A Practical Guide to
Reducing
IT Costs

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3

THE COST REDUCTION PROJECT

> A project is complete when it starts working for you, rather than you working for it.
>
> —*Scott Allen*

When faced with the need to do significant cost reductions, manage the effort as a formal project, adjusting for the urgency and depth of the work ahead of you. A structured approach to cost reduction results in many benefits and the results are typically sustainable cost reduction.

The following are the recommended steps for a cost reduction project as shown in Figure 3-1:

1. Establish goals
2. Obtain information
3. Analyze
4. Identify and prioritize actions
5. Execute
6. Monitor and improve

ESTABLISH GOALS

First, establish the goals and objectives of the cost reduction effort. This includes understanding the magnitude and timing of the necessary reduction, what areas
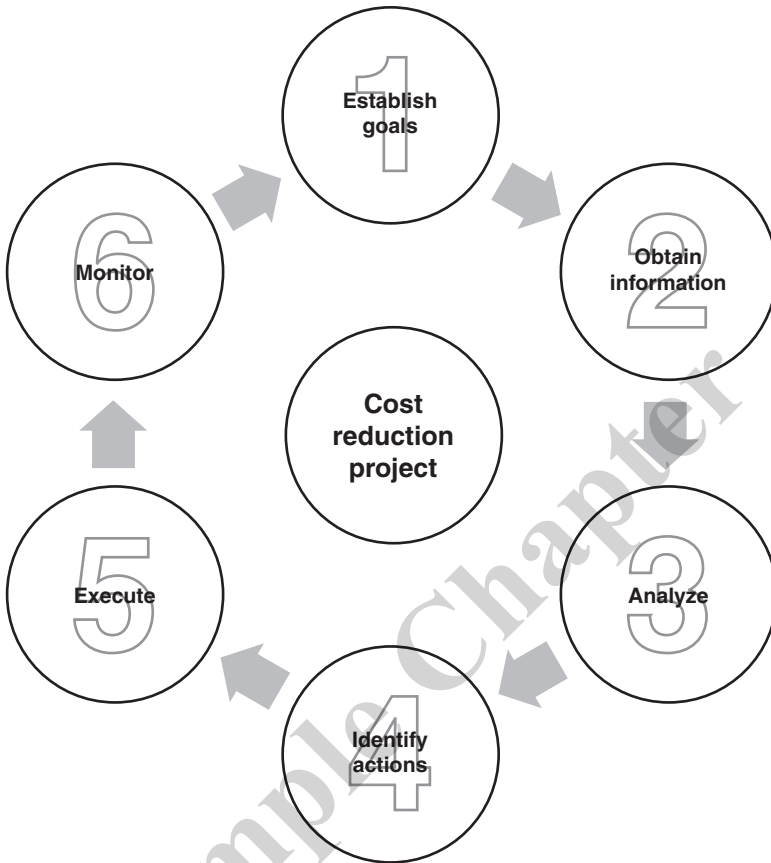
Figure 3-1 The cost reduction project

the reduction must affect, or any constraints you may have in cost reduction actions. It also includes understanding any changes to the business goals. This section discusses each of these areas.

Cost Reduction

The business may set IT's cost reduction goals, but IT should also consider proactively identifying the need for budget cuts rather than waiting to be asked by the business. Whether it is business-driven or an IT-driven cost reduction, understand and clarify the urgency, depth, and magnitude of the necessary cuts. Obtain a common understanding of the measures of success. Clearly understanding the targets will help determine the best type of cuts to make. If required cuts are not specific, but rather a more general need to improve efficiencies and reduce overall

costs, your actions are often general improvements in fiscal responsibility that take time rather than specific cuts that produce results by a given deadline.

Depending on the goals, the magnitudes of reductions that will be necessary are drastically different. Do not make assumptions on the goals. Needing a 5 percent cut is drastically different from needing a 20 percent cut. Deeper cuts signify the company may be in dire financial duress and it will require a serious need for quick action.

Timing of Reduction

The timing of the cost reduction goal is also important to understand. Achieving a 5 percent cost reduction within this quarter or month requires different actions than having to achieve a 5 percent reduction by the end of the year. Some actions will require time to implement and realize benefits. Identify the short-term (0 to 3 months), medium-term (4 to 10 months), and long-term goals (11 months or longer). For example, you may need a 5 percent reduction immediately and an additional 10 percent reduction by the end of the year. For the short-term goals, you will need to look for low-hanging fruit and stopgap measures. More structural changes will be required to meet long-term goals.

Short-term needs for cost reduction signify an urgent requirement for action. You will need to identify cost reduction actions quickly with limited planning to meet short-term needs. If cost reduction needs are short-term, minimize the information gathering and planning steps identified below and pick low-hanging fruit under short-term actions. After completing immediate cuts, you are able to return for more complete planning and information gathering phases for strategic and sustainable budget cuts.

Reduction Impact

Clarify what type of budget cuts are necessary, and identify particular areas targeted for the reduction. For example, identify if the budget cuts need to be operational expenses or capital items. Understand if the budget cuts must apply for company-wide IT support or IT services for a specific division or line of business. Identify if you will reduce costs in the area of staff as this is a major component of the IT budget. If desired cuts are broad and deep, you will probably need to affect the services provided and potentially reduce personnel.

