Building technology cost intelligence in the enterprise

ANZ research paper - July 2024

Research conducted by ADAPT

Introduction

Across the economy, the pressure is on to manage cost in a challenging and uncertain market. Technology investment is a corporate battlefield when it comes to big decisions on incurring costs or increasing value – is a given activity doing one or the other? How can we build the cost intelligence to know the difference?

After a decade of transformation focused on cloud and software-as-a-service (SaaS), the move from CapEx to OpEx has already changed the nature of cost in IT. But with this model comes new risks where business P&L owners question the value being delivered by the new IT costs they are incurring. AI technologies are also proving expensive, as are the ongoing costs of cybersecurity to manage ever changing risk to our data environments.

Gaining this cost intelligence is of paramount importance as the AI-powered era of technology transformation is underway. Organisations are quickly discovering that tech costs will become harder than ever to control. An inflection point is upon us, where growth in cost requires a new approach to how we measure the value tech delivers throughout the business.

Tech is now deeply embedded across every business. Now that IT is no longer a server room you can see, cost visibility can be difficult in an environment where SaaS licenses may not always be centrally controlled. Knowing how to uncover the reality of IT cost throughout the organisation is a crucial step toward a modern understanding of tech's true business value.

Our new research, conducted in partnership with ADAPT, has explored the perspectives of Australian and New Zealand CIOs and CFOs to build a better understanding of this cost and value challenge. By examining the complexity of this relationship in today's enterprise we aim to uncover the best paths toward building clarity around IT costs and the value they deliver. This clarity will give organisations the confidence to be decisive about what to do, and just as importantly what not to do.

In 2023 we explored becoming Future Ready to prepare for this next wave of innovation. In 2024, readiness must turn to action by applying cost intelligence to the new economics of technology.

Cost intelligence – our research

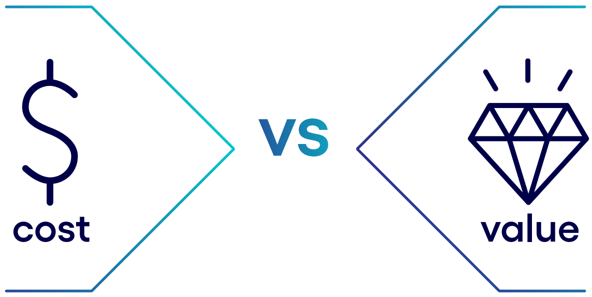
In early 2024, our research partner ADAPT spoke to Australian and New Zealand CIOs and CFOs to gain quantitative and qualitative insights into the state of cost intelligence around IT spend in the enterprise.

Results reveal that cost optimisation has become a strong business priority, overtaking operational effectiveness – a long-time #1 focus – for the first time since ADAPT conducted its prioritisation surveys. It remains a high priority, but as leaders try to drive greater operating effectiveness while putting significant attention on cost, greater cost intelligence has an important role to play in managing both these objectives.

We have broken the research findings into three sections that reflect the required journey: understanding value, achieving cost visibility, and building cost intelligence.

1. Understanding value

As CIOs and CFOs partner to deliver greater business value from technology, there is an implication that high transparency is needed on the links between cost and value to avoid people focusing on one or the other. And this is what our research found, with two 'camps' emerging amongst our respondents:

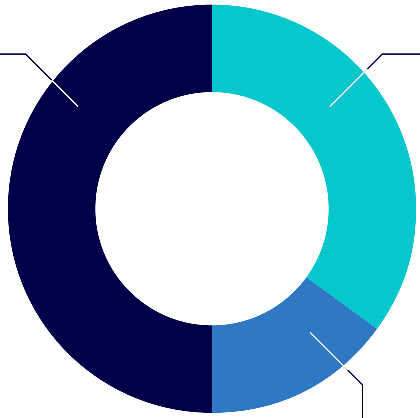


1. **Cost**: Cost stakeholders measured value in terms of uptime, efficiency, service level agreements, and the lowest sustainable costs. A focus on the financial viability for today.
2. **Value**: Value stakeholders focused on the benefit unlock for the whole organisation.

