

# Thank You For Joining Today's Gartner Webinar



## Emergency IT Cost Cutting Weigh the Consequences

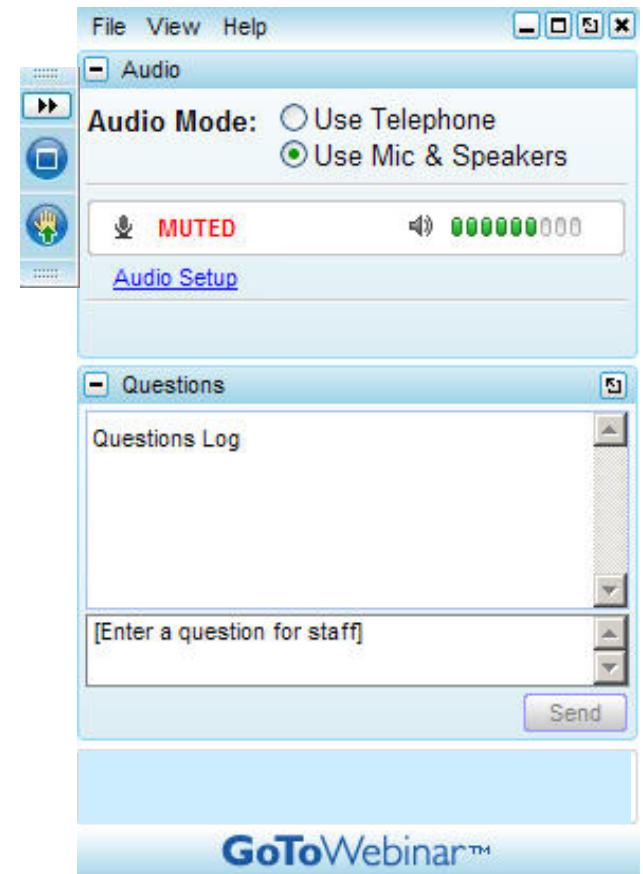
**Presented by Kurt Potter, Research Director**  
**28 January 2009**

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# How to Participate Today

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# Emergency Cost Optimization

## Definition and Scope

- *Doubts about the short term viability of their enterprise*
- Radical measures and tactics employed to reduce IT spending and costs without the benefit of new investment
- Socialization and communication of a new vision or strategy is often absent
- High level IT leadership makes snap or seemingly ill-formed decisions without regard for short and long term consequences

# Economic Uncertainty Forced IT to Confront Systemic Problems

- **Too Much Customization & Complexity**
  - Not Enough Industrialization
- **Cost Allocation and Chargeback Was Too Simple**
  - Not Enough Cost Alignment To Business Metrics
- **Couldn't Prioritize the Importance of IT Investments**
  - No Value Management Competencies or the Desire to Do So
- **No Institutional Knowledge of What Happened Last Time**
  - Cost Cutting is Not a PMO Competency, but is in Reality a Project or Program
- **No Estimates for Multi-Year Funding Commitments**
  - Poor Cost Management Practices & No External Cost or Price Comparison

# The Leadership Challenge of Ambiguity — Economic Uncertainty is Also an Opportunity

- A crisis may also be an opportunity to help non-IT executives learn more about IT's capabilities
- The heightened sense of urgency allows for wholesale decisions on issues that once appeared intractable
- Crisis forces the enterprise to focus internally, allowing optimization to become a priority
- Economic uncertainty forces productivity improvements that were promised and not harvested
- Austerity Forces Grass Roots Innovation in IT and the Business

# What Clients Are Telling Us Since — Last Two Months

- **Global Telecommunications**

Reducing IT Spending by 20% by Reducing Discretionary Spending from 33% to 15% of the Whole

- **Provincial Government**

Focusing on Reducing Storage Costs, Which Now Represent 60% of IT Operations Budget

- **Travel & Leisure**

Focusing IT Cost Cutting on Smaller Business Units and Business Units with Newer or Inexperienced Leadership

- **Information Service Provider**

Changing Their Chargeback Program to Make Better IT/Business Decisions and Give the Shared Services Organization More Power

- **Consumer Products**

Implementing and Simplifying Their Global Chargeback Standards for Profitability Analysis

- **Travel & Leisure**

Enhancing the IT Finance Department with More Staff, Better Roles Definition and ITIL Certification of Staff

- **Discrete Manufacturing**

Working on Coordination Issues. Problems with Corporate Finance Reconciling Cost Savings Now vs. Long Term; Long Term Savings Not Showing Up in Planning. Problems with Corporate HR with Early Retirement & Layoff Policy and Timing with Corporate Finance.