Constraints

Make sure you clarify and understand any constraints in meeting the necessary budget cuts. For example, some company cultures do not support personnel layoffs unless it is a last resort. In addition, union rules may affect the ability to

execute layoffs. Identify if any projects that need to proceed (even with budget cuts) are sacred cows or off limits to reductions.

Business Goals

Review the changes in the business goals, priorities, and projects as they have an impact on the IT projects and expenses. Look across all areas of IT and align the cost reduction strategy with the business strategy and priorities. Use the governance process and work with the IT steering committee to help in the cost reduction effort. Ensure that you align actions with the business strategies. The cost reduction goals in the business may also affect some IT projects and initiatives. For example, the business may defer a previous business goal to add a new product line in order to meet general cost reduction requirements. This is a great time to work with the IT steering committee and governance process to re-prioritize all IT efforts based on the new business priorities and budget constraints.

Communicate Goals

Clearly document the cost reduction goals as shown in Figure 3-2. Announce and communicate the goals and intent. Be honest and direct. Enlist the help of everyone in IT, your vendors, the governance structure, and the business to help achieve the IT budget cuts. You will be amazed how quickly you are able to identify cost reduction opportunities by asking everyone involved in IT for suggestions. If you get the buy-in from the entire IT group to meet the cost reduction goals, you are able to be significantly more effective than if you try to meet the goals by yourself. If the IT organization knows the goals, and understands that the last resort is personnel cuts, it is amazing how resourceful the group can be. It is even helpful to ask vendors and suppliers for their ideas in meeting cost reduction goals. They

> **Top Tips**
>
> "Don't underestimate the power of the people in the trenches. Ask them for ideas! Stand on a mountain and communicate what you are trying to do. Tell them to let you know if they see something dumb. We were flooded with suggestions. For example, one employee identified that we spent $70K/year in 411 calls."
>
> —Brad Smuland
> Merrill Corporation

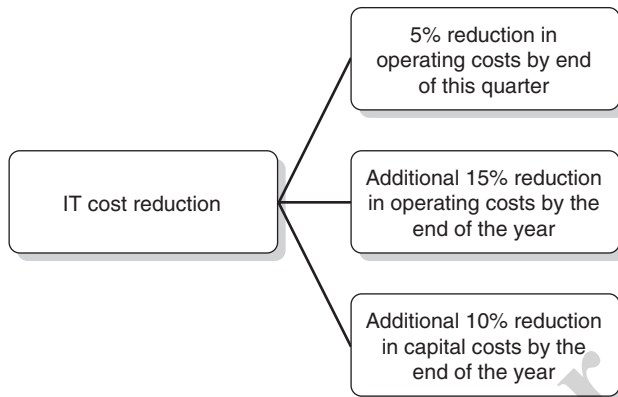**Top Tip 3-1** Ask for input from everyone

Figure 3-2 Cost reduction goals sample

know the realities of today's economy, and the strong partners will start developing solutions to meet your needs.

Mergers and Acquisitions

In the situation of a merger or acquisition, the focus often turns to that of cost reduction in eliminating duplication or overlap and achieving synergies between companies. Although cost reduction is important in these situations, the primary focus should be on integrating systems and processes while minimizing risk, operational disruption, and adverse impact to the customer or business. Oftentimes, in the planning phases of mergers or acquisitions, management can be zealous about the cost reduction opportunities but neglect to adequately plan for the costs of integration before being able to realize the reductions. Particularly in IT with large systems and infrastructure, the costs and time to integrate can be huge. Therefore, although the cost reduction process and tactics

"Invite all team members to help you find cost reductions and be part of the solution. They know more about what can be cut than you do, as they are in it day-to-day. Bring them into the process and build trust."

—Peter Bellavance
Tastefully Simple

Top Tip 3-2 Invite all team members

apply in the case of mergers and acquisitions, view it within the overall context and effort of merging companies and operations. Rather than an initial focus on cost reduction, it is far more important to minimize the risk of exposure, customer defection, employee defection, and operational errors. A cost reduction effort actually may be more appropriate as a follow-up wave of integration efforts. Once stabilized, standardization and consolidation can reap huge benefits in mergers and acquisitions.

OBTAIN INFORMATION

The second step is to obtain the necessary information. Two main areas of information to gather include the budget and spending, and on the assets and inventory. The following are some basic components of information to assemble before beginning to identify cost reductions. If you do not have formal documentation, this information provides ways to develop the necessary components:

- *IT budget and spending.* Obtain up-to-date budget and spending information. If a complete budget does not exist, collect IT spending information for the past couple of years in a spreadsheet using the components identified in a budget in Chapter 2. This information will provide the baseline for cutting IT costs. Forecast costs for the year based on year-to-date numbers.
- *Business plan.* This information will ensure that you make any cost reductions while still achieving the overall business strategy. If your company does not have a formal business plan, meet with senior management to document the key business goals, strategies, and objectives they hope to accomplish in the next few years as well as the planned business initiatives for the next year.

