

# The Sustainable Approach To IT Cost Optimisation

A sustainable approach to IT cost optimisation requires transparency, practical and implementable cost reduction measures and a long term, continuous improvement mindset.





## The Ongoing Cost Challenge For IT Leaders

Whilst the paradox has always existed in IT, within an ever increasingly Digital economy IT is required to perform an ever-growing role in the business but as it does so, its costs come under greater pressure – it can't turn off demand, but it can't exponentially grow costs either.

Too often, cost optimisation is a reaction to a challenge, not an embedded mindset. The cost challenge therefore moves from being an annual budget challenge to a continual 'must' for IT leaders, and a perennial challenge for CIOs – just as it is for any business leader.

This usually results in the deployment of only basic cost reduction techniques that can provide some quick wins but are often not sustainable, at best defer, and at worst, exacerbate issues such as cancelling upgrades or technology currency work, stopping contract or consultancy resources or dialling down services levels.

However, for many organisations they can be an invaluable short-term fix or the start of a longer journey to effective cost management whilst cost transparency is perfected.

A sustainable approach to IT cost optimisation requires three main elements. Firstly, cost transparency, secondly, a practical and implementable approach to cost reduction and thirdly, the ability to manage IT as a value-driving entity.

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## Cost Transparency: The Vital First Step

Our recent survey of CIOs and IT Leaders revealed that only 12% of IT leaders are currently able to deliver cost transparency to the business, meaning they are able to capture, understand and report costs in a way that enables both IT and the business to better understand IT services and make improved business decisions.

This failure at being able to properly show or breakdown their cost to serve is the first hurdle in being able to ensure costs are optimised. Building cost optimisation initiatives without a proper understanding of costs is akin to building a house on sand, whereby the house would be continuously rebuilt time and time again.

The diagram below shows some of the key challenges to overcome.

In addition, this lack of transparency can result in a reluctance to invest in key transformational change and is one of the factors that drives up shadow IT and the business going direct to partners rather than using the talent it has in-house.

### INABILITY TO IDENTIFY AND UNDERSTAND COSTS

Basic control is a hygiene factor, that requires IT organisations to map, understand, categorise, and explain both the sources of cost and how they are allocated to the business as a first step to proving the value being driven by the spend.

### INSUFFICIENT VISIBILITY OF COSTS

- Bad or non-existent financial data internally or from suppliers
- Poorly defined or unavailable cost reports
- Focus on cost data rather than MI, e.g. lack of cost mapping of costs to business service
- Lack of non-financial data (e.g. volumes, performance) to understand costs
- Poor visibility of data from other functions
- Basic or too high-level cost models that don't provide actionable information
- Poor budgetary and finance processes

### LACK OF ACCESS TO COST DATA

- Data held in local spreadsheets and not widely available
- Multiple versions of the truth
- Out of date cost information
- Bad or non-existent data from suppliers

### FAILURE TO MANAGE IT AS A VALUE DRIVING ENTITY

- IT managed as a cost centre, without P&L and commercial mindset
- Lack of clear line of sight between IT decisions and business value





## Cost Reduction: Top Down, Bottom Up Approach

In our experience cost reduction requires a blend of 'top down' and 'bottom-up' analysis on data to ensure practical and implementable cost measures. The 'top down' approach is vital to enable the organisation to spot areas of spend that are out of kilter with expectation, i.e. network spend is 20% higher than peer organisations. This analysis can provide an initial set of hypotheses by comparing overall costs for functional areas with comparator organisations.

In order to then find reduction initiatives, these hypotheses then need to be tested in a 'bottom-up' approach, using both benchmarking data points and deeper analysis of the underlying data. Through a series of practical working sessions with the teams involved in providing the actual services, the initial hypotheses can be proven or disproven, thus identifying realistic areas for improvement.

From this point a series of implementable measures can be drawn up, all of which then need to be considered against their likely return and cost / time to implement – effectively determining the return on investment for each optimisation measure.

The diagram below shows some of the typical cost optimisation measures that organisations could implement, showing the relative return on investment.

