

# Info-Tech's Essential Guide: Building and Communicating Your IT Cost-Cutting Strategy

A looming recession meets a global pandemic. The result?  
CFOs to start asking IT to cut costs. Now.

EXECUTIVE BRIEF

**Info-Tech predicts many of you will be asked to cut 10 to 50% of your IT budget due to the COVID-19 recession**

### IT leaders are being asked to cut costs now

- Usually, cost management is a long-term challenge; businesses and IT departments look to have a flexible cost structure focused on maximizing business value while maintaining the ability to adapt to market pressure. Businesses must be able to respond to unexpected events.
- **The combination of a widely predicted recession and the unexpected advent of the COVID-19 global pandemic has pushed most businesses and essential services to the breaking point.**
- As a result, CEOs and CFOs are thinking more about survival than growth. This will force a round of cost cutting across all departments focused on short-term, immediate, and measurable cutbacks.
- Many IT departments will be wondering how they can possibly meet the cost-cutting targets. We've never seen a financial impact like this one, and we still don't know how bad it's going to get.
- ***How can IT cut deep enough to have a corporate impact, but not so deep that they cannot recover when the recession and pandemic recede?***

The COVID-19 recession means you are already in *reactive* cost-cutting mode

### In reactive cost-cutting mode, mistakes happen

- This round of cost cutting will not follow a general recession planning cycle. In normal times, Info-Tech recommends avoiding costly mistakes by executing cost management and budgeting with a three-pronged approach:
  1. **Strategic Cost Management** with impacts >1 year
  2. **Proactive Cost Management** with impacts between 3-12 months
  3. **Reactive Cost Management** having impact in under 3 months
- However, the COVID-19 global pandemic and ensuing global recession have pushed us directly into *reactive mode*. Your organization will require an urgent and reactive response. The time pressure will force you to make hurried decisions, and without a strong methodology to keep you focused, short-term mistakes will have long-term consequences.

**Info-Tech will help you build a cost-cutting plan to help you survive and thrive after the COVID-19 recession**

### **Avoid mistakes using Info-Tech's cost-cutting strategy**

- Info-Tech has a methodology and set of tools that will help you build a **cost-cutting and budget action plan** based on your specific circumstances and timeline focus. We have defined four categories of cost cutting:
  1. **Workforce optimization**
  2. **Asset optimization**
  3. **Vendor management**
  4. **Project prioritization**
- The secret to success in this crisis will be to find the reactive short-term cost cuts that have the least impact on your long-term IT objectives.
- In reactive mode, your choices actually become clearer, if not necessarily easier. There is nothing like the clarity of a crisis to speed up decision making and cut through bureaucracy.



# **Key Insights:** **IT Cost-Cutting Strategy** **for the COVID-19 Recession**

EXECUTIVE BRIEF

# 1. Workforce Optimization

## Top insights to manage IT employees during cost-cutting

### Insight 1 Deal With Low Performers Now

**This is an opportunity to expedite dealing with low performance.** It may sound insensitive, but in times where cost cutting is required, you may have the opportunity to quickly and decisively address low performance with targeted staff reductions. This option is not open to every organization due to union regulations or political circumstances. However, at the very least up your performance management tactics. Many low performers leave of their own volition when faced with clear, fair, and exacting performance expectations.

### Insight 2 Leave Layoffs Until Last

**Other short-term cost-cutting measures should be considered before enacting short-term layoffs.** Layoffs appear to be the low-hanging fruit. However, if you intend for those laid off to return, you will see a long-term negative impact on engagement and productivity if other more obvious measures are not taken first.

### Insight 3 Engage and Thank Remaining Staff

**Clear, empathetic, and honest communication is required when dealing with any staff reductions.** It is important to be thankful to remaining staff and recognize the extra effort the entire organization will need to make to return to a more normal state. The right tone must be communicated. Neither an overly rosy nor an overly bleak message will be appreciated.

## 1. Workforce Optimization

### Top insights to manage IT employees during cost-cutting (continued)

#### Insight 4 Check In Regularly With Staff on Layoff

**Maintain support for affected employees.** Check in regularly with staff who have been laid off and update them on developments and outlook. Ask if there are ways that the organization can help. Avoid the risk of return-to-work disengagement.