> Before making reductions, you need to understand what you have. You need the basics in place, such as project portfolio management, asset and inventory management, time tracking, and incident tracking.
>
> —Randy Witt
> Restaurant Technologies

Top Tip 3-3 Understand what you have

- *IT strategic plan.* This information will ensure that the implemented cost reductions will not sacrifice key goals and objectives. If you do not have an IT strategic plan, document the key IT objectives and show the linkage to the business goals and objectives. Document the major IT strengths and opportunities. Identify the key IT initiatives for this year and next year in the areas of business applications, technical infrastructure, IT organization, and IT processes.
- *IT project list.* You will use this information to re-prioritize projects in light of budget cuts and changing priorities. If you do not have a formal project portfolio, develop a spreadsheet with basic information for each project including the area of the business it supports, its status, its priority, and the costs or estimates needed to complete the effort.
- *Application list.* Use this information to identify services to replace, consolidate, or remove. If you do not have a formal IT service catalog or detailed current situation documentation in the IT strategic plan, develop a spreadsheet with basic information about each business and infrastructure application. Include the software name, if the software is vendor-supplied or custom, annual maintenance and support costs, full-time equivalents (FTEs) required to support each application, business criticality, and general application health.
- *Hardware inventory list.* You will use this information to identify components to replace, consolidate, or remove. If you do not have a complete configuration database of assets, assemble a spreadsheet with the key components of hardware assets, including servers, major network components, and desktop information. Include the age, condition, business need, and criticality.
- *IT staff inventory.* Use this information to understand IT salaries, as it is a major portion of the IT budget and identify whether you need to change the focus of resources. If you do not have a complete skills inventory, develop a spreadsheet to document basic information about the IT staff. Include the number of years of IT experience, years with the company, compensation, bonus, overtime costs, skill sets, tasks, responsibilities, and projects.
- *IT organization chart.* This will help evaluate supervisor ratios for the potential of merging or condensing the structure for more efficiency. If you do not have a documented organization chart, develop one using PowerPoint or similar software.

ANALYZE

Slice and Dice the Costs

Although it is important to have transparency and visibility into IT costs on a regular basis as described in Chapter 2 on the budgeting process, it is even more important to have that visibility when beginning budget cuts. Analyze and look at the IT costs in a number of ways, such as:

- *Costs by business area.* Make sure you obtain costs by application and costs by business area or business process to identify areas that are not in alignment with business value. Look at your costs by service or capability provided. See if you are able to eliminate or target for reduction within a particular service or capability offering. Look at business processes that are costly and could benefit from business process re-engineering.
- *Keeping the lights on versus adding value.* As mentioned in Chapter 1, many organizations spend 70 to 80 percent of their budget maintaining systems or keeping the lights on. Typically, companies spend only 20 to 30 percent on projects that add value to the business. Companies that have implemented best practices drive to spend 40 to 50 percent on projects. Review your costs to see how much money you spend on maintaining systems, and target that area for potential cuts and efficiencies.
- *Fixed versus variable costs.* Look at the amount of fixed costs you have versus variable costs. Particularly in turbulent business times, it is helpful to have more costs that are variable and scalable with the business. Shift costs from fixed to variable in a number of different ways, such as using some consultants rather than all employees, using software-as-a-service (SaaS) for some applications rather than having everything in-house, or using hosting services you pay for based on volume.

> **Top Tips** " Start by understanding the application portfolio and prioritize based on the criticality of the application and functionality provided to the business. Based on this, ensure you are spending the time and money on the critical applications. "
>
> —Trent Buness
> 3 Wire

Top Tip 3-4 Prioritize based on criticality

- *Project cost.* Review the estimated total costs by project. Align each project with the business priorities. Ensure that the estimated total project cost has not exceeded estimates.

Cost Drivers

Understand the detailed costs and the key cost drivers. As identified in Chapter 2, analyze the budget by areas of the business or business services. For example, as you look at infrastructure costs, perhaps a key driver is the number of employees. As the company hires an additional employee, your desktop software costs increase as do disk space, network bandwidth, support calls to the help desk, etc. A key driver for some of your application costs could be company revenue. As revenue increases, perhaps hosting costs or SaaS costs increase, transaction volume increases, etc. Other potential drivers might be service level, business mix, product portfolio, number of sales channels, number of sales representatives, number of acquisitions, number of products, and complexity of products. As these drivers decrease, it is important to determine if you can decrease costs. As the drivers increase, it is important to review how you might be able to reduce or leverage costs. Of course, not all costs have drivers as there is a fair amount of fixed costs. However, the more costs you can tie to drivers the more this will help reduction analysis and communication to the business.

Reduction Enablers

Examine the key enablers that help you achieve each of the cost reduction goals to obtain the desired results. Enablers are tools that you can use to reduce costs. For example, one company had implemented a document management and workflow system for one part of the organization but had not used the tool in IT.

> It is critical to understand the principle cost drivers behind a service provision—volume, unit cost, and service level. Understand what you can control, influence and only worry about that. Focus on the first two. Institutionalize with repeatable processes to run IT as a machine. Look at the processes, metrics, and controls—leading indications not just lagging results. Implement general management principles and lean philosophies.
>
> —Malcolm McRoberts
> Deluxe Corporation

Top Tip 3-5 Cost drivers

They identified cost savings by using the document management and workflow tool in IT. Another company had begun implementing Information Technology Infrastructure Library (ITIL) but just within one process of IT. They identified ITIL as a key enabler to reduce costs in additional IT processes. Another company identified the web as an enabler to help users solve IT issues through self-service methods, thus reducing help desk costs. Even simple vehicles can be enablers. For example, one company reduced password resets to one-third of the volume by changing the time frame for password changes from 30 to 90 days.

