

WAVESTONE

Sustainable IT Cost Optimization

For Long-Term Business Value



Introduction

Creating a sustainable cost optimization approach to free up budgets for transformation and creating long term business value

Recent advancements in Digitalization, Automation, IoT, and GenAI continue to transform business operations, and in so doing drive unprecedented demand for IT services.

With more waves of innovation ahead, CIO & CTOs face a critical challenge: the demand growth will not be matched by budget growth! IT needs to be able to harness technology-led transformations without impacting existing services or experiencing unconstrained cost increases.

This means cost optimization is becoming ever more important – and needs to move from its traditional project-based response

to a financial challenge to become an ongoing, proactive approach that seeks best value and enables spend to be prioritized to where business value is greatest.

This article explores key strategies for achieving sustainable cost management, including cost transparency, balanced cost reduction, and value creation. By embedding these practices, IT can ensure long-term success and meaningful business outcomes.



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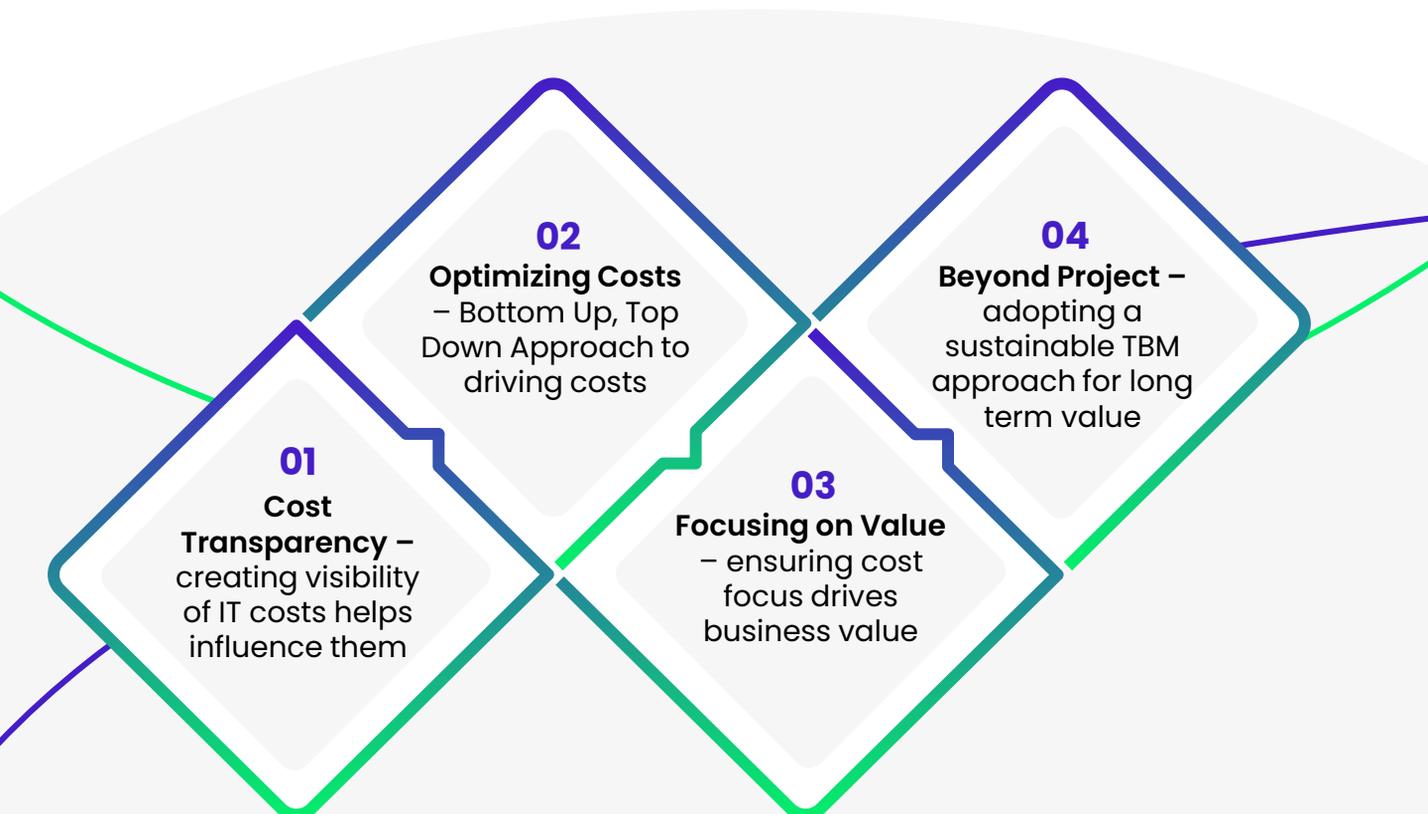
The Journey to Sustainable Cost and Value

All too often, IT cost optimization is necessary but uninspiring task; a one-off (or annual, if you're really unlucky) exercise in budget cuts.

