

Pitfalls to Avoid in CIOs' Strategic Cost Optimization Efforts

Sid Sahoo

© 2023 Gartner, Inc. and/or its affiliates. All rights reserved. Gartner is a registered trademark of Gartner, Inc. and its affiliates. This publication may not be reproduced or distributed in any form without Gartner's prior written permission. It consists of the opinions of Gartner's research organization, which should not be construed as statements of fact. While the information contained in this publication has been obtained from sources believed to be reliable, Gartner disclaims all warranties as to the accuracy, completeness or adequacy of such information. Although Gartner research may address legal and financial issues, Gartner does not provide legal or investment advice and its research should not be construed or used as such. Your access and use of this publication are governed by [Gartner's Usage Policy](#). Gartner prides itself on its reputation for independence and objectivity. Its research is produced independently by its research organization without input or influence from any third party. For further information, see ["Guiding Principles on Independence and Objectivity."](#)

Gartner®





What services do I eliminate?

How do I cut 15% of operating costs?

Where do I look to cut costs?

What are other organizations doing?

A Strategic Approach to Optimizing Costs



Cut/Reduce Spend

Immediate Reductions
in Cash Flow



Redirect funds from
areas that do not deliver
meaningful business impact.



Optimize Performance

Programmatic,
Structured Improvements



Reprioritize current resource
utilization to improve the
contribution of current assets.



Create Value

Business-Value-Driven
Stakeholder Partnership



Invest in new capabilities
that deliver critical business
outcomes and value.

Key Issues

1. What are the critical themes in strategic cost optimization maturity?
2. What are pitfalls CIOs face in strategic cost optimization efforts, and how can they avoid them?

Key Issues

1. What are the critical themes in strategic cost optimization maturity?
2. What are pitfalls CIOs face in strategic cost optimization efforts, and how can they avoid them?



Mature organizations are 3.4 times more likely than all others to establish formal oversight to monitor existing and revised processes to keep track of performance.

