

Is IT Failing the Cost Optimisation Challenge?



Ninety-five percent of European enterprises are facing pressure to reduce costs during the ongoing pandemic, with many forced to take immediate action - such as slashing headcount and investment in new technologies. However, this Insight report has discovered that there are many missed opportunities to optimise IT spending, with potential savings in the millions of pounds. Identifying and taking advantage of these opportunities might help to not only retain skilled employees, but build a more resilient business.



From software licenses and infrastructure spend, to IT support, the possible savings being left on the table represent millions in lost potential reinvestment. For instance, enterprises are spending an average of €2.34m a year more than they should on software licensing, thanks to unused licenses – enough to pay the wages of 45 skilled IT specialists.

Many organisations are taking actions such as reducing headcount or attempting to sweat IT assets for longer, when they could instead reduce costs without jeopardising operational effectiveness. With the right skills and knowledge, IT teams can take advantage of optimisation opportunities while building business resilience.

2020 has underlined the need for organisations to have the flexibility, agility and controls in place that will allow them to react quickly to new challenges. Yet, even before the seismic events of this year, many organisations were struggling to adapt to changing political, economic, social, technological, environmental and legal factors.

From governments and healthcare organisations providing services remotely; to retailers supporting struggling physical stores with online offerings; to manufacturers minimising supply chain disruption; to the surge in flexible or remote working, the pandemic has accelerated digital transformation almost overnight.

Nonetheless, there is a risk that control and governance will take a back seat as IT departments face intense pressure to deliver faster. Spending on these initiatives, and an uncertain financial outlook for the remainder of 2020 and 2021, means keeping control over costs is essential. Organisations need to be sure they can invest in building resilience, from optimising organisational agility and employee productivity, to ensuring functions such as security and IT support still operate smoothly.

Cutting costs – such as reducing headcount or decreasing investment in new technologies – can make this task much harder. As well as harming morale, organisations could find themselves without the skills and technology needed to adapt to emerging challenges. Organisations need to ensure short term gains are balanced with long term strategy.

To highlight the challenges organisations face in 2020 and explore those areas where technologies and cost initiatives can drive organisational resilience, Insight has conducted a survey of 550 senior IT decision makers in European enterprises. In this first report of a two-part series, Insight investigates the pressure IT departments are under to reduce costs while keeping the business resilient.

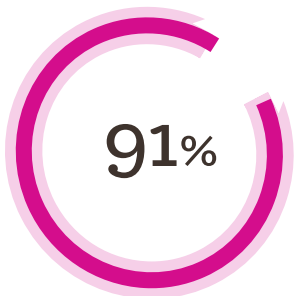
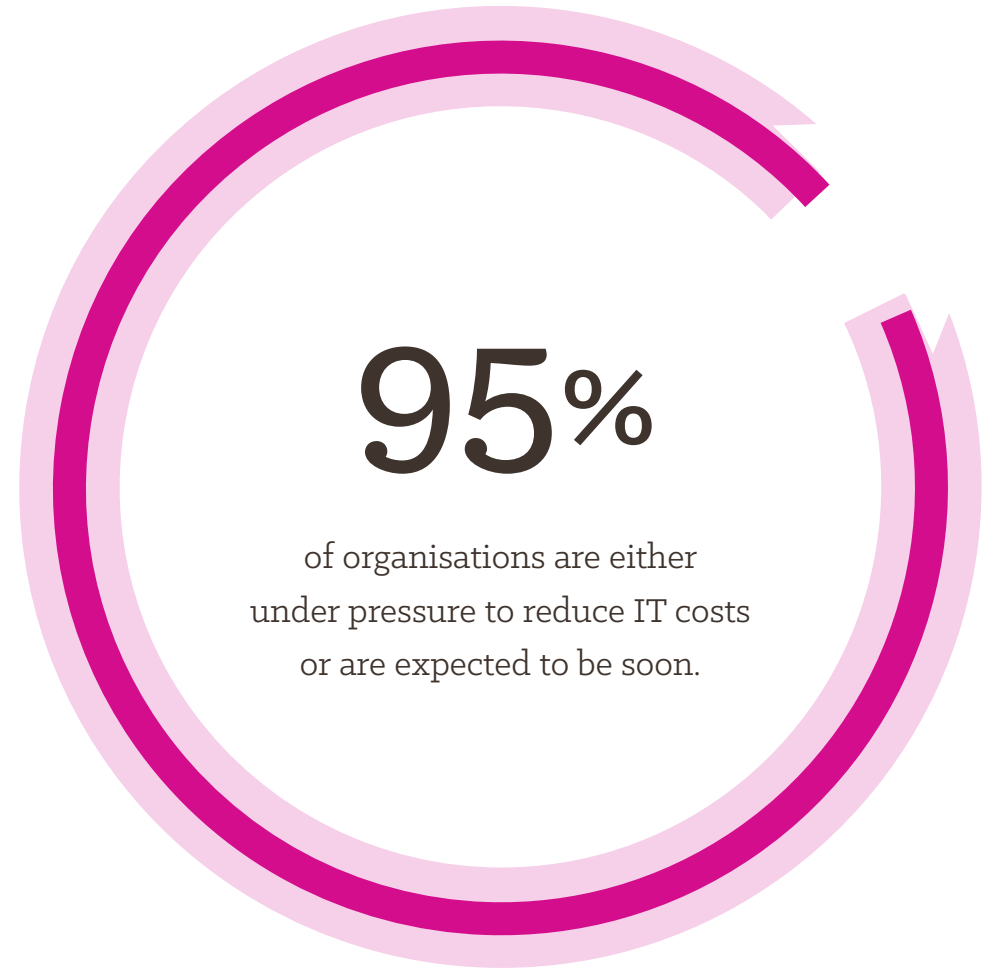
The Business Challenge



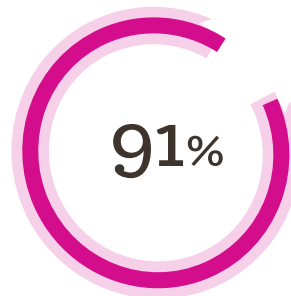
The Business Challenge - Cutting Costs Without Compromising on Resilience

Organisations in 2020 need to adapt to new working practices and massively disrupted markets. For IT departments, this means a balancing act between ensuring the business is resilient enough to succeed and the need to shrink expenditure. This need to reduce costs is almost universal – 84 percent of respondents said their organisation is currently under pressure to reduce IT costs, and a further 11 percent expect to be under pressure soon. (Fig. 1).

Fig. 1. Challenges facing IT departments.



of IT departments are under increased pressure to use the resources they have more intelligently.



