



Gartner for Customer Service &
Support Leaders

Driving Cost Optimization Across the Enterprise

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Overview

Optimizing costs is a perennial, continuous cross-enterprise effort. Therefore, cost optimization is a critical imperative for any functional leader, but its execution and impact reach far beyond the limits of any single functional area. Cost optimization should not be confused with budget reductions. When undertaking budget reductions, functional leaders — be they marketing leads, supply chain managers, business unit directors or technology team leaders — are often asked only to hit budget reduction targets within their own departments. While a more holistic, enterprise wide approach may be beneficial, the ability of functional leaders to impact areas outside their control is often limited.

Cost optimization should reach beyond mere cost cutting or staff reductions. Organizations should approach cost optimization as an expansive effort that can have both immediate and long-term significance for business performance. To truly serve the enterprise, cost optimization demands a mix of improvements that touch every part of the enterprise.

Regrettably, however, cost optimization often occurs without foresight and clarity, with an emphasis on functional concerns within a business unit — and without consideration of the needs, aims and experiences of other units. Leaders are frequently seized by a sense of urgency when considering ways to reduce costs. Perhaps their business is responding to sudden lags in revenue, or their industry is adapting to new regulations, or their geographic region is growing politically unstable. In such times, decision making is clouded by stress and confusion, especially at the functional level.

Optimization programs frequently operate in silos, with the details shared only with a few team members and the process isolated from adjacent business units and stakeholders, which have their own, equally significant objectives.

Finally, enterprise cost optimization priorities — to preserve revenue, continue to innovate and keep the best staff — often conflict with the cost reduction priorities of functional leaders, which are to reduce costs quickly with as little disruption as possible.

However, organizations will be well-served by adopting approaches that support a recurring, collaborative effort to optimize costs, and research tells us that enterprises that survive cost pressures do things differently. They make preparations for cost optimization well before the need for such measures is obvious. Leaders look beyond the short term and avoid knee-jerk

reactions, including massive layoffs. They recognize that cost cutting is not a growth strategy. They keep revenue up by taking the opportunity to rethink their products, pricing or channels.

Key Findings

- Business leaders often regard cost optimization as an exercise in immediate cost reduction directed equally at all resources or units.
- Resistance to change, competing incentives, urgency and isolated optimization planning combine to impede the ability of functional leaders to support business objectives in the long term. Cost optimization is an opportunity to gain support for initiatives, prioritize future business benefits and execute collaborative, organization wide projects.
- Successful cost optimization programs include a number of common features, regardless of the function; leaders engaging these features in a multipronged approach look at their own domain to determine how to support counterparts across the enterprise.

Recommendations

Customer service and support leaders guiding cost optimization efforts should:

- Build a cost optimization strategy that incorporates long-term value and more immediate spend efficiency, with far-reaching implications for business objectives as well as spending.
- Collaborate and build consensus among business leaders throughout the organization in order to identify objectives and ensure that stakeholders agree on the significance, justification and impacts of optimization projects.
- Include five steps in every cost optimization initiative: benchmark for a baseline; identify key budget points to shield; identify non critical areas where reduction should occur; determine the cost optimization approach; and communicate plans to stakeholders and lead the organization through the change.

Analysis

Build Your Understanding of Cost Optimization

Any discussion of this subject requires a differentiation between cost cutting and cost optimization, which are not mutually exclusive but can be used interchangeably as terms, thus confusing the issue. Cost cutting is a one-time undertaking aimed at reducing expense levels. The most effective cost cutting efforts are structured by identifying a precise amount of money to be saved and identifying a date by which the savings must be completed.

Cost optimization, on the other hand, is a business-focused, continuous discipline to drive spending and cost reduction while maximizing business value. Effective cost optimization often adheres to programs and policies that are based on time-tested best practices and procedures.

Optimization demands broad thinking, yet narrow perspectives prevail. For example, CIOs overwhelmingly consider their cost optimization efforts to be successful; nearly 75% of surveyed CIOs believe they achieved optimization goals. Yet Gartner observes that clients often weigh the value of cost optimization almost exclusively by the potential savings that CIOs perceive in the optimization plan. This limited consideration ignores the impacts of optimization, including long implementation times or increased risk exposure. What may seem to be a relatively straightforward cut — such as postponing a planned project — carries business consequences and risks that leaders must take into account.

To yield the best results, leaders engaging in cost optimization should uphold business objectives, account for constraints and identify the various courses of action that balance complex competing forces. Optimization efforts should include several crucial elements. The first such element is consensus around cost optimization significance, planning and implementation. Cultural and political barriers are often impediments to successful optimization, and a notable reason for failure is a lack of support for optimization projects from stakeholders and peer executives. By finding consensus around enterprise wide objectives, leaders throughout the organization can then work in concert to recognize how potential functional optimization initiatives will impact these objectives — and then to determine which initiatives are worth pursuing.

