

A practical way for CIOs to manage IT costs through the COVID-19 crisis

A skillful CIO can not only cut current IT costs but also help position the company for recovery and future growth.

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As COVID-19 continues to spread and casualties mount, meeting the humanitarian challenge is the number one priority for businesses. At the same time, it's becoming clear that many countries are already facing a severe economic downturn. While CIOs currently are focusing on coping with the operational challenges of the crisis, their attentions are already squarely on prudent IT cost management. In reviewing their cost options, CIOs need to assess their business's strategic context to understand where cuts and investment are needed. As the CIO of one energy company said, "We need to bring costs down quickly, but in a smart way."

In many cases, CIOs have already started to identify first reductions and make them. These cost-management efforts, however, have traditionally fallen far short of what's possible—and what might be necessary in the near future. There are three things CIOs can do to identify and, if needed, release tens of millions of dollars in spend:

- **Define your full arsenal of cost-reduction measures.** By understanding the full range of available measures, CIOs can proactively develop a clear point of view about which cuts (and potential associated risks) are possible and when to make them based on how the business situation unfolds.
- **Take advantage of the flexibility built into IT.** As much as 30 percent of IT spend can be saved by taking measures that leverage the flexibility built into the cost base. These might include reducing demand volume and service levels, eliminating discretionary spend, delaying nonessential projects, or decommissioning applications with little usage.
- **Invest in business productivity and the next normal.** The CIO needs to balance cost-reduction efforts with the need to invest in a changed business operations model for the new normal after the crisis.

These measures can help the CIO work proactively with the CEO and C-suite to unlock savings that both ensure business continuity and can be redirected into investments to fit new business priorities. In this way, he or she can position IT as a function that leads the business through the downturn and beyond.

Define your full arsenal of cost-reduction measures

Most, if not all, CIOs have defined cost targets in preparation for the downturn that is already upon us. Top CIOs go a step further by developing a holistic point of view about possible savings, how to prioritize them—based on their potential size, feasibility, speed of capture, and their effects on the business and its future readiness—and when to implement them, based on how the COVID-19 situation unfolds. Developing this complete arsenal of options proactively allows the CIO to be prepared to make decisions thoughtfully, strategically, and in close alignment with business leaders.

To develop a full arsenal of cost-reduction options and plan for how best to implement them, we recommend the following steps:

1. Establish a baseline of all IT costs, including shadow IT and separate digital initiatives. Determine the drivers for each cost category, how much they each contribute to overall costs, and how much of this cost base scales up or down with demand. For many organizations, this is a necessary effort, since it hasn't been a focus of attention in recent years.
2. Develop a view of the full savings potential based on the IT cost analysis, and define the necessary measures to reach the bare minimum of services and capabilities needed to run IT. Here it is critical to challenge the typical barriers that hinder the ability to reduce demand—such as the "need" for multiple devices when fewer would suffice, to generate reports that are outdated in the current circumstances, or to "absolutely have" certain systems, even if they have few users or provide only marginal value.

3. Cluster the measures into implementation waves based on feasibility, value, “reversibility” (How easy is it to reverse the measure taken?), and business impact. Then define the optimal sequencing of the implementation of the clusters, based on business priorities and dependencies.
4. Tailor the sequencing of cost-reduction clusters to business scenarios that reflect how the environment could change during the downturn. This might range from “full implementation of all waves in parallel” for companies in dire economic distress to “simple measures only” where the situation is less critical. This sequencing should be reevaluated after no more than three months (Exhibit 1). With this model in hand, CIOs can have detailed conversations with the CEO and C-suite about options, trade-offs, and the strategic rationale for various actions.
5. Prepare for the implementation of each measure by identifying necessary skills, staff, cost, and ways to proactively mitigate risks for operations and customer perception. Typically, these plans need to be tightly aligned with the crisis plans of each business, with respect to both target and approach to minimize disruptions.

To execute on these options effectively, based on how the business situation evolves, the CIO should set up a cross-functional IT “plan-ahead” team consisting of experts in IT control functions (such as risk), IT procurement, architecture development methods (ADM), and infrastructure. They will work closely with business units to coordinate cost-reduction waves based on performance measures.

Once the planning phase is complete, good plan-ahead teams deploy their experts to help guide and drive various implementation measures. To be effective, however, they need adequate budget and resources, cross-business decision authority, and a fast escalation path to the C-suite to resolve issues. Throughout the whole effort,

the plan-ahead team should have a tight grip on any new spending and should limit investments to high-value opportunities that help to prepare the business for the next normal.

Take advantage of the flexibility built into IT

While IT is usually perceived as a fixed cost, most IT budgets have plenty of flexibility built in to “breathe” with the business, adapting to changes in business cycles and demands. In a crisis, taking advantage of that flexibility and extending it is the fastest and most effective way to reduce costs. From past experience, we know that IT costs can be reduced by up to 30 percent by taking a “bare minimum” approach that allows IT to continue operating at planned volumes but not more. These cuts can therefore be made in line with business performance and with little effect on IT performance. Some of these cuts are easy to address immediately, while others require changes to contracts or the IT operating model.

Flexibility-driven reductions range from the obvious—project-portfolio pruning, contractor furloughs, stopping new hardware purchases, going to lower service levels—to the more sophisticated, such as decommissioning systems with low usage, limiting capacity of development environments, or reducing the availability of on-site support.

