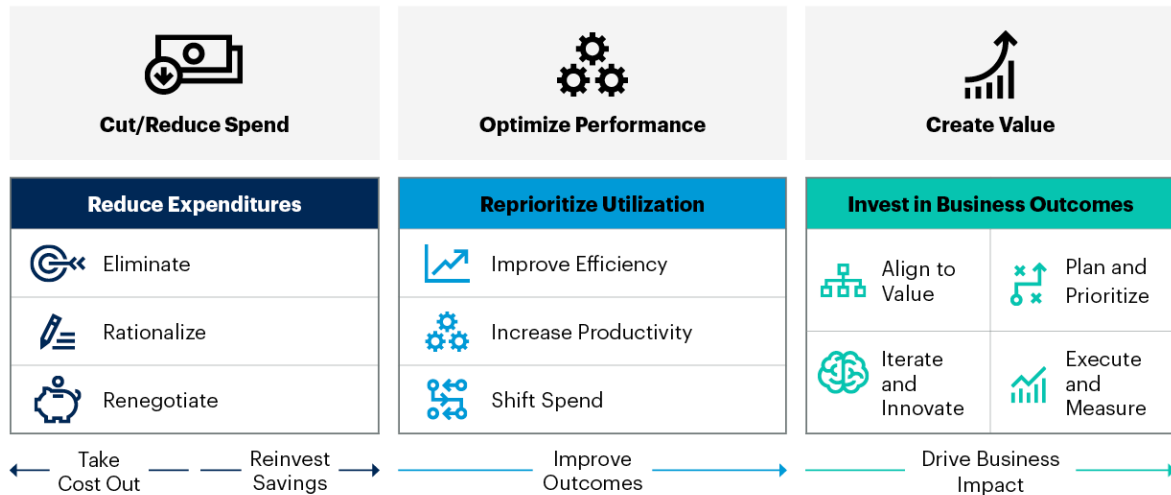
Analysis

Make Strategic Cost Optimization an Ongoing Discipline

As CIOs strive to maximize technologies' impact on the business they must establish a common language and structured approach to cost management within IT and with business partners. That is, to reduce spend when required but also to proactively optimize the performance of current resources and, ultimately, invest the resulting gains to optimize business impact. CIOs must build a proactive, programmatic and strategic cost optimization discipline (see Figure 1). Unlike traditional reactive cost cutting actions, strategic cost optimization recommends a framework of purposeful activities designed that are always driving toward maximizing business value. (See Note 1.)

Figure 1: Strategic Cost Optimization

Strategic Cost Optimization



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Cut/Reduce Spend – Redirect Expenditures

Given the rate of change, there will always be things that should be reviewed, rationalized and even cut from a technology budget. Thinking of cost cutting simply as a reactive action required to address severe business risks (downturns in the economy and/or business) is a common trap.

Even in good times, CIOs should redirect funds from areas that do not deliver meaningful business impact by:

- **Proactively and programmatically reviewing and cutting spend** that does not have a demonstrable impact on business outcomes. For example, look for outdated or duplicative monitoring and management tools that are maintained out of habit more than as a function of the value they provide should be cut.
- **Eliminating or reducing spend** before it is committed by contract. This allows funds to be reinvested in projects that drive increased business value.
- **Rationalizing** all new spend against business priorities. Renegotiate to improve terms to allow for greater flexibility (see How to Demonstrate IT Cost Management Success and Leverage IT Financial Controls to Accelerate IT Cost Management Objectives).

- **Renegotiating** with vendors and suppliers before spend is committed by contract.
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Data from Gartner's IT Score for CIOs assessment shows that 77% of mature IT organizations continuously initiate IT spend reduction ideas and actions across the enterprise, compared to only 18% of other organizations.

Optimize Performance – Reprioritize Utilization of Current Resources

Define a structured and proactive cost optimization discipline that reallocates existing resources to initiatives that maximize impact on business value and improve productivity for both IT and the business.

CIOs should benchmark and identify which functional or business areas have cost variances that are significantly higher than vertical industry averages. For example, a seasonal business unit consuming significantly more capacity during peak periods presents an opportunity to reallocate or cut capacity when it isn't needed during the rest of the year. Sometimes higher spending can be justified by higher business performance, such as a luxury line of business justifying higher spending on customer experience technology, but there may still be opportunities for further optimization.