QUICK WINS	STREAMLINING	TRANSFORMATION
5-10% Savings	10-20% Savings	20-30% Savings
<ul style="list-style-type: none"> <li>Review user policies and apply segmentation e.g. JML, mobile usage, and access to applications, UC, printing</li> <li>Retire redundant software licences, hardware and applications (including pricing and billing audits)</li> <li>Review project portfolio to identify, and stop redundant or marginal projects</li> <li>Set demanding targets for project delivery</li> <li>Reduce non-core technical and administrative resources</li> <li>Reduce travel and training budgets</li> </ul>	<ul style="list-style-type: none"> <li>Standardise, rationalise and consolidate application, retire legacy or move to lower cost delivery model</li> <li>Standardise, rationalise and consolidate hardware e.g. cloud</li> <li>Review and reduce standard SLAs and redundancy, backup, archiving, and storage tiering</li> <li>Reinforce demand management policies, supported by recharge model</li> <li>Review and optimise organisational spans, layers and hierarchy</li> <li>Exit low performing staff or duplicate roles</li> <li>Renegotiate and consolidate locally held contracts e.g. telephony, mobile, LAN</li> </ul>	<ul style="list-style-type: none"> <li>Realignment of apps capabilities to business processes, customisation focused only on strategic apps</li> <li>Review IS and supplier governance model (regional vs global)</li> <li>Selectively explore new regional outsource model e.g. EUC, telephony</li> <li>Develop IT Analytics capability</li> <li>Review IS locations and explore clustering of disparate resources</li> <li>Evaluate current shoring arrangements</li> <li>Standardise software development methods and tools</li> <li>Ensure compliance to standard architecture, remove customisation</li> <li>Review IT portfolio evaluation criteria to reinforce financial criteria and apply to current portfolio</li> </ul>



## Managing IT As A Value-Driving Entity

In order to build long term sustainability and optimised costs, CIOs need to be more proactive and demonstrate the business leadership and commercial skills that are expected of any business leader. This is now more important than ever, as the business & IT boundaries continue to merge and CIOs play a greater role on the board.

The technology function has a long history of not being able to properly explain the value it brings; linking ongoing costs, and investments, to the top or bottom line. However, now more than ever CIOs must be driving the conversation of their function as a value and not a cost centre.

CIOs that can do this well are staying relevant in the digital age. Those that are less successful at delivering transparency and supporting decision making are often seeing an increasing level of responsibility moved over to separate digital functions.

The CIO needs to be proactive, commercially-minded, take risks, and will ultimately need to be willing to disrupt their own organisation.

The following four steps can help build a long term and sustainable cost optimised model for IT.

### BUILD TRUST

Once cost insight is built, it should be shared with the business. This doesn't necessarily mean opening the books – indeed, in the early days of cost maturity this may drive the wrong behaviours.

### MAP THE VALUE CHAIN

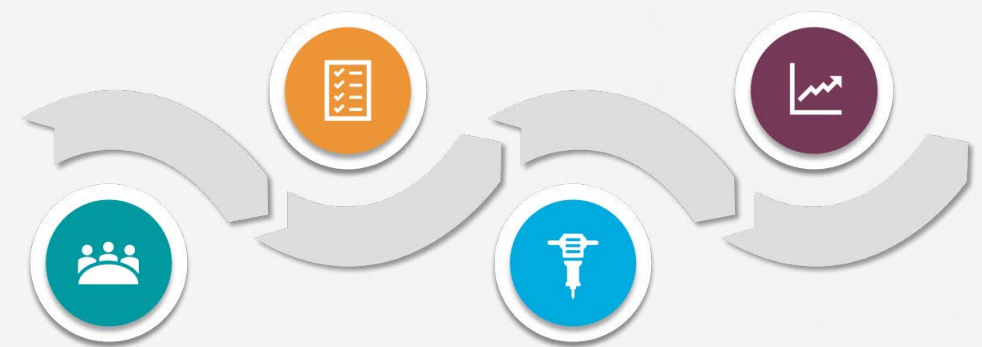
Map cost and customer journeys with the business to truly understand the revenue and outcomes that spend is driving. Be able to link spend through to service and therefore business value.

### DISRUPT / INNOVATE

Bid for investment to leverage savings both for IT, but also in partnership with business functions, and be clear with the business about timescales to realise any reduction – IT may need a kick start if there has been underinvestment or short-term thinking in the past, and may need multiple years to fully realise an investment.

### REINVEST & SUSTAIN

Drive for any cost savings to be reinvested back into continual improvement of IT to drive sustainable reductions.



# CASE STUDIES

## 1

Coeus have a long-standing capability in delivering both short-term and long-term cost optimisation approaches for clients, including:

- Global Consumer Products Company: Reduced IT costs by £30m per annum through cost transformation programme
- Global Drinks Company: Reduced UK costs by over 10% through operating model review, including 10% headcount reduction whilst increasing service levels
- Global Energy Company: Saved €237m through competitive range of cost optimisation strategies

## Global Consumer Products Company: Reduced IT costs by £30m per annum through cost transformation programme, including retendering of two major contracts.

### The Cost Challenge

An external benchmark of IT identified that they were spending £28m per annum more than industry peers. However, what the benchmark failed to deliver were the specific areas or ways in which these savings could be realised. It was at this point, Coeus were brought in to help identify realistic ways in which costs could be brought into line with industry peers.

### The Approach

The largest opportunity was with the global infrastructure outsource contract which was coming up for renewal and, therefore, represented an opportunity to apply commercial leverage to achieve the stated business demands. Coeus led an RFP process and negotiations for these services, which led to the subsequent decision to award the services to another supplier.

