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SmartSpend™ Bulletin

8 Ways IT Sourcing Can Enable Business Resiliency and Continuity

Disruption has reshaped expectations of how IT sourcing pros can enable business resiliency, continuity and agility in times of unexpected change. It has also rescoped what it means to be a good steward of the technology and telecom budget. Today's IT sourcing teams must do more to de-risk IT spend and secure protections that minimize the cost of disruption and transformational change.

The changes brought forth in recent years have created new challenges for IT sourcing. Reprioritization of IT spend, accelerated purchasing cycles, rapid implementation requirements, new vendor partnerships – these are just a few factors that have created an IT buying environment rich in opportunity for overspending. It's also a time when procurement best practices can make a big impact on cost control.

Disruption of all kinds have unleashed a wave of critical digital transformation initiatives as well as new pressures to quickly deliver on those projects. Many businesses are reexamining how IT sourcing can increase IT agility from both a cost and functional perspective to ensure operational resiliency. The ability to easily respond to changing business requirements with minimal disruption and well-managed cost is now an IT sourcing imperative. In this bulletin, we list eight steps IT sourcing pros can take to meet this mandate.

HOW TO INCREASE IT AGILITY, MINIMIZE DISRUPTION AND DE-RISK IT SPEND

Secure forward-thinking price protections that lessen the cost of disruptive and transformational change. It's best practice to build flexibility into vendor agreements to prepare your organization for changing user counts and requirements. That's even more important today as companies engineer their operations for sustained disruption.

Those changes will ripple through markets creating new waves of adjustment and competition that will drive aftershocks of transformation. Just as the first wave did, these will create new winners and new losers.

For optimal agility, it's important to secure price protections – such as well-negotiated tiered pricing (as applicable) and upgrade/downgrade structures – that allow for changes in demand. While most IT vendors are hesitant to provide "flex down" contract language, having tiers that reflect not only growth but also contractions could mitigate price hikes. Renewal protection is also an area to be explored. Contract language should either remove or cap the ability to increase pricing for a specified period of time. Also, negotiating the ability to rollover any unused "units" for underutilized IT assets can help you get more mileage out of your IT investments for lower total spend.

Sustained disruption has resulted in a **historical acceleration of digital transformation initiatives** – and IT procurement teams are feeling new pressure.

Eliminate toxic spend in the IT budget through price benchmark analysis and license/subscription optimization. Despite rampant change and transformation, it's still business as usual. Pricing disparity for same-scope purchases is as prevalent as ever – and that's even more true if the vendor senses the customer has a tight deadline. Performing IT price benchmark analysis for renewals and new purchases will validate you're getting a fair deal from your vendor and ensure you pay a price that's at or better than market. Many enterprises make it a requirement to subject purchases over a certain spend threshold (for example, $75K) to third party price benchmark analysis for validation – this is a rapidly expanding best practice.

Another way to get rid of toxic spend is to right-size license assignments and liberate license currency on major SaaS software estates. This will help you identify areas where you're over- or under-licensed and ensures you're only paying for what you actually need. Another byproduct? Elimination of shelf-ware that may be inflating maintenance and support costs.

Negotiate contractual business terms that support flexibility, agility and future-state requirements. How does the "new reality" business climate impact your IT environment (e.g. software user counts, IaaS requirements, etc.)? Will workers need access to more or less functionality if they return to the office (or permanently stay remote)? Will accelerated digital transformation initiatives require more cloud investment?

These are just a few questions highlighting the importance of negotiating contractual business terms that allow for flexibility. Software examples include the ability to upgrade/downgrade licensing and subscriptions, use tokens or credits to meet changing usage requirements, and apply annual monetary commitments across disparate product families (e.g. Salesforce and Tableau).

Understand the tradeoffs that come with "better" payment terms. Many vendors are offering flexible payment terms that allow customers to defer payments. That's been helpful for companies that need to rapidly expand IT investments without taking a near-term financial hit. But extended payment terms typically come at a price – usually in the form of smaller discounts. Any payment relief up front can quickly be negated by higher costs over the term of the contract as well as having a lower discount as a baseline during renewals. If you're considering taking advantage of more flexible payment terms, be sure to model and factor in the long-term cost impact as part of your decision.

Keep competitive vendors and solutions close at hand, or multiple vendors in the mix to handle changes in demand. Competitive pressure shouldn't be limited to new purchases and renewals. Keeping multiple vendors/solutions in the mix throughout the vendor relationship gives you credibility at the negotiation table. It's also best practice for business continuity and resiliency. To that end, IT sourcing teams should prioritize critical business processes and the vendors and solutions that support them. For processes supported by a single vendor/solution, consider a multi-vendor approach that eliminates single points of failure and strengthens leverage.

Be as hypervigilant about software license compliance as your vendor. Disruption and economic volatility have done little to slow the frequency with which software vendors are auditing enterprise customers. If anything, vendors find themselves at an advantage. Customers' adaptations to changing business requirements have created ample opportunity for software license noncompliance. The best way to minimize compliance risk is to stay in front of it by performing internal license position assessments on large software estates. This will help companies easily spot and remediate unintentional compliance issues before an audit happens.

Identify unknown solution overlap and rationalize (but not at the expense of business continuity). It's one thing to have a multi-vendor strategy to ensure business continuity, but another thing to unknowingly pay for redundant functionality. Even before recent disruptions, solution overlap plagued enterprise IT ecosystems and budgets. Decades of decentralized IT sourcing and shadow IT have made it easy for companies to unknowingly pay for multiple tools that do the same thing. Today, new technical requirements driven by transformation projects are prompting companies to look even further outside of their existing vendor/solution portfolio – often without first evaluating whether existing investments can meet those requirements. Now is a good time for companies to clean up redundancies in their IT environments, identify unknown solution overlap, and leverage existing vendor relationships (and spend) to rationalize.

Reexamine force majeure clauses. The impact of the pandemic on contract performance obligations has caused businesses and vendors to reexamine force majeure clauses. Specifically, they're determining if these clauses excuse them from any contract obligations or if they have any modified duties to perform. Most clauses do not specifically define epidemics or pandemics as triggering events – but that may change as companies seek to modify the scope of coverage and prepare their businesses for the next unforeseen crisis. The legal runway for standardized changes to these clauses could be long, which is all the more reason for enterprises to start exploring changes that will better protect operations in the future.

MAKING THE CASE FOR IT SOURCING SUPPORT SERVICES

New pressures on IT sourcing bolster the business case for investments in services that support the IT sourcing function. These include third-party price benchmark analysis, license optimization assessments, audit defense and licensing experts on the customer's side of the table for large spend events like multi-year EA renewals. These services help IT buying teams move with speed and confidence, accelerating purchases and clearing the path for transformation and business resiliency.

ABOUT NPI

NPI is an IT procurement advisory and intelligence company that helps businesses identify and eliminate overspending on IT purchases. We deliver transaction-level price benchmark analysis, license 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. NPI also offers software license audit and telecom carrier agreement optimization services. For more information, visit www.npifinancial.com.

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