CIOs should reprioritize current resource utilization to improve the contribution of current assets to IT operations and business outcomes to:

- **Improve efficiency:** Focus IT teams on doing what they currently do better with fewer resources, shifting resources to differentiating activities and supporting the business to do the same. (For example, process more support tickets or service requests with less human effort.)
- **Increase productivity:** Use existing resources to do more higher value and differentiating work – shifting effort and expenditure from lower-value to higher-value business work. (For example, automating workflows to reduce or eliminate human touch.)
- **Shift spend:** Identify and adjust resource allocations to move spending where it is needed most. Free up funds and resources for increased value optimization. (For example, shift spending from reactive monitoring to proactive process automation and governance capabilities.)

Create Value – Invest in Business Outcomes

Top-performing CIOs will never cost-cut their way to enterprise-level strategic relevance. They extend their cost optimization efforts to focus on investing resources to drive business outcomes. By managing costs more strategically and programmatically, they're delivering value to the business – even in economic or business downturns.

CIOs should invest in new capabilities that deliver prioritized business outcomes and valued returns by focusing on these objectives:

- **Align to value:** CIOs must lead the realignment of expenditure to the delivery of priority business outcomes. Success in the delivery of value comes from understanding stakeholders' needs and desired outcomes. IT leaders must partner with stakeholders to define what is valued, identify and work to resolve stakeholder's technology pain points, and realize that the stakeholders own the return part of the ROI analysis.
- **Plan and prioritize:** Prioritize initiatives based on impact to the business mission, not on the availability of funds or the urgency of the request (see [Prioritize Digital Investments That Maximize Business Value](#)). Work with business stakeholders to prioritize initiatives and build and validate a justifiable business case.
- **Execute and measure:** CIOs should work with the business leadership to formally document and validate the technology investment plan, communicate changes and evaluate value contribution against clear value-based measures of success.
- **Iterate and innovate:** CIOs should actively evaluate progress, reassess stakeholders' needs and adapt to changing requirements. Listen and react to customer needs, and be agile and flexible.

Collaborate and Build Support

Strategic cost optimization initiatives require CIOs and business leaders to work in close collaboration. CIOs engaging in cost optimization must prioritize projects and operations that directly impact business objectives.

CIOs should prioritize collaboration opportunities that can:

- Map optimization plans to leadership priorities.
- Work with stakeholders to identify constraints.

- Model contingency plans that maximize IT's impact on critical business priorities.

Download presentation slides to help explain strategic cost optimization to your peers.

Next Steps

As a CIO you should:

1. Learn more about the strategic cost optimization model (see Strategic CIOs Link Cost Optimization to Business Outcomes).
2. Accelerate your strategic cost optimization journey (see 12 Rules of IT Cost Management).
3. Assess your strategic cost optimization maturity to identify your target level of maturity based on the enterprise's cost optimization requirements (see Strategic Cost Optimization Score for IT).

Note 1: Key Elements for Optimization

Strategic cost optimization efforts should include a number of key elements:

- **Gain a broad perspective.** Think more broadly than the impact to just a specific functional group, considering the overall business and business strategy. For example, along with cutting travel, training and communication expenses, reducing staff is often among the first things that organizations do when they need to reduce expenses. However, costs and risks are associated with reductions in the workforce. HR departments can share essential information and provide critical process expertise and alignment across business units, ensuring that staff reductions really make sense.
- **Obtain support.** Cultural and political barriers are common impediments to successful optimization. The lack of engagement with stakeholders and peer executives around cost management priorities puts investment prioritization, planning and implementation at risk. Ensure that the process for selection and prioritization is clear, communicated and consistently applied.

- **Avoid conducting reductions in a functional silo without communication or collaboration between business units.** An ideal approach would consider the reduction of expenses of a vital success function and gain cross-functional support. For example, you may ask, “How can we reduce the total cost of the services we are providing our customers?”
- **Achieve transparency.** This should be a key priority for CIOs who seek to determine the effectiveness of an optimization effort. Organizations that have only traditional, high-level views into budgets often fail to successfully identify and communicate the impact of budget reductions beyond the movement in the bottom line. Overall, business stakeholders struggle to visualize the impact of reducing spending on specific resources. Stakeholders can, however, relate to a discussion around whether the enterprise should reduce spend on, say, business continuity versus collaboration services.

Recommended by the Authors

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Strategic Cost Optimization Score for IT

12 Rules of IT Cost Management

10 Rules for Rapid IT Spend Reduction

How to Communicate Value in the Languages of IT, Finance and Business Outcomes

Tool: Decision Framework for Emergency IT Cost Cutting

Tool: IT Cost Optimization Status Check

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