MAXIMISE THE EFFICIENCY
OF IT PROCUREMENT WITH
SUPPLIER RATIONALISATION
Signs of economic recovery mean that organisations are no longer just cutting to save but also spending to save. This shift, along with new IT challenges and consumption models, is having a significant impact on the supplier landscape. Goodbye consolidation, hello fragmentation.

To prevent supplier sprawl, organisations need to ramp up their rationalisation efforts. This will not only help to embed standardised, centralised and industrialised procurement processes across the business, but also unlock ongoing cost and efficiency improvements.

Preventing and removing such fragmentation, while also addressing the speed of change, is getting increasingly difficult. As analyst Gartner confirms: “Cloud and other alternative delivery models, along with the blurring boundaries of applications, infrastructure and business processes, have the potential to create a chaotic vendor environment where vendor visibility is diminishing.”

Organisations aren’t just losing visibility of their vendors; they’re losing visibility of their buyers too. Thanks to trends, such as consumerisation and digitalisation, procurement has become devolved between not only individual business units but also individual users, creating a shadow IT environment outside of the CIO’s control.

1 Predicts 2015: Shifting IT Vendor Management Focus From Cost to Risk, Gartner, November 2014
2 Global Outsourcing and Insourcing Survey, Deloitte, 2014
Given that 60 per cent of IT budgets are spent on externally provided products and services, enhanced vendor management equates to a massive opportunity to address cost savings while avoiding contracting business change and realisation of business objectives.

As Gartner warns: “Enterprises will find themselves engaged in an ecosystem of known and unknown IT vendors, without the proper framework and governance to provide adequate oversight of costs, quality and value.”

Although unnecessary cost and complexity can creep into every stage of the procurement cycle, these inefficiencies can often be tracked back to a single source: the sheer breadth of an organisation’s IT supplier base.

Using different suppliers for the same software or service in different departments doesn’t just duplicate effort, it also prevents organisations from tapping into the economies of scale.

The risk of such duplication increases as organisations supplement their long-term relationships with established suppliers, such as value-added resellers, independent software vendors and independent hardware vendors, with niche providers that can meet their mobile, digital and cloud needs.

With every supplier comes an administrative overhead – from creating purchase order numbers and matching invoices, to managing terms and conditions, payment terms and contract renewals. This creates an interminable paper trail that ties up precious human resources, slows down the entire procurement-to-pay process – from contract negotiation and payment schedules to management information and even an organisation’s balance sheet.

In today’s dynamic business landscape, speed is essential throughout the IT procurement process. New suppliers need to be on-boarded quickly. New technologies need to be benchmarked quickly. And new users need to be provisioned quickly.

As well as delaying transformation projects and user enablement, a fragmented approach to IT procurement can also result in:

• Inaccurate budgeting and forecasting due to a lack of visibility of full annual spend
• Added extras offered by vendors, such as maintenance and education, being overlooked
• Breaches of corporate standards, procurement regulations and compliance, particularly in the public sector and financial services
• A lack of consistent and detailed management information
• Unauthorised spend on unauthorised services and technologies

The risks and impacts of uncontrolled procurement and utilisation of software assets can be high, potentially exposing an organisation to considerable financial and reputational damage.

Software licensing agreements are a maze of terms and conditions that vary considerably depending on the vendor and product. As a result, even the most experienced procurement professional will struggle to keep track with the myriad of different licensing rules in today’s landscape of multi-form and virtual devices.

Without a precise record of the licences purchased across the organisation, IT departments will be unable to identify if software is being used in line with vendor agreements, which could lead to an expensive and embarrassing vendor audit and fine.

Similarly, if organisations lack comprehensive visibility of their hardware estate, it is difficult to optimise investments and new devices may be purchased where existing assets could be redeployed.

Devices not purchased through standard procurement routes, for example via company credit cards, may not feature on the asset database. Without knowledge of such devices, it is impossible to enforce corporate standards, resulting in potential security risks and breaches of compliance. Shadow IT and procurement of non-standard devices also add complexity to day-to-day support and management and cost to the bottom line.
Laying the Foundations for Rationalisation

The first step to bringing IT procurement back under control is to understand it. Once organisations have reviewed the suppliers being used for sourcing IT hardware, software and services, they will then be able to embark on a rationalisation exercise.

