

GRADUATE FROM COST REDUCTIONS TO STRATEGIC IT COST OPTIMIZATION



ManageEngine  Analytics Plus



Graduate from cost reductions to strategic IT cost optimization

Introduction

Every organization has faced severe cost-cutting measures at some point, and especially over the course of this pandemic. More often than not, we've seen CIOs turning to cost-reduction strategies that produce immediate results, and meet the mandated budget cuts.

This approach, however effective in the short term, can prove counterproductive in the long term. Focusing on short-term cost saving measures without detailed insight into your data and processes might win you the battle, but rarely the war. While cost reductions can provide temporary relief, organizations will likely have to spend more to account for rash layoffs.

To maximize cost savings, it's advisable to strategize a policy that continually reduces overall costs while ensuring optimized business operations.

By implementing a tailored IT cost optimization strategy in your organization, you can target cost drivers and rein in excessive spending, while driving business value in the long run.

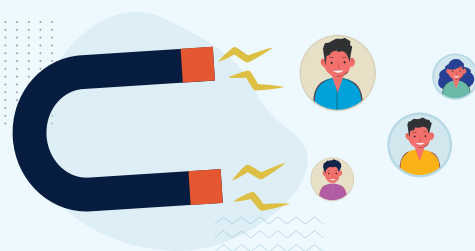
This e-book identifies three key cost drivers in your IT environment and applies a cost optimization framework to migrate from short-term cost cuts to long-term cost benefits.

1

Curb customer churn

It is no secret that customer attrition, or churn, has staggering negative impacts on an enterprise, and is a costly reality that all organizations have to tackle.

According to the [CallMiner Churn Index 2020^{\[1\]}](#), United States companies lose



\$35.3 billion per year
due to avoidable consumer attrition.

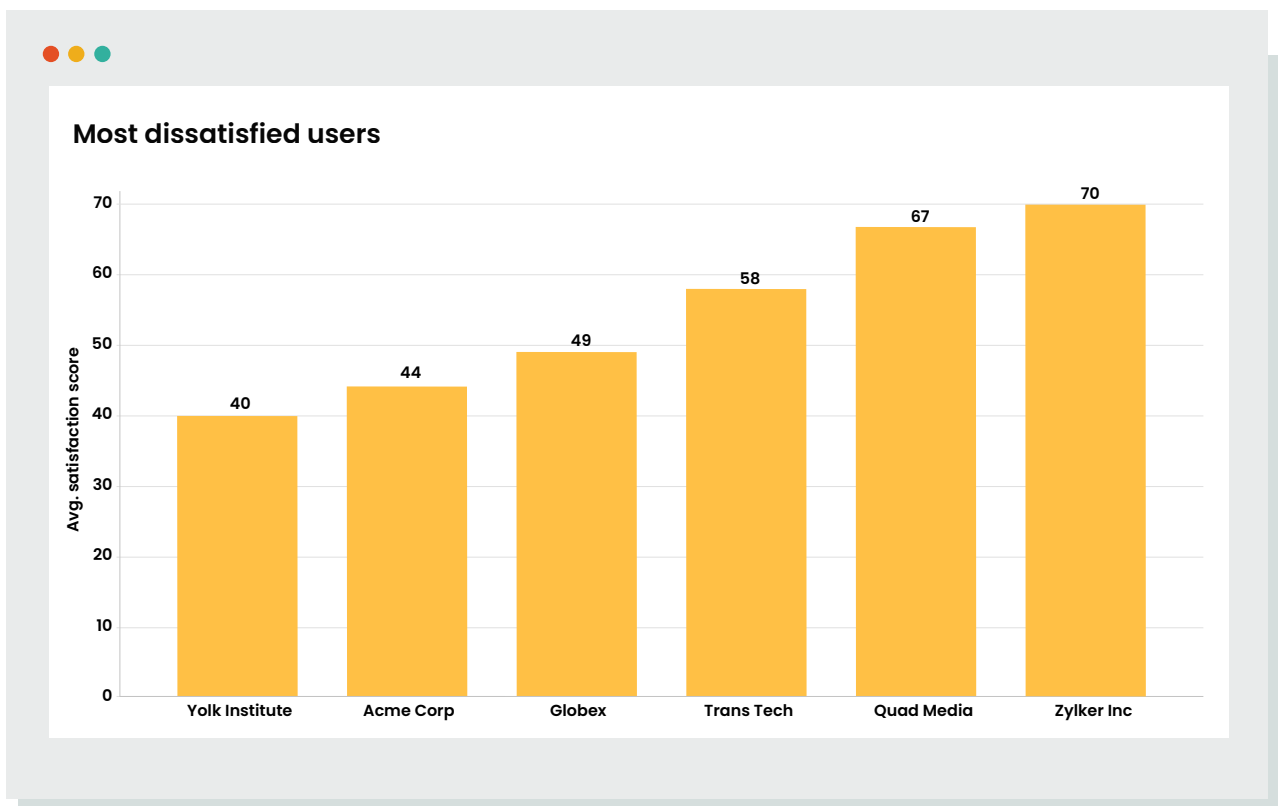
Clearly, customer churn causes an immense impact on your organization's bottom line, as not only do you lose the revenue generated from customers' purchases, but also the renewal and upgrade fees that add up over the customers' lifetime in your organization.

