ProcureCon's
2018
CIO-CPO Report

ProcureCon IT SOURCING

INSIGHTS
Worldwide Business Research

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Executive Summary

Within a modern organization, the role of technology is central to productivity. Appointing leadership that can confidently guide the business towards the right solutions is critical, as is obtaining licenses that avoid liability, preserve flexibility, and create value. IT spending is often one of the largest single categories of indirect expense within a business, and it takes involvement from both IT and Procurement leadership to ensure that criteria for performance and value are both respected and actively managed.

The state of collaboration between the CIO and CPO has continued to evolve in response to developing external pressures, as well as stakeholders to bring IT spending within a best-practice approach to value creation. In today's macro-business environment of globalized competition, supply lines, and strategic partnerships, the role of Procurement has developed from a group focused solely on managing costs and overseeing negotiations, to a bulwark against risk and a driving force for value optimization.

IT, led by the CIO or CTO, is also in the midst of contending with transformative external forces. Perhaps the most significant is the concept of digital transformation, which broadly refers to movement away from physical to primarily cloud-based infrastructure, as well as the integration of greater levels of automation, up to the point of AI and machine learning. The pace of technology change is fast, and solution providers are often able to set the terms of a negotiation without a partner involved who is able to push back using effective value creating techniques.

These conditions call for a strategic alliance between CIO and CPO. Each of these leaders has a major stake in the overall direction of the company, and by extension will influence each other's ability to complete their missions, as well. However, before their departments come together, the relationship between their businesses must be built up to the point that it can succeed. Generally, this means that Procurement must continue to demonstrate value to their counterparts in IT and demonstrate a basic fluency in the nuances around technology sourcing, while IT must commit to involving Procurement in the early stages of new projects in order to give them time to assist with their full potential.

Within this report, we will highlight the current levels of collaboration at play in the industry today, as well as the tools and strategies that best-in-class organizations are using to deliver transformational business change.

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.

> **"** *My role in the last year* has been leading the indirect procurement team here at Ace. We've developed a consultancy mindset, not just with IT, but with the business, as well. Procurement is a part of that process, but that's not what we lead with. We start by understanding the business outcome that they're seeking, and the steps that are required. Purchasing is a big piece of that, especially with some net new purchases. Being close to the business allows IP on many occasions to get a wind of new technology purchases first and then through our collaborative nature, we bring our friends from IT to the table, which as you know, if you've had that conversation, is not typical within most organizations."

Fraz Baig
Head of Indirect Procurement
Ace Hardware

> **"** *The way we are structured* is the IT sourcing function reports into the CIO via a dotted line. On the solid line, we're part of the overall indirect sourcing organization. The interesting part is that there's no chief travel officer in the company. There's no chief MRO officer. There's no chief utilities officer. There's definitely a chief information officer or a chief digital officer. The procurement leader is part of the CIO's staff and participates in sourcing activities from the beginning, including the staff and budget calls at the start of a project. If a CIO is having a relationship meeting with a supplier, the CIO likes the procurement leader participating in part of that conversation. Whether it's the relationship, whether it's talking about any issues that are going on in the services they're providing, whether it's talking about future business opportunities, every discussion is a negotiation."

Aashish Talwar
Software and IT
Sourcing Leader
GE

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IT Optimization: Is Procurement Taking the Lead?

While everyone is talking about the need for IT to evolve from a technology operator to a "business-first" organization, strategic Procurement and Purchasing teams are driving that change behind the scenes.

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Key Findings

The state of collaboration between IT and Procurement is improving as a whole in response to macro trends in the technology market. Procurement and IT leadership will often require a closer working relationship to contend with imperatives to digitally transform.

In situations where IT and Procurement enjoy a solid relationship, one of the most often-cited keys to success is the ability for Procurement to demonstrate **understanding of category specific knowledge.**

Another key to the improvement of the relationship between the CIO and CPO is **the demonstration of value** and holding face-to-face meetings between the leadership of both departments is one of the most cited methods of doing this.

Research Analysis

## Defining the responsibilities of Procurement and IT in sourcing technology

It's becoming increasingly common for Procurement to have a seat at the table during IT sourcing, building off the value-creating reputation that the department has cultivated over the years.

The rapid pace of innovation in today's technology market means that there must be a balancing act when sourcing between leveraging economies of scale and retaining the ability to innovate and seek out nimble solutions.

IT has historically been in the driver's seat of defining its organization's technology strategies, though the involvement of strategic sourcing has become progressively more common over the years. Reasons for Procurement's involvement include the need to navigate complexities in negotiations that arise from individual business requirements, the flexible nature of SLAs for cloud solutions in particular, as well as the importance of avoiding the creation of silos within the organization that can occur with a disjointed approach.

In light of these forces, we can see that the majority of respondents now operate within organizations where IT and Procurement are expected to work together when sourcing technology. On top of this, it's now slightly more common for Procurement to take a direct role in IT sourcing than the IT department itself. In these cases, IT may lay out specifications around functionality and provide supplier options, then leave Procurement to optimize for value and bring a deal to closure.

