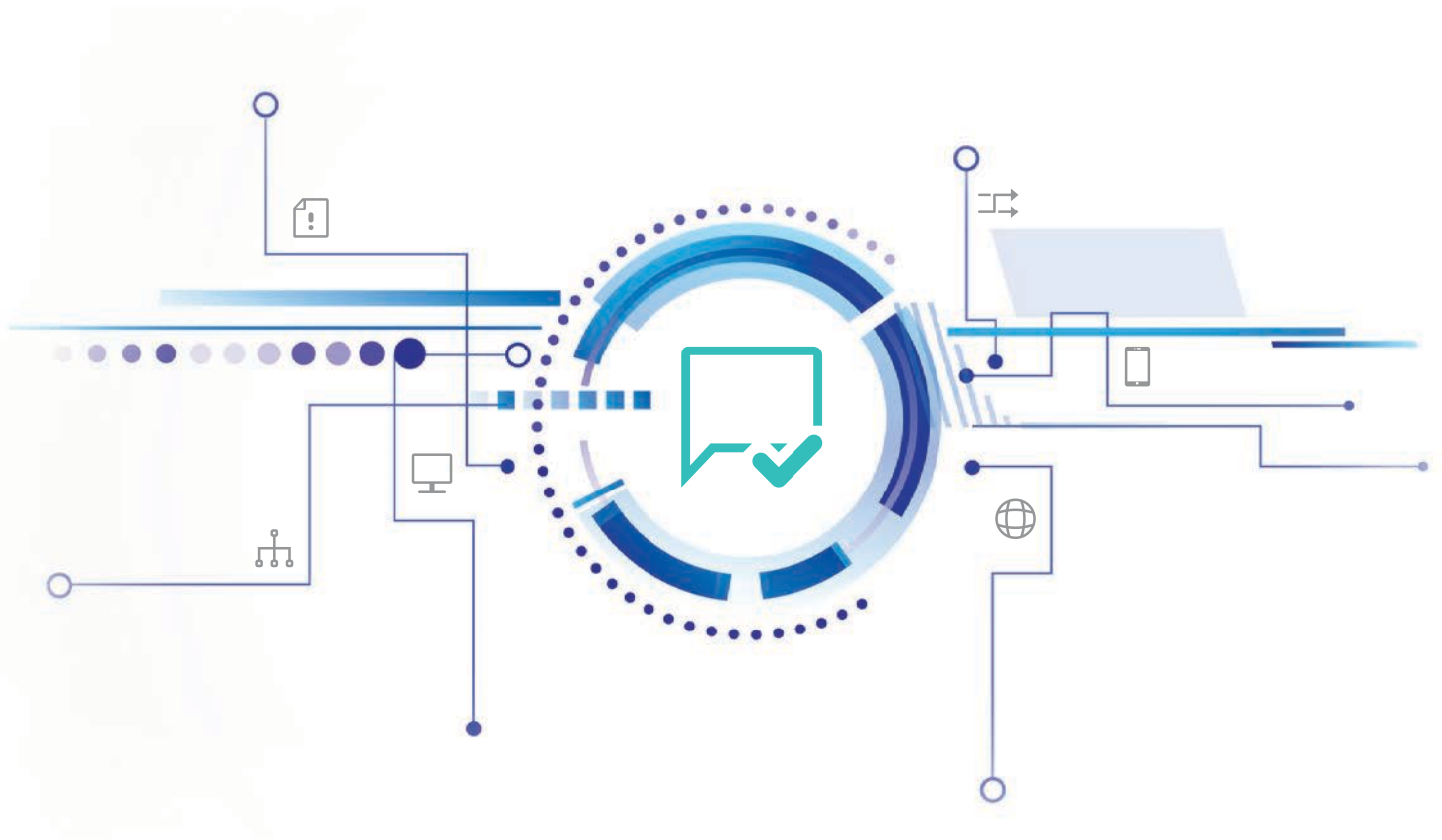# ProcureCon
## IT SOURCING

Proving Procurement's
Strategic Value in IT Sourcing

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# Table of Contents

# Executive Summary

As IT spend continues to grow into one of, if not the largest categories of spend within companies, procurement is being looked to in order to reign in this spending through the application of the department's unique ability to create value. The department has its work cut out for it; the growing prevalence of SaaS products creates new ambiguity around cost structures, and the dominance of major enterprise software providers including IBM, Oracle, Microsoft and SAP means that procurement may have less room to negotiate around major contracts. With many teams reporting their current number of team members as suboptimal, creating efficient processes and relationships with IT will be crucial for maintaining efficacy.

Central to the ability to create value is a more comprehensive view into spend. Procurement teams are working to create greater visibility into IT costs through access to centralized technology inventory databases. While in the majority of cases, IT retains final say on the actual technology that will be adopted after the procurement process, procurement must continue to internally sell the value of their involvement in these processes, then keep track of the spend around sourced solutions.

Managing views of spend, creating internal alliances, and becoming involved earlier in sourcing processes are all areas that procurement teams are working on improving. These efforts will all coincide with a new priority on internal salesmanship, communicating the value that procurement is able to create through their involvement with sourcing. With IT's historic independence in terms of sourcing solutions, this internal communication will be a major component of strengthening the dynamic between internal business units.

# Additional Contributors

In addition to the benchmark data and analysis contained in this report, several executives and industry experts have contributed their insight via interviews. Selected quotations have been used to add context and color to the statistical information contained in this document. Interviews centered on benchmark findings as well as key trends identified by research.

Neil Schloss
Procurement Manager
IT and Marketing
**Perdue Farms**

Andrew Puente
Director, IT Supplier and
Investment Management
**United Airlines**

Frank Raimondo
Global Procurement
**Equifax**

Dave Roberts
CEO