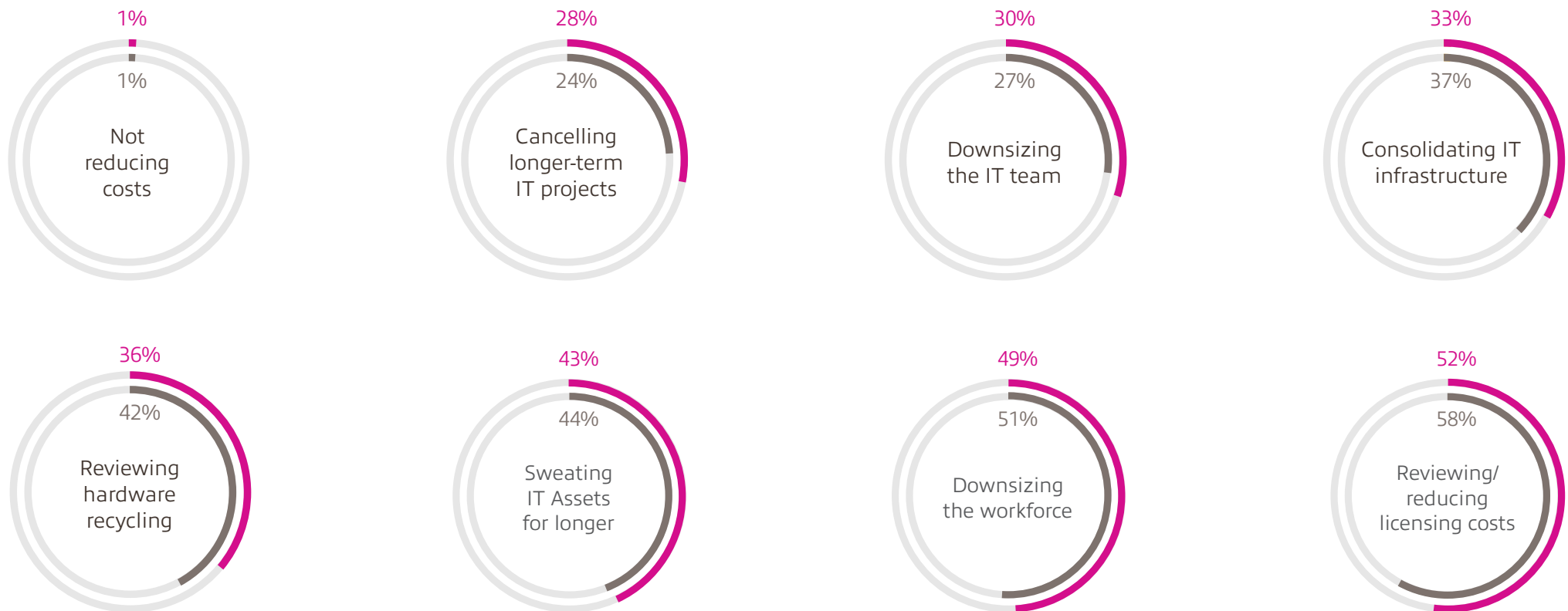
see reducing costs as a significant challenge because IT is essential to resilience as organisations forge a new way ahead.

In times of financial pressure, downsizing is often one of the first moves organisations make. Since March 2020, more than half (51 percent) have downsized their workforce and more than a quarter (27 percent) have downsized their IT team specifically. Yet, while this may produce short-term savings, it risks creating long-term costs. Losing vital skills – especially in IT – will make it harder to implement projects that will improve business resilience and meet strategic objectives. Any downsizing also needs to consider the knock-on effects on security, IT support, and training. There is also the very real impact on employees; not only those made redundant, but on the morale of those who remain.

This research shows there are other actions that can optimise costs without harming business resilience, but they need to be applied in the right way to be successful. (Fig. 2).

Fig. 2. Actions taken by organisations to reduce costs since March 2020.

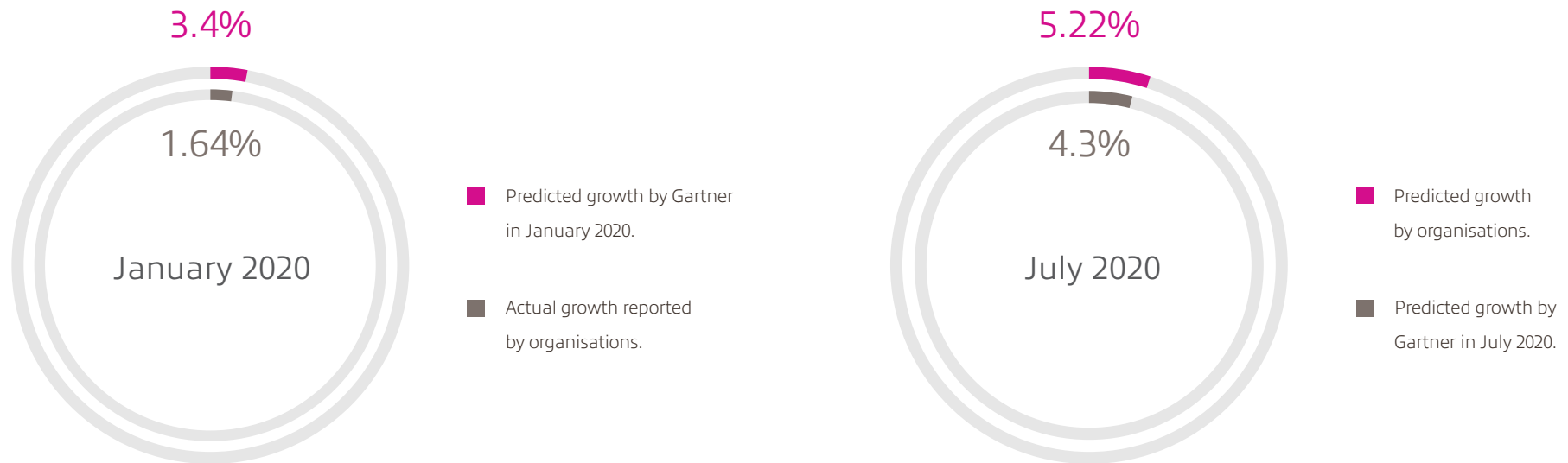
■ Plan to take in the next year.
 ■ Taken since March 2020.



The 44 percent of organisations sweating IT assets for longer need to be certain that ageing hardware and software will not affect the business’s ability to operate, or require increased management that greatly reduces its value to the business, while potentially increasing costs. Similarly, actions such as consolidating IT infrastructure and reducing licensing costs cannot be a one-time event. Optimisation needs to be an ongoing activity, requiring not just technology, but people and processes to succeed. And as we shall see, organisations haven’t yet uncovered the full benefits.

