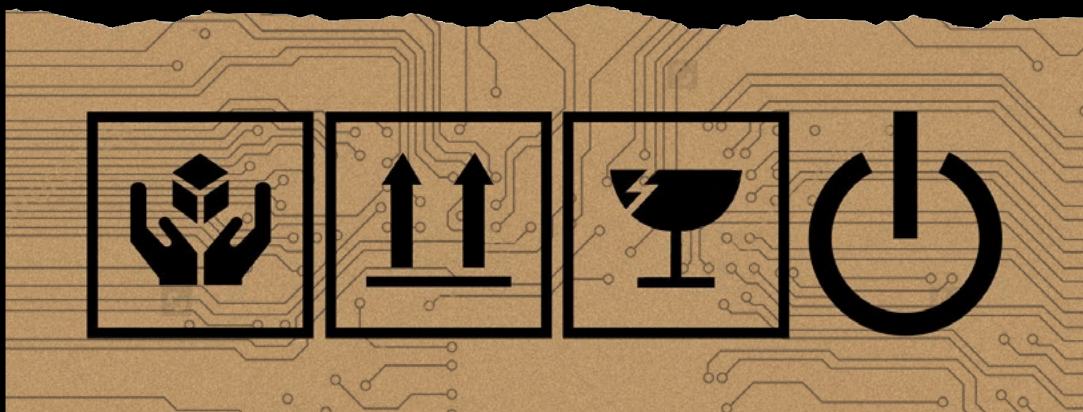


The state of IT procurement





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About the research

The state of IT procurement, a study conducted by The Economist Intelligence Unit (EIU) and sponsored by HPE Financial Services, explores how IT procurement executives say their function is working now and where—and how—it needs to evolve to better reflect today's technologies and the role they play in business.

The EIU conducted a survey in September and October of 2016 of 302 respondents from the US and the UK and across a range of industries, including finance, manufacturing, healthcare and retail. Other demographics include:

- Company size: 38% at companies with annual revenue of \$1bn or less; 62% at companies with revenue of at least \$1bn
- Tenure: 43% with more than five years of experience in their current role and 32% with more than five years of experience in IT procurement

We would like to thank the following individuals for their insights offered during interviews:

- Mike O'Brien, Global Head of IT Sourcing, British Petroleum
- Anthony Porter, Head of Global Corporate Procurement, Acxiom
- Rekha Ramesh, Senior VP and Global Head of IT and Digital, Daymon Worldwide
- Adam Stanley, CIO, Cushman & Wakefield ■



Introduction

Over the past ten years, the role of information technology in business has changed. In the wake of the dot-com crash, many companies saw IT primarily as a driver of efficiency and reliability in their internal operations, a means to administer and document business initiatives. It was considered a cost to be carefully controlled, if not minimised, by bringing process, oversight and collective buying power to IT investments.

Today, companies approach technology very differently. Digital technologies are increasingly the primary channel through which companies interact with their customers. Investing in technology innovation is now seen as essential for survival. Indeed, technology often defines what business initiatives are possible.

The IT departments of large corporations are gradually moving to this digital-first view and adopting practices that allow them to work closely with the business to develop digital solutions that improve customer value. Large outsourcing contracts, which often helped companies contain costs at the expense of flexibility, are coming into question; often more agile ways to procure IT services from a wider range of suppliers are favoured. This evolution is requiring nimble IT departments that can quickly gain access to new technologies.

Is IT procurement (ITP) following suit? Are ITP

professionals evolving their process and practices to help meet their firms' appetite for digital innovation? To find out, The Economist Intelligence Unit (EIU) surveyed more than 300 executives with responsibility for IT procurement for a programme sponsored by HPE Financial Services.

The survey reveals almost unanimous acknowledgment among ITP leaders that their functions need to evolve—just 2% of respondents say otherwise.

However, the survey also suggests that ITP executives are still more focused on inward-facing priorities (for example, saving cost on and maximising ROI from IT investments), than on enabling the business to create value by greater use of technology. Sixty-one percent of respondents, for example, say that a chief priority of their IT procurement is controlling expenditure; only 43% cite playing a role in making the business more innovative.

The survey also reveals the most significant challenges facing ITP executives as they work to provide greater value to the organisation: constantly changing requirements of IT and of the business. Thus, to empower the business to use technology in innovative ways, ITP professionals must both prioritise agility and become increasingly attuned to business and technology trends that will help them anticipate fluctuating demands. ■

1

Drivers of change

The years-long digital transformation of enterprises has affected how business is conducted, the demands of the IT department and, in turn, the role of IT procurement. The EIU survey reveals that the “digital transformation of our business” is the most common factor impacting how ITP functions operate—chosen by 37% of respondents.

Some companies find that the most significant recent trends in purchasing technology are intertwined with technology itself and its impact on society. The consumerisation of IT is one such trend, as people’s personal online experiences create similar expectations at work.

“Doing online banking through a secure and predictable interface, as you have with online shopping, are personal experiences. They don’t stay at the door when you go into your business setting,” says Anthony Porter, head of global corporate procurement at Acxiom, a marketing technology company in the US. “So, business leaders are starting to expect those types of capabilities [from] their business systems and solutions.”

“It’s about ease-of-use, on-demand, real-time provisioning and sourcing capabilities,” he says. “Ease of entry into cloud solutions has made the business more proactive in terms of searching for turnkey solutions.”

