

# The Gartner Top 10 Recommended IT Cost Optimization Ideas, 2016

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Gartner has advised hundreds of organizations on IT cost optimization during the past several years. Here, we highlight 10 ideas we most frequently recommend to CIOs and IT leaders.

## Key Findings

- In the search to find the next "big idea," CIOs are in danger of overlooking many of the foundational level "must have" ideas to reduce IT costs.
- Many CIOs have tried but not realized the full benefits of the Top 10 techniques, mostly due to a failure to fully implement them.

## Recommendations

CIOs and IT leaders:

- Use the top 10 recommended ideas as a checklist to ensure that you have tried or at least considered some of the more conventional cost optimization ideas before embarking on some more advanced techniques.
- Use the research listed below each idea to ensure that the initiative has been fully implemented, so that maximum value is achieved.

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Introduction

In an attempt to continue optimizing the cost of IT, CIOs and their teams have had to brainstorm new ideas annually that would help in reducing IT spend. Thinking of new ideas year after year can be a difficult and time-consuming task. Often, CIOs and teams have resorted to pushing suppliers to reduce their costs in order to achieve their in-year cost reduction target. This technique yields diminishing returns, and can result in higher costs down the road (see Figure 1 and Note 1).

Figure 1. Cost Optimization in the Age of Digital Business



Source: Gartner (February 2016)

However, there are techniques that consistently deliver year-over-year cost reduction, without costs returning back. Of those techniques, we have listed the top 10. Before embarking on a radical cost

transformation project, CIOs should use this top 10 as a checklist to ensure they have fully exploited these more traditional — and consistently successful — techniques.

## Analysis

The top 10 list below contains foundational ideas, which if executed well, have proven to reduce costs over time (see Figure 2). True cost optimization includes cost-cutting, but the focus is still on value by eliminating those activities that are low value, and by reinvesting, if possible, in higher value activities. Not all of these ideas are cost-reduction strategies. Many are undertaken for reasons such as to improve service delivery, increase agility and flexibility, and may reduce cost only under certain conditions.

The key to effective ongoing cost optimization is to have a proactive process in place that evaluates all cost optimization opportunities, and ensures measurable cost savings (see "IT Cost Optimization Should be an Ongoing Discipline"), beginning with our top 10 ideas.

Figure 2. Top 10 Recommended Cost Optimization Ideas

- 1 Create a shared-service organization for some or all IT services.**
- 2 Centralize, consolidate, modernize, integrate and standardize technologies.**
- 3 Leverage cloud services.**
- 4 Increase IT financial transparency to better manage both supply and demand.**
- 5 Utilize zero-based budgeting on the right cost categories.**
- 6 Rationalize and standardize applications.**
- 7 Optimize software licensing management and ITAM capabilities.**
- 8 Improve procurement and sourcing capabilities.**
- 9 Invest in Mode 2 capabilities such as agile and DevOps.**
- 10 Re-examine how end-user computing is delivered.**

Source: Gartner (February 2016)

### No. 1: Create a Shared-Service Organization for Some or All IT Services

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Creating an IT shared-service organization remains as one of the most used techniques. Gartner sees clients leveraging shared services to reduce costs and get more utilization out of existing enterprise assets. Done right, shared services can deliver those results, along with an array of more

strategic benefits. Cost savings from shared services does not come quick. It can take 18 to 36 months to realize economies of scale, but those savings generally range from 15% to 20% of service costs. Refer to the research below to help in executing, creating and improving an IT shared-service organization.

"Clarifying the Outcomes From Central IT Versus an IT Shared Service"

"CFO Advisory: Shared Services: Overview"

"The Demand Side of a Shared-Service Organization: Collaborate With the Business to Create a Strategic Service Portfolio"

"Understand Shared-Service Fundamentals and Avoid Perennial Traps"

"Guidelines for Understanding and Formulating Decision Frameworks for Shared-Service Centers"

## No. 2: Centralize, Consolidate, Modernize, Integrate and Standardize Technologies

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Centralization and consolidation of IT systems remains one of the primary means of reducing non-value-added IT cost. Done effectively, it removes the redundancy in areas like infrastructure, applications and more. These efforts are often linked to the implementation of IT shared services, but can be done independently as well. Refer to the research below to help in centralizing, consolidating and standardizing technology across the enterprise.

"A Leadership Framework for Business Systems' Centralization and Consolidation"

"2016 Planning Guide for Data Center Modernization and Consolidation"

"Apply Three Economic Principles to Help Win Approval of Major I&O Business Cases"

"Information Infrastructure Modernization Primer for 2016"

"Integration Leaders Must Understand the Five Approaches to Integration Delivery"

## No. 3: Leverage Cloud Services

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Cloud computing covers a wide gamut of services from SaaS to public, private and hybrid infrastructure services including IaaS and PaaS. While many clients leverage cloud computing for reasons other than cost savings (such as agility, flexibility and scalability), many have experienced cost savings under the right circumstances. Refer to the research below to help in further evaluating and leveraging cloud services in your organization.