But what if we reframe it as a long-term, strategic approach focused on maximizing value?

In this report, we'll explore how to shift the narrative by first establishing cost transparency—because visibility is the key to control. We'll then look at how a balanced approach, combining both bottom-up and top-down strategies, can optimize costs effectively. We'll also focus on ensuring that every cost-saving measure contributes to enhancing business value. Finally, we'll discuss how to embed these practices into the organization for sustained, long-term success.

Is it time to rethink IT cost optimization?



Visibility of Costs is the Key to Control

Transparency is the foundation for sustainable cost and value optimization. It provides the data and insights to enable improved decision making, manage costs and demonstrate the value of IT to stakeholders

The IT Finance Gap

Rigorous cost management and reporting is at the heart of most commercial organizations – but this doesn't always translate to IT, where cost reporting is all too often limited to a management accounting view of spend against budget.

Whilst this is clearly important, it fails to provide IT leaders true insight into the cost of IT and what is driving it. And this all too often translates into value statements to business stakeholders – whose perception of IT costs is one big allocation that bears no relation to their business drivers or helps them control their own spend.

“What Gets Measured Gets Managed”

It may seem odd in the context of modern IT management to quote a 1950s book by Peter Drucker – but the sentiment arguably applies now in the Data Age more than ever before. And it's certainly true of IT. It's extremely common that our IT clients

are unable to provide clarity on how much is spent with a particular vendor, what an application costs to run, or how much it costs to provide IT used by a business unit.

And without this level of insights, it's extremely hard to provide insights such as:

- Why does IT cost what it does?
- How much could we save if we did *this*?
- How does IT add value to the business?

Transparency is more than spreadsheets

Cost transparency is not just about having detailed spreadsheets of expenses. It's about understanding the true cost of delivering IT services, how these costs are distributed across different business functions, and, most importantly, how these costs drive business value.

As such, it's a key foundational stage of sustainable value optimization.

80%

more likely to be able to align IT spend with Business priorities to drive improved decision-making with IT Cost Transparency – Gartner, 2020