**In the majority of cases, IT and Procurement share IT sourcing responsibility.**

- IT
- Procurement
- Joint IT/Procurement

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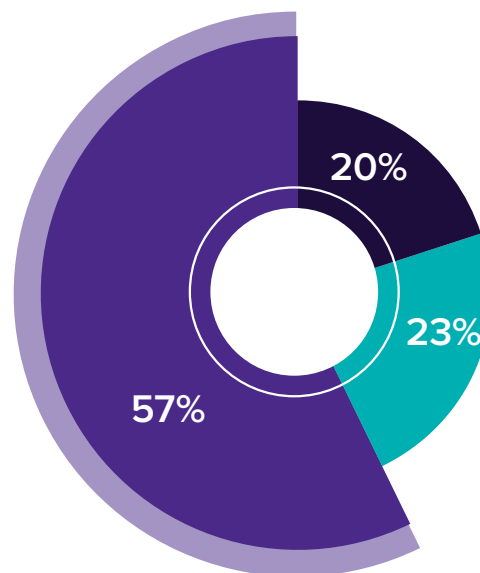
Looking at where respondents feel that IT procurement responsibility should lie, another 10% believe that responsibility should be shared.

The fact that a major share of respondents feel shared responsibility is an ideal scenario offers further proof of how desired this is as an outcome. Interestingly, a larger proportion of respondents agree that Procurement should hold sole responsibility for sourcing technology than those who believe that IT should be the driving force in this area. This is potentially a reflection on the ability of Procurement to win value in negotiations, the development of individuals with category expertise within many teams, and critically, the need to negotiate clauses that allow for progressive development of technology infrastructure to avoid being locked into an inflexible position. In the end, the importance of optimizing an agreement and managing licensing is hard to overstate.

Given a choice, 67% of respondents feel IT sourcing should be a joint IT and Procurement venture.

- ■ IT
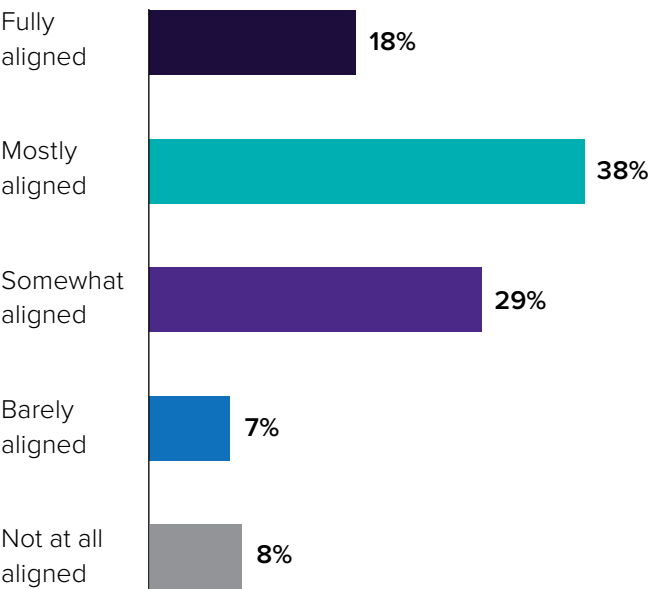- ■ Procurement
- ■ Joint IT/Procurement
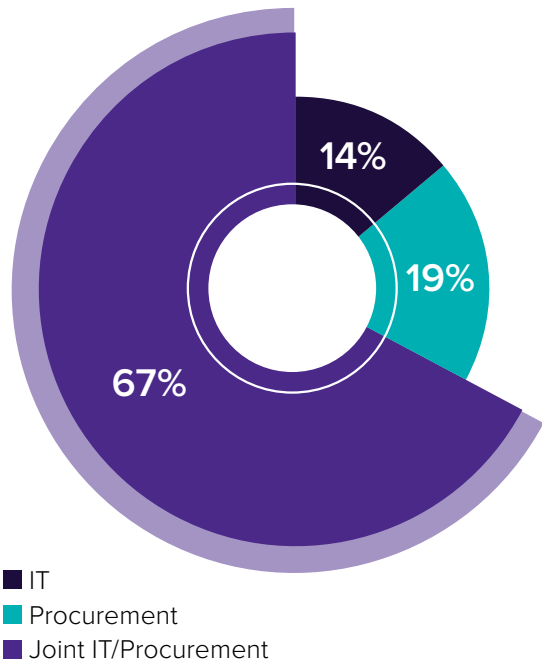
Current levels of coordination between Procurement and IT leadership

Self-reported levels of Procurement and IT alignment are relatively strong for 56% of respondents, while 36% are struggling and 8% are completely out of sync.