**Teligistics**

# Key Findings

## Procurement is gaining influence and visibility around the processes of IT sourcing as IT costs become a greater share of total spend.

Sourcing for IT solutions has historically been controlled by IT departments, but with the growing influence of procurement being felt across departments, as well as the growth of IT into one of the largest corporate spending categories, it is being looked to with fresh eyes towards creating savings. In some cases, procurement for IT is it's own category outside of the larger procurement apparatus, with a designated director and team. This trend is reflective of the enormity of the task of creating savings in the complicated and constantly changing world of IT solutions.

## As responsibility for sourcing IT solutions grows, procurement teams will need to develop the expertise and internal communication abilities to handle the complexity of the task and liaise with IT.

Given the fact that IT requirements are often highly nuanced, establishing a strong relationship with IT as well as cultivating the knowledge required to make educated decisions should be a high priority for procurement teams. Without knowledge of the market, procurement will have a difficult time negotiation with solutions providers, as well as internally managing their relationship with IT, the end users of sourced solutions.

## IT still retains the largest amount of control over final sourcing decisions in the majority of cases.

Procurement's involvement in IT sourcing is growing, but currently IT retains a higher level of control over the final decision that is made in the majority of cases. While this is likely to continue, procurement can increase their influence over sourcing decisions by proving the value they are able to create as well as mastery of the technical components required for effectiveness.

# Key Findings Continued

**With the cost and complexity inherent in switching IT systems, procurement needs to be able to justify their choices through a demonstration of a strategic approach to spend. Access to a centralized inventory database will be an important component of this process.**

Since migrating systems is often an arduous process, procurement for IT must demonstrate tangible strategic benefits in the event that they identify areas due for change. Many procurement departments still lack a centralized view of digital inventory, and in order to manage large scale changes, this tool will be important to gain a full appreciation of the tech spend that needs to be controlled.

**Proving the value of procurement for IT through quantifying savings and value creation will be an essential part of growing the role of the department.**

A large number of procurement executives report that their teams are understaffed, and as a result, a fair number are struggling to transition from a tactical to a strategic function. In order to better assess the spend from a strategic viewpoint, executives must create internal buy in and demonstrate the value that procurement is able to create.