Value focused examples included digital operating models that unlock higher revenues without similar increase in overhead, and operational risk reductions available through better tech foundations.

> "As our digital business grows, it will become self-funding. It will enable us to handle future growth and sustain our expense ratio – with an ability to play in the large volume space without growing headcount at a similar rate." – CFO

In general, conversations with the cost camp can get caught up in optimising business as usual. The value camp sees the need to build future revenues now.



50%

of respondents in our research said they feel positive about their ability to map spend to impact to articulate value to the business. These stakeholders tend to be in the value camp.

35%

of respondents are neither positive nor negative about their ability to articulate value.

15%

see fundamental difficulties in their ability to articulate value. For these 'cost camp' organisations we see less IT and business alignment.

Organisations that are positive about their ability to demonstrate value have a clear view of the triggers that matter to their stakeholders. They focus their language on how and why decisive, aligned spend on technology can address those issues.

These respondents found clarifying value was easier by speaking directly to well-known process issues, such as streamlining ledger recording, improving billing accuracy, and reducing manual effort involved in collecting payments. Connecting improved experiences with greater revenue opportunities.

Articulating value

We see a major opportunity for clearer value articulation in core modernisation programs.

While a few respondents understood the benefits of ERP modernisation, most were finding it hard to link this spend to tangible financial value. Overall, 65% of respondents say they have insufficient capability to effectively track the value that tech is delivering in their organisation.

In the positive case, value emerged in better resource utilisation and smarter scheduling for frontline workers. However, in cases of difficulty, comment was often made that the bottom-line impact of this fundamental work was not seen for several years after investment and is often indirect.

"It's very difficult to map spend to impact for fundamental ERP modernisation. Because it touches so many things, it's difficult to translate this spend to P&L or risk areas. Getting the kind of granular information needed for that mapping is incredibly hard." – CFO

Difficulties tying risk reduction spend to value also came up a lot. One executive described their ability to measure technology-enabled risk reductions as "still pretty conceptual."

"I can't count a single dollar we've received for our spending on a certain regulation. Regardless, compliance gives us our ticket to play." – CFO

Well-funded and supported tech-related change is the cost of doing business in 2024. Yet our research found many CIOs are finding it hard to justify this spend.

"What we've found is that tech-enabled change is often afflicted by entrenched cultural and process problems," says Shane Hill, ADAPT principal analyst and lead for this study. "Tech's stranded on an island without a purpose. Prioritising change in how value flows through your operations and to end-customers can break down the stubborn silos preventing true benefit realisation."

These difficulties are making it harder for CIOs to elevate their stakeholder relationships and clarify IT expenditure to other parts of the business. Because tech modernisation infiltrates so many parts of the business, addressing these issues can help to connect and empower the organisation for the future.

To better articulate value, respondents found it involves shifting from tech-led initiatives towards positioning the value in terms of how tech will support the whole business.

"Our conversations come back to how the digital and data strategies enable our corporate, customer and people strategies. We look to support the growth trajectory, figure out the dependencies and what people are needed to chase those opportunities." – CIO

Where previously there had not been enough focus on changing the cost envelope across people, process, and tech, one respondent said they had improved productivity and collaborative cost management by shifting towards a model that evaluates change in overall tech spend against overall business impact.

Improving value measurement

Among those who had successfully improved the mapping of IT spend to business impact, a few common strategies emerged. Adopting a highly granular view of benefits that are mapped back to spend and tracked in each project was one example, as was finding the appropriate cost centres to map back to.

“Overheads are the company’s biggest metric, so spend is supported if it enables revenue growth and cyber resilience without similar growth in overhead. Our value formula goes like this: pay down and service debt, return a suitable dividend, then pitch for discretionary funds.” – CFO

Respondents offered several specific suggestions for value measurement:

Target value beyond cost reduction: As funds are returned to the business from legacy decommissioning and process reinvention, target longer-term costs out, operational resilience, and reducing overhead for scale.

