

IT Cost Reduction:
Using new technologies to
reduce costs and gain agility

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By taking advantage of new technologies, CIOs are better positioned to launch the next wave of cost reduction. For those CIOs seeking to reduce the cost of business operations and increase flexibility, strategies that exploit new technologies can help to manage changing conditions while gaining greater efficiencies.

Familiar challenge, innovative solutions

Keeping pace with today's volatile and intensely competitive business environment demands an IT function that drives speed and agility. Whether managing weak economic conditions or handling the uncertain nature of global growth, C-suite leaders need to address both cost and its context, delivering the new IT to realize value in their businesses.

Cost reduction often begins with IT. Frequently viewed as a significant cost, yet at the same time expected to deliver technology that transforms how a business operates, IT cost reduction is becoming more challenging than ever. After many years of identifying IT savings, CIOs have typically exhausted any "quick wins."

Digital technologies are changing the game. The potential for new cost reduction

is emerging alongside new tools and solutions that offer a fresh opportunity for cost containment. Advances such as cloud computing, powerful collaboration technologies, standardization and industrialization dramatically extend the CIO's scope to not only drive down costs in IT, but also to introduce innovative cost reduction practices that benefit the whole business.

Key to enabling business cost reduction is a better alignment between the business and IT. To achieve strong business-IT convergence, technology platforms need to be more agile and flexible, the IT operating model must be aligned and the IT workforce needs to be transformed to accommodate new behaviors and roles.

By shifting the focus from immediate short-term gains to more coordinated long-term efforts, IT can better position the organization for the future.

Four waves of IT cost reduction

Accenture has identified four waves of cost reduction to help organizations reduce cost while increasing the benefit that IT can deliver to the overall business (see Figure 1).

Wave 1: Minimize spend

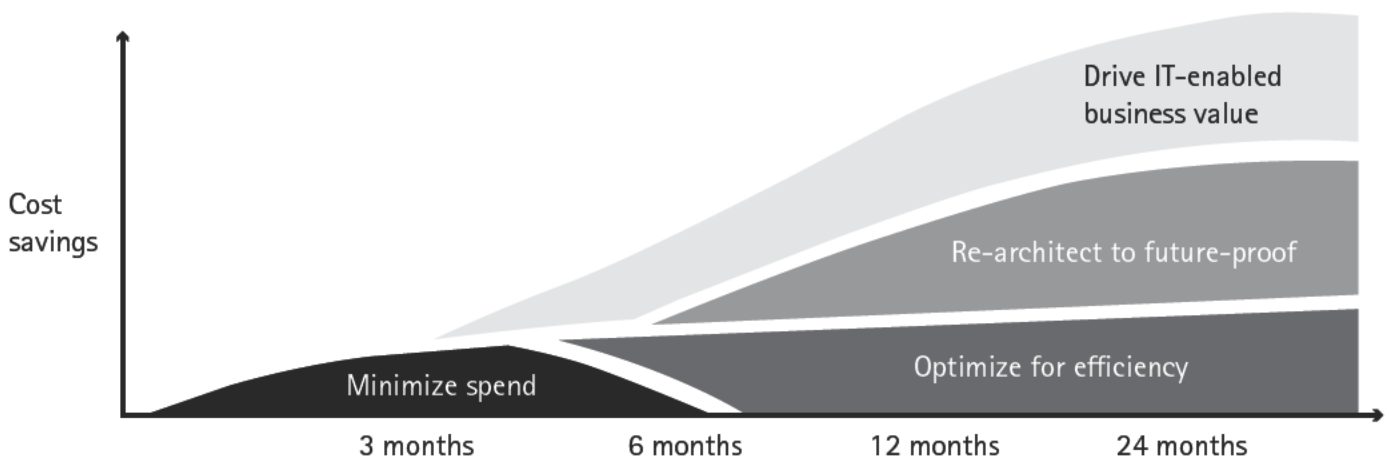
The first wave—already undertaken by the majority of CIOs—involves exploiting immediate cost-reduction opportunities and minimizing ongoing IT expenditures. CIOs generate significant and immediate savings by aggressively prioritizing project spending, reviewing license and procurement spending, reducing supplier costs through strategies, including renegotiating service level agreements, vendor consolidation, reducing external headcount and staffing and increasing asset utilization to control cost drivers such as data storage growth.