Benchmarking

Another aspect of analyzing costs is benchmarking. However, be careful when benchmarking IT costs. The key point to remember when comparing costs is that it is not how much money is spent, but how wisely the money is spent. Although benchmarking is interesting, do not use it by itself to dictate cost reduction actions as it is very difficult to make sure you are comparing apples to apples. To the extent they do not line up, benchmarks could create pressure to achieve savings that are neither possible nor desirable as discussed below in the precautions. Skip benchmarking if the cost reduction goals are short-term and require quick action.

Common IT costs to benchmark include:

- IT spending as a percent of revenue.
- Operational spending percent of IT budget.
- IT staff as a percent of total employees.
- Average IT staff growth.
- Rate of IT staff turnover.
- Employees supported per IT employee.
- IT cost per employee.
- IT spending per employee.
- Spending by maintenance versus projects.
- Total IT budget.
- IT budget increase or decrease.
- IT expenses by category, including desktop, client devices, software, network hardware, communications, etc.
- IT staff time allocation by help desk, desktop services, network, project management, business analysis, application maintenance, application development, database administration, data center operations, and so on.
- IT staffing mix.
- Help desk staff per PCs.
- Cost per help desk call.
- FTEs compared to servers or PCs.

Although benchmark statistics are very powerful to supplement a thorough quali-tative analysis, be very careful when comparing benchmark metrics, as you can come to some potentially incorrect conclusions by looking at the numbers without context. Benchmark statistics tell a piece of the story, but do not tell the entire story. The following are examples of a few precautions:

- Rather than comparing to companies in general, be sure to compare to companies that are of a similar size are in a similar industry. Both of these factors make a tremendous difference to the benchmark num-bers and conclusions.
- Be sure you consider the total IT costs and know what is in the benchmark numbers. For example, determine if depreciation and amortization are included in both numbers as that makes a substantial difference.
- Consider hidden IT costs. Your IT costs could be lower than the indus-try, but you have substantial IT costs hidden in user operational budgets. If you include all the hidden costs, it tells a completely different story.
- At initial glance, it appears that it is good to spend less than the indus-try, but this could also mean that you are not investing in architecture for the future and could be at a competitive disadvantage.
- Depending on where and how you spend money makes more of a dif-ference than how much money is spent.

IDENTIFY AND PRIORITIZE ACTIONS

In the third step, identify the potential actions and target areas, prioritize the actions, and assign accountability. This is where you look for and find the cost savings. Determine exactly what actions will take place, by when, by whom, and by how much will be saved.

> **Top Tips**
>
> "It is especially important to have a good prioritization process for tactical requests. The little requests can be a sinkhole. Some companies cut the big projects, and keep doing the little stuff, which is backwards."
>
> —Stephen Levin
> University of Minnesota

Top Tip 3-6 Prioritizing tactical requests

> " The first round of reductions is easy, but it gets harder after that. You can't do the second and third round of cuts by yourself as it typically impacts the business. You will need the support of the business executives. "
>
> —Deb Bauman
> Sun Country Airlines

Top Tip 3-7 Executive support

Cost Reduction Approaches

There are several approaches to reducing IT costs and looking for opportunities. You may choose to use one or more of the approaches as shown in Figure 3-3:

- *Expense.* This is reducing spending on discretionary items such as training, meetings, and travel. This is typically the first and fastest way that companies reduce spending. Frugal expense management must be an on-going activity. Ensure guidelines for expenses are in place, communicated fully, and monitored by management.
- *Investment.* This is reducing or deferring spending by re-prioritizing or reducing how you make investments. These reductions are typically capital spending related to projects. These changes typically involve business management in the governance process to re-prioritize projects.
- *Asset.* This is reducing operating expenses by simplifying, standardizing, consolidating, or reducing assets. This could be hardware, software, or any IT-related asset. For example, make sure that departments are not carrying assets on the books and incurring depreciation charges for assets that have been in the company for years. Although it is accounting money, there are often huge dollar savings involved in cleaning up old assets and removing them from the books. Also consider selling or donating old equipment (after a thorough security review and clean), as it is better than scrapping the items and paying to have them removed. Talk to vendors about trade-in credit, as some vendors are concerned about their equipment ending up in the used market. For example, one company sold an AS/400 disk drive back to IBM that had never been used but had been owned for four to five years. The company received about $10,000. If you are able, separate the asset management function from the groups that support and maintain the equipment as it is more difficult to hide or overlook unusual equipment.
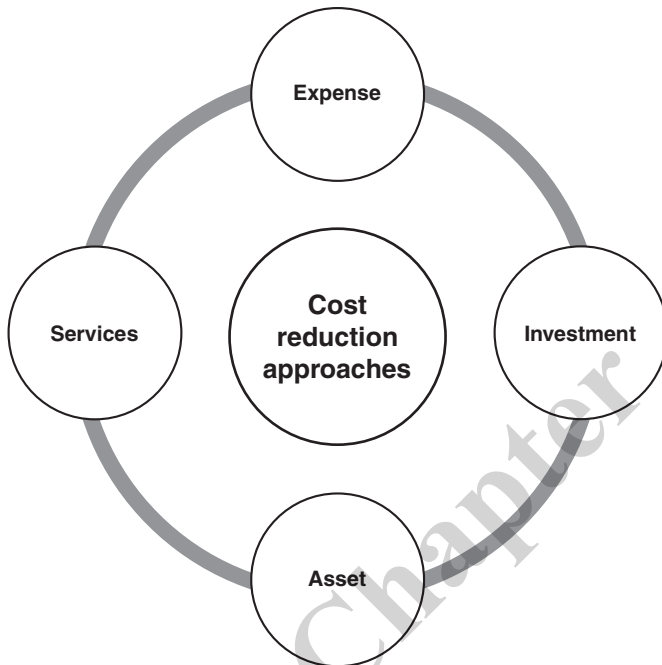
Figure 3-3 Cost reduction approaches

