VCG

Technology and IT cost optimisation strategies in the digital economy

A guide for finance decision makers, procurement teams, CIOs, CTOs and technology analysts in SME organisations

Can businesses afford to stand still?

When it comes to technology, sometimes the cost of remaining static can far outweigh the cost of advancement.

The challenge for those holding the purse strings at SMEs is to weigh-up the competing business demands for growth and innovation against cutting costs and streamlining resources.

This guide uses the latest industry insights to address the challenges of IT cost optimisation in the digital economy. We provide the foundational knowledge, strategies and programmatic approaches for SMEs to consider for driving IT efficiencies while growing their businesses into the future.

We are technology and IT transformation specialists. As partners for change and managed service providers, we stand for continuity with modernisation; for flexibility with stability; for transformation with assurance.

We have the expertise and experience to help organisations create an adaptable, dynamic and resilient IT environment designed specifically to support the continuous change we see in the world right now.

We don't want to see businesses simply survive in the digital economy. We want to help them thrive, to become more sustainable, and forward looking, to be able to focus on what they do today, while innovating for tomorrow.

Cost-cutting vs cost optimisation

Cost-cutting:

A raft of measures implemented to reduce expenses and improve profitability. It can be implemented in response to either financial stress, or in anticipation of future profitability issues.

Cost-cutting includes:

- Identifying and categorising technology costs according to business need, and cutting 'bad costs'
- Completely cutting provision of applications, software and technology that don't match the company's growth strategy
- Reducing usage and/or service levels of IT infrastructure and operations

Cost optimisation:

A business-focussed, continuous discipline to drive spending and cost reduction while maximising business value and or/growth.

Cost optimisation includes:

- Obtaining the best pricing and terms for all business purchases
- Standardising, simplifying and rationalising platforms, applications, processes and services
- Automating and digitalising IT and business operations to free up resources to focus on driving innovation and growth

Business drivers for cost-optimisation

SMEs striving for better cost management in 2022 are facing significant challenges. A tanking economy, unpredictability in the markets, input price inflation, rocketing supply chain costs and a cost-of-living crisis facing the workforce all have business managers looking for the next-tightest hole on their belts.

But as the digital economy really begins to take flight, it's important for business leaders to be proactive about cost management, rather than reactive. **It can't be simply about tightening the purse strings, cutting resources, stalling the procurement of new technology and making redundancies.**

Because, alongside the need to cut costs, there are the demands from CEOs and business leaders to drive growth through full participation in the digital economy, where hybrid working is commonplace, and automation drives productivity.

