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10 Reasons Why IT Buyers Should Perform Price Benchmark Analysis

There are many ways IT buyers can reduce IT overspend – but none more effective than IT price benchmark analysis. What makes this tactic so effective? Why are more enterprises including it as part of their IT purchasing (and renewal) process?

An acceleration in enterprise IT buying has generated an explosion in toxic spend across the IT ecosystem. The root cause can be traced to two systemic issues. First, companies today are making more IT purchases, more frequently, and with more vendors with whom they have less buying experience. This translates into more pressure on IT procurement teams, many of which are already resource-constrained.

Second, complexity and change within IT vendors' licensing, subscription and pricing models is greater than ever. Part of this is a natural function of the IT vendor landscape where innovation, competitive pressures and an ever-present need to appease shareholders drive change momentum. But there has been acceleration and volatility in these areas as well and IT buyers are feeling the bottom-line impact.

IT buyers have many tools in their toolbox to reduce IT overspend. These run the gamut from proper definition of business and technical requirements and RFP structuring to negotiation best practices. One extremely effective tactic is IT price benchmark analysis at the transaction level. This analysis answers four key questions:

- Is deal pricing within an acceptable range of what my peers are paying for deals of similar size and scope?
- If not, what pricing targets will bring the deal into alignment?
- Are there other pricing/licensing/subscription options that would meet my company's requirements at a lower cost?
- What other cost-related business terms are important to optimize for a purchase of this type?

WHY IT PRICE BENCHMARK ANALYSIS SHOULD BE PART OF EVERY IT PURCHASE AND RENEWAL

Here are 10 reasons why IT price benchmark analysis should be performed on all material IT purchases and renewals:

1. **Enterprises overpay for IT and telecom purchases 84 percent of the time.** NPI analyzed over $11 billion in enterprise IT spend for our clients in 2020. An astounding 84 percent of the purchase quotes and agreements we analyzed were priced above fair market value. Only 16 percent were priced "fairly" as compared to peer purchases in the market.

2. **Successful vendor negotiations start with data-driven pricing targets.** There is no shortage of books, seminars and other resources on how to effectively negotiate with IT vendors – and these best practices are important. However, buyers looking to materially reduce costs and root out toxic spend across the IT ecosystem (which tends to proliferate over time) must come to the negotiation table with valid pricing targets backed by data-driven analysis.

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3. **Material savings opportunities are common.** Perhaps the single most compelling reason to perform IT price benchmark analysis is the outcome. Savings potential revealed on individual transactions generally range from 5 percent to as much as 50 percent. The overall average is 12 percent. In every instance, IT buyers are able to purchase more confidently.

4. **Price volatility is at an all-time high for many IT vendors.** The disruption that defined the last 18 months shows no signs of abating – it's simply taking a more positive form now that we are transitioning from reactive digitization to proactive digitization. As a result, IT pricing has become more volatile and less transparent, making it harder for customers to discern if a deal is fairly priced.

5. **The cloud.** Broadly speaking, even the most cloud-first enterprise IT environments still contain some on-premise deployments. As a result, legacy enterprise vendors that continue to offer both cloud and on-premise solutions are becoming more aggressive in how they're "motivating" customers to fully move their footprint to the cloud. Tactics range from stricter product use rights, auditing customers with sizable on-premise deployments, and pricing and licensing changes. The bottom line? The opportunity to save (and, conversely, the risk of overspending) can be significant – but these are moving targets.

6. **Analysis can reveal other licensing/subscription options that meet requirements at a lower cost.** IT price benchmark analysis exposes the true cost of a vendor's proposed solution, and that often leads to conversations about more price-friendly options offered by the vendor that are a better match for the customer's needs (or credible competitive alternatives).

7. **Analysis often uncovers cost-related business terms that need to be optimized.** Areas to inspect include license rights (for example, ability to swap or move licenses), bundling (being locked into renewing an entire bundle vs. just the elements you need at renewal time), price protection and escalator caps, ramp-up schedules to reflect your implementation schedule, and more. Just like the price a customer pays, these elements of the deal need to be optimized for the customer's situation – and vendors are inconsistent in putting their best foot forward.

8. **Vendors make growth assumptions that affect pricing – and they're often wrong.** Just as important as the "base" price you negotiate with a vendor are unit price increases based on the vendor's assumptions about how the customer's quantity/usage will grow. The problem is vendor's assumptions can be – and often are – incorrect. IT price benchmark analysis is an opportunity to bring future price and discounts in line with market and actual expected usage.

9. **It forces renewals off of autopilot.** When it comes to renewals, it's easy to put areas like telecom/network and SaaS on autopilot (albeit for different reasons). Unsurprisingly, vendors profit immensely from this form of unintentional complacency. Performing IT price benchmark analysis on a renewal forces the vendor to approach the transaction with more competitive pricing and business terms. Bonus – customers can better align their renewal with current and future-state requirements.

10. **It enables IT buyers to purchase with more confidence and expedite the purchasing cycle.** As previously mentioned, companies are buying more IT, more frequently and that's putting deeper pressure on IT procurement teams that are already spread thin. IT price benchmark analysis cuts buying cycle times by establishing a data-backed target for a good deal which helps buyers purchase and renew more confidently and quickly.

NPI's IT price benchmark analysis services provide **precise, actionable findings and recommendations** – in writing.

WHO'S RESPONSIBLE FOR IT PRICE BENCHMARK ANALYSIS?

IT price benchmark analysis requires visibility into peer-based purchases and renewals that are similar in size and scope. This perspective is often difficult to obtain internally within the IT buying center, which typically only has visibility into its own organizational purchasing history. While IT buyers can consult their network of peers for purchasing/renewal outcomes, the scope of visibility is typically limited to a few examples of anecdotal evidence.

NPI's IT price benchmark analysis services provide precise, actionable findings and recommendations – in writing. They reflect vendor-specific subject matter expertise, price benchmark analysis, industry insights and first-hand knowledge of peer buyer experiences. This empowers enterprise IT buyers to get the best deal on every IT purchase and renewal.

ABOUT NPI

NPI is an IT sourcing consulting company that helps enterprises identify and eliminate overspending on IT purchases, accelerate purchasing cycles and align internal buying teams. We deliver transaction-level price benchmark analysis, license and service optimization advice, and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. For more information, visit www.npifinancial.com.

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