

# WHITE PAPER

Is ICT procurement really that important?



– Stephen Craike

## Introduction

Not so long ago, the role of the ICT organisation was merely to ensure the health of an organisation's ICT environment - ensuring we can send email, save files or print documents. While the role of the ICT function has been slowly changing over time, it seemed that as 2011 drew to a close, the new edict for the modern CIO was cast: drive innovation that has a demonstrable impact on the organisation's revenues or face relegation.

While this may sound somewhat melodramatic, it has been echoed by many, perhaps most succinctly by what industry analyst Gartner<sup>1</sup> has declared the "new CIO manifesto," which, at its

core, recommends that more than 50% of company-wide IT spending supports business activities that generate revenue.

Adding to this, by 2013, the Chief Marketing Officer will have a bigger IT budget than the CIO, according to Gartner<sup>1</sup>. Even more significantly, Gartner<sup>1</sup> envisages that CIOs will have lost control of 25% of IT spending by 2014.

With this changing paradigm, I am frequently asked if I see the ICT procurement function as one that is reducing or increasing in importance. To answer this the following key points need to be considered:

While there are a number of reasons for this statement, the more fundamental aspects lie in the understanding of the following key points:

### Key Points<sup>1</sup>

- More than 50% of IT spend should support business activities that generate revenue
- Where IT is outsourced, up to 15% of all IT staff's time is allocated to managing vendors
- The spread of Cloud computing heightens the risk of rogue spending

## The composition of CIO budgets is changing

In order to achieve the goals required of the new CIO, IT organisations have to first ensure the optimisation of their current IT spending. The fact remains that most CIOs are still spending approximately 75% of their budgets on maintaining IT operations, leaving only 25% to devote to innovation and project-based work<sup>1</sup>.

A significant proportion of the opportunity for the optimisation of this spend will undoubtedly lie in more traditional IT initiatives such as virtualisation and mobility. However, I am constantly amazed by the number of IT organisations that are not leveraging some of the core concepts of procurement such as volume aggregation, supplier performance management, "fit-for-purpose" validations and policy definition to drive value in both existing and future ICT investments.

The use of these techniques, especially when applied to the more traditional ICT sub-categories such as IT hardware, telecommunications, software licensing/maintenance and printing can routinely shave 5-10% off an annual IT budget,

usually with little up-front investment.

If you have already tackled the above and defined policies and procedures to drive consistent value, why not look at some of the more advanced concepts to extend the value further. Good examples include the provision of tools and techniques to maximise workforce optimisation, a notorious issue given the large number of contract and consultant labour sources within most IT organisations. Alternatively, depending on the level of ICT experience within your procurement function, providing insights into better demand management of ICT assets based on financial data (accounts payable, etc.) and industry benchmarks will yield even further opportunities for savings, albeit typically with a longer ROI.

In short, the CIO of today is going to need all the help they can get to optimise their current spend and ensure maximum allocation of budgets to innovative and influential projects.

## Proliferation of outsourced IT services



While the recent economic uncertainty has either slowed decisions to outsource or changed the nature of the deals to smaller, shorter-term agreements, the increase in the provision of IT services by third-party vendors over the past 10 years is undeniable.

From my experience, while the technical maturity of how best to source IT services has improved, the less tangible (or should I say 'less technical') aspects of managing IT service providers still has a long way to go.

The reality is that IT staff have very little training, or in a number of cases even the interest, to effectively manage the vendors that provide IT services to their

organisation. The resulting situation provides numerous opportunities for procurement to add value.

First of all, regardless of the above, studies confirm that in organisations that embark on at least some IT service augmentation from a third party, up to 15% of all IT staff's time is allocated to managing IT vendors in some form or another. While it could be argued that there is value in some of this activity, under the new world of the CIO, that is a lot of "innovation downtime" on activities that are usually executed under duress or, at the very least, sub-optimally.

From Portland's extensive experience, evidence of the general state of supplier

performance management (SPM) within IT services suggests that IT sourcing/outsourcing transactions traditionally provide between 70-90% of the expected value. While some value leakage is expected, the conventional IT approach to SPM, typically driven by monthly coffee meetings tracking performance against rudimentary SLAs, does little to address the deficit.

Still today, very few IT organisations have a good understanding of or even the capabilities to support successful SPM over the lifecycle of a services contract, and why should they? Successful SPM means tracking and managing the interdependencies between all of the

core disciplines of performance, financial, contract and relationship management. While IT's involvement is undeniable, the rigour, processes and relationships across the other disciplines is something that should not necessarily be based in IT - but most definitely within procurement.

The result of all this means that a well-managed procurement capability can greatly assist an IT organisation; firstly, in reducing the level of IT involvement in non-core SRM activities and, secondly, in ensuring that the task of SPM is done more effectively, maximising contract value through the reduction of overall value leakage.

## Rise of cloud services and their adoption by the business

While closely related to the previous phenomenon, the rise of tangible cloud-based services tends to exacerbate the complexities of the provision of IT services within an organisation. Not only will the Cloud add to the already-extensive service supply pool and the complexities that come with it, but it also creates the possibility of the business usurping IT altogether and sourcing IT services directly from the market. While the first issue will invariably mean greater demand for procurement services in order to assist in the sourcing, selection and management of an even larger pool of vendors, it is the latter that may see procurement play a more significant role.

The ease with which businesses will be able to source services based on a cloud model, in some cases only requiring the use of a corporate credit card, means that the rise of 'rogue' IT services could be significant. Of course, this situation is only aggravated by the first issue we discussed - the imbalance of project budget/resources. This imbalance inevitably reduces an IT organisation's responsiveness and increases the frustration of an already impatient business unit.



While many IT organisations are realising this and are already implementing policies to curtail this activity, the fact of the matter is that visibility to the problem is still an issue.

The visibility into the business unit's spend and associated activities is often significantly greater than that of IT. As a result, a good procurement organisation can often be of significant assistance to IT, providing them with a heads-up on suspicious spending or working closely with them to ensure that when a business unit does come to procurement for assistance with a potential rogue IT service sourcing event, the necessary due diligence is done as part of the process.

These are just some of the reasons that our IT organisations need the support of procurement. And with the changing mantra of the CIO and the resulting requirements to optimise current spend and better manage the proliferation of vendors, suppliers and service platforms, the importance of effective ICT procurement in this new world is undeniable.

To me, therefore, the answer is simple: the role of effective ICT procurement will become more important than ever and, furthermore, should be a key enabler to ensure that the IT organisations of yesterday can achieve what is demanded of them today.

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## References:

<sup>1</sup>Linda Tucci, 19 October 2011, As recession looms, Gartner says CIO role should generate revenue, news article, Gartner, ORLANDO, Fla, view November 2011, <<http://searchcio-midmarket.techtarget.com/news/2240102094/As-recession-looms-Gartner-says-CIO-role-should-generate-revenue>>

## About the Author



### Stephen Craike

Stephen Craike is director of ICT Services at Portland Group and has over 15 years of IT services experience with a focus on enterprise transformation and efficiency consulting. Portland Group's ICT Procurement specialists help organisations ensure that all of the potential value (financial and non-financial) of ICT investments are realised.

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For more information, contact [info@infosysportland.com](mailto:info@infosysportland.com)

[www.infosysportland.com](http://www.infosysportland.com)

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