The alignment of Procurement and IT generally refers to the perception of how in sync they are when supporting each other's missions, and how willing they are to work together. The majority of respondents feel that there is some alignment, at a minimum, between these two groups—in today's technology sourcing environment it is unlikely that Procurement will be completely uninvolved, although in a more negative scenario they may be brought in late to a project with the intention of aiding in negotiations after a final option has already been selected. This scenario loses some of the value that procurement can provide in the initial sourcing phases of a project, in particular around RFP creation and the provision of a value-centric perspective. Within a high-performing relationship, representatives of the procurement department will work closely with IT from the beginnings of a project, serving in a consultative manner.
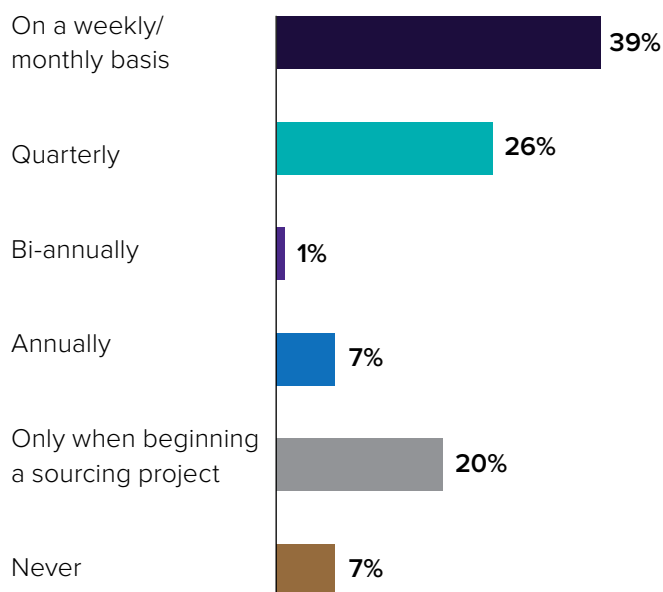
How well aligned are Procurement's goals with those of the IT organization?

Fully aligned	18%
Mostly aligned	38%
Somewhat aligned	29%
Barely aligned	7%
Not at all aligned	8%

Weekly or monthly coordination is the norm for 39% of respondents, while another 26% will consult on a quarterly basis.

Communication between Procurement and IT takes place with a high frequency for 39% of respondents, and another 26% have established quarterly meetings to improve their coordination. It deserves to be mentioned that for many, the frequency of formal meetings between Procurement and IT may be much less than the potentially daily coordination that occurs when collaborating on a sourcing project. In situations where a dedicated IT sourcing group reports in to both the CIO and CPO, it's likely that daily coordination is the norm.

How frequently does IT consult with Procurement on a strategy level?

On a weekly/ monthly basis	**39%**
Quarterly	**26%**
Bi-annually	**1%**
Annually	**7%**
Only when beginning a sourcing project	**20%**
Never	**7%**

> **❝ As a lot of technology projects** are now driven by the business, our internal business process is designed so that relationship managers are working with the business to figure out what's on their project plan for 2019. We're collaborating, not with just IT, but with our accounting folks within finance as well to understand the dollars and how they may shift.
>
> We're part of the conversation in the prior year, so we have a view of what's going to be coming in 2019. That's the first stage where we understand what's going to be taking place within the business. Once we come up with the budgets, we're meeting with our IT directors to understand, what are the challenges we are dealing with this year? What is the game plan to help solve problems for the business? In terms of cadence, the IT category manager on my team is meeting with IT to discuss specific projects quarterly, but in terms of engagement, it's daily."
>
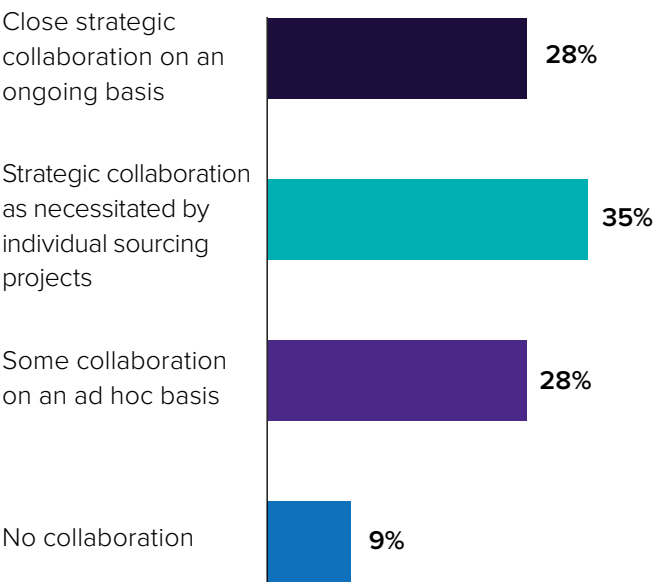> Fraz Baig, Head of Indirect Procurement, **Ace Hardware**

Bridging gaps between Procurement and IT

While we have examined the relationship between Procurement and IT, the coordination between CIO and CPO is another area which can define the ability of both departments to enable the business at large.