Coeus were also tasked with the transition and transformation planning. This then led to the client requesting Coeus retain its role in the transition itself and to manage the programme through to execution and benefits delivery. The overall programme saw the transition of service desk, end user computing, data centres, application development and maintenance to new suppliers and the re-negotiation of the telecoms contract with the incumbent.

### Results

The programme was successfully implemented, delivering the £30m per annum cost savings expected by the business.

Coeus brought expertise to coach the client team around the risks and opportunities associated with this complex deal and a robust negotiation strategy that aided the successful outcome.

Experienced and proven programme delivery capabilities saw the successful transition of services to new suppliers within the allotted timescale of 9 months and on-budget – all against the backdrop of zero unplanned downtime to the business.

## Global Drinks Company: Reduced costs by over 10% through operating model review

### The Cost Challenge

There was a perception at senior levels within the business that the IT team was “heavy” in head count and did not deliver value for money. There had been departures within senior levels of the function and there had been little work done in recent years on the structure, skills and competences required to support the business.

### The Approach

Coeus quickly (within 2 weeks) conducted detailed analysis of the current IT function.

This included a review of the current operating model and organisational structure, analysis of the IT metrics, highlighting the Total Cost of Ownership (TCO) to understand the base IT costs and benchmark the current FTE headcount and reviewed the mix of resources (internal versus external).

Coeus also reviewed the current governance, forums and boards to run the function.

### Results

The new IT operating model and organisational structure facilitated a 10% headcount reduction, saving the organisation over £2m per annum, which was over a 10% per annum spend.

The new model aligned the Service function into a ‘tower’ model bringing key skills together, supporting personal development and critically improved delivery quality and speed to the business.

Furthermore, the new model facilitated engagement with the business and highlighted the value delivered by the IT function.





## Global Energy Company: Saved €237m, over three years, through range of cost optimisation approaches

### The Cost Challenge

With competition and customer retention an ever-increasing challenge for global energy companies, the client recognised the underlying IT services and costs needed to reflect their shrinking market share and needed to maintain agility and cost competitiveness.

### The Approach

Coeus were engaged to support the identification and execution of a series of cost optimisation approaches, ranging from internal operating model efficiencies, architectural optimisation and sourcing arrangements.

#### The initial review led to four key cost optimisation workstreams:

**New operating model** – reflecting the need to support leaner services in a more agile way.

**Network sourcing** – competitive tender of network infrastructure services, resulting in greater flexibility with significantly reduced costs.

**Infrastructure sourcing** – the renegotiation of data centre, end user compute, and service desk contract with the incumbent supplier – identifying mutually beneficial projects to reduce both parties' costs and implement more modern services.

**Redefined infrastructure architecture** – new architecture strategy not only eliminated the technology debt that had built up, but identified an optimised approach to cloud and data centre hosting.

### Results

**The project was delivered on time and delivered €237m of benefits, through the four key initiatives:**

- €49m through optimised data centre and cloud strategy
- €90m through renegotiated infrastructure agreement
- €92m through new network services agreement

**In addition to the commercial benefit, the client has recognised the follow benefits from the programme:**

- Customer stratification and improved benefits to the business
- Operational Stability – Designed a plan with operational stability at its heart
- Business Strategy – Supported the businesses in their strategy
- Flexibility – Enabled flexibility into the contracts which would help support the objectives above





## How Can Coeus Help?

Coeus offer a range of services specifically designed to help organisations:

- Improve Cost Transparency – understand & report IT spend; assess completeness & accuracy of IT cost reports; manage service cost lifecycles
- Optimise Services and Costs – understand service and delivery costs, identify cost optimisation opportunities, improve business case accuracy
- Optimise Business Demand – manage IT as a value-driver by explaining the value IT generates, optimise business demand, improving flexibility of cost, improve budget accuracy.

Cost optimisation reviews typically take between 6-10 weeks depending on the size, geographical spread and complexity of the organisation. However, Coeus can often establish costs and highlight the key challenges in just 3-4 weeks.

## Getting In Touch

Coeus Consulting helps IT leaders to drive business growth, enhance agility and create efficiencies. We are an independent IT consultancy providing both strategic advice and programme execution to multinational clients, particularly those operating in highly-regulated industries. Our people have the right blend of skills and experience to deliver trusted advice on commercial, technological and business issues resulting in strategic benefits for our clients.

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## View Cost Transparency Survey

In 2018 Coeus Consulting ran a survey amongst IT leaders, more than half of whom were C-suite at organisations with £1bn+ revenues, to find out whether they were able to deliver cost transparency to the business.

The survey clearly revealed that cost transparency is a pre-requisite for IT leaders wanting to transform the perception of IT from 'cost centre' to 'value centre'. Only a small proportion (12%) scored highly in cost transparency, but those that did were reaping the rewards - greater influence over the strategic direction of the company and the ability to support the constant demand for business agility that is typical of the modern, digital organisation.



**Download the Cost Transparency Report here**