- *Services*. This is eliminating, reducing, or changing the services and capabilities that IT provides. It could be changing the support provided to a line of business, a particular business process, a particular business goal, or an application area. This involves both capital and expense spending including projects and on-going expenses.

Identify Cost Reduction Possibilities

Review each area of IT for cost reduction opportunities. Include the following areas, each of which are covered within various chapters of this book to provide additional guidance and suggestions:

- Business applications (Chapter 4):
  - Application portfolio.
  - Software licenses.
  - Maintenance and support agreements.
  - Software implementations, custom application development, and other application options.

> " IT management must learn and understand the budgeting process for their organization. You must put the impact in business terms. Outline the pros and cons to any potential cuts and identify the risks. Work with the business to make logical decisions based on facts. "
>
> —Bruce McIntosh
> Graco Inc.

Top Tip 3-8 Logical decisions based on facts

- Technical infrastructure (Chapter 5):
  - Database environment.
  - Desktop environment.
  - Server environment.
  - Network environment.
  - Voice and data telecommunications environment.
- IT processes (Chapter 6):
  - Service delivery processes: service level agreement, availability management, capacity management, IT service continuity management, financial management, and security management.
  - Service support processes: service desk function, incident management, problem management, change management, configuration management, and release management.
  - Systems development processes: feasibility, requirements, design, develop/install/integrate, test, validation acceptance, and post-implementation review.
  - Manage resource processes: IT strategic planning, portfolio management and governance, project management, human resources management, data center operations management, facilities management, procurement and vendor management.
  - Manage business relationship processes: understand the business, market IT offerings, satisfaction management, and metrics management.
- IT organization (Chapter 7):
  - Organization structure, roles and responsibilities.
  - Salary planning, bonuses, benefits.
  - Headcount management.
  - Organizational alternatives, management of consultants.

- • Miscellaneous costs (Chapter 8):
  - ○ Copiers.
  - ○ Printers.
  - ○ Training.
  - ○ Travel.

Prioritize

Cost reductions have a short-term, medium-term, or long-term effect. Depending on your environment, each will have a unique impact and will have varying difficulty to implement. Review all the cost reduction opportunities identified throughout all areas of IT. Rate each opportunity for a proper fit considering the time to implement, difficulty to implement, and alignment with the cost reduction goals. Identify:

- • *Short-term cuts (0 to 3 months).* Complete these actions quickly and immediately experience a cost reduction. This could be reducing, deferring, or eliminating spending by finding clear cost reductions, low-hanging fruit, or temporary measures. This could also be the immediate reduction or elimination of IT services or personnel. If the cost reduction goals indicate that you need to produce quick short-term results, you will need to begin with these short-term measures and then go back for a more methodical and thorough planning for sustainable budget cuts. Although these measures have an immediate or short-term pay-off, they are not always sustainable or repeatable.

  Short-term cuts could include reducing items, such as cutting the training budget, travel budget, or consultants. It could include freezing capital expenses and purchases, hiring or open positions, as well as bonuses and raises. Short-term actions involve revisiting unsigned

> " Have transparency on what is going on in IT. Put the budget in business layman's terms so they see the value they are getting. When faced with decisions on where to cut, it is key to have business people participate with IT to ensure an aligned view on the decisions made. "
>
> —Gail Farnsley
> Purdue University
> (former Cummins CIO)

Top Tip 3-9 Business participation

vendor contracts that are in progress or putting a temporary freeze on projects. Figure 3-4 shows examples of short-term actions.

- *Medium-term cuts (4 to 10 months).* Do medium-term cuts by replacing technologies or resources with a less expensive alternative that is more cost effective. Examples could include server consolidation or standardizing desktops. Realizing the overall impact or actual reduction takes slightly longer. Typically, medium-term cuts optimize operations and make changes in order to run more efficiently. This includes re-negotiating vendor contracts, reviewing software licenses for cost savings, delaying hardware refreshes, or increasing project acceptance criteria. Figure 3-5 shows examples of medium-term actions.

- *Long-term cuts (11 months or longer).* Make long-term cuts by replacing core technologies or resources with a less expensive alternative that is more cost effective, but this typically involves a large project or longer implementation time frame. These structural design changes allow you to deliver services at a lower cost. However, they involve investments to save money while lowering the total cost of ownership. Actions may also involve cost avoidance measures. Examples could include a new Enterprise Resource Planning (ERP) system that is less maintenance intensive, off-shoring development work, outsourcing of services, standardizing or consolidating applications, and re-prioritizing projects. Figure 3-6 shows examples of long-term actions.