Each Organization is Approaching Cost Optimization Differently

# Participant Poll Question: Size of Increase or Decrease in IT Spending in 2009

- Please select the one option that best fits your situation
- Responses are confidential

# A Framework for Cost Optimization

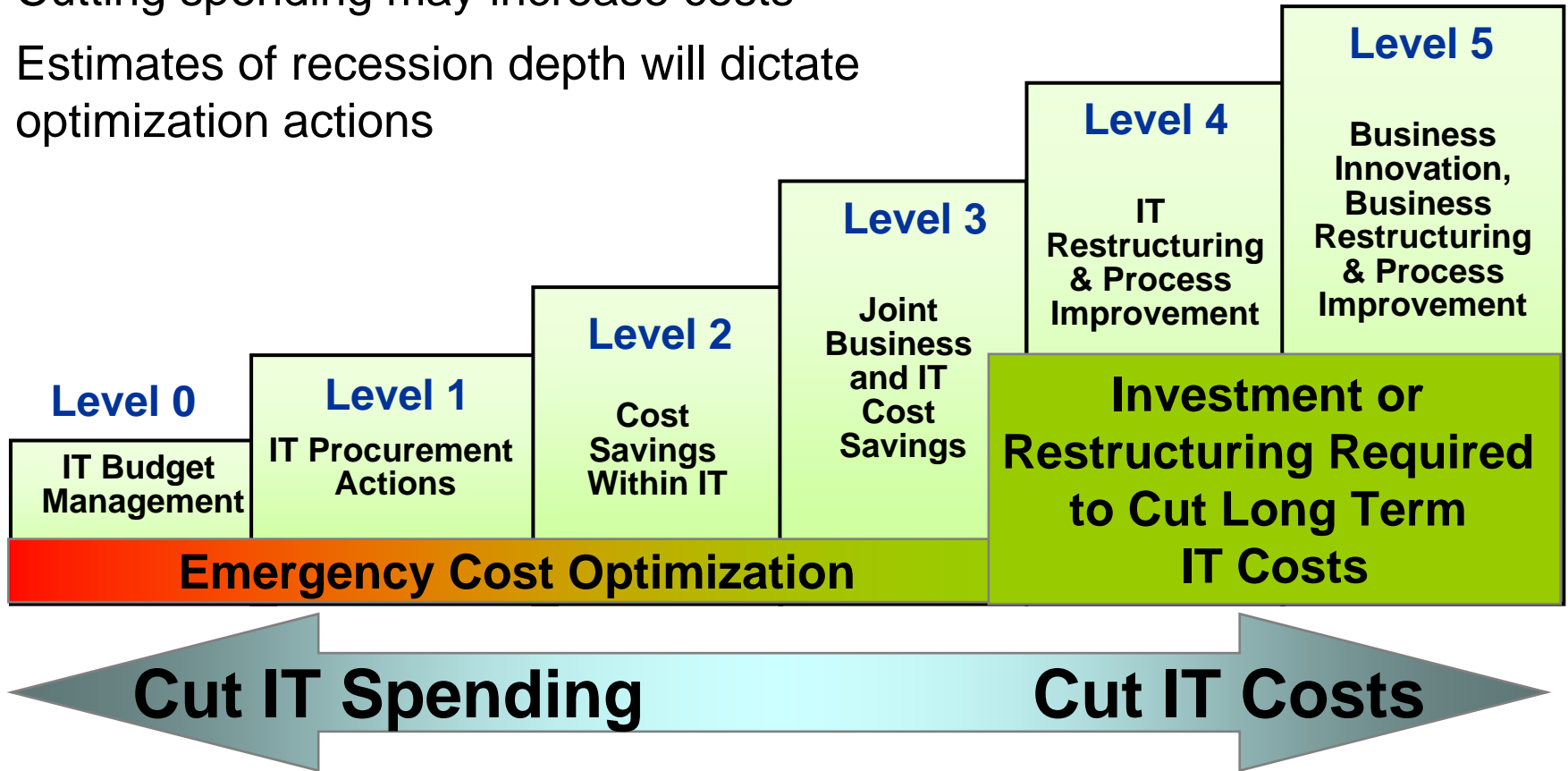


**Execution of various types of cost optimization will involve different parts of the organization and varying levels of control by IT alone.**

