

# Decision Framework for Prioritizing Cost Optimization Ideas

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IT leaders can improve the outcome of cost optimization initiatives by expanding their analysis of these ideas to include elements such as impact on the business, risk and level of investment required. Broadening the analysis, and including those ideas in a broader portfolio management context within the organization's IT governance process, will streamline the prioritization process and improve outcomes.

## Key Findings

- When performing IT cost optimization, recognize that not all ideas are worth the effort.
- Too often, cost optimization ideas are evaluated only on their potential to reduce costs.
- Cost optimization outside of IT requires buy-in and support from the business; a lack of such support will undermine the best efforts.
- Expending time and energy on cost optimization efforts that the organization will not embrace wastes time and undermines the credibility of the IT leadership.

## Recommendations

- Use the decision framework described here to prioritize cost optimization ideas.
- After prioritizing ideas, map them to a grid, such as the one described in this research, to help determine the level of effort the business leadership is committed to supporting. This graphic representation will help leaders fully appreciate the effort required and the relative benefits of each initiative.
- Execute well around cost optimization efforts. Do the small things quickly and deliver results to prove that IT can contribute to efficiency improvement.
- Get the CFO and budget analysts engaged in the process of identifying and prioritizing cost optimization ideas.

## WHAT YOU NEED TO KNOW

In the rush to reduce IT and business costs, there is a tendency to prioritize cost optimization ideas by simply examining the potential cash savings of the action. While potential cash savings are certainly a key consideration, prioritizing around them alone is problematic. Other factors – such as impact on the customers of IT and the degree of organizational and technical risk – must also be considered to get an accurate list of the organization’s best opportunities for cost optimization.

## ANALYSIS

### Overview

IT cost optimization is a frequent occurrence that comes and goes with business cycles and changes in technology. Because of changes in technology, each successive generation of cost optimization may not look the same as organizations evolve from mainframes to consumer devices. What can and should be done will change. What does not change, however, is the importance of making clear what IT means to the business and whether IT can deliver on its potential. The specific cost-saving initiatives each organization pursues will vary, depending on:

- How much credibility the IT organization has to deliver results from new investments toward improving the overall well-being of the business or government
- The aptitude of the organization’s business or political leadership to understand what IT can do to help the business succeed
- The level of participation of senior management in IT governance, and how cost optimization decisions are made
- Whether there are inefficiencies in IT that were not previously corrected or that are new opportunities as a result of the advent of new technologies

### Analysis

#### Cost Optimization Requires a Decision Framework That Weighs Several Factors

Cost optimization rarely happens in isolation. There are almost always risks and consequences to reducing business costs. For example, what may seem like a relatively straightforward cut –

postponing a planned project – has business consequences and risks that must be taken into account.

Our work with clients suggests that, too often, cost optimization ideas are weighed almost exclusively based on their potential cost savings, without regard to the effects of these ideas on customers, risk, time to implement and the financial investment required to implement. This is akin to prioritizing new IT initiatives based only on their potential benefits without regard to costs. Using potential benefit as the only decision criterion can result in a prioritized list of high “payback” ideas that are also the most risky and most likely to fail.

Recognizing that cost optimization teams usually operate on tight time frames, Gartner has created a concise decision framework to help prioritize cost optimization techniques. This framework considers not only the potential benefit (in terms of cash savings), but also the impact on customers, time requirements, degree of organizational and technical risk, and investment required (see Figure 1).

#### Using This Framework

This basic framework may be used to weigh the benefits and risks of cost optimization initiatives. For each criterion (row), only one column (red, yellow or green) of the framework should be populated. For example, for the customer impact row, an initiative would be rated as negative, none or positive – not all three. Potential financial benefit must be measured to get a sense of whether the effort might be worthwhile. Customer impact must be assessed (though not necessarily quantified) to determine if an effort might have large financial benefits, but create ill will with customers, and thus undermine the value of moving forward. (This is especially important in the public sector, where customer impact is often a primary concern of elected officials.)

In assessing the options, decision makers must also take into account how long it will take to complete the initiative, whether the technical and organizational risks are so high that it may not be worth the effort, and whether an upfront cash investment is required to achieve downstream savings. The issues of time, risk and investment required may be so severe as to diminish the likelihood of ever achieving any of the desired benefits.