The CPO and CIO, as leaders of their business units and members of the C-Suite, both have the influence to help define long-term strategy within the organization at large. This influence can be potent in isolation but becomes capable of enabling transformational change when these two roles choose to work closely together.

Strategic collaboration occurs on an ongoing basis for 28% of respondents, which is the same proportion of respondents who state that they will only collaborate from time to time in an ad hoc manner. A minority of 9% of respondents state that their leadership does not have any coordination at the C-level. While this does not rule out the possibility of having a level of coordination in place between the teams supporting these executives, this is made more difficult without a clear direction being spread from the top.

Coordination is the norm between CIOs and CPOs but varies in frequency.

Category	Percentage
Close strategic collaboration on an ongoing basis	28%
Strategic collaboration as necessitated by individual sourcing projects	35%
Some collaboration on an ad hoc basis	28%
No collaboration	9%

Ultimately, the first step that CIOs and CPOs will pursue when improving coordination is increasing the frequency of their consultations or establishing regular meetings if none exist currently.

What strategies are you using to develop closer coordination between IT and Procurement?

Strategy	Percentage
Increasing the frequency of consultation between units	46%
Hiring for hybrid/IT skill sets	13%
Onboarding strategic consulting to bridge gaps	10%
Introduction of SLM tools	9%
Creation of shared KPIs	8%
Collaboration around disruptive technologies	8%
None	6%
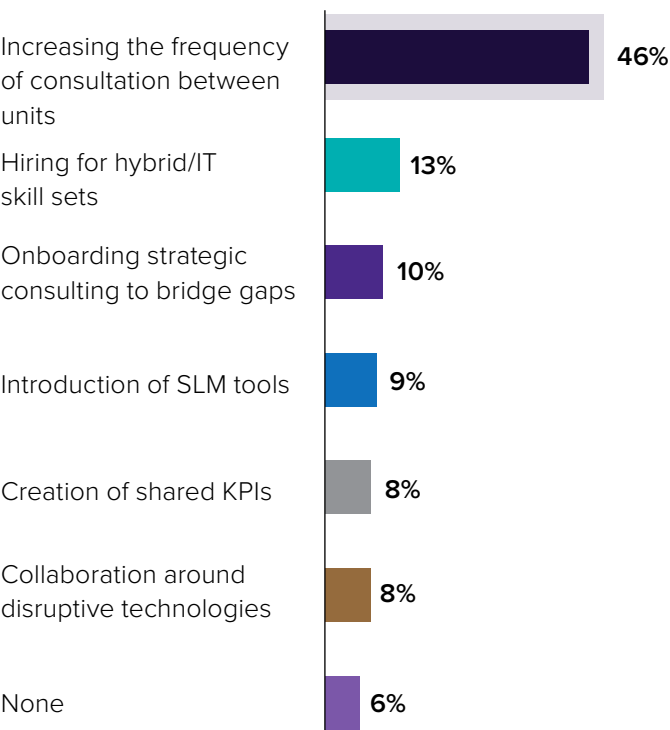
It's no surprise that the most commonly utilized method for improving CIO and CPO coordination is increasing the frequency of meetings between these two executives.
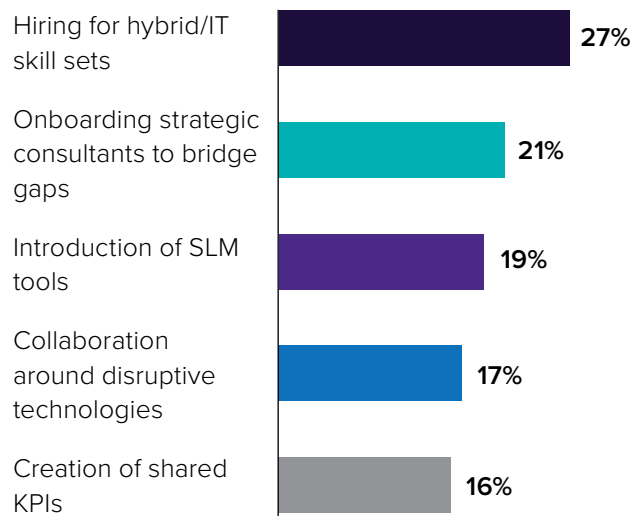
> *The depth of the relationship between procurement and IT depends on how much value you're providing back to the IT function. If they only see value around you looking for issues from a contract perspective, like limitation of liabilities or talk about warranties or talk about just the contractual language, then IT will only involve you when they come to that part of the sourcing process.*

If you talk about strategy, if you talk about the solution and how it will provide value back to the IT customer, you have a stronger case to be involved. Now, it's always an uphill battle where you're not part of that decision-making process. If you start showcasing value at the beginning of the sourcing process in terms of identifying what are the alternative suppliers in the market, etc., it definitely changes the game."