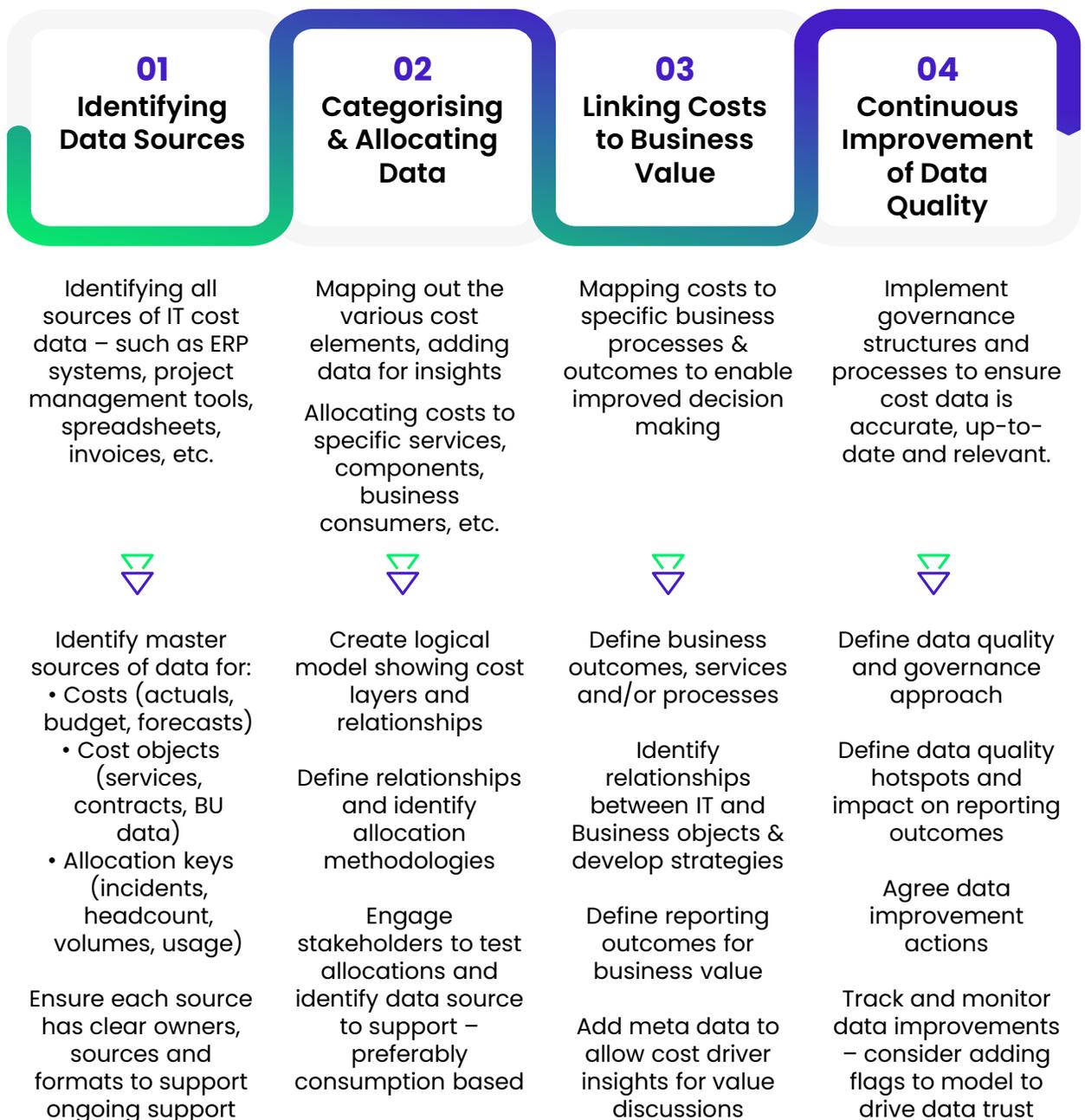
10–20%

Improvement in cost efficiency in first year following adoption of TBM practices (which emphasize transparency) – TBM Council, 2022

Transparency Is A Journey

Creating IT cost transparency typically involves moving from fragmented, ambiguous cost data to clear, accessible and insightful data.

This requires a clear and conscious effort to create insights, plus ongoing management & improvements. The key activities needed are:



Building the Case to Implement Transparency

Every journey starts with a first step, and often for IT cost transparency that step is to build the case to invest time & other resources to create IT cost insights

Building the case for IT cost transparency is no easy task, particularly when the immediate benefits might seem largely intangible.

However, this doesn't mean that the journey needs to be overwhelming or require significant upfront investment in expensive software or massive data overhauls.

A pragmatic approach is to start small and identifying quick wins that link transparency efforts to pressing issues or outcomes that are valued by the business, such as identification or quantification of cost improvements, better decision-making or improved controls.

These benefits, along with key implementation considerations, provide a solid foundation for advocating for IT cost transparency within your organization.

Considerations for building a Transparency business case:

Top 5 Use Cases / Value Streams

- Identification & quantification of cost reduction opportunities
- Improved data to support decision making & investment cases
- Improved business understanding of IT cost & services (including, if desired, improved recharge)
- Improved visibility & control of budgets
- Improved sourcing & vendor performance outcomes

Top 5 Implementation Considerations

- Data sources, availability & accuracy
- Cost objects (e.g. services) and allocation methods
- Tooling choice & initial build of transparency model
- Ongoing maintenance – of tooling, data, allocation strategies and reporting
- Stakeholder engagement for inputs into the model and to sell its usage (“making it sticky”)

Client Story: Developing Transparency for a Global Manufacturer

Context:

Our client was struggling to understand its global IT spend ahead of a cost rationalization program.

Monthly finance reports would vary radically without explanation and there was not a single source of global data with each business utilising different ERPs.

An attempt to implement Apptio had failed to provide insights.

How we helped:

- Defined a cost model based on TBM principles
- Engaged with Business Units to build sources & understanding of distributed IT spend, vendors and applications
- Developed a financial model in Excel & PowerBI
- Developed reporting showing cost insights including TCO by application, service & BU

Outcomes:

The cost model, together with contracts and applications data, provided insights into costs of IT.

This enabled:

- Improvements in vendor management and controls
- Vendor and applications rationalization opportunities to be identified and assessed for savings potential

Optimizing Costs is Just Cost Cutting – Right?

Cost optimization is more than relentlessly slashing budgets – it’s about taking a strategic, prioritized approach that focuses on achieving the best balance of service outcomes at the best cost for the business.

The relentless growth of IT costs

Let’s face it – IT costs are always under pressure! The default position, if you’re lucky, is zero growth in budget – but that doesn’t exactly help account for the persistent growth in demand as IT continues to permeate every aspect of business operations.

With more automation, AI and other technologies all likely to drive IT usage, the pressure to contain overall costs will only increase.

Optimizing costs is not just cost cutting

The response to the demand and budget pressures is obvious – IT needs to reduce costs. But that cannot be at the expense of the effectiveness of services and operations.

Rather, what’s needed is a thoughtful process of reducing inefficiencies, reallocating resources and making investments that drive business value.