Stackable business cases: Look at the compound value of business cases where the scope and timeframe are smaller and, when added together over time, add even greater value. This helps to make business case development more realistic.

Embed and collaborate: By embedding tech teams with product teams, points of friction can be observed first-hand to better seek out and solve problems and find the ‘why’ for tech change. Smaller parts of larger change programs can be picked off and solved effectively.

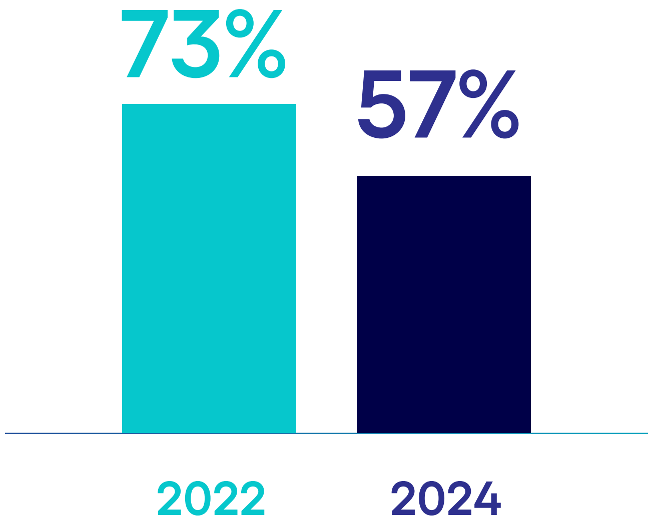
> “We’re trying to shift to a business outcomes conversation, but there’s a challenge attributing costs to outcomes. It makes it seem like costs are large, but stakeholders aren’t seeing the flip side – what’s being delivered. We need to focus more on the insights that can show us how to scale revenue.” – CIO

2. Achieving cost visibility

Tech-enabled business success requires the CIO to be aware of what's going on across the business, with clear cost visibility.

But we found respondents saw many barriers to building the clarity they need,

Just **57%** of executives say they have effective visibility over costs. This is down from **73%** in 2022, so the trend has moved quickly in the wrong direction.



Decentralised spending on 'shadow IT' and SaaS capabilities is common today, whether due to IT not keeping pace with business needs or in an intentional move toward empowering business unit leaders to innovate. But many such purchases are made ad hoc using company credit cards, leading to poor cost control and even failure to appear on the appropriate balance sheets.

That lack of visibility is creating duplicated spend, making it harder to optimise the costs of running IT and extracting the maximum value for spend. It also creates governance concerns, such as an increase in security vulnerabilities and data leakage risks.

Exploring the need to capture visibility for IT spend taking place outside IT, we asked whether the busy CIO – or indeed, the CFO – had time to audit and contest these costs. We again found two 'camps' for cost visibility.

One group focused on centralised versus shadow IT spend, and another that sees the opportunity for a more collaborative approach to spend.

"Now that departments own IT assets the cost sits in their P&L. It's taken us from a culture of silos to a state where there's more scrutiny for expected value. Visibility has improved." – CFO

These camps tended to align with the cost and value camps identified previously. Those in the value camp were often in the more innovative cost visibility camp.

We found a wide range of focus on IT spend outside IT, from very low to very high focus. Respondents clustered around the middle, suggesting a moderately strong focus to those departmental IT costs. Despite being under incredible demand, CIOs do try to understand the full IT expenditures across their organisations.

The question of ease of visibility had more nuance. We gave respondents a 5-point scale: 1 indicates gaining this visibility is almost impossible, 5 suggests it's very easy. On average, **at a rating of 3.7, respondents suggest this is not difficult**. Specifically,

16% say it couldn't be easier,

37% recognise there are opportunities to simplify access to this insight.