When faced with high attrition rates, executives naturally tend to pour more into acquiring new customers to fill the void, while also investing in retention strategies. However, research by [Markinblog^{\[2\]}](#) states that customer acquisition costs seven times more than customer retention. While the exact number might vary across industries, it is evident that customer acquisition is a far more expensive venture than customer retention.

The most economical way of tackling customer churn is to identify at-risk and valuable customers who are on the verge of walking out, and employ nurturing and retention strategies to ensure they stay.

But how do you identify the accounts that would possibly churn? The answer lies in the data you have at hand.

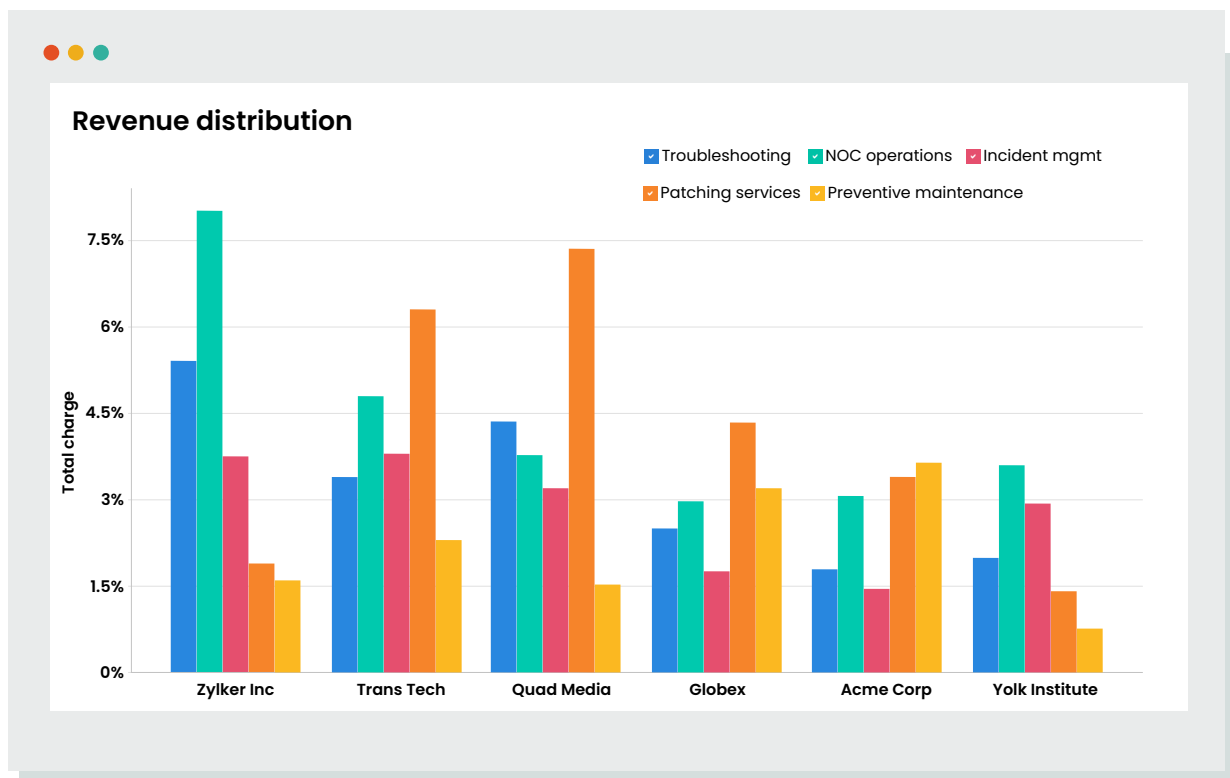
While you can attempt to spot at-risk customers by tracking various churn indicators such as their usage of your service, behavioral patterns, organizational changes, or delay in payments, this often proves complicated and convoluted. A surefire and easier way to detect potential cancellations is to simply look towards unhappy customers.



