10 Rules for Rapid IT Spend Reduction

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Initiatives: IT Cost Optimization, Finance, Risk and Value

In an uncertain and pressurized economic environment, organizations often face the challenge of realizing immediate IT cost savings. When faced with the challenge, CIOs need to determine how to approach cost cutting in the least damaging way to the medium- and long-term health of the business.

Overview

Key Challenges

- It is commonly believed that "you can't cut your way to growth," but you can cut your way to survival.

- Most organizations don't cut deep enough the first time, so need to revisit and do it again. This creates a destructive and unproductive cycle of uncertainly, effort and lost productivity.

- Rapid or immediate savings require a very good understanding of the IT line items in both the profit and loss statement and the balance sheet, which is not always something that most CIOs have.

- Cutting or stopping projects or services where costs have already been spent or incurred are of limited value. Cutting things that can't be restarted, that have already been invested in or are ready to deliver will hurt when the organization is ready to accelerate again.

Recommendations

CIOs seeking to rapidly cut their costs as part of their cost optimization approach should:

- Establish the cost reduction fundamentals by determining what needs to be considered from a savings and timing perspective.

- Apply the 10 rules for success. Determine the types of actions, expenses and categories that have the most immediate and/or largest impact.

- Map and communicate your plan to eliminate, reduce or suspend. Communicate the plan internally to IT, the business units (BUs) impacted and to the CFO/CEO driving the reductions.

- Define the consequences and risks of cutting costs and how to manage them, despite the urgency and likely short lead time.

Introduction

Difficult times call for difficult actions. While Gartner recommends that organizations take a structured and programmatic approach to cost management, in uncertain and pressured economic environments, organizations often face the challenge of realizing immediate IT cost savings. Further, business and market pressures often dictate that this takes place in a rapid or immediate fashion, requiring more of a "cost cutting" approach (see Figure 1).

