



Business Process Services

White Paper

Making Effective Technology Procurement Decisions to Ensure Business Alignment

About the Author

Ranjeet Sureka

Ranjeet is a senior Finance and Accounting (F&A) solution architect in the Pre-Sales and Solutions team at the Business Process Services (BPS) unit of Tata Consultancy Services (TCS). He has 14 years of functional experience in F&A, and has handled a variety of responsibilities in the past including Business Finance, Financial Planning and Analysis, Controllership, and Assurance. Ranjeet leads the design of next-generation solutions tailor-made to help clients build and run world class F&A operations and achieve their strategic and operational objectives.

Ranjeet is a Chartered Accountant and holds an MBA (Executive) from Symbiosis Institute of Business Management (SIBM), Pune, India. He is also a Certified Information Systems Auditor (CISA).

Abstract

Technology spend within organizations is increasingly being directed towards addressing emerging social media, mobile, analytics, and cloud technologies (SMAC) trends, as well as the continued demand for equipment that help increase scalability, bandwidth, and processing capabilities. Businesses need to align their existing tools with emerging technologies, and invest in innovation in order to enhance productivity and competitiveness. However, ensuring continuous innovation is an expensive proposition, and a CIO needs to strike a balance between supporting and enabling growth, and working within budgetary constraints.

Thus, effective procurement of technology products consists not only of planning and managing the process of procurement and budgets, but also of ensuring that suitable trends in emerging technology are leveraged to meet business needs. IT governance teams should follow a streamlined process for prioritizing IT investments and creating business cases for technology needs. There are several roadblocks that can occur during the management of IT budgets. With the help of a team of internal experts backed by robust support systems, CIOs can optimize their budgets and deliver an improved ROI.

In this paper, we discuss the common challenges faced by CIOs during the course of procurement of third-party IT products, and how these challenges can be addressed with the support of trusted external experts.

Contents

| | |
|--|----------|
| Introduction | 5 |
| The Need to Optimize IT Procurement Budgets: A Business Imperative | 5 |
| Challenges Associated with the Procurement of Third-Party IT Products | 6 |
| Effective Strategies for Optimizing IT Spend | 8 |
| Conclusion | 9 |

Introduction

With the changing market dynamics, it has become imperative for organizations to stay in sync with the market and change their operating models accordingly. Enterprises today adopt innovative business practices to not only optimize their business operations, but also to stay ahead of the competition. The prevalence of digital technologies and the cumulative effect of evolving information technologies have significantly impacted business engagements.

Enterprises are feeling increasingly pressured to develop user-friendly, online processes that facilitate transparent transactions for both internal and external customers. As an enabler of such changes, IT procurement has become a material cost item in the overall budget of most enterprises. Emerging technologies such as mobility, analytics, and cloud are putting further pressure on IT budgets. As hardware or software procurement is being increasingly aligned with business needs and the environment, organizations need to understand the ROI on investments in order to formulate their IT strategies. CIOs need to balance the need to follow technology trends with the need to optimize their IT spend and effectively utilize budgets. Since IT organizations are typically cost centers, this need becomes all the more imperative for them.

The Need to Optimize IT Procurement Budgets: A Business Imperative

In our experience, businesses typically spend up to 5 percent of their revenue on information technology. In a few industry segments such as IT, ITeS, and banking and financial services, this figure can range from 5 to 10 percent. This number includes expenditure on third-party hardware and software, which constitutes approximately 30-40 percent of the CIO's total budget. This is true for most large organizations, irrespective of the industries or geographic locations they operate in. These estimates highlight the significance of IT spend and underscore the need for its efficient management.

Conventionally, a CIO's overall spending may be classified into three main categories:

1. Salary, benefits, and administrative costs of the IT organization
2. Outsourced services costs
3. Third-party hardware and software acquisition, and maintenance costs

Our experience of such transactions in our various customer engagements and discussions with stakeholders in CIO organizations reveal two disturbing aspects. One, in many enterprises the management of IT procurement decisions is unstructured. Second, such transactions are, more often than not, executed in silos. For instance, there is often a mismatch between the organization's need for and the quantity procured of a certain piece or category of hardware or software. This is because many

such procurement decisions are based either on an incorrect understanding of business requirements, or are influenced by exaggerated benefits claimed by vendors. In most cases, organizations recognize this mismatch late in the cycle – either when the procured systems do not perform as expected, or when analysis of the business benefits reveals the flaws.

