

Finding Savings in Your Company's IT Spend

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Occasionally, purchasing professionals are asked to extend their procurement skills beyond direct materials, supplies, and transportation. They may be asked to leverage their purchasing expertise in other functional areas where they may have had limited influence over past purchases. Even armed with a multitude of tools and techniques, a purchasing professional may feel overwhelmed with the complexity of the spend in a specialized area such as Information Technology (IT).

For most companies, IT costs are viewed as a 'necessary' expense and not part of the strategic effort. Chief Information Officers (CIOs) continually comment that their budgets are reduced from year to year and there's barely enough money in the IT budget to keep the lights on and the equipment running. Helping CIOs find and realize savings is key to building a long lasting relationship with your internal IT department and IT providers. While certainly not all inclusive, this article offers potential savings opportunities that you can tackle as a starting point.

Software and hardware maintenance agreements have been viewed sacred cows and untouchable. One way to reduce software maintenance is to reassess the number of product licenses purchased that are no longer in use. As companies have downsized, the number of required licenses has most likely been reduced. A reassessment and renegotiation with your software provider should yield results. There is no reason to pay maintenance on licenses that are not being used. Prepare for a tough, but attainable negotiation.

Did your company purchase ERP modules that were never used? I'm sure they were purchased in good faith and on the advice of your software provider. If your vendor is truly a strategic partner, have him take back those modules. It's unlikely that you'll get cash for unused modules, but you may secure a full or partial credit to be used against future software purchases or to reduce that dreaded annual maintenance bill.

Thinking about cancelling software maintenance? That's a drastic step, especially if you rely on the software provider for statutory and other mandatory updates. If your software is old and you want to simply keep it running without paying high annual software maintenance, you may be able to find a 3rd party provider who will maintain it at a fraction of the cost. Be certain that 3rd party providers offer the minimum statutory upgrades you require.

Reduce the ‘farm’. Most companies have seen their server farm grow over recent years. Many software vendors insist that their products and related server(s) have an exclusive relationship. It’s not unusual for each application to have multiple servers. With today’s server technology, consolidation is not only practical, but will save money in hardware and software maintenance and may also offer savings in operating system and other software license expense.

Take a serious look at technology leasing. Computer technology is often obsolete before the asset is fully depreciated. The value of technology lies in its use; not in its ownership. The total cost of ownership (TCO) should be considered when evaluating a computer technology purchasing decision. Financially, leasing provides a funding alternative that preserves capital and allows you to better manage annual budgets and cashflow. Technically, leasing provides a disciplined approach to product refreshment and minimizes the costs and risks of equipment disposal. Internally managing the cost of sanitization and compliant disposition are real costs that must be considered in the lease/buy analysis. If you decide to lease, choose a lessor that provides flexibility, offers services to improve the acquisition process, and assists in asset management.

If a specific IT procurement is large and complex, negotiate as far as you can to establish a cost baseline and enlist the help of a third party negotiator who works on contingency to complete the deal. There are excellent vendors in this space who know all the IT procurement ‘tricks’ that we practitioners never had the time to learn. These firms have also succeeded in renegotiating hardware and software maintenance contracts. Their fee? Most keep 30 cents on every dollar saved beyond your costs baseline and returns 70 cents to the company. There is no downside. Only savings with no costs to you!

Phone and communications bandwidth providers are good price reduction targets. If you are over 1 year into a 2 or 3 year contract AND are satisfied with your provider, you may be able to re-negotiate the price and re-write the contract for another 3 years at a reduced rate. This is generally a paper transaction which results in a monthly price decrease.

Is IT responsible for the right things? Some companies use IT as a catch-all to purchase and budget for non-IT items. For instance, the telephone switch and ensuing maintenance, printer toner, copiers, personal computers, and projectors are examples of items for which many IT organizations have purchasing and budgetary responsibility. Most CIOs will welcome Purchasing taking over these spend items to find savings opportunities and most CPOs will welcome the opportunity to tackle a new area of cost. Be certain to assume responsibility to negotiate prices and service levels on these items only; budgetary responsibility must be placed with the departments that create the demand, not the buying authority.

As mentioned earlier, this is merely a starting point. We welcome hearing your ideas to reduce IT costs at <http://blog.apurchasingd.com/>.