There are signs that organisations realise the new environment demands significant changes. 34 percent have consolidated physical office facilities, suggesting a broader transformation of how those businesses view the need for a workplace. At the same time, while IT budgets have grown significantly less than originally predicted at the beginning of the year¹, in the next 12 months respondents expect budgets to increase by more than current predictions² – suggesting organisations recognise the need to invest. (Fig. 3).

Fig. 3. European IT budget growth compared to predictions.



The challenge will be investing intelligently, ensuring that the organisation's approach to budgeting reflects the challenges that 2021 is likely to bring. A "business as usual" approach to budgeting will not be fit for the task. Instead, the organisation will need to be able to rethink its decision making and build flexibility into its budgets. By doing this it can balance the needs ahead; from investing in workforce agility and digital transformation projects that will allow dispersed workforces to operate seamlessly, to ensuring these employees have the IT security and support needed to work productively without putting themselves or the organisation at risk.

It's not too late for organisations to act. Optimising IT costs provides two distinct benefits to those facing the challenge of reducing costs while ensuring business resilience. First, it will remove the need for cuts in other areas, such as reducing headcount. Instead, the organisation can make the best use of the skills at its disposal, for instance by redistributing employees to accelerate strategic initiatives. Second, it will allow IT budgets to be allocated more effectively. Regardless of the final size of IT budgets in 2021, less waste will mean greater investment in building business resilience.

The challenge is in making optimisation happen. Organisations are aware there are savings to be made through optimising their approach to licensing, asset lifecycle management and infrastructure. However, they haven't yet been able to realise them.

¹[gartner.com/en/newsroom/press-releases/2020-01-15-gartner-says-global-it-spending-to-reach-3point9-trillion-in-2020](https://www.gartner.com/en/newsroom/press-releases/2020-01-15-gartner-says-global-it-spending-to-reach-3point9-trillion-in-2020)

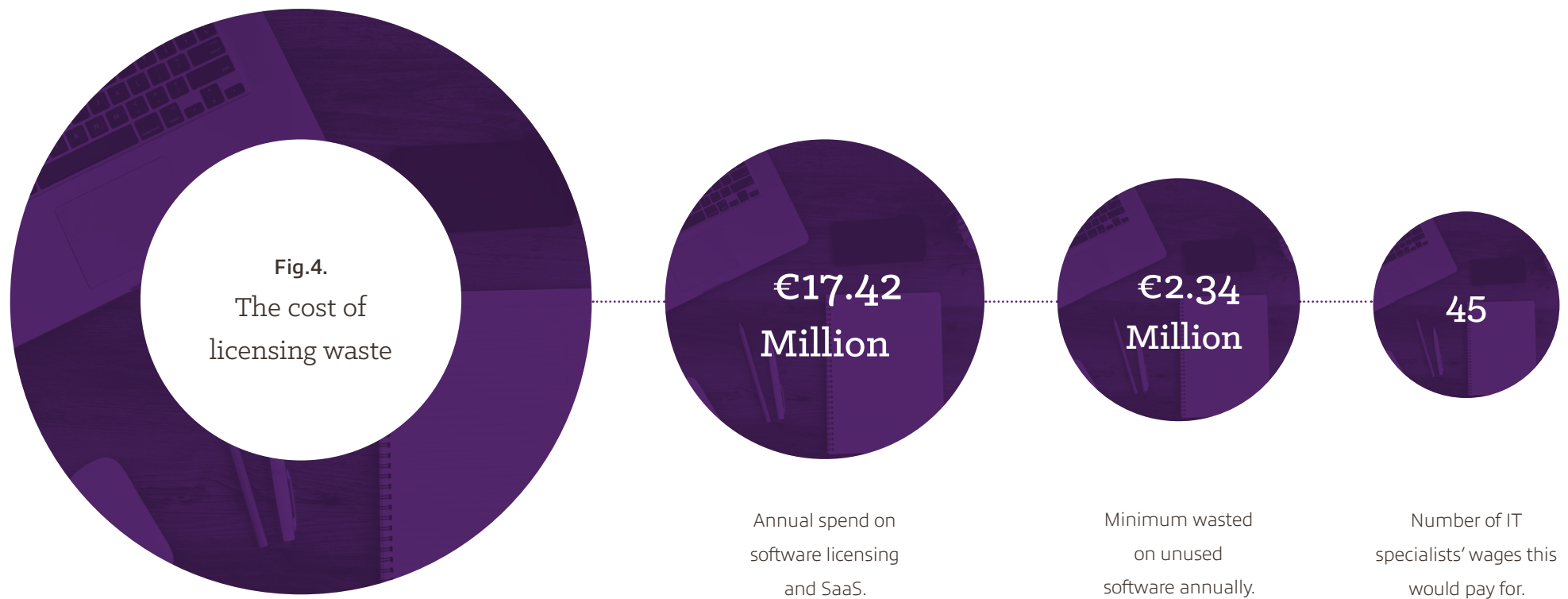
²[gartner.com/en/newsroom/press-releases/2020-07-13-gartner-says-worldwide-it-spending-to-decline-7-point-3-percent-in-2020](https://www.gartner.com/en/newsroom/press-releases/2020-07-13-gartner-says-worldwide-it-spending-to-decline-7-point-3-percent-in-2020)



