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**Article Top View**
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# Reining in Your Runaway Technology

## With the downturn set to continue, IT managers need a toolkit to get control of their costs. Portfolio management and targeted cost-reduction techniques can quickly lead to significant savings.

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The year 2002 will be an uncomfortable one for IT professionals in user organizations and a bad year for IT vendors. Many enterprises are striving to contain costs in the wake of the “irrational exuberance” of the dot-com boom, and in response to the current economic uncertainty and global instability. CFOs are pressing for cost controls and only approving projects with clear returns on investment. It is not only IT that is affected, but the IT industry is suffering more than most other sectors.

IT managers in different sectors face different degrees of austerity. Some must slash their budgets for their enterprises to survive but most face an environment characterized by:

- Less money available for IT
- No money available for projects that can’t show a real and rapid return on investment
- Increased skepticism about the business value of IT

IT managers must therefore learn to operate within tighter budgets and ensure that any new expenditure is targeted on areas that will produce real and measurable returns. They should:

- Take a portfolio approach to projects, emphasizing those that save money
- Make existing systems and infrastructure more efficient

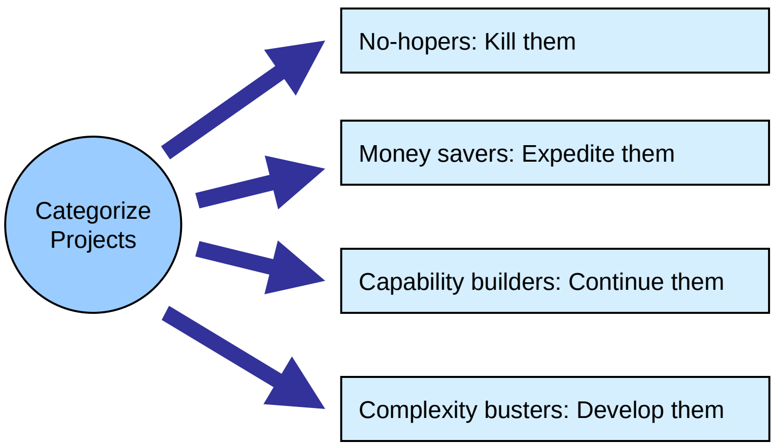
### Evaluate the Project Portfolio

The easiest way to save money on projects is to have fewer of them. Project proposals can be rejected or deferred. Existing projects can be cancelled or delayed.

But a wholesale stoppage is appropriate in only the most extreme cases. Not only does it cause waste and result in the loss of benefits, but it destroys the very capabilities that will be needed when the economy recovers. In most enterprises, then, a more considered approach is needed. We recommend dividing projects into four categories (no-hopers, money savers, capability builders and complexity busters) and taking action accordingly (see Figure 1).

**Figure 1**

**Divide Projects Into Four Types and Act Accordingly**




Source: Gartner Research

*No-Hope Projects*

Some projects, especially in the most overhyped areas, have lost any business rationale they might ever have had. These projects can usually be recognized by the extravagant claims made for them, highly optimistic assumptions, lack of a business case and the frequency with which they are labeled “strategic.” They are common in mobile communications and e-marketplaces — but can appear anywhere. They should be stopped immediately.

*Money-Saving Projects*

IT managers should identify those projects that can help the business to save money quickly, and seek the CFO’s support for implementing them immediately. Developers should avoid the perfectionism that has often alienated business managers, seeking instead the solution that will produce the fastest results. Examples, which are referred to in “Pruning E-Business Costs to Promote Future Growth” (COM-15-1491), and “Containing CRM Costs Without Jeopardizing Your Future” (COM-15-3308), include:

- Using e-business to cut direct and indirect procurement costs, and customer communications costs
- Using targeted marketing systems that exploit customer segmentation to enable savings on advertising budgets
- Improving basic processes to create savings in call center costs
- Creating a customer-support knowledge base and using it to identify process problems, which, when fixed, will reduce call-center costs

*Capability-Building Projects*

Most IT projects are intended to create future business capabilities. However, it’s no longer appropriate to implement a technology just because it is now mature. The assimilation of new technology requires major process re-engineering and a major change program, so enterprises must take a broader view that considers the technology, their own readiness and the availability of the necessary skills. This view leads to a new Strategic Business Capability Hype Cycle (see “ROI Comes From Strategic Capabilities, Not Applications,” SPA-15-2358).

A process for applying this Hype Cycle to an enterprise’s strategic IT investment portfolio is given in “Reassess Your Strategic Business Capability IT Portfolio” (DF-15-1808). It comprises three steps:

- Understand your enterprise’s attitude to technology risk
- Check your portfolio against the Strategic Business Capability Hype Cycle
- Apply the tactics appropriate to your risk profile, maturity of the underlying technology and the life cycle stage of the particular project

A tactical approach to new projects is particularly important at present for mobile technology (see “Ensuring That Mobile Projects Deliver Short-Term Benefits,” TG-15-3068).

*Complexity-Busting Projects*

Many enterprises have overcomplex IT infrastructures. Common examples include:

- Multiple packages providing similar functionality — e.g., Web servers or auction packages — each of which was chosen for purely tactical reasons
- Web and call center applications that aren’t integrated with legacy systems

Enterprises should initiate projects that will simplify their infrastructures. This will save money and position businesses for future growth. If the number of interapplication interfaces to be built is large, it will be wise to implement an application integration infrastructure (see “Cutting Implementation Costs by Application Integration,” TG-15-2830).

