



CORPORATE PERFORMANCE IMPROVEMENT

# IT Cost Optimization Fact Sheet

In nearly every sector, today's organizations face pressure to keep costs low. A global pandemic, ongoing market volatility, and digital disruption have created a new normal and forced companies to scrutinize their expenses. Technology spend is a large component of companies' cost structure across all industries, and even healthy companies are looking to right-size. Yet, IT spend can be a black box to many executives - should you be spending more or spending less? Are you investing in the right things?

## IT Cost Optimization – what is it and what triggers it?

IT Cost Optimization is about aligning IT's cost structure to the expected business value proposition. Different than traditional cost takeout, it focuses on where a company should invest technology dollars to drive the most value.

Often, broad industry contexts and company-specific trigger events work together to initiate the need to evaluate whether a company is spending wisely or not, which will depend on multiple factors, including its strategy, operating model, and IT maturity.

Done right, IT Cost Optimization programs provide tangible short-term results and long-term benefits – sustainable and transformational change.

## Key Levers for IT Cost Optimization

Depending on the state of the organization, transformations can vary in focus, pace and breadth of stakeholder involvement. A&M's IT Cost Optimization approach is biased towards rapidly transforming the cost structure of IT using a Zero Based Budget (ZBB) methodology. We review where the company is in its industry and where the business is in its strategy, and use the alignment of IT's strategic posture to the business vision as an anchor point to assess cost optimization opportunities and tailor the right approach.

The approach should balance the organization's readiness against expected savings targets. At A&M, we call this the 'Change, Shift, Transform' paradigm – and use it as a guide to determine how many and which levers to pull, and how hard to pull them.

### Transformation Intensity

Change	Shift	Transform
<ul style="list-style-type: none"><li>▪ Focus on quick wins and eliminate waste</li></ul>	<ul style="list-style-type: none"><li>▪ Focus on right-sizing for greater savings and shorttime-to-cash</li></ul>	<ul style="list-style-type: none"><li>▪ Focus on fundamental changes and un-remitting governance for aggressive and sustainable savings</li></ul>
<ul style="list-style-type: none"><li>▪ Low complexity</li></ul>	<ul style="list-style-type: none"><li>▪ Moderate complexity</li></ul>	<ul style="list-style-type: none"><li>▪ High complexity</li></ul>
<ul style="list-style-type: none"><li>▪ IT led</li></ul>	<ul style="list-style-type: none"><li>▪ IT led, with business involvement</li></ul>	<ul style="list-style-type: none"><li>▪ Business led with focus on fit-for-purpose and must-haves</li></ul>
<ul style="list-style-type: none"><li>▪ Low-hanging fruit</li></ul>	<ul style="list-style-type: none"><li>▪ Optimization of existing portfolio</li></ul>	<ul style="list-style-type: none"><li>▪ Lean IT mindset</li></ul>

The cost structure of an IT organization is influenced by seven discrete but interdependent value levers, which can be evaluated and ‘pulled’ in a holistic way to right-size the cost structure of any company in any industry and change the organization from “commodity IT” to “value-driven IT.”



**IT Strategic Alignment** – Is IT strategically aligned with the business strategy and the industry context?



**IT Spend Profile** – Are we spending the right amount of money? Are we spending it on the right things?



**Organizational Alignment** – Do we have the right structure and people in place?



**Project Portfolio Right-Sizing** – Are we doing the right things? Are we doing them correctly? Are we getting the expected value?



**Systems Portfolio Rationalization** – Are the underlying technologies and platforms the right solutions? Are they aligned to a sustainable architecture? Do they avoid creation of technical debt?



**Supplier and Vendor Partnerships** – Are we teamed up with vendors and providers who act as true partners to the business? Are the relationships and contracts structured favorably for the company?



**IT Process Efficiency** – Are our processes structured around business leading the technology or technology leading the business? Are the processes effective and do they drive efficiency?

## Conclusion

The right IT Cost Optimization approach is not one-size-fits-all, but instead will align to an organization’s business context and readiness for change. Whether the goal is short-term cash flow or sustained, transformative change, success will depend on careful and deliberate calibration of key value levers.

A&M helps clients plan and execute successful IT Cost Optimization programs that deliver sustained savings. We move at a rapid pace and take immediate action to build momentum and drive results. Contact us today to learn more about how we can help.

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## ABOUT ALVAREZ & MARSAL

Companies, investors and government entities around the world turn to Alvarez & Marsal (A&M) for leadership, action and results. Privately held since its founding in 1983, A&M is a leading global professional services firm that provides advisory, business performance improvement and turnaround management services. When conventional approaches are not enough to create transformation and drive change, clients seek our deep expertise and ability to deliver practical solutions to their unique problems.

With over 5,000 people across four continents, we deliver tangible results for corporates, boards, private equity firms, law firms and government agencies facing complex challenges. Our senior leaders, and their teams, leverage A&M’s restructuring heritage to help companies act decisively, catapult growth and accelerate results. We are experienced operators, world-class consultants, former regulators and industry authorities with a shared commitment to telling clients what’s really needed for turning change into a strategic business asset, managing risk and unlocking value at every stage of growth.

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