

Cost Optimization for the “Next Normal”

Baird Miller
Executive Counselor and
Advisor

Take a Business Centric Approach

1. Delivering business services depends on technology and technical services
2. Develop a compelling strategy and story based on the business goals and outcomes
3. Establish guiding principles for planning, decision making and communicating the story
 - a. Business goals and outcomes
 - b. Risk based, for example security
 - c. Legal and compliance mandates
 - d. Eliminate waste and redundancy
 - e. Identify discretionary services and initiatives
 - f. Strategic and enterprise scope for the next normal
 - g. Accelerate business initiatives that improves revenue collection or reduces organization costs
4. Align costs with business services and outcomes
5. Engage your business partners in the cost optimization strategy and decision making
6. Reach out to your Info-Tech, your research partner and advisor, for help and feedback

Technical Services and Costs Aligned with Business Goals and Outcomes



What services are your business outcomes and services that we need to support?

Info-Tech Research Resources

Visit our **COVID-19 Resource Center** and our **Cost Management Center**
Over 100 analysts waiting to take your call right now: 1-519-432-3550 x2019

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COVID-19 Budget and Cost Management Center

Manage your IT budgets and costs by leveraging our extensive portfolio of research-driven blueprints, templates, and tools.

[Talk to an Analyst](#)

Info-Tech's Essential Guide:
Building and Communicating Your IT Cost-Cutting Strategy for the COVID-19 Recession

[Download Now](#)

Welcome to the COVID-19 Budget and Cost Management Center.

Begin by downloading our complimentary essential guide >



Info-Tech has developed an approach that's based on understanding your current position in the business economic cycle, establishing a corresponding response mode and identifying key budget and cost management goals. These inputs will enable you to target initiatives within and across four focus areas and access relevant blueprints tools and templates to achieve the budget and cost management goals you have set out and to develop an action plan to achieve them.

<https://www.infotech.com/cost-management-center>

Info-Tech Research Resources

Info-Tech's Essential Guide: Building and Communicating Your IT Cost-Cutting Strategy for the COVID-19 Recession

A looming recession meets a global pandemic. The result? CFOs to start asking IT to cut costs. Now.

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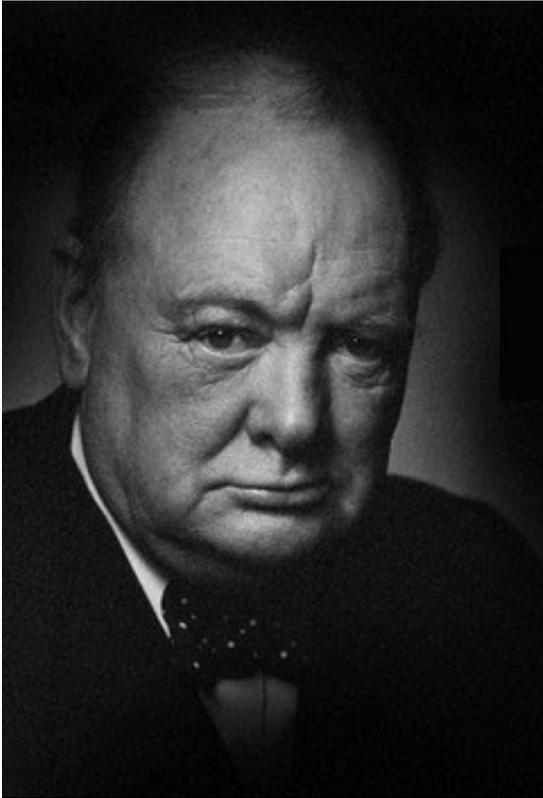
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<https://www.infotech.com/download/65579>

