With COVID-19, 89% of polled Indian CIOs are expected to reduce their IT budgets by a minimum of 10% in 2020. With digitization at the forefront, the majority of impacted Indian CIOs will reprioritize corporate and business IT initiatives while embracing a multipronged cost optimization framework.

### Overview

#### Key Findings

- Eighty-nine percent of the polled Indian IT and finance and procurement executives expect to reduce their IT budget by a minimum of 10% or more in 2020 due to COVID-19.

- Forty-one percent of the Indian IT and finance leaders plan to renegotiate IT contracts with their vendors, making it the most popular option to achieve individual cost reduction goals.

- Indian CIOs have to balance accelerating cost optimization initiatives that can deliver on expected cost reduction targets while staying invested in the strategic and digital imperatives of the business.

#### Recommendations

Indian CIOs seeking to manage corporate IT and business cost optimization efforts should:

- Leverage Gartner’s multiyear cost optimization framework to take specific actions, such as eliminate, standardize, and automate for each expense item, product or service of the traditional IT and business budget.

- Create a cross-functional IT contract and vendor negotiation program by including the CFO, CIO and chief procurement officer (CPO), and aim to monetize benefits mentioned in the IT cost optimization matrix.

- Invest in digital optimization and transformation by using digital key performance indicators (KPIs) to help measure their existing level of digital adoption and plan targeted digital capabilities to optimize business-related costs.

### Analysis
Following the initial COVID-19 outbreak, Indian enterprises will experience a reset through three phases of activity (see Figure 1). These phases overlap with each other, and their duration will vary by industry and enterprise.

**Figure 1: Postpandemic Planning Framework**

### Postpandemic Planning Framework

<table>
<thead>
<tr>
<th>Lockdown</th>
<th>Reopening with subsidies, trade protectionism, M&amp;As and restructurings</th>
<th>New Normal when protectionism fades and subsidies are no longer vital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rescale</td>
<td>Reinvent</td>
<td>Renew</td>
</tr>
</tbody>
</table>

During the Respond stage in India (starting end of March 2020), the immediate CIO response was primarily about creating a digital workplace strategy to support remote working and ensuring employees are productive through existing or new work-from-home (WFH) technologies. Specific CIO reactions observed during the last several months in India were the following:

- Enterprises partnered with cloud/organization providers to rapidly scale their WFH capabilities with appropriate management, security and access controls in place.

- There was investment into business continuity (including disaster recovery) as the majority of the in-house IT teams were not able to visit their data centers due to strict stay-at-home restrictions. Almost all Indian states offered exemptions to IT/IT-enabled services and e-commerce services helping Indian-based IT services providers to move their employees around and support business-critical local and global customer situations.¹

- There were multiple examples of Indian organizations procuring (including purchase and rental) personal computing devices in high volume, such as laptops, given that these organizations were not offering laptops to every employee in their organization in a pre-COVID-19 scenario.
With the transition from Response to Recover stage in mind, this research provides insights and guidance on short-term to midterm cost management actions that Indian CIOs need to institutionalize in the second half of 2020 through 2021.

India IT Budget Reduction in 2020

The COVID-19 crisis and subsequent economic downturn are causing an overall constraint on IT spending across the globe. During an April 2020 poll, Indian CIOs and their finance leaders — and a small group of procurement leaders — indicated that:

- A small (11.0%) audience does not expect any change in IT budget (see Figure 2).
- A maximum of 41.0% of the audience will see an average 10% to 20% budget reduction.
- Twenty-five percent of the same audience expects to witness a decline of 20% to 30% IT budget reduction as compared to 2019.  

According to Gartner’s latest IT market outlook, India’s IT spend is estimated to be $83.5 billion, registering an annual decline of 8.1% at current currency levels. This decline will have a ripple effect through 2021 as the end-user spending is expected to reach 2019 levels by 2022 based on the current outlooks and associated assumptions.

Figure 2: Due to COVID-19, What Is the Anticipated Decline in IT Spend of Your Enterprise in 2020 as Compared to 2019?
Due to COVID-19, What Is the Anticipated Decline in IT Spend of Your Enterprise in 2020, as Compared to 2019?