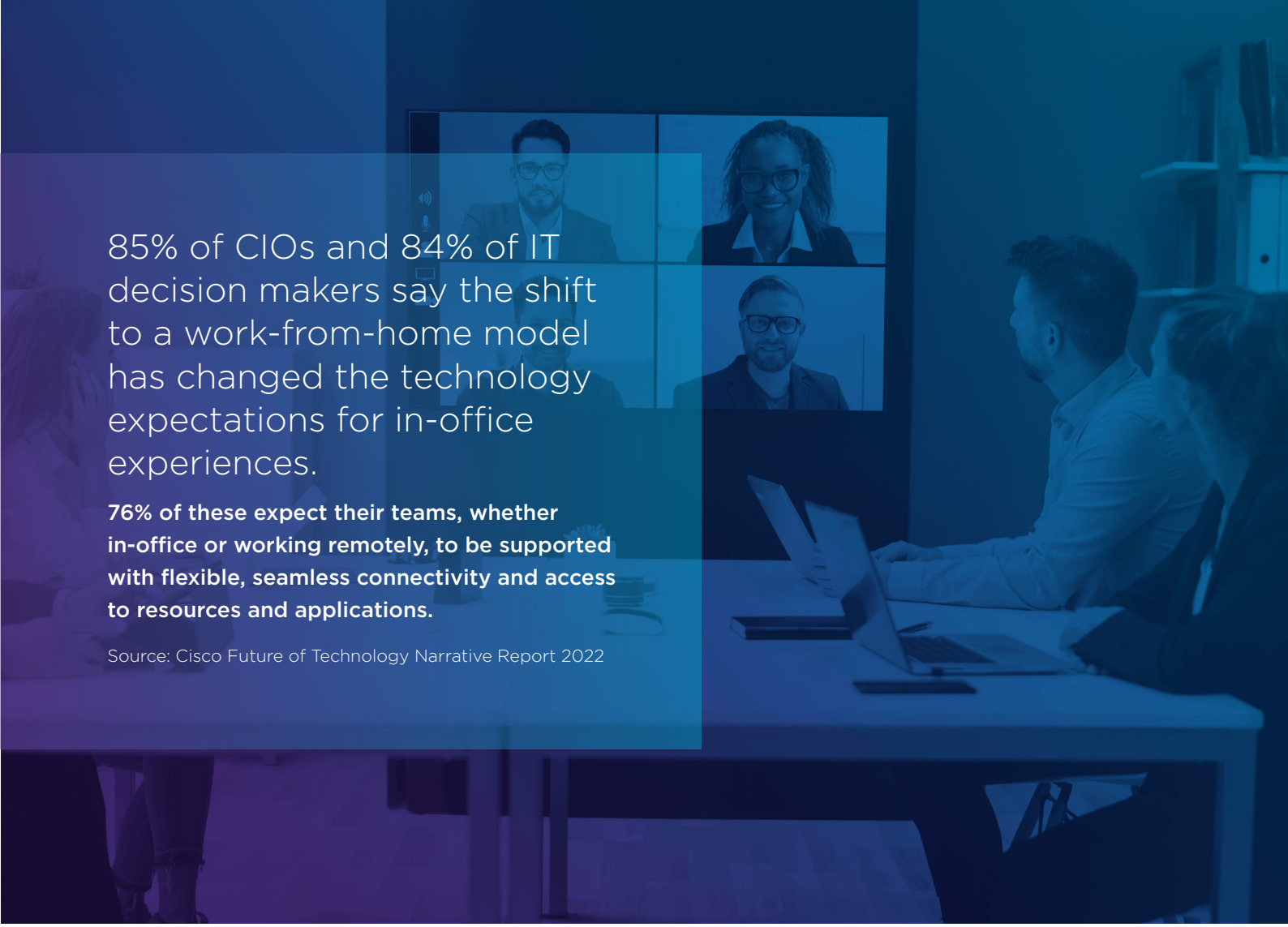
Decision makers need to take a strategic approach to cost management that helps build a shared understanding of cost-to-value relationships across all business functions.

Internal business drivers:

- Process changes
- Reorganisations
- Internal skills shortage

External business drivers:

- Customer requests
- Market changes
- Competitive threats



85% of CIOs and 84% of IT decision makers say the shift to a work-from-home model has changed the technology expectations for in-office experiences.

76% of these expect their teams, whether in-office or working remotely, to be supported with flexible, seamless connectivity and access to resources and applications.

Source: Cisco Future of Technology Narrative Report 2022

New expectations for new technologies

The coronavirus pandemic has changed the landscape for businesses across the globe; it also changed the way we all see the world, and the way we want to connect with it. It has shifted our priorities, altered our expectations, and made us all a little more willing to speak up about what we want from our lives.

For many, that means a better work-life balance and more flexibility about where and when we do our jobs. I can also mean simple, more reliable and sustainable technology choices, saving energy costs and predicting the future of networks.

CIOs, IT leaders and procurement teams know the only way to make these new working models and sustainability requirements viable is through investment and optimisation of technology.

Remote workforces require newer, faster, more flexible connectivity. Hybrid teams need consistent access to applications and data, wherever they are working. And managers need greater workflow oversight, simplified and easy to access and supported by automated insights.

Technology trends driving IT investment

When it comes to cutting costs, the CIO is in an interesting position. While IT must contribute to overall savings, there is a parallel expectation for it to optimise business performance – to speed things up and make life easier for those on the ground – thereby helping drive growth.

According to McKinsey, during the last period of widespread economic uncertainty, the 2008-09 global financial crisis, as much as 30% of IT cost savings were reinvested into business performance.

As we deal with the fallout of the coronavirus pandemic, Brexit and rising costs across the board, it's important for CIOs to take a similarly forward-looking approach and manage investments in a way that supports IT-driven boosts to overall business performance.

From costly but crucial next-generation networks such as Wi-Fi 6 and 5G to budget-flexible Secure Access Service Edge, the tech trends we can expect to be driving IT investment over the next year are...