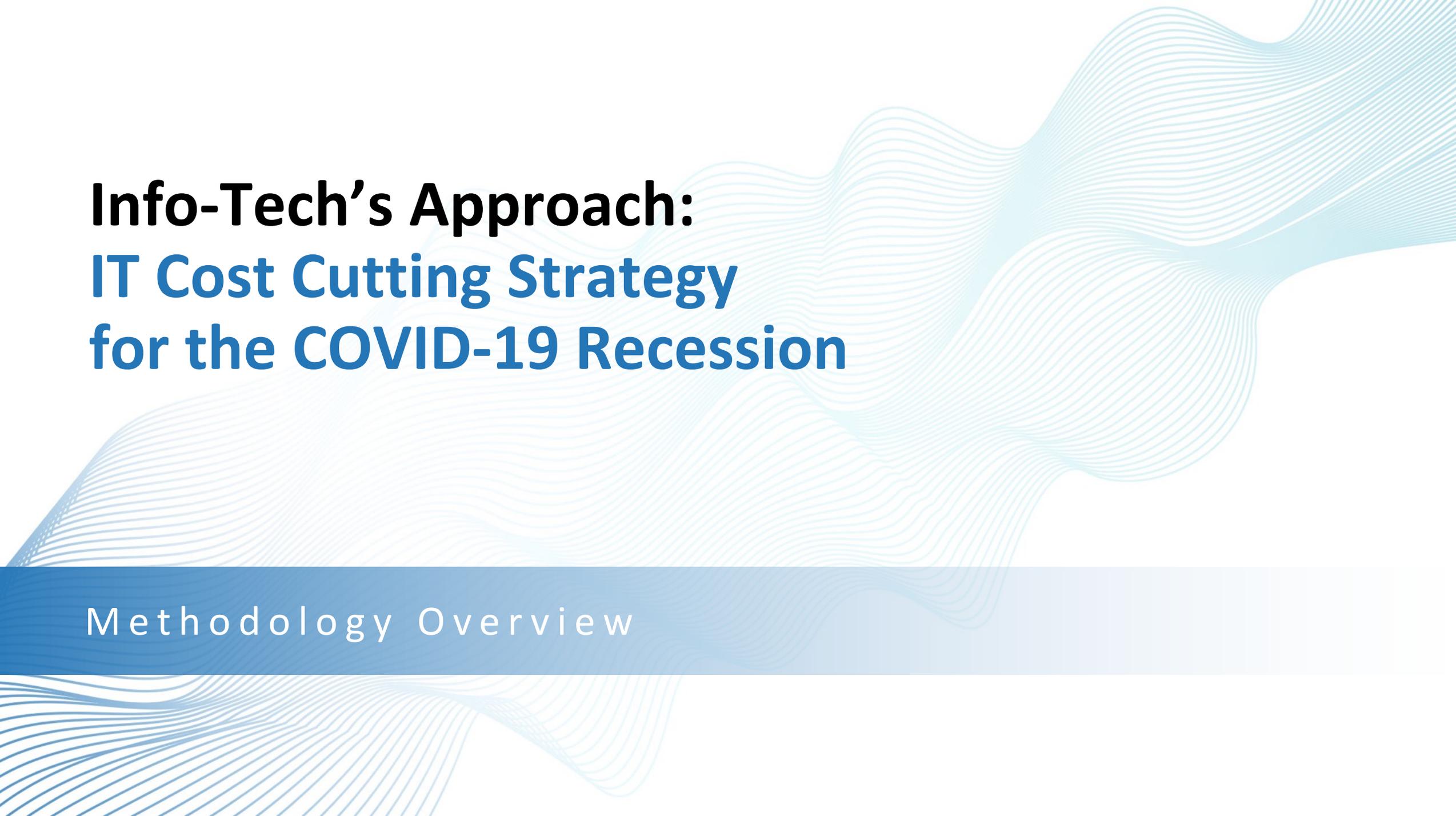
In Closing...



Sir Winston Leonard Spencer Churchill

“No crisis should go to waste”

This is your time to lead your organization into
the “next normal”



Info-Tech's Approach: IT Cost Cutting Strategy for the COVID-19 Recession

Methodology Overview

COVID-19 has determined our near-term focus

Our approach covers the entire economic cycle, but as of the last modification of this Blueprint, most organizations are in **Reactive Mode** due to COVID-19 and the severe economic effects it has triggered. Choosing the mode of response has been done for us. That does NOT preclude consideration of activities in the other 2 response modes...the difference between Reactive and Proactive is TIME; both may have relevance for any particular member.

We must be cognizant of the timeline as we move through the stages of the pandemic and *Our 4 focus areas to consider in Reactive Mode:* economic fallout.

1. **Workforce optimization** – not just reducing staff, but also re-assigning staff, cutting staff-related expenses and perks, improving staff productivity.
2. **Asset optimization** – Hardware and software assets – get rid of redundancy, stop paying for under-utilized or unused software; eliminate multiple versions of software; server consolidation/virtualization.
3. **Vendor Management** – extend payment terms; consolidate Commodity vendors; work collaboratively with Operational, Tactical, and Strategic vendors to find creative solutions; delay low-priority projects; engage in a “War on Waste” and “Stop Doing Stupid Stuff;” seek payment deferrals; reconfigure existing projects.
4. **Project Prioritization** – business must drive decisions about which projects can be delayed/re-scoped and which can be accelerated to enhance business value and reduce business cost/ increase business revenues/maintain competitive advantage – this is also core to the entire effort.