Other frequently cited factors affecting how the ITP function operates are the workforce’s voracious appetite for new technology (32%) and accelerating change in the business technology landscape (34%). At Acxiom, Mr

Porter explains, these factors require ITP executives to predict which technologies will be popular in the near future, negotiating contracts and landing a win-win, with Acxiom being rewarded for providing business to the vendor and getting preferential terms and pricing. The myriad new technologies and capabilities can be overwhelming for companies lacking a robust programme for evaluating them, “with predictability you can forecast, and with forecasting you can negotiate better deals”.

In the past, systems were built to last 10 or 20 years, now building for 10 years is building for obsolescence. Adam Stanley, CIO of Cushman & Wakefield, a property services company, explained that his company looks for subscription-based services that require neither custom building nor much change to infrastructure but, instead, allow flexibility for quickly implementing a solution and turning it off once it is no longer needed. Indeed, 27% of survey respondents say that they need greater flexibility in selecting how IT will be consumed by their organisation.

With both business users and the IT department eager to purchase new technologies in new ways and from new kinds of vendors, ITP professionals are under pressure to change how they derive value from technology purchases, including on an ongoing usage basis. This new reality requires an evolution in the way that ITP functions support IT investments and the business. The EIU executive survey reveals that many are failing to evolve in parallel with the departments they serve. ■

2 Procurement myopia

In his classic essay “Marketing Myopia” (*Harvard Business Review*, 1960), economist Theodore Levitt declared that executives fail when they lose sight of what really matters in business—satisfying customers.

Railroads in the US failed, he wrote, because executives “assumed themselves to be in the railroad business rather than in the transportation business”. Defining their industry incorrectly, they were “railroad-oriented instead of transportation-oriented; they were product-oriented instead of customer-oriented”.

The results of our survey suggest that many ITP functions are too closely focused on financial metrics (for instance, short-term cost-savings, a traditional measure of IT investments) at the expense of enabling their customers—the IT

department and the business—to create value through technology.

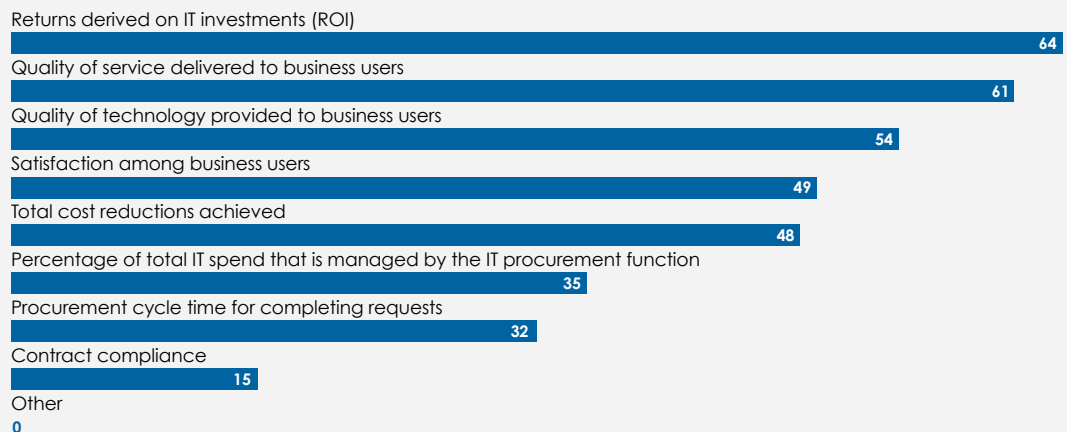
For example, nearly two-thirds of respondents say that the performance of their ITP function is measured by “returns derived on IT investments”—far more than chose “the quality of technology provided to business users” or “satisfaction among business users”.

Similarly, 61% of respondents identify “controlling IT expenditure” as one of their ITP function’s chief priorities, while 43% cite “playing a role in making the business more innovative”, making it third among the ITP function’s chief overall priorities.

ITP functions, however, are not totally disconnected from the internal customers they serve—it’s just that those customers aren’t

Focus on finance—part one

On which of the following criteria, if any, is the performance of your IT procurement function evaluated? Select all that apply. (% respondents)



Totals do not add to 100% because of rounding and because not all data are shown.

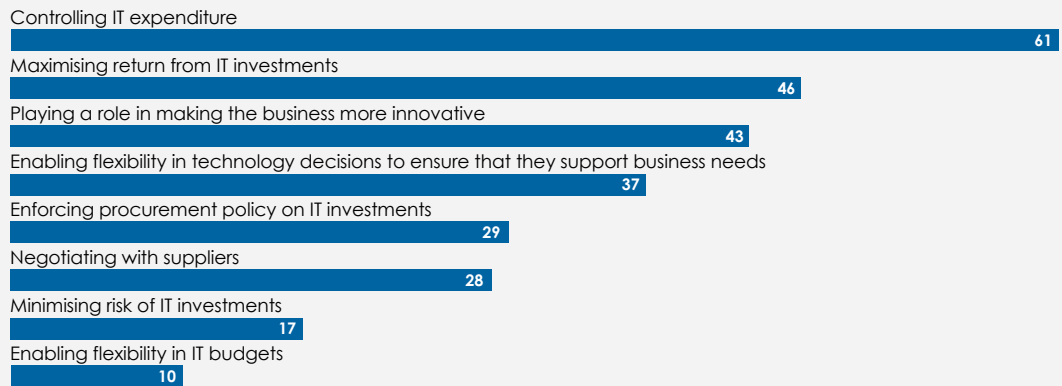
Source: Economist Intelligence Unit survey, 2017

Focus on finance—part two

In your organisation's view, what are the chief priorities of your IT procurement function?