Prioritize the cost reduction action items and develop a roadmap or project plan. Of course, focus most of your initial attention and efforts on actions that provide the largest savings in the shortest amount of time. One company prioritized action items by categorizing the ease of implementation against the potential cost impact as shown in Figure 3-7. First, they prioritized the items with the largest cost benefits that were easy to implement. Then, they moved to those that did not have as large an opportunity but still had quick results. The third priority involved those items that were large opportunities but took more effort to implement. They put the fourth and bottom priorities on the low-priority list to do only if necessary as they were of minimal value for a larger effort. You may find that you are able to realize 80 percent of the cost opportunity from the top 20 percent of your actions.

Another company analyzed the opportunities similarly, but looked at them within the quadrants of opportunity against the disruption from the change. For example, moving from SAP to an open-source ERP may be a huge opportunity for cost savings, but the level of disruption to the company would be tremendously high. On the other hand, server consolidation may be relatively nondisruptive while offering a significant cost reduction opportunity.

Short-term	Business applications (Chapter 4)	Technical infrastructure (Chapter 5)	Processes (Chapter 6)	Organization (Chapter 7)	Miscellaneous (Chapter 8)
	• Eliminate unused software • Have a negotiation strategy and document results • Revisit unsigned vendor contracts and negotiate software prices aggressively • Purchase licenses when you need them, only buy licenses for modules and number of users you need • Ensure the proper user type and mix • Enterprise licenses, impact of processors and cores, number of instances • Remuneration for beta software • License terms for acquisitions and divestures, and other terms and conditions • Vendor contracts • Annual maintenance cost	• Obtain complete inventory information and prioritization scheme • Maintenance and support contracts • Refurbished and used equipment • Review how you purchase hardware and software • Microsoft licenses • Match bandwidth to business needs • Two vendors for WAN services • Monitor performance • Review telecommunication plans • Manage telecommunication invoices • Manage cellphones • Teleconferencing and videoconferencing • Evaluate desktop upgrades and refresh • Manage desktop licenses	• Implement just enough processes • Use SLA's to balance expectations and costs • Password reset software • Review costs, including depreciation and amortization • Improve help desk • Root cause analysis • Help desk software and call logging • Remote desktop assistance • Increase criteria in governance and portfolio management • Project management principles • Manage vendors, negotiate reduced agreements	• Eliminate open positions, freeze hiring • Offer early retirement • Schedule changes, shift to part-time • Unpaid time off • Management streamlining and delayering • Reduce salaries, eliminate increases and bonuses • Reduce contractors	• Obtain inventory and cost information for copiers and printers • Eliminate personal printers • Replace inkjet printers • Limit color printing • Refill cartridges • Freeze training • On-site meetings • Online classes • Train the trainer • Mentoring • Cut tuition reimbursement • Freeze travel • Travel and entertainment standards • Videoconferencing • Office supplies • Professional associations

Figure 3-4 Short-term cost reduction examples

	Business applications (Chapter 4)	Technical infrastructure (Chapter 5)	Processes (Chapter 6)	Organization (Chapter 7)	Miscellaneous (Chapter 8)
Medium-term	• Structured selection process • Match service level to business needs • Performance penalties on service levels • Third-party providers for support • Ensure readiness to implement software • Accelerators • Minimize customizations • Review implementation costs in selection • Business process improvements • Use more functionality in software	• Standardize and consolidate infrastructure components • Manage equipment life cycle for lowest total cost of ownership • ISP services • Voice over IP • Patch management • Manage storage • Storage consolidation, SAN • Standardize desktop hardware and software	• Manage server, network, disk, and tape capacity • Educate management to enable users to solve problems • End-user training • Train help desk • Up-to-date inventory and asset information • Manage changes and releases • Document requirements clearly • Detect and fix errors early • Track labor hours • Motivate and train employees to increase productivity	• Review consequences of layoffs • Review roles and responsibilities • Leverage IT organization • Improve employee satisfaction • Telecommuting	• Consistent lease, RFP • Communicate costs of printing • Visibility to printing costs, change habits • Review fax machines and scanners for possible reduction

Figure 3-5 Medium-term cost reduction examples

	Business applications (Chapter 4)	Technical infrastructure (Chapter 5)	Processes (Chapter 6)	Organization (Chapter 7)	Miscellaneous (Chapter 8)
Long-term	• Assessment and strategic plan • Consolidate redundant applications • Replace applications with high support costs relative to value • Standardize application vendors and development tools • Identify business functionality gaps • Legacy system renewal and options to extend life of applications • Buy before build strategy • Enterprise view rather than point solutions • Application design, portals • Cost justify upgrades • Consider options such as hosting, MSP, ASP, SaaS, PaaS, BPO • Prototyping and development tools • Agile development methodologies • Open source, SOA • Getting revenue from custom software	• Virtualization of servers, desktops, network, and storage • Cloud computing • Selective outsourcing • Stay current with new offerings • Design the network for cost effectiveness • Consolidate servers • Accurate hardware sizing • Blade servers • Linux and open source • Hosting services • Open source for desktop • Consolidate data centers • Conserve power usage • Implement data center automation and remote management	• Improve processes for sustainable cost reduction • Integrate various frameworks • Match disaster recovery to risk tolerance • Balance security costs against information value • Solid business cases for projects • Buy before build • Reusable and agile development • Post implementation reviews • IT strategic plan • Automated and consolidated data center • Market IT services and products • Track satisfaction • Manage key metrics	• Hire less expensive labor • Outsourcing, off-shoring, and on-shoring	