Two organisations stated APRA's operational risk management regulations had completely flipped the IT versus Shadow IT paradigm. These organisations saw that regulatory accountability requires IT and corporate to share the risk and manage visibility together.

"A couple of department heads threw tantrums because they're not IT gurus. That's not the point. The point is to take responsibility and liaise with IT for outcomes." – CFO

"Organisations are facing a perfect storm," says Hill. "An uncertain economic environment, the need for modern, more resilient tech and renewed executive responsibility for risk. Few expressed those links."

"Nobody could ever trust that IT would deliver on time. So, when the business required better data & analytics, they came to finance to make it happen." – CFO

What is driving cost?

To get a better handle on cost, we asked about the major drivers in people, process and tech. Of the three costs dimensions proposed, we found:

Tech cost is growing too fast:

Technology costs are the top cost driver across the study, driven by licensing and lock-in. Many respondents said licensing is rising at double the rate of inflation which is unsustainable. Respondents shared concern about being pushed harder into vendor ecosystems, removing choice, and thus driving up cost. It also raised the question of whether organisations were using all the capabilities they were paying for. Often, the answer to that question was no.

People costs are high:

People costs often came in as the #2 cost driver in financial services and #1 in mining/utilities. Drivers here included the need for top talent, with many remarking on the need for people that held double degrees and the residual dearth of talent available to solve their complex problems. The knowledge gap is real.

Process is an opportunity:

Most respondents did not see process costs as a major driver. This presents an opportunity. If we're relying on people and tech to do all the heavy lifting – without changing how value is delivered – then is it a surprise we are not realising the expected benefits? Yes, tech costs are the clearest target for CFOs seeking to slash spend. But process problems require new tech and new hires to fit into an operating environment geared for BAU, restricting successful change.

Over the 18 months to Aug 2023, ADAPT found that process digitisation was still not as effective as it could be. Greater focus and spend on process enablement could save time and money, reducing the time people need to spend navigating process disconnects and make vendor procurement and managing expected outcomes more effective. Better processes can give us better insights, which could make resource planning and forecasting easier.

"We've got over 40 sites – about 20 have their own way of operating. The lack of a standard way of operating makes it unclear how much time or cost each process should take. It makes it harder to drive continuous improvements." – CFO

"We're left to ask why these challenges persist," said Hill. "Could finance be involved in the change journey in a truly strategic, adaptive way? While 85% of CFOs are involved in tech decisions, just 14% are fully engaged throughout the journey from value trigger to value realisation."

We found some organisations where it was typical to reduce the scope and spend of change to avoid oversight entirely. This conflicts with the governance intent. While there is value in breaking down large changes into smaller, clearer pieces of value, if the reason for doing so is to avoid scrutiny, then duplicated spend and benefits leakage will likely persist.

> "There are so many variables, delays and promises forgotten during restructures. The business is tone-deaf to the full range of costs. This makes it very hard to track the actual benefits realised." – CFO

Centralising data foundations can improve visibility

We found many organisations were tracking costs using multiple spreadsheets. These files had become very complex, and were dispersed by function, product or project. That same problem emerges in ADAPT's regular discussions with other executives – the multiple spreadsheets problem is making it harder to get an enterprise view.

Almost all respondents saw the need for better data and insights visibility and related the cost visibility challenge to challenges in their data foundations. That resonates with the conversations ADAPT has with other CIOs and CDAOs:

29% of Australian and New Zealand organisations have implemented trusted, evidence-based dashboards

23% have successfully integrated data sets to remove data siloing problems

21% have improved data quality as the baseline for trust in these insights

"We stood up operational intelligence in our process function to measure the cost of doing business. These give us good visibility of those costs – for example, it allows us to see how our contact centre functions per call. It shows us the real impact and lets us look at further opportunities, such as with AI." – CIO

Some respondents were trying to improve the "costs linkages to the P&L" including their organisation's value drivers and "tracking the end-to-end benefits."