Figure 1. Cost Management Approaches
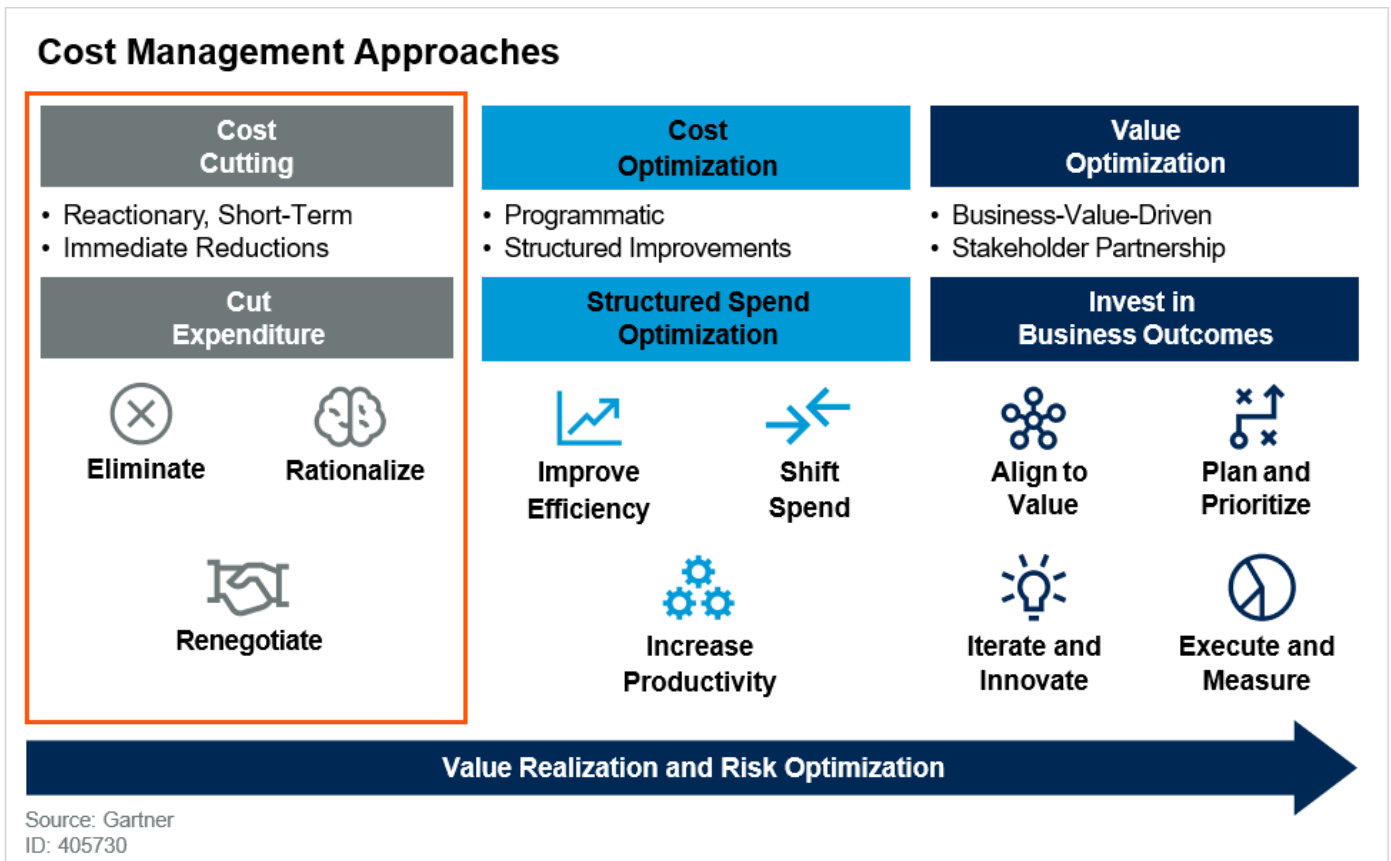
When faced with the challenge, all CIOs need to determine how to approach cost cutting in the least damaging way to the medium- and long-term health of the business. When faced with immediate or short-term pressures, CIOs still need to take a thoughtful approach to cutting costs, ensuring that they strive to mitigate the risks and minimize the longer-term impact on the organization.

By addressing the 10 rules of rapid spend reduction (see Figure 2), this research helps CIOs faced with this important and pressing challenge.

Figure 2. 10 Rules for Rapid IT Spend Reduction

10 Rules for Rapid IT Spend Reduction

Target Immediate Impact	Reduce Don't Freeze	Cash Is King	Target Unspent and Uncommitted Expenses	Be Holistic and Address Total Costs: Opex and Capex
Plan to Do It Once	Sunk Costs Irrelevant	Address Discretionary and Nondiscretionary Spend	Tackle Variable and Fixed Costs	Inspect Accounts: Assess Cost Base

Source: Gartner
ID: 405730

Analysis

Establish the Cost Reduction Fundamentals

In facing the challenge of delivering immediate savings, it is key to establish and document exactly what the need is, such as the size, timing and type of reduction required. To answer this, it is critical to define the desired outcome and the required time frame in which to meet it.

The Outcome/Need

Define as precisely and concisely as possible the outcome that is required in terms of the annual, ongoing or budgetary savings in hard currency figures. This can be based on a straight or flat percent of spend, using targeted or radical reductions (see "Driving Cost Optimization Across the Enterprise: An IT Perspective"), but should be translated into definitive cost targets or savings goals.

Timing

Time given to planning the cost-cutting exercise is often dictated by time pressures. However, planning should be prioritized, as it will drive the strategy, approach and timing of execution. It will also crystalize the instruction communicated to the teams who will be asked to identify and deliver the savings, and avoid wasted time and effort throughout the execution of the exercise.

The criticality of the need will dictate the time that is available to achieve the savings. However, the time available will dictate whether or not the options are viable. Having determined the size of the savings required, focus on the timing that they are required in. Typically speaking, this will be in

terms of weeks or months, on the shorter term. The combination of the need and the timing will dictate the options that are available.

