Sustaining Cost Savings in Government IT

By aligning and sharing resources across departmental lines, government IT leaders can uncover cost-cutting opportunities of as much as 30 percent.
The U.S. government IT spending landscape is extraordinarily complex—not surprising for an enterprise with dozens of departments and more than two million employees. However, in our experience we have seen that organizational spending for even the most common IT computing commodities can be excessively complicated. For example, some individual departments use more than 50 models of hardware, connected by sprawling networks—even though the vast majority of their employees only need Internet, email and office software to do their jobs.

This excess IT spending represents a major cost-cutting opportunity for the federal government—perhaps as much as 30 percent. For example, using shared and cloud-based resources and optimizing the use of hardware are just a few ways government organizations could reduce spending significantly without compromising business and mission needs. Put simply, it's taking out cost without diminishing what's being done.

Clearly, this mission is not just about cost cutting—the longer-term benefit to government would be in developing an approach that transforms the way IT spending is done, so that the changes made now have a lasting effect on the enterprise. To make this happen, government IT leaders must adopt a new model that aligns and shares resources across departmental lines.

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**Overcoming the Fears**

In our work helping federal organizations reduce IT spending, we encounter familiar sentiments in response to newer, cutting-edge IT work styles. The following are some examples of actual quotes we have heard:

- “Individual organizations purchase their own hardware; we don’t question their requirements for premium software.”
- “We’re not sure if there’s a government precedent for cloud-based software, and we assume it conflicts with our security needs.”
- “We buy and maintain excess surge hardware and software capacity in case our needs increase one day.”
- “Our employees have always had their own dedicated desks and computing devices.”

Unfortunately, the typical governmental budget process is by its nature inefficient: Individual departments and agencies purchase their own hardware, probe little into the premium requirements or the alternatives common in the private sector that could benefit the government, and, on the whole, end up spending far more than if they had worked together.
However, many commercial best practices common in the private sector today offer government CIOs a number of potential cost-reduction opportunities, including: shared desks; kiosks; Wi-Fi-connected phones; a single end-user hardware configuration baseline for 80 percent of users, refreshed every three years; and low-cost, cloud-based software (see figure 1).

Implementing some of these practices would in turn lead to reduced costs elsewhere, including reduced real-estate footprints, smaller local data centers, and a smaller, more limited catalog of assets to maintain. Those are transformational changes that would come with limited to no impact on performance results.

Figure 1

**Potential IT savings**

<table>
<thead>
<tr>
<th>Category</th>
<th>Savings sources</th>
<th>% savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT hardware (PCs, laptops, peripherals, printers)</td>
<td>Demand management, specification standardization, pricing optimization</td>
<td>15-30%</td>
</tr>
<tr>
<td>IT hardware (servers)</td>
<td>Pricing optimization, virtualization</td>
<td>5-20%</td>
</tr>
<tr>
<td>IT hardware (storage)</td>
<td>Storage tiering, pricing optimization</td>
<td>10-45%</td>
</tr>
<tr>
<td>IT hardware (maintenance)</td>
<td>Risk tolerance management, service level management</td>
<td>10-20%</td>
</tr>
<tr>
<td>Software</td>
<td>Version standardization, license rationalization</td>
<td>2-20%</td>
</tr>
<tr>
<td>Network carrier services</td>
<td>Pricing optimization, demand management</td>
<td>15-25%</td>
</tr>
<tr>
<td>IT consulting and technological services</td>
<td>Outsourcing, pricing optimization</td>
<td>15-20%</td>
</tr>
<tr>
<td>Staff augmentation</td>
<td>Outsourcing, pricing optimization</td>
<td>15-25%</td>
</tr>
</tbody>
</table>

Source: A.T. Kearney analysis

The Impetus for Leadership

Private-sector CIOs maintain a pulse on user needs, helping prevent unneeded purchases or over-estimating technical requirements. They challenge user needs and optimize IT costs in two key ways:

- **Demand management**: forecasting and managing what users should have versus what they desire
- **Specification rationalization**: matching product specifications to actual user requirements

However, government purchasers are often given incentives that run counter to optimizing IT expenditures. In particular, exhausting agency IT budgets before the end of the fiscal year to avoid future budget cuts serves to exacerbate an already-complex IT installation base, and to bring on a new cycle of maintenance costs.

Ultimately, what’s more important than picking the right IT assets is aligning IT leadership on key priorities, and instilling a transformational mindset across the organization that will lead to sustainable cost efficiency. In many government organizations, CIOs are responsible for user needs, but a clear framework of responsibilities is required to provide valuable procurement
data to decision makers and purchasers. Strong IT leaders need to coordinate visibility into data-driven optimization opportunities across organizational subcomponents to implement effective enterprise-wide decisions.

This capability is sorely needed where existing efforts, such as the Federal Procurement Data System (FPDS), often fall short in assisting procurement decision making. Quite often the FPDS data is incomplete, or it does not provide enough visibility into individual purchasing decisions. For example, NAICS codes titled “Computer Systems Design Services” and product service codes called “IT and Telecom—IT Strategy and Architecture” offer little information about what the money is actually spent on. However, a clearer understanding of expenditures would result if mapping to commodity categories was added to the FPDS database.