"The Top 10 Cloud Myths"

"How to Budget, Track and Reduce Public Cloud Spending"

"Demand Management Is Pivotal to Cloud Cost Control"

"Cloud Computing and Its Impact on IT Economics, Finances and Planning Assumptions"

"The Financial Case for Moving to the Cloud"

#### No. 4: Increase IT Financial Transparency to Better Manage Both Supply and Demand

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One of the most often overlooked ideas to drive cost optimization is increasing financial transparency within IT so that per unit costs can be optimized and outside IT so that the consumer has visibility into the cost of both the projects and services IT delivers. Having IT better informed about its own cost base reduces the supply costs and exposing costs and/or allocating them will change how users consume IT. Refer to the research below to help in further increasing IT financial transparency in your organization.

"Mastering IT Budgeting and Financial Transparency Primer for 2016"

"Run IT as a Business Using Six Pillars of Effective IT Financial Transparency"

"Developing a Financial Transparency Roadmap"

"Manage Four Views of the IT Budget"

"One More Time: This Is How You Express Costs in Business Value Terms"

#### No. 5: Utilize Zero-Based Budgeting on the Right Cost Categories

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Zero-based budgeting (ZBB) is not a new technique, but under the right circumstances, it can be applied to major spend categories to identify the details of all cost needed to deliver the right projects and services. Simple run rate or incremental budgeting assumes that every cost in last year's budget is needed again. ZBB does not make this assumption, and requires the "re-justification" or spending often through a cost-benefit analysis based on current conditions. After a ZBB exercise, organizations often find applications and services that once made economic sense, but no longer pass the cost-benefit analysis test. Refer to the research below to help in further evaluating employing zero-based budgeting in your organization.

"Top 10 Guidelines for IT Budgeting"

"Use Zero-Based Prioritization to Throw the Reset Switch on Your IT Demand Portfolio"

"Cost Cutting in IT: When to Use Zero-Based Budgeting"

"CFO Advisory: Innovate Financial Methods for Digital Business"

#### No. 6: Rationalize and Standardize Applications

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The maintenance and operations of the existing application portfolio represents a large part of the IT budget — often 15% or more. Application rationalization is often mentioned as one of the top IT cost optimization ideas year after year. However, due to the need for time, money and buy in from the business, this idea is often relegated to the back burner and revisited in a year or two. However,

lowering redundancy, diversity and complexity of the application portfolio is a major opportunity for cost savings. The challenge: It must be led by standardization or simplification of the business processes. Refer to the research below to help in further evaluating and making application rationalization work in your organization.

"Use Application Rationalization to Get Out of an Application Hole"

"Eight Steps to Revitalize Your IT Cost Optimization Initiative With Application Rationalization"

"Taking on Application Rationalization's 'Wicked Problem' of Getting Business Engagement"

"Use the Demand for New Applications to Drive Application Rationalization"

"In Application Rationalization, the Number of Applications Is Irrelevant"

"Apply These Best Practices for Application Consolidation"

## No. 7: Optimize Software Licensing Management and ITAM Capabilities

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One of the most overlooked areas of cost-savings opportunities lies in effective software licensing and asset management capabilities. Lack of good asset and contract information often leads to higher costs. Increasing your capabilities can provide additional insight that can reduce spend and avoid major compliance fees. Refer to the research below to help in further evaluating and improving software licensing and asset management capabilities in your organization.

"Tutorial: How to Set Up Software Asset Management"

"Use Gartner's Tool Decision Framework for SAM to Create Your Roadmap"

"Software Asset Management: Understanding the SAM Services Market for Effective Third-Party Support"

"The Evolving Role of IT Asset Management"

"Five Ways to Save Money and Reduce Risk With Your IT Asset Management Tools"

## No. 8: Improve Procurement and Sourcing Capabilities

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Procurement is the first for four levels in Gartner's IT cost optimization framework (see "The Four Levels of Cost Optimization"). Buying the right things at the right price is essential to effectively optimization cost. The IT industry is dynamic. New vendors constantly enter the market, and new pricing models continually emerge. CIOs cannot afford to take their eyes off this area if they wish to remain "cost optimized." Refer to the research below to help in further evaluating and improving your procurement and sourcing capabilities in your organization.

"Toolkit: How to Communicate Your IT Procurement Transformation Plan"

"The IT Procurement Leader's First 100 Days"

"Don't Be Bypassed: The Six Futures of Sourcing and Procurement"

"Establish IT Sourcing Principles for Successful Outsourcing"

"Ten Steps to Better IT Services Sourcing Decisions"

## No. 9: Invest in Mode 2 Capabilities Such as Agile and DevOps

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Gartner clients are increasingly developing more agility in order to become more rapidly adaptable to meeting enterprise needs. The challenge of optimizing IT costs isn't just about trying to reduce the unit cost of IT, but about trying to keep a balance between lower unit costs and sourcing IT in a flexible way, so that the organization is able to remove or add resources/costs as needed. Executed properly agile and DevOps techniques allow IT to deliver capabilities faster and reap benefits sooner and prioritize demand for maximum business value. Refer to the research below to help in further evaluating agile and DevOps techniques in your organization.