And that’s optimization. It’s about aligning IT spending with business objectives and helping to create headroom in budgets to allow informed

choice on how to spend money to enhance business outcomes.

This could mean reduction in overall spend, or reinvestment in growth – but it’s a choice driven by knowledge that IT services that are needed are delivered at the best price point.

A bottom-up, top-down approach to cost

To truly optimize costs, it’s important to have a deep understanding of where money is being spent and how effectively it’s being utilized.

This requires a bottom-up approach to identifying the drivers of spend—such as whether services or applications are being duplicated, if there’s excessive customization, or if service capacity and performance are being over-provisioned. By examining these details, organizations can pinpoint specific areas for optimization.

However, it’s equally important to take a broader, top-down perspective. This allows for the identification of larger patterns, such as

areas of overspend by benchmarking against industry standards or recognizing macro trends that might influence future IT expenditures.

This dual approach ensures that both granular inefficiencies and overarching strategic issues are addressed, leading to a more balanced and sustainable cost optimization strategy.

70%

of IT spend is on Run activity, leaving little room for innovation and growth (Gartner, 2023)

20%

increase in value from IT investments in organizations that focus on cost optimization rather than pure reduction (TBM Council, 2023)

Five Focus Areas to Optimize Costs

By focusing on bottom-up cost analysis combined with top-down assessment of IT's costs, organizations can usually identify a broad range of ideas of how costs can be restructured and reduced over time.

Here's five typical areas that help drive cost optimization opportunities in our clients.

Optimize Projects / Services

through validating and challenging scope and performance levels of solutions. For example:

- Prioritizing the portfolio through business-aligned criteria such as NPV, strategic alignment
- Challenging SLA requirements
- Reducing customization of solutions and encouraging take-up of standardized solutions

Optimize Organization

through rationalizing the operating model, processes, sourcing boundaries and location strategy. For example:

- Review internal & vendor roles to identify key handoffs, gaps and duplications
- Review key processes to improve approach, identify automation opportunities, reduce wastage
- Challenge locations and ensure bestshoring across client and vendor teams

Optimize Demand

by analyzing and rationalizing volumes, performance, features, capacities, etc. For example:

- Identify & remove unused or under-utilized services – e.g. printers, desktops, application licences, mailboxes & storage
- Reduce variations of services & non-standard builds – e.g. service desk support languages, specialist equipment, customized features

Optimize Vendor Spend

through rationalizing, renegotiating and testing contract value. For example:

- Consolidate vendors and contracts to exploit scale, reduce integration & optimize management overhead
- Ensure vendors are held to account for performance
- Renegotiate terms that no longer fit with business needs
- Regularly benchmark and test contract value

Optimize Technology Estate

to identify rationalization/reengineering opportunities. For example:

- Review the application estate to identify potential to remove or migration applications to common platforms or shared applications
- Review technology deployments and migrate to standard solutions (e.g. consolidate versions, remediate technology debt)
- Automation of key IT processes

Short-Termism: The Make And Break of Optimization

Quick wins are the key to rapidly establishing cost savings programs and providing immediate benefit to the business, even to help invest in other initiatives that need time & resources to deliver.
Who doesn't want in-year savings?

But too often we see that the clamour for short-term savings means that they are prioritized over delivering larger and more sustainable long-term initiatives. The trick is to ensure that, even if your cost optimization initiative has to focus on the here-and-now, that all initiatives are considered –

even if delivery of those longer term savings is transferred into BAU to compete with other priorities.

Here, we provide our top do's and don'ts for cost optimization, and on the next pages introduce ways to focus on sustainable value.

Do's!

- **Prioritize Quick Wins** to establish momentum and early success for stakeholders
- **Emphasize business and IT collaboration** – you'll need business acceptance
- **Establish initiative tracking** – from ideation to verifiable reduction in budget
- **Challenge vendors** and work with them to build win:win ways to reduce spend
- **Take a Data-Driven approach** – data can help demonstrate costs, potential savings and help convince cynics about the impact

Don't's!

- **Overemphasize Quick Wins** at the expense of service, long-term value and sustainability
- **Sacrifice quality for savings** – making cuts that compromise service performance or increases delivery risk without full insight
- **Ignore the human factor** – cost savings can impact employees and users alike
- **Underestimate complexity** of IT systems and the time/ investment needed to change them
- **Focus on IT only** – for example, rationalizing applications will need business change and permissions

Client Story: Supplier Cost Optimization at an International Bank

Context:

A major international bank required significant improvement in its 3rd Party relationships, with the objective of saving money, improving transparency of spend and accessing innovation.

It recognized this would need an overhaul of the ways of working between technology, procurement and business.