#### Insight 5 Continue to Hire Great People

**A spending freeze does not have to mean a hiring freeze.** Don't miss an opportunity to add great people to your company. Keep looking to staff your organization for future needs and be prepared to advocate for the right targeted hires even through a spending freeze.

#### Insight 6 Cutting Staff Is Hard, but Probably Necessary

**No aspect of cost reduction is more emotional and difficult than staff reductions.** If cost management initiatives involve staff reductions, then significant time must be spent on planning, communicating, treating affected staff with respect, and ensuring that remaining staff stay engaged. Before enacting staff reductions, careful consideration should be given to redeployment of existing resources from longer-term initiatives to short-term ones.

## 2. Asset Management

# Top insights to manage asset reduction and spending



### Insight 7 Declare a Spending Freeze

**Communicating clearly to staff that your organization is implementing a short-term spending freeze is very effective.** Most staff will understand that spending freezes during this crisis. Keeping that concept at the front of people's minds is effective at curbing discretionary spending. A few clear, specific rules are better than complicated processes.

### Insight 8 Skip Adding Approval Levels

**Adding more approvals to curb spending is not an effective strategy.** Requiring higher levels of approval for spending may curb spend but it adds needless bureaucracy, transfers responsibility too high in the management chain, and can discourage new ideas. Making your organization less efficient to reduce spending is not a good idea. Instead, use the control structures you have and provide clear, concise instructions.

### Insight 9 Reduce “Acceptable” Waste

**Now is the time to enact a War on Waste.** Almost all organizations have some wasteful spending habits that, because of other priorities, either have avoided detection or haven't been audited on an ongoing basis. Now is the time to look at all asset usage and prioritize reduction of wasteful spend.

### Insight 10 Plan for the “New Normal”

**Crises pass and you need to consider how to recover from short-term cost-cutting measures.** You must consider how you will recover and succeed in the long term but at the same time take advantage of the “new normal.” For example, travel cuts may finally stick due to proven digital meeting technology.

### 3. Vendor Management

Top insights to effectively manage vendors during drastic and reactive cost cutting



#### Insight 11 Negotiate Collaboratively With Your Vendors

**If you are too demanding or take unnecessary advantage of the situation, there is a strong chance the vendor will treat you the same when conditions change to their favor.** Vendors are experiencing the same cash flow challenges as you. Key partnerships providing long-term essential services may be more willing to negotiate than short-term contractors who are facing the same cutbacks you are.

#### Insight 12 Assess the Current Situation

**Don't rush in blindly and go into slash-and-burn mode unnecessarily.** While time is of the essence, there are always long-term considerations and relationships. How you treat your vendors now will shape your relationship in the long run.

#### Insight 13 Be Creative

**Negotiations (when required) will be atypical for both parties.** New solutions should be considered and worked through with partners. Be patient and don't be afraid to put forward unusual ideas.

## 4. Project Prioritization

### Top insights to manage projects in reactive cost-cutting mode



#### Insight 14 Everything Is on the Table

**This is about survival and everything is on the table.** The COVID-19 pandemic forced governments to enact measures that most would never have conceived of supporting. Follow their example. Organizations and businesses need to make deep cuts that previously would have seemed impossible.

#### Insight 15 Make Decisions With Limited Information

**Perfect is the enemy of good, and decisions with limited information are required.** Timelines are crunched and higher-risk decisions are required. You will make mistakes, and you'll need to adjust as you go.

#### Insight 16 Don't Give Up on Long-Term Objectives

**While you need to survive in the short term, that's not good enough.** While short-term survival is the prime focus, you still need to thrive in the long term. As much as possible, match every short-term decision with an associated long-term risk assessment. Again, all assessments must be done quickly and efficiently.

#### Insight 17 Focus on Value-Creation Projects

**Always think of IT as a value creator rather than a cost center.** It is tempting to quickly make short-term reductions, especially when under great pressure to cut significant costs. However, keep projects that generate revenue or affect customer experience. These may be more important than a short-term cost-cutting exercise.