# A Maturity Model for Cost Optimization

## – It's Not as Linear as One Would Think

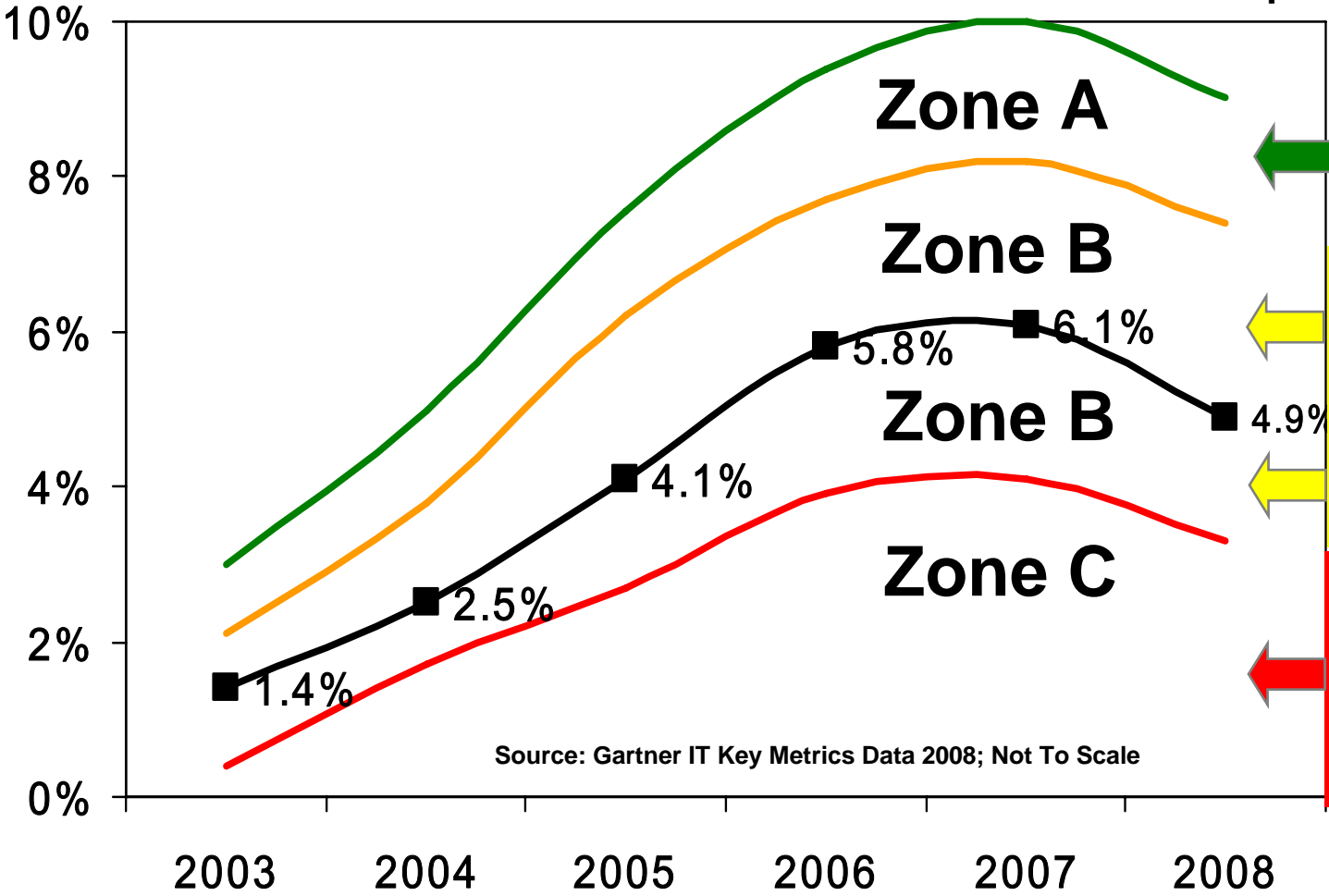
- Enhanced cash flow is the ultimate goal for many
- Cutting spending may increase costs
- Estimates of recession depth will dictate optimization actions