Challenges Associated with the Procurement of Third-Party IT Products

We offer some insights to help CIO organizations make better decisions regarding IT procurement so that the enterprise realizes commensurate benefits from the procurement spend. Here, we focus on large procurement transactions for the purchase of IT products.

The major challenges commonly observed during procurement of hardware or software from third-party vendors are outlined below.

Inadequate due diligence

Based on our experience in handling multiple enterprise contracts with large vendors, we believe that inadequate requirement gathering hampers enterprises in making large IT procurement decisions effectively. In many cases, getting the 'best in class' product takes precedence over getting the 'best suited' product for the defined purpose. In some cases, despite accurate requirement gathering, enterprises may not be able to procure the desired products. While an organization might require only specific products, vendors may offer these only as part of a bundled suite of products, resulting in a higher than warranted spend. In other cases, enterprises might be required to buy multiple individual products in the absence of bundled offers from vendors. Typical problems that organizations end up due to lack of detailed due diligence is buying more number of licenses of certain product than the quantity that they are actually need or are able to utilize, this arises primarily due to mindset of keeping a buffer.

Total cost of ownership

Another important criterion that must be evaluated during the initial stage of evaluation is the Total Cost of Ownership (TCO) of the product. A classic example of an activity that entails increased IT spend is the replacement of an existing system with an upgraded version. In many cases, vendors suspend support for the earlier product to enforce deployment of upgraded versions (even if it is not otherwise required), thereby compelling the expenditure. A classic case in point is the challenge that many CIO's are faced due to sun-setting of XP operating system by Microsoft. This has exposed CIO's to potential additional cost towards upgrading their HW and SW infrastructure to maintain business as usual position.

Contractual pitfalls

IT procurement contracts require close review and a clear understanding of the implications of the contracted covenants. In many enterprises, contract reviews are delegated to the legal team, who may not have the technical or operational background to evaluate procurement contracts from a business perspective. The legal team may not be in the best position to anticipate the risks in a software or hardware implementation. They may also not be able to recommend the appropriate infrastructure-related safety measures.

Typically, vendors also prefer to have their own boilerplate agreements, which are presented to buyers as 'standard contracts' where changes are not permissible. Such boilerplate language is almost always heavily tilted in favor of the vendor. Vendors usually resist any attempts to negotiate the same, citing standardization of requirements. A classic example is the typical clause that binds the buyer to pay a perpetual maintenance fee even when the products are not in use. Such covenants are very difficult to decipher and ambiguously tucked behind a plethora of product usage rights granted to the buyer.

Strategic alignment

The IT organization needs to exercise caution and ensure that each of its procurement decisions are aligned with the overall IT roadmap and strategy. It is imperative to understand how the revenue model of the enterprise is evolving in response to changes in customer behavior and expectation. For instance, an enterprise might want to discontinue investing in on-premise capacity if its revenue model and market environment is evolving towards online and mobile applications. Such an alignment is necessary to make sure that procurement decisions yield the desired business benefits. This also helps the enterprise avoid unnecessary spend.

Insufficient business case

Lapses may occur in building a tight financial business case in large procurement decisions. This may occur due to ambiguous contractual terms and lack of visibility into future financial obligations outside of the known cost heads. Vendors cannot be expected to voluntarily outline a watertight cost structure of the transaction that outlines all potential future obligations. This potentially exposes an enterprise to the risk of incurring expenditure that has not been budgeted for, and cannot be absorbed without hurting the financial bottom line.