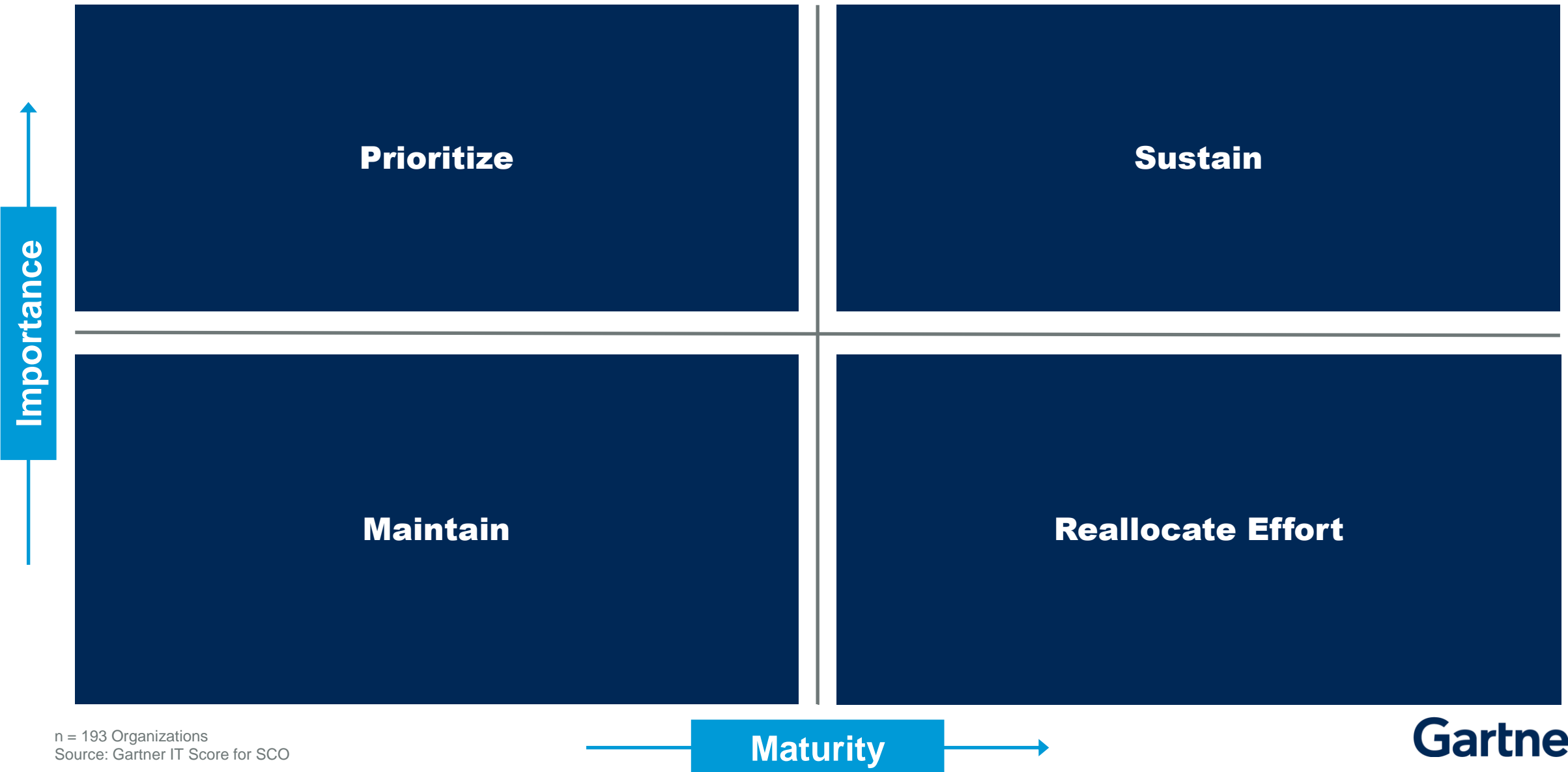
n = 193 Organizations

n = 39, Mature IT Organizations (Organizations That Score in the Top 20th Percentile of the Overall Maturity Score)

n = 154, Rest of the Organizations

Source: Gartner Strategic Cost Optimization Score for IT Benchmark Data Collected Between March 2021 and 15 February 2023

Activities Across Strategic Cost Optimization



Activities Across Strategic Cost Optimization

Prioritize		Sustain	
Drive Productivity of Current Resources	Prioritize Value-Enabling IT Initiatives	Align IT Spend to Business Value	Assess and Quantify Opportunities
Measure Value Delivered	Measure and Communicate Savings	Build and Execute Roadmap	Optimize Skills and Teams
Identify and Select Spend Reductions	Eliminate Inefficiencies and Waste	Identify and Track IT Vendor Spend	Align Funding to Business Value
Cost Cuts		Baseline Spend	
Align Process Methods With Governance	Baseline and Benchmark Activities	Review Current Portfolio of IT Assets	Engage and Evolve the Organization
Evaluate and Report Vendor Results	Implement Negotiation Strategies	Establish Supporting Systems	Segment Vendor Spend Into Categories
Establish Ownership and Responsibilities	Define and Automate Workstreams		
Maintain		Reallocate Effort	

Themes Arise From Optimization Activities

Prioritize		Sustain	
Drive Productivity of Current Resources	Prioritize Value-Enabling IT Initiatives	Align IT Spend to Business Value	Assess and Quantify Opportunities
Measure Value Delivered	Measure and Communicate Savings	Build and Execute Roadmap	Optimize Skills and Teams
Identify and Select Spend Reductions	Eliminate Inefficiencies and Waste	Identify and Track IT Vendor Spend	Align Funding to Business Value
Cost Cuts		Baseline Spend	
Align Process Methods With Governance	Baseline and Benchmark Activities	Review Current Portfolio of IT Assets	Engage and Evolve the Organization
Evaluate and Report Vendor Results	Implement Negotiation Strategies	Establish Supporting Systems	Segment Vendor Spend Into Categories
Establish Ownership and Responsibilities	Define and Automate Workstreams		
Maintain		Reallocate Effort	

Themes Arise From Optimization Activities

Prioritize		Sustain	
Drive Productivity of Current Resources	Prioritize Value-Enabling IT Initiatives	Align IT Spend to Business Value	Assess and Quantify Opportunities
Measure Value Delivered	Measure and Communicate Savings	Build and Execute Roadmap	Optimize Skills and Teams
Identify and Select Spend Reductions	Eliminate Inefficiencies and Waste	Identify and Track IT Vendor Spend	Align Funding to Business Value
Cost Cuts		Baseline Spend	
Align Process Methods With Governance	Baseline and Benchmark Activities	Review Current Portfolio of IT Assets	Engage and Evolve the Organization
Evaluate and Report Vendor Results	Implement Negotiation Strategies	Establish Supporting Systems	Segment Vendor Spend Into Categories
Establish Ownership and Responsibilities	Define and Automate Workstreams		
Maintain		Reallocate Effort	