The report above analyzes the results from your Net Promoter Score (NPS) ratings, to identify your most unhappy customers. By tracking NPS and satisfaction scores, you can configure an early warning system that identifies customers who are about to abandon ship.

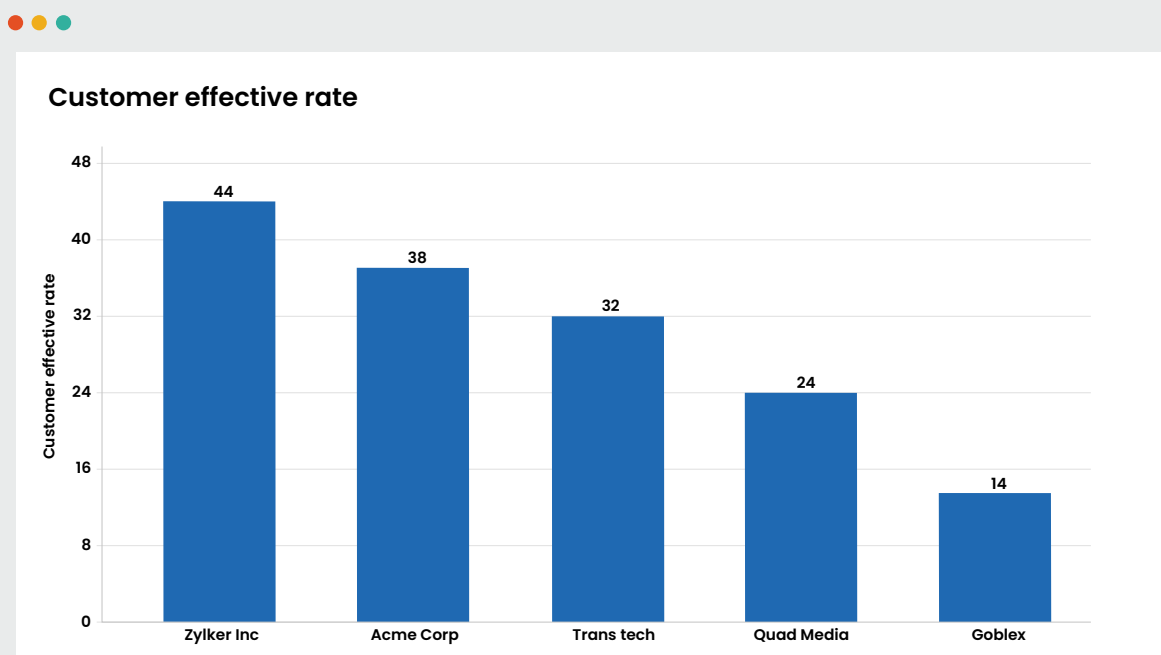
However, blindly executing retention strategies for all at-risk customers can be a cost drain, as there might be scenarios where the revenue and profit generated from a customer do not justify the cost of implementing retention and nurturing strategies, and continued maintenance and support. While you might drive down attrition rates, and therefore attrition costs, your retention costs will start to pile up.