The Licensing Challenge



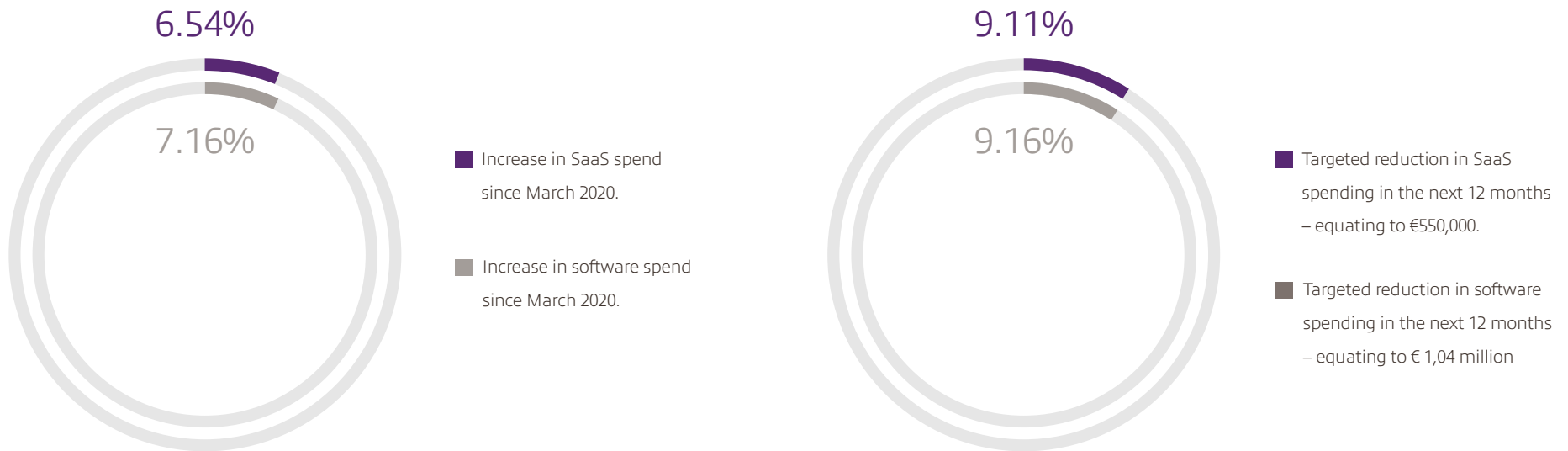
Many organisations are not fully optimising their software investments. Enterprises spend an average of €11,38 million a year on software licensing, and a further €6,04 million on Software as-a-Service (SaaS). However, this includes a substantial amount of waste – more than 20 percent of licensing spend is on software that isn't being used. This represents €2.34 million a year in wasted investment – enough to pay the wages of 45 IT specialists. (Fig. 4).



Organisations making IT staff redundant without addressing this waste in licensing costs are harming themselves twice over; reducing both their pool of skills and the budget available to invest in business resilience.

Perhaps unsurprisingly, spending on licensing and SaaS has increased since March 2020, as organisations have invested in software to enable a remote workforce. Yet, at the same time, they recognise they need to reduce licensing costs. The challenge will be to do this through ongoing optimisation, rather than having to cut potentially valuable technology. (Fig. 5).

Fig. 5. Software spending and saving.



Organisations are trying to optimise their licensing spend, but are not necessarily succeeding. 58 percent of respondents' organisations have tried to reduce their licensing costs since March 2020, and 52 percent plan to in the next year. But IT teams are struggling to optimise their spending or even identify where over-spend on licensing is coming from. (Fig.6).

Fig. 6. The licensing skills challenge.



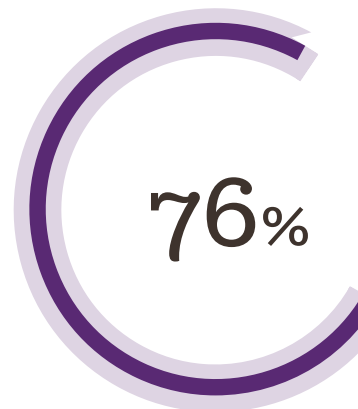
58% of organisations have tried to review and reduce licensing costs since March 2020, but there is still waste.



56% believe they over-spend on licensing, but do not have the data to confirm and address this.



63% cannot easily scale licensing to reflect employee numbers.



76% could negotiate more effectively with vendors if they had greater knowledge and expertise.

A top priority for these organisations needs to be sourcing the skills and knowledge to help them easily identify waste, such as unused software. Any associated costs will be vastly offset by the savings. In fact, removing the wasted spend on unused software would more than account for the average organisation's target reductions in software and SaaS spend.

An essential element of optimisation is understanding exactly what resources the organisation has, where they are used, and where they could be removed or consolidated to reduce costs without harming business effectiveness. On average, organisations are using nearly 100 different applications from multiple vendors, with a strong possibility of overlapping functions – and some are using more than 700. With full visibility over where and how these applications are used, IT teams can identify overlaps that could lead to cost savings if the organisation can rationalise their application portfolio. (Fig. 7).



Fig. 7. Opportunities to consolidate licenses.

97

number of applications used in the average organisation.

15

number of hardware/software vendors the average organisation deals with.

73%

of organisations with different applications that offer the same functionality, but are used by different teams or in different situations.



Fig. 8.

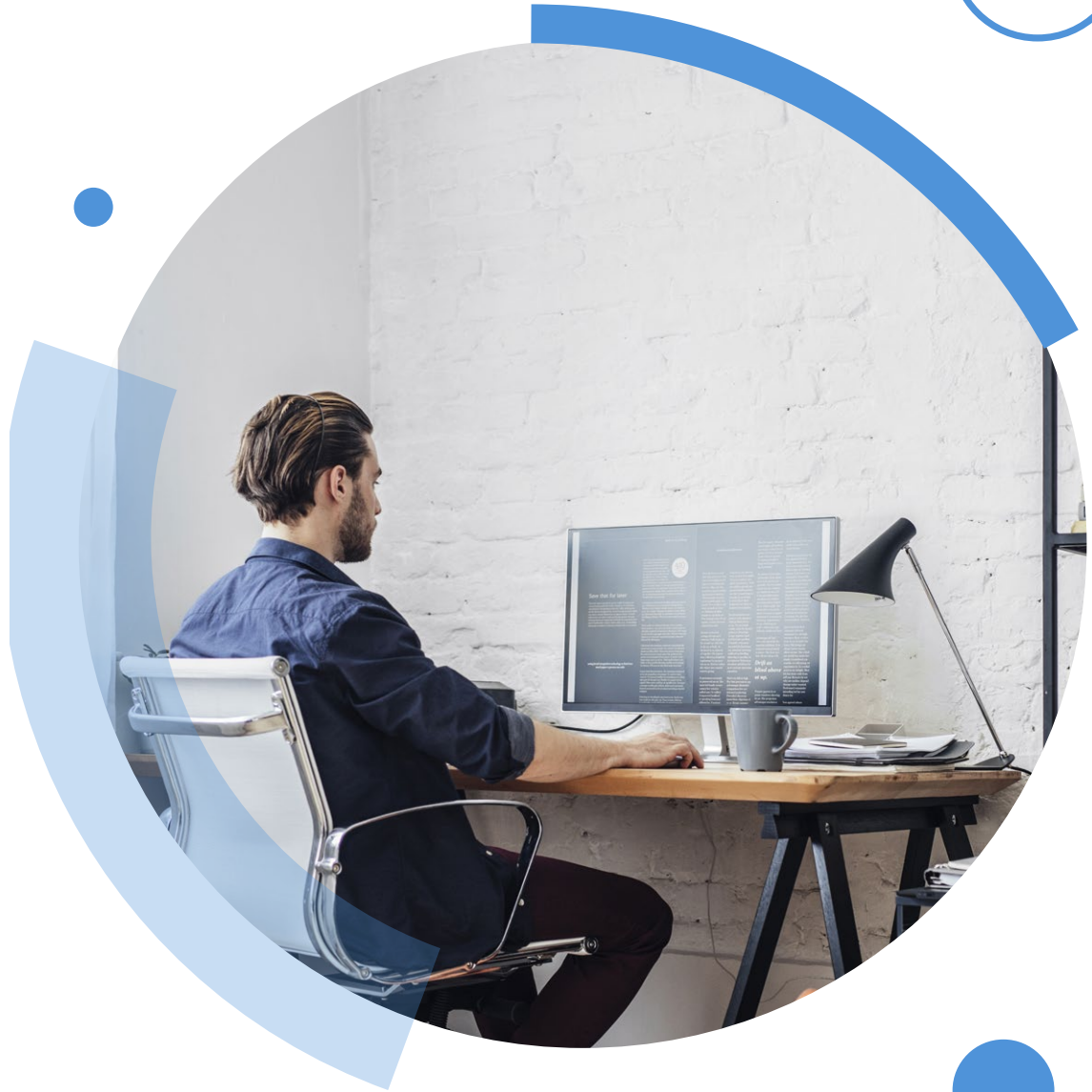
of IT decision makers expect licensing audits to increase.