Themes Arise From Optimization Activities

Prioritize		Sustain	
Drive Productivity of Current Resources	Prioritize Value-Enabling IT Initiatives	Align IT Spend to Business Value	Assess and Quantify Opportunities
Measure Value Delivered	Measure and Communicate Savings	Build and Execute Roadmap	Optimize Skills and Teams
Identify and Select Spend Reductions		Identify and Track IT Vendor Spend	Align Funding to Business Value
Cost Cuts	Eliminate Inefficiencies and Waste	Baseline Spend	
Align Process Methods With Governance	Baseline and Benchmark Activities	Review Current Portfolio of IT Assets	Engage and Evolve the Organization
Evaluate and Report Vendor Results	Implement Negotiation Strategies	Establish Supporting Systems	Segment Vendor Spend Into Categories
Establish Ownership and Responsibilities	Define and Automate Workstreams		
Maintain		Reallocate Effort	

Themes Arise From Optimization Activities

Prioritize		Sustain	
Drive Productivity of Current Resources	Prioritize Value-Enabling IT Initiatives	Align IT Spend to Business Value	Assess and Quantify Opportunities
Measure Value Delivered	Measure and Communicate Savings	Build and Execute Roadmap	Optimize Skills and Teams
Identify and Select Spend Reductions	Eliminate Inefficiencies and Waste	Identify and Track IT Vendor Spend	Align Funding to Business Value
Cost Cuts		Baseline Spend	
Align Process Methods With Governance	Baseline and Benchmark Activities	Review Current Portfolio of IT Assets	Engage and Evolve the Organization
Evaluate and Report Vendor Results	Implement Negotiation Strategies	Establish Supporting Systems	Segment Vendor Spend Into Categories
Establish Ownership and Responsibilities	Define and Automate Workstreams		
Maintain		Reallocate Effort	

Themes Arise From Optimization Activities

Prioritize		Sustain	
Drive Productivity of Current Resources	Prioritize Value-Enabling IT Initiatives	Align IT Spend to Business Value	Assess and Quantify Opportunities
Measure Value Delivered	Measure and Communicate Savings	Build and Execute Roadmap	Optimize Skills and Teams
Identify and Select Spend Reductions	Eliminate Inefficiencies and Waste	Identify and Track IT Vendor Spend	Align Funding to Business Value
Cost Cuts		Baseline Spend	
Align Process Methods With Governance	Baseline and Benchmark Activities	Review Current Portfolio of IT Assets	Engage and Evolve the Organization
Evaluate and Report Vendor Results	Implement Negotiation Strategies	Establish Supporting Systems	Segment Vendor Spend Into Categories
Establish Ownership and Responsibilities	Define and Automate Workstreams		
Maintain		Reallocate Effort	