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## Flash Findings: What is your estimated annual procurement spend?

**41%** <$200M    **18%** $500M-$1B    **3%** >$5B

**18%** $200-$500M    **20%** $1B-$5B

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# Research Analysis

## What does a procurement team for IT look like in 2015?

As procurement for IT becomes its own discreet category within procurement departments, teams are increasingly being asked to play a strategic role within their organizations, although 65% of executives report that their team is currently not properly staffed to do their jobs effectively. With close to two thirds of procurement for IT departments reporting inadequate staffing, a near equal percentage of executives report that they are operating with team headcounts of 15 people or under. A further 20% of executives are managing teams of 16-25 employees. In order for executives to truly enter into more strategic functions, their teams will need to be able to support the tactical elements of the role that currently takes up a robust share of their time.

### How many employees make up your procurement team?

| Team Size | Percentage |
|-----------|------------|
| 1-5 | 33% |
| 6-15 | 30% |
| 16-25 | 20% |
| 26-35 | 7% |
| >35 | 10% |
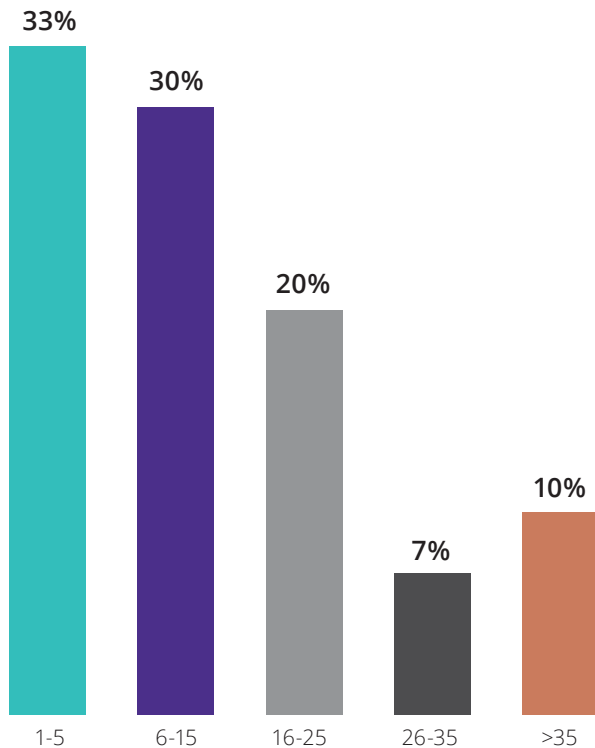
### Do you feel your team is properly staffed to do its job effectively? Choose only one.

