

How to Contain Spending in Response to Annual IT Budget Targets

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Initiatives: [IT Cost Optimization, Finance, Risk and Value](#); [Navigate Inflation and Recession Resource Center](#)

CIOs facing a mandatory annual IT spending reduction target or an IT budget that can't keep pace with inflation should follow this budget reduction process to spend less on IT during a challenging financial year.

Overview

Key Findings

- CIOs responding to requests for annual IT budget reductions often ask Gartner for a simple step-by-step budget reduction process to follow.
- CIOs who focus on budget detail are then challenged to motivate staff and external providers throughout the process to deliver spend reductions.
- CIOs who make opportunistic spending reduction choices can impact business performance and increase risk exposure.

Recommendations

CIOs involved with cost optimization, finance, risk and value, who need to effectively reduce annual IT spending, should:

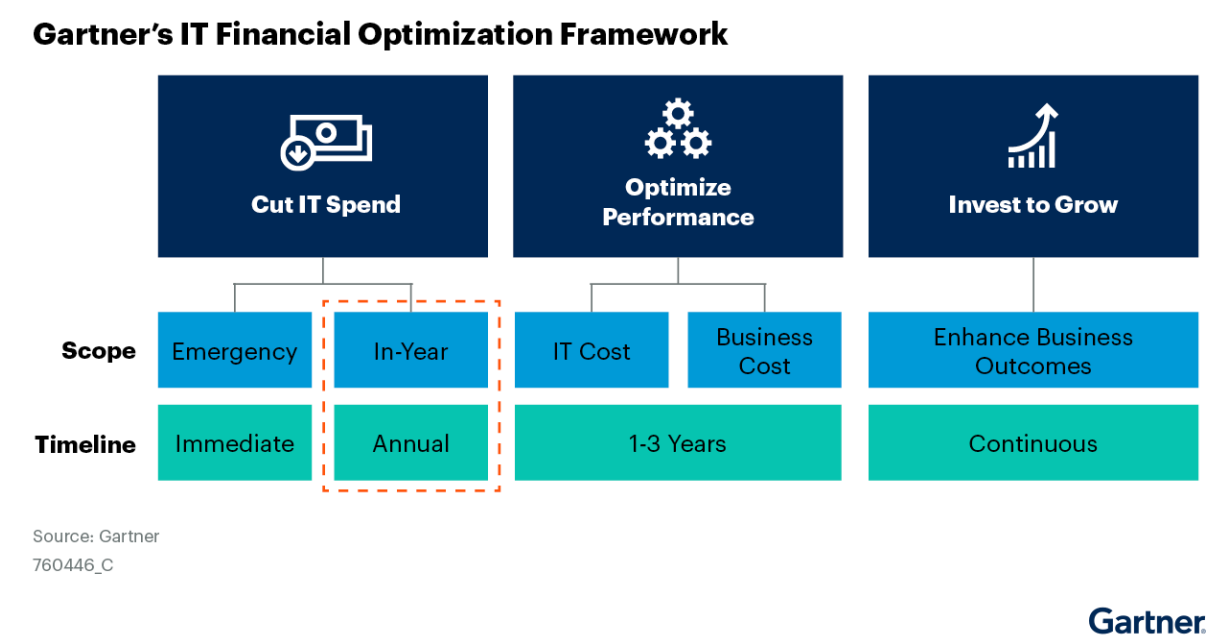
- Avoid wasting time and resources developing your own process by following these simple steps for a comprehensive one-time resolution to financial challenges.
- Use the Gartner tools associated with each process step to baseline, ideate, prioritize, execute and track spending against your targets to avoid wasting time and effort unnecessarily.
- Apply lessons learned from experience as you communicate and obtain signoff from senior executives to share the risk and cost of difficult spending decisions.

Introduction

When to Use

CIOs of organizations in financial difficulty are often asked to contain or reduce their IT spending for the financial year. CIOs often seek Gartner’s advice and a process to follow.¹ Every organization can benefit from having a survival plan in case of financial challenges. Thinking the unthinkable improves our response to challenging events. For immediate emergency spend reduction, please follow the process in [Tool: Decision Framework for Emergency IT Cost Cutting](#), where options are more limited. CIOs and their teams should only use the following process when containing inflation or cutting annual expenditure, as highlighted in Gartner’s IT Financial Optimization Framework (see Figure 1).

