4 Steps for CIOs to Partner With CFOs to Optimize Cost and Value

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Initiatives: Technology Finance, Risk and Value Management

CIOs should open lines of communication between IT and finance to discuss critical strategic and financial issues. Follow four steps to demonstrate understanding of financial management to CFOs and earn the right to optimize business, as well as IT spend.

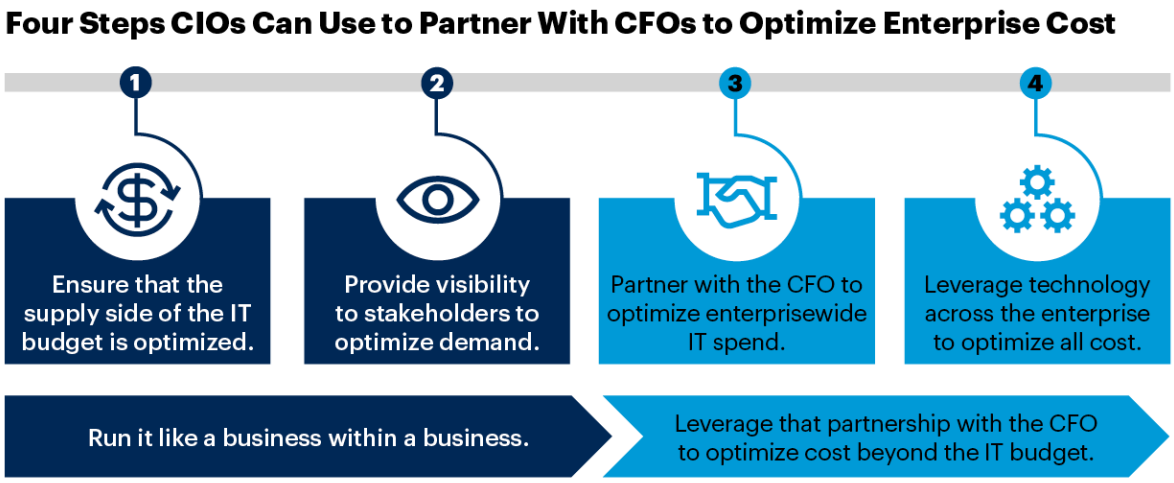
Additional Perspectives

- Summary Translation: 4 Steps for CIOs to Partner With CFOs to Optimize Cost and Value
  (26 March 2024)

Analysis

Most CIOs struggle to do IT financial management (ITFM) well, and therefore, there are some CFOs who may not trust them to manage money effectively, whether it be their own IT budget or technology spend outside of IT. This leads to a missed opportunity to invest in the right technology capabilities that optimize both the IT budget, as well as enterprise technology spend. It can often lead to increased risk both within IT and across the enterprise. Following the four steps outlined in Figure 1 and further below can help build the CIO/CFO relationship and minimize these issues.

Figure 1: Four Steps CIOs Can Use to Partner With CFOs to Optimize Enterprise Cost



Source: Gartner
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Research Highlights