"The End of the Waterfall as We Know It"

"Emerging Mode 2 Practices in Bimodal Governance"

"Principles and Practices of DevOps"

"Kick-Start Bimodal IT by Launching Mode 2"

"Synchronize Bimodal IT and Cost Optimization for the Best Outcomes"

## No. 10: Re-examine How End-User Computing Is Delivered

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Driven by mobility, BYOD and cloud options end-user computing (EUC) is going through deep transformation. However, in the cost optimization arena, EUC is often overlooked as the focus is on the larger spend categories of data center and applications. Yet EUC still ranks as the fourth-largest IT functional area at 11% of operating expense (see "IT Key Metrics Data 2016: Executive Summary"). Leveraging total cost of ownership (TCO) practices developed in the 1980s, coupled with assessing requirements for success in the 21st century, is critical to both effective delivery and cost optimization. Refer to the research below to help in further evaluating and improving end-user computing capabilities in your organization.

"Best Practices to Drive Cost and Value Optimization in End-User Computing"

"The Seven Secrets of End-User Computing Deployment Success"

"Evolve End-User Services Into Digital Workplace Innovation"

"Toolkit: Developing Your Strategic Roadmap for Endpoint Computing"

"Scenario Planning for End-User Computing: Act Now to Keep Your Users Productive Through 2018"

There are many more great ideas opportunities not listed here that can optimize cost. Some are creative such as investing in the Internet of Things (IoT) to optimize business process and cost as well to potentially risky such as moving from a Tier 1 to Tier 2 ERP or stopping prepaid hardware and software maintenance and moving to time and materials (see "Consider All Cost Elements When Planning for Internet of Things Initiative").

The key to using this top 10 list and any other cost optimization ideas is to have a proactive approach to cost optimization. Putting a process in place to solicit and evaluate cost optimization ideas quickly and effectively, choosing the right ones to achieve your enterprise goals and ensuring accountability for cost savings is in place, will help improve cost optimization results. Figure 3 is a list of cost optimization ideas categorized by each of Gartner's four levels in our IT Cost Optimization framework, along with a range of potential savings that we typically see. Your savings will vary according to the environment (for example, complexity, risk tolerance and cost optimization done to date). Having the ability to understand your existing cost and effectively model what changes is critical in both estimating and delivering real cost savings.

Figure 3. Potential Savings by Gartner's Four Levels of IT Cost Optimization Framework

<b>IT Procurement</b>	<ul style="list-style-type: none"> <li>▪ Improve Procurement Process: 5%-20%</li> <li>▪ Software as a Service (SaaS): 10%-30%</li> <li>▪ Infrastructure Cloud Services: 0%-30%</li> <li>▪ IT Outsourcing Offshore: 10%-40%</li> </ul>
<b>Cost Savings Within IT</b>	<ul style="list-style-type: none"> <li>▪ Data Center Modernization: 10%-20%</li> <li>▪ IT Asset Management: 8%-10% per Managed Asset per Year</li> <li>▪ PC Power Management: 43% per Year vs. Non-Best Practice</li> <li>▪ Apps Dev. Reuse: 18% Over Five Years</li> </ul>
<b>Joint Business and IT Savings</b>	<ul style="list-style-type: none"> <li>▪ Apps Rationalization: 15%-25%</li> <li>▪ Improve End-User Computing Delivery: 5%-25%</li> <li>▪ Manage Opex via Service Portfolio: 10%-20%</li> <li>▪ Zero-Based Budgeting: 5%-15%</li> </ul>
<b>Process Improvement, Business Restructuring and Innovation</b>	<ul style="list-style-type: none"> <li>▪ Business Process Management Technology: 15%-20% Avoidance</li> <li>▪ Shared IT Services: 15%-20% Is Typical, 40% Maximum</li> <li>▪ Leverage Agile and DevOps: 5%-15%</li> <li>▪ Online Marketing and Lead Management: Increasing Revenue 20%</li> </ul>
<b>Savings vary depending on the level of optimization already done.</b>	

Source: Gartner (February 2016)

### Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Managing IT Cost Optimization Primer for 2016"



"How to Manage the IT Budget Wisely Through Cost and Value Optimization"

"Five Principles Underpin IT Cost Optimization Success"

"The Four Levels of Cost Optimization"

"Decision Framework for Prioritizing Cost Optimization Ideas"

"Toolkit: Optimize IT Costs Using Gartner's Supplemental IT Key Metrics Data"

### Note 1 Cost Optimization in the Age of Digital Business

Cost optimization in the age of digital business means organizations must use a mix of IT and business cost optimization for increased business performance, while preparing for digital futures.

### More on This Topic

This is part of an in-depth collection of research. See the collection:

- Cost Optimization in the Age of Digital Business

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