Percentage of Respondents

<table>
<thead>
<tr>
<th>Percentage Decline</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Change</td>
<td>11%</td>
</tr>
<tr>
<td>Less Than 10%</td>
<td>15%</td>
</tr>
<tr>
<td>10%-20%</td>
<td>41%</td>
</tr>
<tr>
<td>20%-30%</td>
<td>25%</td>
</tr>
<tr>
<td>More Than 30%</td>
<td>8%</td>
</tr>
</tbody>
</table>

n = 105
Source: Gartner (June 2020)

Gartner (June 2020)

Plan of Action to Optimize IT Costs in 2020-2021

In the current June 2020 uncertain scenario, Indian CIOs have to balance accelerating cost optimization initiatives that can deliver on expected cost reduction targets while staying invested in the strategic and digital imperatives of the business.

1. Leverage Gartner’s Cost Management Framework

During the COVID-19 crisis, current IT expenses should be categorized in three main buckets:

- **Cost cutting**: Immediately cut costs to eliminate waste and remove capabilities that are no longer part of strategic plans, thus freeing up vital resources, time and funds to reallocate on prioritized areas. (See Figure 3.)

- **Cost optimization**: Use cost optimization to improve efficiency of capabilities that are required today to enable the organization to catch up to and keep up with its peers.

- **Value optimization**: Use value optimization for investment in new capabilities that are required for the organization to get ahead of peers and industry expectations.
Over the last two months, many CIOs are primarily undertaking a set of reactionary steps of cutting costs. As a next step, CIOs must consider a more structured, programmatic way to cost and value optimization. Since the sense of normal will be reconceived several times, it is important to have a flexible cost optimization framework. With ongoing social distancing norms in India, IT and digitization have never been so much on the hook to deliver business value.

Many large Indian organizations have corporate IT functions that are typically cost centers while their business IT teams are focused on line-of-business-centric digital initiatives. In the pre-COVID-19 scenario, one of the Indian corporate IT leaders have institutionalized a twofold vendor engagement program:

- Showcase the cost savings accrued over time during the entire product life cycle for a set of strategic high-value investments
- Identify areas of current and future business impact while leveraging current/new versions of technology

This can be a good program for other CIOs to emulate.

Cost benchmarking is an important aspect of proactive, structured cost optimization. Across corporate IT items, CIOs should compare themselves with their industry peers on a set of IT spend benchmarks, such as IT spend as a percentage of revenue and IT budget split by key areas, such as:

- Improve Efficiency
- Increase Productivity
- Shift Spend
- Align to Value
- Plan and Prioritize
- Execute and Measure
- Iterate and Innovate
as data centers and applications. "IT Key Metrics Data 2020: Industry Measures — Executive Summary" provides information that CIOs can benchmark to validate their cost-centric best practices, justify an anomaly, or create a plan for course correction.

India CIOs and finance leaders can also use a detailed cost optimization framework (see Figure 4) for creating a detailed action plan for next six to 18 months by mapping each line item of the corporate and business IT expense.

Figure 4: Universal Cost Optimization Framework

Universal Cost Optimization Framework

The vision is to improve the per unit cost of corporate IT by making it efficient and standardized while creating or augmenting technology-enabled automated business models that thrive in a COVID-19 scenario.

Recommended Research:

“Executive Leadership: Cost Management Primer for 2020”
“Prioritize Your Cost Optimization Initiatives Using Gartner’s Decision Framework”

“Create and Communicate an Enterprise Cost Optimization Roadmap”

2. Create an IT Contract and Vendor Engagement Program

“Renegotiate IT contracts” emerged as the most popular option of reducing IT cost as expressed by the representatives from Indian organizations in a recent poll. (See Figure 5.)

