

# IT Cost Optimization Requires Strategy

## Executive Summary

### In the Age of Digital, the Basics Still Matter

More and more businesses are discovering that technology is not only a critical driver of their growth, but also a critical constraint to their process agility and a burden on costs.

Much of the new technology related to digital transformation is additive to the company's technology footprint, and therefore additive to costs and IT support workload.

While it is fashionable (and correct) to suggest IT needs to look beyond the "run" and to the "transform" aspects of technology investments, the fact remains that there are, and always will be, baseline IT details that must be managed. Those details include support, audit and compliance, security, performance, and vendor management, among others.

As the IT ecosystem extends to the cloud and SaaS, it increases in complexity and requires the orchestration of solutions across multiple vendors and technologies. Software as a service solutions require complex configuration management and mature QA processes. In the new digital world, the need for smart, cost-effective IT doesn't go away, it just shifts to other activities.

While it is true that IT leadership needs to move beyond the cost

conversation to a value conversation, it is also important to realize that "IT value" is the aggregation of detailed costs and services and those details must still be managed.

No IT leader is going to get a "seat at the table" if the details aren't properly managed at the right cost structure for the company.

### Strategy: Simplified

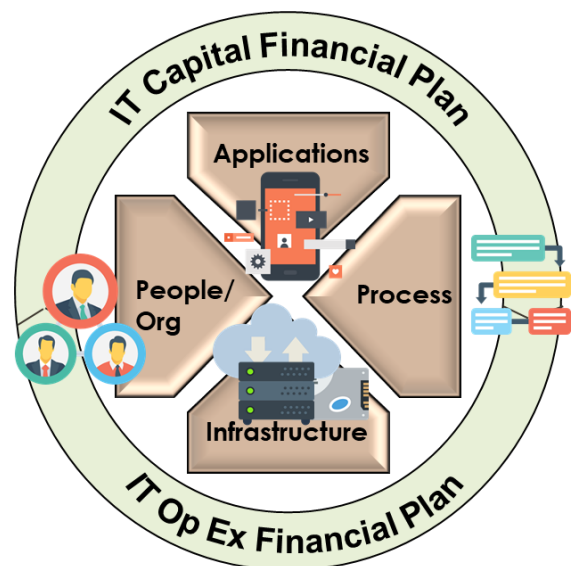
Properly configuring the right resources, in the right positions to "win" is what strategy is all about. Military strategy, business strategy, political strategy only involve different types of resources, and different definitions of "winning." An IT strategy is no different, except the resources and how to configure, or deploy them, changes rapidly. Those rapidly changing technology resources include Applications, Infrastructure, Processes, and People, and there are strong relationships and interdependencies between them.

Our roadmap-based strategy framework provides a way to organize business technology needs and investments with all of the supporting components needed to deliver and manage them. This whitepaper shares an approach and framework to develop an effective, and easy to communicate, IT strategy.

## You Can't Manage IT Costs Without A Strategy

No company can operate at a lean IT cost structure without having a strategy to guide the lifecycle decisions involved in acquiring and managing a portfolio of technology, and related changes. An IT Strategy is more than a list of projects, or applications investments that business stakeholders desire. That is only the start of the process. Making an IT strategy actionable requires an understanding of the choices involved in the related IT Process, Infrastructure, and People (skills & capacity) components of a business investment in technology. Our IT strategy framework focuses on all of those critical components, and how they fit together. This helps IT leaders can earn a seat at the table by equipping them to have a complete and holistic conversation about the business direction and capabilities, and how to balance business agility with budgetary and other constraints.

Each component of the IT strategy uses roadmaps that not only link to the business strategy, they also contain provide boundaries to guide future investments in support of each other. Investments in Infrastructure support the application roadmaps. Investments in people support both the people and process roadmaps. That approach keeps things in balance because business and IT choices all have consequences and a good IT strategy ensures that the company's data assets and operating model drives value and can be supported.



## Our IT Strategy Process Explained

**Step 1**—The first step is to conduct an IT diagnostic. You can't identify your choices and options, if you don't know where you are. We begin by walking the IT team through a process of first understanding what they HAVE, then focusing on what they DO to establish a baseline starting point.

**Step 2**—We then develop roadmaps to address what they NEED to both align with business needs, and to close gaps.

**Relationships are Key**—A basic principle of the approach is that *there are relationships between applications, infrastructure, processes, and people*; the four key capabilities that IT provides to the business. An investment in business applications that is inconsistent with existing infrastructure, processes, or people is not going to be successful. If security considerations are overlooked, significant risks emerge. Therefore, all components need to be considered. This may seem obvious, but many companies overlook that fact in their haste to just "get stuff done."

**Step 3**—Once roadmaps are complete, project estimates and a cost model are prepared to create an executable, and integrated plan and agenda for addressing IT investments, and aligning Process, Infrastructure, and People, all at the right cost structure now, and in the future.

Technology Financial Management Tools (TFM) can be very helpful in providing the visibility to costs, but that information is only useful, if incorporated into the decision making process.



## Principles of Operating Lean

**Limit Variability and Complexity**—Don't deviate from the plan. Clearly define what IT can do and can't do; what services it will and won't provide and fully socialize them with stakeholders.

Use vendor provided solutions and don't customize them. Pushing vendor solutions beyond their capabilities may seem innovative. In reality it is the biggest driver of constraints and technical debt.