Supplier rationalisation, however, must be executed with due diligence to prevent any disruption to the IT supply chain, which could impact staff productivity and associated service level agreements.

Although the value of a niche vendor might look small in monetary terms, the value of their software in business differentiation terms could be considerable. For example, a specialist application that helps simplify core tasks for a small group of users might seem insignificant, and therefore on the rationalisation radar, but the associated productivity gains merit its retention.

Due to the complexity associated with supplier rationalisation, decision-making should consist of a cross-functional team of stakeholders within the organisation. A transparent approach will ensure that all parties understand the process, timescales and expected outcomes.

For IT-focused initiatives, these outcomes will revolve around reducing costs, improving performance and freeing up resources. It is important to include any specific targets as part of the initial scope definition as this will dictate the extent of rationalisation required.

To ensure these targets are achieved and new processes adopted quickly across the entire business, the supplier rationalisation strategy will need to be supported by executive sponsorship and an internal communications plan.

Understanding the Current State of IT Procurement

Once the goals have been clearly defined and aligned to broader business objectives, the data sourcing stage can begin. With organisations reliant on multiple suppliers, procurement routes and internal management tools, this can be a significant challenge.

For those organisations that engage direct with hardware and software suppliers, the challenge will be even greater as there will be limited reporting as part of these relationships.

In addition to sourcing information about spend per supplier/manufacturer, organisations should also establish:

- Current routes to market
- Internal costs associated with procurement activities
- Forecasts for future IT spend
- Service level agreements between IT/procurement and the business
- Historical spend data, including quantity, pricing and business function of software/hardware products
- The implication on cashflow that comes from differing payment schedules across a broad supplier base

- The role of Enterprise Resource Planning (ERP) systems and their ability to manage suppliers
- Clearly defined objectives for their supplier rationalisation project – from streamlining procurement processes or freeing up staff to maximising investments or reducing expenditure

The accuracy of the data captured is essential, as it will form the basis of all cost reduction and rationalisation decisions. Organisations, however, need to be careful not to over-rationalise – it is important to retain a pre-requisite number of suppliers to address strategic needs and maintain an element of competition.
Many organisations simply won’t have the resources to undertake a supplier rationalisation exercise alongside their everyday IT procurement and vendor management activities.

More than 70 per cent of organisations say they lack the adequate tools and processes to manage vendors; while 49 per cent also believe they lack the right skilled resources.\(^2\)

By working with an external partner, organisations will be able to plug these gaps, which will not only accelerate rationalisation efforts, but also time to value for cost and efficiency savings, without impacting the realisation of business goals.

Appointing a single preferred procurement partner for specific technologies will also enable organisations to centralise hardware and software purchases from Core IT at the datacenter to Edge IT at the users’ fingertips.

As a result, organisations will still be able to purchase products from multiple vendors but with a lower administrative overhead as they will only need to manage the central supplier. Adding this extra layer of consolidation will not only augment cost savings but also provide access to a wide variety of supplemental services.

For example, Computacenter offers a proactive commercial management service as well as a broad range of IT supply chain and infrastructure professional services.

Working with an external provider will also result in better visibility of IT spend and purchasing trends, as reporting and management information will be consolidated and consistent across all technology areas, procurement platforms, departments and geographies.

The quality and frequency of reporting is just one factor when choosing an IT procurement partner. Organisations should also look for a company that offers:

- Transparent pricing and guaranteed cost savings
- Flexible commercial models, including leasing options
- Breadth and scale especially in terms of vendor relationships
- Additional supply chain services, such as benchmarking, build and store, staging and disposal
- Repeatable and automated processes
- Online ordering and self-service quoting
- Documented customer references

**SUPPLIER RATIONALISATION BEST PRACTICE**

- Gain buy-in from all senior executives before embarking on any rationalisation efforts
- Appoint resources to take ownership of the supplier rationalisation initiative
- Implement a company-wide communication plan to inform everyone involved in procurement of the new processes
- Implement a framework for enforcing approved procurement routes
- Audit installed vendors and products to reveal any pockets of shadow IT
- Don’t over-rationalise as this could limit competitive pricing between suppliers and innovation
- Develop a strategy that is sustainable and takes into account the long-term direction of the business and future requirements
- Establish consistent service level agreements and reporting frameworks
- Partner with a third party IT supplier to tap into their independent advice and expertise to achieve consistent service levels and greater flexibility
Supplier rationalisation will bring greater control and consistency to IT procurement. It will also provide the foundations needed to drive continuous improvement, business transformation and digitalisation.