| Percentage | Response |
|-----------|----------|
| 30% | Yes |
| 65% | No |
| 5% | Not Sure |
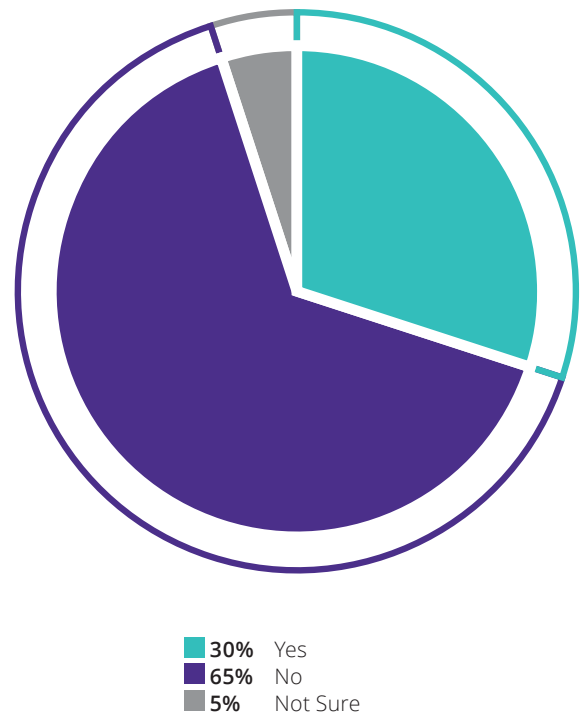
*"I think from a cost standpoint, contracts are getting a little more complex in terms of how to manage them, and you need a little bit more time to understand the licensing and where you can gain from better cost efficiencies and the other piece of this is around how the technology integrates.  So I'd say that IT costs are continuing to rise, the number of contracts we have is continuing to rise, but staffing requirements cannot increase. You need to continuously find ways to become more efficient."*  **- Andrew Puente**
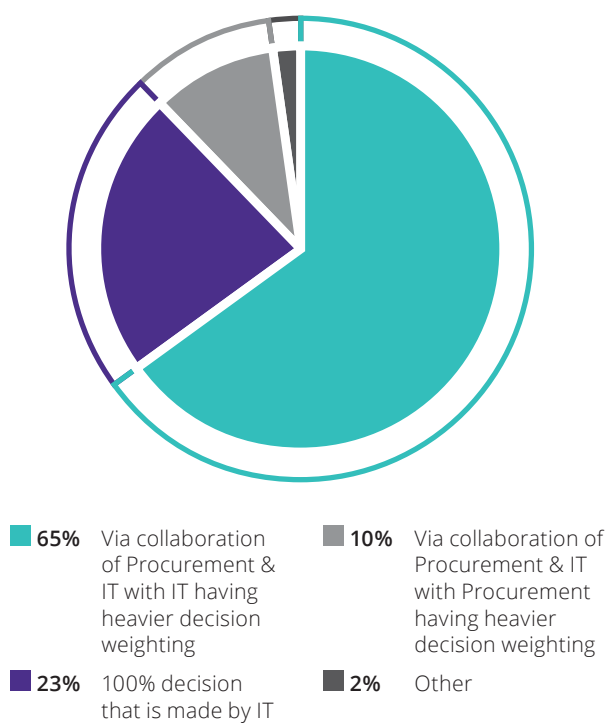
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# Procurement's influence in sourcing and view of IT spend

*"Whereas Procurement historically have been involved in less than 30% of our engagements to strategically source major IT/Telecom initiatives five years ago, today Procurement is involved in over 70% of these engagements with an increasing influence on the final decision making."* **- Dave Roberts**
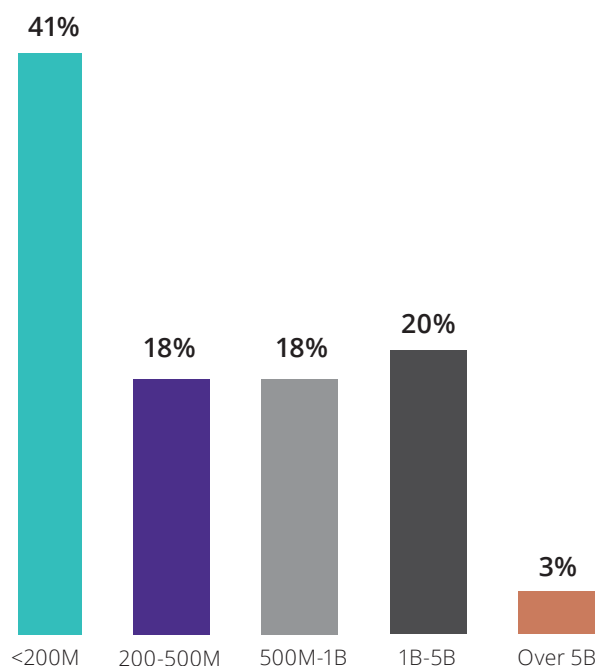
Currently, 65% of executives report that decisions around procuring telecom solutions are a collaborative process with IT, with IT ultimately having the final say in the decision making process. Twenty-three percent of executives report that the decision is still fully controlled by IT, and another 10% actually responded that procurement and IT collaborate around the decision, with procurement reserving the final word on the solutions adopted. It is likely that IT, as the end users of solutions being sourced, will retain decision-making power in the majority of cases, however, procurement can become involved in these processes earlier in order to gain more visibility and opportunities to identify value.