To identify the initiatives for cost management, we need to identify specific inputs for each focus area. These inputs provide context for deciding which initiatives to pursue.

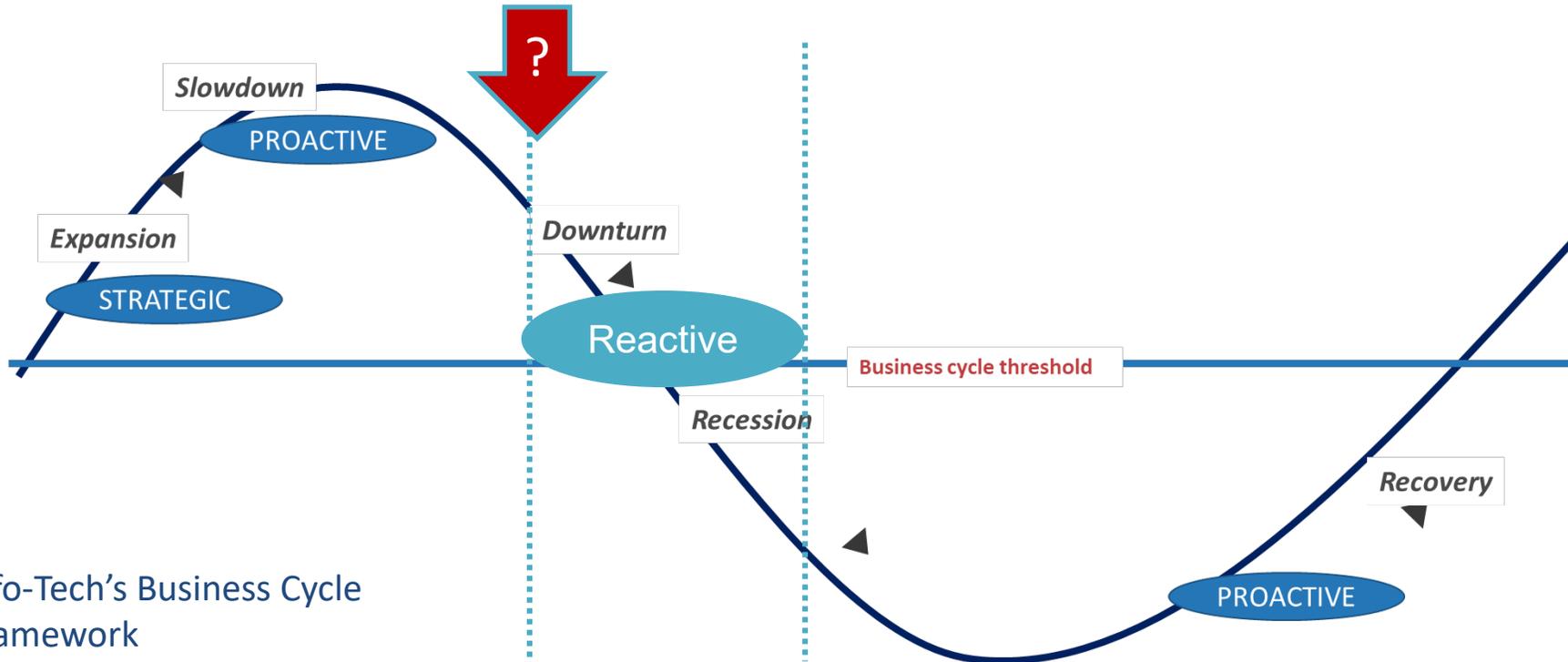
Info-Tech’s Budget & Cost Management Framework:



The deliverable at the end of this process is an Executive Presentation outlining the Cost-Cutting Action Plan.

What mode of cost management has COVID-19 forced your organizations into?

Where are you?



Info-Tech's Business Cycle Framework

Reactive (<3 months)

Identify the most-effective and least-disruptive cost-cutting measures in response to changing economic conditions.

Proactive (3-12 months)

Enable the organization to respond appropriately to different types and magnitudes of a slowdown in a planned manner.