Figure 1. Gartner’s IT Financial Optimization Framework



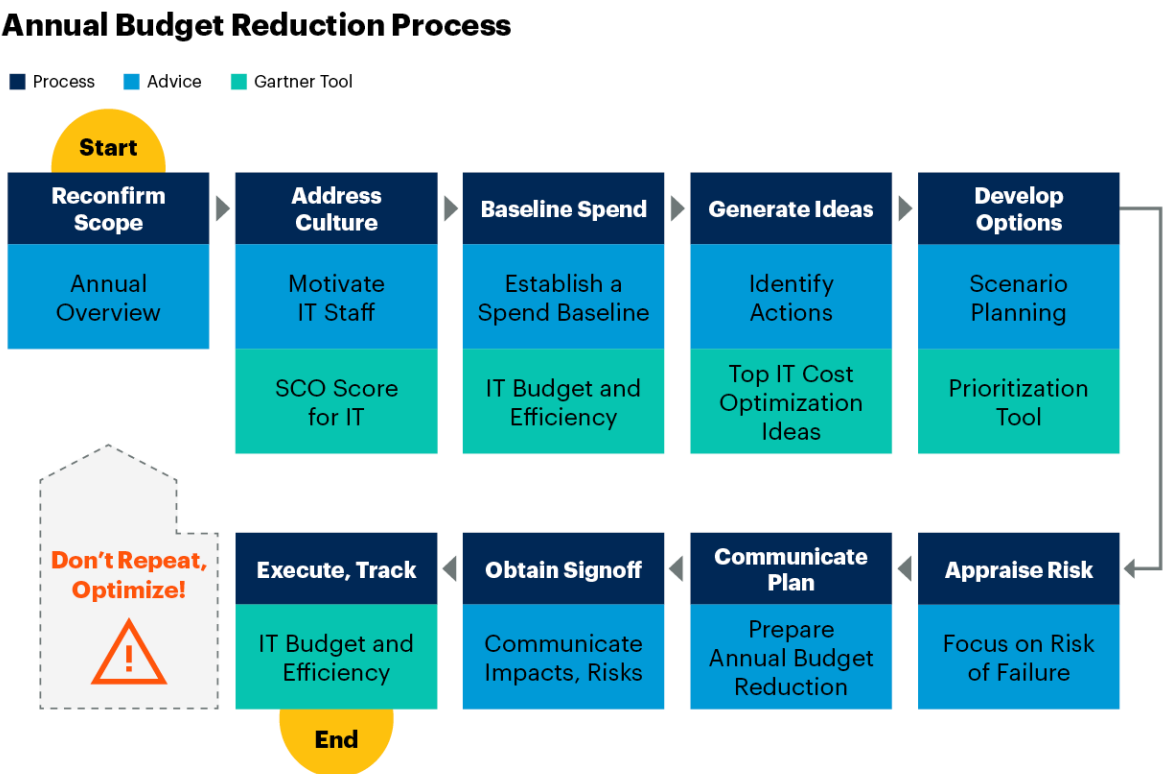
CIOs often act opportunistically in an emergency, canceling whatever spend they can. This can damage business performance, making a difficult financial situation even worse. Spending cuts should not be confused with optimization. Emergency cuts are rarely optimal in well-run IT organizations. Unless experiencing financial challenges, organizations should focus on optimizing technology spending to improve business outcomes. Spending more on technology innovation can play a critical role in reversing an organization’s misfortune, but sometimes senior executives simply cannot afford to spend more. Use Gartner’s IT Financial Optimization Framework to select the right approach to meet your objectives.

Analysis

Annual Budget Reduction Process

Keep the team on track throughout this challenging situation by following the simple process laid out in Figure 2, as supported by Gartner tools and advice. These process steps are explained below.

Figure 2. Annual Budget Reduction Process



Source: Gartner
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Follow the annual IT budget reduction process:

1. **Reconfirm scope:** Check that the situation matches the description in the When to Use section of this research. Agree on a worst-case budget target with senior executives. Clearly define what spending must be included or excluded from the IT budget to meet this annual budget target. If you're only responsible for the IT operating budget, then how can you stop capital budgets from adding further operating cost? Start cutting the budget immediately by excluding any extraneous non-IT items, such as business information services. Exclude business unit spending on technology that's outside CIO influence or control. Business users are likely to object and resist, unless they share the same spend reduction targets and sense of urgency.
2. **Address culture:** Use the [Strategic Cost Optimization Score for IT](#) to assess your IT team's capabilities against the nature of the crisis. Motivate changes in behavior by declaring the nature of the financial emergency and driving accountability for spending. Never exaggerate or mislead. Create the right culture to maintain morale as detailed in [Create a Cost Containment Culture to Respond to Annual IT Budget Reduction Targets](#).
3. **Baseline spend:** Use Gartner's [IT Budget & Efficiency Benchmark](#) to validate the severity of the financial challenges and to define the budget baseline. This will create a quantifiable comparison of spending against the chosen peer group in one of over 20 different vertical industries. This enables an analysis of where the organization differs from the industry median in specific categories and in total IT spending. Differences from the peer average suggest areas for cost reduction. Update these figures regularly to track and report progress against financial targets.
4. **Generate ideas:** Start with the potential areas of waste and overspend that were identified in the baseline. Investigate suspicious areas of spending to expose further savings opportunities. Add and develop your organization's own ideas to eliminate, rationalize and renegotiate. Rule nothing out as you work through IT budget plans, starting with the largest spend items first. Examine lower-cost ways of meeting business needs. Keep going until the reduction ideas safely exceed reduction targets. Use the [Tool: Gartner's Top IT Cost Optimization Ideas](#) to start identifying opportunities.