The Approach

The combination of the need and the time available to realize it determines the approach. As time is usually of the essence in these situations, concentrate in the first instance on following the money. Establish where the biggest opportunity lies from a cash-flow perspective, and focus the attention and time here.

Beyond the size of the budget, CIOs should also determine and establish the enterprise's preparedness and willingness to spend to save. Are there funds that can be invested to deliver significant savings? Is there time to achieve this? While spending to save or investing for growth are rarely options for rapid reduction outcomes, they should not be dismissed out of hand.

Apply the 10 Rules of Rapid IT Cost Reduction

There are 10 rules in rapid IT cost reduction. Assess your reduction options with these rules in mind:
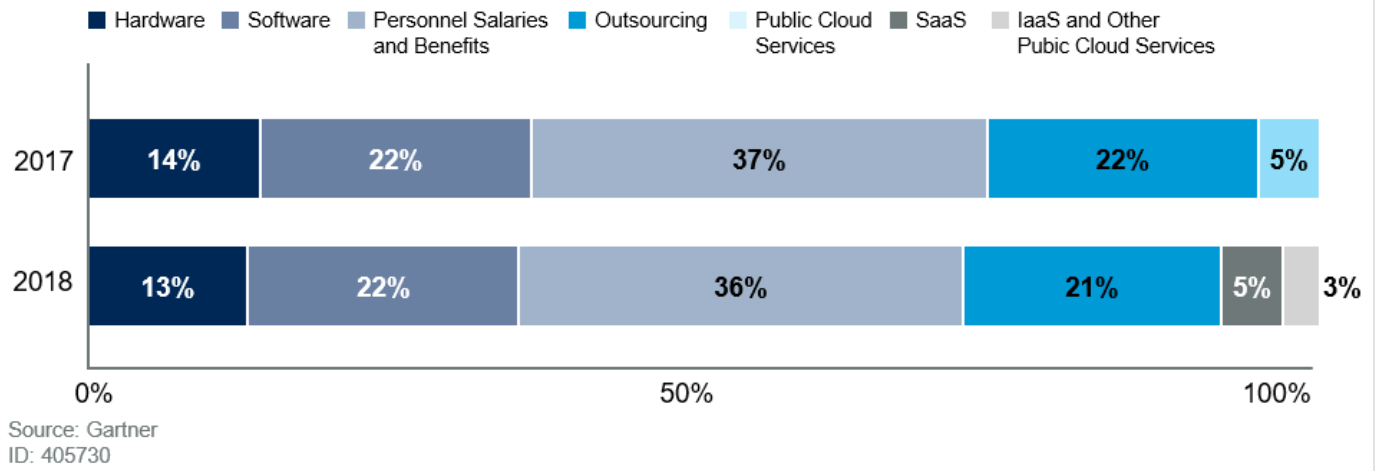
1. **Target immediate impact** — The immediacy is more important the more urgent the need to cut. Look for costs that can be impacted immediately. Think here in terms of in-year impacts. Eliminate, reduce or suspend items that will impact in one, six or even nine months, not in years. Examples include expenses that are incurred and paid monthly or quarterly, on a "pay as you go" basis, rather than annually.

2. **Reduce don't freeze** — The intent here is to reduce expenses, not just to freeze them. Accordingly, the focus needs to be on costs that can truly be reduced or completely eliminated, not just frozen out for the current period, to reappear again further down the line.

3. **Cash is king** — Target those items that will have a real cash impact on the profit and loss statement. Don't focus time and effort on noncash accounting treatments like a depreciation- or amortization-reduction impact. Savings in SaaS or infrastructure as a service (IaaS) costs have a real cash impact, as opposed to reducing on-premises software licenses or owned assets like hardware. For owned assets, options for sale and lease back can realize real cash savings as well.