Aashish Talwar, Software and IT Sourcing Leader, **GE**

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When we look at the same response data with increasing meeting frequency removed, the No. 1 option then becomes the addition of IT skill sets to the procurement group. The importance of being able to speak in the same language as members of the IT group goes a very long way in adding legitimacy to the involvement of Procurement early in the sourcing process and can be valuable when working with vendors as well. The ability to understand exactly how an SLA will impact the efficacy of a solution across the organization is critical when optimizing for value in negotiations. In situations where developing IT fluency on a procurement team may not be possible on a short enough time horizon, or where there is need to obtain a more focused perspective, teams will turn to the use of strategic consultants to assist them. The benefit of strategic consulting is typically a depth of transferable experience, as well as a degree of objectivity that can help identify common points of improvement and coordination across both the Procurement and IT function.

What strategies are you using to develop closer coordination between IT and Procurement?

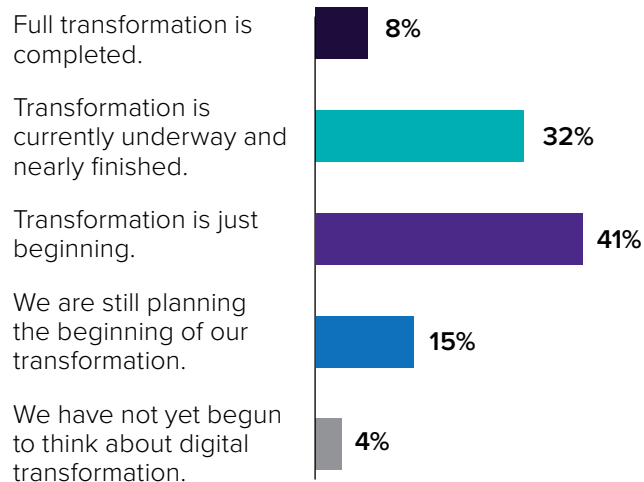| Strategy	%
Hiring for hybrid/IT skill sets	27%
Onboarding strategic consultants to bridge gaps	21%
Introduction of SLM tools	19%
Collaboration around disruptive technologies	17%
Creation of shared KPIs	16%

Driving innovation through CIO and CPO collaboration

As the pressure to undergo digital transformation increases, the CPO and CIO should naturally be among the executives leading the charge. Currently, the majority of respondents are beginning their journeys.

By combining the ability to vouchsafe value creation through the sourcing function with the technical expertise of the IT group, very strong cases can be made to key business leadership for a range of strategic projects.

Respondents are spread across levels of digital transformation.

Level	%
Full transformation is completed.	8%
Transformation is currently underway and nearly finished.	32%
Transformation is just beginning.	41%
We are still planning the beginning of our transformation.	15%
We have not yet begun to think about digital transformation.	4%

> **At GE,** *we realized that cloud is here to stay. We started working with some big cloud providers and some large software companies who were turning towards the cloud, getting ahead of the game and working with them in terms of putting together these agreements. We built flexibility into our contract engagement, where we would say, when the spend goes up, we will build structure into the contracts for us to get better discounts or better terms and conditions, because we did not have immediate leverage up front.*

Security and data protection are also very important when working with the cloud. We began by partnering much more tightly with our cybersecurity team, building a process around improving the speed of security checks while getting more and more cloud agreements into our systems."

Aashish Talwar, Software and IT Sourcing Leader, **GE**

The concept of digital transformation refers to the integration of new technology based on automation, cloud adoption, the breaking down of data silos, and eventually utilizing the power of AI to help eliminate as much tactical work as possible across the organization. Today, only a select few respondents (8%) feel that they have truly accomplished a digital transformation across their entire organization. Another near-third of respondents are currently in the midst of a transformation that they feel is close to being finished. Ultimately, it can be debated whether digital transformation in the sense of maintaining a forward thinking, agile strategy is ever something that comes to an end. However, in the sense of making a definitive movement away from static, siloed systems, it seems that around one-in-three organizations can claim to have made significant progress.

The beginning of a journey of digital transformation requires careful consideration and planning. It is important to modernize infrastructure, but that said, the need for business continuity makes this a challenge. Another factor is the need to obtain licenses that are flexible enough to allow new solutions to be progressively updated to match the pace of innovation within the technology industry. While cost metrics may point to a long-term, locked-in strategy, this may be the wrong approach from a value optimization perspective. Whether just beginning, or in the planning phases, those who are now moving forwards on their digital transformations are in the majority. Only 4% of respondents feel that this is a topic that they are not yet required to think about.

