



## REDUCING IT COSTS WITHOUT DESTROYING VALUE »»

Organisations are continually under pressure to control the amount they spend on IT, but never more so than in the current downturn as organisations look to curtail investment programmes and reduce costs. However IT cost reductions should always be approached with value in mind; if cutting IT costs destroys business value, for example through correspondingly lesser customer service, operational inefficiencies, then the reductions will be a false economy.

The challenge for most Chief Information Officers is how to reduce IT costs without adversely impacting the value that IT provides to its internal and external customers in order to preserve the organisation's capacity to meet future demand.

The answer to this challenge requires an assessment of the entire catalogue of services that the IT function provides, to understand the cost of delivering each service as well as the value realised in doing so. A systematic assessment of cost and value to obtain a baseline and identify short- and medium-term areas for improvement in line with business priorities and strategy.

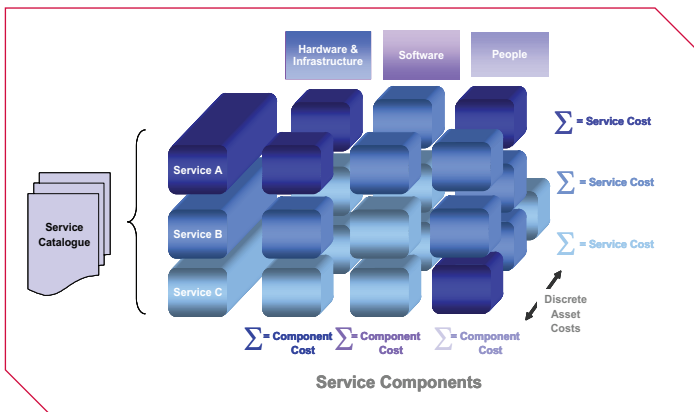
“IT is the single most effective approach to improve business performance, whether the challenge is growing revenues or becoming more cost effective.”

## Cost focus

The key to IT costs is transparency, who is supplying what, to whom, and for how much. Ultimately, most IT costs should be directly attributable to the services being provided. Adopting an activity-based costing approach will help to establish the link between expenditure and service delivery by tracking costs against activity rather than against arbitrary budget categories.

Ideally, all the IT elements of a service should be systematically identified, costed, and documented, as illustrated below, so that there is sufficient granularity to understand the potential for cost reduction and to allow service costs to be accurately measured.

If the service catalogue cannot be compiled in detail, focus on the areas that you suspect provide poor value for money and prioritise these for more detailed assessment.



Do not necessarily cut all high-cost services and assets. Focus on reducing costs that are not contributing to value generation or which are high compared to the value they provide.

Do not review IT costs in isolation, review them in the light of the overall cost profile of your organisation. For example, new investment in an IT project may be justified if it will realise cost savings to the organisation in excess of the cost of the project.

## Value focus

Organisations will need to be ready for the increased demand on services when the economy picks up again and hence it is essential to focus on the value that IT brings as well as the cost of the service.

To understand this, capture present and future demand for services accurately and comprehensively so that funding can be allocated to the services that are most needed. For example, if within your applications portfolio one application is consuming 25% of the total portfolio cost, is that application so important compared to the others in the portfolio?

Define key performance indicators for IT with business value in mind, and measure performance against them. Value that can be quantified is preferable to perceived value, but the key is to have some basis for measuring the value that IT provides.

## Short-term opportunities

- > Cancel or defer low-priority, discretionary projects so that financial resources are directed to the projects that will deliver most benefit
- > Improve delivery performance so that projects deliver the benefits set out in their business cases, and within the approved budget
- > Dispose of or sell under-used assets. For example, many organisations pay for software licences they don't actually use, and are therefore adding no value
- > Eradicate operational inefficiencies through process change, re-organisation, or re-skilling or reducing staff. A key part of this is to review service level requirements, as these can drive costs higher and so should be tempered where they exceed true need.

## Medium-term opportunities

- > Review your applications portfolio – are there opportunities for rationalisation or for easily porting them to cheaper architectures and technologies? Rationalisation can also increase value because of simplified data management leading to easier operational and management reporting
- > Move to standard architectures as these typically provide a lower total cost of ownership – in terms of licences, support, and maintenance – than multiple heterogeneous architectures
- > Consolidate infrastructure, where feasible, and consider buy versus lease options. Transition to more cost-effective infrastructure technologies such as thin client, virtual servers, and Storage Area Networks, and explore opportunities to use open source software and software as a service. Infrastructure cost savings are a good target unless their consolidation will increase business risk or increase the chance of service levels not being met
- > Look for opportunities to adopt a shared services model, removing duplicate activities and realising economies of scale, whilst maintaining at least the same quality of service
- > Change your service provider model:
  - Create a more competitive environment so that service providers have to price economically in order to win contracts
  - Ensure commercial arrangements with service providers incorporate some form of continuous improvement whereby, over time, they are expected to deliver more for less
  - Adopt a risk/reward model so that service providers have a vested interest in achieving shared financial and non-financial targets.

## Conclusion

Before executing a cost-reduction programme, baseline the current costs and the value being delivered. This will allow you to measure improvements against the status quo once the programme has started to deliver and to increase value in future without increasing cost. Maximising return on investment will remain an ongoing issue long after IT costs have been adequately reduced.

## Next steps

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