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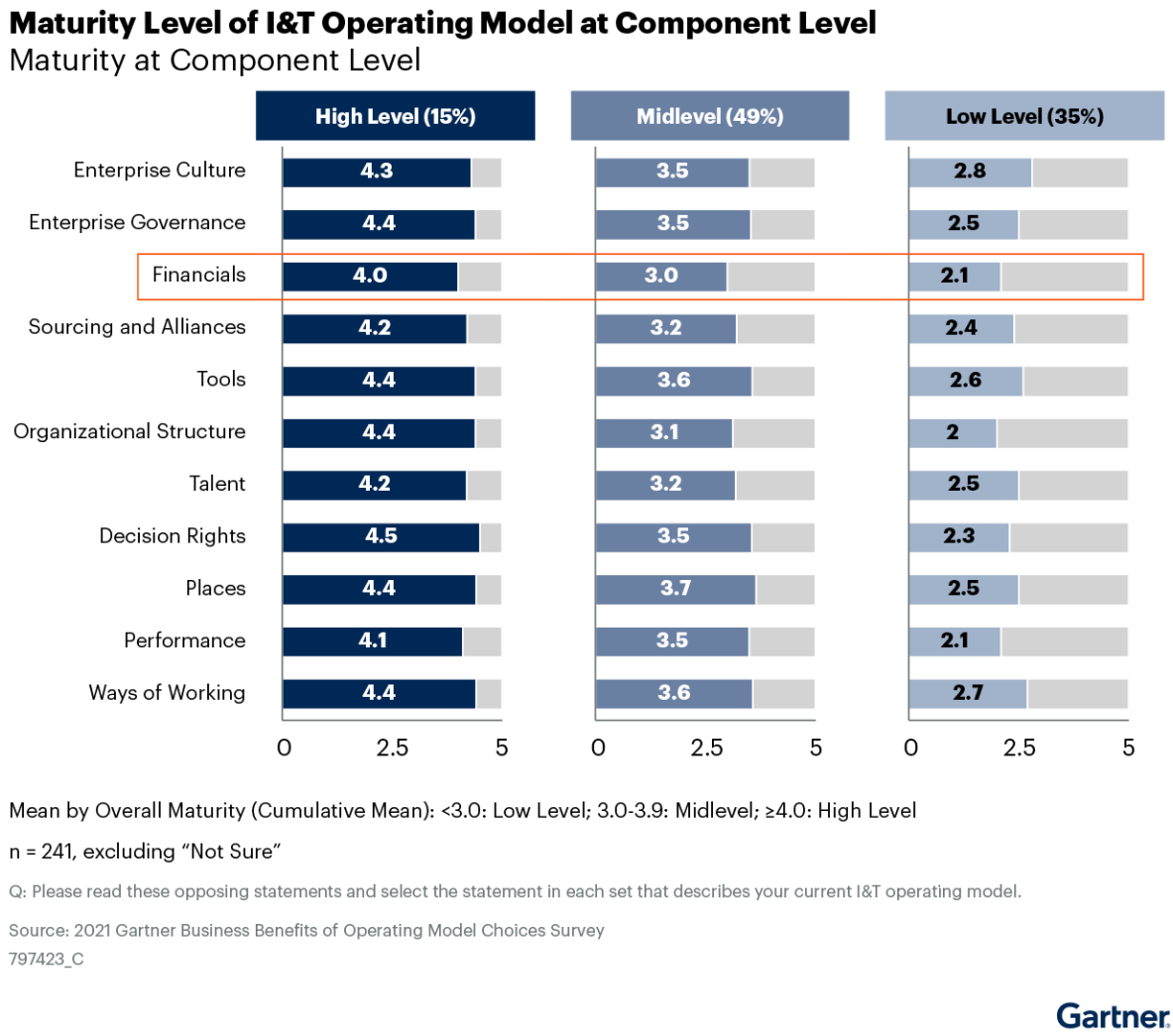
Step 1: Ensure the Supply Side of the IT Budget Is Optimized

The goal in this step is to ensure that the rate associated with IT's cost to serve the business is effectively optimized. This is essentially IT monitoring spend and making the right decisions to fully optimize the cost of IT's capabilities (e.g., projects and services). As seen in Figure 2, ITFM is often difficult for CIOs, which causes CFOs to be skeptical of their money management skills, be it through the IT budget or technology spend outside of IT.

Figure 2: ITFM Maturity Levels



Use the following research for effective optimization of the supply side of the IT budget:

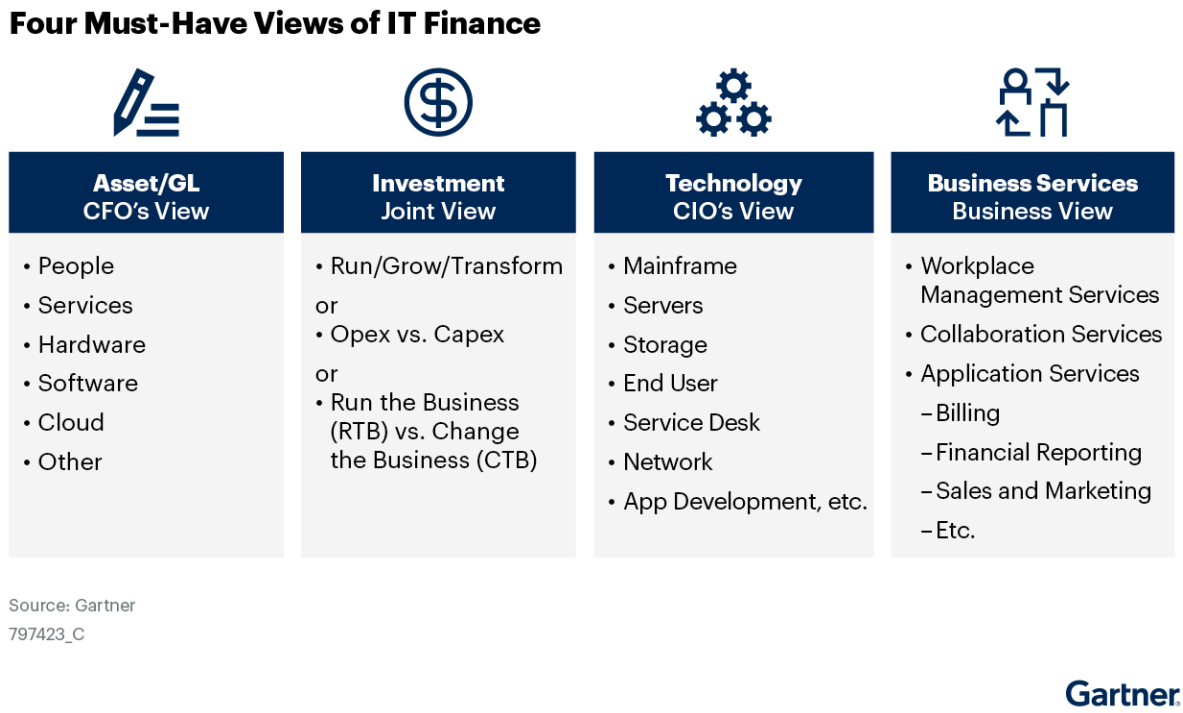
- Executive Essentials: Improve Your Capabilities Across IT Financial Management

Getting the basics right first helps support ITFM. Manage your IT budget like any other budget, focusing on the general ledger view from finance. This is often an operating expenditure (opex) and capital expenditure (capex) based budget. You should ensure that effective financial processes are built that accurately plan and forecast IT expenses and minimize budget variances and the need for non-strategic discussions with your CFO.

- Split the Business Value of IT Story Into Run and Change Narratives

Providing financial transparency beyond the basics of opex and capex supports IT budget optimization. IT will need more than just an opex/capex budget and a list of projects to effectively optimize cost and value. IT will ultimately need multiple views that most expense-based departments outside of IT do not require (see Figure 3). Using the IT budgeting process to add a "run versus change" view of the IT budget helps begin a high-level cost and value discussion around IT spend.

Figure 3: Four Must-Have Views of IT Finance



- How to Communicate Value in the Languages of IT, Finance and Business Outcomes

Provide training to build IT leadership team financial acumen. In some IT organizations, there is a tendency for IT leaders to be less focused on the financial impact and more on their own project and service delivery. To avoid this tendency, IT leadership teams and their key cost center managers should be trained to be fiscally responsible. Holding monthly financial reviews along with "lunch and learn" sessions on financial management will help. The burden of fiscal accountability, especially in large IT organizations, cannot fall just on the shoulders of the CIO and finance/IT finance. When speaking with finance and business leaders, IT leaders should be multilingual.

Step 2: Provide Stakeholders Visibility to Enable Demand Optimization

This step involves leveraging the shift from just managing an overall IT budget to managing multiple views of IT capabilities. That way, whether IT is providing new capabilities (aka projects) or existing ones (aka services), stakeholders understand what they get for the money being spent on IT and can help invest in the right capabilities.