4. **Target unspent and uncommitted expenses** — To achieve rapid savings, look for unspent (or uncommitted) expenses. Unless payments (or commitments) can be recovered, or prepayments returned, the most immediate impact will be on unspent or uncommitted payments. Evaluate contracts/commitments for renegotiation/termination clauses.

5. **Be holistic and address total opex and capex costs** — Typically, operating expenditures (opex) are the easiest to impact, but capital expenditures (capex) can also be reduced, especially before payments/purchases are commenced. Based on Gartner's IT Key Metrics Data, 25% of the average IT budget is spent on capital; [1] therefore, ensure that the complete range of IT spend

is considered and addressed when looking for rapid reductions. Also consider that, if the need drives a focus on, for example, opex reductions, delaying or eliminating capex spend could also drive consequential opex costs. This could include increased license or support costs, or on the flip side, avoiding the license or support costs of a new asset.

6. **Plan to do it once** — For a variety of reasons, most organizations don't cut deep enough the first time, so need to revisit and do it again. This creates a destructive and unproductive cycle of uncertainly, effort and lost productivity. So cut or reduce "hard" enough the first time, and only do it once. This is particularly relevant in the area of personnel or staffing reductions, where cycles of ongoing reductions can be particularly dangerous.

7. **Sunk costs are irrelevant** — It is commonly said that "sunk costs are irrelevant," indicating that current or future spend should be considered without relation to past spending. Past spend, or spend that has already been made, is defined as "sunk costs." From a rapid-reduction standpoint this is true, but consideration should be made to the cost-benefit or value of stopping such payments. Such things are common to "in-flight" projects, which can be stopped in progress to stop expenditure. In some cases, the saving is less than the benefit that can and will be delivered. These can be the hardest to evaluate, but a blind rule of cutting all project spend can be dangerous.

8. **Address discretionary and nondiscretionary cost** — Discretionary spending, such as for new "change the business" projects, additional capability or services/products, can often present the "easier-to-cut" option. There are, however, opportunities to reduce usage, service levels and even consumption levels of nondiscretionary, "run the business" expenses (such as infrastructure and operations [I&O]).

9. **Tackle both variable and fixed costs** — Fixed costs are expenses that remain constant, regardless of activity or volume; examples include office rent, subscriptions and payroll. For fixed costs, focus on elimination. Variable costs change with activity or volume; examples include communications, contractors and consumables. For variable costs, the focus can be on both reduction and elimination.

0. **Inspect accounts** — Define the cost base, both the profit and loss, and the balance sheet. Work with your IT finance or finance partner to obtain a solid view of the expense level detail, such as expense accounts, and the key balance sheet accounts, including expense accruals and prepayments. Use this view to identify specific cash reductions in opex and capex costs, which will immediately have an impact to reported financials. Use Gartner's IT spend asset categorization as found in the IT Key Metrics Database, including "IT Key Metrics Data 2019: Key Industry Measures: Cross Industry Analysis: Multiyear," as a framework for obtaining this view (see Figure 3).

Figure 3. IT Spend by Asset Category

IT Spend by Asset Category
Cross-Industry

Legend: Hardware · Software · Personnel Salaries and Benefits · Outsourcing · Public Cloud Services · SaaS · IaaS and Other Pubic Cloud Services

2017: Hardware 14%, Software 22%, Personnel Salaries and Benefits 37%, Outsourcing 22%, Public Cloud Services 5%

2018: Hardware 13%, Software 22%, Personnel Salaries and Benefits 36%, Outsourcing 21%, SaaS 5%, IaaS and Other 3%

Source: Gartner
ID: 405730

Map and Communicate Your Plan to Eliminate, Reduce or Suspend

There are many categories or types of spend to target or consider when looking for rapid spend reductions. The objective in rapid reductions is the balance of both time to reduction and the size of the reduction. Figure 4 shows an example of a cost management plan, differentiating between cost-cutting and cost-optimization activities.