Strategic Cost Optimization Themes



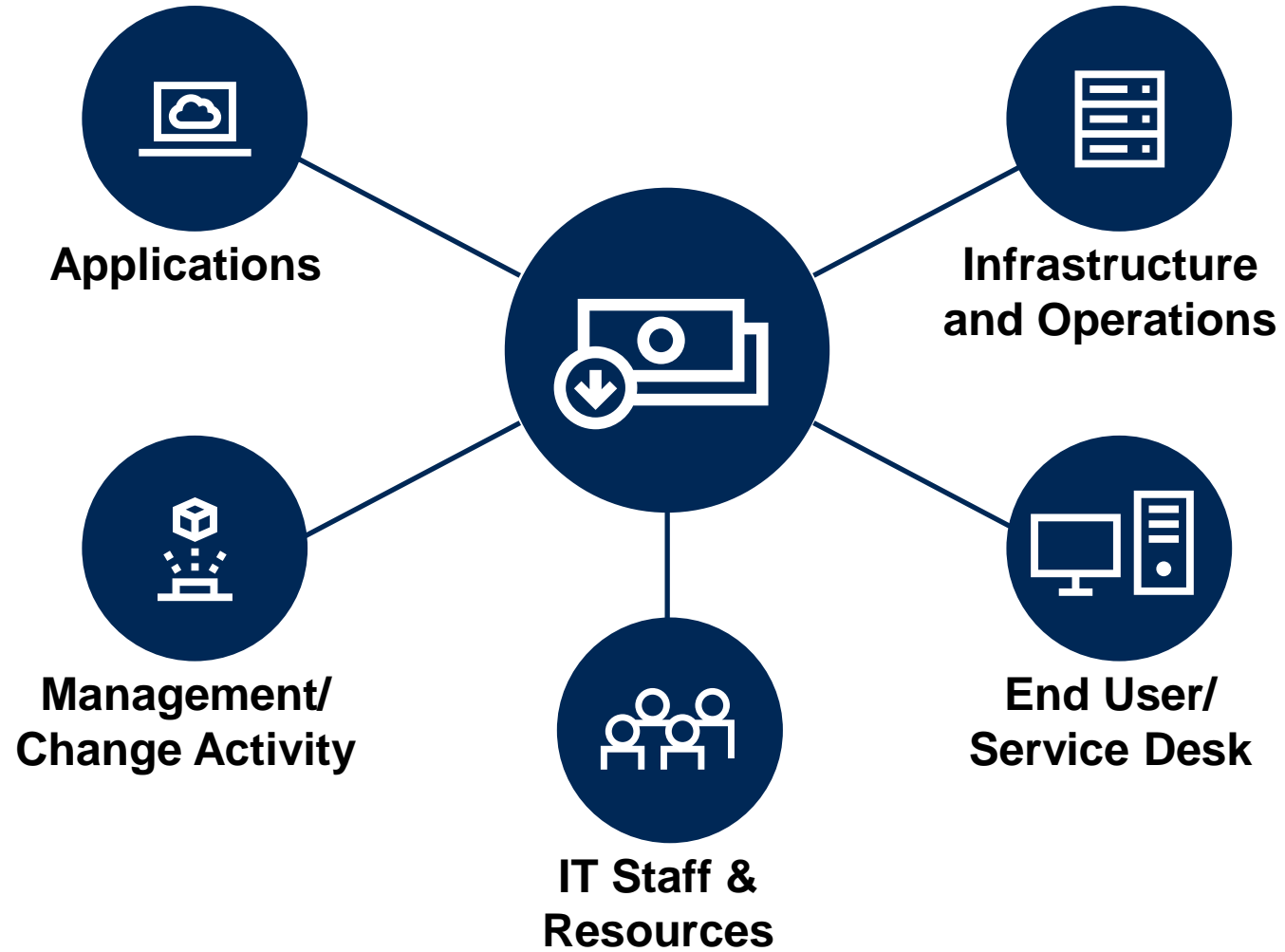
Key Issues

1. What are the critical themes in strategic cost optimization maturity?
2. What are pitfalls CIOs face in strategic cost optimization efforts, and how can they avoid them?

Inability to Identify the Right Cost Reduction Opportunities



What Areas Should We Target?



Use Benchmarks to Focus Efforts

Cross-Industry		2022	2023*		
IT Spending as a Percent of Revenue		3.3%	3.1%	Formal IT Budget	86%
IT Spending as a Percent of Operating Expense		4.1%	3.9%	Business Unit IT	12%
IT Spending per Employee		\$10,631	\$11,181	Shadow IT	2%
IT Employees as a Percent of Total Employees**		3.7%	3.7%		

Run	71%	Personnel Salaries & Benefits	34%
Grow	17%	Hardware	13%
Transform	12%	Software (On-Premises)	18%
Contract Full-Time Employees	24%	Software (SaaS)	11%
Insourced Full-Time Employees	76%	IaaS & Other Public Cloud	5%
IT Capital Spending	23%	Transport	7%
IT Operational Spending	77%	Traditional Outsourcing	13%

Data Center	14%
Network	10%
Digital Workplace Services	9%
IT Service Desk	4%
Application Development	22%
Application Support	23%
Governance & Business Mgmt.	9%
IT Security	5%
IT Operations Management.	3%
IT Service Cont./Distr. Recovery	1%

Note: *Projected,
 **2021/2022 Figures for

Focus on Functional Areas for Cost Optimization Opportunities

Contract Renewal Preparation Is Done Too Late



3 Steps to Optimize IT Contract Management

IT Contract Management

Manage Vendors

- Create & maintain a vendor database:
 - Committed spend.
 - Renewal dates.
 - T&Cs.
- Vendor management: Monitor vendor performance and hold accountable.

Major Vendor Review

- Identify top five-to-10 suppliers by spend.
- Review contracts in greater detail.
- Ensure terms are optimized by reviewing with Gartner.
- Plan for contract review 12 to 24 months ahead of expiration.

IT Price Benchmarking

- Allocate your cost into technical domains.
- Benchmark for price, where possible.

