

# How to Balance Cost, Value, and Risk to Achieve IT Cost Optimization

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White Paper

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IT cost optimization means a balance of cost containment, business value maximization, and risk avoidance.



In this paper we will explore a number of strategies for pursuing each of these three goals.

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# Minimize Costs

An organization can reduce costs through a combination of changes to people, processes, and technology. In this chapter we explore some examples.



## People

First, let's review some ways to reduce costs that involve staffing.

- **Outsource**

The risks of outsourcing will vary depending on the circumstances, but outsourcing can be a great way of dealing with temporary increases in demand for simple or common tasks. It provides HR elasticity, similar to the way cloud provides infrastructure elasticity.

- **Reduce salaries/benefits**

There are some obvious risks here. Morale and staff productivity are going to take a hit.

- **Freeze headcount**

Safer than cutting salary and benefits, but be sure to balance the risk of missed opportunity.

- **Rethink the org chart**

Be sure that roles and responsibilities are clearly defined. Organizations with numerous layers of management and relatively small spans of control, can reorganize to increase decision-making power, teamwork, and collaboration. Sometimes it makes sense to keep all the layers, but increase the average span of control for each manager.

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- **Apply demand management**

Demand management practices can help you to understand and guide the behavior of people. For example, chargeback pricing can be set up to guide your users, whether they be internal or external, to IT services that minimize costs.

## Process

Sometimes simple process improvements can make a huge difference in costs. As one example, a major company in the health industry calculated that for every 5 seconds of call handling time they eliminated, they saved \$1.5 million per year. At that rate, it makes sense to do whatever it takes to make those calls go smoothly. Maybe you eliminate processing steps. Maybe you automate more or speed up existing steps. Whatever you can do to save time, is going to save lots of money.

Here are some ways that an organization might save time and cut costs by changing processes:

- **Streamline processing steps**

An up-front investment into rationalizing and consolidating processing steps can save money in the long run. In most large organizations there is considerable duplication of effort that, if identified, can be eliminated.

Day-to-day work at most organizations has evolved over time. New steps are added as new people put their touch on processes. Often the subject matter expert who invented a particular task leaves and there is no one left behind who even knows why a task exists. A little time spent figuring out what steps are really needed can result in a lot of long term savings.

- **Automate manual processes**

Automation is what IT is all about. Take some time to study processes and eliminate manual processing with automation. Choose management tools that streamline the work that IT does. You'll be using technology to reduce staff costs.

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- **Switch to manual processes**

There may be cases where processes have been computerized in a way that is hindering efficiency. Don't be afraid to toss out that which is not working.

- **Speed up existing automation**

This is another case of applying technology to reduce labor and related costs.

- **Simplify**

Simplification can mean eliminating steps or automating them, but it can also include improvements to user experience that reduce training or "think time."

## Technology

Below are some examples of technology-related ways to reduce costs.

- **Rationalize applications**

There is often a duplication of functionality among similar apps in use in an organization. This is especially true in larger companies that have merged with or acquired other companies. Eliminating some of the duplication can save on license, maintenance, training, help desk, and infrastructure costs.

- **Procure wisely**

Make certain that you are using the most cost-effective products and technology and that you are getting the best possible pricing and terms. Check with your peers at conferences and with analysts to get guidance on what terms you should be getting.

Act fiercely when negotiating with your vendors; pit them against each other to obtain the best solution at the best price. If you choose to sole source, make sure anything extra you pay is balanced by lower maintenance costs.



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- **Reduce over-provisioning**

Sometimes the capacity you need for a new application or service is already available. Perhaps you can service your new app during off-peak hours. If not during the off-peak hours in your local data center, maybe the capacity you need can be grabbed from a data center in a faraway time zone where your peak hours are their off-peak hours.

It's common to have excess capacity lying around, but it doesn't make financial sense to let it continue. So make sure you have capacity management tools ([like TeamQuest's](#)) that can root out excess capacity. Eliminating over-provisioning will reduce hardware costs, save on license fees, and administration.

- **Use the cloud**

With the cloud you can avoid costly up-front capital expenditures and reduce risk for new services. Then, if a new service turns out to be less than successful, you haven't sunk a large amount of cash into infrastructure you no longer need. You just release your capacity back to the cloud.

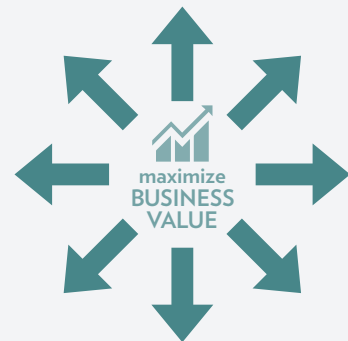
In addition to dodging up front capital expenditures, cloud can be a tool for bypassing time-consuming implementation and deployment efforts. For non-mission critical apps, it is often sensible to go with an SaaS subscription and skip taking the time and expertise required to purchase and set up infrastructure.