Strategic (>12 months)

Establish budget and cost management efficiency and agility across all stages of the business cycle, ensuring that the IT strategy is sustainable regardless of changing economic conditions.



The approach and deliverables in this research will help you effectively respond to the COVID-19 crisis and set budget and costs goals for economic times of recovery and expansion.

Info-Tech's four focus areas for budget and cost management

	1. WORKFORCE OPTIMIZATION	2. ASSET OPTIMIZATION	3. VENDOR MANAGEMENT	4. PROJECT PRIORITIZATION
Reactive	<ul style="list-style-type: none"> Determine optimal staffing levels Identify core/critical training program elements Determine expendable staff-related ancillary costs 	<ul style="list-style-type: none"> Reduce software license costs Consolidate assets Delay upgrades and refreshes for applications and hardware 	<ul style="list-style-type: none"> Extend payment terms Terminate non-essential contracts Renegotiate/suspend/cancel pending contracts 	<ul style="list-style-type: none"> Resize/rescope existing projects Postpone/cancel existing projects Delay/cancel new projects
Proactive	<ul style="list-style-type: none"> Determine current staff skill and capability levels Prioritize associated workloads by business value Determine workforce deployment against prioritized workloads 	<ul style="list-style-type: none"> Optimize capacity utilization Extend asset maintenance schedules vs. purchase new equipment Move services to cloud (SaaS) 	<ul style="list-style-type: none"> Assess existing vendor contracts for performance Consolidate vendors Renegotiate as renewals come up 	<ul style="list-style-type: none"> Develop criteria for project intake Prioritize projects in portfolio based on business value Develop criteria for project approvals
Strategic	<ul style="list-style-type: none"> Develop a workforce strategy to optimize staffing capabilities aligned with business value Adopt a Lean approach to managing workloads and workforce capacity Identify automation opportunities to augment workforce capacity 	<ul style="list-style-type: none"> Develop a sourcing strategy Build application rationalization framework Establish a comprehensive IT Asset Management practice (ITAM) 	<ul style="list-style-type: none"> Improve flexibility and protections in contracts Focus on improved collaboration with operational, tactical, and strategic vendors Improve negotiation processes 	<ul style="list-style-type: none"> Establish PPM practice Establish PMO Establish demand and resource management capabilities



We have turned our focus to Reactive Mode, as that is where most organizations are due to COVID-19.

Utilize Our 45 Customizable Strategies and Tools to Meet Budget and Cost-Management Goals

	WORKFORCE OPTIMIZATION	ASSET OPTIMIZATION	VENDOR MANAGEMENT	PROJECT PRIORITIZATION
	<u>Cost-Cutting Planning Tool</u>			
Reactive	<ol style="list-style-type: none"> <u>Application Maintenance Resource Capacity Assessment</u> <u>Service Desk Continual Improvement Roadmap</u> <u>Redeployment Decision Tool</u> 	<ol style="list-style-type: none"> <u>SaaS TCO Calculator</u> <u>Reduce Costs Through Printer Consolidation</u> 	<ol style="list-style-type: none"> <u>MSA Contract Review Tool</u> <u>Contract Review Tool</u> 	<ol style="list-style-type: none"> <u>Project Intake and Prioritization Tool</u> <u>Zero-Allocation Project Management Workbook</u>
Proactive	<ol style="list-style-type: none"> <u>Redeploy IT Staff to Fill Changing Demands</u> <u>Lean Service Desk Integration Plan</u> <u>Increase Support of Tier 2 and Tier 3</u> <u>Develop IT Staff Capabilities</u> <u>Transfer IT Knowledge Before It's Gone</u> 	<ol style="list-style-type: none"> <u>Optimize Applications Cost Management</u> <u>Vendor Landscape: IT Asset Management (ITAM)</u> <u>Pave the Road to Unified Endpoint Management</u> <u>Reimagine IT Operations for a Cloud-First World</u> <u>Outsourcing Systems Management Decision Workbook</u> 	<ol style="list-style-type: none"> <u>Vendor Risk Profile and Assessment Tool</u> <u>Implement a Proactive and Consistent Vendor Selection Process</u> <u>Understand Common IT Contract Provisions to Negotiate More Effectively</u> <u>Outsource the Service Desk</u> <u>Outsource IT Infrastructure to Improve System Availability, Reliability, and Recovery</u> <u>Negotiate SaaS Agreements That Are Built to Last</u> 	<ol style="list-style-type: none"> <u>Optimize Project Intake, Approval, and Prioritization</u> <u>Project Management Process Costing Tool</u> <u>Free Up Funds for New Initiatives</u> <u>Manage a Minimum-Viable PMO</u>
Strategic	<ol style="list-style-type: none"> <u>Build a Strategic Workforce Plan</u> <u>Improve Employee Engagement to Drive IT Performance</u> <u>Redesign Your IT Organizational Structure</u> 	<ol style="list-style-type: none"> <u>Develop and Manage Your Infrastructure and Operations Budget</u> <u>Consolidate IT Asset Management</u> <u>Build a Rationalization Framework</u> <u>Build an End-User Computing</u> 	<ol style="list-style-type: none"> <u>Create an IT Sourcing Strategy</u> <u>Establish a Sustainable Vendor Management Office</u> <u>Capture and Market the ROI of Your VMO</u> 	<ol style="list-style-type: none"> <u>Develop a Project Portfolio Management Strategy</u> <u>Maintain an Organized Portfolio</u> <u>Establish an Effective PMO for IT</u> <u>Balance Supply and Demand with Realistic Resource Management Practices</u>