"Delays and overspends make it difficult to claw back expected benefits. Our insights allow us to see when things aren't going to plan and decide whether to continue. Before, we would tick off initiatives independently; now, we've got a clearer view of the overall value being delivered. That insight needs to cascade into monthly and annual forecasting." – CFO

3. Building cost intelligence

At a time when businesses have "moved away from tech for tech's sake" towards how "tech can enable the broader business", according to some respondents, achieving strategic alignment across the organisation is essential to have tech deliver measurable business value.

For the organisations where there is less alignment, one respondent remark was highly representative:

> "The role for IT in enabling the organisation's vision and mission is unclear. That makes it hard for us to plan beyond an 18-month horizon."
> – CIO

"The sheer scale of organisational transformation and ongoing business demands mean a few critical projects take precedence over the wider, aspirational change agenda," another respondent noted.

We found the cost and value camps carried through into the alignment between corporate and IT strategies. We tend to find those in the value camp have greater IT/corporate strategy alignment than the alignment found in the costs camp.

Strong alignment occurs where "tech takes the lead in reinventing the business", where "OKRs are threaded through everything we do," or there's a drive to have "one unified strategy."

In the others, IT strategy is less aligned because it's a "small part of a massive organisation" or the "speed of tech change makes it hard to retain alignment." In one case, alignment issues came from not having "the right operating model or people in IT."

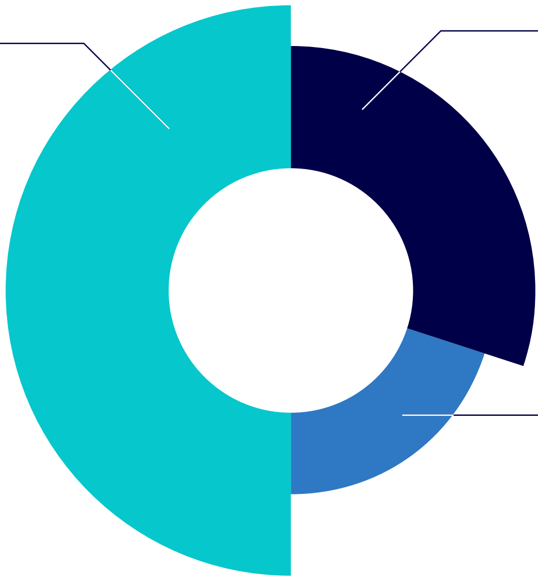
"The CEO sets the tone every time, looking at how the tech strategy enables the corporate plan. We always come back to our core principles – delivering great growth in a very human way." – CIO

For some with strong alignment, they saw that the digital strategy didn't exist alone – "it's crafted to support our other strategies."

Uncovering opportunity through embedded insights

With this need for better alignment, the question then turns to building greater insights within the business to achieve true cost intelligence. Asking how leaders are approaching the effort to understand need throughout the business, we learned:

50% capture business demands qualitatively – through conversation with the business.



30% used mixed methods – augmenting conversations with hard metrics.

15% are looking for new options, including things like value stream management.

> "The major qualitative component comes from embedding our people – ensure the right people are in the right place to have the right conversations. We start by understanding what matters then track the important metrics with a consistent view of the truth." – CIO

One respondent talked about how "very granular measures" helped quantify the benefits of a remote working business case. "It links to employee satisfaction and productivity. We could multiply the travel time saved per employee by the number of employees." For them, being able to explore the insights means "we can link this to our corporate objectives. It's helped us to be able to compare apples with apples."

"Having our people sitting with the business means they can see the problems, explore scenarios and offer solutions. It helps us solve problems quickly." – CIO

This partnership approach means organisations can deliver smaller pieces of the overall change program in a manner that works for the business and for tech. It reduces the time to value, which is crucial given the incredible demand on IT and business teams.