Strategize Contract Negotiations



**Review
Vendor Portfolio**



**Prepare
an Effective
Renewal Strategy**

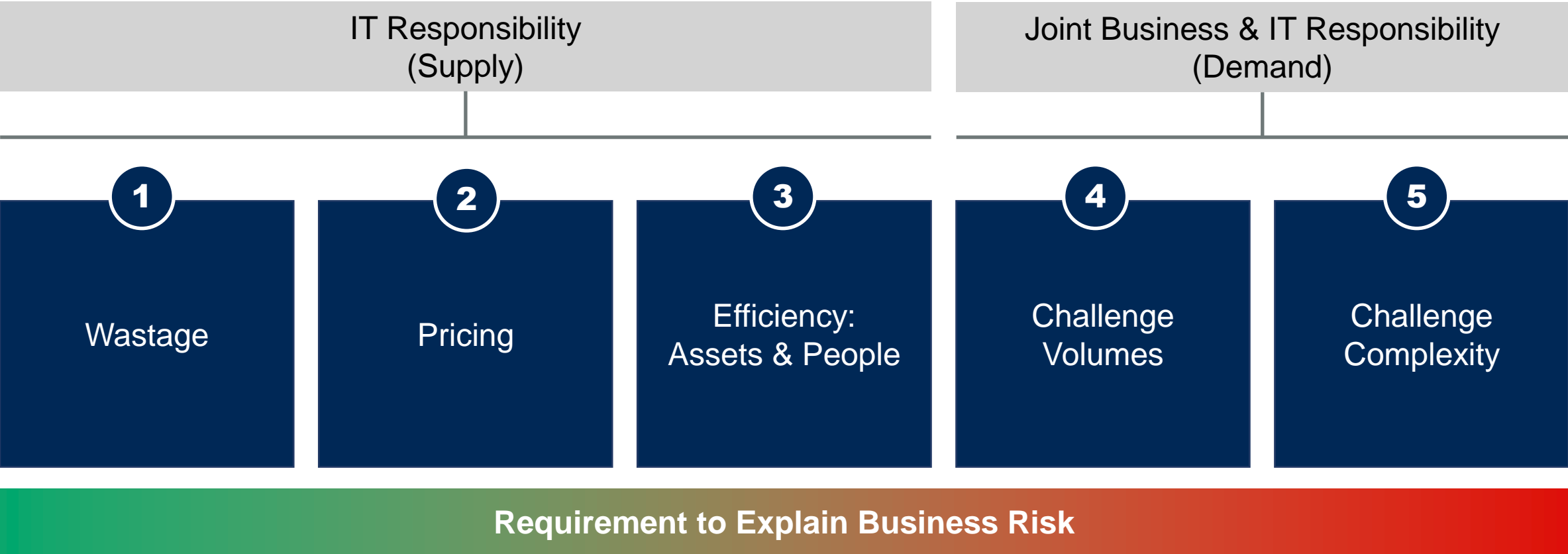


**Negotiate
T&Cs Limiting Future
Price Increases**

Cost Cutting Outweighs Potential Risks



In Optimizing Costs, Order of Execution Matters



IT Cost Reduction: Prioritize Your Options

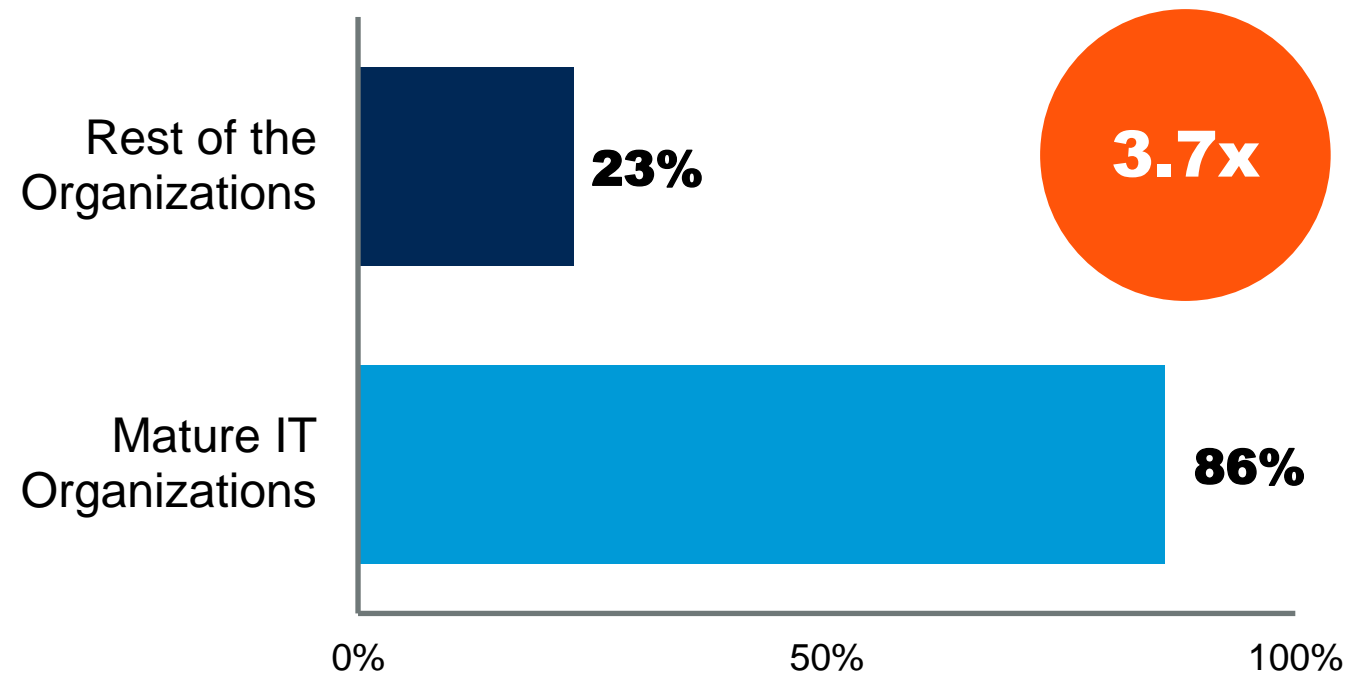
Area	Action	Saving Type	Cost Saved	Invest. Reqd.	Realized By (Date)	Bus. Impact		Technical Risk		Organizational Risk
Networks	Move from multiple regional WAN providers a single global WAN provider.	Centralize	\$1M	L	3Q24	M	H	More clarity on technical risk following full project scoping is likely to be significant.	M	Likely to be business disruption during transition.
Voice & Data	Centralization of all mobile contracts.	Centralize	\$0.2M	Nil	October 2023	L	L	None.	L	Switch to cheaper vendor.
End User	Downgrade all users to lower vendor X service offering.	Standardize	\$0.2M	Nil	February 2024	M	M	Renewal is 19 November. Migration will be time-consuming for the IT team.	H	Users will no longer be able to use certain collaboration tools. Workflow processes will be greatly impacted.
Apps	Full review of license estate. Eliminate “shelfware” and replatform where appropriate.	Standardize	\$0.6M	L	2Q24	L	M	Potentially complicated project with multiple interdependencies.	M	Certain applications will be discontinued or moved, causing business disruption.
Apps	Reduce vendor Y support level from “platinum” to “silver” standard.	Renegotiate	\$0.8M	Nil	December 2023	M	L	Contractual position to do this is in place. No technical risk, just level of service.	M	24/7 support will be replaced by U.S. office hours only. Users in APAC may be required to wait up to 10 hours for support.
Staff Utilization	Reduce security team headcount by two.	Eliminate	\$0.3M	L	2Q24	H	H	Removing headcount will leave large gaps in technical skills.	H	Removing team members will leave us open to increased threat of cyberattack.
