

ITFM/TBM Cost Optimization Cheatsheet: 5 Common Tactics & Anticipated Savings

The visibility and actionable insight provided by a healthy ITFM/TBM program can drive cost optimization across five key areas. Let's investigate each key area and potential savings.



1. Vendor Rationalization

By aggregating contract data to improve tracking and governance, ITFM/TBM enables IT leaders to:

- Get full visibility of contract expirations and renewals.
- Identify unused contracts to exit or repurpose.
- Consolidate contracts to reduce vendor count, leverage economies of scale and negotiate more favorable pricing.

As of 2019, Gartner reported that vendor spend accounts for **64%** of the average IT budget and is expected to grow by **1-2%** annually. ¹

20%

Executing a contract consolidation exercise alone – just one of three vendor rationalization tactics – reduced total vendor spend by **20%**.²

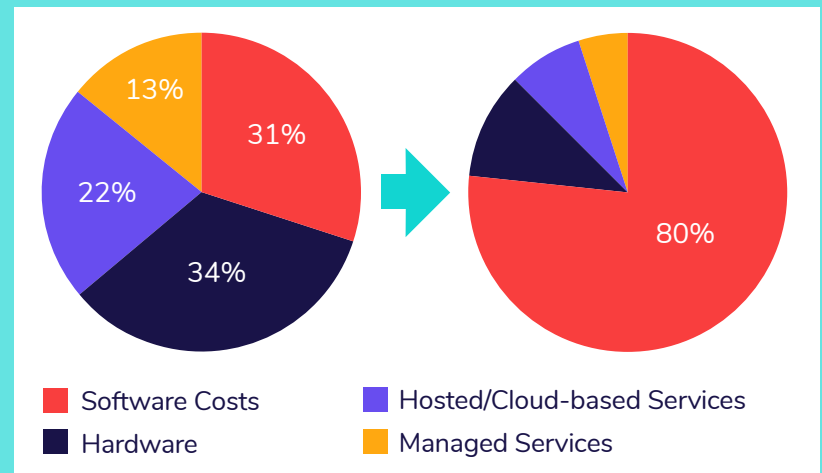


2. Application Rationalization

With a clear view of costs and utilization supplied by ITFM/TBM, an application rationalization initiative lets technology leaders:

- Eradicate duplicative apps supporting the same business capability.
- Expose unused software licenses to eliminate or re-deploy.
- Analyze total cost of ownership (TCO) against utilization to accurately judge cost vs. value.
- Reveal idle or over-provisioned apps quietly burning resources.

Software costs are expected to occupy **31%** of North American IT budgets in 2020.³ Including operation and management costs, that number grows to between **75-80%**.⁴



20%

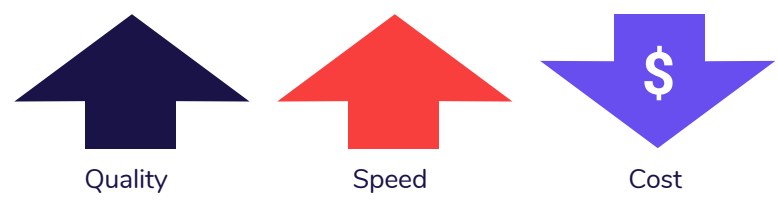
META Group (now Gartner) reports the typical savings organizations can expect from application rationalization, saying, "...CIOs are finding an average of **20** percent immediate cost savings (within **12** months of implementation) along with improved IT value positioning."⁵



3. Delivery Cost Optimization

Many IT organizations lack a firm understanding of true service costs and their underlying components. But after implementing a service cost model – a critical component of any ITFM/TBM program – delivery costs can rapidly be reduced.

- Optimize per unit costs at the IT tower level.
- Empower managers to drive down service rates.
- Make fair, apples-to-apples comparison between internal and third-party options.



According to CSO, a focused supply-side cost optimization effort can reduce delivery costs by **20-30%**.⁶



4. Demand Management

After working to optimize supply-side costs, managing demand with a monthly bill of IT (showback or chargeback) can deliver additional savings.

- Guide smarter usage by giving consumers a clear picture of monthly costs, what they deliver, and what's driving them.
- Drive adoption or discontinuation of specific technologies through strategic pricing.
- Create tiered service options to "right-size" consumption with business need.

McKinsey & Company reports an effective demand management strategy can yield a **15-20%** efficiency savings over **3-4** years.⁷



5. Infrastructure Management

Infrastructure waste and inefficiency are present in every organization, but it's exceedingly difficult to eradicate without granular transparency of costs. ITFM/TBM addresses this issue by helping IT leaders:

- Identify underutilized assets to exit or reallocate.
- Reveal consolidation and virtualization opportunities.
- Manage capacity more accurately against current and future demand.
- Optimize cloud spend proactively by tracking costs and consumption, comparing options, and reacting quickly.

According to a review of several research reports, infrastructure waste could be as high as **30%** on average worldwide.⁹

Gartner reports that implementing best practices for infrastructure management can reduce costs by **10%** within 12 months and **25%** in three years.⁸



1) Karamouzis, F., Stanley, A., Karalis, Y., Wilkins, A., & Ambrose, C. (2019, August 1). Align to Business Growth by Applying Critical Disciplines for IT Sourcing, Procurement and Vendor Management (ID: G00425292). Retrieved from Gartner database.

2) Corsi, M. (2019, July 26). Drive Cost Optimization and Efficiencies With IT Vendor Portfolio Rationalization (ID: G00324407). Retrieved from Gartner database.

3) Spiceworks. (2019, September 23). 2020 State of IT: Industry Trends on Tech Spend, Adoption & Jobs. <https://www.spiceworks.com/marketing/state-of-it/report/>

4) Crotty, J. & Horrocks, I. (2017). Managing legacy system costs: A case study of a meta-assessment model to identify solutions in a large financial services company. Applied Computing and Informatics, 13(2), 178. <https://doi.org/10.1016/j.aci.2016.12.001>

5) Oracle. (2009). Benefits of Application Rationalization: Reduce Costs and Improve Service with a Systematic Approach [White paper]. Retrieved February 3, 2020, from Oracle: <http://www.oracle.com/oms/eppm/042763.pdf>

6) CSO Online. (2003, May 21). IT Demand Management: A Tool To Reduce Cost and Increase Service Quality. <https://www.csoonline.com/article/2115857/it-demand-management--a-tool-to-reduce-cost-and-increase-service-quality.html>

7) Agarwal, H., Santos, L., & Starikova, I. (2014, April 1). Managing the demand for IT infrastructure. McKinsey Digital. <https://www.mckinsey.com/business-functions/mckinsey-digital/our-insights/managing-the-demand-for-it-infrastructure#>

8) Pultz, J. (2011, July 13). Ten Key Actions to Reduce IT Infrastructure Sourcing Costs. (ID: G00213017). Retrieved from Gartner database.

9) Kepes, B. (2015, June 3). 30% Of Servers Are Sitting "Comatose" According To Research. Forbes. <https://www.forbes.com/sites/benkepes/2015/06/03/30-of-servers-are-sitting-comatose-according-to-research/#2bc2a3d559c7>