See Appendix B for a description of these Info-Tech resources

Info-Tech's methodology for creating a COVID-19 Recession Cost Cutting Strategy

	1. Plan and Define Goals	2. Determine Cost-Optimization Initiatives	3. Prepare an Action Plan
Activities	<ol style="list-style-type: none"> 1. Define Business Context and Current State 2. Identify business and IT stakeholders 3. Define Budget & Cost Management Goals 4. Identify Inputs for each of the Focus Areas 	<ol style="list-style-type: none"> 1. Determine proposed initiatives for each input 2. Analyze proposed initiatives 3. Engage stakeholders for feedback, revisions 4. Confirm recommended initiatives for board approval 	<ol style="list-style-type: none"> 1. Complete analysis for executive summary 2. Complete the sections of the executive presentation slide deck 3. Review and Approval of executive presentation
Step Outcomes	An articulated understanding of the organization's situation in relation to the current economic climate and a set of goals for budget and cost optimization.	A preliminary action plan to make cost optimizations across Info-Tech's four focus areas: workforce optimization, asset optimization, vendor management, and project prioritization.	An executive presentation that communicates your action plan and the justifications for the recommended optimizations.

Cost Optimization Executive Presentation

2020

Internal Use Only

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Agenda

1

Business Context for Current State

The COVID-19 global pandemic has caused significant revenue challenges for our company and requires across-the-board budget reductions.

2

Executive Summary

Cost Savings, business impacts and IT impacts

3

Recommended Initiatives

Cost-cutting initiatives with associated savings and impacts

4

Cost Management Roadmap

Timeline for recommended IT cost reductions

5

Next Steps

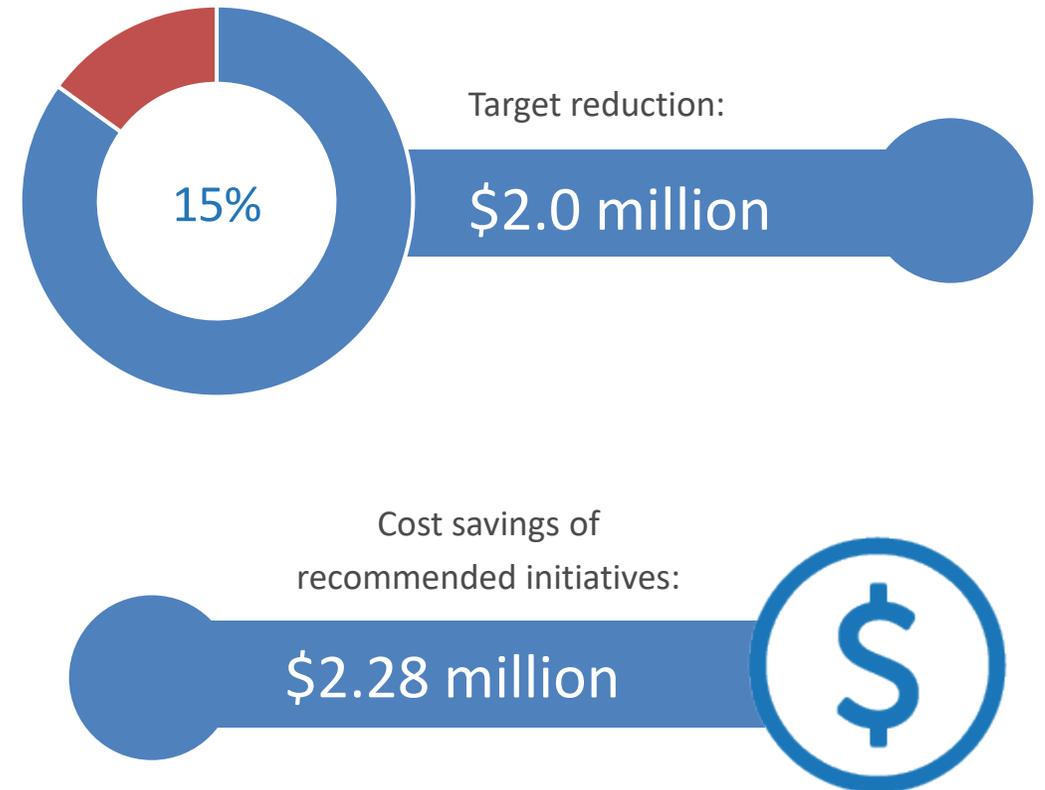
What is needed to approve and proceed with this action plan?