Staff Utilization	Reduce applications dev team by two.	Eliminate	\$0.4M	L	February 2024	H	L	No technical risk, just the ability to meet throughput targets.	M	Reducing the capacity of the team will limit the output — new functionality will take six months longer to be released.
Total			\$3.5M							

Cost Efforts Are Poorly Communicated

Stakeholder Communication of Cost Savings

Gartner's Strategic Cost Optimization Score for IT data shows that 86% of mature IT organizations evaluate cost savings via cross-functional teams and communicate them to relevant stakeholders compared to only 23% of other organizations.

Percentage of Organizations That Communicate Cost Savings to Relevant Stakeholders



n = 193 Organizations

n = 39, Mature IT Organizations (Organizations That Score in the Top 20th Percentile of the Overall Maturity Score)

n = 154, Rest of the Organizations

Source: Gartner Strategic Cost Optimization Score for IT Benchmark Data Collected Between March 2021 and 15 February 2023

Create a Value Message

- Link IT's strategy to business outcomes.
- Address the contribution each function has to deliver for success.



**Create a
Message**

Inform and Educate on Business Outcomes

- Address the impacts the initiative will have.
- Tailor the conversation to the audience receiving the message.



**Inform
and
Educate**

Measure and Track Your Efforts

- Evaluate your efforts using KPIs and IT metrics.
- Track metrics over time to ensure successful achievement of cost optimization initiative.

A woman with blonde hair, wearing a grey sleeveless top, is writing on a whiteboard with a blue marker. She is looking at the whiteboard. In the background, a man with a beard is looking at the whiteboard. The whiteboard has some handwritten notes, including "UP FRONT", "BUDGET", "GROUND-FUNDING", and "QUALITY PRODUCT".