**Reduce the Costs of Existing Systems**

There are always opportunities for reducing the costs of existing systems The main strategies to follow are to standardize, to centralize, to take a professional approach and to adopt a life cycle view of systems. Though these are good strategic principles, they can often create savings surprisingly quickly.

To apply them, IT managers will need to know where they are starting from, agree on trade-offs with user managers, emphasize total cost of ownership (TCO) and renegotiate major contracts. IT managers should also leverage the power of cultural differences as described in “Exploiting Cultural Differences to Contain Costs” (COM-15-2352).

*Know Where You Are Starting From*

Before IT managers can begin to contain costs, they must know exactly what their current assets are and how much they cost. This means keeping accurate asset registers and records of requests to service providers.

An accurate asset register is particularly critical in 2002. Many IT managers will soon be involved in negotiating new license agreements with Microsoft (see “Cost Control Through Asset Management: Easy Pickings,” HARD-WW-DP-0184). Enterprises that do not actively manage their software licenses will typically have at least 10 percent too many. They should act now to ensure that they have up-to-date asset registers before they start negotiating with Microsoft. Registers that were created for year 2000 purposes should be revived. In other cases, they may have to be built from scratch.

*Agree on Trade-Offs With User Management*

There are many ways in which enterprises can save money by accepting a lower, or at least different, quality of product or service. They include:

- Using voice over IP instead of standard telephony
- Making less use of mobile phones
- Using Short Message Service (SMS) text messages instead of voice messages
- Accepting longer response times
- Accepting lower service levels
- Agreeing on slower response on problems passed to the help desk

Some of these are simple and quick to apply — and therefore especially attractive in a downturn. But each has disadvantages and some may reduce productivity significantly. IT managers need to work with user management to agree on the right trade-offs between cost, quality and service levels.

Costs can also be saved by ensuring that staff:

- Use existing cost-saving systems, such as e-procurement
- Do not make excessive private use of systems

Appropriate instructions to staff should also be agreed with user management.

*Emphasize TCO*

TCO remains the most powerful tool for understanding, and thus controlling, all costs related to complex systems. IT managers can use TCO to make savings today and to justify expenditures that will keep costs down tomorrow.

IT managers can save money on their office systems by extending PC lifetimes. An extension from three years to four can largely eliminate replacement PC purchases for one year. Moreover, many enterprises are imposing a recruitment freeze, which should remove the need for additional machines or for extending the network.

*Renegotiate Major Contracts*

Every IS organization has many contracts, most of which were negotiated in better times. Renegotiation is often the single best way of saving money. In telecommunications, for instance, it is often now possible to negotiate price reductions of 15 percent in voice and data WAN services (see "Practical Ways of

Reducing Telecom Costs," TU-15-2351). For instance, it should be possible to buy voice services from Europe to the United States for no more than 4 cents (euro) per minute.

Contract renegotiation can address more than prices, though. Given the right mandate from senior management and, sometimes, support from local management, IT managers can save money by accepting a lower quality of service.

Even more flexibility is needed when renegotiating IT outsourcing contracts (see "How to Reduce Costs in Long-Term Outsourcing Deals," TG-15-1368). In general, enterprises should renegotiate the contracts on a "more for the same," not a "same for less," basis. To do this IT managers should:

- Decide priorities
- Question contract service levels, especially technology replacement cycles
- Restrain user-driven changes
- Revise penalty structures

**Features**

"Pruning E-Business Costs to Promote Future Growth" (COM-15-1491). A vigorous approach to IT cost-containment can deliver savings and create a stronger platform for the future. **By David Flint**

"Containing CRM Costs Without Jeopardizing Your Future" (COM-15-3308). Kill no-hope CRM projects and develop a business-oriented CRM strategy and program. **By John Radcliffe, Stephen Blood, Alexa Bona, Jim Davies and Jennifer Kirkby**

"ROI Comes From Strategic Capabilities, Not Applications" (SPA-15-2358). There are too many strategic-change opportunities to assimilate simultaneously, so choose a subset and execute them sequentially. **By Mark Raskino**

"Reassess Your Strategic Business Capability IT Portfolio" (DF-15-1808). Exploit the current economic downturn to revise plans for introducing new IT-enabled strategic business capabilities. **By Mark Raskino and Catherine Tornbohm**

"Ensuring That Mobile Projects Deliver Short-Term Benefits" (TG-15-3068). Don't cancel mobile projects just because of the current adverse economic conditions, but do ensure they are designed to improve specific business processes. **By Monica Basso**

"Exploiting Cultural Differences to Contain Costs" (COM-15-2352). Cost-containment initiatives should take account of national and regional differences in product preferences, the cost of resources and attitude to risk. **By Jean-Claude Delcroix**

"Cutting Implementation Costs by Application Integration" (TG-15-2830). Despite the high set-up costs, a common integration infrastructure shared across several application initiatives will likely reduce overall costs. **By Massimo Pezzini**

"Cost Control Through Asset Management: Easy Pickings" (HARD-WW-DP-0184). Only with an asset management database will enterprises be able to save money by eliminating underutilization and redundant assets. **By Jonathan Mein and Brian Gammage**

"Practical Ways of Reducing Telecom Costs" (TU-15-2351). Identifies five areas in which enterprises can take immediate action to reduce telecom costs. **By Jean-Claude Delcroix**

"How to Reduce Costs in Long-Term Outsourcing Deals" (TG-15-1368). Adopt a "more for the same" approach rather than a "same for less" approach. **By Roger Cox and Jonathan Clift**