How to implement AI and reduce IT spending at the same time

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When we analyze the IT spending of our clients, we typically find that over 50% of the spending is not driving business success. That's right, over half of IT budgets are likely generating zero return. Yet, each year at this time, proposals to increase IT spending are likely to come in fast and furiously through the budgeting process.

And the new reason to increase IT spending? We need to implement AI. Why? Because it's the future in growth and automation of course. Can anyone prove that? No. But read any article and it will tell us, invest in AI or be left behind. So, we need to hire more consultants and develop more platforms that require more integration. Consolidate and secure data so AI has resources. Build AI models and hire or retrain folks to run the AI operation. And of course, we need change management to help our employees implement AI while easing concerns that the better they implement the more risk to their job security.

But wait, what's the total cost of ownership and the ROI of all of this? Crickets…

Common advice is we can start slowly, build a few AI pilots and see what works. This is true and a trap, because we'll be off to the races spending and unwinding these piecemeal implementations is no bargain. Still, this approach is reasonable, but we should also expect limited and often unreliable AI with partial solutions.

Just as investment in cloud solutions, CRMs, ERPs, and IT stack expansion have rarely yielded the advertised business success results, AI for most firms will provide real increase in costs and at best foggy business success outcomes. To see the future, let's look at the recent past. Are we making key decisions based on the data from new ERP, CRM and other platforms? Or are we producing more reports and dashboards that often do not drive business impacting decisions? Have these new platforms made business processes more efficient or are we trying to get back to being as efficient as we were before implementing them?

Are the large increases in data availability providing tangible improvement in understanding business trends or just confirming what is already known? Is the customers' experience measurably improved? Have operating expenses as a percentage of sales been reduced?

Can we connect IT spending to business results, either improved Gross Margin percentage, improved revenue levels, or reduced fixed expenses? Are we budgetting an increase for next year just to "keep up" with technology?

It's also hard to miss the development period of implementing these solutions never seems to end. Every year it's more Dev. When do we wind down development and focus on harvesting returns? Again, crickets…

There are some hard actions needed to break this cycle. A common recommendation is not only the need to "modernize" the IT structure, but that all the pieces need to be "integrated". This makes sense on a high level but creates an insidious structure with costly and low value software solutions that are tangled into software that provides value. Often, there are legacy solutions included because of the difficulty of removing them.

This can result in an IT stack mess that is so hard to unwind, many companies just live with it. Now we plan to add AI to this, and the likelihood of success is unfortunately low and certainly not what we are being told by those promoting and selling these new enhancements.

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The software selling firms are unlikely to help fix this as they are trying to sell more software rather than simplifying and reducing IT spending to fund new investments. It is also hard for an IT team to look outside the infrastructure they helped design and build or recommend reducing costs in their area.

Sales, marketing and operations teams tend to see new IT tools as shiny new objects that they truly believe will deliver on the promises made by those selling the enhancements. The expense and support of new software is typically in IT so it's common to ask for more tech that is advertised to help a given functional area. When IT development is funded as Capex, neither the IT area nor the functional areas feel the full impact of the cash investment. In an EBITDA driven team structure, Capex can be a forgotten drain on cash and future profits.

As the CEO, COO, or CTO, it can be difficult to get informed analysis and advice on key questions needing clear answers.

1. What components of our IT structure add positive ROI value to the business?
2. Of the components that do not, which are fundamental as needed overhead for the ones that do? How do we gain this fundamental functionality with simplified, lower cost solutions?
3. How do we unwind and reduce IT spending to pay for the investments needed to add tech that has positive ROI? How does AI fit into this answer?
4. How do we build an IT roadmap driven by decisions with tangible business outcomes at reduced costs?
5. How do we create a repeatable IT decision filter that allows us to drive winning business outcomes for our future while paying for it at predictable and acceptable spending levels?

At Ringling Business Solutions, we focus on business outcomes first and IT as a support investment to business results. We help clients tackle these questions and challenges with independent and knowledgeable resources. We will help you assess and resolve your IT roadmap and get to a point where your team has high confidence that IT investments are providing tangible returns for your customers and your firm.

AI and other new IT investments have tremendous potential that are also matched by many potential downfalls. If there are foundational challenges with the existing IT structure, adding AI to it will likely cause more disappointment than success. The AI journey needs to be built on a solid IT roadmap. And linking these journeys will allow AI implementation to be supported and successful.

By first working through the IT foundation and roadmap, AI can be successfully added while simplifying and reducing IT costs elsewhere. Net AI implementation costs can be low, and likeliness of success much higher.

Challenging your team to produce a plan with a net reduction in IT expenses is also a very healthy exercise. It forces critical evaluation of software options and hard choices on what is truly driving business success. It also focuses all the stakeholders on the costs and tangible returns linked to IT investment.

For a ½ hour introductory call on reducing IT spending while implementing AI, please go to RBS Call/30min

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