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# INNOVATIVE COST OPTIMISATION

## A CREATIVE APPROACH TO FINDING NEW COST OPTIMISATION OPPORTUNITIES

> There are greater pressures than ever to cut government costs. Trying to solve this challenge using traditional approaches will deliver only incremental savings. Making large scale cuts and identifying new cost optimisation opportunities requires a fresh approach.
>
> An innovation based method delivers this fresh approach. Not only does it assist you to identify *new* opportunities that have not yet been leveraged, but it leaves your team empowered and motivated to make the necessary changes.

## THE CHALLENGE

As an IT leader in government, you've focussed much of your career on using technology to deliver efficiency improvements and to reduce the cost of service delivery. You've been doing this for so long, that there are rarely surprises. The paths to cost optimisation are fairly well understood: infrastructure efficiency improvements, resource reallocations, reviews of sourcing options, further centralisation and shared services, and so on. We successfully meet each new cost optimisation drive using these traditional approaches, plus whatever new technological solutions have come along since the last squeeze. However, using these traditional approaches, and this type of linear thinking, all we can hope to achieve are incremental improvements.

Here's the crunch. There is now more pressure than ever to make deep budget savings. For example, if you are in state government, you may have been asked to quickly reduce your costs by a whopping 5 to 10%. If you're in federal government, you're facing down the barrel of federal budget cuts that include almost half a billion dollars over the next four years. Given that you're already running a lean operation you're faced with a big challenge. Traditional approaches just aren't going to bridge the gap between current and targeted budgets.

There is however, a solution. This solution starts with changing our thinking around the problem. In order to make a real difference, we have to be innovative.

## WHAT IS COST OPTIMISATION?

What is the difference between cost cutting and cost optimisation? While cost cutting is solely focussed on reducing expenditure, cost optimisation is broader in scope. As well as cutting costs, cost optimisation activities can include, for example, the reallocation of funds so that an investment in one area leads to an even greater saving in another area. For example, a relatively small investment in IT that leads to business process automation might result in far greater savings from the business.

It is important to recognise that, in fact, all cost cutting requires an investment. Even the simplest cost cut requires some level of analysis and human effort. Cost cutting is not free. In extreme cases, you may even make a decision that reduces revenue, in order to obtain an even greater reduction in expenditure (figure 1).
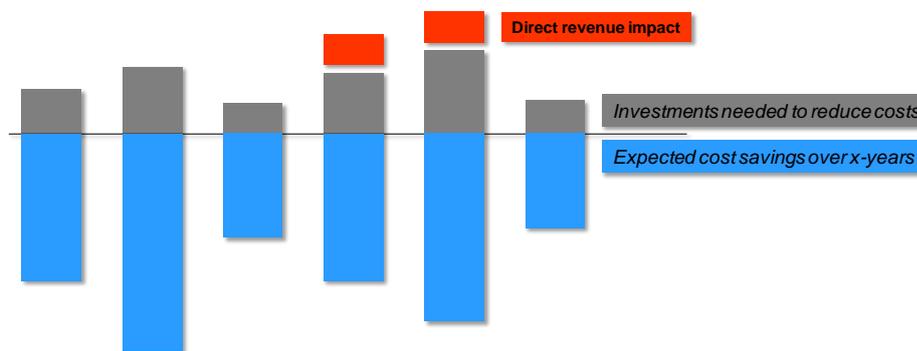


**FIGURE 1 - ALL COST CUTTING REQUIRES SOME INVESTMENT**

In the long term, cost optimisation is likely to be more fiscally responsible than simple cost cutting. For instance, cost cuts can be achieved in the short term that result in cost increases in the long term (for instance, cutting the maintenance budget could lead to equipment failure and premature replacement costs). Fiscal responsibility means that it is vital to maintain a focus on the *sustainability* of any cost reductions. From this perspective, cost *optimisation* provides a more holistic, and sophisticated approach to cost management.

## THE METHOD

Figure 1 presents a method for innovative cost optimisation. This approach is specifically designed to support the use of creative, brain based techniques to develop and apply innovative cost optimisation ideas.