Predictive, more efficient networks

When it comes to work, almost everybody is agreed: faster internet speeds are essential. In fact, 92% of all employees, CIOs and IT decision makers from around the world say faster internet speeds, regardless of how it's enabled, is very important both in the office and at home.*

5G and Wi-Fi 6 are the next-gen, modern connectivity options of choice for IT decision makers and CIOs, with respectively 72% and 66% of companies considering investing in them over thenext two years.

Of those businesses that already have next-gen networks in place, there is a fairly even split in allegiances, with 8% opting for private 5G and 7% choosing Wi-Fi 6.

88% of corporate workers, CIOs and IT decision makers say their primary way of making a living depends on reliable internet access

* Source: Cisco Future of Technology Report 2022

Enterprise Networking as a Service

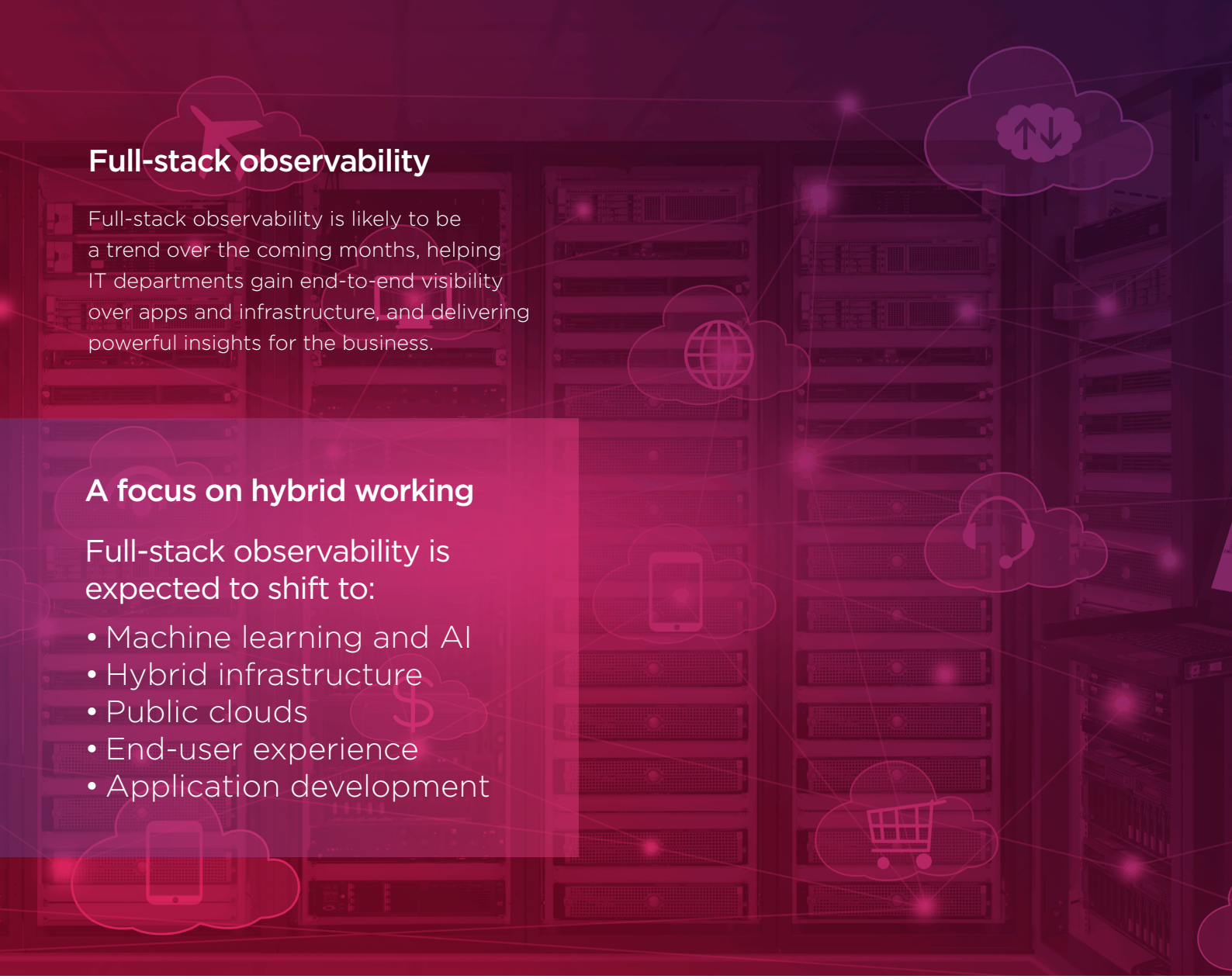
As part of any cost optimisation plan, many SME decision makers will consider the ongoing, and often eye-watering, maintenance costs of legacy infrastructure as something to address.