Business Context and Current State

Our current situation has changed:

- COVID-19 has impacted our business operations and we anticipate that our revenues will be impacted to the point of missing our targets.
- We estimate between 10-15% reduction in revenues against projections.
- To address this expected shortfall, management asked all departments, including IT, to identify cost-savings opportunities and associated impacts to be presented for approval to the board.
- Our objective is to reduce the IT budget by 15%.
- IT has identified cost efficiencies across its operations with a view to mitigating any adverse impacts on the business.

Reduction Target and Recommended Cost Savings



Executive Summary

Cost Management Action Plan

Cost-Savings Breakdown

Total annualized savings

\$2.28 million

Time frame for savings:

Immediate budget reduction:

\$1.32 million

Cost savings from 30-90 days:

\$420,000

Cost savings starting in 90 days to year-end:

\$540,000

Business Impact of Cost Savings

Negative impacts:

38% of initiatives may cause reduction in service levels

Opportunities:

51% of initiatives are opportunities to reduce budget with minimal or no adverse business impacts

No impact:

11% of initiatives have no business impact of any kind

Service-Level Impact

Service Desk services

Lower staffing levels, slower response times

Human Resources services

Reduced service levels in vendor contract

Recommended cost-savings initiatives have been reviewed with business stakeholders to ensure their understanding and acceptance of changes in the levels of service brought about by these initiatives.

Cost Management Initiatives (1 of 2)

NEGATIVE IMPACT

OPPORTUNITY

Analysis and Recommendations

Initiative	Rationale	Cost Savings	Cost Savings Timeline	IT Impact	Business Impact	Approved By
Postpone server virtualization	This is not business critical; can be delayed without negative impact.	\$250,000	Immediate deferral of cost to 1st quarter 2021	Performance improvements delayed	Productivity gains delayed; transaction times remain constant	CIO
Postpone workstation upgrades for 300 desktops	New desktops not available from vendor. Work-from-home initiative and virtual desktop mitigates impacts to business and saves \$350,000.	\$350,000	Immediate deferral to 1 st quarter 2021	New functionality & performance capabilities enabled by new desktops will not be realized	Less-productive users	CIO
					Re-purpose budget for virtual desktop initiative	
Accelerate virtual desktop implementation	Laptops for work-from-home initiative not available; solution enables secure work-from-home capability and continuation of business operations and revenue streams.	-\$125,000 (cost)	Cost incurred within 30 days	Additional unplanned IT cost Protect current revenue streams	Business continuity assured to maintain revenue streams Expected \$2M revenue protected	CIO
Cancel Office version upgrade	Version upgrade is to ensure product viability in the long term; can manage a delay for this in the short term.	\$250,000	Immediate deferral to 2021	User functionality and bug fixes delayed Ongoing support costs	No impact to user productivity levels.	CIO
Cancel licensing for unused legacy application	Functionality provided by new application released in 2019; old license was never canceled.	\$200,000	Immediately	No impact; functionality provided by new application	No impact to business Cost savings of canceled license	VP Sales
Eliminate multiple versions of financial application	Application version 1.0 , 1.1, and 1.2 – business units have not updated versions – single version means better functionality and reduced support costs.	\$300,000	Over 3-month period	Reduce redundant support costs and licenses	Cost savings related to supporting a single version of application vs. 3 versions of application	VP Finance
					Possible learning curve for users of new version of application impacting productivity short term	
Renegotiate service level for HR application	Existing contract expires in 8 months; negotiate lower service levels in exchange for extended term on contract.	\$150,000	Effective date of revised contract within 30 days	Slower response times for issues	Business-user productivity may go down slightly	VP HR