Functions in silos

Enterprises are typically structured into specialist functions. Such structures are essential building blocks for enterprises to scale up efficiently to handle business complexities as they grow. However, often such a structure becomes an impediment to handling complex transactions. If handled within the silos of respective functions, IT procurement is likely to deliver sub-optimal benefits

Continuity: Large IT procurement transactions typically take a relatively long time, and it is important that stakeholders stay in control of the process. It is common for changes to occur in roles and responsibilities during the transitional stages of such transactions, resulting in the loss of relevant knowledge.

Effective Strategies for Optimizing IT Spend

Effective contracting processes: A contract should be fair to both parties and objectively safeguard the interests of both. Buyers need to make sure that the contract is geared to facilitate the realization of desired business benefits. The contract should be drafted to help with effective provisioning, deployment, usage, and disposal of assets. A verbal assurance of an intent not captured in the contract should not be relied upon during the contract sign off.

If the vendor insists on a boilerplate contract, then buyers can execute amendments through a separate document. In this way, the sanctity of the standard contract is maintained from the seller's perspective, and the buyer's interests are also safeguarded appropriately and in a legally enforceable manner. Such a step enables a pragmatic approach to work around stalemates encountered during the contracting exercise.

Alignment with organizational targets: CIO organizations need to align with the enterprise's overall financial imperatives of operational and capital expenditure planning and rationing. They can do so by driving a year-on-year optimization plan for reducing IT spend as a percentage of revenue. It is equally important that enterprises not overlook their immediate needs while focusing on long-term needs and curtailing avoidable spend.

Conclusion

In today's competitive marketplace, enterprises have to constantly reinvent the way things are done to bring in flexibility, agility, and competitive advantage. As an enabler of change, IT spend constitutes a significant expenditure for large enterprises. Prior to entering contractual obligations, organizations must look at the total cost of ownership of products. This requires meticulous evaluation of contracts in order to anticipate and prevent unplanned cost escalations. It is also important to probe into the various clauses of the contract and build safeguards within the business case for a more accurate projection of targeted business benefits. Most importantly, every IT procurement organization, irrespective of its size, must align with the overall business strategy and operational imperatives to maximize its effectiveness.

Enterprises that lack the requisite capability or the bandwidth to assess and evaluate hardware or software procurement transactions can employ external consultants and subject matter experts to help make better decisions. Specialized and customized support from external professionals and experts enables enterprises to realize strategic goals, even in the case of routine transactions.

It makes good business sense to employ subject matter experts who can advise and support the CIO organization on an on-going basis in ensuring end-to-end management of such transactions. These consultants can help the CIO's team conduct periodic evaluation during the life cycle of these transactions to make sure that planned business benefits are realized.

About TCS Business Process Services Unit

Enterprises seek to drive business growth and agility through innovation in an increasingly regulated, competitive, and global market. TCS helps clients achieve these goals by managing and executing their business operations effectively and efficiently.

TCS Business Process Services (BPS) include core industry-specific processes, analytics and insights, and enterprise services such as finance and accounting, HR, and supply chain management. TCS creates value through its FORE™ simplification and transformation methodology, backed by its deep domain expertise, extensive technology experience, and TRAPEZE™ governance enablers and solutions. TCS complements its experience and expertise with innovative delivery models such as using robotic automation and providing Business Processes as a Service (BPaaS).

TCS' BPS unit has been positioned in the leaders' quadrant for various service lines by many leading analyst firms. With over four decades of global experience and a delivery footprint spanning six continents, TCS is one of the largest BPS providers today.

Contact

For more information about TCS' Business Process Services Unit, visit: www.tcs.com/bps
Email: bps.connect@tcs.com

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: <http://feeds2.feedburner.com/tcswhitepapers>

About Tata Consultancy Services (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com

IT Services
Business Solutions
Consulting

All content / information present here is the exclusive property of Tata Consultancy Services Limited (TCS). The content / information contained here is correct at the time of publishing. No material from here may be copied, modified, reproduced, republished, uploaded, transmitted, posted or distributed in any form without prior written permission from TCS. Unauthorized use of the content / information appearing here may violate copyright, trademark and other applicable laws, and could result in criminal or civil penalties. Copyright © 2015 Tata Consultancy Services Limited