Optimising licensing costs will help organisations make savings that can potentially reduce the need for cuts in other areas of the business that would cause long term strategic harm. In addition, it will help improve governance and prepare organisations for potential vendor audits. (Fig. 8).

Non-compliance penalties, which can be sizeable, would put even greater pressure on IT budgets and make cost optimisation much more difficult. As a result, it isn't surprising that 72 percent of IT teams are running a number of governance projects at present to ensure they meet software providers' licensing compliance requirements.

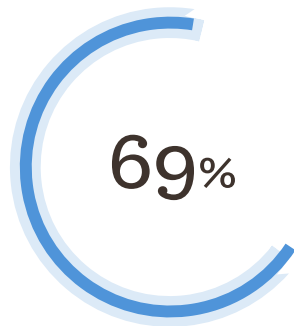
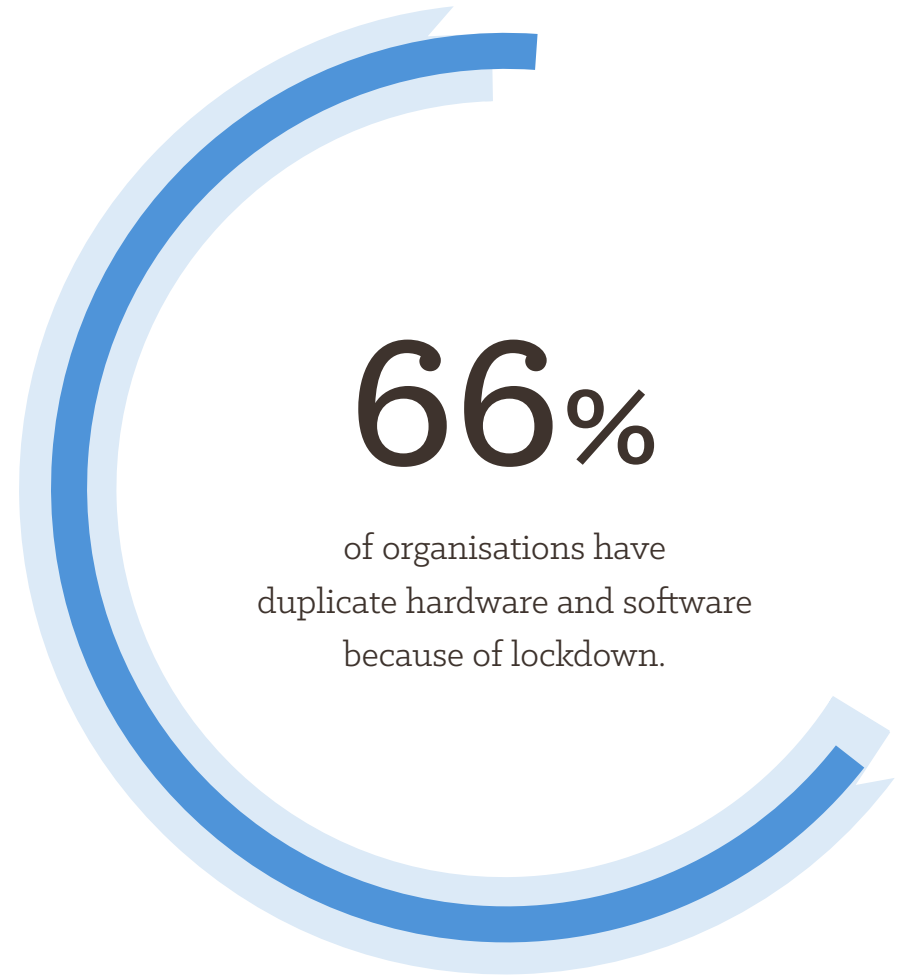


The Asset Lifecycle Management Challenge

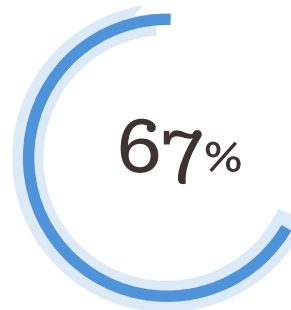


The race to adapt to lockdown, from remote working to new business models, forced organisations to adopt new technologies with little time to prepare. Organisations now have to deal with a pool of assets that haven't been sweated to the end of their lifecycles and new assets that have come into the organisation outside of normal refresh cycles. Similarly, many employees made use of their own devices or software to ensure they could keep working from home. While this solved an immediate issue, it also meant IT teams had to dedicate resources to managing these devices and ensuring data wasn't put at risk. Finally, providing IT support for a newly remote workforce became a much more challenging, complex and expensive process. (Fig. 9).

Fig. 9. Lockdown IT asset management challenges.