**Figure 5: What Will Be Your Individual Suggestion for Your Organization to Optimize Costs in 2020?**

<table>
<thead>
<tr>
<th>Suggestion</th>
<th>Percentage of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Renegotiate IT Contracts</td>
<td>41%</td>
</tr>
<tr>
<td>Optimize Cloud Cost</td>
<td>7%</td>
</tr>
<tr>
<td>IT Consolidation</td>
<td>19%</td>
</tr>
<tr>
<td>Increase Share of Permanent WFH Employees</td>
<td>13%</td>
</tr>
<tr>
<td>Strategic Focus on Business Continuity</td>
<td>20%</td>
</tr>
</tbody>
</table>

Indian CIOs, in partnership with their CPOs and IT finance teams, should create a cross-functional team to engage with their current and new vendors. A set of emergency steps to cut costs has been already undertaken, and this team should bring a structured multiphase cost optimization approach. This team should broadly undertake the following steps:

1. **Start with a list of upcoming renewals:** As a first simple step, this team should create a list of all upcoming renewals across all technology areas: infrastructure, software, services and cloud. Impacted CIOs have already put the brakes on nondiscretionary spend and have extended the life cycle of existing hardware assets.
In recent inquiries with a set of CIOs and their procurement teams, the cost optimization discussion started with reviewing a comprehensive list of all hardware, software and services contracts due for renewal over the next 12 months. Some observations are summarized here:

1. Legacy hardware renewals are expected to hardly gain any pricing discount/flexibility as users, especially public sector customers, have a huge dependency on these platforms.

2. A set of software providers are seeking at least a single-digit price escalation during renewal.

3. Another set of software providers are open to negotiate and find alternatives to reduce cost.

2. **Renegotiate service contracts:** Often traditional service contracts, such as managed services, outsourcing and colocation, are the ones where there is a regular recurring commercial payment involved. In earlier financial turmoil, such as the one in 2008-2009, service providers have shown flexibility to rescope and restructure the service contract, and Indian CIOs should initiate similar discussions now. Upcoming service renewals are a great opportunity for CIOs to negotiate better terms and pack more value at the same or lower price.

   Specific negotiation levers include evaporating revenue scenarios for the majority of the industry coupled with restructuring the scope and SLAs for nonessential services and removing/reducing the penalties for essential services.

3. **Conduct due diligence with software license contracts:** Customer feedback suggests that traditional software license renewals are not receiving an emphatic response from the majority of the leading providers. However, CIOs and their procurement teams are advised to review all the existing licenses/renewals and find potential “good to have” areas such as employee recognition and gamification:

   - A set of organizations have a practice of keeping a mirror system on top of a core just for localized support and better experience.
   - A set of bundled software products are often purchased with ancillary modules with limited usage. For example, providers such as Oracle and Workday often sell benefits and wellness modules along with HR modules.

   The cross-functional-empowered team should look at usage data for these “good to have” situations and consider excluding them during refresh license negotiations.

   Impacted CIOs are also suggested to negotiate a temporary extension of expiring software contracts for a few months (for no cost or a very small cost), especially if your business is in flux and uncertain. Request a month-by-month extension until the business situation starts going back to normal. Increase negotiation leverage by creating software vendor incentives to amend orders, such as extending existing contracts and providing opportunities to displace software competitors.
4. Actively explore cloud and associated cloud cost optimization: Specific sets of cloud-based services have become quite popular in India during COVID-19. A CIO can invest significantly less cash upfront by leveraging cloud-based solutions than scaling up on-premises data center capacity or acquiring traditional licensed software. This may also mean introduction of a new vendor (and associated managed service provider [MSP]) from a vendor engagement perspective.

CIOs with growing or existing deep investments in cloud should immediately look at cloud cost optimization tools offered by all the leading hyperscalers, such as Amazon Web Services (AWS), Google and Microsoft. Various MSPs offer it as part of their managed services. In addition to this, various India-based cloud MSPs such as Blazeclan Technologies and Embee offer dedicated cost management services in a cloud world.

4. Leverage COVID-19 support programs offered by IT vendors: To help customers with ongoing cash flow challenges, IT providers have various COVID-19 short-term programs such as free capacity (for limited period), deferred payment terms and special technical support. A good example is freemium unified communication and collaboration services, such as Webex, Zoom and Google Meet, from anywhere for one to 12 months. End users should manage their current demand peaks with these offers and optimize their cost within a certain time frame if possible.