- **Go digital**

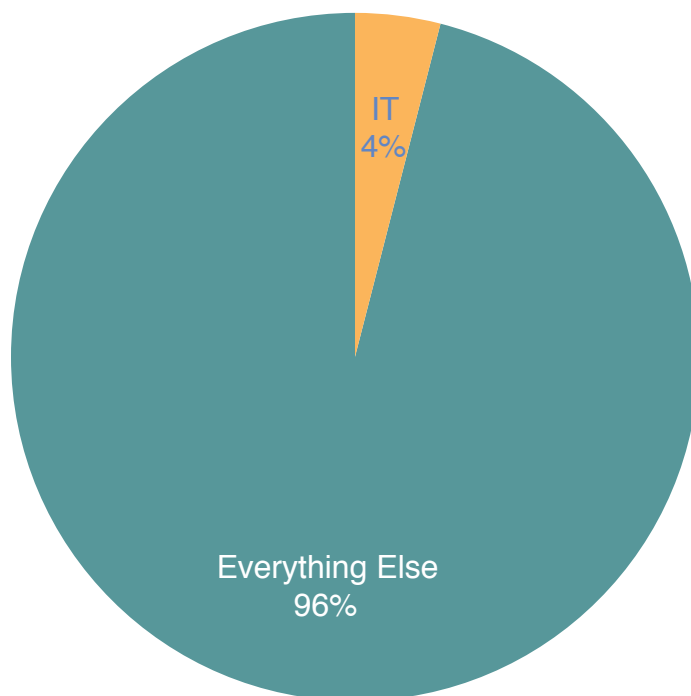
Increased digitalization can reduce labor and processing while increasing business productivity, customer satisfaction, and competitiveness. Non-IT employees, and even your customers, can participate more directly in getting work done, sometimes with their own devices.

# Maximize Business Value

After minimizing costs, the second major goal of IT cost optimization is to maximize business value. You actually need both; you must simultaneously balance cost reduction with the business value that IT is producing.



Cutting costs at the expense of business value can damage your bottom line rather than help it. And if significant new revenue can be produced through an increase in IT investment, then increasing costs is the best way to optimize. Put another way, cutting IT isn't the same as buying cheaper electricity to keep your business going. It's more like using less electricity by discarding your assembly line robots. Sure, the electric bill is reduced, but production is also reduced.... Your cost optimization strategy lacks balance (it stinks).



*Operating Expenses*

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So cost cutting should not be the only method used for IT cost optimization. Likewise, IT should not be the only department considered during the IT cost optimization process. IT is typically around four percent (4%) of total enterprise spending (source: Microsoft IT Executive Report); don't ignore the other 96%, especially if IT is generating a similar percentage of your profits. The purpose of IT is to increase business productivity. If your management is insisting on a strategy that will produce the opposite result, then your job is to produce the graphs and charts that will help them to see a better way.

## Ways to Maximize Business Value

- **Enable greater productivity**

Productivity can be increased through process improvements, increased automation, or simply by tuning for better performance. Maybe you are thinking that your management would never go for a new app for increased automation during times when cost cutting is the mindset. But at one company a new application that increased annual IT costs by \$500K actually reduced organizational headcount by 200, a massive savings. But again, balance is key. Don't be tempted to invest too much when the return fails to justify it.





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- **Improve quality of service**

Improving quality of service can result in fewer incidents and the increased customer satisfaction can actually increase revenue. Reduce outages and slowdowns to avoid lost Internet business transactions. Customers can be impatient, don't give them an excuse to bail on your slow website to go hunting elsewhere.

- **Cloud for agility and flexibility**

Sometimes the most efficient data center is a private, hybrid, or public cloud. A public cloud or a virtual private cloud in particular can allow an IT organization to leverage economies of scale and access staff expertise that is lacking in-house for new, game-changing technologies. So don't be shy about looking outside your organization for cost optimization opportunities.

- **Build competitive advantage**

During times of tight budgets it is common for CIOs and IT managers to focus on tuning existing capabilities rather than looking for new innovative approaches. There is logic to this, but a savvy manager always considers competitive advantage when evaluating the business case for new ideas. The reason? If an idea is a good one and you dismiss it due to short term circumstances, one of your competitors is sure to pick it up.

- **Reduce time to market**

If you haven't already, you might consider implementing agile development methodologies to speed up development of value-producing capabilities. Use tools that facilitate efficient, trouble-free app deployment.