# History of Below-Industry IT Spending Increases or Decreases Limits Cost Optimization Options

Average change in year over year IT spending

Ability of IT to Contribute Independently to Cost Goals



- Cost Savings within IT and Procurement** (Green box)
- Joint Business & IT Cost Savings** (Yellow box)
- Process Improvement, Business Restructuring & Innovation** (Red box)

**Under-Investment Can Mean Radical Changes are Necessary**

# Possible Results of Cost Optimization — Emergency Action Will Yield Additional Savings

Type of Enterprise	First Round Cost Optimization (1 to 2 Years)	Emergency Cost Optimization (12 Months)
<b>Zone A Enterprises</b> – Historical Investment to Enable Business Results	<b>15% to 25%</b>	<b>15% to 25%</b>
<b>Zone B Enterprises</b> – Investment Close to Industry Standards	<b>12% to 20%</b>	<b>10% to 20%</b>
<b>Zone C Enterprises</b> – Chronic Under- Investment	<b>7% to 14%</b>	<b>5% to 15%</b>

**Based on Estimates of Discretionary & Nondiscretionary Budget Cuts**

- ■ ■ ■ **Emergency Cost Optimization**
  - Abandon SLAs*
  - Shift Costs to Other Entities*
  - Push Out Costs to the Future*
  - Keep the Right Staff*

# The Tactics of Emergency Cost Optimization: New Gartner Research

## Emergency Cost Optimization: Weigh the Consequences

Kurt Potter, Mark Raskino, Jorge Lopez, Phillip Redman

19 January 2009 (G00164789)

### Service Levels Expectations

- Reduce
- Abandon
- Train Staff to Say “No”

### Shift Costs to Other

- Decentralization
- Chargeback
- Turn Off Automation

### Push Out Cost to Future Years

- No Lifecycle Mgt.
- Cancel Maint. & Warranty Contracts
- Bad Outsourcing Practices

### Keep The Right Staff

- Keep Middle Performers
- Profile Staff
- Cancel Training

# Emergency Cost Optimization: Risks and Consequences

- **Future Problems Creation**
  - Higher IT cost baseline
  - Poor service delivery
  - Business unit rebellion
- **Creditors and IT vendors sense the effects austerity plans**
  - Signals to key supply chain partners financial instability
  - Immediate payment demands, unfavorable credit status and various legal activity in extreme cases
- **Can increase voluntary turnover from a normal 5% to 10% to 40% to 60%**

# Emergency Cost Optimization: Abandon Service Levels Guarantees

***In times of extreme austerity they can quickly become outdated artifacts that are obstacles***

- Ensure there is a cost benefit
- Often preceded by IT staff reductions
- Stop Running IT Like a Business (ITSCo, IT Service Business Unit, etc.)
- Reactive vs. Proactive — Avoid SLA discussions
- Set expectations for mission critical systems
- Train IT staff to say “No” – Unless funding is guaranteed

# Emergency Cost Optimization: Shift Costs to Other Entities

- Push direct IT costs to the owners of those costs
- Done in a chargeback system or as a matter of financial policy
- Will change financial expectations of the business units
- Ignore or allow decentralization and the proliferation of nonstandard systems
- Turn-off automation where a parallel staff-based process exists

# Emergency Cost Optimization: Push-Out The Burden of IT Spending to Future Fiscal Years

- Procure the cheapest IT — Procuring nothing at all is always the cheapest option
- Non-renewal or cancellation of maintenance and warranty contracts
- Abandon IT asset management for the sake of financial expediency
  - Stop lifecycle management for hardware and software — extend replacement cycles by a year or indefinitely
- IT outsourcing that require little additional investment — Re-Insourcing is not uncommon either