5. Evaluate alternative IT contracting and provider payment models: Consumption-based programs, lease financing from IT providers are other options that can help IT leadership navigate through current financial challenges. Some options that are worth exploring:

- Consumption-based pricing at times is misconstrued as a less-expensive option. HPE GreenLake is one such option from the data center market. Software providers have similar pricing models. It is advised to negotiate flexible pricing metric for the renewals/existing IT contract, even at a slightly higher unit price for a limited period, for all requirements or the parts of the IT requirements that ensure business resilience, in an uncertain revenue situation.

- Vendor/lease financing is another option where the provider directly or through third-party financing partners enables financing and the interest rates are relatively low in current situations.

- Outcome- (such as revenue)based contract and pricing is another idea in which some CIOs and their teams intend to explore with their IT providers with renewals or new purchases. It is a good way to cover the risk and offer benefits to both sides.

Once things resume to “normal,” this cross-functional team can again revisit the decision to continue or go back to the traditional, cost-effective payment model.

In conclusion, Indian CIOs and their colleagues can aim for a set of realistic outcomes (see Table 1).

Table 1: IT Cost Optimization Matrix
<table>
<thead>
<tr>
<th>Specific Actions</th>
<th>Description</th>
<th>Estimated Cost Optimization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider reducing or stopping discretionary IT spend</td>
<td>Immediate budget reduction on a set of discretionary IT initiatives, services (including contractual staff)</td>
<td>Savings in the range 1% to 5% of IT budget</td>
</tr>
<tr>
<td>Due diligence for on-premises software renewals/existing contracts.</td>
<td>Renegotiate all the features (including ancillary) required in an upcoming renewal or existing contracts.</td>
<td>Savings of 5% to 10% of the original software licensing cost</td>
</tr>
<tr>
<td>Renegotiating IT services contract</td>
<td>Immediate/short-term renegotiation of traditional services, managed services, and outsourcing</td>
<td>Cost reduction of approximately 15% to 20% of the contract value</td>
</tr>
<tr>
<td>Introduce/augment automation</td>
<td>Initial investment in artificial intelligence/machine learning (AI/ML) tools (with a short-term ROI) will deliver better efficiency</td>
<td>Net 10% to 15% of savings in various ongoing IT services project costs</td>
</tr>
<tr>
<td>Initiate legacy platform rearchitecture</td>
<td>Initial/ongoing investment to rearchitect legacy platforms (including infrastructure, OS and applications) to newer commodity alternatives</td>
<td>Net 10% to 15% of savings on an annual basis</td>
</tr>
<tr>
<td>Cloud cost optimization</td>
<td>Additional service investment to reduce the annual cost of cloud</td>
<td>Net 15% to 20% savings on the original annual cloud cost</td>
</tr>
</tbody>
</table>

Source: Gartner (June 2020)

Recommended Research:

“COVID-19 Response: Top 7 Cost Reduction Actions for I&O Leaders”

“How to Cut Software and SaaS Costs and Quickly Improve Cash Flow in Times of Crisis”

“Use SAP’s Business Suite 7 Support Extension to Manage Costs and Optimize Your S/4HANA Transition”

“How to Manage and Optimize Costs of Public Cloud IaaS and PaaS”

“Microsoft Azure Services: A Guide to Optimizing Large Negotiated Deals”
3. Invest More in Security While Planning Permanent Work From Home

A Gartner survey of 317 global CFOs and finance leaders on 30 March 2020 revealed that almost 74% of the surveyed companies will permanently increase their WFH headcount after COVID-19. Indian CIOs and their finance counterparts have also indicated a similar approach, though at a smaller scale with only 13% (see Figure 2) opting for such options. This is a collaborative business decision that business and IT need to discuss, as the lockdown situation eases out and people start returning to offices in India. In addition, CIOs also need to create a return to office plan in 2H20 as part of the overall digital workplace strategy.