*"I don't see IT's level of choice in choosing a service provider changing, and the reason is because, when making a service migration, the time, the complexity, of the costs are all going to be influenced strongly by IT because they have to live with the decision. Ultimately, that's why they're the dominant factor in assessing the direction that telecom services will pursue."* **- Neil Schloss**

## How are telecom services procured in your organization?



- **65%** Via collaboration of Procurement & IT with IT having heavier decision weighting
- **23%** 100% decision that is made by IT
- **10%** Via collaboration of Procurement & IT with Procurement having heavier decision weighting
- **2%** Other

## What is your estimated annual procurement spend?



| <200M | 200-500M | 500M-1B | 1B-5B | Over 5B |
|-------|----------|---------|-------|---------|
| 41% | 18% | 18% | 20% | 3% |

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## Procurement's influence in sourcing *continued*

> *"I think there are a few things currently stopping procurement from getting the view it needs. One would be the legacy systems that are in place, two would be the number of contracts and providers, and the consolidation of the industry. We've had a lot of consolidation in the industry but not a lot of consolidation of the information in a way that is streamlined. So, say if we work with a major telecom provider, we're probably still working with several different groups to get the same kind of information in different types of format. It's been difficult get a standard set of information that we need to provide that centralized view."* **- Andrew Puente**

After solutions have been sourced, procurement's role continues as it looks to analyze costs and build a strategic savings plan for the company. Thirty percent of executives report that they have a better than average view of a centralized database for telecom spend, indicating that procurement departments are pushing to gain a greater level of visibility into the total technology spend within their organizations. Where departments are in this process is relatively evenly distributed, with a further 27% of executives reporting a comprehensive view of an inventory database, 25% reporting limited view, and finally 17% reporting no view at all.

## Flash Findings:
If your current wireless environment includes company owned devices, how much would you estimate the associated cost per device per month?

**41%** <$75        **36%** $90-120        **3%** >$150

**14%** <$90        **6%** $120-150

> *"For me, especially whenever I'm doing RFP's or contemplating new services, I spend a little bit of time talking about reporting, what kind of reporting is available to me, and what kind of portal access is offered. I have people that have cellular services up in Canada, and while they may only have a couple of hundred lines, they have no portal access. Any time they need information, they must to go to the service provider and ask for specific reports on what they want to know, and I just don't think that's right. I demand from all of my suppliers either access to a portal from which I can draw reports in a format that I want, usually other than PDF, or I make it a requirement that they need to send me an Excel sheet on a monthly or quarterly basis showing information that I think is necessary for me to manage that account better. I put it all right upfront when we're contracting, and make sure I include an aspect on reporting and data, and what kind of format I want, and nine times out of ten, people are going to want stuff in Excel."* **- Frank Raimondo**

> *"Sourcing IT/Telecom contracts without full visibility of the enterprises IT/Telecom architecture and inventory is like building a pyramid by the blind. Enterprises need a live and fully up-to-date inventory of their networks and applications that can only be achieved by a robust TEM (telecom expense management) solution. Any TEM solution that does not maintain live inventories and provide for the immediate audit of invoices is pretty much worthless with regards to providing the visibility needed to source these services strategically."* **- Dave Roberts**