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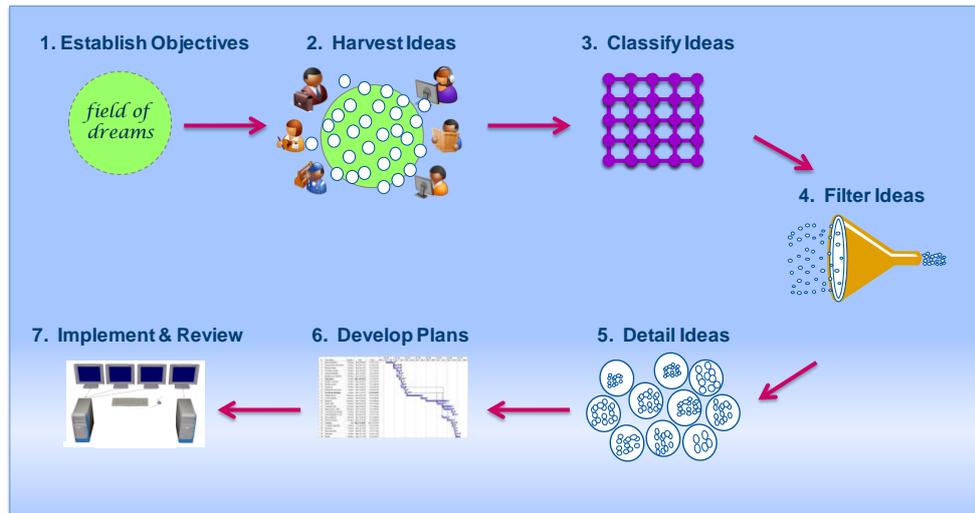


## 1. ESTABLISH OBJECTIVES

The first stage in this method is to establish the objectives of the cost optimisation initiatives. Are we aiming primarily on cutting costs, or are we looking for ways to cost effectively invest in key areas to generate greater returns?

In this stage we also set boundaries on the scope of the project. Are staff cuts and organisational changes part of the mandate, or are they off limits? Are we looking for any improvements regardless of their payback, or are we just focussed on the 'big ticket' items?

It's vital at this stage to carefully consider who we will have working on this project. The formation of a team of people with complementary skills and a can-do, solution focussed attitude is critical. Ideally, members should come from both the IT and business arenas: very few cost optimisation ideas can be implemented without some impact and buy-in from the business.

Once you've formed your team, it's important to move promptly into the 'visioning space'. Start creating a picture of what the future can look like. What will our business look like, what will our customers expect, and who are our competitors (yes, even in government we have competitors)?

## 2. HARVEST IDEAS

This is the stage where we start brainstorming. The term brainstorming has become somewhat tainted in recent times. Don't let this put you off. Brainstorming done skilfully can turbocharge your cost optimisation efforts.

What does effective brainstorming look like? First of all, the scene needs to be set properly. You've established your team and ensured that each member is committed to staying for the whole journey. Provide this team with an overview of the whole process up front so they know what to expect. The brainstorming part of this journey needs to be couched in the knowledge that, later on, there will be opportunity to

analyse all of the ideas that come up. But for now, we park that analysis. This allows the team to come up with any idea, no matter how weird or crazy it might seem. In fact, it's the crazy ideas that can create a paradigm shift and allow us to make revolutionary, rather than incremental changes to our cost structures.

It's equally important to ensure that no new members join part way through the process. You need to have a safe environment for generating ideas and new members who haven't been introduced properly to the process will disrupt the team dynamics.

A useful model to introduce here is Edward de Bono's Six Thinking Hats. The brainstorming stage uses the Green Hat thinking style. This is creative thinking. It's not what we're trained to do in IT and it doesn't come natural to everyone. As IT professionals we're trained to immediately search for the errors and weaknesses in an idea. New people coming into the team at this stage will do just that. However, your team now knows that it's safe to just focus on creating new ideas: the logical analysis and error detection will come later, so we can put that aside for now.