To truly optimize costs, primarily target those customers who generate the most revenue for your organization, as you stand to lose more should they churn. The Pareto principle tells us that 80% of an organization's revenue is generated from 20% of its customers. By identifying the cream of the crop, you know the customers you can't afford to lose, and whose retention will have a better payoff for your organization.



The report above classifies customers based on the revenue they generate across your organization's various offerings. You can leverage this report to draw insights on the customers generating the most revenue, as well as understand the revenue distribution within your organization.

Let's take this analysis a step further by looking beyond revenue to evaluate customers based on their contribution to your organization's overall profit. You can achieve this by tracking the customer effective rate metric, which is calculated by dividing the total revenue generated by a customer by the cost of services provided to that customer. The report below visualizes this metric, painting a clear picture of the profit an organization stands to gain from each customer.



By understanding your customers' profitability, and looking at this report in tandem with the previous Revenue distribution report, you can avoid undervaluing or overvaluing a customer.

Some customers might account for a relatively high percentage of your overall revenue, but their customer effective rate might be surprisingly low. This implies that such customers might not always be profitable to your business since a higher amount of resources and time goes into addressing that customer's needs. The above report, therefore, plays a crucial role in distinguishing profitable customers from those that might be draining your team's time and resources.

You can leverage the detailed insights gained from the three reports covered in this section to employ tailored strategies to fortify customer relationships and bring down attrition costs. By employing a data-driven retention strategy that saves at-risk and valuable customers, you can optimize customer costs and, as an added bonus, build and capitalize on customer loyalty in the long run.

2

Facilitate predictive application maintenance

Every organization employs a growing host of applications and software for their day-to-day needs. As these assets and IT infrastructure proliferate, it becomes increasingly harder to detect and prevent breakages.

Detecting breakages in your assets, before they impact business, is crucial in bringing down downtime costs. When accounting for both direct (detection, containment and recovery costs) and indirect costs (labor, overtime and legal costs), the true cost of application downtime quickly piles up and results in astounding numbers.

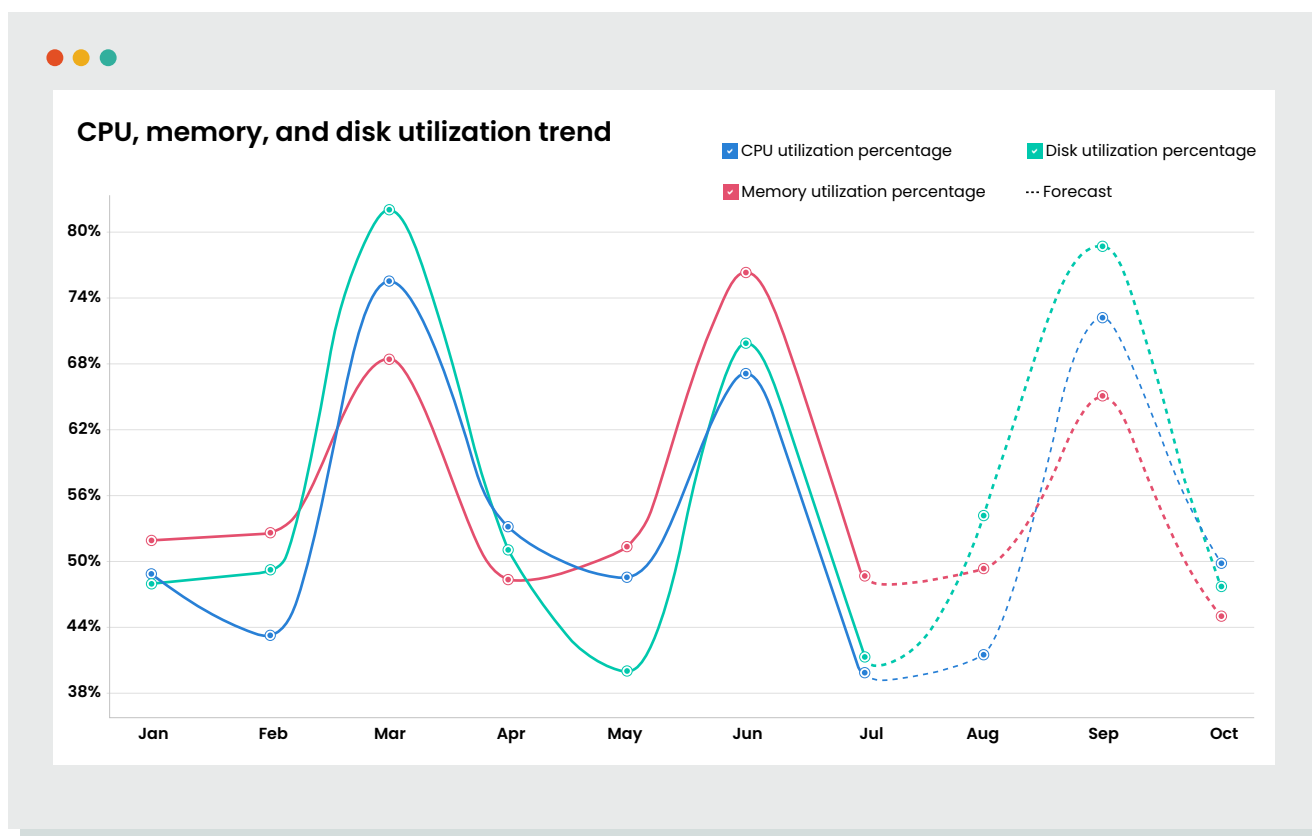
The [Cost of Enterprise Downtime^{\[3\]}](#) by TechChannel notes that the average cost per hour of unplanned downtime is

