

How can you cut costs and still accelerate growth?

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Three questions to ask:

- 1 Is there an understanding of the real cost drivers for the technology spend?
- 2 Which information technology (IT) cost optimization strategy is ideal for achieving the firm's true cost potential?
- 3 Are the cost reduction solutions focused on developing resiliency instead of eliminating resources critical for future growth?

Despite an uncertain economic climate, a majority of technology leaders anticipate significant investments in data science, analytics, cybersecurity and artificial intelligence (AI) in the year ahead. While overall IT spending may increase, strategic chief information officers (CIOs) recognize the need to enhance IT productivity while aligning investments with the fiscal goals of the business.

"One item on every one of our clients' agendas right now is to encourage and ensure that their IT team understands and aligns with the business's broader goals," says Mazen Baroudi, EY Americas Technology Strategy and Transformation Leader. "If CIOs can instill greater business acumen within their tech teams and break down the silos between business and tech functions, they can greatly broaden their scope, influence and impact."

The accelerated rise of AI in 2023, especially generative AI (GenAI), adds a new level of complexity to technology investments and priorities. While it could take years for GenAI investments to unfold, the technology investments that will drive transformation are happening now. [Funding plans](#) are multilayered: 37% of CEOs plan to reallocate capital from other investment budgets, 34% say they will primarily raise new capital and 26% indicate they will reallocate capital specifically from technology budgets.

Of course, CIOs have long felt the pressure to make smart technology bets. It's just now, the calls come faster and the stakes are higher. Our [recent survey of chief financial officers](#) (CFO) indicates that finance executives overwhelmingly are showing caution about 2024 and the increasing cost of debt, with 71% tightening working capital and 88% increasing the hurdle rate for investments.

In an ever-evolving technological landscape, staying ahead requires a keen focus on optimizing the cost of IT operations. To navigate this challenge, identifying and executing the right IT cost optimization strategies can be a game changer. The focus on IT cost is as much about resilience as it is about value creation. “CIOs are constantly keeping up with the rate of change, whether it is new tools, technologies, market constraints, or major events such as mergers or acquisitions. As leaders, CIOs strive to invest and remain bold in defined areas but retain the ability to pivot and redirect investments,” Baroudi says. “This involves also knowing when to pull the plug on some projects and prioritizing areas to increase investment.”

Cost optimization is a continuous business and technology-focused discipline with the goal of driving spend and cost reduction, while maximizing business value. For example, IT organizations seeking cost savings to generate reinvestment opportunities might consider regular reviews of their IT services. A strong vendor governance function can be used to control spend proliferation in the IT services area and may be a first line of defense.

“Over time, IT services value leakage takes place in most organizations. Engaging in vendor tail spend analysis to locate unnecessary proliferation of vendors and providers or performing a vendor spend Pareto analysis to identify strategic partners and consolidation opportunities are key actions that technology executives can initiate,” suggests Anja A. Allen, EY Americas Technology Consulting. “Regular rate card benchmarks [at least every two years] will help to align new services with current market conditions, and a market skill set analysis may provide visibility into skill sets that have commoditized and may be purchased at lower rates versus the skill sets that still demand premium rates.”

EY professionals suggest [five areas of focus](#) for IT cost optimization. The CIO, along with enterprise leadership, will have to balance the challenge of cost-reduction measures with the potential value to the business of reinvested savings. The right balance is key to positioning the business to succeed in the changing technology landscape. It cannot be achieved by the CIO alone, but in partnership with the business. And it is not a one-and-done affair, but requires a continuous focus.

According to Allen, “Ensuring that all IT spend is directly tied to business demand can help to reduce costs continuously because it prevents over or under provisioning of resources, creates better utilization of existing resources which avoids unnecessary expenses, reduces waste by identifying underuse or obsolete services or infrastructure, and encourages cost transparency.”



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Additionally, a measured approach tied to business outcomes is an opportunity for the CIO to showcase evidence of a proactive strategy of continued cost optimization and to collaborate effectively with the CFO. Effective cost optimization strategies can impact and influence user behavior by directing demand toward more efficient solutions or applications, aligning demand and behaviors toward more desirable services and processes.

Looking ahead

A lack of understanding the contribution of IT to strategic business goals often leads to cost cutting and not true cost optimization. Technology executives can combat this belief with intentional, focused IT cost optimization strategies to successfully fund innovation and digital business initiatives.

- ▶ **Prioritize value creation at the earliest stages of assessment:** Direct investments toward projects that create business value or drive organizational growth. This means prioritizing projects that enhance customer and end-user experiences and drive revenue growth.
- ▶ **Reduce complexity. Simplification is key:** Look to streamline operations and reduce complexity where possible, creating greater cost transparency and freeing up resources for more impactful initiatives.
- ▶ **Establish a baseline and governance:** Demonstrate progress with a clearly defined benchmark and starting point. Consider how to develop a strategic cost optimization discipline within IT and how to encourage sustainable change.

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