Select up to three.

(% respondents)



Totals do not add to 100% because of rounding and because not all data are shown.

Source: Economist Intelligence Unit survey, 2017

always the business users. Asked to identify the factors that influence IT procurement policies and practices, IT procurement professionals most commonly chose: “the requirements of the IT department” (48%). In third place: “the long-term needs of business users” (41%).

Fundamentally, the primacy of financial metrics as both IT procurement's end goal and as the means by which its performance is judged suggests that business enablement is being sidelined.

It is therefore a significant concern that, according to 39% of respondents, the IT procurement function controls every aspect of a major IT investment at their organisation (the most common response). By contrast, just one-fifth let business users choose their own technology suppliers (even from a pre-approved shortlist).

Are IT procurement functions and the executives who lead them responsible for this apparent lack of focus on the business? The survey suggests that whether they are embedded in the IT function or the finance function, ITP teams have masters—with a surprising proportion indicating that no single executive has ultimate authority in IT procurement decisions. For example, 14% say no single stakeholder has the ultimate say over approving major IT investments—and that's the decision that most often has a single signoff. Such ambiguity and diffusion are worrisome and may distract ITP professionals from focusing on enabling the business. A clearer structure of authority and

accountability, especially one that includes the business user, would doubtless improve ITP functions' ability to deliver value to customers.

For Cushman & Wakefield CIO Mr Stanley, the strength of the company's ITP function reflects its tight integration with the IT department. “The reason our model works is because the IT procurement team feels 100% part of the IT organisation and they feel accountable to us,” he says. “They are partners, they are friends. When we have drinks, they are with us. Whenever we have team leadership summits, they are with us. It's really a symbiotic relationship and that is definitely a reason for the success of the relationship.”

However, the value that ITP provides is not just a reflection of its relationship with other departments; ITP has its own priorities, policies and practices. In the past, Mr Stanley says, IT procurement functions have been too inward-facing, too much focused on the process of procurement, not enough on the business value IT can create.

“It's not about the contract, it's not about the deal, it's not about the sourcing process; it's about the value that you can bring to your external clients by improving this internal service through this external third party. So, it's really going to be a different conversation,” he says. IT procurement “absolutely has to learn how to work with the business”. ■

3 The reform agenda

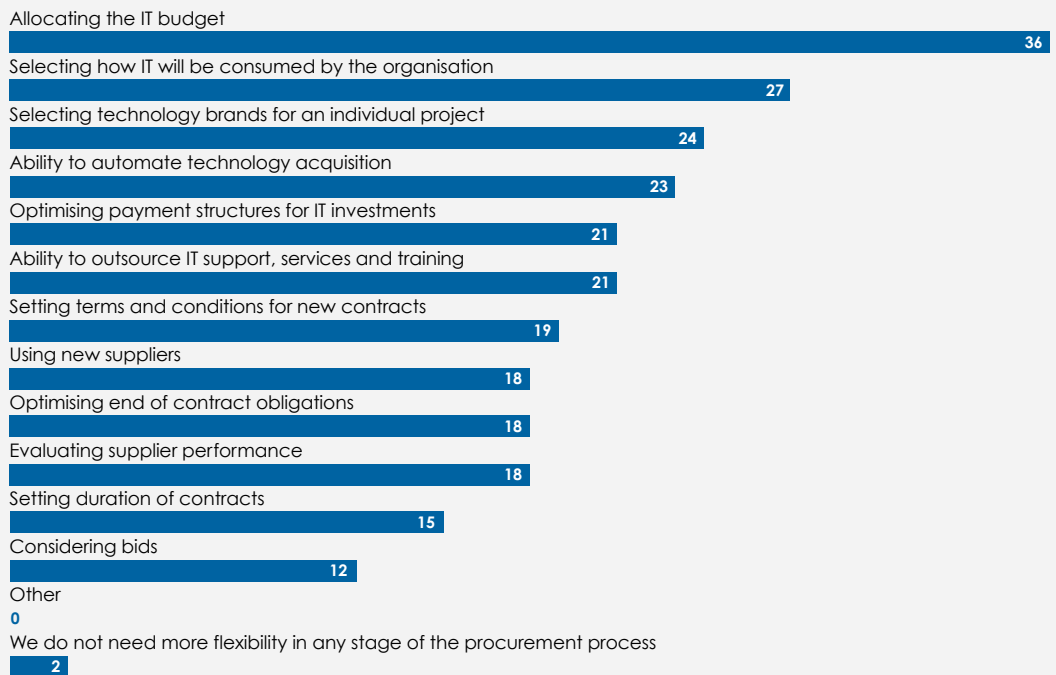
The IT procurement executives surveyed mostly acknowledge the need for their function to evolve. Just over seven in ten (71%) say that continually optimising procurement practices is either “very” or “extremely” important to delivering value to the business. Just 1% of respondents say they have had no need to change the way they operate in the past two years; 2% say they have no need to evolve.

Flexibility is high on their agenda for reform. The most common change that IT procurement functions have instigated in the last two years is “re-evaluating IT procurement policies to support IT’s need for flexibility”, an acknowledgement that today’s IT procurement practices are not keeping pace with the accelerating velocity of technological change—which requires the ability to launch

Getting flexible

Where in your procurement process do you need the most flexibility to better meet the business's overall objectives?