Cloud-model networking represents an attractive, value-driven solution for CIOs looking to manage the costs of hardwarecentric VPNs, firewall appliances and MPLS connections, and we can expect Enterprise Networking as a Service to grow in popularity over the next few years.

It offers flexible provisioning, super-fast deployment of services and optimised workloads through powerful AI-driven insights on a pay-as-you-use, OpEx basis – no costs for buying, building or maintaining hardware.

76% of IT decision makers believe Enterprise Networking as a Service will accelerate digital transformation within their company

Source: Cisco Future of Technology Report 2022



Full-stack observability

Full-stack observability is likely to be a trend over the coming months, helping IT departments gain end-to-end visibility over apps and infrastructure, and delivering powerful insights for the business.

A focus on hybrid working

Full-stack observability is expected to shift to:

- Machine learning and AI
- Hybrid infrastructure
- Public clouds
- End-user experience
- Application development

Secure Access Service Edge

Secure Access Service Edge is a growing consideration for many CIOs and procurement teams. SASE combines networking and security functions in a single, integrated cloud service to deliver seamless and secure access to applications, wherever users are working.

86% of respondents are considering, have made the decision to, or have already adopted SASE solutions

Source: Cisco Future of Technology Report 2022

Benefits of SASE

- Access control is closer to where it is needed – the user and the cloud edge
- Reduced complexity, as security and network are consolidated
- Helps businesses remain agile in a constantly changing business landscape
- Simplifies management, deployment and policy enforcement across environments
- Seamless, scalable and secure internet and cloud access for all users, wherever they are

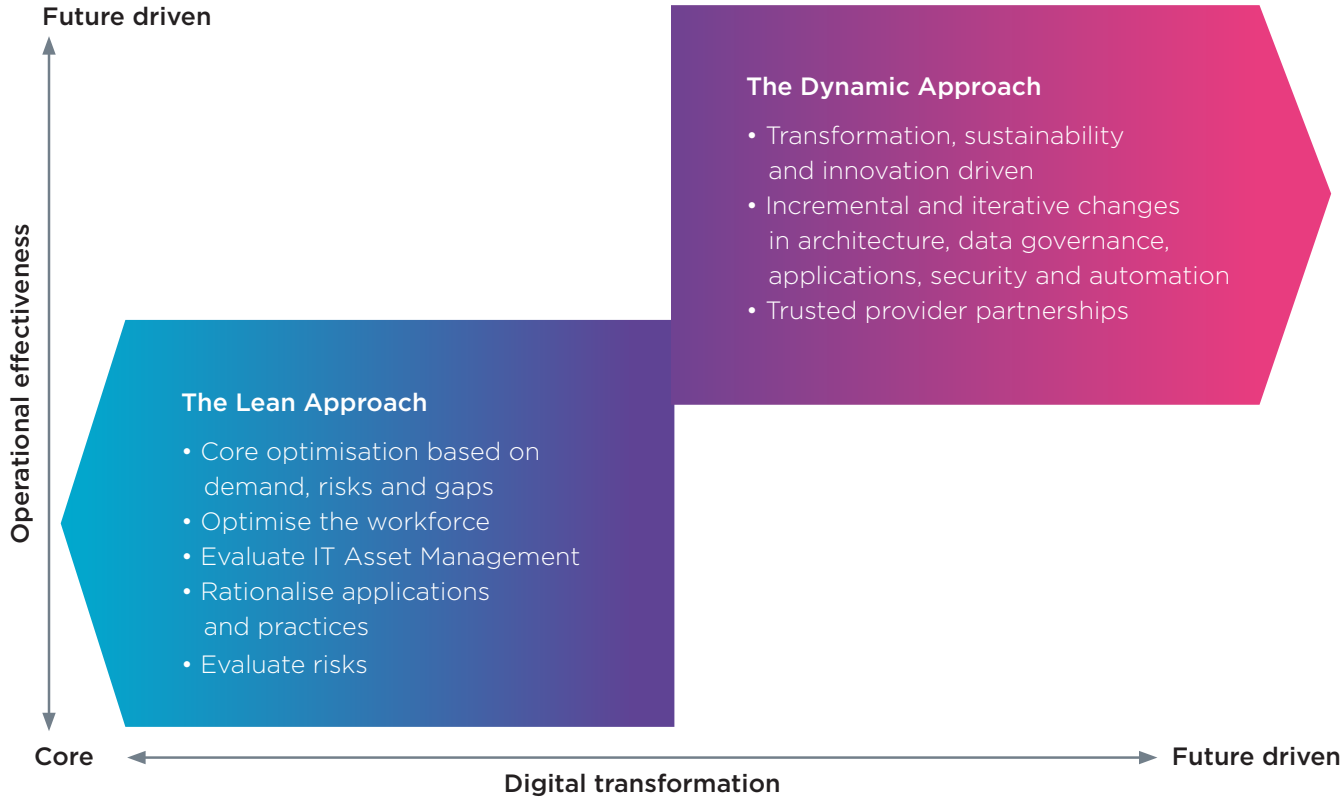
A programmatic approach to IT cost optimisation