 **\$300,000**

As a common practice, several organizations employ preventive or even reactive application maintenance to tackle application breakages and downtime. While not without their merits, these two practices either rely on fixed maintenance schedules or offer repairs only after an application breaks down. This can quickly rake up costs and impact business continuity.

AI-based predictive application maintenance detects patterns in irregularities and anomalies in applications, and effectively predicts equipment failure. This provides the insights required to carry out maintenance efforts and avoid application downtime.

The report below effectively combines vital hardware monitoring metrics to provide insights that can prove crucial in detecting downtime. Although your applications might not be showing signs of an issue, unusual spikes in these metrics are an early indicator of future outages. Having these metrics at your disposal clues you in on when action is required, so you can resolve issues behind unusual spikes before they cause application downtime.



This report employs AI-driven predictions to plot future utilization patterns, which point to moments when your applications can benefit from maintenance activities. We can infer that spikes in CPU, memory and disk utilization metrics occur approximately every three months, which can be a good baseline for application maintenance schedules in your organization.

Predicting when your product or service might be impacted can help your business avoid costly mistakes. Predictive, and not preventive, maintenance is therefore vital in ensuring operational efficiency while striving to reduce maintenance costs.

The benefits of employing such predictive maintenance strategies can be immense. Not only do organizations enjoy reduced repair and failure costs, but they also reap the rewards of improved product and service quality thanks to timely maintenance activities.

