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IT Procurement Transformation Must Start Now to Make You Successful in 2020

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IT procurement professionals are so engrossed in endless, day-to-day negotiations that they are overlooking the warning signs demanding radical transformation of their culture, organization, processes and overarching value to the business. Will your IT procurement organization matter in 2020?

Impacts

- To remain relevant, technology procurement leaders must address the advances in digital technology that are shifting the dynamics of power in vendor relationships and disrupting the fundamental economics of enterprise leverage in IT procurement.
- To eliminate bypass, technology procurement leaders must anticipate and influence accelerating business demand for technology, which cannot be satisfied by traditional, linear IT procurement processes and budgetary constraints.
- To build trust and effective engagement where it is needed most, technology procurement leaders must transform the outdated cultures and organizational structures that diminish the significance of IT procurement.

Recommendations

- Drop the IT procurement label and rebrand as "technology procurement" as you transform to meet business demands for technology innovation in 2020.
- Deploy self-service procurement systems to manage run-rate demand and provide a better consumer experience, freeing up time to be proactive.
- Increase trust and credibility by engaging in innovation projects to start proactively sourcing technology by researching markets and reaching out to stakeholders earlier in their procurement cycle.
- Turn contract negotiations into a mere formality, not a protracted exercise, by shifting your focus to sourcing solutions that are best-suited to achieving your measurable business outcome.

- Educate all stakeholders, communicate new policies, and reinforce your transformation efforts with success stories to show how technology procurement is changing and will continue to change.

Analysis

IT Procurement's Paradox

IT procurement organizations are busier than ever, but they are trapped in a confusing paradox:

- "Our workload is increasing, but so too are the cases of bypass. Are we succeeding, or are we failing?"
- "We saved money on the last contract negotiation. But, did we actually help the business achieve its bigger outcomes and goals?"
- "We have a huge collection of tested processes. So, why are we struggling to buy new digital technologies effectively?"
- "Our staff members are knowledgeable negotiation experts. So, why we are not called in earlier, when strategy and innovation are the topics of discussion?"

Worse, these soul-searching questions might not even surface in a busy IT procurement organization. So, the IT procurement team continues serving the old guard of stakeholders who are coming to them for repeat engagements, cost savings, "tried and trusted" process, and depth of knowledge to counter the vendor's negotiation experts and lawyers. But the new-guard stakeholders will not come to IT procurement. Innovation and strategy implementation can't wait for IT procurement's time frames, which were built for the old guard, not the new guard — the coming wave of business demand — which, according to Gartner's CIO survey, is already spending two-thirds more on digital technologies than the IT budget.[1]

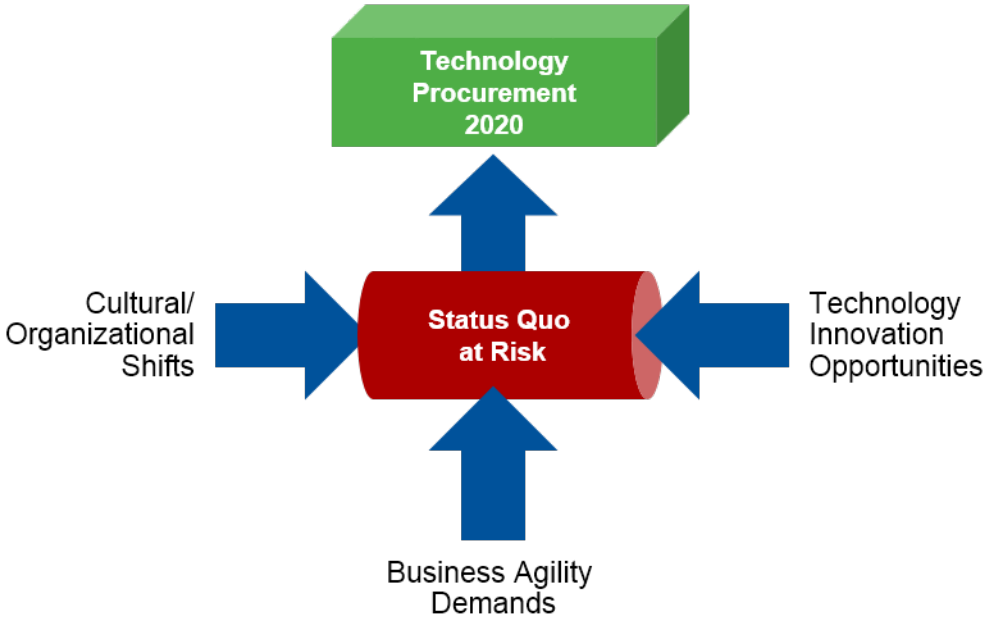
The Pressures Demanding IT Procurement's Transformation