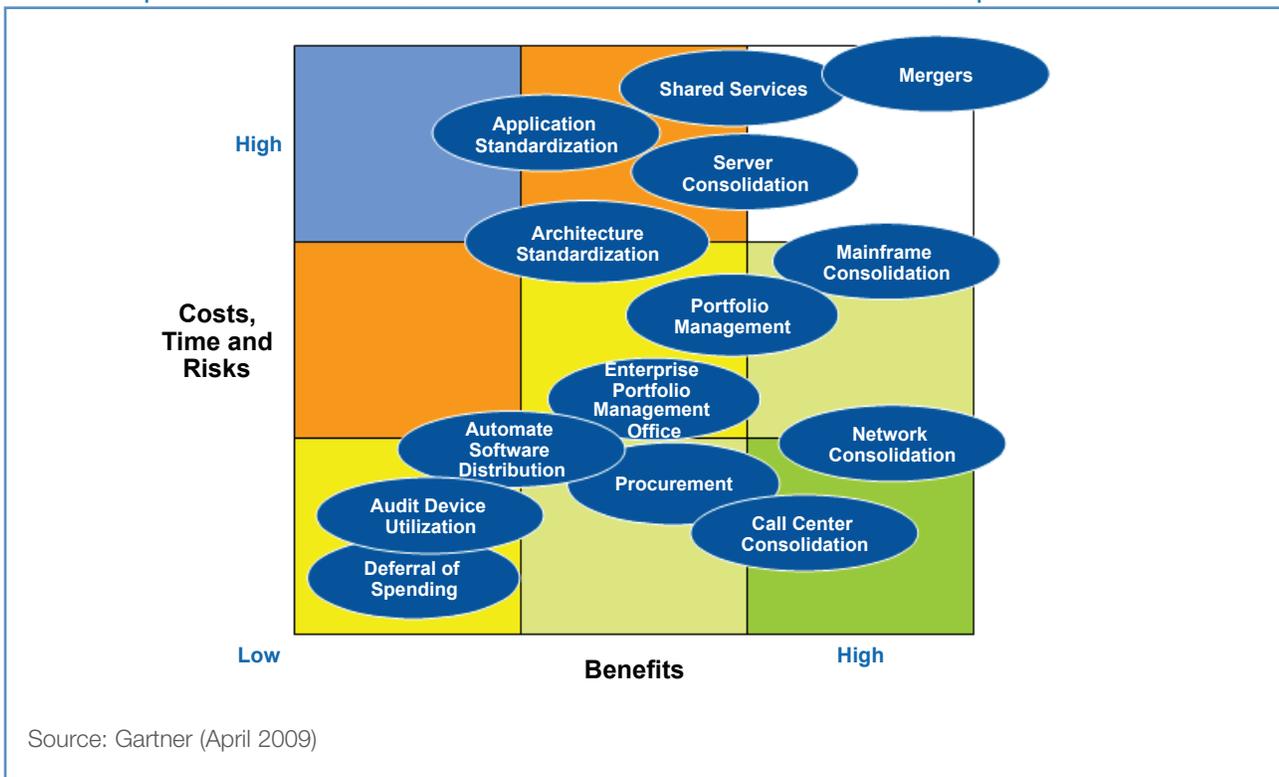
Clients often state they have more optimization opportunities than they can address. Even after using this decision framework, it may be necessary to group ideas together and map them to a grid (see Figure 2) to help determine the level of effort the business

Figure 1. Gartner Decision Framework for Prioritizing Cost Optimization Initiatives

<ul style="list-style-type: none"> <li>• <b>Potential Benefit</b> <ul style="list-style-type: none"> <li>- How big is the cash saving if the action is implemented?</li> </ul> </li> </ul>	Low Amount	Moderate Amount	Large Amount
<ul style="list-style-type: none"> <li>• <b>Customer Impact</b> <ul style="list-style-type: none"> <li>- What impact will this have on customers?</li> </ul> </li> </ul>	Negative	None	Positive
<ul style="list-style-type: none"> <li>• <b>Time Requirement</b> <ul style="list-style-type: none"> <li>- Can you capture the savings in this fiscal year?</li> </ul> </li> </ul>	>18 months	6-18 months	<6 months
<ul style="list-style-type: none"> <li>• <b>Degree of Organizational Risk</b> <ul style="list-style-type: none"> <li>- Will your leaders ensure the changes are made? Is your organization capable of adapting to the changes?</li> </ul> </li> </ul>	Staff redundancies and re-engineering of processes and structures	Limited changes in roles, structures and processes	No staff reduction, nor changes in organization and processes
<ul style="list-style-type: none"> <li>• <b>Degree of Technical Risk</b> <ul style="list-style-type: none"> <li>- Is there a risk that the change will undermine the ability of your systems to deliver?</li> </ul> </li> </ul>	Impacts operating system, database, middleware and applications	Moderate impact on few components of the architecture	Little more than "moving boxes"
<ul style="list-style-type: none"> <li>• <b>Investment Requirement</b> <ul style="list-style-type: none"> <li>- Does the change require a large upfront investment before savings can be captured? Is the organization willing to make an investment at all?</li> </ul> </li> </ul>	High	Moderate	Low

Source: Gartner (April 2009)

Figure 2. Grouping and Mapping Cost Optimization Techniques on a Grid Will Help the Business See the Effort and Reward Associated With Various Techniques



leadership is committed to supporting. This graphic representation will help leaders fully appreciate the effort required and the relative benefits of each initiative.

Figure 2 provides a snapshot of how the most common undertakings can be grouped relative to benefits and costs (including time, risk and organizational impact).

Creating a decision framework is only one important step in the IT cost optimization process. Ideally, this framework should be applied using the portfolio management process of the organization and using that process to feed into its IT governance decision-making process. The CIO can create and execute the framework; however, the value of the framework is that it exposes the strategic and organizational trade-offs to be taken into consideration when doing IT cost optimization. It may turn out that – when the CIO is given a mandate to cut IT, the strategic leadership of the organization sees the implications of those cuts, and everyone understands the risk and level of effort required – the enterprise may decide to do something else.

Once ideas have been “run through” the decision framework, IT leaders may find it worthwhile to plot the options on a grid, such as the one pictured in Figure 2. This kind of graphical representation can help decision makers see their available options and collaboratively decide those worth doing. It also helps illustrate that the cost optimization options that have the greatest potential benefit often require additional investment, take more time and carry more risk.

### Conclusion

To build credibility, IT leaders need to carefully consider the kind of IT and business cost optimization they would propose. Not all are equally helpful and, in fact, may do further damage to CIO credibility. Business leadership must weigh in on the trade-offs of some reductions versus others. While capable of making these decisions, CIOs should avoid unilateral decision making. Unilateral decisions invariably result in a negative view of IT or of IT leadership, and also miss the point that IT exists to support the business. Therefore, these decisions need to be made at the enterprise level.