Avoidable Cost-Cutting Mistakes

Whether you are looking to create a budget reserve, or seeking to cut costs per your organizational mandate, proceed with caution! Cutting costs unwisely can quickly lead to a race to the bottom. Trade your axe in for a scalpel and avoid these common cost-cutting mistakes in your quest for cost reductions.

DON'Ts	DOs
DON'T convince senior leadership IT is already as lean as it can get. Pushing back on a cost-cutting mandate has a low rate of success. When facing organization-wide cost cuts, every business unit is expected to do its part, and even if you are right, you will not find a sympathetic ear.	**DO use the mandate as an opportunity to identify cost-cutting maneuvers** that can have long-term benefits to your organization. Move past denial and anger and into acceptance quickly. Start by understanding the external and internal drivers that are dictating the urgency and magnitude of the desired change. Use this information to determine your tolerance for risk, the level of investment/effort, the duration, and the complexity of initiatives you select.
DON'T shield the plan from the CFO and "the business" to protect it. Shielding the plan from the CFO and "the business" to ensure IT's priorities are protected may buy you time and help you avoid personnel cuts. But you risk forcing through cuts that negatively impact the business and make the approval of your proposals an uphill battle.	**DO create more transparency and broad consensus** around your plan and the initiatives that support the outcomes. Utilize the collective wisdom of the company's leadership team, including the CFO. Align your plan with the rest of the company's so that collective value of all initiatives is maximized. Create a "shared mindset" that fosters a common understanding, enhances collaboration, and ensures team success. Include finance, contract management, vendor management, and other people who have relevant information to understand current costs and possible savings from each initiative.
DON'T find many small efficiency gains in IT's existing services. It may seem like a good idea to avoid large, highly visible cuts and instead make small, incremental gains in efficiency. However, efficiency initiatives are rarely sufficient by themselves to achieve significant reductions in IT spending and are rarely worth the time and effort.	**DO Use a rigorous process to analyze and sift** through the list of initiatives and select only those that work within your timeframe, investment, and reflect your level of risk tolerance. Prioritize your list of selected cost-cutting initiatives and build a roadmap of when each project will be executed and who is responsible for implementation. Each initiative should be aligned with one of 3 categories: minimize spend, optimize assets, or redesign delivery models, with an associated payback benefit and period.
DON'T cut and paste cost-cutting ideas others have tried. Cutting and pasting cost-cutting ideas other firms have tried might help move the dial in the right direction, but it likely will not be enough. Inevitably, IT departments facing steep cuts will have to put their capabilities and operations under the microscope.	**DO focus on building a customized plan** that takes into consideration your organization's unique culture, strengths, and limitations. Ensure regular and transparent communications to minimize erosion of employee confidence and innovation capabilities. Create and foster behaviors that can sustain cost reductions beyond year one. According to Gartner research, only 11% of companies maintain cost savings for three consecutive years. Clearly, those cost-cutting strategies, as well as the overall behavior of organizations, were focused on the short term. Organizations that follow a structured cost-reduction program that is aligned with the company's strategic goals and those with broad consensus, are very likely to capture the outcomes they desire.