STRATEGIC APPROACHES TO IT SOURCING

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How IT Investments Challenge Procurement

The traditional methods used in the procurement of IT products and services have become outdated and inefficient as companies invest in the latest technologies to remain innovative and productive in their business processes.

As technology becomes more diverse, specific, complex, and departments work more autonomously in IT sourcing, those legacy sourcing and procurement practices lead to overspending and loss of control by IT and procurement alike.

The traditional three-bid sourcing approach does not get the best supplier, most competitive price, or most favorable terms for most IT spend categories. Technology permeates into every aspect of business and the lines of responsibility have blurred as corporate departments and divisions take charge of their own IT solutions and acquisitions. Now, instead of procurement leading the purchasing process, three common scenarios have evolved in IT sourcing:

1. Company departments or divisions describe their needs to IT, which then identifies suppliers and solicits bids. Procurement is then asked to negotiate.

2. Departments or divisions find their own technology solution and only ask IT to validate it before sending a P.O. request to procurement, who negotiates at the end of the process.

3. Departments go directly to procurement without conferring with IT. The advent of SaaS and other software services makes it easy to bypass IT, and sometimes procurement, altogether, as the only qualification to use these services is a web browser.

Unfortunately, these common IT purchasing approaches are as ineffective as the traditional three-bid process because procurement and IT have different measurable goals when buying technology.

While procurement’s main objective is to ensure internal customers have the products or services needed to do their jobs, they are also expected to cut costs. IT also serves internal customers as they work to improve service and quality levels, satisfy departmental technology needs, and maintain 100 percent uptime.

Out of these three scenarios, specific challenges have emerged for procurement.

IT’s Primary Metric is Not Focused on Cost
If IT operates within budget, they are not necessarily expected to produce cost savings. Hence, saving money is not IT’s top priority. Working independently of each other, procurement may not fully understand the complexities of IT equipment, licensing, terminology and language while IT often does not have complete insight on key overspending or wastage points and negotiable areas of supplier contacts.

Procurement Not Invited to the Table Early
Procurement is often brought into IT sourcing initiatives too late when a contract may already have been drafted and preliminary work has begun. At this stage, procurement loses leverage to negotiate on price and contract terms, and often do not have the resources necessary to validate the Statement of Work (SOW).

IT sometimes has little or no time to adequately source a solution and may suggest a supplier from a pool of established suppliers, working on previously accepted terms without validation.

Sales Heading Straight to the Decision-Maker
“Divide and conquer” strategies employed by some of the leading software and services firms can also plague IT sourcing initiatives.

Under these strategies, supplier representatives are selling directly to stakeholders and budget owners and often try to keep initiatives flying under the radar until they have complete buy-in and substantial time investments from those stakeholders. Simultaneously, representatives have a different team that is responsible for courting management and executives for months on end, knowing that when the purchase request comes along, that the management team will already be soft to the idea of signing it.
IT Procurement Scenarios

Below are some typical IT procurement scenarios that explain these points in more detail:

1. **Scenario 1: The Sales Department Wants a CRM Solution**

   In this example, a sales department is looking for a CRM software solution to more efficiently manage leads and customer contacts. Rather than confer with IT or procurement to outline requirements and begin the sourcing process, sales conducts its own research on different software programs, or worse, a manager simply brings in a solution previously used at a prior career. After testing different demos and talking with suppliers, the department may begin a trial of the solution on a broader scale. That trial may extend so far as to actually integrate into existing sales force practices. After the solution has been proven, sales may interface with IT just to validate that the software does not create security concerns with the network before submitting a P.O. request to procurement. In many cases, the supplier already knows they will be awarded the contract at this point, so when a proposal is submitted to procurement, the opportunities to negotiate or secure concessions have passed. Given that most departments are working on tight timelines to meet project deadlines, procurement typically is not given appropriate time to research the request to determine if the software solution is viable, if better alternatives exist, or if something similar is already being used in another department that could meet the sales team’s needs.

