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WHITE PAPER

IT Purchasing Excellence in the Digital Transformation Era

Digital transformation is a reality, and for most companies, the stakes are high: leverage a broad mix of digital technologies to grow and transform the business, or risk obsolescence. This reality is reframing the way companies think about all aspects of IT, including sourcing. In the digital transformation era, optimized IT sourcing practices can deliver more value to the business than ever before.

While optimized IT sourcing practices have the opportunity to deliver unprecedented value to the business, there is also unprecedented risk given the current state of IT buying. IT spending is exploding both in terms of budget and number of purchases. There are more stakeholders involved in every transaction. IT buyers are under close scrutiny to make the smartest purchase with the least amount of risk and to be hyper-responsive to the needs of the business. Furthermore, IT buyers are managing a larger number of vendors, whose own business and licensing/subscription models are changing quickly.

IT buying “excellence” in this landscape is a tall order. But the byproduct is that these pressures are forcing companies to view IT buying as a critical value driver – especially when it comes to accelerating digital transformation initiatives.

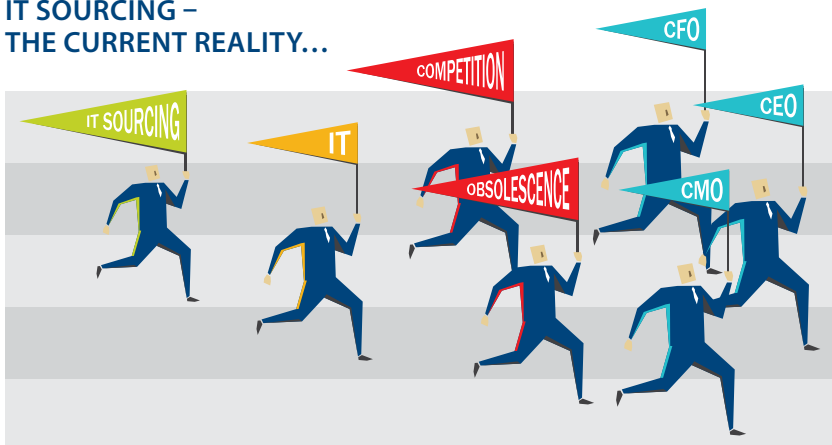
What’s the Vision of IT Sourcing Excellence?

In the digital transformation era, the C-suite is striving to lead the business to capitalize on digital transformation and outrun two key threats: the competition and obsolescence.

Meanwhile, IT stakeholders are trying to keep up with the C-suite’s vision and mission – all while keeping the lights on and defending against security threats.

And because IT doesn’t communicate with sourcing (or IT purchasing is decentralized), the people tasked with making sure the business gets the best deal are the last to know when a purchase needs to be made, there by making every purchase an emergency.

IT SOURCING – THE CURRENT REALITY...



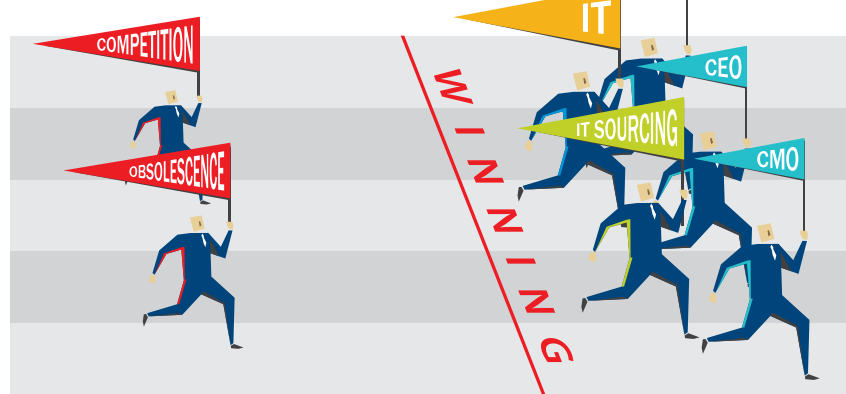
How IT Gets Purchased in the Enterprise

The way that IT buying is managed varies from company to company. In highly IT-dependent industries like financial services, there may be a dedicated IT sourcing function that reports to IT or finance. In other companies, it’s handled directly by IT personnel, who may have little professional sourcing expertise. And some enterprises put responsibility for IT buying under the indirect sourcing umbrella, which typically meets resistance from IT.

Meanwhile, no matter how “sanctioned” IT sourcing fits into the organizational structure, departmental spending on cloud-based technologies happens across the enterprise and is largely unmanaged – for example, in the sales and marketing arena.

To achieve IT sourcing excellence, IT buying needs to happen in a way that fully aligns IT, sourcing and business stakeholders. This will accelerate how quickly the company can achieve digital transformation initiatives and how far it can get ahead of the competition and obsolescence. This alignment will also translate into material impacts on revenue and profit.