Achieving value alignment

Change is hard. Without visibility for cost and value, advocacy at the Board level and across the executive table will remain difficult. Respondents have spoken about the weight of technical debt, organisational inertia, and duplicated spend as some of the biggest problems when demonstrating value and investing for the future. So what can you do about it?

Demonstrate value: Define how digital spend can become a self-funding growth engine. In these conversations, identify whether you're speaking with the cost camp (focused on optimisation) or the value camp (who look at benefits unlock) and tailor accordingly.

Build visibility: Focus on cost visibility through the regulatory lens. Changes for operational risk management now require business accountability for tech spend and risk – use that to build deeper relationships into the business and get the resources you need to audit, consolidate and simplify tech. Doing this is all about data –proper, relevant benchmarking can help.

Embed your teams: Invest for the future with clarity around the business' weightings for profit, productivity and growth. By embedding your teams where the action happens, you'll anticipate demand while picking off important pieces of the change program live.

Leverage insights: The enhanced visibility over cost and value these approaches offer must then be put into action to move your value alignment forward. The hardest decisions will be over where we must cut tech spend, so having the confidence to choose the right places to remove tech tools and services is critical.

To do any of this well, you will need to fight for investment in data. Respondents indicate their most critical needs relate to becoming more data-driven with a greater focus on long-term business value.

Embedding data into the cost intelligence discussion can do two things. One, it will help provide a trusted view of cost realities and benefit unlocks. Your quest for operational effectiveness can benefit from those insights, enabling you and your teams to have the right conversations at the right time and for the right outcomes. Two, it will help you to target the skills you need – whether that's to pursue the true value of AI or to help evolve skills and roles for future requirements.

"Too much focus on short term cost means we can't invest in what's needed to reduce costs in the longer term. The lack of funds committed to supporting change make it harder to realise value." – CIO

Improving your cost intelligence

The diversity of views amongst participants showed that every organisation must build its own understanding of cost and value to suit its unique outlook and ambitions for the future. At Cognizant, we have worked with major corporations around the globe to help bolster their cost intelligence and build clarity for the path ahead.

Amongst a wide range of approaches, we have extensive experience working with clients to investigate and take action to solve the kinds of issues raised in this research report.

Technology Cost Intelligence: Helping to build a cost baseline model that gives insight into the nature of all technology costs and their linkage to business activity to identify where spend is inefficient compared to peers.

Value Management: Helping organisations get to the point where they can confidently prioritise the right assets and activities to invest in, or cut investment from, based on what will deliver the most value to customers and their business.

Engineering Excellence: Redesigning how an organisation builds and runs technology to reduce costs, flow speeds upward, and improve quality. This typically involves better observability, work practices, automation, toolsets, workforce partnering, devolved decisioning and standardisation of services.

Accelerated Architectural Simplification: Reducing complexity so teams can improve business capability faster, safer and cheaper. This typically involves abstracting complexity through exposure of consumable services, consolidating related capabilities and removing decision roadblocks at scale.

Cognizant has observed that the technology economics of an organisation – their cost, value or speed – are typically 30-50% below their potential.

"We recently helped two very similar clients deliver changes that enabled them to meet the same industry compliance standards. Even though the scope was near identical, one organisation spent twice as much. Around two-thirds of that overspend was due to their engineering practices. The rest was down to their architectural complexity and their historic de-prioritisation of tech debt."
– Cognizant Consulting

When times are easier, technology cost can be less of a priority. However, today's economic challenges and the rate at which technology costs are rising put the link between cost and business value into the spotlight. Our research insights show a complex landscape where everyone is grappling with big questions on tech's role as an enabler of business value but with clear pressure to know exactly how and where that value is delivered.

Whether you align with the cost or value camps in our results, we hope this offers some useful perspective that supports you on your own journey toward greater cost intelligence across your organisation.

Our team is available to offer more insights around this report and to explore how Cognizant can support your journey to build better alignment around the economics of technology for your business.