When we boiled down all the soul-searching questions procurement professionals are asking, we identified three critical pressures for change that are changing the way we will do business with technology providers by 2020 (see Figure 1):

- **Technology Innovation —** The business drive to innovate with the latest technologies (for example, smart machines and the Internet of Things) challenges IT procurement. Advances in digital technology shift the dynamics of power in vendor relationships and alter the economics of procurement.
- **Demand for Business Agility —** Accelerating business demand for technology cannot be satisfied by traditional, linear IT procurement processes and IT budgetary constraints. It demands a revitalized customer experience and a game-changing response in the face of competition.

- **Cultural/Organizational Shifts —** Economic pressures are changing the status quo in the enterprise (for example, bringing mass, consumer-driven behavior to the corporation), shaking up old ways, structures, rules and processes. Outdated cultures and organizational structures prevent IT procurement from being trusted or engaged effectively where it is needed most.

Figure 1. Pressures Driving the Transformation of IT Procurement



Source: Gartner (October 2015)

Use our research to start a productive conversation: "What changes must IT procurement make — beginning now — to be relevant and effective in 2020?" To drive home the need for change, we will focus on the pressures impacting IT procurement and driving its transformation by 2020 to technology procurement (see Figure 2).

Figure 2. Impacts and Top Recommendations for Technology Procurement Leaders

Impacts	Top Recommendations
Advances in digital technology are disrupting the fundamental economics of leverage in technology procurement.	• Drop the IT procurement label, and rebrand as technology procurement.
Traditional, linear IT procurement processes and budgetary constraints cannot satisfy accelerating business demand for technology.	• Educate all stakeholders to show how much technology procurement has changed and will change. • Deploy self-service procurement systems to manage run-rate demand and provide a better consumer experience.
Outdated cultures and organizational structures diminish IT procurement and prevent it from being trusted.	• Research markets and reach out to stakeholders earlier in the cycle. • Shift your main contracting focus to achieving "business outcomes."

Source: Gartner (October 2015)

Impacts and Recommendations

To remain relevant, technology procurement leaders must address the advances in digital technology that are shifting the dynamics of power in vendor relationships and disrupting the fundamental economics of enterprise leverage in IT procurement

Pressure One: Technology Innovation

Gartner's research on the 2015 strategic technology trends (see "The Top 10 Strategic Technology Trends for 2015") shows how technology advances continue to have a profound effect on many lines of business where early adopters innovate to their advantage. Imagine how businesses will change as over 20 billion "Internet of Things" are purchased and integrated with business systems, for example.

Technological innovation revolutionizes how business is conducted and changes the economics of an industry. Organizations have achieved market dominance through cloud services, such as Amazon in retailing, iTunes in music distribution, Kindle in publishing, Google in advertising or LinkedIn in recruitment. The impacts of digital technology are not limited by industry or company

age, and they are felt everywhere — from robotic vacuums in domestic cleaning to autonomous self-driving vehicles that effect both the automotive and the mining industry (see "CEOs and CIOs Must Assume That Every Industry Will Be Digitally Remastered").

These disruptive trends have a profound influence on the IT industry itself, changing the way IT account managers and channel programs engage with our organizations. They change how we buy, and they diminish the leverage of enterprise procurement in the three examples below.

Subscriptions Diminish Negotiating Leverage — The first significant economic impact is the move away from long-term capital purchases toward annual subscriptions to technology, especially as a service. Until recently, the most complex technology procurements involved the purchase of perpetual software use rights. If difficult maintenance and support renewal negotiations broke down, at least the buyer had perpetual license rights to continue using the product with the benefit of third-party support. This is not the case with growing cloud and SaaS subscriptions. Gartner forecasts that total spending on cloud services, which are subscription-based by default, will increase to $210 billion in 2016.[2]

Buyers now have little choice but to renew subscriptions to continue using the technology. Even if price caps are negotiated, they're not perpetual, so fees can increase — often significantly — after the second or third renewal. Today, the cost of migrating to an alternative often forces acceptance of increased subscription fees. In the future, this may change in response to business pressure and continued improvements in migration processes.