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# Measuring total cost of ownership and benchmarking current market data in a changing, SaaS prevalent IT landscape
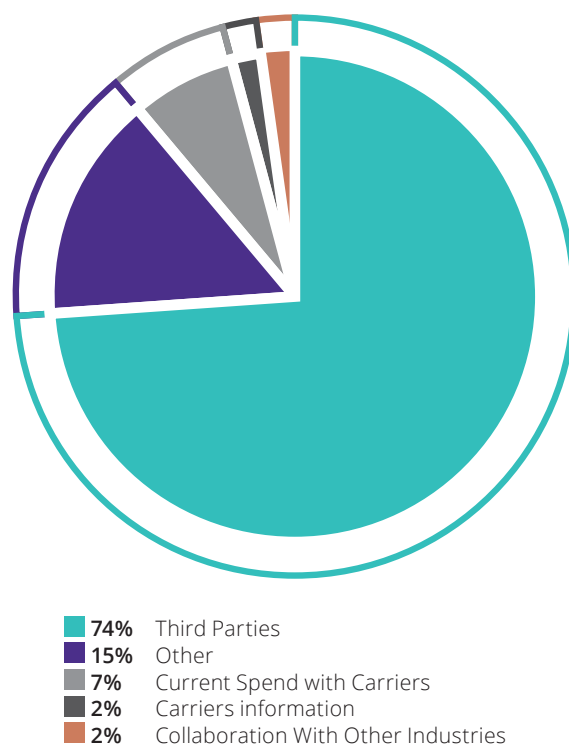
The prevalence of SaaS (software as a service) products presents several challenges around calculating total cost of ownership, and in general procurement teams are basing their calculations on the total spend involved. Fifty-nine percent of executives are measuring their costs in this way, while just 12% of teams are measuring total cost of ownership based on technology costs alone. Another 29% use a more specific combination of technology and other costs to determine their total costs of ownership.

> *"If you're looking at the overall cost of the application and the impact to the business, then you really have to understand the total cost which will be both your technology cost and your business costs, as well as what impact would be the benefit of the application in question. Moving to a SaaS environment, it is going to get a little bit harder to understand what's going on behind the transaction and where the costs are aligned."* **- Andrew Puente**

## How do you currently measure total cost of ownership

- **59%** Total Spend
- **29%** Other
- **12%** Technology Costs

## When reviewing current market, what is the primary source for benchmarking data?

- **74%** Third Parties
- **15%** Other
- **7%** Current Spend with Carriers
- **2%** Carriers information
- **2%** Collaboration With Other Industries

When it comes to how procurement departments benchmark their costs, the large majority, 74%, use third party data, such as Aberdeen or Forrester reports. Seven percent use their current spend with carriers to gain insight on benchmark costs, and 15% report that they use other avenues to identify baseline cost information. While third party benchmark data is one of the most reliable primary sources, it is common for executives to rely on more than one of the methods listed, comparing and contrasting to arrive at a realistic benchmark.

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# Understanding what goes in to a service migration

*"Typically, a large enterprise only sources complex IT/Telecom services every 2-3 years. For this reason it's not practical for a Procurement department to have the resources on stand-by for these infrequent sourcing initiatives. Many large enterprises engage third party subject matter experts to provide the benchmarking, contract guidance and technology consulting to bridge the gap. They speed the process as well as provide invaluable insight not readily available to the IT or Procurement departments."* **- Dave Roberts**

A service migration presents several complicating factors, making it imperative that all decisions to change providers be justified by the due diligence of both procurement and IT. The biggest concern reported by procurement executives was business continuity, with 44% of the response indicating it was their greatest challenge. Twenty-seven percent reported that time and effort were inhibitors, and a further 25% cited costs as their primary concern.