How we helped:

- Review of top 50 vendors (65% of spend)
- Data modelling to bring together contract, technology strategy and financial data
- Business support and expertise for the development of category management
- A revised operating model to drive ongoing cost optimization

Outcomes:

The approach delivered a new operating model and category management approach, with data and processes that improved ways of working between Procurement & Technology and delivered significant cost savings (£130m within 1 year).

Focusing Cost Optimization To Drive Strategic Value

Shifting focus from purely reducing costs to driving value requires IT leaders to align their financial management strategies with broader business goals – whilst demonstrating that cost objectives are still met.

From cost cutting to strategic optimization

The role of IT has evolved beyond simply managing systems and infrastructure, with IT leaders now expected to contribute directly to the organization's strategic business goals.

This shift in expectations requires a corresponding shift in how we approach cost management. It's no longer sufficient to just trim the fat from the IT budget; we must ensure that every pound spent is aligned with and actively driving business value.

Value optimization, when done strategically, goes beyond mere cost-cutting. It's about making informed decisions that enhance the effectiveness of IT services while supporting the broader objectives of the business.

Aligning IT with business goals

Value optimization needs a deep understanding of where IT resources are being allocated and how they can be better utilized to support growth, innovation, and competitive advantage.

This means engaging with

business units to understand their needs and challenges and then designing IT solutions that deliver tangible outcomes.

Whether it's improving customer experience, enhancing operational efficiency, or driving digital transformation, the ultimate goal is to ensure that IT investments deliver measurable business results.

And this can then drive decision making within a cost program to prioritise effort where the business needs it to; and to ensure that business priorities are protected as the budget axe falls.

Commercial mindset for value generation

Fostering a commercial mindset within IT is key to driving value – it means treating IT like a business, where decisions are driven by value, cost-benefit analysis, and return on investment.

By embracing this mindset, IT leaders can demonstrate the value they bring to the table, not just in terms of cost savings, but in how they enable the business to achieve its goals.

This in turn helps to shift the narrative further from "IT as a Cost Center" to "IT as a Business Enabler" and help sets a better context for cost targets.

Of course it doesn't mean that the budget axe won't fall – that's just part of business! But it does enable IT to be in the best possible position when it does, ensuring that any cost-cutting is strategic, targeted, and aligned with the business's long-term goals.

20%

higher profitability in companies that effectively align IT strategies with business goals (Hackett, 2020)

