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# SmartSpend™ Bulletin

## Four Types of IT Sourcing Intel to Strengthen the Outcome of Negotiation with Vendors



What separates the world's elite IT buyers from their peers? How are some enterprises able to cut IT vendor pricing by 20, 30 or 50 percent when others fail? One difference is intel. Enterprises need access to four types of information to optimize their IT vendor negotiations to their highest potential.

Enterprise IT buying used to happen behind closed doors. It wasn't a boardroom discussion and it wasn't under the purview of procurement. Every aspect of IT – including how it was sourced – belonged exclusively to the IT team.

Over the last decade, much has changed in the way enterprise IT is purchased and negotiated. IT spend has gotten so big – and so mission critical – that it has attracted the attention of the executive team. Multiple stakeholders representing various parts of the business are involved in IT purchase and renewal events. And, most notably, IT sourcing has emerged as a strategic discipline – one that demands skilled procurement expertise, functional knowledge of IT, and new resources and capabilities.

As the pace of change accelerates, IT and sourcing professionals are adapting. But, what's driving this evolution?

- **IT expenditures are rising.** As IT eats more of the corporate budget, the processes for managing these costs are being subjected to greater scrutiny. This is underscored by the fact that IT is no longer just a hardware and software concern. IT is enabling disruptive transformation in industries like retail, transportation and hospitality. As this happens, SaaS and cloud are blurring the lines that used to define traditional IT. Consequently, the need for a more strategic and integrated IT buying center has emerged.
- **Information security is a ticking time bomb.** Uncoordinated purchasing of any technology that uses or exposes PII, PCI or PHI is a board-level concern. Tight IT sourcing controls are one way to reduce risk in this increasingly threatening arena.

Now that IT sourcing is part of the boardroom discussion, **the pressure is on.** IT buyers have an important role to play in increasing the flexibility and adaptability of the IT ecosystem.

- **Economic volatility is pressuring the enterprise IT environment to be more agile, flexible and innovative – and IT buyers have an important role to play.** While the U.S. economy has been strong over the last few years, soft spots have emerged that are causing concern across the enterprise sector. IT sourcing has been put on notice to take measures that will increase the flexibility and adaptability of the IT ecosystem – whether it's choosing more agile licensing and subscription offerings or negotiating more flexible terms and conditions.

Companies are also under pressure to do more than run the status quo. “Make our IT budget go further so we can innovate” has become a mandate – and sourcing has a role to play in fulfilling it.

- **Vendor pricing and licensing is overwhelmingly confusing.** Pricing and discounts for IT and telecom offerings continue to be all over the map. What one company pays can be 20, 30 or 50 percent more or less than what another company pays for the same product or service. To make matters worse, some vendors have thousands SKUs with multiple licensing/program options for each. In order to guarantee a best-in-class deal, IT buyers need PhD-level knowledge of the various licensing permutations and which usage scenarios are best suited to each option.
- **The cloud is forcing old guard IT vendors to reinvent themselves, and they're behaving erratically.** Players like Microsoft, Oracle, IBM and SAP have their sights set on the cloud (because Wall Street multiples for cloud companies are exponentially higher), but reconciling their business and revenue strategies with this vision has been challenging. The pressure to move customers to cloud offerings is only matched by the pressure to protect revenues (most of which still come from on-premise solutions).

This dynamic has created both headache and opportunity for IT buyers. Vendors are using aggressive tactics to expedite the adoption of their cloud-based offerings – ranging from licensing audits to “motivate” a move to giving customers significant concessions for other solutions. While some companies may not be technically or operationally ready to move to the cloud, they need to be prepared to skillfully walk the line between optimizing their current state and preparing for the future state.

- **New vendors are entering (and exiting) the market every day.** Certain categories (human capital management, digital marketing and salesforce automation, to name a few) have seen an explosion in the number of vendors offering enterprise-grade solutions. That means many companies are doing deals with vendors for the first time with little knowledge of their pricing, licensing and negotiation behaviors.

On the flipside, established vendors are rapidly acquiring many of these newer players. Much of this has been driven by the race to cloud leadership, which shines a light on another concern for IT buyers. Cloud business terms and pricing are still evolving and many buyers are still relatively new to negotiating them.

## THE FOUR TYPES OF IT SOURCING INTEL

The evolution of IT buying is changing the requirements for what it takes to negotiate a fair price and optimized terms with an IT vendor. It's no longer enough to rely upon the enterprise's limited experience with a specific vendor or IT subcategory to inform negotiation strategy and tactics. The rate of change happening both within a company's IT environment and across the IT marketplace has uncovered the need for more information to support each IT purchase or renewal.