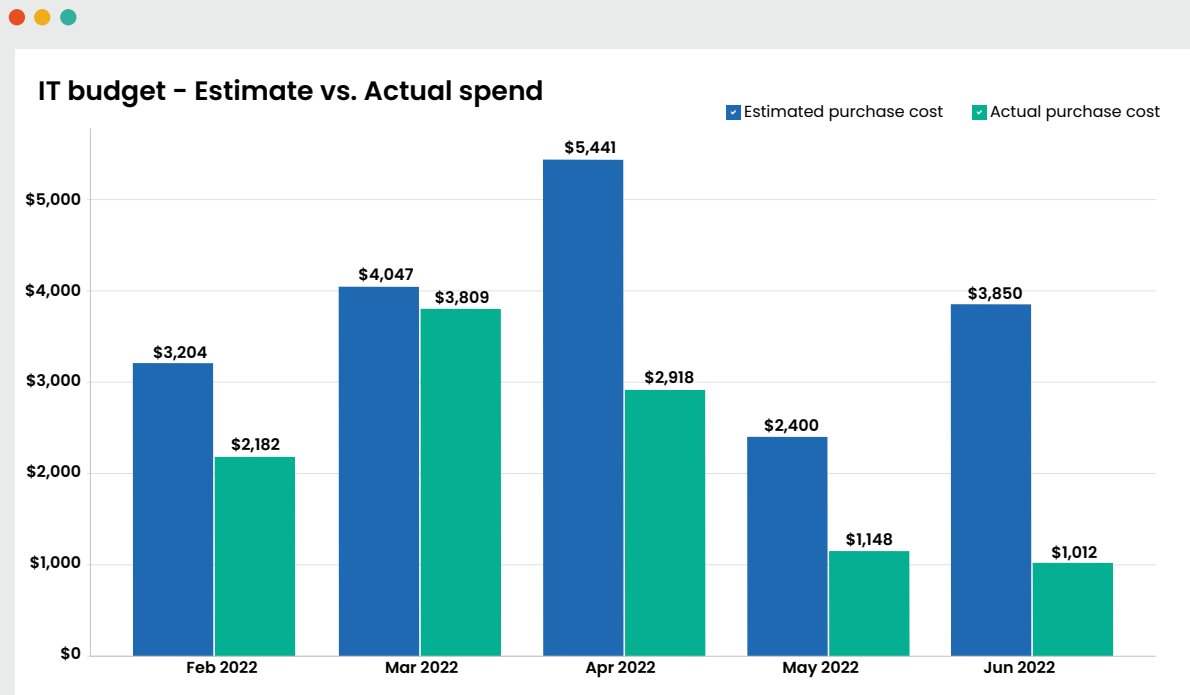
3

Streamline IT asset costs

Beyond reducing application maintenance costs, there are several additional ways you can cut back when it comes to the asset expenditure in your organization.

A crucial step when implementing a cost optimization strategy within your IT department is to ensure an accurate IT budget is drawn up, a good chunk of which goes towards purchasing and maintaining the assets required to ensure seamless business operations.

Simply tracking your IT budget only provides information of the costs incurred by the IT infrastructure. You can take this analysis a step further and set monthly or quarterly targets on IT budget spend. This will enable you to track your planned budget against your actual spend, and provide insights required to streamline your IT budget and eliminate silent cost drivers.