# The Bottom Line

Cutting your first

# 10%

## Step 1 Declare an Immediate Spending Freeze

**Any deep cost-cutting initiative starts with a spending freeze.** Provide a few clear and simple rules. Skip tightening approval levels or increasing bureaucracy, as that will simply allow more loopholes. Stop travel, entertainment, increasing headcount, or new contracts. Provide instructions on how to deal with inflight negotiations.

## Step 2 Cutting Staff Is Hard, but Probably Necessary

**No aspect of cost reduction is more emotional and difficult than staff reductions.** To get to a 10% cost reduction, you will need to cut some staff. Obviously, careful consideration of where those resources will come from is paramount. Performance management is your first source of reduction. Layoffs should be considered only if absolutely necessary.

## Step 3 Work With Your Vendors

**Prioritize contracts based on necessity.** Vendors are experiencing the same cutbacks as you are, and most will be willing to negotiate. Prioritize your key partnerships/largest contracts and work with them first. Postpone any new contracts but communicate a clear “re-evaluate” date.

## Step 4 Reprioritize Your Backlog

**Perfect is the enemy of good, and decisions with limited information are required.** Focus on revenue generation projects and the end customer. Cut based on risk assessments. You will make mistakes and you’ll need to adjust as you go.

# The Bottom Line

Cutting your next

10 to  
50%

## Step 1 Cut or Postpone Longer-Term Projects

**It's too late for politics; align your portfolio to corporate strategic direction only.** Perform a project backlog “purge” immediately; kill any projects that have been in flight too long. Understand and document corporate initiatives and align yourself with your CEO on which projects need to continue and which need to end now.

## Step 2 Ask Vendors for the Cuts You Need

**Explain your true situation. Real partners will play ball.** To get past a 10% cost reduction, you will need to cut some vendors and slash spending on others. Start talking about early renewals with reduced licensing and demonstrate to the vendors that it may be all or nothing. Tell them what you need.

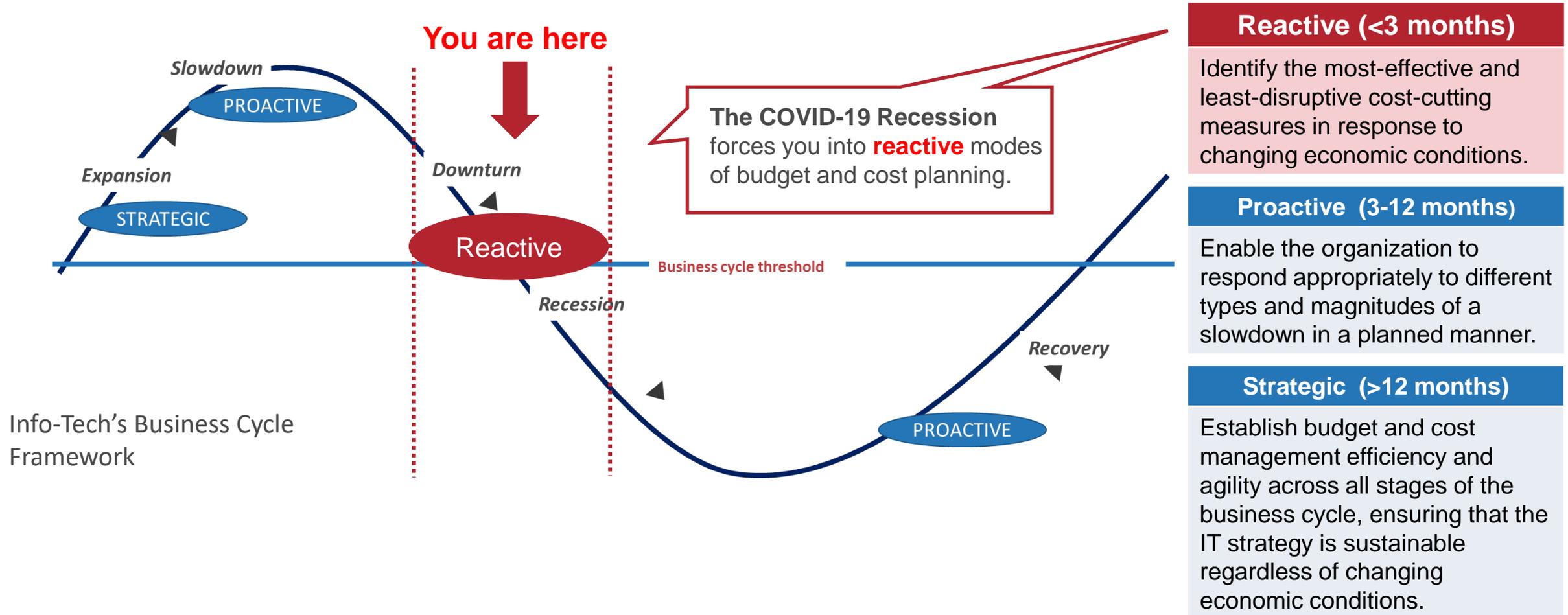
## Step 3 Application Rationalization and Licensing Reviews