2. **Scenario 2: IT Needs Custom App Development**

   IT departments working on complex application development service contracts often do the same thing. They send a P.O. request to procurement after they have already approved the SOW and started negotiating contract details and rates on their own. Procurement is left out of the loop while IT discusses project specs with preferred suppliers. With responsibilities that extend much further than its resources, IT often relies on the suppliers to build the SOW. This practice can lead to a contract full of redundancies, overspending, incorrect timelines, unfair termination charges and boilerplate project plans that do nothing but cost the buyer money. At the end of the process, the work has already been outlined, if not already begun, and procurement is left with no time to validate the SOW, review the Master Service Agreement, understand training and licensing requirements, negotiate for outsourced resources, or adjust the length of the agreement. Without the technical expertise and/or available resources to evaluate this information, procurement cannot adequately validate those contract terms. Without understanding the project specs and having been left out of the loop, procurement cannot reasonably verify the validity and costs of services, equipment or personnel.

   The same scenario holds true should a department want to hire a consultant to provide custom software services. Working with IT, the department determines a calendar of services from a consultant at a certain rate to achieve a specific goal. When receiving the proposed contract, procurement might not have the market intelligence to verify rates for programmers or this specific type project or have enough information to determine if the project is sized correctly. Are all the programmers really needed at start up or can they be added as the project builds? How much time is actually required in completing different milestones? Are programming rates reasonable based on current market conditions? As a result, the company may overpay for services and a poorly designed SOW.

3. **Scenario 3: Multi-Part Agreements**

   IT agreements can be much more complicated than simply licensing software or contracting resources. Many IT contracts and projects consist of multiple steps. License acquisition, system integration, application development and project management are just some of the elements of a modern IT initiative. There may also be elements concerning maintenance, help desk, updates, and a hosting space to host the applications. For example, focusing on the hosting component alone, procurement needs the intelligence and insight to get answers to important questions such as: Does the company really need this much storage? Is the processing power adequate or oversized? Do I need all of this support and functionality from Day One, or can we scale this environment as we grow? How are future upgrades priced; do they factor in the depreciating cost of technology? Are the licensing models of the applications appropriate? When looking at the software agreement, are concurrent licenses needed for users in different departments? Are alternative licenses, like named-user licenses, available and more appropriate? Is the length of the contract too long and will it result in technology obsolescence?

   These multi-component contracts feature complex structure and data, and are designed to cause confusion. They reference historical Master Service Agreements, prior P.O.s, and online Terms and Conditions (that can be updated daily), and are rarely in the best interest of the buyer. To complicate matters, the “divide and conquer” strategy may have been employed by those suppliers, so stakeholders and executive management may have complete buy-in regardless of price. With so many moving parts, confusing jargon, technical lingo, and because IT spend is inherently difficult to source, procurement often just has to trust the IT department and push forward with a contract.
Supplementing Internal Resources Can Solve Procurement Challenges

While procurement may collect research from prior negotiations, a three-bid process, web searches, publications and industry analyst reports, the data derived from these sources typically is not specific enough to conduct an adequate analysis.

As every IT project is unique with different requirements, a standardized set of rates or recommendations is typically not sufficient to truly evaluate the terms of a contract. Referring to previous negotiations with the same or different suppliers may also produce outdated or unrelated information. Suppliers are not well known for publishing their best prices online, and an RFP process is only good for eliminating the outliers in a competitive process. Procurement is at a disadvantage when it comes to sourcing IT spends.

Gain Control

Procurement must use more strategic approaches to better understand what they are buying and who they buying from if they hope to procure IT goods and services at the best price from world-class suppliers. One strategy to achieve this goal involves supplementing internal resources with benchmarking services and data to gain the needed market intelligence needed to evaluate IT expenditures.

With sparse time, limited internal resources, and tasked with cost-saving initiatives, procurement often must look outside the organization to gain the expertise and support to make more informed buying decision when evaluating IT services. The need for these outsourced resources and market intelligence becomes even more critical when procurement is often involved so late in the game. In addition to providing a “second set of eyes” in reviewing more complex IT expenditures, outsourced benchmarking services are especially useful during business spikes when the company increases demand for IT products and services.

Benchmarking Services Take Market Intelligence and Expertise To the Next Level

Benchmarking services go beyond merely matching a price to a service or product. Consultants providing benchmarking services take into consideration various cost factors including supplier availability, capacity, geography of services, cost of materials and labor, taxes and more when determining rates.