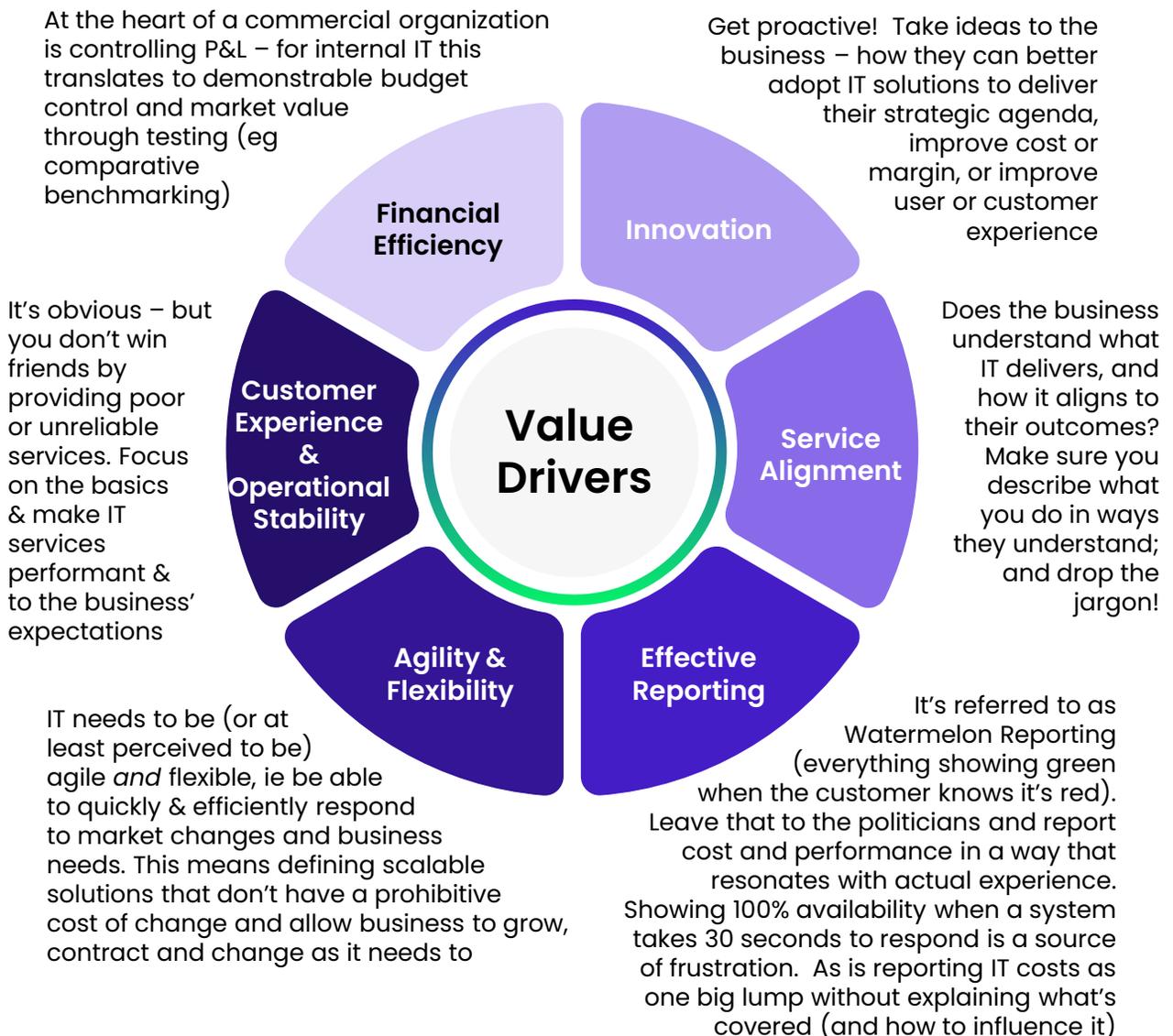
17%

more likely to be a top performing company in terms of revenue growth and profitability if you achieve strong business- IT alignment (MIT, 2019)

Commercializing IT to Focus on Long-Term Value

Developing and embedding more commercially focused mindset will help IT leaders move from a cost-centric to a value-centric culture.

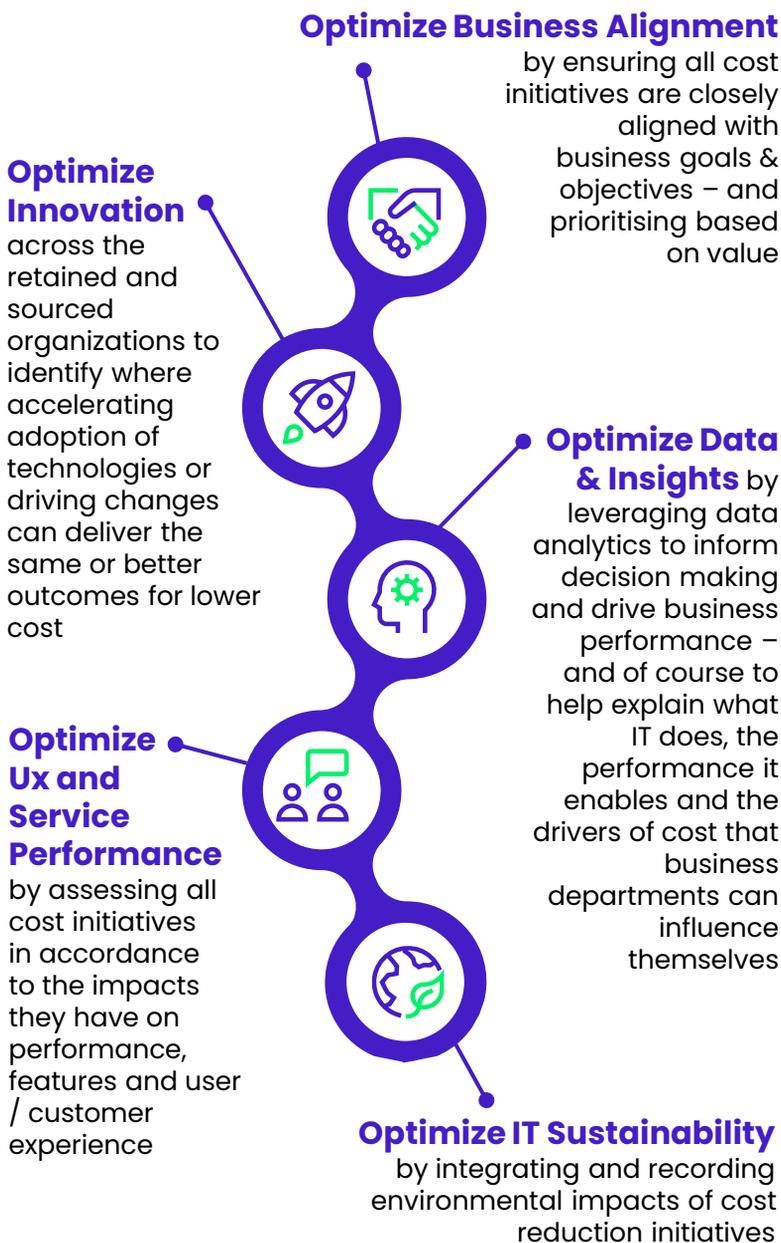
This doesn't require introduction of a commercial marketplace for internal services; rather, it's focusing on a number of key factors that directly influence the value that IT can bring within the specific context of your business.