> " **We focus in on value optimization.** *We're Procurement, so savings and cost avoidance are number one. An example that comes to mind is a project that I'm working on currently on behalf of the business.*
>
> *We were able to take a licensing agreement that in many cases, might be accepted at face value. Understanding our business model and how adoption of some of these technologies work, we were able to push back with the vendor. In full transparency, we told them that, 'they were not going to receive the dollar amount they anticipated based on adoption, as well as our reasoning.'*
>
> *What really helped was to redo license agreements to help drive adoption for the technology, providing an exit clause for us, ensuring that termination language is in place. We wore our technology hat, IT hat, and took the time to understand what the business outcome should be.*
>
> *A lot of times you would take an agreement at face value and ask to decrease the price. Here, we were able to create additional tiers and get incremental value which didn't exist before, based on working the engagement through indirect procurement.*
>
> *We're in the midst of digital transformation. Every new project that's coming up is cloud-based. We're moving away from big software that sits on a server. I think digital transformation is more the norm than not, at this point.*
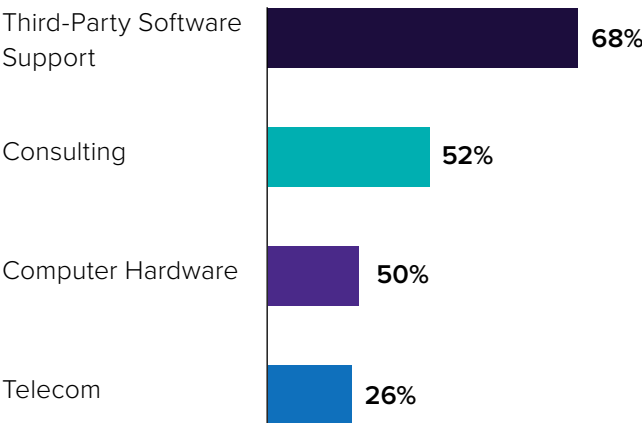>
> *There's a transformation in full swing. The business wants to turn the dials and help drive forward. I think with how quickly transformation is taking place and new vendors are emerging, we're moving to more of a 'fail fast and get out' strategy in order to explore emerging technology."*

Fraz Baig, Head of Indirect Procurement, **Ace Hardware**

Solutions for managing software licenses ranked by popularity show that those with a responsibility to source effectively prefer dedicated solutions around value optimization for each aspect of software management, from licensing, to IT financial management tools. The software that CIOs and CPOs work on implementing together will often focus on adding value and assisting in underlining how their collaboration is resulting in positive KPIs for both groups.

With close to one-half of respondents indicating that a dedicated software license management solution is their preferred solution for the management of value creation around their licenses, it's clear that there is a significant benefit in taking a dedicated approach to creating visibility in this arena, going deeper than the runner-up result of software asset management, which remains another essential tool for IT sourcing. For sourcing professionals with IT responsibilities, licensing optimization is where they can see a large amount of their value creation opportunities. IT financial management software is another tool that can be used to evaluate the total expenditures within the IT department's purview. This tool has a strong application for allied procurement professionals, as it

What solutions are you using to manage your software licenses?

Solution	Percentage
Software License Management	48%
Asset Management	25%
IT Financial Management	14%
Spend Analytics Software	13%
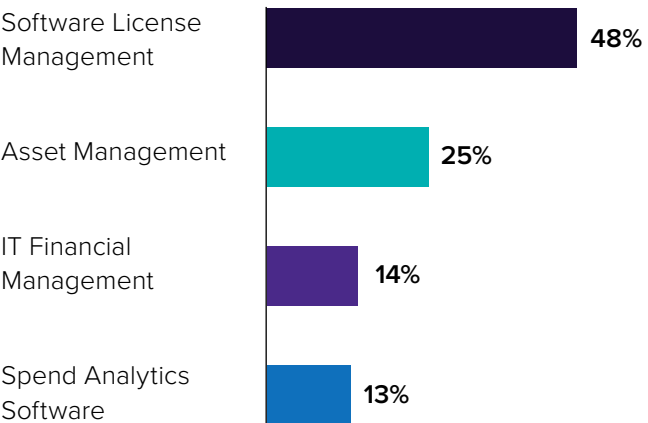
can help them to demonstrate the effectiveness of their involvement in value creation as well as identify areas where expenses overlap without bringing additional value in to the organization. Spend analytics are also a choice that Procurement in particular is likely well-versed in using, however in this lineup they take a back seat to tools more specifically designed for the niceties of managing technology sourcing.

What top IT spend categories are you pursuing or planning to pursue to improve service and/or reduce costs?

Category	Percentage
Third-Party Software Support	68%
Consulting	52%
Computer Hardware	50%
Telecom	26%

The two most popular areas where executives with sourcing responsibility for IT are planning to invest in order to assist in value creation and reduced total cost of ownership for their technologies are third-party software support teams and expert consultants. This highlights the depth of experience required to truly capture value in today's technology market.

In an ideal situation, Procurement will bridge gaps between their areas of expertise and those native to IT by bringing on talent that focuses on those skill sets. However, in the interim where there is a need for Procurement and IT to obtain the best possible results, seeking out the opinions of highly qualified third parties can be a good strategy.