Select up to three.
(% respondents)



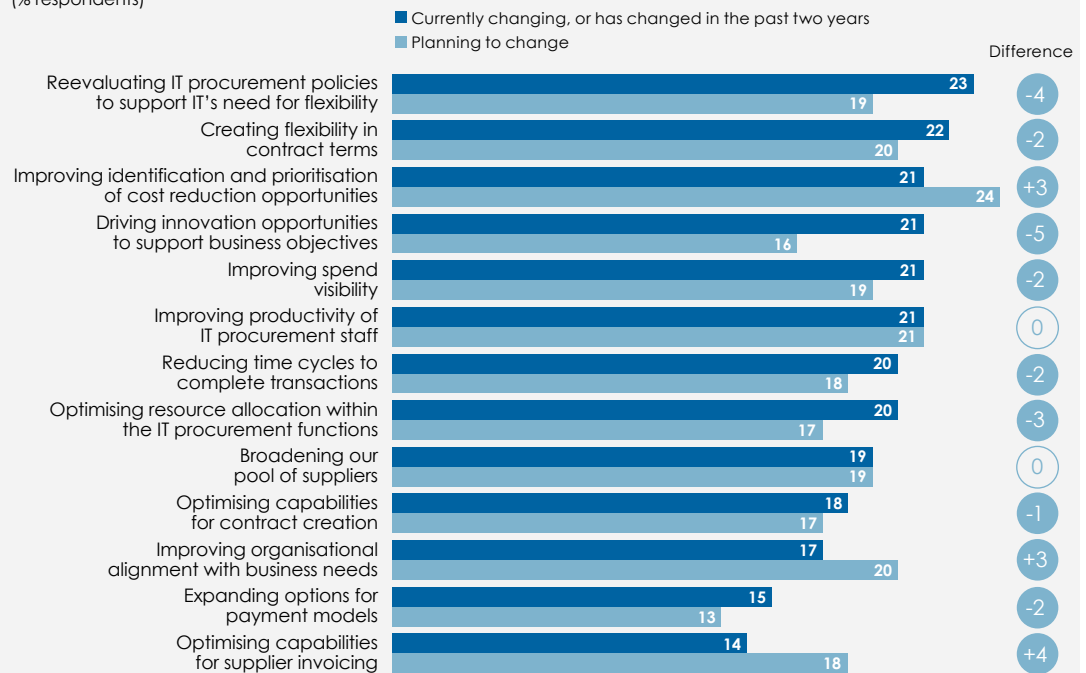
Totals do not add to 100% because of rounding and because not all data are shown.

Source: Economist Intelligence Unit survey, 2017

Past and future change

How, if at all, is your organisation changing the IT procurement function?

Select up to three.
(% respondents)



Totals do not add to 100% because of rounding and because not all data are shown.

Source: Economist Intelligence Unit survey, 2017

technology initiatives quickly and to change course rapidly in response to the instant feedback of digital channels.

Looking broadly at where flexibility is needed to meet the business's overall objectives, survey respondents most often cite allocating the IT budget as the stage in the procurement process where they need most flexibility. This was followed by selecting how IT will be consumed by the organisation—in other words, finding the right delivery model to enable agility.

However, many IT procurement executives are prioritising financial metrics even in their plans to evolve: the most common change planned for the next two years is "improving identification and prioritisation of cost-reduction opportunities". And when asked to predict how their IT procurement function will have changed in two years, respondents most often selected "We will be more focused on return on investment" (35%).

How *should* ITP functions be evolving? The survey provides some insights.

For example, it shows that respondents who list business innovation as a priority for their IT procurement function more often plan to reduce the time cycles to complete transactions in the next two years (23%) than those who do not (15%) and to improve the productivity of IT procurement staff (25% v 17%). Both are likely efforts to help the business move more quickly on technology purchases.

Of course, the direction of evolution may be another reflection of how their performance is assessed. Respondents who prioritise innovation more often say that their performance is measured by "quality of technology provided to business users" (66%) rather than by ROI (57%). For respondents with other priorities, the opposite is true.

More generally, the survey shows that respondents who rate their ITP function as mostly "excellent" for attributes that create business value are more focused on the long-term interests of business users than those who rate their ITP function as mostly "good to poor"—a group we're calling "progressives" (see box).

Progressive procurement

To identify the characteristics and attributes of those ITP functions that are most aligned with their companies' business objectives, we identified a group of companies we call "progressive". These are firms that respondents rated as "excellent" for the majority of ITP functions that drive business value, including enabling business growth, demonstrating the impact of IT investments on business outcomes and prioritising resources based on current business needs.

This analysis reveals some common characteristics of progressive ITP functions. For example, a higher proportion of progressive ITP functions report to the IT department compared with traditional ITP functions. However, executives in progressive ITP groups also more often say that final approval (e.g., signing off on major IT investments) is given by an IT executive other than the CIO—suggesting that progressive ITP is ideally aligned with the CIO and that executives outside IT have some say.

Executives in progressive ITP functions more often identify the long-term benefits of business users as being among the greatest influences on IT procurement policies and practices

(47% compared with 30%). And progressives' performance is more often measured by the quality of the technology they provide to users and business users' satisfaction.

For guidance on making purchasing decisions, progressive ITP leaders more often say they draw on research—both in-house and external. This suggests that they are working to understand business and technology trends to be able to anticipate new user needs.