Use the following research to provide stakeholders better visibility into IT capabilities and the value they bring:

- Create an IT Investment Business Case

Ensure a solid investment planning process to manage demand for new capabilities. The focus here is on new capabilities and the investment planning process that needs to be implemented to ensure that both cost and value are optimized. The key here is implementing a successful business case and project prioritization process. Financial return (often referred to as return on investment [ROI]) is an important element, but a business case process is more than just financial, and should evaluate nonfinancial elements, including strategic fit, risk, qualitative value, alternatives and more.

- Simplify Your IT Cost Allocation Approach to Accelerate Time to Value

Create a service portfolio in business-facing terms to manage demand for existing capabilities. The bulk of IT spend (~70%) is spent on IT products/services that run the business. The inability to provide transparency into operations that run the business or client-facing terms is one of the biggest weaknesses in IT financial transparency. The creation of a service portfolio (see the business services view in Figure 3) along with the remaining views helps provide the needed financial transparency so that both cost and value are understood and better investment decisions can be made.

- IT Key Metrics Data 2023: Overview

Benchmark IT spending and staffing relative to peers. There are multiple uses for comparing IT spending to peers. While a benchmark will not tell you where you should be, it can be used as a guideline to show where you are relative to peers, both in total and what you are spending it on. By proactively managing and benchmarking IT spend relative to an organization's revenue or cost/value metrics, CIOs can earn the trust of CFOs. CIOs who use data to support how IT is contributing to the enterprise overall and identifying opportunities to improve will demonstrate a successful cost and value story to CFOs (see Table 1).

- IT Key Metrics Data 2023: Working with IT Budget and Comparison Tools

A deeper dive into the different areas of the benchmarking results can also highlight potential cost optimization opportunities. For instance, spending twice as much as peers on data center cost creates an opportunity to analyze the cost further and see if there is potential to save money, or if the extra spend is required.

Table 1: Use Benchmarks to Tell a Cost and Value Story

(Enlarged table in Appendix)

Global Cross-Industry Median	2022
Investment Metrics:	
IT Spending Percentage of Revenue	3.3%
IT Spending Percentage of Operational Expenses	4.1%
IT Spending per Employee	$10.6K
IT Spending by Strategic Category:	
Run	71%
Grow	17%
Transform	12%
IT Staffing Metrics:	
IT Employees Percentage of Total Employees	3.7%
Insourced FTEs	78%
Contractor FTEs	22%
IT Spending by Funding Source:	
Formal IT	86%
BU IT	12%
Shadow IT	2%
IT Spending by Accounting Category:	
IT Capex	24%
IT Opex	76%
IT Spending by Asset Category:	
Personnel	34%
Software	29%
Hardware	13%
External Services	25%
IT Spending by Technical Function:	
Governance and Business Management	9%
IT Security, Ops Mgmt, SC/DR	9%
Applications	45%
Infrastructure	24%
End-User Services	13%

Source: Gartner (December 2023)