Cost Management Initiatives (2 of 2)

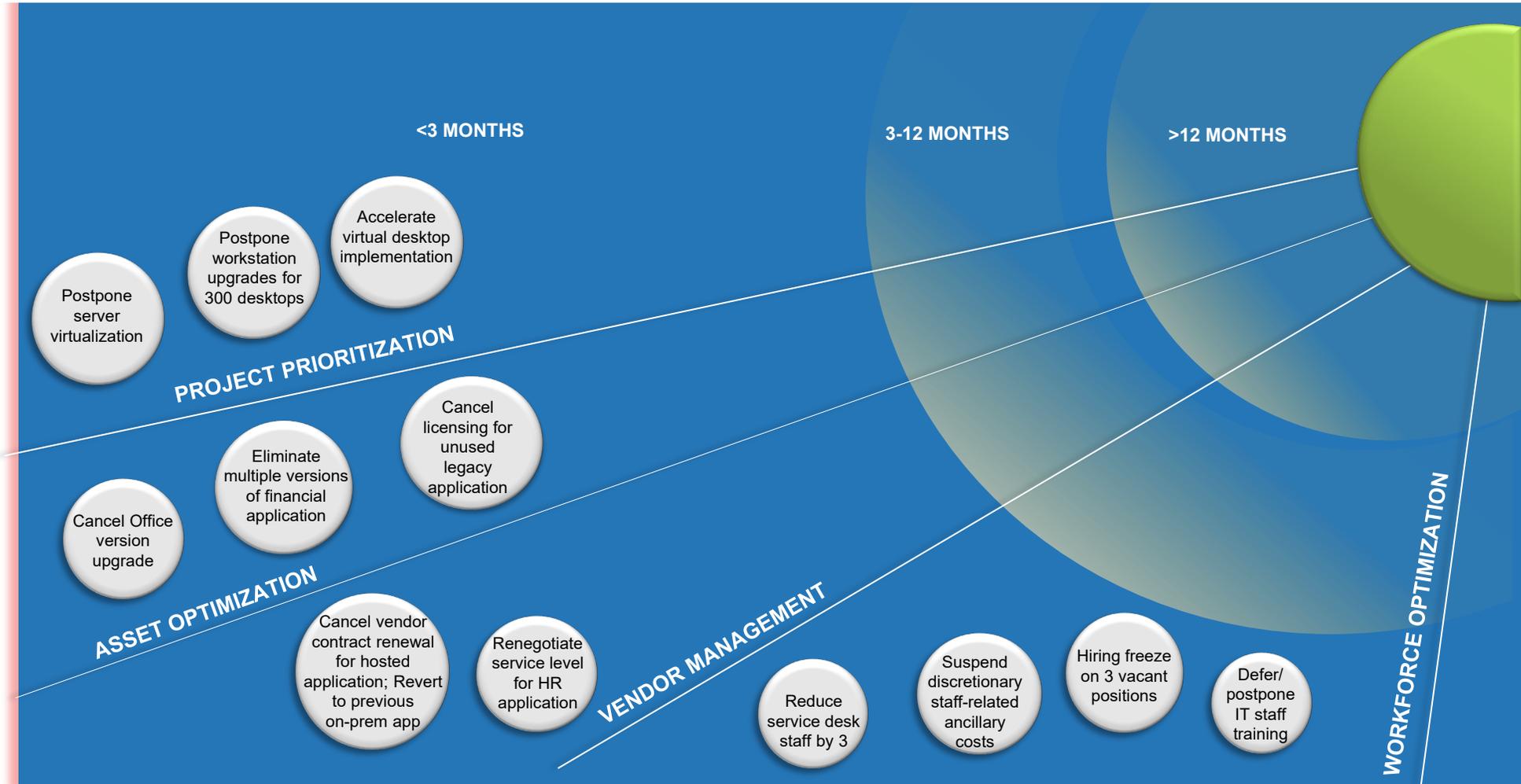
NEGATIVE IMPACT

OPPORTUNITY

Analysis and Recommendations

Initiative	Rationale	Cost Savings	Cost Savings Timeline	IT Impact	Business Impact	Approved By
Cancel vendor contract renewal for hosted application Revert to previous on-prem app	The hosted tool can be readily replaced by pre-existing proprietary application.	\$120,000	60 days to implement and cancel contract	Nuisance-level annoyance for users having to do manual inputs	Dissatisfied users	VP Finance
Reduce service desk staff by 3	Reducing staff saves money, but only works if business agrees to reduced service levels.	\$120,000	4 weeks	Slower response time to user-facing issues and requests	Dissatisfied users Service delivery impacts due to staffing reduction	CIO
Defer/postpone IT staff training	Postponing training provides immediate cost savings and does not prevent staff from performing existing duties.	\$300,000	Immediately, extending over remaining fiscal year	Lack of training could impact service levels and quality of service delivery due to lack of knowledge and skill	Dissatisfied IT staff Staff turnover Productivity impact	CIO
Suspend discretionary staff-related ancillary costs	Ancillary costs do not impact service levels in any way (gym memberships, local mileage/travel expense).	\$100,000	Immediately	No impact on IT service levels	Impacts employee experience	CIO