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> **"Personnel is key** for developing relationships with IT. I've worked to develop a new ideal for our team, and the mindset is of a consultancy. We don't think like a procurement professional from 10 years ago, with a major focus on the tactical. We are promoting broader strategic thinking while having a good foundation of procurement knowledge.
>
> I think one of the challenges that other procurement organizations may have is dealing with the presence of third-party companies that can provide pricing and marketplace knowledge. What is the value that indirect procurement is bringing? If I can go to them and understand the marketplace, and then also get some benchmark pricing, why do we need an indirect procurement group to be able to manage that process?
>
> Keys to success include being focused on business outcomes, relating requirements, and having personnel that have a consultancy mindset. This means they should be able to know who is in the marketplace, know enough about legal terms and conditions and why they're important to address early on within the process to help save time and provide efficiency through that whole sourcing cycle."

Fraz Baig, Head of Indirect Procurement,
Ace Hardware

> **"One of the things** that we did at GE was we looked at our profile of IT sourcing individuals. We realized that we might not have many folks who have a great IT background. They might have a good legal background. They might have a finance or a supply chain background but don't have an IT background.
>
> Even if they're given an opportunity to be part of the IT function or the negotiation process or the solution selection, they're not able to add value into that process. We went ahead and changed the mix of profile of the individuals that we hired in IT sourcing. We hired a lot of people from the IT function into sourcing and reverse trained them on sourcing and legal, rather than taking sourcing and legal people and entering them into IT.
>
> That really helped us because they speak the same language to the IT function. It's not an overnight process. It's a long journey. Once you start building your credibility, start showcasing your value that you're adding in the supplier selection process or even before supplier selection, technology selection, or technology sourcing process. Whenever we require talent replacement, if somebody has left the organization, we go back to the CIO and say, 'can you recommend somebody from your operation to come and join the sourcing team?' That then becomes a way to establish joint ownership of the mission."

Aashish Talwar, Software and IT Sourcing Leader,
GE

Key Recommendations

Value demonstration is the most critical factor separating Procurement leadership from a strong alignment with IT versus a role as closers. Seek opportunities to drive value from the start of projects.

The most commonly echoed concept around developing a closer working relationship with IT is being able to demonstrate value. What this means is proving that Procurement is going beyond the cursory idea of cost control and verifying the wording of licensing, and instead actively identifying how agreements can be tailored to meet the specific needs of the business more efficiently.

Building trust with IT requires the ability to speak the same language. Hiring for IT expertise is a strong way to do this, however if that is not an option it can be beneficial to seek third-party consultation to bridge gaps in communications.

Without insider knowledge of IT terminology, it can be very difficult to maintain credibility and make a case, even in the event that there is an opportunity to create value. Another issue that can arise is that a supplier will actively seek to circumvent interactions with sourcing and deal directly with IT, again creating a situation where the peak level of influence sourcing can achieve is diminished. For this reason, it's critical to bring at least some level of IT expertise into the sourcing group.

When driving digital transformations, it can be difficult to leverage economies of scale with new solutions providers. Procurement is able to identify opportunities to win value based on scaling in the future, provided that they are given a seat at the table by IT.