How much you've paid a vendor in the past has little bearing on **determining if their current pricing is fair.**

Did you know there are **over 2,000 online monthly SKUs** from Microsoft? It's no wonder it's easy for companies mis-license and overpay for IT.

Today's buyers need to be equipped with four types of intel in order to secure best-in-class pricing and terms:

1. **Historical pricing and consumption intel.** This is a record of what the enterprise has paid a vendor for specific products and services. Internally sourced, this intel helps the organization leverage the overall footprint of its business with a particular vendor. It's also key in helping identify shelfware that needs to be eliminated or unused assets available for redeployment. While this information creates leverage and steers purchasers away from overbuying, it has little bearing on determining if vendor pricing is fair. In fact, as vendors become entrenched in an account, the price tends to go up over time because of lock-in.
2. **Benchmark pricing intel.** This information is critical to help businesses eliminate the issue of pricing disparity. It's used to analyze whether vendor pricing is in line with fair market value in two ways:
  - By comparing the vendor's price to pricing offered by that vendor to other customers (peer-based, apples-to-apples comparison)
  - By comparing the vendor's price to pricing offered by other vendors (competitive pricing analysis)

Unlike historical pricing, this data is typically not found within the enterprise's internal sourcing and IT knowledge base. Competitive pricing analysis is readily accomplished via RFX processes, but companies rarely have access to what their peers are paying for similar IT buys or competitive pricing outside of data collected during the short-listing process. Benchmark pricing intel is usually acquired through third-party pricing experts that have access to real-time street pricing.

Today's elite IT buyers are relentless in their pursuit of buying-to-market, not buying-to-budget (which has been the primary IT buyer "benchmark" until now). As such, benchmark data is a valuable asset.

3. **Licensing and subscription intel.** To prevent overspending and overbuying, companies need to understand the different licensing and subscription offerings that a vendor offers and the various permutations available to them.

This intel is dual-faceted in that it's not just about understanding the options available, but also about analyzing them in context. What are the user requirements today versus three to five years from now? How can usage profiles be utilized to best advantage? Will demand for the solution expand or contract due to seasonal demand, M&A or other factors? Does the business plan to move this piece of the IT ecosystem to the cloud in the long or short term?

Once again, vendor-specific license optimization insight is not typically found in-house; rather it's sourced externally from licensing "Ph.D.s" that have extensive understanding of a vendor's licensing and/or subscription programs, and understand how to best map them to the buyer's unique situation and requirements.

4. **Vendor behavior intel.** To negotiate effectively, companies need to understand three aspects of vendor behavior:
  - What's motivating the salesperson at the negotiation table? Buyers need to understand the vendor's overall business strategy and sales objectives, as well as more nuanced factors like sales incentive programs and deal approval mechanics.

NPI's research shows that **over 75 percent of all IT purchases are priced above fair market value** when compared to peer purchases in the market.



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- Where does this particular vendor exhibit flexibility with other customers? For example, if you commit to X number of cloud seats/subscriptions, are they willing to increase discounts on other on-premise solutions?
- What is the best way to communicate with the vendor to achieve the best outcome? What's the ideal way to frame "asks," what is the anticipated vendor response, and what is the planned countermeasure? This is a chess game, and anticipating how the vendor will play can really improve the outcome.

Most IT sourcing organizations don't have visibility into vendor behavior beyond their own interactions. They may only buy or renew with a vendor once every three years. To truly understand what drives vendor behavior during negotiations – and how to leverage that intel – they need access to real-time insight gleaned from hundreds of IT purchases.

## IN CONCLUSION

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As IT spend rises to peer level with other large spend categories within the enterprise and becomes more complex to navigate, IT sourcing has emerged as its own discipline. Companies that want to increase sourcing effectiveness in this category of spend need to first address the critical knowledge gaps that exist.

A historical view of the vendor relationship (and the related purchase/consumption data) is not enough to ensure a fair, competitive purchase. Many IT buyers are turning to outside licensing and pricing specialists for vendor-specific intelligence that helps them drive even better outcomes. These specialists are a powerful and easy way to secure best-in-class pricing and discounts, optimal terms and faster IT purchase cycles that make stakeholders happy.

## ABOUT NPI

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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](http://www.npifinancial.com).