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# Too Little? Too Much? – How To Optimize Your Technology Budget

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One issue that many organizations are grappling with today is the size of their IT budget. Are we spending too much? Too little? How do we optimize our technology spend so that we're able to invest in the strategic, while reducing effectively in transactional or commodity activities? At VCI, we help organizations focus on the strategic and transformational, while optimizing the rest. While certainly not intended to be a comprehensive list, here are a few things to think about in optimizing your IT spend.

### ***Management Structure***

If you haven't looked at this one for a while, it could be that too many management layers have crept into your technology team. There are many specializations in IT, and you may find yourself with too many small groups. Do you have managers with two or fewer direct reports? Are too many overall layers baked into your cake? What's the average number of direct reports per leader? It's very difficult to be a nimble, fast moving organization with a top-heavy decision-making structure. In addition, if you're trying to make a culture change, it can often be those layers of middle management that get in the way. Of course, this type of change is not to be undertaken lightly, because you stand to lose a lot of know-how if you slash these ranks. The good news is, often IT cost reduction initiatives tend to focus on outsourcing and reducing the ranks of the "doers," so if you've been through rounds like that, it might not be a bad time to look at whether you're being left with a management-heavy organization.

### ***Heavy Processes***

Another area that can creep up on you is process. Whenever there's an outage, conscientious people will run a root cause analysis to make sure that the error doesn't happen again. Sometimes, in response to these problems, another meeting or another check will be instituted. A few years roll by, and while you don't want to lose stability, it's a good idea to step back and look at just how many person hours are being consumed by numerous process steps and checks. This isn't a problem unique to technology teams, of course. The cycle of audits and process tweaks can add barnacles to any boat. Of course, I'm not suggesting that any of this type of continuous improvement is wrong, just that it may be necessary to periodically check, and adjust if necessary. If you find that simple changes are taking many months, it may be that your group has fallen into this trap over time. Simplifying these processes can have a cost impact as well as a customer impact. Both staff and vendors are spinning lots of cycles to support these processes.

## ***Software Asset Management***

Software assets get a lot of attention in IT cost reviews, and for good reason. Poorly managed software licenses can mean duplication and lack of any leveraging of the organization's scale in negotiation, as many copies of the same software might be purchased and managed separately. If the licenses are being managed, in some cases this can become a compliance exercise, making sure all licenses are paid for, rather than an optimization exercise that seeks to discover whether all licenses or packages are needed. Are larger questions being asked, such as whether more open source software could be used, whether some packages could be consolidated, or whether you could leverage some of your larger software contracts such as Office 365 or SAP or AWS more broadly? There can be significant cost savings available in this space in general.

## ***Contract Optimization***

If it's been awhile since your organization reviewed some of its major servicing contracts, this can be another significant opportunity for cost optimization. Are you paying for more bandwidth or storage than you need? If you've moved to the cloud, are you monitoring loads to make sure you're only paying for what you need? Are there service levels that you are paying for, but that are inappropriate to the organization's needs? Some positive outcomes can be found without lengthy renegotiations of commercial tenders. Of course, if you've just been renewing with the same vendors for a long time, it may be time to inject some commercial tension into the mix. Also, the mix of insourcing versus outsourcing should be reviewed periodically.

## ***Conclusion***

There are a lot of factors that go into a cost review of a technology function. It's never a particularly fun exercise for the staff involved, but it is important to maintain competitiveness, especially in cost sensitive industries. Even if your company isn't in a cost sensitive cycle right now, it makes sense to understand what you really want to be investing in, and whether you could do more for those things if you optimized in some areas. Finding elegant new ways of delighting customers, opening new market opportunities, and testing potential business model disruptions all take investment, and if some of that investment can be funded from existing IT budgets, so much the better!

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