Research by Gartner suggest that only 43% of business leaders achieve their cost-cutting objectives within the first year of reductions. Even fewer of those – just 11% – are able to sustain savings over three consecutive years.

Why? Arguably because cost-cutting is a reactive, ad-hoc and ill-defined programme of belt-tightening. Hastily made cuts are a short-term fix to an immediate challenge and when the threat has passed, the cuts can be felt as loss to the business necessitating more spending.

Our cost optimisation maturity model

An organisations' landscape, it's journey to operational efficiency and a dynamic approach for future-driven technology adoption.



Key considerations

- Establish your company's baseline. What's the current level of spending
- Indentify opportunities for optimisation
- Implement the plan across all business functions for company wide buy-in
- Institutionalise the cost optimisation roadmap
- Monitor, evaluate and improve the strategy. Evaluate impact and resource allocation

Most SMEs looking to cut costs will benefit more from adopting a programmatic approach to cost optimisation; implementing proactive, considered and strategic measures designed to add value rather than slash expenditure.

A consistent, cross-functional framework provides a shared understanding of which costs need to be cut and optimised, and which must be protected to drive business strategy. Not only is programmatic and strategic cost optimisation more sustainable, it's a way of ensuring the focus is always on future growth rather than recovery.

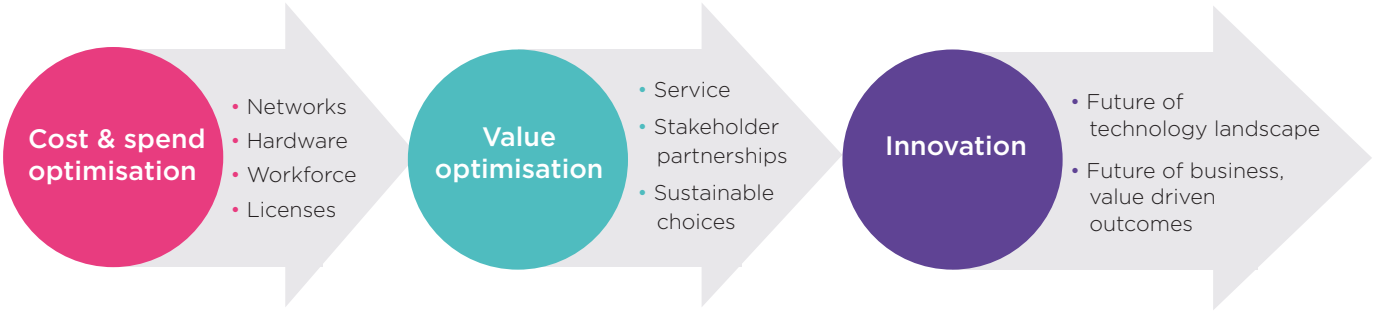
Budget pressure is real for all businesses at any moment in time. The goal for SMEs looking to weather the storm and thrive in the digital economy is to continuously make short and mid-term cost decisions that maximise resources to add value in the long-term.

Top cost optimisation techniques in IT

- Implement shared services
- Adopt a cloud-first service policy where appropriate
- Consolidate enterprise data centres
- Implement robotic process automation
- Focus on IT demand-side spending for greater business cost optimisation
- Improve IT financial transparency practices
- Rationalise and standardise enterprise applications
- Evaluate IT asset management practices
- Evaluate business transformation ideas
- Optimise the workforce

Source: Gartner

Our three-step cost optimisation model



The cost optimisation team

The most effective cost optimisation initiatives are driven by cross-functional teams, working together.