5. **Prioritize options:** Assess the effectiveness of spend reduction ideas by how much they will reduce spending. Focus on the amount of reduction that can be realistically achieved within the time period. Reduction targets take precedence over other priorities until safely exceeded. Then deprioritize ideas that have the most negative impacts on business risk and value. More comprehensive ideas on prioritization criteria can be found in the [Tool: Decision Framework to Prioritize Cost Optimization Initiatives](#).
6. **Appraise risk:** Unless money is being wasted unnecessarily, spending reduction will have consequences. Prioritize lower-risk activities that are least likely to impair income. Saving \$1 million isn't worth losing \$1 million in revenue. Cost reductions cannot be avoided, but their risks can often be reduced. Ensure that technology spending cuts are defensible and outweighed by the risk of insolvency. ² Protect the team by referring risky decisions to risk managers/committees or escalate to business executives and the board. For further explanatory background, see [Develop a Risk-Engaged Culture to Improve Business Decisions](#).
7. **Communicate a plan:** Plan to exceed targets by a reasonable safety margin, because reductions may or may not be realized more slowly than anticipated. Clearly communicate what is expected of everyone in the enterprise to support every action. Explain why every step and participant are important to meet spending targets, and highlight the consequences for everyone if these targets are missed. Never be afraid to share risk analysis results to demonstrate the thoroughness of the team's work. For examples see [Create and Communicate an Enterprise Cost Optimization Roadmap](#).
8. **Obtain signoff:** Expect resistance to spend reductions, and allow for it in all contingency plans. Refer disagreements directly to the senior executives who set the financial targets. Use peer pressure from other business executives and board members to ensure that everyone concerned signs up to the plan or to more-effective alternatives. Enterprisewide commitment to technology spend reduction is critical to success. Requiring a business executive signature gives everyone the opportunity to object or agree to comply. This avoids any later misunderstandings.
9. **Execute and track:** Hold all relevant parties accountable for completing the plan by reporting on actual spending against budget at more-frequent intervals. Immediately escalate any obstruction experienced by the team. Don't forget to track corporate performance. Deeper cuts can be safely postponed in favor of routine cost efficiency improvements if the nature of the organization's financial crisis proves to be less severe than feared.

Measure Twice, Cut Once

A timely surgical approach that cuts once is far more effective than the demoralization of repeated annual reductions. Follow this advice to create a successful one-time reduction in annual IT spending. Monitoring spending and corporate performance for improvement helps maintain morale by focusing on the light at the end of the tunnel. But if the organization continues to require ever deeper cuts, perhaps the approach isn't working. A major rethink is needed to avoid cutting the business value of technology. For advice, see [How to Defend IT Budgets Against Damaging Spending Cuts](#).

Evidence

¹ Eight percent of organizations have no framework for cost optimization, and only 35% use the same framework consistently.

[3 Keys to Business Cost Optimization Success](#) (see Figure 1).

² Euler Hermes Allianz research anticipates a 15% higher level of EU insolvency in 2022. [Insolvencies: We'll Be Back](#), Allianz Research, 6 October 2021.

S&P Global expects U.S. bankruptcies to rise after a record low in 2021. [U.S. Corporate Bankruptcy Pace Likely to Speed Up in 2022](#), S&P Global.

Recommended by the Authors

Some documents may not be available as part of your current Gartner subscription.

[IT Budget & Efficiency Benchmark](#)

[Create a Culture of IT Smart Spending](#)

[10 Rules for Rapid IT Spend Reduction](#)

[Strategic Cost Optimization Score for IT](#)

[Toolkit: 101 Rapid IT Spend Reduction Ideas](#)

[Payback Periods for Cost Reduction Initiatives](#)

[Develop a Risk-Engaged Culture to Improve Business Decisions](#)

[Tool: Decision Framework to Prioritize Cost Optimization Initiatives](#)

[Create and Communicate an Enterprise Cost Optimization Roadmap](#)

[Case Study: Crowdsource Savings to Invest in Digital Transformation \(Franklin Electric\)](#)

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