Wave 2: Optimize for efficiency

The second wave optimizes IT for efficiency—again, often already considered by CIOs—using new efficiency levers to create diverse opportunities. The focus is on achieving greater control and alignment of IT with the business through better managing supply and demand, IT process automation and generally improving efficiency within the existing IT operating model.

This wave includes a wide range of initiatives to enable IT to do more with less, such as virtualizing, consolidating, centralizing and standardizing servers, storage, databases and applications, implementing true output-oriented “managed services” outsourcing of infrastructure and applications to eliminate fragmentation, complexity and waste, increasing the use of cloud, and introducing workplace collaboration and self-service tooling.

Figure 1: Four waves of IT cost reduction



(Source: Accenture analysis)

Wave 3: Re-architect to future-proof

The third wave involves enabling IT to plan ahead to handle the challenges the business is likely to face tomorrow. In areas ranging from mobile applications to cloud computing services, or support for personal devices, IT organizations are being forced to rethink their operations' strategy to position themselves for future complexities.

To achieve such flexibility and agility, simplification of the business architecture is required. While IT must adopt a cost-effective approach toward all elements of the business architecture, the business should be treated as a true partner. Management of end devices, software, the third-party supply chain as well as associated IT applications and infrastructure, must be reviewed in the light of the need to continue to deliver more output with reduced financial input. Further, recent business requirements for the rapid delivery of apps and applications demands a fundamental change to the IT operating model.

Wave 4: Drive IT-enabled business value

For wave four to succeed, CIOs must be well positioned to help the enterprise deliver reduced sales, general and administrative cost as well as enabling top-line growth through IT. Convergence of the business and IT, in terms of capabilities and governance, enables increased flexibility. Costs and services can be modified in response to changing conditions using more automation, increased user self-service and much-improved management information to help identify and address the causes of inefficiency.

By implementing the first three waves of cost reduction in parallel, CIOs can transform their IT function into a lean, efficient operation, while securing additional business benefits. These waves are iterative, ongoing processes through which organizations can continue to innovate and drive further cost reductions.

The business case for IT investment is easier to prepare than ever before, due to reduced up-front costs and the ability to rapidly deploy new technology capabilities.

Powering the business with IT

Accenture estimates that, as a proportion of total corporate spending, IT ranges from less than one percent to around 15 percent; a significant component of sales, general and administrative cost.

In the past, CIOs have controlled IT costs at the same time as building flexibility and agility into the IT operating model. Now, they can help their organizations achieve far larger cost reductions by extending the same benefits across the enterprise. Innovation and automation are key. CIOs can go beyond innovations such as cloud to exploit trends, such as the Internet of Things and cognitive computing.

It should be noted that CIOs who deliver tangible benefits across the enterprise can both strengthen their own standing in the organization and reinforce the case for continued technology investment.

In today's volatile and intensely competitive world, it often becomes unexpectedly urgent for organizations to realize reductions. Only efficient and effective IT organizations will survive to deliver the required business savings.

Technology reshapes industries

While IT cost reduction is a valiant goal, CIOs recognize that the biggest change is typically happening beyond the traditional IT department. In fact, in many cases, it is taking place beyond conventional company boundaries.

Digital technologies are challenging industry leaders in ways that have not been experienced before. Whether as a result of competition from players in adjacent industries—or even unrelated industries—there is now a distinct risk for the revenue streams of any business.

The greatest challenge for technology leaders is not the removal of cost from existing operations, it is where to invest the resultant savings. Although the solution may lie with technology, the relationship between technology investment and profitable growth is a complex one for any business.

Here is where technology leaders and their IT departments can excel; by powering the business with IT there is value not only for the organization, but also for the whole industry going forward.



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