# Emergency Cost Optimization: Keep The Right Staff

***The most sensitive issues faced by IT leaders in a downturn is making short term staffing decisions***

- Delay actual staff choices until other stakeholders make the initial decision (i.e., HR, CFO, Legal, etc.)
- Managers who protest too much or delay necessary actions are at risk
- IT staff can survive mediocre leaders for 2 years
- Middle performers can make do for high performers

# Emergency Cost Optimization: Keep The Right Staff

- **Profile IT staff to discover those employees who enjoy the opportunities created in a chaotic work environment and who work better with less oversight**
  - Forces grass roots innovation by the remaining staff and leadership
- **Cancel All Training — Signals austerity and prompts voluntary turnover**
- **Evaluate lawsuit risk — Former staff may feel they have nothing to lose**

# Emergency Cost Optimization

## You Don't Know What You Don't Know

- Senior business leadership may be unable to fully communicate the extent, scope or impact of the emergency
- IT organizations should adopt a leadership position of planning for the best and the worst
- Due to the potential for prolonged economic uncertainty, enterprises should prepare three alternative budgets: *best-case*, *worst-case* and *most-likely scenarios*

## The Impact of the Economic Downturn on 2009 IT Budgets

Barbara Gomolski, Kurt Potter, Mark P. McDonald

27 October 2008 (G00162257 )

# Some IT Cost Cuts are Not Efficient or Effective – And are Often Delaying Tactics

## Wrong Cuts

Cutting where IT contributes to business efficiencies

Easy wins with negligible actual savings

Cuts that require huge organizational upheaval

Great ideas when there is no money for upfront investment

Proposals that can't be done soon enough

Defers problems to the future

## Downside for Trying

- Actual operational cost may increase
- Undermines IT credibility

- Loss of credibility for wasting time with no value
- Distraction from other more fruitful efforts

- Can't be achieved by IT alone, needs engagement of more senior leaders
- Probably can't be done quickly enough

- Loss of credibility for asking for money when there is none

- Won't achieve necessary savings
- Distraction from other efforts

- Deferrals are actually popular because they give the impression of little effort for free money
- The problem/cost will be bigger later

**IT Leaders May Have To Cycle Through Inefficient Proposals Before Getting Better**

# Efficient IT Cost Optimization Challenges IT Financial Management Capabilities

## Efficiency Targets

## Actions

Centralization & Consolidation

- Data Centers, Servers, Network Providers
- Help Desks, Storage, Data, Provisioning

Legacy Systems

- Modernization & Migration
- SaaS Alternatives
- Business Process Outsourcing

Evaluate Procurement Activity

- Lease vs. Buy vs. Outsourcing
- Deferral & Renegotiation – All IT Vendor Categories
- Install Additional Approval Gates to Delay Action

IT Asset Management

- Extend Useful Life of Assets – From 3 to 4 Years
- Cancel Licenses – Rationalize Multiple Tool Sets
- Focus on End User and Mobile Device Optimization

Lower Service Levels

- Help Desk Change from 7X24 to 5X8
- Availability: 99.100 to 97.500
- Desktop Provisioning: 2 Days to 14 Days

Internal & External Benchmarking

- Define Quantitative Goals for Effective Cost Savings
- A Unifying Principle for Fact-Based Action
- “What If” Analysis for IT Legitimacy

**Many IT Organizations Are Now In the Middle of Significant Efficiency Programs**

# Effective IT Cost Optimization May Require New or Continued Investments

## Effective Action

## Benefits

**IT Vendor or Sourcing Management: Refresh**

- Enterprise Agreements Limit Vendor Excesses
- Creates Leverage to Encourage Partnership Behavior
- Prepare for Cloud Computing, ADAM, Industrialization

**IT Industrialization**

- Process Evolution Negates Customization Benefits
- Standards Adoption Drives Commoditization Benefits
- Move From Fixed to Variable or Semi-Variable Costs

**IT Performance Management**

- Connect IT Value to Business Value
- Portfolio Approach to IT Investment Decisions
- Chargeback: Continuous Discussion About Costs

**IT Value Management**

- Forced Harvesting of Value & Optimization Promises
- Instills Discipline & Rigor to Previous Decisions
- Better IT Value Communication

**Applications Portfolio Management**

- Focus on the Root Cause of IT Expenses
- Cosmetic Differences in Apps Ripe for Rationalization
- IT Alignment from Business Discussions