Use this technique to create an approach that leverages cutting-edge technology while retaining the flexibility to either scale up an agreement or opt out in the case that it is no longer strategically important.
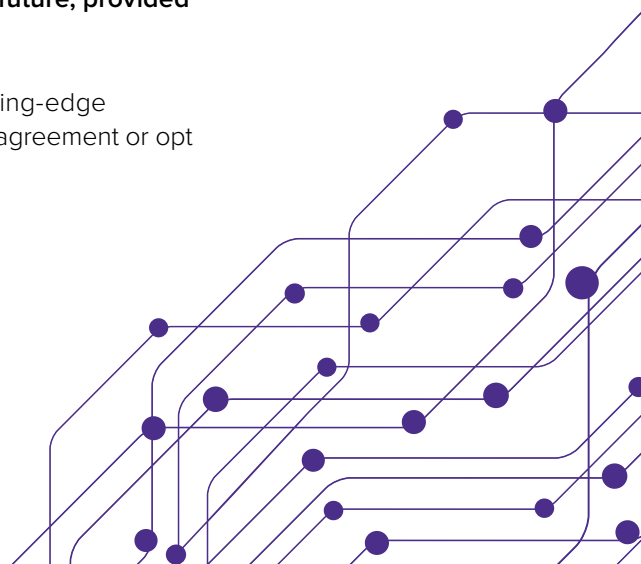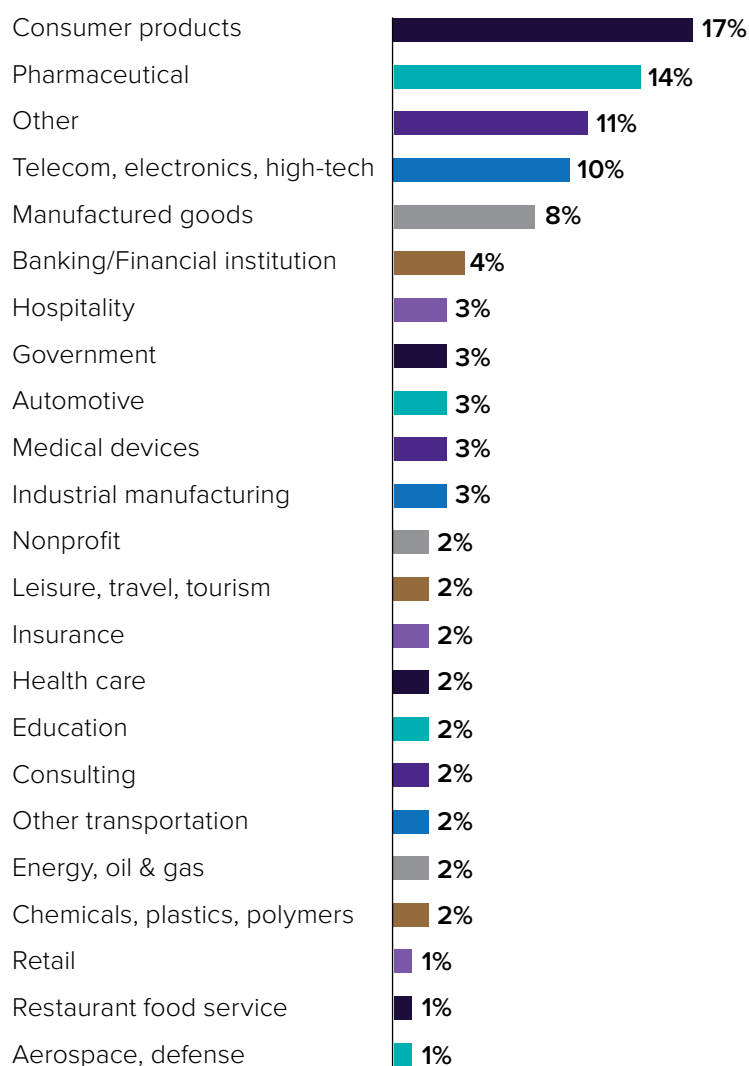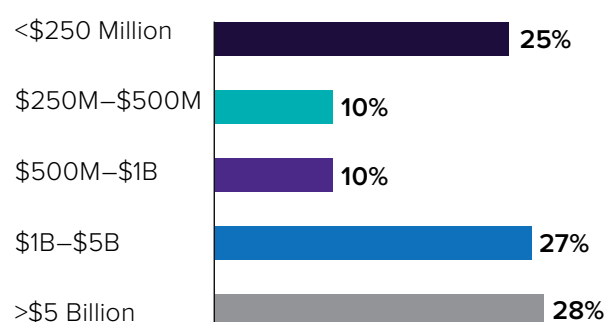
Appendices

Appendix A: Methodology

The results analyzed in this report were gathered from responses to a digital benchmarking survey delivered to members of the ProcureCon IT database. 150 executives responded to the survey. Interviews with sources were conducted after survey data was compiled and centered on discussion of benchmark results.
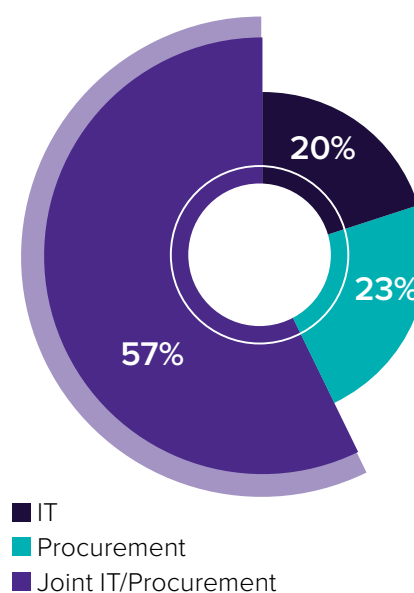
Appendix B: Additional Demographics

What is your industry?

Industry	Percentage
Consumer products	17%
Pharmaceutical	14%
Other	11%
Telecom, electronics, high-tech	10%
Manufactured goods	8%
Banking/Financial institution	4%
Hospitality	3%
Government	3%
Automotive	3%
Medical devices	3%
Industrial manufacturing	3%
Nonprofit	2%
Leisure, travel, tourism	2%
Insurance	2%
Health care	2%
Education	2%
Consulting	2%
Other transportation	2%
Energy, oil & gas	2%
Chemicals, plastics, polymers	2%
Retail	1%
Restaurant food service	1%
Aerospace, defense	1%

What is your annual revenue?

Revenue	Percentage
<$250 Million	25%
$250M–$500M	10%
$500M–$1B	10%
$1B–$5B	27%
>$5 Billion	28%

Who handles IT procurement within your organization?

- IT: 20%
- Procurement: 23%
- Joint IT/Procurement: 57%

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