Cloud services are offered under more standardized, less negotiable contracts; they can be purchased directly by business users without IT procurement involvement. That makes it even tougher to negotiate after generic click-through subscription terms have been entered for a casual purchase by business leaders or end users. Negotiation leverage is being lost.

Consumerization Alters the Role of Technology Procurement — The second example of disruptive change is the entry of consumer technologies into enterprise markets such as mobile devices and their app stores and virtual assistants. This moves technology selection and purchasing decisions away from IT or corporate procurement to end users, who are accepting more risks and unfavorable contract terms. Consumer technology providers are less interested in the needs of enterprise CIOs or technology procurement leaders. They will not change products or agreements unless they believe it will increase consumer adoption. When there is a clash in requirements, the consumer will win. Consumer providers do business online or through retail stores. Less will be negotiable as technology providers continue to shift from higher-margin business under custom contracts toward more standardized lower-margin products and services, as nontraditional competitors also enter technology markets. Even more negotiation leverage is lost.

New Providers Are Disrupting Established Market Economics — The third example of power shifting away from procurement is found in intensified service provider competition with technology providers changing industry economics. An industrialized service provider running free, open-source software will be able to charge less than an expensive branded software solution. When IT organizations and their service providers buy more expensive market-leading software, they struggle to compete with low-cost industrialized IT service providers on price.

Technology procurement must make stakeholders more market aware to obtain the best trade-offs between quality and cost. Innovative new providers will continue to enter enterprise technology markets, especially with new digital technologies that are not yet recognized as IT. Large, established vendors have a tendency to acquire these smaller competitors or to compensate for lost revenue by upselling their existing customers with more expensive offerings. Technology procurement must identify and respond to these threats.

Recommendations:

- Communicate the risks and dangers of signing up for subscriptions and being held to unfavorable terms when buying from vendor websites without procurement engagement.
- Deliver a better consumer experience by buying technology through your indirect procurement systems with self-service options through alternatives such as app stores. This frees up procurement time to seek out future business needs.
- Research and monitor markets to become trusted advisors to stakeholders on any changes — such as disruptive competitors or emerging business opportunities.
- Rebrand IT procurement as technology procurement to communicate beyond the IT team to all budget holders that your specialists have the skills and experience to meet their business needs.

To eliminate bypass, technology procurement leaders must anticipate and influence accelerating business demand for technology, which cannot be satisfied by traditional, linear IT procurement processes and budgetary constraints

Pressure Two: Demand for Business Agility

Agility is the ability of an organization to sense environmental change and respond efficiently and effectively to that change.[2,3,4] Nowhere is agility more important than when the business is trying to acquire technological innovation in a volatile market saturated with hype. The business wants speed to market, and technology procurement experts must show that they can deliver what the business needs without incurring excessive cost and risk or settling for poorer value alternatives. Reminders of the mismatch between traditional IT procurement's approach and the business's need for agility are everywhere:

- **"We want it now!" —** Business users accustomed to the almost "instant gratification" of online shopping quickly become frustrated by the delays introduced by long-established corporate procurement processes.
- **"You are costing me market share!" —** Traditional IT procurement's delays are increasingly difficult to explain or justify, especially where delays in the supply of key technology products and services impact strategic, time-critical digital business projects.
- **"I don't have time for these games!" —** Business budget holders hate project delays, but IT procurement has often relied on timing and delay for negotiating leverage with technology providers.

Can Procurement Embrace the Pressure of Business Agility?

There is no doubt that the demands for agility are demanding a transformation. The good news is that a technology-procurement-2020-focused organization has a wide range of agile options to bring to the table:

- **Contracts Can Be Tuned to Cope With Changing Scenarios —** Delivering an agile response to change is impossible when the organization's contracts are rigid. To the extent that alternative business scenarios can be foreseen or predicted, the response to these new scenarios can be negotiated into the initial contract. Write contract terms that adapt to changing conditions and unfolding business scenarios by changing the product mix, for example. Retaining these responses to change through multiple contract renewals requires persistence and attention to detail, supported by good procurement record-keeping tools.
- **Better Procurement Tools Enable Better Technology Procurement Processes —** Technological advancements in procurement-related tools and automation greatly impact the relevance of the procurement process to the business. Without them, technology procurement cannot hope to meet its stakeholders' need for agility, speed and flexibility. Technology procurement teams that are still using traditional workflow-based systems, or worse — manual processes — risk stakeholder bypass. Even in the public sector, new technology-driven processes must be followed by law (see. "Public Procurement Contracting Authorities Must Act to Comply With EU Procurement Changes").
- **Technology Procurement Can Tap the Cognitive Intelligence of Smart Machines —** Opportunities for automation software now include e-purchasing tools and contract review tools from providers such as Beagle, eBrevia, Kira or KMStandards that apply artificial intelligence to dramatically speed up the review of problematic terms and enable better collaboration. While there is a danger of overrelying on automated tools or intelligent checklists (they can overlook important issues that haven't been encountered before or fail to ensure the desired business outcome), technology procurement needs digital assistants to augment its efforts. However, the decision to buy these tools must be based on more than cost and risk reduction — it must be based on driving better business value.

Demand for Business Agility Will Continue to Drive Unhealthy Procurement Bypass

A technology-procurement-2020-ready organization cannot afford to be seen as a gatekeeper or an obstruction; otherwise, organizations will take drastic actions that bypass procurement processes, people and problems. Business budget holders and their sponsors don't understand how IT-like their technology contracts are becoming, so it isn't always obvious that their digital business technology projects need technology procurement's experience. Who is responsible will often depend on the most senior executive sponsor or who is put in charge of the project, so organizational politics inevitably come into play. But the same complex procurement challenges apply, regardless of which senior executive is in charge or whether the IT team is leading the project. Take the example of a business automation project that connected sensors indirectly through operations management servers to an ERP system. No one checked the ERP software contract or budgeted for approximately $2 million in additional software licenses. This is the cost of

bypass and the unintended consequence of business agility. Technology procurement can — and must — prevent this kind of mistake.

Recommendations:

- Build awareness of technology developments such as the impact of the Internet of Things and smart devices on your business and its competitors to drive demand for better technology.
- Adopt newer and more efficient processes and technologies to make run-rate indirect procurement more effective and efficient at meeting business demand.
- Apply intelligence to procurement processes to better meet demand and take advantage of digital assistance from technology sourcing through to contract review to support better collaboration.
- Meet the agility challenge by working with stakeholders to develop procurement strategies and technology contracts that will meet their changing needs.

To build trust and effective engagement where it is needed most, technology procurement leaders must transform the outdated cultures and organizational structures that diminish the significance of IT procurement

Pressure Three: Cultural/Organizational Shifts

Technology procurement teams must have the reach and influence they need wherever digital technologies are being bought within the enterprise. However, IT procurement's traditional, IT-focused policies and processes will miss the opportunity to help buy technology more intelligently and effectively. This is both a structural and a cultural problem; therefore, the technology-procurement-2020-ready organization must restructure and rethink to serve buyers who act more like consumers than employees of a corporation. Cultural changes are complex, so this pressure must be managed sensitively. So, what does a technology procurement 2020 organization do differently? There are just four differences, which we examine below.