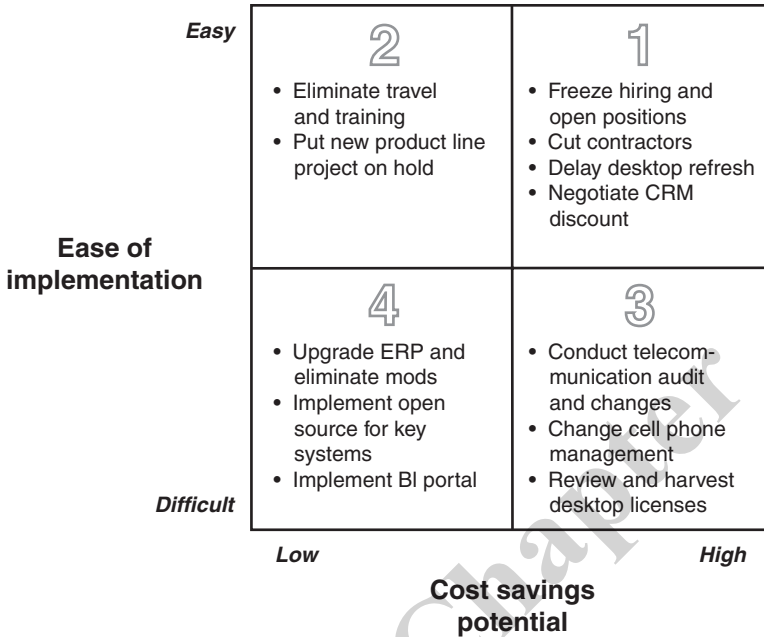**Figure 3-6** Long-term cost reduction examples

Figure 3-7 Prioritizing cost reductions sample

Identify the future steps that you will take and the estimated impact in reduction each will have. Use hard numbers to show expected cost savings from each action. Outline the potential impact to business units and service. Develop a pro forma IT budget to ensure the identified actions are sufficient to meet the goals.

Communicate the Plan

Make sure that each action item has ownership and accountability from the person identified to deliver the results. Identify the risks and potential risk mitigation plan associated with each action. Validate the planned action items with the IT steering committee and the governance process. Communicate a business case for action to motivate the team. Figure 3-8 shows how one company communicated its cost reduction plan. Chapter 9 identifies ways to communicate cost reduction actions and obtain support.

EXECUTE

The fifth step is to execute the cost reduction steps. You may receive strong resistance with major budget cuts, personnel reductions, organization changes, or a
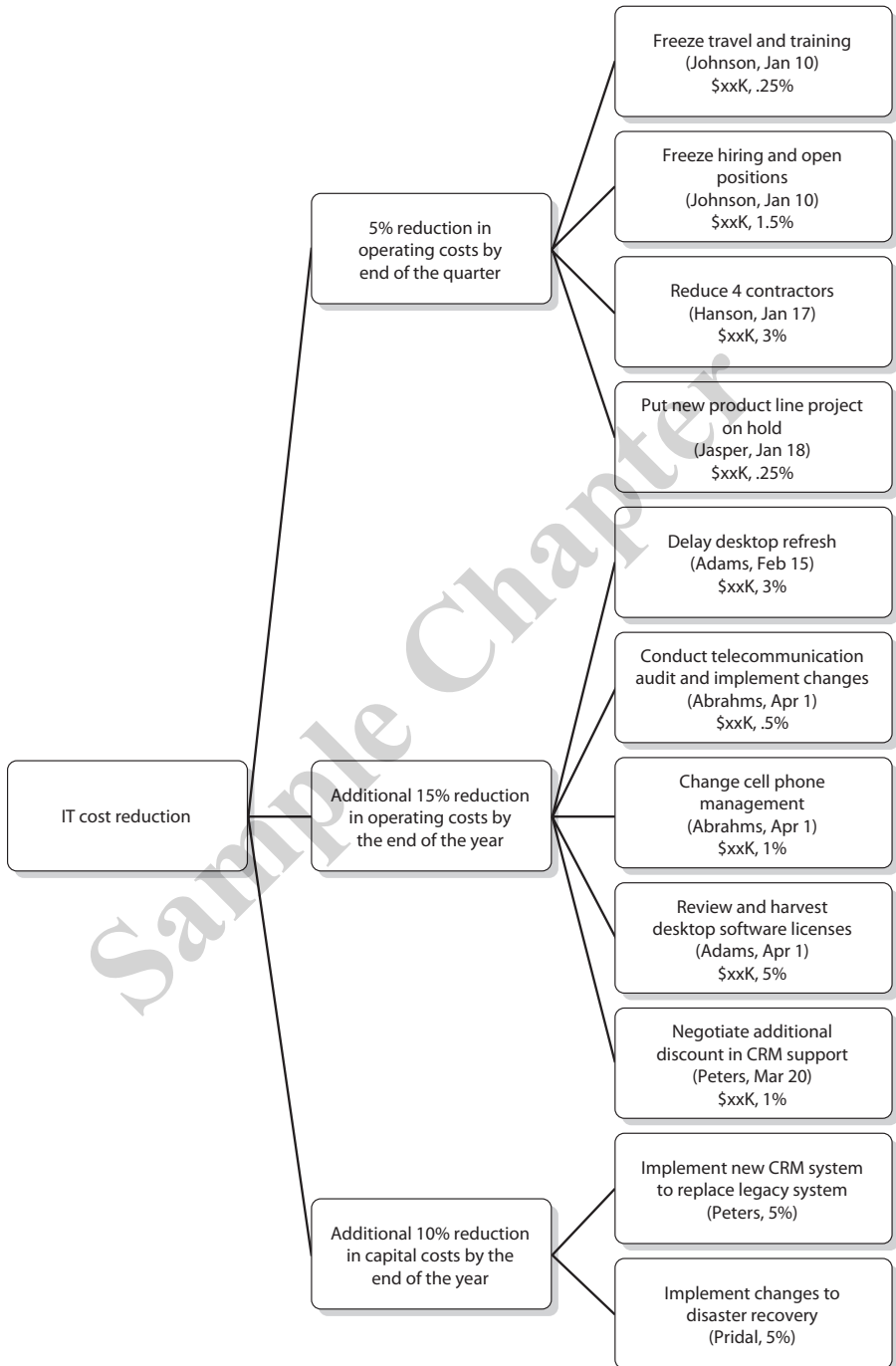
Freeze travel and training
(Johnson, Jan 10)
$xxK, .25%