*"There are a lot of physical aspects to making a service change, for example, managing the compatibility of equipment, routers, and switches. There's a lot of detail that goes into the migration. All of those complexities fall under the category of effort, but also the cost involved at the end of the day. If there's an incompatibility of equipment from one carrier to the next, then there's another cost to refresh the connective infrastructure within the organization."* **- Neil Schloss**



**What are the primary concerns for migrating a network or other telecom service?**

- **44%** Business Continuity
- **27%** Time and Effort
- **25%** Cost of Migration
- **2%** Reciprocity Issues
- **2%** Meshing of Technologies

*"For us, the biggest piece around migration is really the time and the effort. I don't think we have had a lot of issues with business continuity, but for us, with a lot of legacy applications, legacy systems, and legacy networks, it's really the cost of integrating those and replacing them that can add up. We know that there will be pricing change that needs to be determined, though from a continuity perspective, I think we have a lot of confidence in the ability to continue to be able to operate the airline. It's really the cost and the time and effort in competition with the other priorities that we have that makes it difficult to migrate the network.* **- Andrew Puente**

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# Key Recommendations

## Reinforce the effectiveness of your department through creating internal buy in- strengthening the relationships between procurement and IT.

In order for procurement to grow its function in the domain of IT sourcing, it will require an ability to closely collaborate with IT, building awareness of the value procurement can bring to the process for them and for the business at large. Hiring for internal sales ability, as well as being willing to understand the needs of end users is a crucial component of this process.

*"The way procurement is set up in my organization, I'm always selling procurement, of course, to the IT organization, but I always make it very clear that I'm the price guy.  I don't select technologies, they select technologies, and that's their job.  My job is to bring it in at the best possible price using the variety of sourcing methods at our disposal.  Whether it's in RFQ, an RFP, or whatever, I can apply all the tools that are in my toolbox.  And in the telecom space in particular, I work very closely with the IT organization on doing this.  Usually, I run the processes but am directed by IT in terms of what they need, how they're going to evaluate the bids that we've received, and anything that's technical or a business-type of specification comes from them.  I just make sure we bring it in at the right price."*
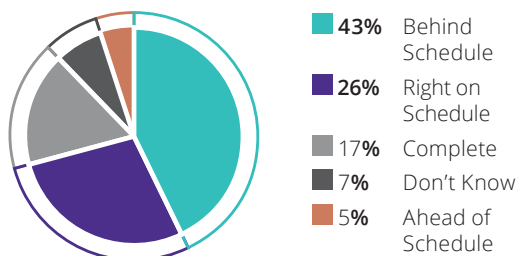**- Frank Raimondo**

## Continue to push forward a transformation from a tactical to a strategic function.

While 28% of procurement executives said that they were on pace for a transition to a strategic function, 43%, were behind pace. Becoming a more strategic procurement department will come about as greater visibility is created around spend. This in turn will be made easier through a stronger ability to liaise with IT. Managing third party relationships and demanding accountability around analytics is another component of improved spend management that will add weight to procurement's strategic value.

### Is your company's procurement transformation from tactical to strategic

- **43%** Behind Schedule
- **26%** Right on Schedule
- 17**%** Complete
- 7**%** Don't Know
- 5**%** Ahead of Schedule

*"In our own transformation, I would said that we're on schedule and probably nearly complete.  The only reason I would say that we're not complete is we don't get involved early enough in every process that we need to.  We do get involved in early engagement on a number of significant and strategic projects, but it's not absolute and it's not a mandate.  We've matured significantly in the last couple of years but there's still opportunity."*  **- Neil Schloss**

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# Key Recommendations  Continued

## Be aware of changing cost structures and the implications of widely prevalent SaaS products.

Procurement for IT must contend with the fact that technology is a far from static category, and subject to rapid changes. As an example of this principle, the wide reach of SaaS products is placing an impetus on procurement executives to understand service agreements and control department localized spending when a single cloud based service may only be in use within a single specific business unit. Consuming wide ranging sources of benchmark data, as well as following developments in the evolution of enterprise software are both strategies for contending with the rapid development of the solutions being sourced.