A broad perspective is also an invaluable element of cost optimization. For example, relaxing service levels and eliminating staff are often the first things organizations do when they need to reduce expenses. However, there are

costs and risks associated with reductions in force. Human resources departments can share essential information and provide good alignment across business units to determine whether staff reductions really make sense. Service and support leaders should avoid reductions conducted in silos without communication or collaboration between disparate business units. An ideal attitude would consider the reduction of expenses of a vital success function — for example, a leader may ask, "How can we reduce the cost of serving our customers?"

Any cost optimization strategy for service and support leaders will ultimately involve a balance between costs and the customer experience. While cost and customer experience levers generally have expected outcomes, one efficient way to control for the impact on the customer experience is through conjoint analysis. Conjoint analysis is a research method that helps identify the right balance of features that customers prefer against the prospect of not having them, as features are naturally a finite resource. For example, our research has performed this analysis across a random sample of customers to identify general trade-offs in service that customers are willing to make. The key finding was learning that customers tend to show a preference for roughly 30 seconds of hold time before reaching a live representative, which is ostensibly due to the customer valuing time to collect their thoughts before articulating their request. This kind of insight allows organizations to find smarter levers to pull and how far to pull them when attempting to optimize costs.

Transparency is also a key priority for leaders who seek to determine the effectiveness of an optimization effort. Organizations that have only traditional, high-level views into budgets often fail to successfully identify and communicate the impact of budget reductions. According to Gartner research, despite a rigorous focus on managing transactional costs, CFO confidence that general and administrative functions are spending judiciously is very low — 15% of surveyed respondents were confident in IT spending, according to our research. Overall, business stakeholders struggle to visualize the impact of reducing spending on specific assets. Stakeholders can, however, relate to a discussion around whether the enterprise should reduce spend on, say, business continuity versus collaboration services.

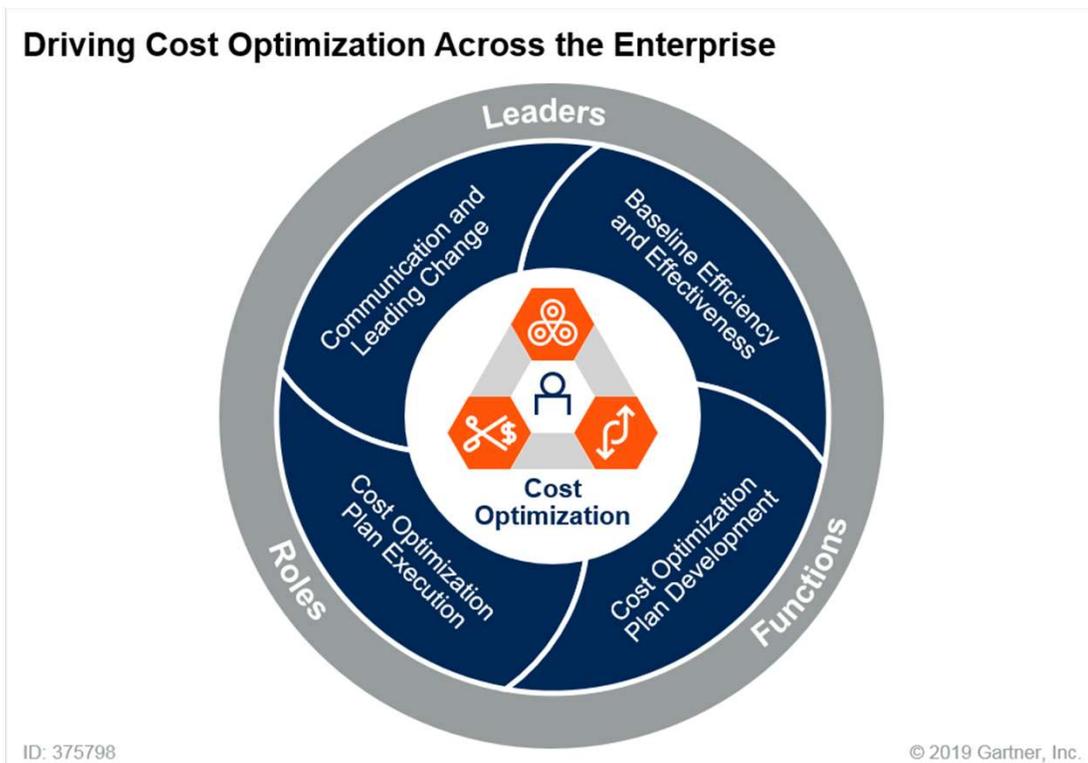
We emphasize that cost optimization is important at both the enterprise and functional levels. Enterprise priorities include preserving revenue; maintaining liquidity; protecting key talent; continuing innovation; preserving healthy selling, general and administrative costs; and preparing for recovery.