**IT SOURCING –
A VISION OF EXCELLENCE**

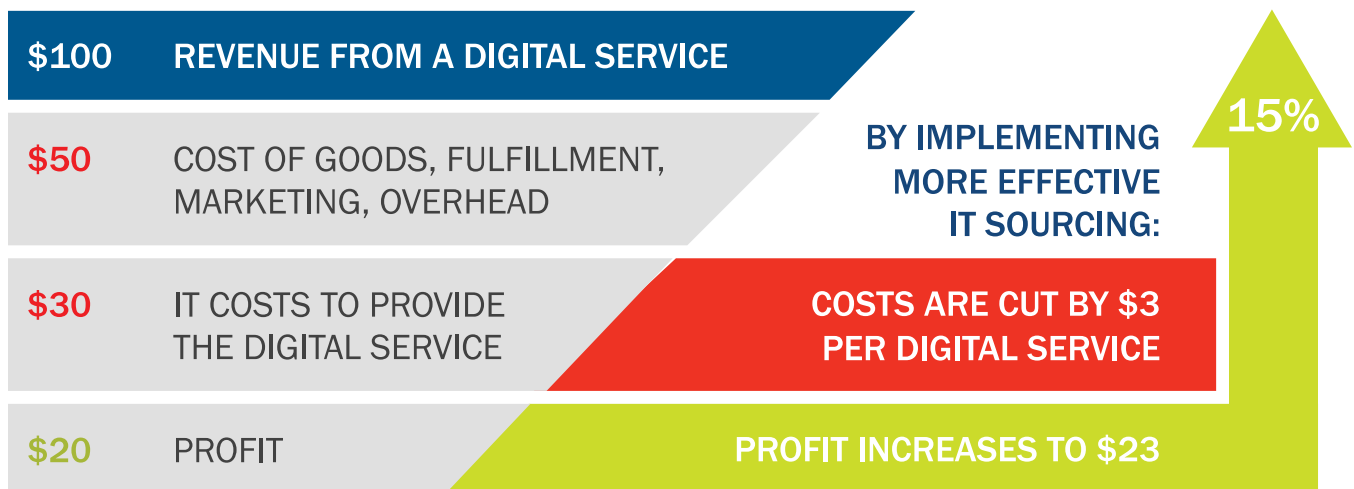


**ROI Impact is Clear
and Measurable**

Digital transformation provides the platform for a new way to measure the overall impact of IT buying on the business.

Here’s an example. Let’s say a company generates \$100 in revenue from a new digital service developed as part of a digital transformation-inspired initiative. The cost of providing that service includes \$50 for things like materials, marketing and other overhead costs. There’s also an IT cost of \$30 associated with delivering this service. Profit is \$20.

But what if the company could reduce the IT cost component by 10% (\$3) because of truly excellent IT sourcing practices? The profit for that digital service would increase by 15% to \$23. That’s the ROI of more effective IT sourcing in the digital transformation era.



What’s Standing in the Way?

For companies to understand how to optimize the impact of IT buying and its contributions to key business metrics (like revenue or profit), it’s important to understand the root cause of the challenges faced by those parties tasked with IT purchasing. In an independent survey of IT sourcing professionals conducted by the American Council of Sourcing and Procurement Executives and analyzed by The Governance Academy, participants were asked to name the biggest challenge facing the IT buying function. The responses fell into four buckets:

VENDOR LEVERAGE	The buyer has too much control and makes buying too complex. Sample responses included overpriced renewal costs, changing licensing models and stakeholders that don't want to switch vendors.
IT & SOURCING MISALIGNMENT	At the departmental level, IT doesn't enable strategic category management. It wants to go it alone and may not understand what to say/not say during negotiations. Respondents reported issues such as "IT maintains a close relationship with supplier and negotiates without assistance" and "We don't have a common understanding of the strategic direction of IT."
POOR FORECASTING & VISIBILITY	Poor demand planning leads to last-minute purchases, which often leads to sourcing professionals not being involved early enough to positively influence the outcome. Specific concerns included key stakeholders not working with IT sourcing to determine current and future license/subscription counts; IT not providing sourcing stakeholders with the full scope of work; and too many last-minute purchase orders to negotiate effectively.
POOR ASSET MANAGEMENT	Inability to gain full and accurate inventory of overall software deployment and usage. Challenges range from stakeholders overestimating usage to no way to accurately account for licenses for big deployments (like Microsoft and SAP) – which exposes the business to vendor audit risks.

5 Aspects of IT Buying Excellence

In order for IT buying to deliver on its full potential, companies need to neutralize and overcome the aforementioned challenges using the following five steps:

- STEP 1** **USE EXTERNAL DATA AND INTELLIGENCE** – Given the volume of IT purchases happening and the changing dynamics in the IT vendor landscape, it is impossible for those professionals tasked with IT buying to be experts on every purchase as it relates to pricing, licensing models and vendor behavior. It's important for these parties to use external intel to fill these gaps.
- STEP 2** **IMPROVE NEGOTIATION SKILLS AND CAPABILITIES** – IT vendors are highly trained to extract the most revenue from every purchase, and usually have detailed playbooks to inform them of their next best step in any negotiation situation. Companies need to have corresponding skills and playbooks for getting the best deal on every purchase and renewal.
- STEP 3** **DEFINE ROLE, RESPONSIBILITIES AND PROCESSES** – Every stakeholder on the buying team (keep in mind that this number is growing) should be clear on their responsibilities and role – including who says what and when to the vendor. Anything less than flawless execution will lead to a sub-optimal purchase.
- STEP 4** **ESTABLISH SPEND VISIBILITY TOOLS AND PROCESSES** – Companies must put tools and processes in place to gain (and maintain) broad visibility into IT spend across the business. Numerous tools are available in the marketplace (e.g. Apptio) and worth the investment for companies wanting to get granular about spend, cost allocation and measuring impact of effective department-level IT buying.
- STEP 5** **ESTABLISH ITAM CAPABILITIES AND MAINTAIN DEPLOYMENT DATA** – IT and sourcing stakeholders (whether a separate or combined function) need to establish comprehensive IT asset management capabilities, which will likely require implementing tools (two examples: Flexera, Snow Software). Understanding what the company has installed and what it's entitled to are the cornerstones of cost control and compliance.

On the Digital Transformation Journey, Will You Be a Speed Bump or Accelerator?

Digital transformation has exposed the full potential of the IT sourcing lever. How companies purchase IT can either be a speed bump on the digital transformation journey or it can be an accelerator and contributor to higher revenues, profits and market share. Those companies that elect to overcome roadblocks to IT sourcing excellence will be rewarded with positive, material and measurable outcomes.

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.