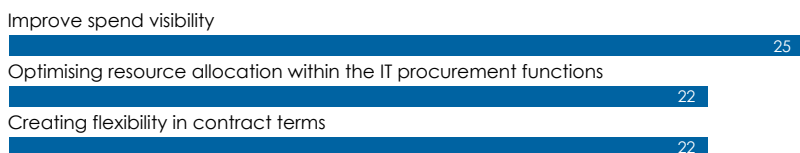
Both progressive and traditional ITP executives acknowledge the need to evolve. But, during the last two years, the former have more often focused their change programmes on driving innovation opportunities to support business objectives and reducing cycle times to complete transactions. Progressives also plan to try new approaches to procurement, most often improving spend visibility, optimising resource allocation within IT procurement functions and creating flexibility in contract terms.

All in all, the survey suggests that, on the basis of their self-reported performance, those ITP functions that have prioritised innovation, agility and the requirements of the business have more often achieved excellence. ■

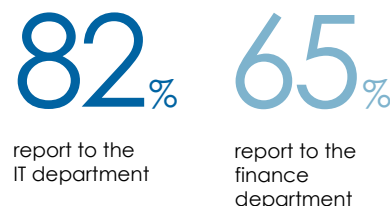
How progressive ITP is different

Progressive ITP functions
Traditional ITP functions

Progressive plans for change
How is your organisation planning to change the IT procurement function?
(% of respondents)



Lines of control



Influencing policy

Respondents stating:
Long-term benefits of business users are one of the greatest influences on IT procurement policies and practices



Measuring performance

Respondents stating:
Performance measured on the basis of the quality of the technology they provide to users



Respondents stating:
Performance measured on satisfaction of business users



Source: Economist Intelligence Unit survey, 2017

The chief obstacle to evolving the IT procurement function, survey respondents say, is the always moving target. Thirty-eight percent of respondents cite the fact that “demands of IT are always changing”; 29% cite “business objectives are always changing.”

Rekha Ramesh, senior VP and global head of IT and digital at marketing firm Daymon Worldwide, says the greatest difficulty encountered in initiating new or best practices and having them take root are time constraints. “For a new technology like augmented reality, for example, who do we want to work with?” In general, the company favours considering six to seven vendors, but for technology that is very new that might not be possible. “Do we go through an RFP process? If we do, how many weeks? How much time to contract?” she asks. The company has established different processes based on vendors, the project’s scale or whether it’s just going to do a pilot.

Evidently, the IT procurement function cannot simply respond to changing requirements as they happen. IT procurement must move from being reactive to being proactive—anticipating changes both in the market and the technology

supply chain and preparing accordingly. Thus, respondents who rate their ability to support business growth as “excellent” not only more often draw on in-house research (58% v 29% of those who rate themselves as good to poor) but also on research from external providers (58% v 39%). These companies are using a wide range of sources to develop their own insights and expertise so that they maintain sufficient awareness of both business and technology strategies to be able to respond to new requirements quickly and effectively.

Mike O'Brien, British Petroleum's global head of IT sourcing, reinforces this point, saying that familiarity with the oil industry is essential to best practices for his company's IT procurement. “Development of deep category expertise with domain experience is critical to understanding and articulating requirements as well as using the right tools and commercial constructs to procure and consume the products and services,” he says. To that end, he plans in the next two years to broaden his staff's skill set and improve “understanding of the operational delivery aspects of the services and products” they procure. ■

Conclusion

Technology is playing a more central role in business strategy than it arguably ever has. Organisations in all industries are working to reshape themselves so they can innovate quickly enough to capture the vast opportunities that digital technologies present.

Many companies have established new digital executive roles and organisational units—putting pressure on IT departments to adopt processes and working practices pioneered in the digital sector in order to stay relevant and to respond to the growing groundswell of demand from internal business users.

A similar response from the ITP function is overdue. As the survey reveals, IT procurement leaders feel pressure to evolve. These pressures result from digital transformation, accelerating change in the business technology landscape and the workforce's voracious appetite for new technology. A bare 2% deny that there is a need for their processes and practices to change.

In essence, the required response: a sharper focus on the needs of internal customers. Business users and the IT department alike are running to keep pace with the digital revolution. IT procurement professionals need a thorough understanding of the challenges they face and solutions they need to ensure that the technology purchasing process does not hold the whole company back.

Unfortunately, as this study shows, many ITP

leaders are suffering—as many executives do—from a myopia that keeps their attention on legacy processes and metrics when technological pace of change dictates a wholly new approach.

For ITP leaders who wish to help, not hinder, their organisation's digital transformation, the survey suggests that the following must be high on the agenda:

- Reducing transaction times to allow rapid response to opportunities
- Helping both the IT department and line-of-business leaders focus on longer-term business outcomes not short-term costs
- Reducing cultural distance and establishing a collaborative approach between the ITP function and its internal customers
- Building their own understanding of business and technology trends in order to anticipate user demands

The organisation that surrounds the ITP function can assist in evolving technology purchasing. For example, the survey suggests that many ITP teams serve many masters and that the lines of authority are unclear. Resolving these issues will help ITP to get on with the job of enabling and supporting the growth and innovation strategies of its peers.