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Government agencies can overcome this by building off the successes of increasing IT oversight. A proven, repeatable approach for assessing IT functions and unearthing or substantiating data surrounding IT operations and procedures can help identify areas of value. Our approach to IT transformation gathers the necessary data by looking at an IT program through six lenses that provide a fact-based, transparent view of IT operations (see figure 2 on page 4).

1. **Operating model optimization.** Determine whether the organization is structurally set up to be efficient and whether it has the right level of governance to gain a better understanding of the weaknesses and strengths of the IT organizational, operating, and governance models.

2. **Service management optimization.** Look carefully at how well the business architecture, IT architecture, and IT service delivery processes are standardized and harmonized to simplify the IT landscape.

3. **Technology foresight and life cycle management.** Improve technology foresight to give IT Executives the ability to look beyond today’s solutions and see promising technologies being introduced that may be incorporated effectively into the IT operations.

4. **Complexity management.** Simplify the IT environment by isolating opportunities to rationalize existing applications and infrastructure, which will reduce IT costs (including invoice, funding, budget process, and data standards) and reduce complexity both by looking at specific IT operations and taking an enterprise view.

5. **Sourcing.** Make a thorough assessment of sourcing practices to point to ways IT can more effectively establish and manage vendor contracts as well as manage IT demand.

6. **Offshoring and outsourcing.** Get an enhanced perspective about how to optimize the balance between in-house and contracted delivery of IT services, when to use government employees to handle projects, and when it should leverage outsourced contractors and suppliers for cost and performance benefits.
These lenses provide a fact-based transparent view of IT operations, showing where a program stands today and which aspects need minor adjustments or major overhauls to improve departments’ cost efficiency in supporting the missions of its component agencies. In our experience, this approach can uncover cost savings ranging between 5 and 15 percent for each lens.

The above model gives CIOs of both departments and their subcomponents the ability to make an immediate, lasting impact by working collaboratively. Given that federal departments typically comprise many agencies and offices with individual purchasers, the agency and department CIOs should compare pricing information for the same products across subcomponents. The CIO is empowered to orchestrate greater department-wide visibility into pricing. Our research has found that the same product can sell for up to 35 percent more when sold to separate subcomponents from individual value-added resellers.

Consolidating purchases to two or three VARs within each department can give subcomponent CIOs the leverage to apply greater pressure to optimize prices. CIOs can also reduce premium software purchases (for example, “Pro” or “Ultimate” versions) by evaluating individual requirements for permanent access to such software, rather than expensive enterprise-wide deployments.

With federal budgets declining, CIOs need to feel there is an incentive to spend less, rather than facing fears they could face future budget cuts if they don’t spend everything. For example, senior executives could allow for money saved from the budget to be reinvested into a

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**Figure 2**

**Six lenses for IT transformation**

- **IT cost reduction (of current environment)**
  - Use low-cost countries and suppliers for cost and performance benefits
  - Reduce IT expenses by renegotiating streamlining multi-vendor relationships
  - Reduce complexity of IT portfolio (asset and projects)

- **IT operations transformation (of future environment)**
  - Improve operating and cost effectiveness of the IT delivery model
  - Standarize and harmonize IT processes to simplify landscape
  - Modernize technology landscape to realize cost and performance efficiencies

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Source: A.T. Kearney analysis
“technology mission innovation fund” that allows CIOs to experiment with tools that could create new value down the line.

Reduced inventories—starting at the General Services Administration (GSA)—could also yield valuable results. For example, when investigating network equipment we found that the GSA provided nearly 100 different buying options for a single type of switch equipment. Choice is good, but confusing purchasers is not. Furthermore, GSA is uniquely positioned to set up a first-of-its-kind eBay-like platform to facilitate equipment exchanges among departments, allowing purchasers to realize more competitive prices for new purchases from an OEM, and the seller an opportunity to re-monetize their unused or under-utilized equipment.

CIOs Hold the Key to Cost-Efficient Government IT

When speaking with purchasing officials, we often hear about a fear of the unknown when it comes to government IT, particularly around cybersecurity and the cloud. However, we believe that for CIOs there is a prime opportunity to take the lead in promoting transformational best practices to combat myths about end-user and enterprise equipment. IT decision makers can aggressively take advantage of services from cloud service providers vetted through The Federal Risk and Authorization Management Program (FedRAMP) to provide a framework for ongoing security assessment and authorization. This will enable their agencies to have access to secure, reliable, cost-efficient, and trustworthy cloud services.

CIOs are charged with providing the organization’s resources to enable organizational capabilities. As leaders, they need to challenge, and when needed carefully push back on, IT demand in order to use budget resources more efficiently and, where warranted, transition their organizations to a low-footprint IT vision. By making data-driven decisions, they can empower purchasers with knowledge about cost-optimized solutions. Otherwise, simply refreshing IT inventories while costs continue to grow could ultimately cripple their organization.

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