Extending Cost Optimization to Value Optimization

In the context of a cost optimization program, IT leaders should ensure that every effort to streamline costs also contributes to the overall strategic value of the business.

Here are five ways IT can focus on maximising value whilst under pressure to optimize costs:



Client Story: Generative AI for Software Development

Context:

Our client was looking at adopting GitHub Copilot into its internal software development lifecycle however needed assurance on the investment and benefits likely.

How we helped:

- Developed a pilot approach to demonstrate benefits and any issues
- Defined a governance approach
- Established monitoring & assessment of code & developers
- Preparation of architecture & design for technical solution
- Development of business case
- Defined a scaling approach to show how it could be rolled out to the entire team

Outcomes:

The outcomes from the pilot demonstrated average productivity gains of 24% per developer, with good feedback from users and a high adoption rate.

The client was able to develop a compelling business case to invest and roll out across the team through showing productivity and quality gains with the assurance of a clear strategy for scaling, adoption and measurement.

Focus on TBM Principles to Drive Sustainable Value

Technology Business Management (TBM) is a framework that helps organizations manage the cost, quality and value of IT services.

By emphasizing cost transparency, accountability and the use of data to make informed decisions, TBM helps businesses gain full insight into their IT costs, drive efficiency and ensure that every IT expenditure is optimized for value.

But where does this start? We suggest by understanding core principles of TBM and understanding how these can support your organization.



Empowering IT with Sustainable TBM

Deriving long-term value from TBM means the implementation must be sustainable, which requires the development of new and existing people & capabilities, processes & ways of working, and technology & systems to manage data and drive insights.



People

The success of any TBM implementation heavily depends on the people involved.

Organizations need to ensure that teams are equipped with the right skills and mindset to leverage TBM effectively.

This often involves targeted training & communications to familiarize staff with the TBM framework and tools.

IT and finance teams should collaborate closely, breaking down silos between departments to create a shared understanding of cost management and value generation.

Success Factors:

- Clear roles & responsibilities
- Ownership, both centrally and devolved, for data / processes / operations / usage of TBM outcomes
- Leadership buy-in & championing



Process

Sustainable TBM requires robust processes that set out how TBM is applied across the organization.

This may be in the form of add-ons to existing processes (in the case of, for instance, service management) – or new TBM specific processes such as maintaining allocation strategies.

Processes should cover the range of TBM disciplines, e.g. Building & maintaining the cost model; Improving data quality; Optimizing spend; Reporting; Benchmarking; Managing IT value

Success Factors:

- Clearly defined and accessible processes
- Building continuous improvement in from the outset
- Regular reviews & performance metrics built into the process



Technology

At the heart of TBM is the use of data to drive insights and informed decisions. This requires tooling, whether that's spreadsheets or more sophisticated toolset implementation.

The tools should help provide comprehensive cost visibility, supporting refresh or real-time data access and allow for easy integration with other business systems like financial, project management, and cloud platforms as required.

Success Factors:

- Tooling availability to capture, manage and report outcomes
- Existing systems are switched off – especially where there's multiple versions of the truth
- Automation reduces manual effort to a sustainable level

FinOps Drives Sustainable Cloud Cost Management

FinOps can play a significant role in implementing sustainable TBM by providing deep focus on the financial management of cloud resources

Objective	FinOps Approach	Support to TBM:
Cost Transparency	Ensures detailed visibility into cloud spend by breaking down costs by service, team, project, or department.	Helps integrate cloud spending into the overall IT financial picture, aligning cloud spend with business goals and IT services.
Budgeting & Forecasting	Supports creating & managing of cloud budgets, forecasting future usage, and monitoring variances between actuals and forecast.	Allows organizations to plan and allocate resources more efficiently, ensuring that cloud investments deliver the expected value within the broader IT portfolio.
Chargeback & Showback	FinOps uses chargeback or showback models to allocate cloud costs back to the teams that consume them, making them financially accountable for their cloud usage.	Helps integrate cloud cost accountability into the wider TBM framework, ensuring that every department or team understands and owns its share of IT expenses.
Automation of Cloud Cost Management	Leverages automation to manage cloud costs, using tools for policy enforcement, automatic scaling, and termination of unused resources.	Reduces effort and improves accuracy of managing cloud costs. Also provides a feed into the cost model that aligns usage to billed consumption.
IT, Finance & Engineering Collaboration	Fosters finance, IT, & business collaboration to ensure that financial decisions are made with the right inputs including financial impact of cloud resource usage.	Drives improved data-led decision making and collaborative working to ensure costs are optimized