Companies increasingly see technology as an opportunity to achieve competitive advantage. Time that the function controlling its purchasing become more entrepreneurial, too. ■

Appendix: Survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

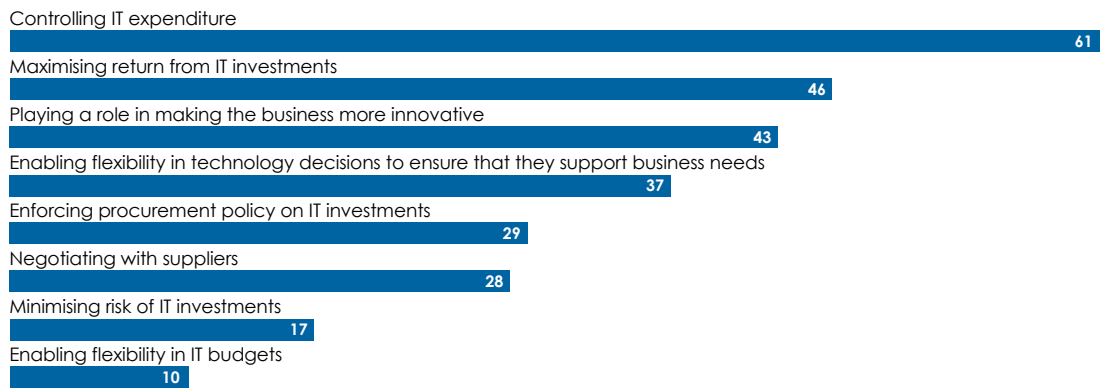
Which function does the IT procurement function in your organisation report to?

Select one.
(% respondents)



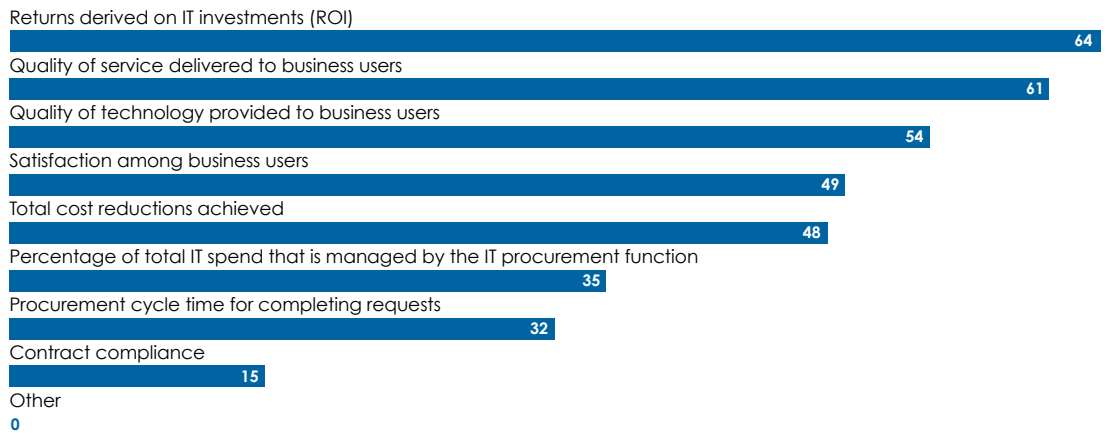
In your organisation's view, what are the chief priorities of your IT procurement function?

Select up to three.
(% respondents)



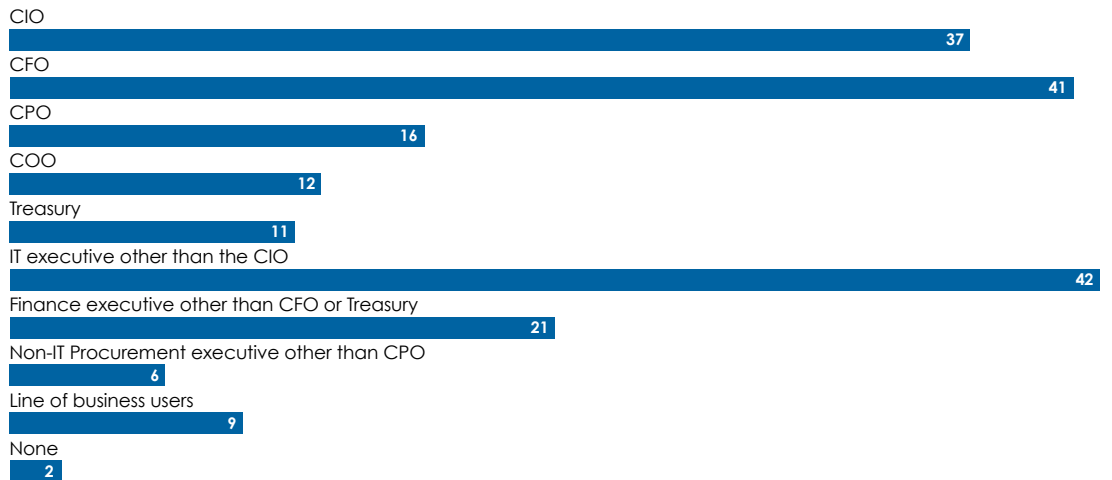
On which of the following criteria, if any, is the performance of your IT procurement function evaluated?

Select all that apply.
(% respondents)



Other than yourself, who is involved in the various aspects of decision making for major IT investments at your organisation?