*"Large Enterprises continue to see the value of bringing in third-party subject matter experts for technically complex IT/Telecom sourcing initiatives.  Procurement has typically taken a back seat to IT in these initiatives because of the fundamental lack of this subject matter expertise.  Today, most of our engagements are initiated by Procurement to assist both Procurement and IT with the myriad of technical and contractual liabilities associated with these complex IT/Telecom agreements."*
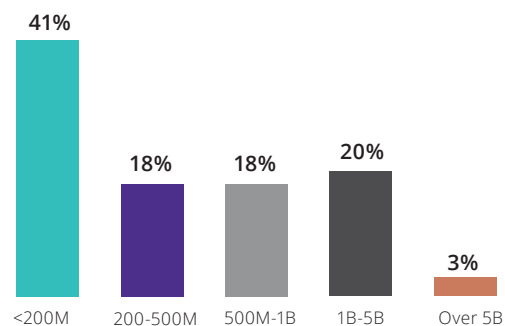**- Dave Roberts**

# Appendices
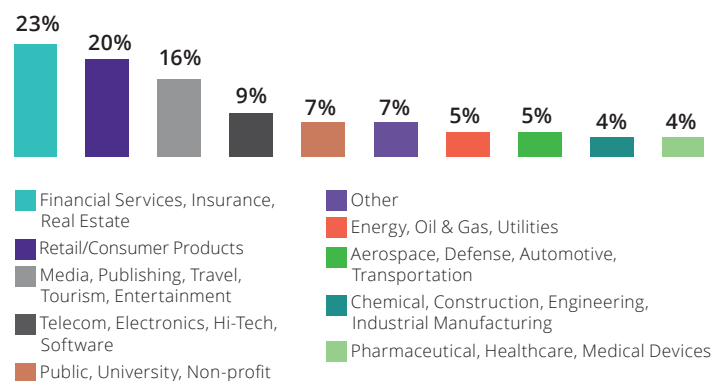
## Appendix A: Methodology

The results analyzed in this report were gathered from responses to an on-site benchmarking survey delivered at ProcureCon IT 2015, and prepared by event producer Frank Musero. 143 executives responded to the survey.  Interviews with sources were conducted after survey data was compiled, and centered on discussion of benchmark results.

## Appendix B: Who Responded to the survey?

**What is your estimated annual procurement spend?**

| <200M | 200-500M | 500M-1B | 1B-5B | Over 5B |
|-------|----------|---------|-------|---------|
| 41%   | 18%      | 18%     | 20%   | 3%      |

**What industry does your company represent?**

| 23% | 20% | 16% | 9% | 7% | 7% | 5% | 5% | 4% | 4% |
|-----|-----|-----|----|----|----|----|----|----|----|

- Financial Services, Insurance, Real Estate
- Retail/Consumer Products
- Media, Publishing, Travel, Tourism, Entertainment
- Telecom, Electronics, Hi-Tech, Software
- Public, University, Non-profit
- Other
- Energy, Oil & Gas, Utilities
- Aerospace, Defense, Automotive, Transportation
- Chemical, Construction, Engineering, Industrial Manufacturing
- Pharmaceutical, Healthcare, Medical Devices

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Founded in 1997, Teligistics is the leading provider of Telecom Lifecycle Management solutions for large and mid-market Enterprise-level clients. Teligistics pioneered the methodology for determining TCO (total cost of ownership) in telecom rate plans and was awarded a U.S. Patent. Solutions include Telibid™, a patent-pending web-based eProcurement tool specifically designed for the strategic sourcing of telecommunications. TEAM™, is an industry-best telecom expense management platform for telecom contracts, audit compliance and invoice processing. The eMobilegistics™ application provides full Enterprise Mobility Management Solutions. For more information, visit teligistics.com.

**Media Contact**
David Roberts
President/CEO
Teligistics, Inc

281-602-3108  Direct
800-530-1063 Toll Free
dave@teligistics.com

# WBR Digital

WBR Digital, connects solution providers to their target audiences with year-round online branding and engagement lead generation campaigns. We are a team of content specialists, marketers, and advisors with a passion for powerful marketing. We believe in demand generation with a creative twist. We believe in the power of content to engage audiences. And we believe in campaigns that deliver results.

**Media Contact**
Andrew Greissman
646-200-7950
Andrew.greissman@wbresearch.com