CIOs should closely work with their chief security officers (CSOs) while chalking out a midterm to long-term WFH strategy for their organization. Gartner recommends that any device that is needed for remote access should be configured with an endpoint protection platform (EPP) for desktops and mobile threat defense for an iOS or Android device. Also, one of the drivers for the adoption of cloud-based secure web gateway (SWG) services is the need to protect mobile laptops when they are off the corporate network. Finally, the virtual private network (VPN) replacements, such as a software-defined perimeters (SDPs), also known as “zero-trust network access,” have been getting a great deal of attention as enterprises come to realize the shortcomings of VPNs. SDP will grow and will be a technology that organizations use in tandem with their traditional VPN client architecture to secure remote workers.

Within Gartner’s cost management framework, this qualifies as “value optimization” given this is a net new investment enabling business continuity.

Recommended Research:

“Tool: Guide to Preparing Your Office for the Return of Employees After COVID-19”

“Workforce Resilience in the Eye of the Pandemic: Overcoming the Current Remote Work Situation While Planning for the Future”

“COVID 19: Making Remote Work the New Normal in Government”

“Use DEM to Understand and Enhance Your Employees’ Work-From-Home Experience”

4. Continue Digital Optimization and Transformation Initiatives

One fundamental question that Indian CIOs have been constantly discussing with Gartner: Should we continue digitization or stop?
This question becomes complex in the backdrop when CIOs are witnessing IT budget cuts with digital becoming the most preferred way of engagement with customers, partners and employees. As part of reprioritization, high-cost digital initiatives such as business transformation, process reengineering and modernization can be put on hold or their scope can be redefined, at least for the short term. Gartner recommends investing in targeted digital initiatives that help organizations to ensure business continuity and employee and customer engagement. Examples include investment in remote working platforms, disaster recovery, web content management, automation, and AI-based tools such as virtual sales assistants. Automation is a specific area where Indian CIOs have limited investment and has a potential to optimize various IT costs.

Digital optimization is the path forward for many organizations to automate much of their processes. We use technologies to help increase our percentage of adoption of digital across the enterprise. Figure 6 shows which areas are typically targeted for optimization through digital technologies. Organizations should use digital KPIs (see “Digital KPIs: A Guide to Developing and Measuring Your Digital Progress”) to help baseline their existing level of digital adoption and plan to accelerate their progress toward investing in digital capabilities in order to optimize business-related costs. CIOs should look to build out a plan for using technology to change the cost structure of the organization. “Tool: 8 Approaches for Digital Business Optimization” is a starter note for CIOs looking to play a bigger part in organizational cost structure change in the short term to the midterm (see Figure 6).

**Figure 6: 8 Approaches for Digital Business Optimization**

**8 Approaches for Digital Business Optimization**

- **Increase Revenue**
  - Improve Existing Revenue
- **Improve Operating Margin**
  - Reduce COGS
  - Reduce SG&A
- **Improve Workforce**
  - Improve Employee Productivity

**Improve Customer Experience**

- Enhance Customer Experience
- **Increase Asset Utilization**
  - Optimize Inventory and Yield
  - Optimize Physical Assets
  - Optimize Financial Assets and Cash

Source: Gartner (June 2020)

Recommended Research:
"Lessons From China: Business Model Resilience in the Coronavirus (COVID-19) Outbreak"

"How to Use AI to Fight COVID-19 and Beyond"

Evidence

1  “Advisories on COVID-19,” NASSCOM

2  This is based on audience polling data from a recent India COVID-19 webinar on cost optimization on 7 April 2020. This webinar was attended by a total of 205 IT, finance and small groups of leaders representing a combination of industries such as banking and finance, retail, government, and manufacturing. This one-hour webinar had two polling questions, and each question was answered by more than 100 participants, as mentioned in the individual graphs.

3  “Gartner Sees IT Spending in India Falling 8.1% in 2020; First Fall in 5 Years.” CNBCTV18.com.

Recommended by the Authors

Tool: More Than 20 Quick Cost Cuts for Digital Workplace Infrastructure and Operations

How to Cut WAN and Internet Costs During a Crisis Such as COVID-19

Recommended For You

Summary Translation: How to Respond to Mandatory IT Budget Cuts
Summary Translation: Best Networking Practices in a DevOps World
Integrating Blockchain With IoT Strengthens Trust in Multiparty Processes
Assessing the Optimal Blockchain Technology for Your Use Case
Common Mistakes to Avoid in Enterprise Blockchain Projects

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