This approach ensures that we can truly leverage our capabilities to be creative. The power of such an approach can be astounding. Groups I've worked with have generated over three hundred ideas in half a day. By allowing ourselves the (rare) opportunity to be truly creative, we can generate and develop ideas that would normally be dismissed as 'faulty', 'wrong' or 'unrealistic'. In other words, the types of ideas that usually lead to breakthroughs and in some cases, revolutionary innovations. These are the ideas we're looking for to transcend the mundane and to identify new opportunities for cost optimisation that have not previously been identified.

The brainstorming process itself consists of asking 'what ideas do you have', capturing that in a few words on a whiteboard (forget smartboards – they stifle creativity), and then asking 'what else'. Good facilitation skills are vital here. Remember, no long explanations or justifications of ideas are necessary, just the kernel of the idea. The analysis will come later. This process, simple as it is, can deliver remarkable results.

How long does this stage go for? Think of it as 'popping corn'. First, the group needs to warm up a bit, then they get into the flow and the room starts popping like crazy. Eventually it starts to slow down and once the gaps between pops (ideas) become significant, it's time to take the pot off the fire. We're then ready to move into the next stage.

## 3.    CLASSIFY IDEAS

Now we can start to move back into more familiar territory. We now have dozens, or hundreds of ideas to work with. We need to give some order to these ideas before we can evaluate them effectively so this stage is about classifying these ideas.

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The classification framework has two dimensions. Firstly, you need to categorise your ideas using a simple structure. For instance, you might choose categories such as:

- Organisational
- Infrastructure & Operations
- Applications
- Program Management

You can then develop subcategories within these groupings. Use a set of categories that seem natural and relevant to your organisation.

The second dimension involves the assignment of 'value measures'. These value measures will be used to evaluate each idea? The value measures can include factors such as investment required, expected return, return horizon, risk level etc. The outcomes from Stage 1 may be useful here.

Group the ideas into your categories, identify your value measures and then you're ready to move into the next stage.

## 4.    FILTER IDEAS

Using our classification framework, we can now start to filter the ideas and select those with the most potential. The categories allow us to be systematic and, if desired, to allocate different ideas to domain specialists for analysis. The value measures allow us to rank the ideas according to their potential value.

Consider factors such as sustainability, and look for ideas that are synergistic. Synergistic ideas provide value that is greater than the sum of the parts.

You are aiming to identify twelve to twenty ideas that you can take into the next stage. Each idea should now be identified with an agreed title that makes the concept clear everyone.

## 5.    DETAIL IDEAS

We've now filtered our original ideas into a manageable list of twelve to twenty ideas that show the greatest potential. The next step is to flesh these ideas out so that we can analyse them in more detail.

For each of these ideas we need to understand attributes such as the potential benefits and risks, the timelines and resources requirements, and the financial payoff.

Develop a one page template that can be used to describe the idea and its most important characteristics. Support this with a simple financial analysis. Be careful not to get bogged down here. Try to use just indicative figures that you already have at hand. We're just looking for orders of magnitude to provide comparisons between the various ideas and decide which to take forward.

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From this analysis, you are aiming to select between four and eight ideas that will become the focus of your cost optimisation program.

## 6. DEVELOP PLANS

We now have our innovative cost optimisation projects identified and are ready to develop project plans for each of them. As IT professionals, we're expert at this. Every organisation is different so apply your standard processes to this, whether it starts with a formal opportunity evaluation, business case or project description and take it from there.

Because you've included business representation in your team, you already have business support for your initiatives, improving your chances of success.

## 7. IMPLEMENT & REVIEW

If you truly want to be innovative, you won't apply this process once. Rather, you will view it as a cycle that can be repeated and that eventually becomes your defacto approach to solving new challenges. Remember, you still have many other ideas that did not get filtered through the first time due to limited bandwidth in implementing new projects. However, it is likely that many of these other ideas may also look promising. Once your current program has built up momentum, review these and select the next set of ideas. Once these have been exhausted, start the process again with a new brainstorming session.

## THE BENEFITS

The difference between an innovative and non-innovative organisation can be quite subtle. The opportunity to be creative, explore possibilities and review assumptions in a safe environment is extremely powerful.  Applying these simple tools to your cost optimisation program will deliver significant financial benefits. Perhaps more importantly, it does this while leaving your team feeling empowered, motivated and committed to making your cost optimisation program a success.

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