Figure 4. Example Cost Management Plan

Cost Management Plan
Example

Plotted items (Savings vs. Months):
- Shared Services
- DC Rationalization
- Asset Sales
- Licenses
- Outsourcing
- Apps Rationalization
- Vendor Mgmt.
- Apps Replatforming
- Comms Audit
- Head count
- Device Audits
- Printing
- Subscriptions/Memberships

Example Only – Not a Benchmark

Cost Cutting — Cost Optimization
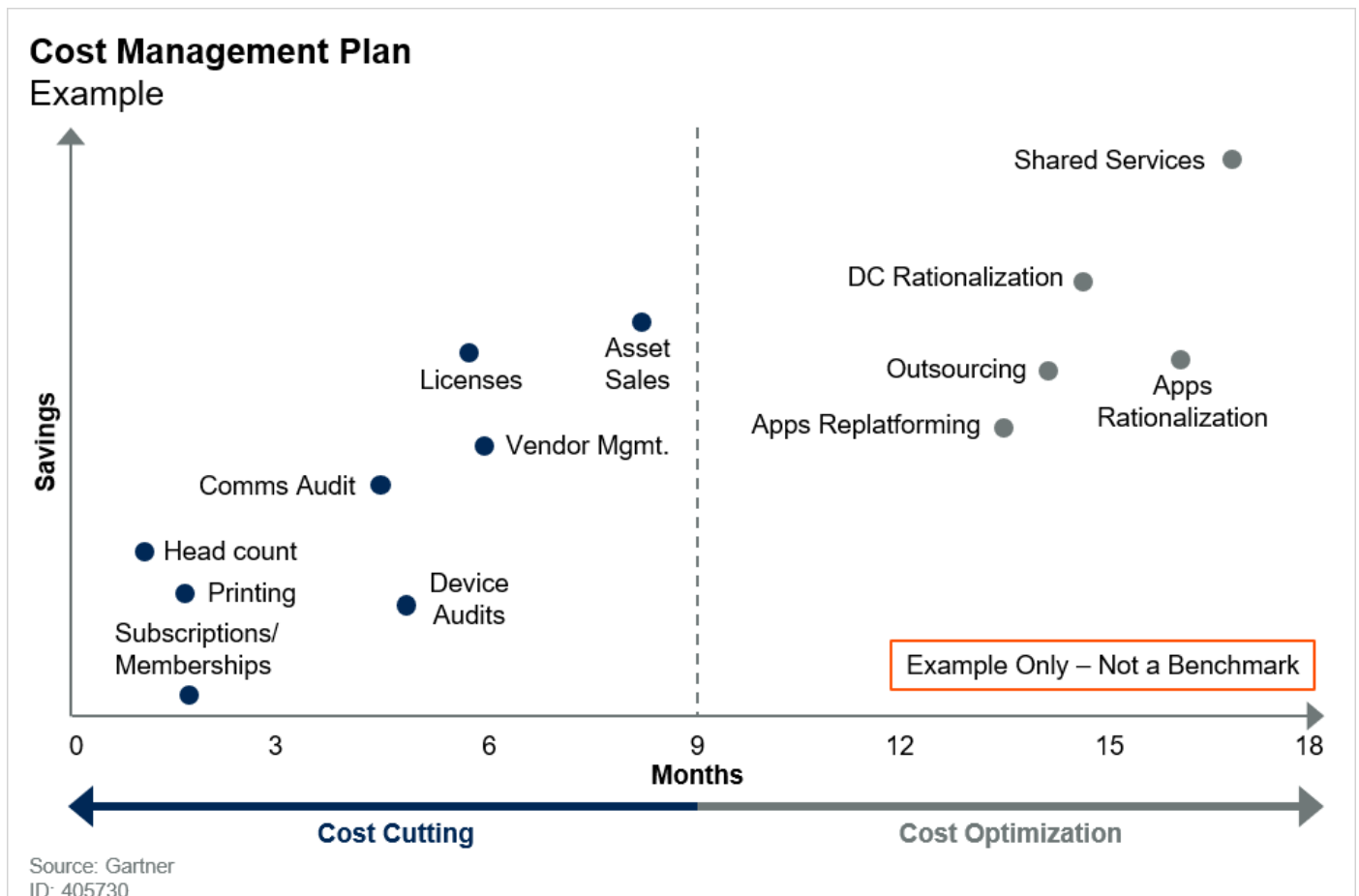
Source: Gartner
ID: 405730

Table 1 details examples of rapid cost reductions in some key categories. Use this table and the examples as the starting point in detailing a cost-cutting plan. For each action/activity, identify and document the expected saving, timing and any investment required to achieve the saving.