Measure

Cost Reduction Supersedes Investment Opportunities

Align Investments to Strategic Business Aspirations

New Business Models

**New Products
or Services**

**Improve
Existing Revenue
or Mission Delivery**

**Improve
Operating Margin
or Operational Cost**

**Improve
Workforce
Productivity**

**Improve Customer or
Constituent Experience**

**Increase
Asset Utilization**

**Reduce Security
and Privacy Risk**

**Reduce
Regulatory Risk**

Using AI to Negotiate Costs and Purchase Terms



Source: [Walmart Is Using AI to Negotiate the Best Price With Some Vendors](#), Bloomberg

Cost Reduction Is Seen as a One-Time Activity



**Only 11% of organizations
can sustain cost cuts over
a three-year period.**

Source: [7 Cost Optimization Errors You Cannot Afford to Make](#) (G00736719)

Example: Strategic Cost Optimization Roadmap

Increasing Improvement



Year 1 Implement

- Conduct baseline measurements.
- Identify cost optimization opportunities.
- Establish sustainable optimization governance.
- Implement quick wins.

Year 2 Institutionalize

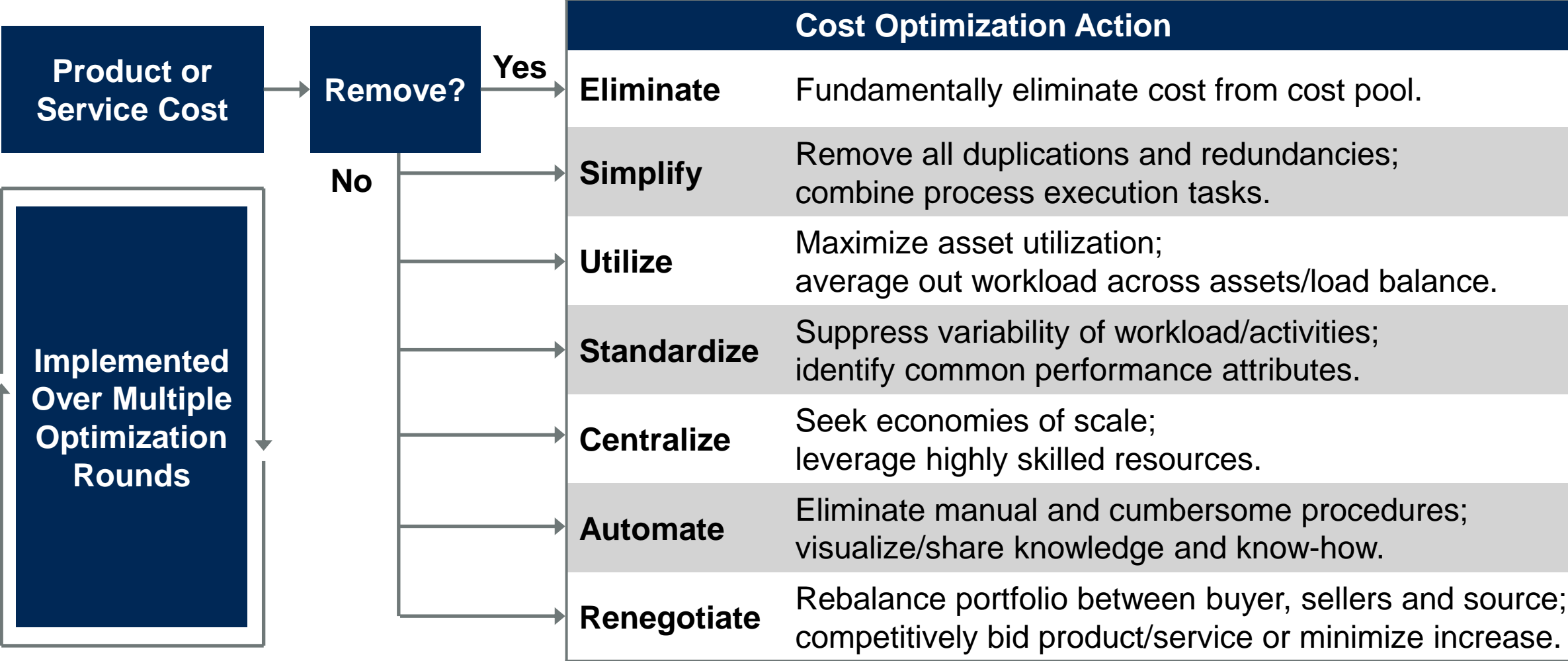
- Determine optimization focus areas.
- Implement Year 2 quick wins.
- Align processes, skills, tools and metrics.
- Identify new opportunities.

Year 3 Monitor and Improve

- Revisit optimization focus areas.
- Align processes, skills, tools and metrics.
- Implement Year 3 quick wins.
- Identify new opportunities.