Step 3: Partner With the CFO to Optimize Enterprisewide Technology Spend

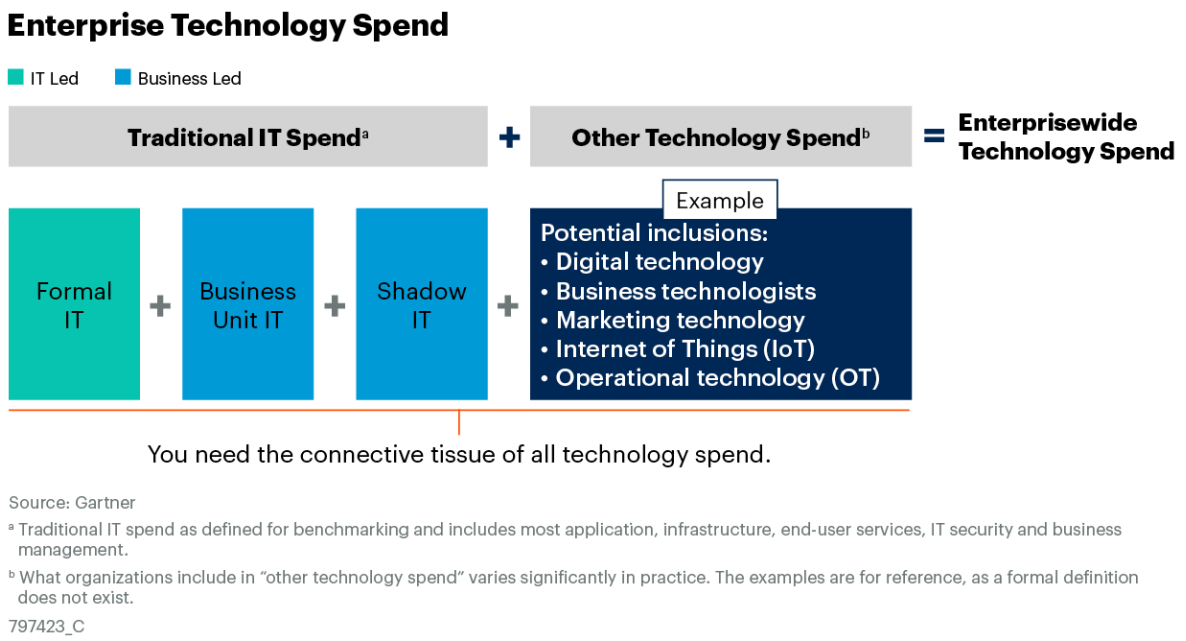
This step expands the remit followed in the first two steps from effectively managing the IT budget to identifying and optimizing IT and other technology spend not in the IT budget. It moves even further to leverage all technology spend to better optimize business cost and revenue.

Use the following research to establish a stronger partnership with CFOs and optimize enterprisewide technology spend:

- A Case for Enterprisewide Technology Spend Management

Partner with the CFO and finance to identify and optimize technology spend not in the IT budget. Clarifying the requirements coming from the business facilitates optimization of all technology spend. This includes business-led IT spend, as well as other technology spend (e.g., digital transformation, Internet of Things [IoT], operational technology [OT] and more). See Figure 4 for an example of the types of cost discussed here, while bearing in mind that many outsourced business services are delivered using technology solutions.

Figure 4: Enterprise Technology Spend



Source: Gartner

[a] Traditional IT spend as defined for benchmarking and includes most application, infrastructure, end-user services, IT security and business management.

[b] What organizations include in "other technology spend" varies significantly in practice. The examples are for reference, as a formal definition does not exist.

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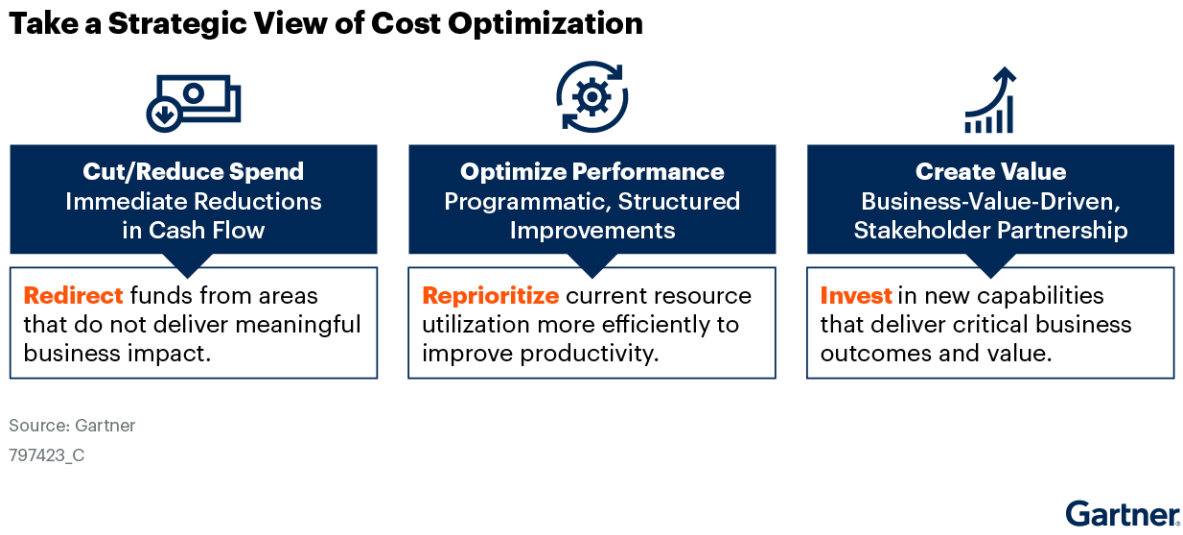
- Create a 3-Pronged Technology Cost Optimization Strategy to Match Your Economic Reality