The majority of organisations can expect to achieve cost savings of between five and ten per cent in the first year of their supplier rationalisation programme through:

- Reduced procurement resource requirements
- Consolidation of invoicing and shipment
- Aggregated spend and volume discounts
- Optimisation of existing IT assets.

These quick wins will be followed by year-on-year cost and service improvements, as the procurement strategy matures. For example, a major UK retail bank is now in the fourth year of a consolidated IT supply agreement with Computacenter, and is continuing to achieve increase efficiencies as effective portfolio management enables change to be affected more quickly with minimum impact to the business.

An experienced supplier will not only advise on the most effective procurement route, but also the most appropriate technologies taking into consideration business needs, budgets and vendor roadmaps. This will enable organisations to make informed decisions, free up internal IT resources to focus on innovation, deliver greater value and achieve business objectives.

A structured approach to procurement will also minimise the risks of disruption to the IT supply chain and safeguard service quality to ensure staff have access to the technologies they need, when they need them.
WHY SUPPLIER RATIONALISATION MATTERS

FOR THE CIO
- Reduces costs
- Increases control
- Minimises risk

FOR THE USER
- Increases productivity
- Ensures access to the right tool, at the right time
- Avoids the need to use unsupported products

FOR THE BUSINESS
- Accelerates time-to-market
- Frees up resources
- Maximises investment

CASE STUDY 1
Customer: Multi-national chemical company
Challenge: Consolidate more than 500 suppliers across multiple geographies and technology lines
Solution: Partnered with Computacenter to improve catalogue management and establish consistent commercial terms and management reporting.
Result: During the five-year contract, an eight per cent reduction in capital costs was achieved, as well as a significant decrease in the operational expenditure associated with supplier management.

CASE STUDY 2
Customer: British financial services firm
Challenge: Rationalise IT suppliers for branch, head office and datacenter technologies to drive greater efficiency
Solution: Computacenter aggregated the hardware and software supplier base and provided the engineering resources to deploy the new technologies onsite at branch locations
Result: As well as the savings made from simplified supplier management, the customer saw a commercial benefit of more than 10 per cent in year one.
WHAT MAKES COMPUTACENTER DIFFERENT?

- We have the skills, experience and proven best practice processes to minimise the risks associated with supplier rationalisation
- Computacenter has helped customers across all industries cut cost and complexity from the IT supply chain
- We have direct relationships with more than 1,100 vendors, a portfolio of 60,000-plus products and access to hundreds more via a network of partners
- Our breadth of expertise ranges from Core IT in the datacenter to Edge IT at the users’ fingertips
- Computacenter has 20 dedicated software licensing specialists and manages more than 37,000 licensing deals per annum
- Our supply chain services include leasing, e-procurement, buy and hold facilities, and pre-delivery services, such as configuration and imaging
- We ship 5,000 items a day and have the capacity to configure 3,500 devices day
- Our system integration tools and industrialised processes ensure seamless procurement and consistent reporting
- We have 120 procurement professionals dedicated to product quotations, order management and fulfilment in the UK
- Our ecommerce tool, Connect enables customers to order more than 40,000 different products from over 400 different vendors via a single portal
- 65% of customer orders are received electronically - the industry average is 20%

To find out more about how Computacenter can help maximise the efficiency of your IT procurement processes contact your Account Manager. Call: 08000 147 420 email enquiries@computacenter.com or visit www.computacenter.com
Computacenter is a leading independent provider of IT infrastructure services and solutions. From desktop to datacenter, we help our customers minimise the cost and maximise the value of IT to their businesses. We can advise organisations on IT strategy, implement the most appropriate technology, optimise its performance, and manage elements of our customers’ infrastructures on their behalf.

Computacenter operates in the UK, Germany, France and the Benelux countries, as well as providing transnational services across the globe.