Select all that apply.
(% respondents)



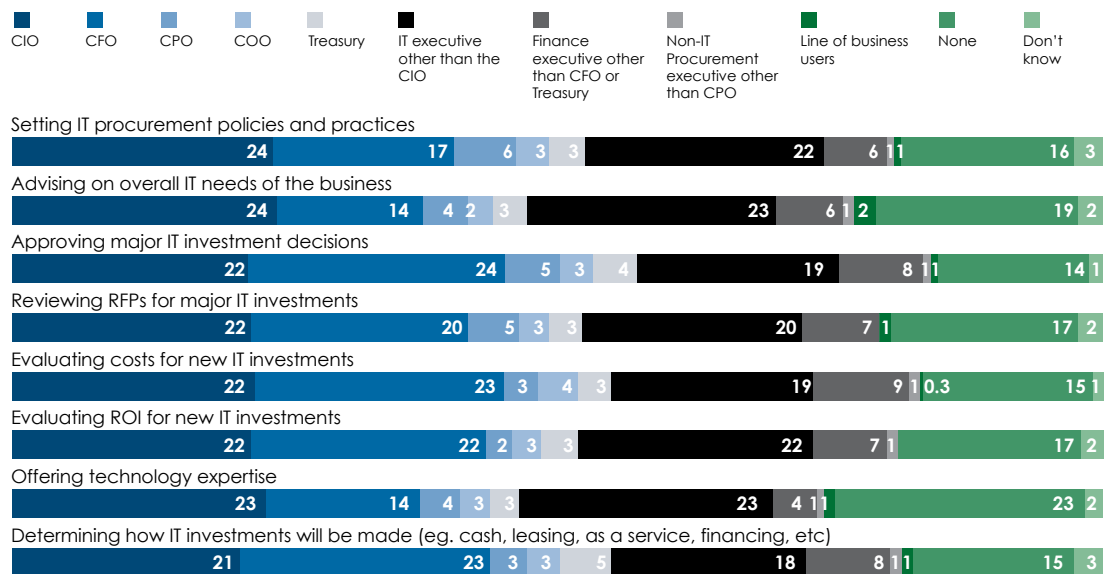
Which stakeholders other than you are involved in each of the following?

Select all that apply in each row.
(% respondents)

| | CIO | CFO | CPO | COO | Treasury | IT executive other than the CIO | Finance executive other than CFO or Treasury | Non-IT Procurement executive other than CPO | Line of business users | None | Don't know |
|---|-----|-----|-----|-----|----------|---------------------------------|--|---|------------------------|------|------------|
| Setting IT procurement policies and practices | 26 | 20 | 7 | 4 | 5 | 26 | 8 | 2 | 3 | 19 | 1 |
| Advising on overall IT needs of the business | 25 | 18 | 5 | 5 | 5 | 26 | 10 | 1 | 5 | 19 | 3 |
| Approving major IT investment decisions | 30 | 27 | 5 | 5 | 6 | 27 | 9 | 2 | 2 | 12 | 1 |
| Reviewing RFPs for major IT investments | 25 | 23 | 8 | 4 | 3 | 24 | 12 | 2 | 3 | 15 | 3 |
| Evaluating costs for new IT investments | 27 | 25 | 7 | 4 | 6 | 25 | 13 | 2 | 3 | 11 | 3 |
| Evaluating ROI for new IT investments | 24 | 23 | 7 | 3 | 6 | 28 | 11 | 3 | 4 | 15 | 0 |
| Offering technology expertise | 24 | 17 | 5 | 3 | 4 | 30 | 9 | 2 | 3 | 19 | 1 |
| Determining how IT investments will be made (eg. cash, leasing, as a service, financing, etc) | 24 | 29 | 6 | 4 | 5 | 20 | 12 | 2 | 2 | 17 | 2 |

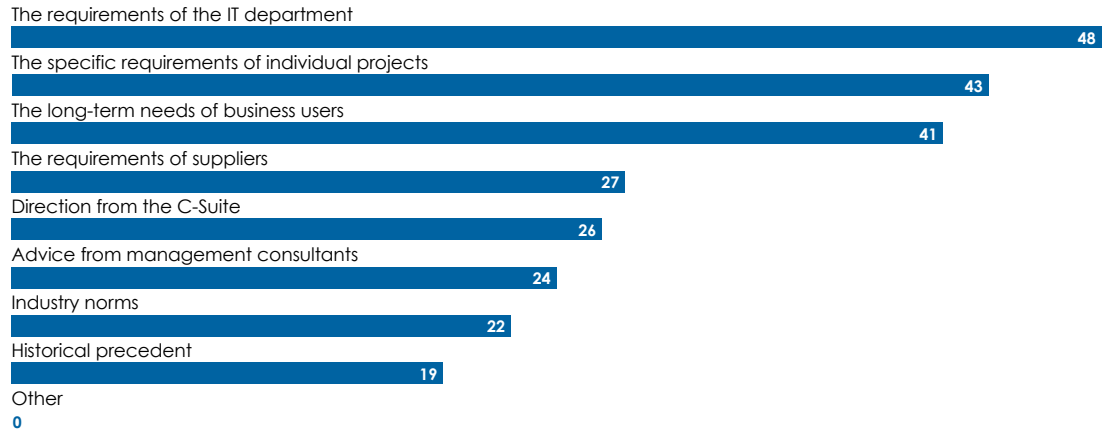
Which stakeholders have the final approval for each of the following?