Freeze hiring and open
positions
(Johnson, Jan 10)
$xxK, 1.5%

Reduce 4 contractors
(Hanson, Jan 17)
$xxK, 3%

Put new product line project
on hold
(Jasper, Jan 18)
$xxK, .25%

Delay desktop refresh
(Adams, Feb 15)
$xxK, 3%

Conduct telecommunication
audit and implement changes
(Abrahms, Apr 1)
$xxK, .5%

Change cell phone
management
(Abrahms, Apr 1)
$xxK, 1%

Review and harvest
desktop software licenses
(Adams, Apr 1)
$xxK, 5%

Negotiate additional
discount in CRM support
(Peters, Mar 20)
$xxK, 1%

Implement new CRM system
to replace legacy system
(Peters, 5%)

Implement changes to
disaster recovery
(Pridal, 5%)

5% reduction in
operating costs by
end of the quarter

Additional 15% reduction
in operating costs by
the end of the year

Additional 10% reduction
in capital costs by the
end of the year

IT cost reduction

Figure 3-8 Sample cost reduction plan

reduction in services. This is the step where you realize the cost savings. Carefully manage the cost reduction efforts as you would any other project with strong leadership and program management.

MONITOR AND IMPROVE

The final step is to monitor the results of the cost reduction efforts and determine the success of the cost management solutions. This is the step in which you confirm that you, in fact, did get the cost savings.

Did the steps meet the required budget cuts? Make sure you have a good and accurate feedback loop to monitor costs and ensure your goals are met. Keep your eyes focused on the goals. An accurate feedback loop with specific data is critical.

Review and analyze any potential negative impact the cuts had on the business or IT. You may or may not have anticipated the negative impact, but determine how you are able to minimize the negative impact. Check morale. Track key leading indicators, such as help desk responsiveness and problem-resolution time to ensure you meet service levels, and verify that there are no surprising side effects.

The key to successful cost reduction is persistence. Continually monitor and push cost reductions. Determine the strategy for the future and the long-term impact. You are never done; it is a way of life.

> Managing cultural factors and organizational change is a big part of the job. Less than one third of many project efforts is hard technology; the majority is people and change management.
>
> —Stephen Levin
> University of Minnesota

Top Tip 3-10   Change management

KEY POINTS TO REMEMBER

Step 1: Establish goals

- Determine the cost reduction magnitude, timing of reductions necessary, areas the reduction must affect, and constraints relative to actions.

- Re-align IT priorities as the business goals and priorities may have changed.
- Communicate the cost reduction goals to the organization.
- Short-term goals may require that you immediately take short-term actions and come back later for the information and analysis steps for more sustaining cost reduction measures.

Step 2: Obtain information

- Obtain information on the budget and spending and information on assets and inventory.
- Obtain or assemble IT information on the budget, business plan, strategic plan, project list, application inventory, hardware inventory, staff inventory, and the organization chart.

Step 3: Analyze

- Consider taking an expense approach, investment approach, asset approach, or services approach.
- Understand the cost drivers and reduction enablers.
- Be careful when using benchmarking.

Step 4: Identify and prioritize actions

- Review all areas of IT for cost reduction opportunities, including business applications, technical infrastructure, processes, and the organization.
- Prioritize actions by identifying short-term, medium-term, and long-term cuts.
- Identify the cost reductions anticipated from each action.
- Communicate the plan.

Step 5: Execute
Step 6: Monitor and improve

- Determine the success of the cost reduction efforts and any negative impacts.
- Review leading indicators.
- Continue to monitor and improve.