Encourage CFOs to take a strategic view of cost optimization. Regardless of whether you are optimizing just the IT budget or all enterprise technology spend, a strategic view of cost is needed (see Figure 5). This requires a partnership with the CFO to understand when cost must be cut in the near term versus when technology can be leveraged to optimize performance and shift cost from "run" to "change," driving additional value optimization.

Figure 5: Take a Strategic View of Cost Optimization



- 9 Rules of IT Strategic Cost Optimization

Analyze the impact of cost reductions on business outcomes. Too often organizations take a "parts" approach to cost reductions and simply look at the cost savings achieved by removing the part without understanding the impact on business or mission outcomes. Once the cost-saving idea is identified, not only should the savings be discussed, but also the impact on risk and the bottom line must be assessed.

Step 4: Leverage Technology Across the Enterprise to Optimize All Spend

This step shifts the focus away from just optimizing IT and enterprise technology spend to leveraging technology to optimize all enterprise spend. This allows the effective use of technology to both reduce cost across the entire organization and ultimately leverage the technology to also optimize enterprise value. To do this, the CIO will need access not only to technology spending, but also to all business operational spending enterprisewide. This is unlikely to be an issue for CIOs who run the systems holding or reporting this data.

Use the following research to effectively utilize technology to improve spend across the entire enterprise:

- CIOs: Improve How You Collaborate With Your CFO

Work with your CFO to ensure adequate funding for enterprise cost optimization investments. Often IT is left on its own to help fund new technology investments focused on cost reductions in the rest of the enterprise. This may be OK if this is a business-as-usual situation where central funding exists for all initiatives to compete fairly against each other. However, often when there are enterprise cost reduction efforts underway, IT is asked to reduce its cost while simultaneously spending more to help the rest of the business automate and hit its reduction targets, which must be funded separately. Otherwise, IT may be cutting costs twice — first, to hit their own cost reduction target, and second, to fund new cost savings investments for the rest of the organization.

- Prioritize Digital Investments That Maximize Business Value

Leverage digital investments in technology to reduce enterprise spend. Moving from a focus on optimizing only the spend on IT to optimizing all business costs is vital. By leveraging traditional automation opportunities (e.g., using software and traditional IT to automate business processes) while investigating newer digital technologies (e.g., robotics, IoT, robotic process automation [RPA], AI, etc.), business processes can be further optimized and costs reduced. Ultimately, looking to optimize both cost and value from digital investments is the key goal. This elevates the CIO's role from being a technology provider to that of a trusted advisor on business optimization.

Acronym Key and Glossary Terms

Supply Side in Reference to IT Spend	This is the cost of providing existing IT capabilities or services. The focus is on optimizing the rate or cost of the IT service, and can typically be done without stakeholder involvement.
Demand Side in Reference to IT Spend	This focuses on the growth outside the supply side. It is typically focused on volumes, and includes new projects, growth in services and increases in service levels.

Recommended by the Author

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Gartner Essential Frameworks: Managing Technology Financials, Value and Risk

CIOs Must Master Multiple Views of Spend to Manage IT Finances

Drive IT Success With 5 ITFM Fundamentals: Benchmark, Budget, Invest, Manage and Allocate Cost

Case Study: Cost Optimization Consulting for Democratized Technology Delivery

Case Study: Applied Innovation to Drive Efficiency (Maximus)

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