Client Story: Reducing Cloud Spend by 10% with a Tailored FinOps Operating Model

<p>Context:</p> <p>Our client, a public broadcast television network, was operating a polycLOUD environment across its federated business units, utilising all three major cloud service providers.</p> <p>Challenges included a lack of cost transparency, inconsistent cloud cost allocation, and the absence of an enterprise-wide tool to manage FinOps processes.</p>	<p>How we helped:</p> <p>Wavestone:</p> <ul style="list-style-type: none"> assessed the client's FinOps maturity, defined a target operating model, provided recommendations for sourcing strategies, including accelerating the adoption of a Managed Service Provider (MSP). 	<p>Outcomes:</p> <p>In just eight weeks, the client had established clearer FinOps roles and responsibilities, improved cloud cost visibility, and set up a centralized FinOps capability.</p> <p>It's now on target to reduce spend by 10%, and with improved forecasting and leverage for future negotiations with cloud service providers.</p>
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How We Can Help

Wavestone has deep capabilities in IT cost and value optimization, helping our clients to find innovative solutions to the challenge of how to cut costs to enable reinvestment in growth and transformation.

The Challenge

Our clients are always looking for innovative solutions to cut costs, especially with regards to expensive digital transformations.

This proves challenging due to the need to balance efficiency and cost without sacrificing quality or performance.

Identifying and eliminating unnecessary expenses requires detailed analysis and can disrupt current workflows.

Additionally, aligning cost-saving measures with strategic goals and gaining stakeholder buy-in can be difficult, as different departments may have conflicting priorities.

How Wavestone Can Help With **Your Cost Optimization Journey**

Building Transparency & Cost Driver Reporting

Pragmatic design of financial transparency models, from cost source to consumption. Cost modelling and assessments. Transparency solutions implementation partner.

Delivering Tangible Savings

A tailored, multi-year cost optimization strategy, focusing on tech investments and efficiencies and identification of short, medium and long-term savings opportunities across the organization.

Transforming Sourcing & Vendor Management

Developing pragmatic sourcing strategies to consolidate spend and maximize value. Developing cradle-to-grave vendor lifecycle management approaches to drive supplier performance.

Embedding FinOps

Implementing cloud financial management capabilities that brings fiscal accountability to cloud spend. Aligning finance, technology, and business teams to ensure real-time decision-making, leveraging data to drive cost efficiency, scalability, and innovation.

Technology Transformation

From applications rationalisation to implementing AI enabled innovation, we deliver step change technology transformations that drive value, productivity and agility.

Key Author



UK:
Michael Ward

Associate Partner



Michael has more than 30 years' experience in IT commercial management, from developing cost and pricing models to delivering cost optimization programs that help CIOs achieve business objectives. His expertise spans service design, vendor management frameworks, and operating model design, ensuring IT services align with strategic value.

Regional Contacts



US:
John Westfield
Partner



John has more than 35 years' experience in driving digital transformation as a collaborative technology services enabler, with an impressive track record in commercial sourcing, complex deal negotiation, cost containment, service excellence and many other streams.



FRANCE:
Cédric Guichard
Senior Consultant



Cédric has solid experience in program management, particularly in IT M&A and move-to-cloud initiatives. He works with clients to help them create and deliver optimized budgets. Cédric is also responsible for Wavestone France's "IT Fitness" offering.



GERMANY:
Sebastian Scheube
Partner



Sebastian has been advising CIOs and IT organizations for over 20 years on IT strategy, IT sourcing and IT service management. One of his core topics is the design of cost-optimized target operating models (TOM). He is responsible for the CIO Advisory unit within Wavestone Germany.



ASIA:
Romain Gagliardi
Senior Manager



Romain is a CxO advisor with cross-sector, international experience who helps clients define their digital strategy, ensuring both the organization and alliances are aligned with key business initiatives. His specialty areas are CIO advisory for M&A, joint ventures & international cooperation.



About Wavestone

Wavestone is a consulting powerhouse, dedicated to supporting strategic transformations of businesses and organizations in a world that is undergoing unprecedented change, with the ambition to create positive and long-lasting impacts for all its stakeholders.

Drawing on more than 5,500 employees in 17 countries across Europe, North America and Asia, the firm offers a 360° portfolio of high-value consulting services, combining seamlessly first-class sector expertise with a wide range of cross-industry capabilities.

Wavestone is listed on Euronext Paris and recognized as a Great Place to Work®.

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