Table 1: Rapid Spend Reduction Categories

Category/Type ↓	Examples ↓
Applications	■ Cancel excessive, duplicate or unused licenses
Services and Service Levels	■ Eliminate services and/or scale back service levels and maintenance ■ Audit licenses and reduce number ■ Utilize Microsoft Azure/Amazon Web Services inbuilt tools for cost optimization ■ Shut down and reduce instances or usage at weekends, holidays, etc.
Communications and Data	■ Undertake device/usage audits ■ Undertake telecom bill reviews
Subscriptions/Memberships	■ Cancel or reduce nonessentials/"nice to haves"
Projects	■ Review all projects either in-flight and planned

Category/Type ↓	Examples ↓
Personnel	■ Consider reductions in permanent staff, contractors and consultants ■ Leave replacement positions open/unfilled ■ Reduce/remove travel and entertainment budgets ■ Stop all external training ■ Use technology for internal meetings — i.e., video meetings, rather than travel in person
Infrastructure Assets	■ Sell surplus/unrequired assets ■ Decommission underused assets ■ Sell and lease back ■ Adopt IaaS
End-User Computing	■ Remove/reduce printers ■ Use black and white printing only ■ Audit end-user devices ■ Adopt a bring-your-own-device policy
Vendor/Supplier Management	■ Identify options to renegotiate or terminate ■ Are your suppliers under sales pressure? Can you leverage that?
Innovation	■ What vendor funding options are there? ■ Financial engineering — work with the CFO ■ Consider informal/formal partnerships and/or joint ventures ■ Ideation across IT/the business

Source: Gartner (November 2019)

Define and Manage the Risks

As part of developing a rapid reduction plan, it is critical to define and mitigate, as far as possible, inevitable and accompanying risks. It should be noted that, when rapid, and by its nature, unstructured cost cutting takes place, risk mitigation cannot always follow. It should be acknowledged that effective risk mitigation may take more time and resources than are available under the pressure to make the cost-cutting decisions.

It is essential, however, that a process for risk management is undertaken to ensure that the CIO, IT organization and the business do not find themselves walking blind into the potential consequences of the cost-cutting activities. Use "Gartner's Decision Framework for Prioritizing Cost Optimization Initiatives" to undertake the following steps:

- **Define** the financial benefit, investment, business impact, time required, and organizational and technical risks each action/initiative will pose to the organization.

- **Assess** the level of risk that senior leadership is prepared to accept, tolerate or manage. This may be different to "normal" circumstances if cost and time pressures driving the costs reductions are high.

- **Plan for and mitigate** risks wherever possible. Don't ignore risks, but accept that not all of them can be mitigated in full, and be prepared for that eventuality. If the risk materializes, consider the negative impacts to the cost-cutting exercise, as well as to morale and culture.

- **Manage and communicate** risks, plans for mitigation or risk-realization impacts. Communicate these internally to IT and to the affected BUs. As cost targets are met and reported to senior leadership, so too should the impacts, risks and implications. Because IT cost cutting does not occur in isolation, CIOs should anticipate and account for how the reduction will impact the business. If BU leaders and their staff fail to grasp how the initiative will impact their day-to-day activities and operations (such as decreased productivity or product time to market), then the initiative may prove both unpopular and unsuccessful.