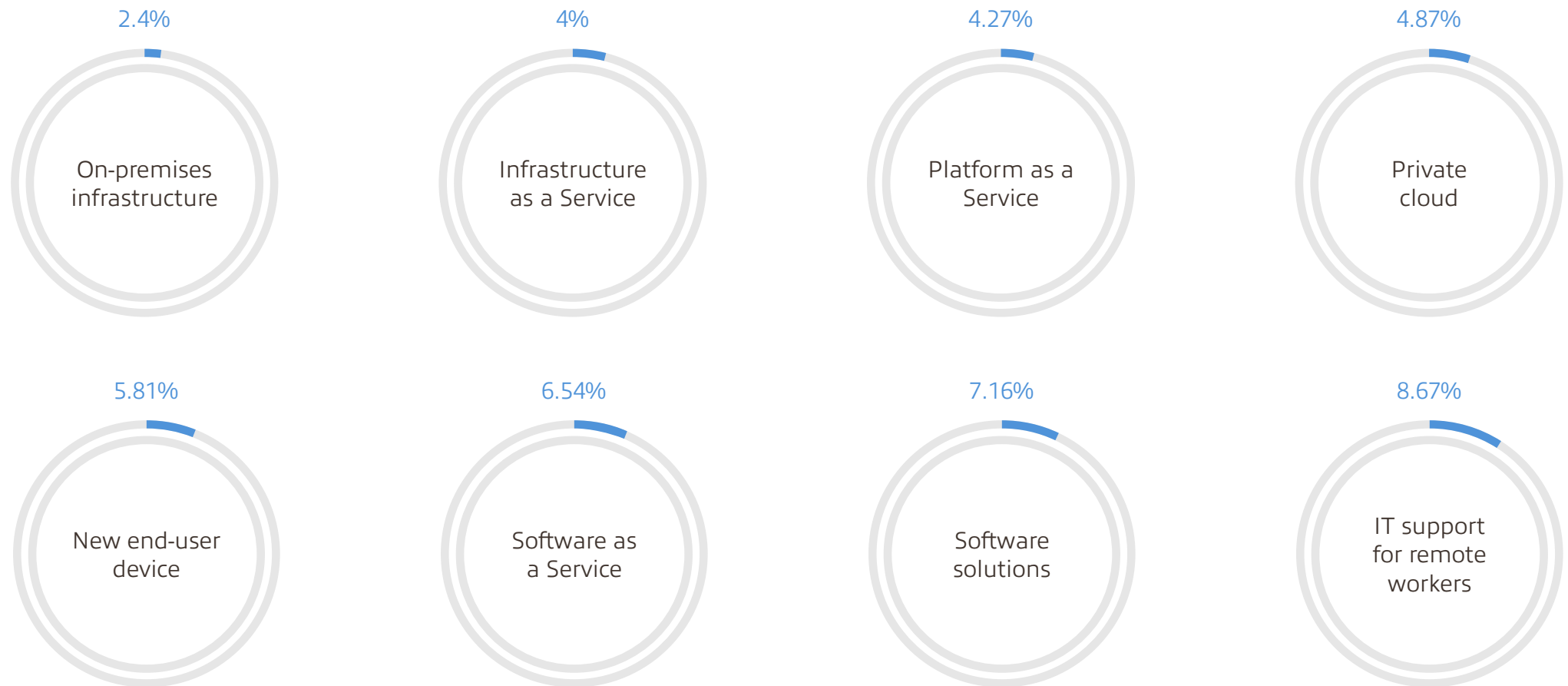
of organisations have increased BYOD use since March 2020, and are finding it hard to manage.



of organisations are finding it harder to provide IT support to employees than before.

Indeed, IT support costs rose the highest out of any service or technology cost after March 2020. However, the rise in outlay across the board shows that optimisation will be essential if organisations are to ensure cost increases do not result in cuts elsewhere, or hinder plans to improve business resilience. Asset lifecycle management provides many opportunities here – from optimising lifecycle roadmaps so hardware always provides the best possible balance of performance and cost, to repurposing, reselling or recycling technology at the end of its lifecycle in order to recoup investment. (Fig. 10).

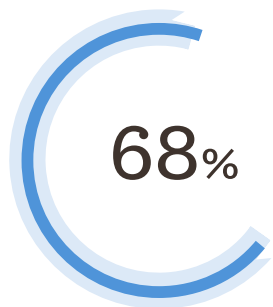
Fig. 10. Increase in service and technology costs since March 2020.



Yet, once again, without the skills and knowledge to optimise asset lifecycle management, most organisations will not be able to make the changes they need. Time is also an issue; perhaps down to the increased pressure on IT departments to deliver results, or even reduced headcount in some cases, the majority have not had time to review their asset lifecycle roadmaps, or plan changes to investment caused by the reaction to the pandemic. There is still uncertainty in many organisations around precisely what assets they have, how much has been invested in them, and how they can support their employees remotely. (Fig. 11).



Fig. 11. Lockdown IT asset management challenges.



have not had time to review their asset lifecycle roadmaps.



were able to plan out changes to investment in new end-user devices.



were able to plan out changes to investment in IT support for remote workers.

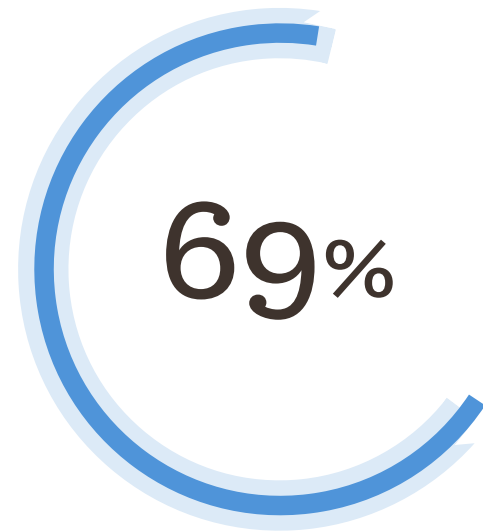


Fig. 12.

of organisations are confident they can recoup some of the cost of new technology.