CIO	Leads cost optimisation efforts, collaborates with finance and operations leaders and communicates goals across the business.
Infrastructure and operations leader	Manages infrastructure platforms and data systems that represent the largest internal IT costs.
Application leader	Helps drive strategy for integrating multiple channels, to deliver progress insights against the plan.
Sourcing, procurement and vendor management leader	Sources, negotiates, develops and manages vendor relationships for IT assets that contribute to most external technology costs.

A 5-step strategy for cost optimisation

1

Establish your company's baseline

What's the current state of IT and technology spending?

- Build an understanding of the total IT cost
- Determine the current investment strategy and resource allocation
- Develop a plan for monitoring and measuring progress towards goals

2

Identify opportunities for optimisation

Assess spending areas and determine opportunities for optimisation

- Assess how spending is happening across the various business functions
- Separate areas where IT controls costs (supply) and influences cost (demand)
- Streamline and/or renegotiate vendor contracts for quick saving wins
- Establish targets, tracking and approaches for realising benefits

3

Implement the plan and aim for company-wide buy-in

Start making quick wins, while getting all areas of the business on the same page

- Nominate a team to oversee IT cost optimisation
- Encourage collaboration and cooperation across all business functions and sites
- Share the plan with the board, demonstrate the clear benefits of cost optimisation
- Build in IT security and risk reviews; mitigate adverse effects of cost-led decisions

4

Institutionalise the cost-optimisation roadmap

Start to feel savings benefits, business metrics to drive further spending restrictions

- Revisit the IT cost optimisation roadmap and timeline and evaluate progress
- Identify and scrutinise areas where savings targets have not been met
- Target incremental investment in these areas to help achieve the desired benefits
- Compare reports reflecting budget and spending without IT cost optimisation
- Explore other areas for IT cost optimisation

5

Monitor, evaluate and improve the strategy

Monitor cost optimisation, spending and resource allocation for continued improvement

- Revisit the focus areas of the cost optimisation plan: assess baseline results and value delivered, compare progress and communicate wins to shore up stakeholder buy-in
- Use analytics to drive insights and optimise cloud cost management
- Monitor IT as an enabler of optimisation, with an emphasis on process improvements, business restructuring and innovation

Key takeaways

Transformation vs stability – the new CIO

For many businesses, IT leaders were the heroes of the pandemic, mobilising teams for remote working, prioritising spending, and procuring and deploying new systems in a matter of weeks. Now the dust has settled and the world has adjusted to new working models, CIOs find themselves much more visible within their companies.

Their roles are becoming more digital and innovation-focussed and they are being called upon to proactively identify business needs and opportunities. Driving revenue-growth initiatives is quickly becoming a standard part of the CIO's job description

Slow transformation is better than no transformation.

Maintaining the status quo in terms of technology and IT budgeting – directing funds where they have always gone, aiming for stability, and fighting fires as and when they break out – can mean there's nothing left for innovation. A lean approach (page 9) to cost optimisation can help you cover the key areas that for cost reduction and revenue optimisation.

Links to useful sources

- Cisco Global Narrative Report
- McKinsey Cloud cost-optimisation simulator
- Foundry's Role and Influence of the Technology Decision-Maker 2022 Report

Cost optimisation benefits

- Enhanced budgetary insight and control
- Minimising risk, maximising value
- Greater transparency across the business
- Streamlined and simplified platforms, processes and services
- Best pricing from the best vendors
- Retention of high-reward, high-cost initiatives
- Free up funding for investment and innovation

Businesses that continue to rely solely on on-premise hardware, in-house security and desktop software will quickly stagnate in a technology landscape that refuses to stand still

Managing change and IT cost optimisation

We help technology and IT decision makers get more value from their existing set up and vendors.

We do this by looking at their business transformation requirements and advising on immediate and long term investments and cost efficiency.

Find out more

- **Your Journey**
- **Technology solutions**
- **Managed Services**

Get in touch for a technology cost assesment with our specialist teams - whether that means security, licensing or legacy infrastructure.

Call **0161 406 1820** Email **sales@vcg.group** Visit **vcg.group**

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