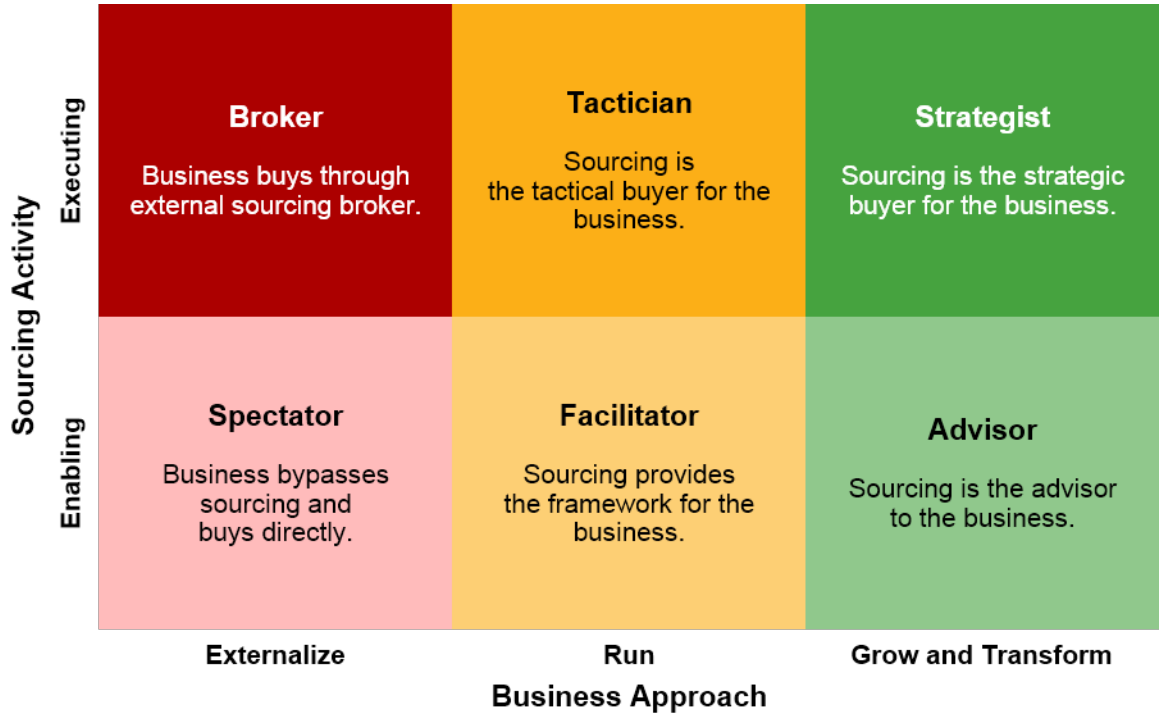
Technology Procurement 2020

- Applies adaptive sourcing to seek the "Goldilocks Zone"
- Transcends definitional and organizational silos
- Uses collaborative learning communities to support change
- Is in constant outreach to win hearts

Technology Procurement 2020 Applies Adaptive Sourcing to Seek the "Goldilocks Zone"

Technology procurement doesn't have to be involved in every transaction, but technology-procurement-2020-ready leaders must plan when their engagement is appropriate to avoid being bypassed altogether. In order to prioritize sourcing and procurement effort, Gartner recommends an adaptive sourcing approach,[5] where the approach is different for innovation, differentiation and run-level cost optimization. Outmoded process-driven procurement cultures are increasingly ineffective, and the adaptive sourcing approach is a viable alternative that addresses a new culture and structure. Few technology procurement specialists we speak with are executing a defined procurement strategy; many are simply following a predefined process that is unlikely to be as successful. Sometimes individual stakeholders will define a strategy to prioritize their own needs, but a more powerful technology procurement approach is to prioritize tasks and select the role (see Figure 3) that best contributes to the business outcome (for example, technology procurement's role when sourcing consumer or cloud technologies might be as a broker or advisor). This is the Goldilocks Zone, where technology procurement's engagement is "not too hot, not too cold. It's just right."

Figure 3. The Six Future Roles of Sourcing and Procurement



Source: Gartner (October 2015)

Technology Procurement 2020 Transcends Definitional and Organizational Silos

Purchases involving IT should be handled by the IT procurement category team, but it's no longer possible to maintain a clean distinction between information technology and the many other digital

technologies that generate or process information. Technology-procurement-2020-ready leaders will expand procurement policies with additional category-specific guidance for digital marketing, operational technologies and Internet of Things (IoT) components in their enterprises' finished products. They will not let definitional silos and territorial behavior limit their reach.

Take the example of a defense manufacturer building vehicles that acquire and generate more data than all of its employees put together. Customer-facing technologies are purchased by a supply chain team in direct procurement, which is totally separate from indirect IT procurement. In this hypothetical example, what happens when a lack of supply chain coordination with IT to buy supporting software results in budgetary overruns that embarrass the governments of some of the most powerful nations on earth? Similar pictures of risk are repeated across many industries where IT-like technologies are becoming part of embedded manufacturing systems, local infrastructure and many other forms of plant and equipment, recognized by Gartner under the general term of "operational technologies." With the Internet of Things, inexpensive sensors and computer processing units are now being embedded in end-user products and services that are no longer limited to vehicles, household appliances, buildings or cities. Technology-procurement-2020-ready leaders have transferable skills needed to buy the information infrastructure that supports inexpensive data gathering endpoints in successful business operations. All they need is access, credibility and acceptance. That's the problem with silos. They are hard to break.