Standardize on one or two consistent integration and development frameworks for point solutions and differentiating customizations

Embrace maniacal standardization, especially with remote technology footprint (stores), servers, etc. Lean and effective IT must limit variability and complexity.



**Control Cost Inflow**—IT costs will grow as the business moves more toward digital. Control the inflow of costs by using a Total Cost of Ownership (TCO) methodology.

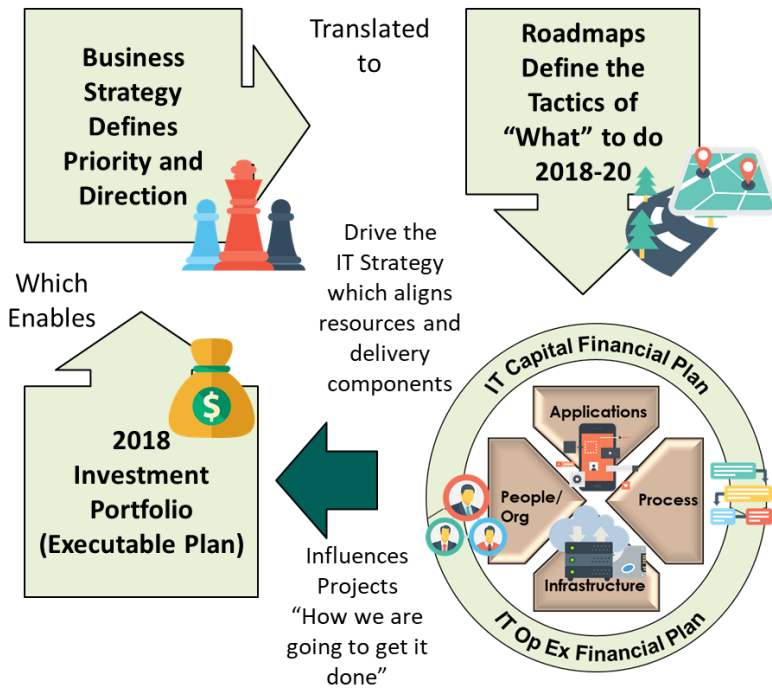
Establish an awareness of your cost drivers and transparently benchmark yourself (internal benchmarking). Be honest about the limits of business cases, and share with stakeholders to make them aware of the persistence of SaaS Op Ex.



**Manage Labor Costs**—Enable and support end user self-service tools, processes, and documentation. Embrace End User IT, but bring it into the light and make it part of the TCO process.

Automate what you can, and move as much support tasks into a low and sustainable cost structure.

## The Entire Process Results in an Integrated Business Plan and Operating Model



The financial estimates and IT roadmaps are then integrated with the company annual investment planning process. The resulting investment plan supports the business strategy and the entire process repeats itself periodically as the dynamics of an evolving competitive market space result in adjustments to business plans, adjustments to roadmaps, and tweaks to the IT Strategy.

An effective IT Strategy must support the business strategy of the company. Therefore, the process assumes a business strategy has been defined that clearly addresses how the company plans to gain and keep customers within its industry and capabilities.

### Evolution versus Revolution

Roadmap-based approaches to planning have been criticized for not being "revolutionary" enough, and perpetuating the status quo. In reality, however, the "ev versus rev" debate is not about methodology, or roadmaps. It is about the thinking and mindset behind what is needed to drive a business to higher performance. The value of the roadmaps, especially roadmaps of interrelated IT components is that they bridge strategy and execution.

### Don't Have Time for a Full Strategy Exercise? Approach the Planning in Layers for a Quick Start

Creating an integrated strategy can seem like a daunting task. So much that it can prevent someone from even starting the process. A helpful tip is to approach the process in layers. Rather than completing all application roadmaps before moving on to their infrastructure, process, and people counterparts, just focus on one functional area (marketing, for example). Frame up the consumer-facing digital roadmap, then move to the infrastructure implications, followed by process, then people. Once that layer is complete, move to a different functional or application area where you have good business engagement and thought leadership. This approach is more incremental, and may require some revisiting of infrastructure as all of the roadmaps are developed, but it is a sound way to begin the process.

**High-Level to Deep-Dive.** Another layered approach is to start with a high-level strategy and iterate to lower levels of detail over time. In this approach, high level applications roadmaps are developed to establish a "directional" strategy linked to the business. Then complete a high-level infrastructure, process, and people counterparts. Once you have a directional strategy across all elements, move to lower levels of detail and iterate as far as you need to get a strategy and plan that makes sense for your business, and is communicable to the right audiences with the right level of detail.

**Strategy "Light"**—Either approach can be used to create a light weight strategy that can be further refined. The key is to stay consistent with your methodology, templates, and deliverables.

## Conclusion

Without an IT strategy to guide investments and choices, a company is likely to create an IT ecosystem that is tactical, inflexible and expensive to maintain. Whether the latest IT imperative is "cloud" or "digital transformation" the same fundamental truths apply. First, you can't predict, or control IT costs without a strategy because the interconnectedness of applications, infrastructure, process, and people all contribute to the delivery of solutions and services to a business. Second, the basics still matter and they aren't going away. Security, support, incidents, and controls are details that must be managed during and throughout technology or business transformation. Finally, a strategy doesn't have to be hard, but it does involve choices, and those choices have consequences. The approach discussed here can simplify and speed the development of a practical, valuable, and cost-effective IT function.