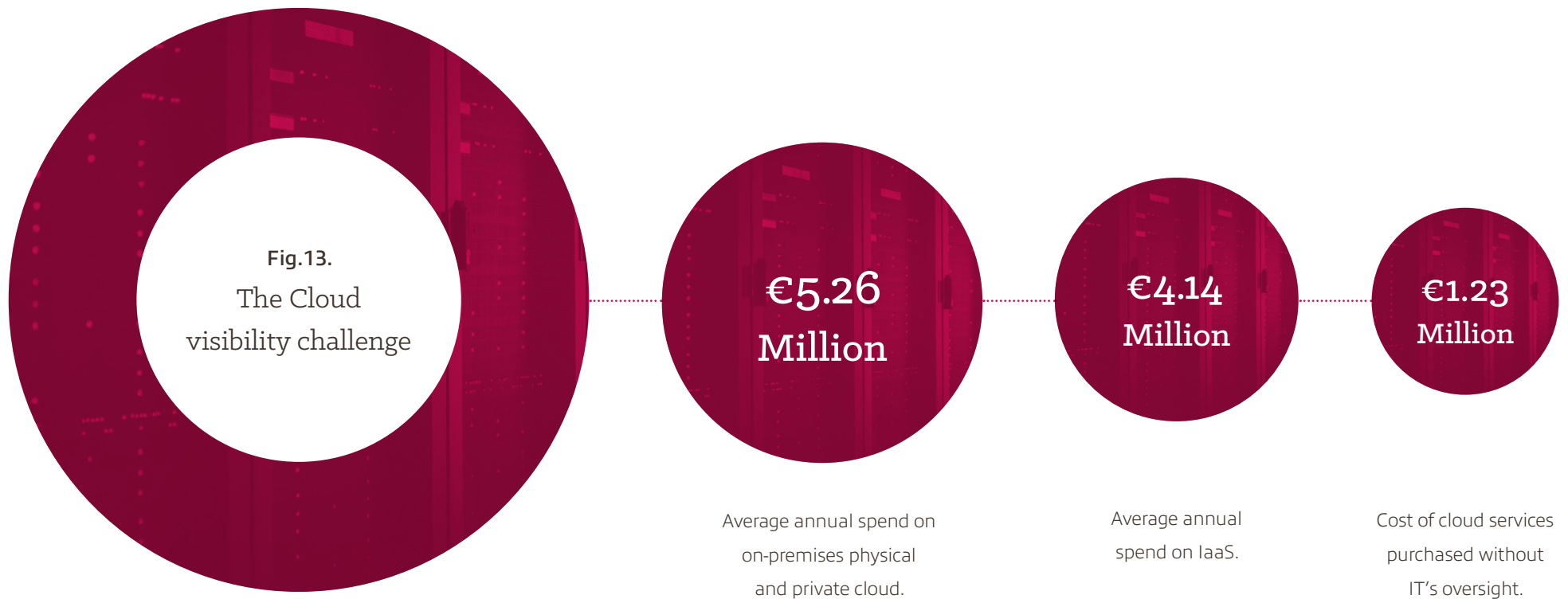
Employing the skills and knowledge needed to optimise lifecycle management will do more than just reduce costs. It allows more time to plan and review changes to investment and asset lifecycle roadmaps so that costs can be minimised. When IT teams do have the skills, knowledge and confidence to act, there are clear signs they achieve cost optimisation. For instance, 69 percent of respondents are confident they can recoup some of the cost of their new technology when it is no longer needed – for example through repurposing, resale or recycling. (Fig. 12).



The Infrastructure Challenge



As with licensing, a significant challenge for IT teams looking to optimise infrastructure spend is achieving visibility over the entire environment. Across on-premises physical and private cloud infrastructure and Infrastructure as a Service (IaaS), enterprises spend €9,4. Yet, 85 percent of respondents have experienced higher than expected cloud spend because other parts of the business purchased cloud services without IT's oversight. On average, these purchases made outside of IT represent an extra €1.23 million spent on cloud services a year. (Fig. 13).



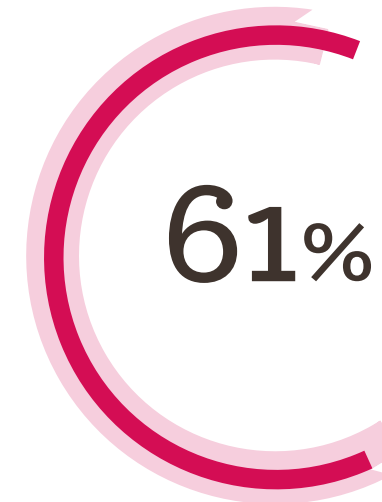


Fig. 14.

of organisations have not yet investigated demands on IT infrastructure caused by changes in remote working.

Gaining visibility over all cloud services would allow IT teams to identify opportunities to optimise costs. From exploring Platform as a Service (PaaS) as an alternative to IaaS, to consolidating infrastructure so that it operates as efficiently as possible, there are many ways IT teams can make the approach more cost-effective. However, in order to optimise their IT infrastructure, organisations first need to understand the strain placed on it. Yet, 61 percent haven't investigated how increased remote working during the pandemic has changed the demand on IT infrastructure, meaning any attempts at optimisation will be, to some extent, working in the dark. (Fig. 14).



With the majority of organisations yet to consolidate their IT infrastructure, this investigation should be a priority. Enterprises have invested steadily in IT infrastructure since March 2020 in order to support new ways of working. (Fig. 15) (Fig. 16).

Fig. 15. Organisations that have consolidated IT infrastructure.