Technology Procurement 2020 Uses Learning Communities to Support Change

Cultural change is difficult. Enterprises that have mastered organizational change as a core competency have found that one of the main ingredients for successful transformation is creating a learning culture. The basis of this learning culture is to engage all stakeholders to harvest "big think" ideas for identifying opportunities for change that benefit the entire organization.

IT procurement transformation into technology procurement 2020 must focus on exploiting the use of learning opportunities to create effective change. Successful transformation will engage IT and business-unit stakeholders so they not only feel part of the process but can identify and share their needs as part of the "learning" process. Technology procurement 2020 leaders who create and lead learning communities with cross-functional IT and business unit team members will learn about specific, varied and unique business unit requirements, while inspiring innovative "outside the box" thinking that only diverse team membership can cultivate.

Technology Procurement 2020 Is in Constant Outreach to Win Hearts

Technology-procurement-2020-ready leaders must constantly market their efforts, convert the naysayers and communicate with their broad stakeholder base. The new recruits to your enterprise may be used to buying their own technology and don't understand the benefits of working with a formal procurement process. Without outreach to win them over, technology procurement would not be able to:

- Identify technology providers whose contracts will deliver the business outcomes stakeholders need.
- Achieve economies of scale, resulting in volume discounts and a lower cost of complexity.

- Record valuable software license entitlements that would otherwise be lost, saving organizations from expensive license compliance audit failures.

By investing a few hours in creating a simple online training module with comprehension questions, technology procurement can seed an inexpensive, but highly effective, way to communicate a new, more collaborative way of working with the organization. By communicating the benefits of teamwork, technology-procurement-2020-ready leaders ensure that budget holders come to them.

To stay relevant and show stakeholders how technology procurement systems and processes are changing in response to the major pressures we've outlined, technology-procurement-2020-ready leaders must communicate their transformation to all relevant stakeholders and encourage broad participation by extolling the key benefits of technology procurement collaboration with examples such as these:

- **Efficiency —** for example, quickly identify new digital technologies available under acceptable contract terms
- **Speed —** for example, one single repository and access to internal and vendor documents, proposals and contracts versus multiple repositories and manual filing methods/systems
- **Robust analysis —** for example, formal spend, budget impact, and what-if analysis models and tools

IT and business stakeholders need to feel that they are a key part of the procurement transformation process, beginning with the requirements phase all the way through customization, testing and final implementation. Although not everyone will want to be as deeply involved, key stakeholders should see how their involvement in transformed procurement can have a direct impact on their own performance and success.

Recommendations:

- Turn around technology procurement to better serve stakeholder needs, and become an advocate for enterprisewide digital business changes.
- Reskill and forge relationships with new business stakeholders through adaptive sourcing.
- Establish policies to communicate the benefits of engaging procurement and the financial and legal risks of failing to do so.
- Establish training for all new contractors and employees on technology procurement basics as part of a broader communication plan that also targets existing stakeholders.
- Discover and transcend the different organizational silos involved in buying digital technologies, as more technologies are becoming increasingly IT-related or IT-like.
- Establish learning committees to promote change by celebrating early successes and learning from emerging best practices to re-educate everyone involved in, or impacted by, technology procurement.

Gartner Recommended Reading

Some documents may not be available as part of your current Gartner subscription.

"Toolkit: How to Communicate Your IT Procurement Transformation Plan"

"Key Governance Changes That IT Procurement Must Make to Become Adaptive and Agile"

"Procurement Must Identify and Support Adaptive Sourcing Initiatives to Enable Innovation and Differentiation"

"Bimodal IT: How to Be Digitally Agile Without Making a Mess"

"Top 10 Strategic Technology Trends for 2016: At a Glance"

Evidence

[1] "Forecast Analysis: Public Cloud Services, Worldwide, 4Q14 Update"

[2] "Achieving Agility: Defining Agility in an IT Context"

[3] "Defining, Cultivating and Measuring Enterprise Agility"

[4] Gartner Fellows to Address International Conference on Use of Technologies and Processes for Seeing, Responding to Changing Competition Forces

[5] "Don't Be Bypassed: The Six Futures of Sourcing and Procurement"

More on This Topic

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- Managing Procurement and Vendor Management Risk With Startups and Microvendors

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