Many CIOs are already implementing some of these actions in their own area of responsibility. But the big unlock comes from working with the business to understand where there is reduced demand, and then dialing back the support of IT services and systems. One company recently reduced IT costs by 20 percent within six months simply by limiting day-to-day demand for services and applications such as maintenance and shifting from on-site to remote support, without even touching the project portfolio or renegotiating contracts.

Exhibit 1

Establish phases of IT cost reductions organized by different business scenarios.

IT cost levers ■ Start immediately ■ In ~3 months ■ In ~6 months

Business scenarios	Phase 1 Short-term measures with no sustainable business impact	Phase 2 Short-term measures with business impact	Phase 3 Short-term measures that are hard to reverse	Phase 4 Medium-term measures that need preparation	Phase 5 Medium-term measures that need investment
Scenario 1 Weather the storm	■ Start immediately				
Scenario 2 Create a savings umbrella for 2021	■ Start immediately	■ In ~3 months		■ Start immediately	
Scenario 3 Prevent business discontinuity	■ Start immediately	■ Start immediately	■ Start immediately		
Scenario 4 Prepare for longer recession	■ Start immediately	■ In ~3 months	■ In ~6 months	■ Start immediately	■ In ~6 months
Scenario 5 Prepare for shift in business model	Plus investments into business	In areas with declining business models	In areas with declining business models	■ In ~3 months	■ In ~6 months

Note: The situation will evolve over time, so release phases and scenarios should be reevaluated often.






Some of these actions may not be possible immediately, such as negotiating new contracts or establishing new technology (Exhibit 2). But during a crisis, there are often plenty of opportunities to adapt contracts and make slight shifts in technology that will unlock value within six months. Some vendor contracts, for example,

include contingencies that allow reductions in services quickly, often within three to six months. “As-a-service” technologies, such as infrastructure as a service (IaaS) or platform as a service (PaaS), can be established and effective within three to six months in selective areas.

Exhibit 2

Develop a clear view of which levers you can pull immediately and which will require more time.

● Might be conflicting with new normal

Cost type	Addressable immediately* Savings driver: Demand and price	Addressable within months* Savings driver: Price and contracts	Flexibility factor	Your cost base
External contractors	Stop project support No renewal of contracts Reduce rate card and time commitment	Replace contractors in line functions with internals	100%	
Services	Reduce volumes within contract limits Reduce service levels within contract limits Stop or delay projects	Renegotiate contracts ● Enhance self-services Establish new business service catalog Stop offshore services for end-of-life applications ● Reduce network quality (internet vs direct line)	30%	
Software	Stop maintenance for end-of-life applications Reduce license volumes within contract limits	● Delay or avoid upgrades	20%	
Hardware	Reduce capacity (eg, development environments) Increase archiving Reduce service levels (eg, failover, redundancies)	Delay or avoid reinvestment Reduce number of end-user number per user ● Restrict cloud and data-center workloads	20%	
Internal staff	Reduced working hours Hiring freeze	Accelerated retirement ● Delay IT organization Review location mix	10-20% (depending on region)	

"Bare minimum": Σ = EUR xx

* Examples

If these measures aren't sufficient to achieve cost-reduction targets, CIOs can cut into capabilities that support the business by decommissioning live systems, reducing infrastructure capacity, or completely resetting the project portfolio, which overall may add another 20 percent in savings. These measures can ensure survival, but they typically need to be reversed at some point because they are so drastic that they can deepen or prolong economic distress.

Invest in business productivity and the next normal

In times of crisis, when companies need to make significant cost reductions, the CIO is always in an interesting spot. While IT must contribute to overall cost savings, it must also optimize the performance of the business. In the 2008–09 financial crisis, for example, as much as 30 percent of IT cost savings were reinvested into business performance.

How well CIOs manage such investments can determine how effectively IT can drive business performance overall.

By working closely with business units, the CIO can invest in capabilities that reduce costs for the business, such as process automation, or enhance its ability to drive revenue, such as building out digital channels. The CIO can also rationalize and modernize applications to sustain savings in IT or the business.

There are four categories of investment that the CIO should prioritize:

1. **Deploy applications, backbone systems, and infrastructure** to support the accelerated shift of customers and suppliers to online channels.
2. **Transform parts of the architecture** to build in more flexibility in order to lower fixed operating costs—for example, using the flexibility of cloud services to consolidate legacy solutions. After the financial crisis in 2008–09, many companies used IT transformation measures to sustain cost savings over years. Note that measures such as cloudification typically take longer than a year.

3. **Automate business processes.** The combination of distributed/remote working and a drive for enhanced efficiency should propel the next wave of process automation based on robotics, workflow automation, and artificial intelligence.

4. **Sustain and enhance support for remote working.** Given the shift to working from home, it might become standard to supply parts of the workforce with a sophisticated, stable, and secure remote-working capability at scale. To do so, the infrastructure for remote access must be enhanced and hardened to support remote-working models.

The CIO needs to reduce costs quickly and thoughtfully, while also positioning the organization to drive new growth and innovation for the next normal. He or she is the person who will have to balance the pain of cost-reduction measures with the potential value to the business of reinvested savings. In navigating these twin pressures well, the CIO can not only ensure business survival but also position the business to succeed in the next normal.

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