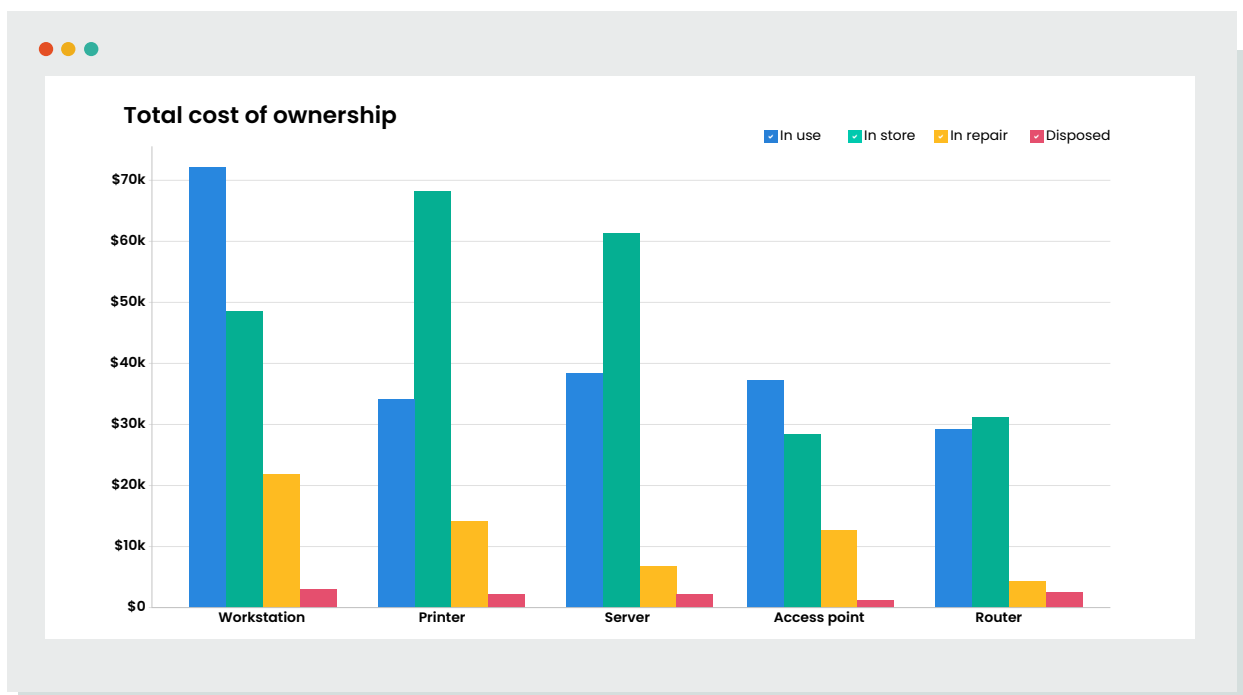
In rare instances where you overshoot your planned targets, you can adjust your spending in the following month or quarter to ensure seamless IT operations. However, organizations often end up allocating more funds than truly required, which can be identified using the report above. This unused and often forgotten extra budget can then be reallocated towards other vital services.

Now that we've looked at how to optimize the organization's overall IT budget, let's discuss ways you can optimize the costs incurred by your organization's assets.

When talking about asset costs, it is common to consider the cost of an asset during initial purchase as the total cost incurred. However, the cost of an IT asset goes beyond purchase costs, and includes several key components, such as the costs incurred from repairs and upgrades. This can add up to a sizeable sum, which can be justified when spent on assets that are utilized effectively through their lifetime.

But what of the assets placed in storage? While a certain quantity of assets in reserve is necessary to meet unforeseen needs, your IT operational costs shoot up when your organization stockpiles too many of them.

The report below tracks the total cost of ownership (TCO) of your organization's assets, categorizing them further based on their usage status. This TCO metric accounts for the total cost incurred by an organization at every stage of an asset's life cycle; it even accounts for assets' depreciation. This report therefore provides an accurate measure of the sum your organization spends over your assets' lifetime.



It is evident from the report above that the high number of unused printers and servers are accounting for a major chunk of IT operational costs. Such unused assets clearly add heavy expenses through their lifetime, yet provide no benefit to your organization's operations. By salvaging these unused assets, you can reduce software licensing and hardware maintenance costs.



Clearly, having a surplus of assets in storage can have a detrimental effect on an organization's overall expenses. However, even the converse rings true, as insufficient assets and software licenses also act as a significant cost driver. Purchasing insufficient licenses can result in hefty audit fines, as employees often turn to unlicensed applications to get their job done. This can land the organization in hot water during audits.

Unlicensed software installations

	Software	Total installations ↓	License allocated ↓	Unlicensed installations ↓
1	Evernote v. 4.6.3	2	1	jake-3928
2				mike-0392
3				ryan-1928
4	Kaspersky Endpoint Security 10 for Windows	10	2	eric-1102
5				luca-3121
6				luke-1921
7				paul-4928
8	MySQL Server 8.0	7	3	sara-0019
9				elle-2311
10				kyle-0214
11				mary-4372