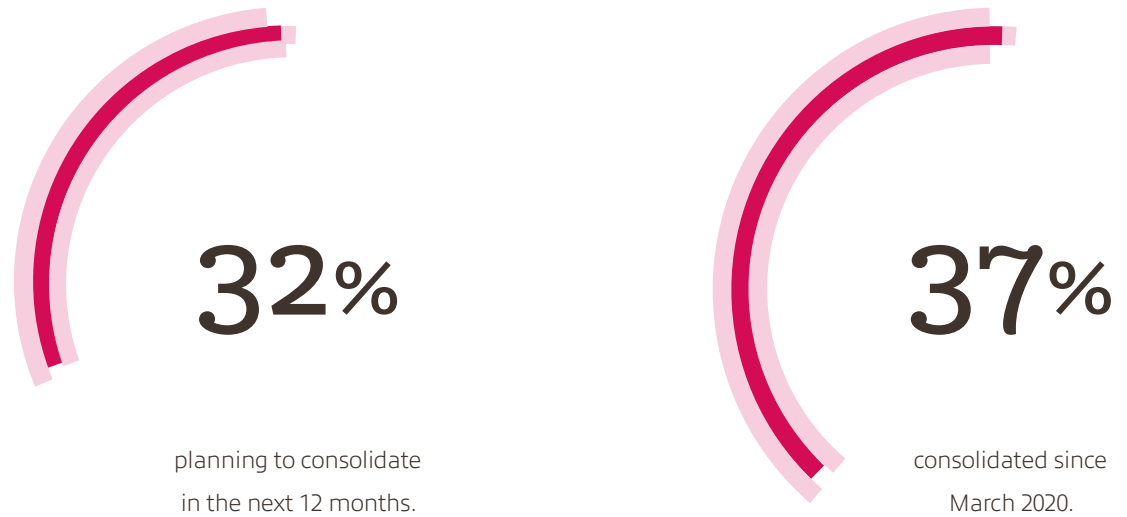
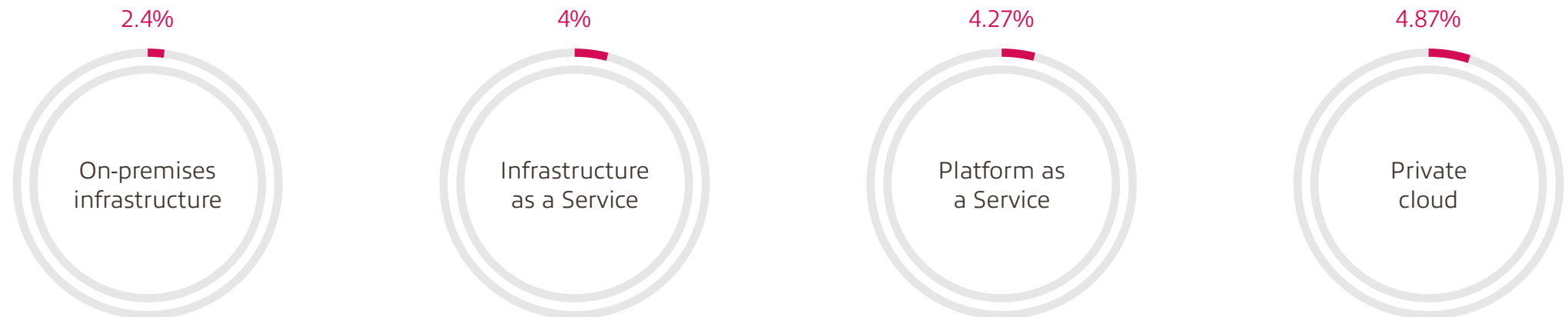
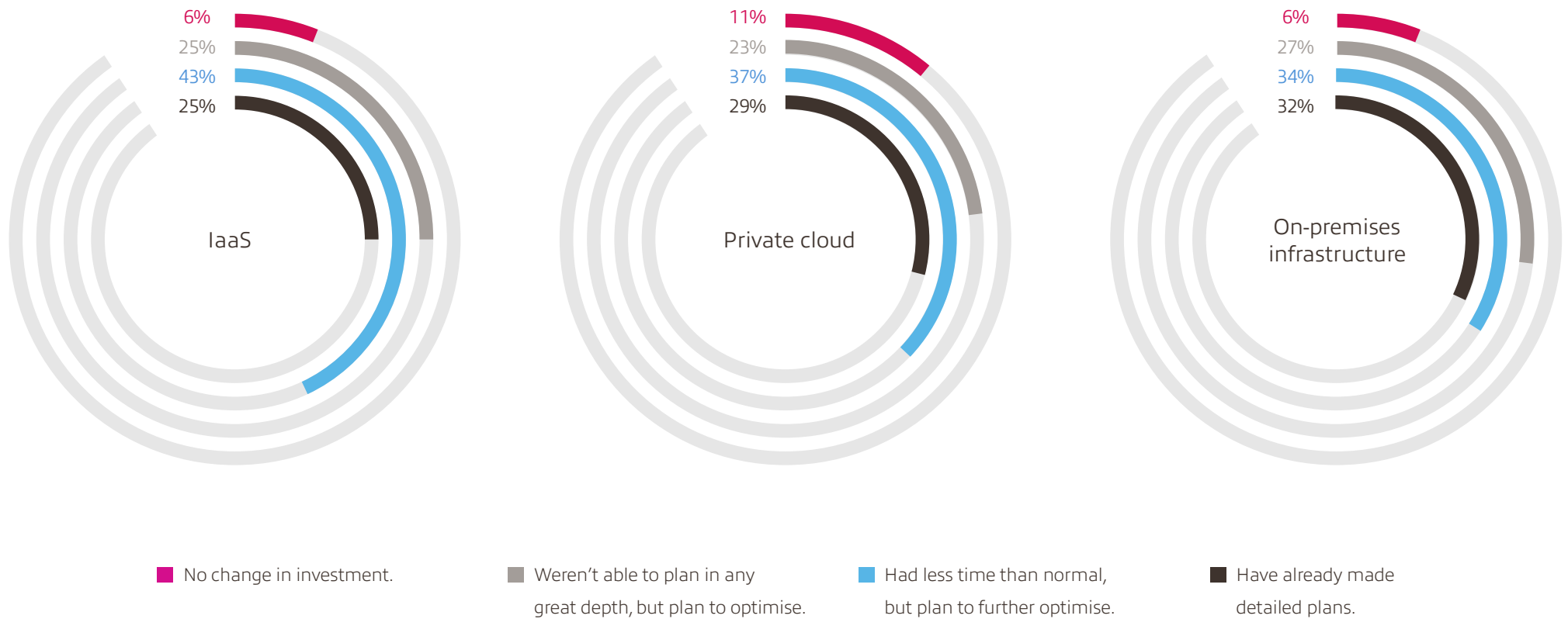


Fig. 16. Investment in IT infrastructure since March 2020.



Knowing which infrastructure will best support the business's goals, and what is the most optimised way to implement that infrastructure, will be a critical skill for businesses. Organisations are not unaware of this fact; a clear majority of IT teams plan to ensure that changes in infrastructure investment are optimised as soon as possible. However, until they understand exactly how demands on infrastructure have changed, they cannot be confident they are taking the correct path. (Fig. 17).

Fig. 17. Organisations planning to ensure changes in investment are as optimised as possible.



Conclusion

Covid-19 will continue to present a significant challenge for organisations throughout 2020 and into 2021. While IT departments are pressured to use the resources they have more intelligently, they also need to ensure their business has the resilience it needs to thrive as it finds a new way forward.

Cost optimisation needs to be an essential part of IT planning for the next year and beyond. If organisations cannot reduce costs intelligently, they will struggle to optimise the business and ensure it is resilient enough to cope with any new challenges. This could mean being too inflexible to quickly pivot to new business models and ways of working, or an inability to ensure employees are productive and engaged whilst working from anywhere.

In order to optimise their costs, IT departments need to take control of licensing, asset lifecycle management and infrastructure. Software licensing is an area of significant waste, but can also provide opportunities to optimise. Organisations should get control over what applications are being used where, by who, and how, and ensure they are putting pressure on their vendors to secure better, more flexible terms. Teams must also make sure they are looking at the additional assets that have come into the business, and update asset lifecycle management strategies to ensure the business can recoup the maximum value of any excess technology, while also planning for the future. And, much like with licensing, organisations need to get a grip on their infrastructure costs and review their operating models to make sure their costs are fully optimised.

If organisations do not have the skills they need to do this, they should make acquiring them – either internally or externally – a priority. Otherwise they will face many more challenges in their attempts to optimise the business. In our second report on this topic, we will investigate whether organisations are using their IT teams to drive digital innovation and connected workforce projects that will help transform the business in order to adapt as they move forward.



Methodology:

The survey of 550 senior IT decision makers – half in enterprises with 500 - 1,000 employees and half in enterprises with 1,000+ employees – was performed in July and August 2020 by Coleman Parkes Ltd. Respondents were from the UK, France, DACH, Italy, Spain, Belgium and the Netherlands.

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