**Reduced headcounts force drastic asset reductions.** Info-Tech has excellent materials on how to reduce your application footprint and how to execute licensing reviews through vendor management and software asset management. While usually longer-term cost savings, they can be expedited.

## Step 4 Leave Layoffs Until Last

**Other short-term cost cutting measures should be considered before enacting short-term layoffs.** Layoffs appear to be the low-hanging fruit. However, if you intend for those laid off to return, you will see a long-term negative impact on engagement and productivity if other more obvious measures are not taken first.

# COVID-19 has forced organizations into reactive modes of cost management



# Info-Tech's four focus areas for budget and cost management

	1. WORKFORCE OPTIMIZATION	2. ASSET OPTIMIZATION	3. VENDOR MANAGEMENT	4. PROJECT PRIORITIZATION
Reactive	<ul style="list-style-type: none"> <li>Determine optimal staffing levels</li> <li>Identify core/critical training program elements</li> <li>Determine expendable staff-related ancillary costs</li> </ul>	<ul style="list-style-type: none"> <li>Reduce SW license costs</li> <li>Consolidate assets</li> <li>Delay upgrades and refreshes for applications and hardware</li> </ul>	<ul style="list-style-type: none"> <li>Renegotiate current contracts</li> <li>Cancel current contracts</li> <li>Renegotiate/suspend/cancel pending contracts</li> </ul>	<ul style="list-style-type: none"> <li>Existing projects: resize/rescope</li> <li>Existing projects: postpone/cancel</li> <li>New projects: delay/cancel</li> </ul>
Proactive	<ul style="list-style-type: none"> <li>Determine current staff skill and capability levels</li> <li>Prioritize associated workloads by business value</li> <li>Determine workforce deployment against prioritized workloads</li> </ul>	<ul style="list-style-type: none"> <li>Optimize capacity utilization</li> <li>Extend asset maintenance schedules vs. purchase new equipment</li> <li>Move services to cloud (SaaS)</li> </ul>	<ul style="list-style-type: none"> <li>Assess existing vendor contracts for performance</li> <li>Renegotiate existing terms</li> <li>Evaluate switch to lower-cost vendors</li> </ul>	<ul style="list-style-type: none"> <li>Develop criteria for project intake</li> <li>Prioritize projects in portfolio based on business value</li> <li>Develop criteria for project approvals</li> </ul>
Strategic	<ul style="list-style-type: none"> <li>Develop a workforce strategy to optimize staffing capabilities aligned with business value</li> <li>Adopt a Lean approach to managing workloads and workforce capacity</li> <li>Identify automation opportunities to augment workforce capacity</li> </ul>	<ul style="list-style-type: none"> <li>Develop a sourcing strategy</li> <li>Build application rationalization framework</li> <li>Establish a comprehensive ITAM practice</li> </ul>	<ul style="list-style-type: none"> <li>Establish a VMO</li> <li>Align VM strategy with sourcing strategy</li> <li>Implement smart contracts</li> </ul>	<ul style="list-style-type: none"> <li>Establish PPM practice</li> <li>Establish PMO</li> <li>Establish demand and resource management capabilities</li> </ul>

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