Hiring freeze on 3 vacant positions	Money is in the budget and can be "given back." Vacancies have existed for several months; while preferable to fill, not vital to fill positions immediately.	\$140,000	Immediately; annual salaries prorated to year-end	3 vacancies deferred to Q1 2021; avoids payroll costs	Cost savings of salary and cost of onboarding/training	CIO
					Service delivery impacts due to staffing shortage	
TOTAL BUDGET REDUCTION / COST SAVINGS		\$2,280,000				

Cost Management Roadmap



Next Steps

1. Obtain Final Board Approval

- Accept or refine plan as presented:
 - Provide more detailed plans as directed
 - Confirm viability of initiatives
 - Confirm priority of initiatives
- Receive final board approval

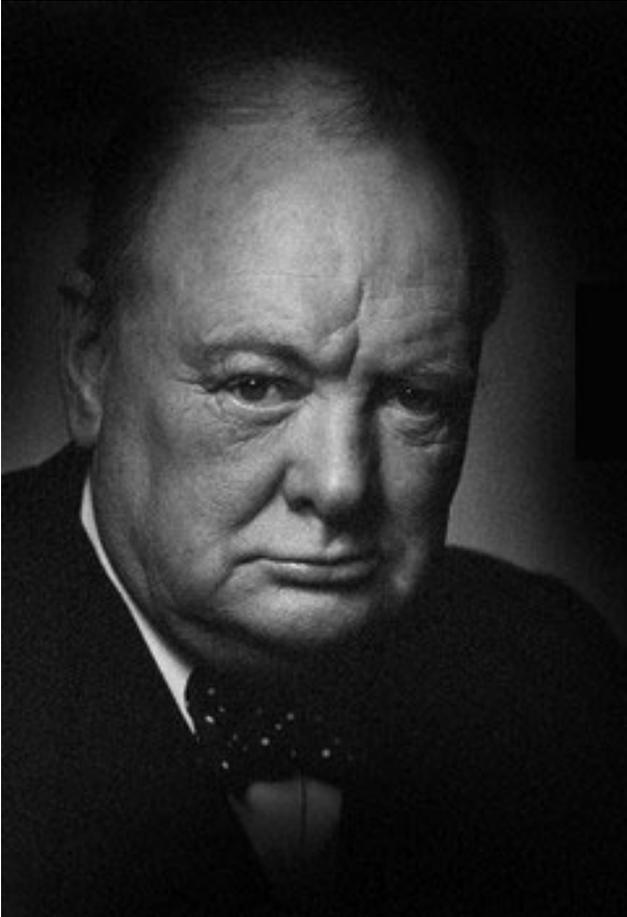
2. Finalize Plan and Execute

- Based on final approval:
 - Finalize roadmap
 - Develop communication plan
 - Create communication schedule
- Establish oversight to manage initiatives
- Execute the plan

3. Identify Business Opportunities

- Investigate and identify proactive and strategic opportunities to:
 - Further enhance business capabilities
 - Reduce business costs via IT innovations

Take a collaborative, strategic and enterprise approach...



If we are together nothing is impossible.

If we are divided all will fail.

Sir Winston Leonard Spencer Churchill