Drawing on technology and cross-industry experience, deep databases of shifting global market conditions, prices and vast supplier relationships, benchmark consultants provide guidance far beyond just verifying rates. They evaluate whether or not the proposed IT expenditure is even a viable solution for the company or if it identifies ways a company can leverage their position to reduce costs or improve the service or product that they are procuring.

Consultants also bring best practices on RFX processes and business methodology, taking into consideration what other suppliers are doing in a specific market to refine contracts to get the best deal for the dollar. All the while, the work is completed transparently to the suppliers, as if the consultants are employees of the company.

Taking a reverse engineering approach, the benchmark consultant will evaluate a project from concept to the finalized SOW to determine if the size of the IT solution proposed by the supplier fits the company needs. The consultants can also review the project plans, ensure the right resources are engaged at the right times and eliminate unnecessary resource padding that is often found in supplier-developed SOWs. Contracts are then structured for maximum cost efficiency and rates made market-competitive for the task. For multi-year service contracts, a benchmark can determine the long-term positives and negatives of buying from the same supplier over time. Typically, the cost of benchmark services is offset by the savings achieved through the benchmarking activities.

Depending on the complexity of the task, a high-level benchmark review of contracts can be completed in a relatively short period of time. More complex programs, including multi-component service and development agreements, can take longer to test the market. Even if procurement has a limited amount of time, a high-level review can often determine if the proposal might prove to be a high risk or an unnecessary high-cost item to the organization. At this point, procurement might put a hold on finalizing the contract until a proper review can be completed.

While benchmark services can provide the data and support to more effectively evaluate current P.O. requests, it does not address every challenge faced by procurement. The nature of rapid IT acquisition and the growth of the spend category combined with organizations that have autonomous business units that have historically operated in a bit of a silo has led to organizations with significant redundancy and overlap in their infrastructure and IT support services. Procurement can actually become the solution to that problem.
Larger corporations are gaining tighter control over IT expenditures by adopting a Shared Services Center (SSC) strategy that focuses on increasing the quality and cost of services within the organization.

Composed of a cross-departmental, multi-experienced team of employees, SSCs support the corporation by handling specific operational tasks with the purpose of eliminating duplicate activities, reducing bureaucracy and improving internal efficiency and external services. Savings are derived from standardizing and consolidating technology and processes, making it easier to provide support for multiple business units while improving the speed and quality of service.

SSCs can provide support on a range of operations from evaluating new IT acquisitions costing over a specific price, to consolidating multi-contracted telecommunications services, to identifying existing contracts and suppliers used throughout the corporation to eliminate redundancies. SSCs are not limited to IT acquisitions; they can align all major purchases with the financial and executive goals of their organizations. Many SSCs are multi-functional and touch every division within a corporation.

In terms of IT procurement, the SSC can get involved earlier in the process to identify available IT resources and capabilities, as well as shared departmental needs, before reviewing new technology solutions. Lack of visibility into shared needs across multiple organizational departments or business units can lead to high costs and redundant contracts with multiple vendors. The SSC solves this by providing a team that not only has visibility to the entire organization’s spending but are key subject matter experts who integrate their knowledge of technology with the best practices of contract negotiations.

For example, should IT seek a data analytic software solution that analyzes the peak processing capabilities of their server and network hardware, the department would submit a request to the SSC and the team would meet to analyze the project specifications. Substantiating, rather than replacing, the strategic importance of procurement and IT in this cycle, representatives from both departments would be invited to provide input. During their review, the SSC might find that sales is also looking to license a data analytic tool to be used to mine marketing intelligence about target audiences. While, on the surface, little similarity may seem to exist with the two departments’ software requests, the common thread of data process and analysis would prompt the SSC to review the scope of work for each project and determine if there are any similarities between the two projects.

With different departmental representatives on the SSC, an engineering team member might surmise that their department is already using some type of analytic software and perhaps that source can be leveraged to bring all the projects together under one contract. A final determination may conclude that using an existing supplier to contract additional services is the best option to satisfy the three departments’ requirements.