Functional priorities include continuing key projects, protecting key talent, and distinguishing between line items to cut, reduce, outsource and defend. Functional leaders are wise to consider numerous areas for potential optimization activity. Such an approach drives cost reduction and maximizes business outcomes by automating business processes and information delivery, and optimizing the use of processes, resources and capacity.

Functional leaders should prepare to obtain the best pricing and terms for all business purchases. They should intend to standardize, simplify and rationalize platforms, applications, processes and services. Automation of IT and business operations offers considerable cost reduction opportunities. Identifying potential cost optimization projects might include consolidation, the implementation of shared services or business process outsourcing.

Five Areas of Focus for the Enterprise

While there is a great amount of functional variability in how leaders approach cost optimization, five areas of focus allow leaders in various roles and business units to pursue beneficial optimization (see the figure mentioned below). These areas convey the basic principles of capturing costs to get a baseline, a comparison of those costs to a benchmark and the prioritization of the organization's best opportunities for optimization.



1. Benchmark to get a baseline: The use of comparative metrics is a key aspect of any effective cost optimization campaign. Benchmarks help leaders analyze their environments to discover what resources and initiatives may require additional funding or optimization. Benchmarks also showcase areas of strategic investment. But care is required, as benchmarks can easily be misused; Gartner's recommendation is to use them as a baseline of "average," but not necessarily a best practice or goal.

2. Identify critical points in the budget to shield: To bring more clarity to the optimization decision-making process, leaders should identify the potential financial benefit, business impact, business risk and time requirement of candidate cost optimization projects. In terms of impact, the effectiveness of the cost optimization initiative is partly contingent on whether business unit leaders and their staff are capable of changing and adapting to new approaches and processes. For example, optimization may involve frontline systems and tool automation as part of their business processes. What does this adaptation mean when leaders consider implementation and training timeframes?

To gain CEO or CFO approval for an initiative, leaders can describe a business case showing how the cost optimization initiative will improve business processes, productivity, time to market and the like, as opposed to continuing with the status quo. These criteria points offer a suitable framework for prioritizing which line items are worth preserving, and which projects are worth supporting.

3. Identify noncritical points to reduce/eliminate: Just as crucial to the decision-making process is the identification of aspects of the business that can be eliminated or reduced. These changes will be primarily quantifiable as reductions in expense, but, again, leaders should consider the significance of each point to the business. An enterprise's position within the growth model — growing, mature or declining — serves as an initial driver for identifying and prioritizing cost optimization opportunities:

- Growing enterprises have a higher tendency to standardize and simplify IT-enabled capabilities in order to optimize costs and meet business goals for matching service levels to customer demand.
- Mature enterprises typically respond to cost optimization goals with investment-based programs. These programs aim to automate or utilize capabilities at lower capacity costs.

- Declining enterprises focus more on the politically delicate actions of elimination or centralization.

Another way to identify noncritical points is to assess several factors: How big is the cash savings in the reduction? What impact will the reduction have on customers? Can you capture the savings in a fiscal year? Is your organization capable of adapting to the elimination? Is there a risk that the change will undermine the ability of your systems to deliver? A reduction that the organization copes with easily to achieve a large amount of cash savings — combined with low customer impact — is an example of a suitable reduction.

4. Determine cost optimization approach: Several options exist for optimization, including reduction of supply costs, reduction of demand, and a balance of short- and long-term initiatives. Some categories of optimization functions include:

- Instituting emergency cost reductions. When immediate reactions are required to deal with severe business risks, such as enterprise survival, leaders can conduct emergency cost cuts, despite the value delivered by the affected initiatives. However, even in emergency situations, planners should assess business value against the amount of expected savings.
- Applying selective cost reductions. Leaders should reduce costs where the affected initiatives will at least reduce the business value delivered, if not other areas of significance. Most initiatives will fall in this area, thus deserving a well-structured vision and approach, with careful analysis of business value and risk.
- Preserving costs and business value. Here, leaders maintain current cost levels where the business value of those initiatives outweighs the expected savings. For example, maintaining an expensive, high-availability infrastructure for the internet sales channel will minimize risk of lost sales from lower availability levels — a business case that can be clearly quantified.
- Increasing costs for added business value. Leaders increase costs through specific initiatives that have the potential to increase business value or achieve additional savings. Many times, IT initiatives will fall into this category — that is, using IT as a tool to reduce costs elsewhere.

5. Communicate plans to stakeholders and lead the organization through the change: The leader of a cost optimization program will be in constant contact with all business areas.

Communication of best practices should always include details of the practice and expected outcomes. Leaders can also offer a list of alternative options that were considered, along with detailed explanations outlining why the alternative options were not selected.

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