- **Create new business**

When exploring optimization possibilities, consider a sensible move into a new line of business or launching an app or a new function within an existing app. This can be done in combination with retiring capabilities that have become outdated or obsolete.

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- **Leverage digital**

“Digital” means a lot of things to different people, but part of the idea is that IT is everywhere now and virtually everyone has some level of IT expertise. Today it’s possible to implement IT services using cloud services and devices that employees bring to the table, and not just your IT employees. Everybody now has the potential to help the business using digital technology.

Digital can enable customer self-service, providing services such as self-help knowledge bases, online support communities, and trouble ticketing. Implementing these capabilities can help lower support costs.

To some people another important aspect of “digital” is the use of analytics for decision-making. In truth, embarking on any business management journey requires diligent measurement and analytics. That includes IT cost optimization.

- **Innovate**

Look for ways to transform the business. This can be difficult to accomplish, particularly during times when management is looking for cost cutting measures. One strategy for ensuring that innovation occurs is to insulate a part of your IT organization from day-to-day operations and task them with finding new ways to create better business value in a more agile way. Some call this way of organizing “bimodal,” where you have a part of the organization working to keep the lights on and another looking to the future.



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# Minimize Risk

The third variable to be balanced in the IT cost optimization equation is risk.



Where there is no risk, there is likely no innovation, which, paradoxically, is risky. After all, as Mark Zuckerberg is credited with saying, “In a world that’s changing really quickly, the only strategy that is guaranteed to fail is not taking risks.” But too much risk can result in a costly and embarrassing outcome. So careful consideration is called for as a manager considers which cost optimization strategies to employ and how.

## Ways to Minimize Risk

- **Use accurate capacity planning**

Sloppy or lazy capacity planning works when an organization is flush with extra cash, but for great IT cost optimization you need fast, accurate, and preferably automated capacity planning (like [Vityl Adviser, for example](#)). Capacity planning can help you more thoroughly utilize your IT infrastructure without stretching resources beyond their limit. You can minimize cost, maximize business value, and limit risk. Perfection!

- **Use tools that enable fast problem resolution**

Even the best capacity planning cannot eliminate all unexpected events. Your marketing department might fail to inform you of a major new campaign, or perhaps a campaign you planned for turns out to be much more successful than anyone expected. Whatever the cause of an unexpected event, you need management tools that will allow you to quickly identify and solve the issue, before undue damage is done.

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- **Cost-effective disaster recovery**

It may be cheaper to skip disaster planning, but the potential cost could mean going out of business. With careful application of capacity planning best practices, you should be able to create a disaster plan that minimizes cost. At TeamQuest we've seen entire multi-city disaster recovery plans implemented using nothing other than under-utilized capacity.

- **Do not sacrifice user experience**

The goal is to delight customers, not frustrate them. Be sure that the cost optimization strategies you choose do not result in a fleeing customer base.

- **Avoid capital investments**

A common strategy for dodging risk today is to employ public or virtual private cloud-based services for new and potentially risky IT-based endeavors. By using the elastic infrastructure of the cloud, an organization can avoid finding itself saddled with a large investment in underutilized infrastructure should a new venture or service fail to attract the originally expected workload.

## Conclusion

I hope that the ideas presented here can seed IT cost optimization strategy sessions at your company. Such strategy sessions are but one part of the total IT cost optimization process. For details on that process, see our paper, "[How to Do IT Cost Optimization.](#)"

# TeamQuest

TeamQuest's software and best practices help IT organizations consistently deliver on service level commitments while supporting new business objectives, avoiding risks, and controlling costs. With TeamQuest you can:

## Avoid Risk

There are a great many risks that can potentially "de-optimize" an organization. TeamQuest can decrease your risk of service slowdowns and outages by helping you predict, prepare, and budget for upcoming workloads.

## Control Costs

Accurate IT data analyzed in business context cuts through office politics and enables fact-based decisions, allowing you to avoid wasteful over-provisioning.

## Communicate Value

TeamQuest can help align business IT needs with budget, enabling you to communicate IT's impact on business outcomes.

## Make IT Better

TeamQuest can help you drive revenue and improve profitability by increasing business productivity, mitigating risk, and operating efficiently. Strengthen the connection between leadership, finance, and IT to drive business success.



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Jon Hill is a senior consultant specializing in helping organizations communicate the business value of the technical solutions they offer. Jon was key in the original formation of TeamQuest and has since contributed in a variety of roles including competitive research, product management, and marketing communications. For another paper by Jon, check out "[How to Do IT Capacity Optimization](#)" in the TeamQuest website Resource Center.

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