



Frequently Asked Questions About Techniques for Reducing IT Costs

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Several key initiatives can result in substantial cost savings for IT organizations. Having a realistic expectation for the level of cost savings, as well as the time frame in which these savings will be realized, is essential.

Analysis

The cost saving ranges provided here represent maximum potential savings, assuming that a high degree of opportunity exists to optimize the function. These ranges assume that an organization is moving from one end of a continuum to another (highly distributed to highly consolidated, for instance). The actual amount that organizations will save depends on how much opportunity they have to improve in any area. In the case of shared services, for example, organizations that have already done significant work (such that they have little application redundancy and substantial economies of scale) should not expect to see the estimated cost savings described here if they further consolidate. Also, these cost reductions are not additive; depending on the order of which initiatives are pursued, diminishing returns exist. For example, a poorly managed IT environment might cost \$10,000 per year per desktop. A total cost of ownership (TCO) initiative could take 10% off that, which would reduce it to \$9,000. Another initiative might reduce that \$9,000 by 10%, which would bring it down to \$8,100. These initiatives can also take several years to implement. Therefore, look for 5% to 10% price performance improvement annually, as opposed to a 30% immediate reduction in cost.

How much can we save by eliminating redundancy and moving to shared IT services?

Up to 40%, but probably 15% to 20% over the total costs for the particular functional area of IT.

Organizations that move to shared IT services (such as common infrastructure) experience improved economies of scale, higher levels of standardization and more centralized procurement and management of IT assets. They are also more likely to have enterprisewide processes for prioritization of IT projects. IT organizations that lack shared IT services, however, often have redundant IT systems and a greater degree of heterogeneity in their environment. IT organizations that have successfully moved to shared IT infrastructure (and, in the process, consolidated and

eliminated redundant systems) have typically saved 20% to 30% of total infrastructure costs.

On the applications front, a higher degree of heterogeneity is often tolerated than would be in the infrastructure arena. Still, many opportunities exist to share core applications, such as ERP. Efforts around consolidation of applications frequently yield cost savings of at least 25% over total application development, support and maintenance costs. Taken together, consolidated IT environments (those in which infrastructure and applications are highly standardized and shared across the company) can result in IT costs that are half that of an environment with a high degree of redundancy in the infrastructure and application environment.

Shared IT services are not a panacea. There may be good business reasons for running a technologically mixed environment — or even multiple applications that provide similar functionality. IT leaders must balance the cost-savings potential with the possible downsides of consolidating IT assets (that is, the need to accept the "enterprise" standard solution, instead of one that is appropriate for the needs of the business unit). Interestingly, the move to shared services and a common IT investment portfolio often requires additional costs in terms of service management and project and portfolio management tools. These costs need to be taken into account when determining the net benefits of the move.

What type of savings can we expect from server consolidation?

Typically, 20% in terms of asset cost, but not necessarily any savings in personnel costs that make up the entire TCO picture.

Cost savings from server consolidation is not a given. Some 60% of respondents to a 2005 Gartner survey said they saved money on server consolidation. However, only 25% of respondents actually reduced head count. Although staffing levels can be affected by server consolidation, people working in resource-constrained IT organizations that are set free from one task are often shifted to backlogged work or to new projects, resulting in no net staff reduction. It is important to understand this trend when predicting hard-dollar savings from consolidation. That is why a detailed TCO analysis is broken down into discrete tasks to determine where costs are shifting.

What type of savings should we expect from implementing process models, such as IT Information Library?

Expect 20% to 30% of overall operating costs over three years.

Generally, organizations at higher levels of process maturity are able to "do more with less" due to the consistency and continual refinement of their processes. Higher maturity organizations also tend to apply Six Sigma and Lean techniques to aggressively pursue cost/waste reduction strategies, and eventually evolve the culture of their organizations toward higher levels of trust and empowerment of front-line workers — who are then able to be more effective in taking actions that reduce costs. Gartner has found that substantial reductions in overall operating costs of up to 28% can be achieved over 12 quarters.

How does a technology-adoption profile impact IT costs?

Gartner categorizes enterprises based on IT adoption profiles, with Type A being the most-aggressive adopters of IT, Type B being mainstream adopters and Type C being slow to adopt new technology. The majority (57%) of companies categorize themselves as Type B. Only 14% of organizations believe they are Type A, and 29% describe themselves as Type C. It is not unusual to find Type A organizations spending more than double what Type C organizations spend, with Type B organizations spending roughly between the two extremes.

Interestingly, although the overall level of IT investment varies greatly by IT adoption profile, the breakdown of IT spending within the organization (across categories such as hardware, software and staff) is similar (regardless of IT adoption profile). It is also true that divisions — or even departments — within one organization can exhibit different attitudes toward IT investment. For this reason, many find it useful to use Gartner's Enterprise Personality Profile (EPP) — which characterizes organizations based on several attributes — in conjunction with an IT adoption profile analysis. Ultimately, the goal should be to align IT spending levels with the overall strategy of the organization. EPP

can help here.

What other IT initiatives have the potential to materially reduce IT costs?

The following will also have a significant impact on IT costs:

- **Degree of reuse in application development** — Various flavors of reuse exist, with differing potentials to impact IT cost. Early impact of any reuse program on the overall budget is usually minimal. In Year 2 and after, service-oriented development of applications will make an impact on an organization's overall budget. Most likely, the overall improvement over five years will run in the 18% range.
- **Extent and age of the applications portfolio** — Many organizations have undertaken application rationalization exercises during the past few years. Reducing the number of applications supported has the potential to significantly reduce application maintenance costs. Unfortunately, most organizations are so oversubscribed when it comes to software that they are more likely to achieve a balance of supply (of IT resources) and demand (for application changes) from such efforts than they are to see net savings in the IT budget. Organizations with a disproportionate number of older applications also face higher-than-average maintenance costs. In such organizations, it is not uncommon to see application maintenance costs accounting for 20% of the IT budget.
- **Flexibility of IT staff (for example, the ability among IT personnel to take on various roles)** — Siloed IT organizations are inherently costly because skills gaps must be filled by additional full-time employees or contractors. Organizations made up of "versatilists" are more able to move talent around as needed.
- **Formality and quality of asset management processes** — Organizations that manage assets well will achieve a cost savings of 8% to 10% per managed asset within a year.

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