Common Risks

Undertaking rapid cost cutting increases the likelihood of some key risks. Working in silos to meet cost-cutting targets in IT, without consideration of the enterprisewide consequences, could ultimately lead to a detrimental impact on the wider business, be that in terms of service, capabilities or financials.

Increased risks include, but are not limited to cost shifting, focusing on projects, cutting costs in the wrong places, and follow-on impacts.

Cost Shifting

Cost cutting a service in IT may show a reduction in IT's financial numbers, but may simply push the cost elsewhere in the organization if the BU disagrees with the cut and reinstates or funds the service themselves. In the long term, this could drive increased shadow IT, and increased and badly

managed IT costs (which are likely at some future date to present themselves at the CIO's door). Costs may also increase in the BU or in other areas of IT if the cut drives inefficiencies in process, increased error rates or something similar.

Focusing on Projects

It is very easy to default to an approach where all "new" things get terminated or delayed and the mindset of "sunk costs are irrelevant" prevails. In many cases, this can be a wasted opportunity. Large and significant investments and opportunities can be jeopardized by cutting them indiscriminately. Stopping projects, whether they have commenced or not, may harm the organization more in the long run by not enabling and delivering the benefits. This includes projects that were planned based on a structured investment-management approach generating an acceptable ROI, or for legal, fiscal or regulatory reasons.

Once again, while the project cut may be seen as a reduction in IT's financials, the BU's costs (or loss of benefits) could be negatively affected to a greater degree than the IT project investment eliminated. Projects should be continued if they will deliver benefits to the organization within the window available or if they cannot be restarted later. Assess the entire change portfolio looking at: do it, dump it or delay it.

Cutting Costs in the Wrong Places

Proportioning targets across the IT functions may feel fair, but it is likely to allow some to get off lightly and others to feel unnecessary pain. If possible, cost reduction ideation should be run as a whole IT leadership team exercise to identify the best options for IT and the enterprise, not run as a consolidation of ideas driven by the pressure to meet dictated targets. Don't assume that making small cuts across all IT functions is better than making one or two large reductions. Managing and communicating the risks and impacts of one or two significant changes is preferable to subjecting the IT functions to a "death by a thousand cuts."

Many cost reduction ideas require some element of investment to make them happen, which may further limit the identification of the right costs to cut, as opposed to the easy costs to cut.

Follow-On Impacts

Follow-on impacts of cost-cutting decisions may not be well thought through. For example, reducing head count of permanent staff, as well as contractors and consultants, is often a lever pulled first due to personnel costs representing a large proportion of operating expenses. However, if mishandled, the most employable tend to take opportunities to leave, having confidence that they will find another role. This can lead to a talent and morale drain far deeper than would be anticipated. Work closely with HR to best manage this risk.

Also note that, in certain markets, employment regulations can mean redundancies may not be as quick or as cost-efficient as assumed.

When faced with immediate cost pressures, CIOs still need to take a thoughtful approach to cutting costs, ensuring that they mitigate the risks and minimize the longer-term impact on the organization. Cost cutting can be a difficult exercise for CIOs, but a tight focus on the savings outcome and the timing to get there will pay dividends.

Evidence

[1] "IT Key Metrics Data 2019: Key Industry Measures: Cross Industry Analysis: Multiyear"

Recommended by the Authors

Toolkit: IT Cost Optimization Status Check

Driving Cost Optimization Across the Enterprise: An IT Perspective

IT Cost Optimization Should Be an Ongoing Discipline

Three-Year Roadmap for IT Cost Optimization

Toolkit: 100-Plus I&O Cost Optimization and Reduction Ideas

Market Guide for Telecom Expense Management Services

How to Realize Cost Savings After Migrating to the Cloud

Software Asset Management for the Cloud: Consumption Management and Optimization Take Center Stage

Recommended For You

10 Rules for Rapid Spend Reduction

Smarter Spending: An Overview

Video: Smarter Spending: Invest in Business Outcomes

Smarter Spending: Invest in Business Outcomes

Research Presentation for 'Smarter Spending: Invest in Business Outcomes'

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