**Green IT**

- Significant Overlap w/Traditional Optimization Goals
- Focus on Electricity Costs and General Frugality
- Improves Business Case for Optimization

*New Research Note: For IT Cost Optimization, Follow the Money*

Michael Smith & Daniel Miklovic

24 January 2009

# Participant Poll Question: When Will Your IT Organization Focus on “Return to Growth”?

- Please select the one option that best fits your situation
- Responses are confidential

# Samples: More Gartner Research on Cost Optimization — Over 300 More Notes

**Three Golden Rules of Cost and Risk Reduction in Outsourcing**

**Claudio Da Rold**  
**15 January 2009**

**15 Options to Finance Government IT**

**Massimiliano Claps**  
**David McClure**  
**14 January 2009**

**Easy Cost Optimization: Why Some Organizations Can Do More Than Others**

**Kurt Potter**  
**18 December 2008**

**Case Study: How a Dutch Insurer Increased Revenue With SaaS**

**Juergen Weiss**  
**12 December 2008**

**Global Economic Crisis Demands New Strategies for Managing Global Supply Chains**

**C. Dwight Klappich**  
**11 December 2008**

**Cost Optimization: Three Steps to Saving Money on Maintenance and Support for Network Security Products**

**Lawrence Orans**  
**Greg Young**  
**10 December 2008**

**'Green' IT: Cut Your Travel Costs and Carbon Footprint With Web Conferencing**

**David Mario Smith, Jeffrey Mann,**  
**Simon Mingay**  
**5 December 2008**

# **Samples: More Gartner Research on Cost Optimization — Over 300 More Notes**

**For IT Cost Optimization, Follow the Money**

**Michael Smith  
Daniel Miklovic**

**Communicating the Value of EA to CFOs**

**Deborah Weiss  
24 November 2008**

**Cost Optimization Techniques for Midsize Enterprises**

**Barbara Gomolski  
Kurt Potter  
19 November 2008**

**Five More Places to Look for Easy Cost Savings**

**Jack Heine, Frank DeSalvo,  
Stewart Buchanan  
17 November 2008**

**Cost Optimization: Be Smart and Cut Costs Through Benchmarking and Leveraging Best Practices**

**Lars Mieritz  
4 November 2008**

**Fifteen Ways to Save Money in an IBM Mainframe Environment**

**Mike Chuba  
28 October 2008**

**Cost Cutting in IT to Cope With Economic Slowdown**

**John Kost, Massimiliano Claps,  
Andrea Di Maio  
5 March 2008**

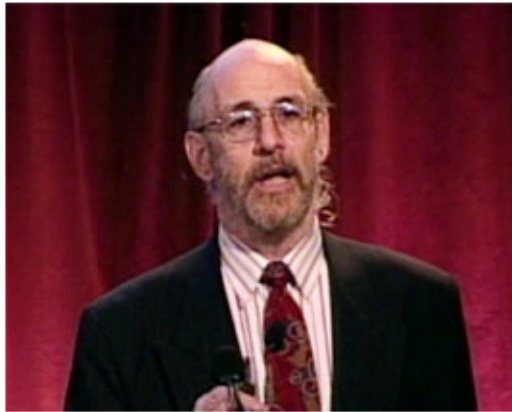
# Recommendations — Be Aware of the Risks — These Measures Are Often Not Best Practices

- Include Emergency Cost Optimization in worst-case scenario planning
- Get official approval and guidance of key IT and stakeholders
- Prepare, socialize and document the risks and unanticipated consequences after recession
- Benefits usually only in the current fiscal year or budget cycle

- Exercise Extreme Caution
- Exhaust all other remedies before pursuing extreme measures
- If your enterprise does not require emergency cost optimization
  - Avoid these practices
  - Ensure you have not accidentally implemented
  - Be mindful that a high-level checklist like this exists

# Gartner Reduces IT Cost in Four Distinct Ways

## IT and The Economy Cost Optimization



FEATURED PODCAST

### Leading IT through the Economic Storm

21 November 2008

**Dale Kutnick, SVP, Executive Programs**

CIOs key focus should be helping the enterprise to demonstrate its trustworthiness to key stakeholders, maintain business-critical operations and care for the needs of employees.



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