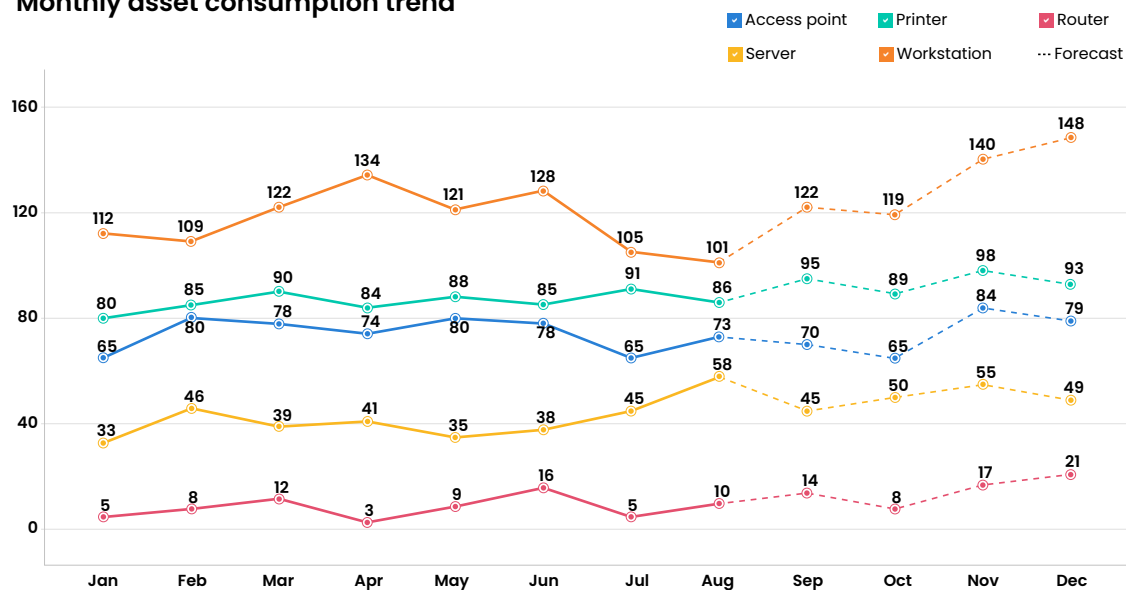
CFOs can use the report above to monitor unlicensed installations, and identify software installation patterns. If similarities emerge, it is evident that your employees and your organization's bottom line can both benefit from additional resources. You can use this report to gather crucial insights into your employees' application requirements and usage, and rework purchase plans accordingly to ensure maximum productivity and reduced audit fines.

Improve IT supply chain management

We can now understand the lasting effect asset purchases have on an organization's overall spending—excess and insufficient assets can both land you in a predicament with your yearly budget. The trick here is to correlate the insights gained from the previous reports with insights on your employees' application usage patterns, and wield this to streamline your organization's asset procurement process.



Monthly asset consumption trend



By employing AI-enriched forecasting algorithms, you can easily visualize your organization's future asset requirements based on past use. This enables you to ensure that, going forward, an optimal inventory of each asset type is purchased. By streamlining the IT procurement process, you can reap the rewards of continual cost savings while ensuring efficient and uninterrupted business operations.

Conclusion

To truly drive IT spend in the long run, cost optimization must be a continuous process of improvement. While one-time implementations provide immediate cost savings, a continuous application of the cost optimization strategies detailed in this e-book unlocks the path to sustained business profitability and improvement.



About

ManageEngine Analytics Plus

ManageEngine Analytics Plus is a self-service, AI-driven IT analytics solution that helps organizations implement complex initiatives that address requirements of expanding businesses. Analytics Plus visualizes IT data from several applications, and integrates out-of-the-box with several popular IT applications such as ServiceDesk Plus, Jira, Service Now, Zendesk, and Endpoint Central. Analytics Plus features an AI-powered analytics assistant that responds to voice and text prompts to provide meaningful visualizations. This eliminates the need for a data analyst to aid help desk managers, and reduces report building time while enabling organizations to make faster, data-driven decisions.

[Download a 30-day free trial of Analytics Plus](#) to kickstart your IT analytics journey. Want to know more about the product before giving it a try?

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280K
customers
across the world

20+
years of IT
management experience

90+
products
and free tools

190+
countries
served

Reference

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4. <https://www.reportlinker.com/p06249298/License-Management-Market-Growth-Trends-COVID-19-Impact-and-Forecasts.html>

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