Stakeholder Communications
Evolving — Project Portfolio — IT Budget Views — Service Portfolio

Incorporate These Actions Throughout Your Activities

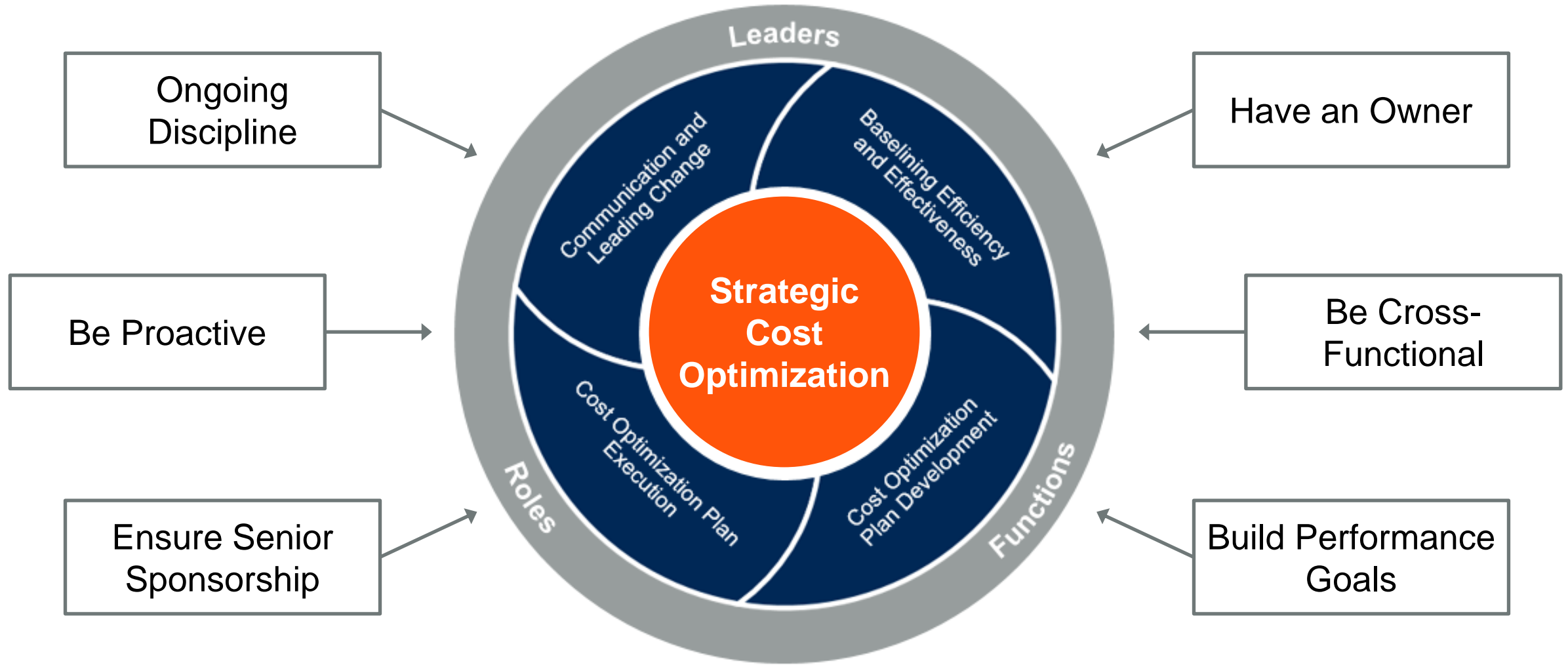


Source: Gartner



**Strategic Cost Optimization
Must Be an **Ongoing Discipline**
That Is Culturally Ingrained
Throughout Technology Practices**

Strategic Cost Optimization Best Practices



Avoid Pitfalls in Strategic Cost Optimization Efforts By ...



Recommendations

- ④ Leverage Gartner assessments, like IT Budget & Efficiency Benchmark, IT Score for CIOs, Strategic Cost Optimization Score for IT, to identify areas of opportunity and execute on your cost optimization efforts.
- ④ Create a roadmap to achieve these objectives and continuously improve your process over time.
- ④ Communicate this roadmap and partner with your stakeholders to ensure cost optimization efforts are strategic and sustainable.

Access Strategic Cost Optimization Score for IT Assessment



Access to Gartner research is subject to entitlement. For information, please contact your Gartner representative..

Recommended Gartner Research

- 🔍 [Strategic Cost Optimization Score for IT](#)
Robert Naegle and Katherine Lord
- 🔍 [3-Year Roadmap for Strategic Cost Optimization](#)
James Anderson and Others
- 🔍 [Executive Essentials: Develop a Strategic Approach to IT Cost Reduction, Optimization and Investment](#)
Robert Naegle and Stewart Buchanan
- 🔍 [IT Budget & Efficiency Benchmark](#)
CIO Research Team
- 🔍 [Tool: Decision Framework for Emergency IT Cost Cutting](#)
Bryan Hayes and Others