Based on findings such as those profiled in this scenario, a common initiative by an SSC would be to conduct a spend analysis to determine how many different departments within the company are actually contracting the same or similar suppliers and for what reasons. While cost reductions can be sought by consolidating contracts, the SSC might meet with the supplier simply to improve relationships or to establish more favorable contract terms over time such as consolidating volume from other suppliers or entering joint marketing activities that benefit both the supplier and company.

Maintaining contract compliance and supplier relationships may also be tasked to the SSC. Different companies may establish different operations and goals for their SSC, starting with one initiative and expanding into others. To get started, third party specialists can help develop the concept within an organization’s long-term strategic business plan, structure the SSC and build teams, and support decisions by supplementing market intelligence with continued benchmarking services. Third party consultants also help companies keep abreast of the new technologies that enable them to benefit more from shared services. Serving as an extension of your team, consultants can give you the extra support needed to get started and maintain long-term and successful SSC operations.
Benefits of Shared Services Centers

- **Employee-Driven:** Interdepartmental staff work together to share ideas, expertise and knowledge of their segment of the company. Decisions are internally based.

- **Higher Productivity:** Eliminate redundant research, multiple RFxS, supplier analysis and all steps involved in supplier contract negotiations. Consolidating similar department requests into one program eliminates duplicate work and puts tasks on fast track.

- **Leverage Investments Across Enterprise:** Conduct spend analysis to determine which suppliers are used frequently within an organization to build consolidated contracts or extend their expertise to meet other departmental needs.

- **Standardized Processes:** Formalize procedures for specific operational tasks so every department is following the same criteria and working according to the same corporate strategies.

- **Compliance:** Continually monitor spend categories to ensure compliance by both company and supplier according to terms of contract and corporate policies. (Is supplier providing appropriate discount at threshold and are all divisions buying from established resources for specific supplies?)

- **Build Supplier Relationships:** Identify suppliers frequently used through the company to build better contracts and relationships. Frequently monitor marketplace to ensure supplier is happy.

Looking for More Than a Three Bid RFP Process?

Limitations on time, people, tools, expertise, information and other resources often lead to companies relying exclusively on Internet research and a simple RFP process. But strategic sourcing and procurement’s role in organizational success is so much more

Source One is a consulting firm that provides strategic sourcing and supply chain services to help organizations transform their procurement processes into world-class leaders.

- **Spend Analysis Services**
  Cleanse and normalize your data and general ledger. With clean visibility into your supplier profiles and expenses, Source One can identify spending patterns and opportunities for cost reduction and category improvement.

- **Auditing Services**
  Conduct a historical audit of contractual compliance, analyze and document your existing equipment or services inventory, and implement go-forward auditing to help reduce maverick buying and eliminate supplier non-compliance.

- **Supplier Identification Services**
  Identify those world-class suppliers who should be your business partners moving forward. From innovative upstart application development firms to niche unheard-of manufacturers spread around the world, Source One can align your goals with the best suppliers that fit your organization’s needs and culture.

- **Near-Shore and Risk Management**
  Are your custom manufactured goods or raw materials at risk? Are natural disasters, political instability, currency rate spikes or inflation affecting your global supply chain? Source One can help alleviate the risk through near-shore and risk management services.

- **Benchmarking Services**
  Source One provides unparalleled market intelligence to the sourcing process to ensure you are receiving the best value for your dollar, pulling data from a variety of sources including our database of prior negotiations spanning three decades and Source One’s free e-sourcing platform WhyAbe.com, used to conduct thousands of sourcing events for clients around the world.

- **Cross-Category Expertise**
  Source One’s consulting team has sourced hundreds of spend categories over the course of three decades. We historically average 18 percent savings for customers and the process is so refined that it has produced savings in just about every spend category, ranging from telecommunications to human blood for hospitals.
Source One Management Services, LLC is one of the oldest and most experienced procurement services providers in the world. Source One offers a full suite of strategic sourcing, supplier relationship management and supply chain services to a roster of Fortune 500 and mid-market clients. Source One helps supplement our clients’ time, expertise, and resources with experience, market intelligence, technology, and people to deliver tangible results and maximize value received from their suppliers. For more information on Source One, visit us on the web.