

Spend your way through economic downturn

How effective procurement can deliver better business

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The IT industry has a number of challenges ahead as it seeks to negotiate a path through the current economic climate. Budgets are stalling or shrinking and increasing demands are being made on existing budgets and equipment to keep businesses running, save money and continue to look to new technologies and methodologies to drive innovation.

Where does that leave IT departments? How can they best help their organisations negotiate the economic downturn? How can they use procurement to help them?

IT departments hold an unusual position within a company where it has to serve its internal customers throughout the business from day to day operations to major capital projects, and provide solutions for front, middle and back office.

In the IT industry, standing still is moving backwards faster than any other industry – imagine using a five year old computer, server or mobile phone today? It is looked upon to deliver innovation, both in technology and business processes, to drive its organisation's strategy. To do this the IT department has to understand the various areas of its business intimately, but most importantly, to make the right decisions and investments from IT suppliers to deliver what its business requires.

IT accounts for a large part of a company's expenditure per annum and in today's economic climate, justifying expenditure is more important than ever. Many IT departments will be looking to maintain its IT infrastructure on an equivalent or smaller budget while still delivering new projects, all of which require getting best value out of your suppliers.

Procurement is a crucial part of working with IT suppliers, requiring as it does complex financial and legal understanding as well as a fine grasp of the industry from which you are buying and a good understanding of how to obtain the right total cost for the right requirement, while also managing legal, financial and operational risk

Early engagement with IT procurement specialists is crucial to marrying up the acquisition of the services required to take advantage of those new technology trends with the organisational goals that must be met. Although the IT procurement people you need to work with may not be part of the IT department, or even part of your own company, they can be a crucial additional part of your team when aiming to get best value out of your technology suppliers.

In order to gain a clear understanding of where savings can be made, one must first understand what contracts are currently live and what the conditions and lifetime of them are. There are a number of factors that may have moved since the signing of the contract and may give you good reason to renegotiate or at least give reason for you to engage with the supplier again.

If any of the following have changed significantly, you may be over paying for services:

Hardware contracts:

- Commodity prices
- Fuel prices
- Foreign exchange
- Consumer price index (CPI) changes, which does not include mortgages
- Worldwide supply of specific goods
- Mergers and acquisitions - for example, Oracle and Sun

Software/maintenance/outsourcing/consultancy contracts:

- Fuel prices
- Foreign exchange, in cases of offshore contracts
- Retail price index (RPI) changes, which includes mortgages
- Employment market
- Mergers and acquisitions - as above

And of course there are always game changing technological jumps that propel certain areas forward.

Ask yourselves this about contracts - if you were signing the contract anew now, would you pay the same? Are any contracts based on annual increases in line with RPI or CPI? If so, have you verified that the increases are correct?

Outsourcing, in particular, presents the IT department with a number of challenges. The greatest challenge is that of experience.

Given that the average outsourcing contract has a shelf life of five years, it is unlikely that many people within the organisation will have a lot of experience in the process and of course, the bigger the contract, the more potential there is for mistakes to be made.

Again, and especially given the risk and cost involved in outsourcing, working with procurement specialists will add substantial value. In the early stages of the process, it is important to evaluate two areas:

- Is the company better placed doing the activity itself?
- Can the process actually be fully automated, rather than outsourced to people?
- Should we outsource to multiple suppliers or a single supplier?

There are no right ways or wrong ways per se, however the important thing to do is to take the right approach. A well managed procurement process will help a company to ensure that it is outsourcing the right task and not just outsourcing a problem, gain a fuller understanding of the initial requirement and therefore help the organisation to get more out of it.

It will also build in the shifting nature of the industry to the contract to ensure that no-one is left standing still for five years, measures such as break clauses and service reviews can help to ensure that the contract is continually reviewed and the service provided continually relevant.

It is important to remember that procurement engagement is not about 'trying to pay less', but about how to buy better. For example, it may seem to make sense to buy all your IT needs from one organisation, from hardware to software to services, the overall price may look lower.

However, one also needs to consider what the vendor risk might be from being reliant on one company. With financial instability as it is, working with multiple suppliers may form part of a risk management and business continuity strategy.