Select one in each row.
(% respondents)



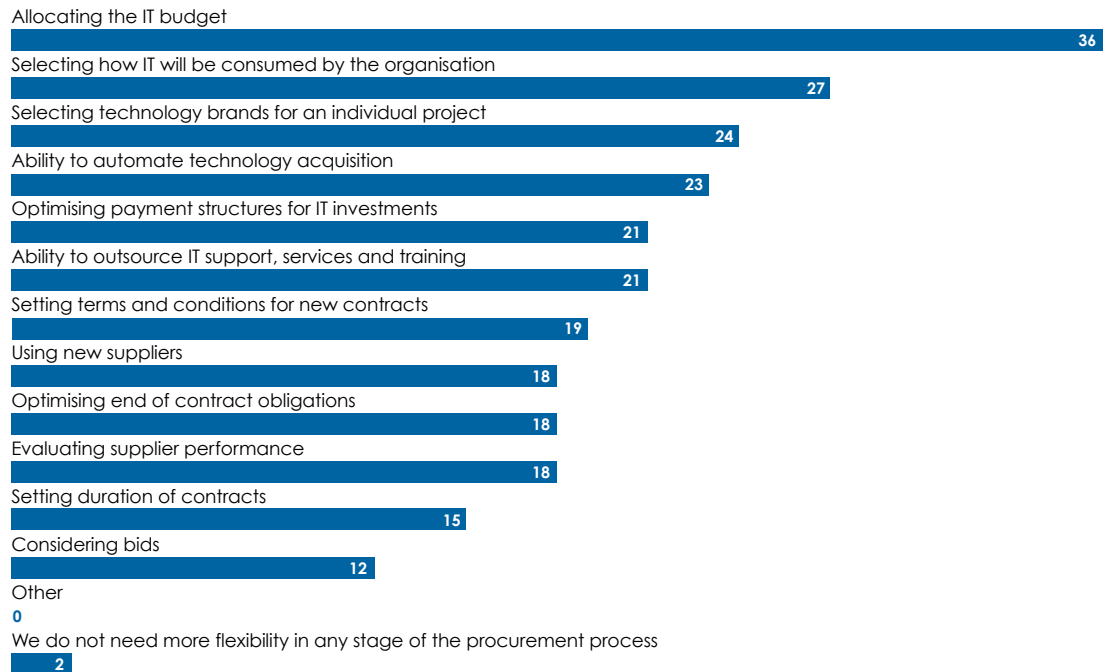
Which of the following have the greatest influence on how your IT procurement policies and practices are determined for acquiring new technology to support the business's overall objectives?

Select up to three.
(% respondents)



Where in your procurement process do you need the most flexibility to better meet the business's overall objectives?

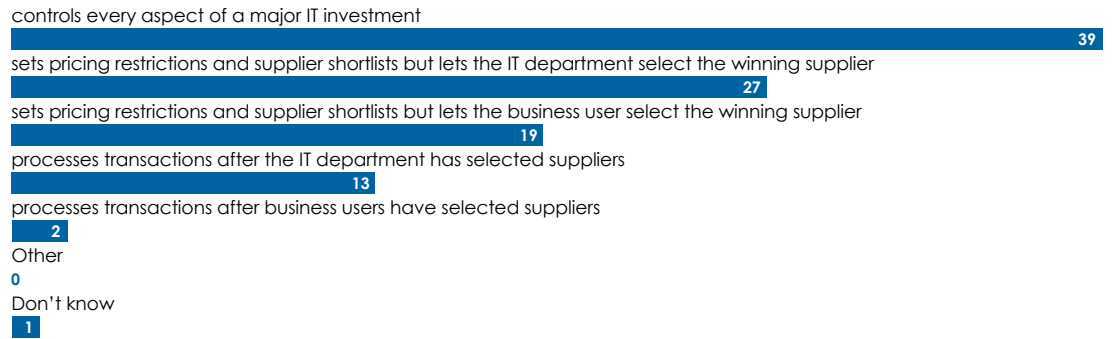
Select up to three.
(% respondents)



Which of the following best describes the way in which major IT investment decisions are made at your organisation? The IT procurement function...

Select one.

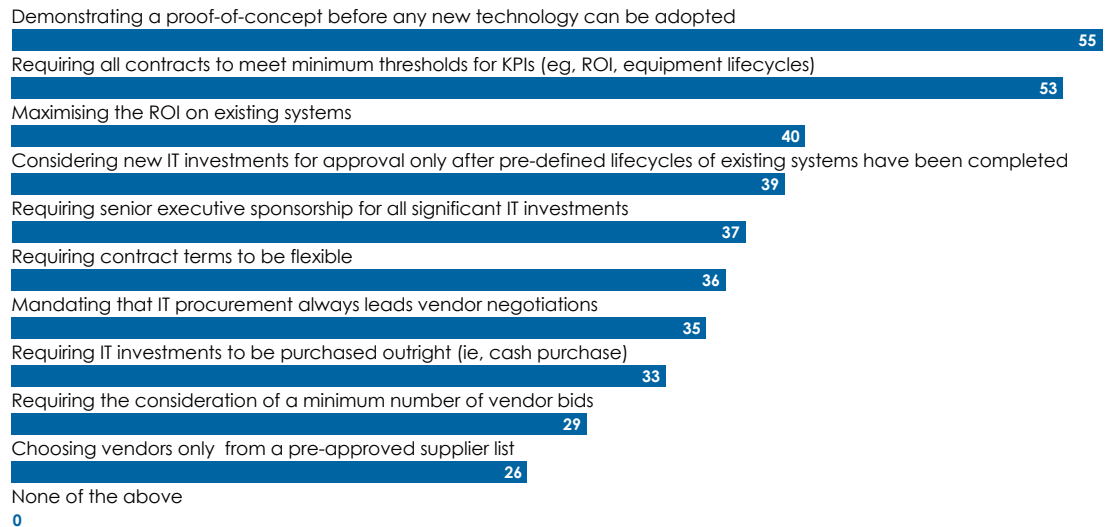
(% respondents)



Which of the following requirements does your IT procurement function apply to major IT investment decisions?

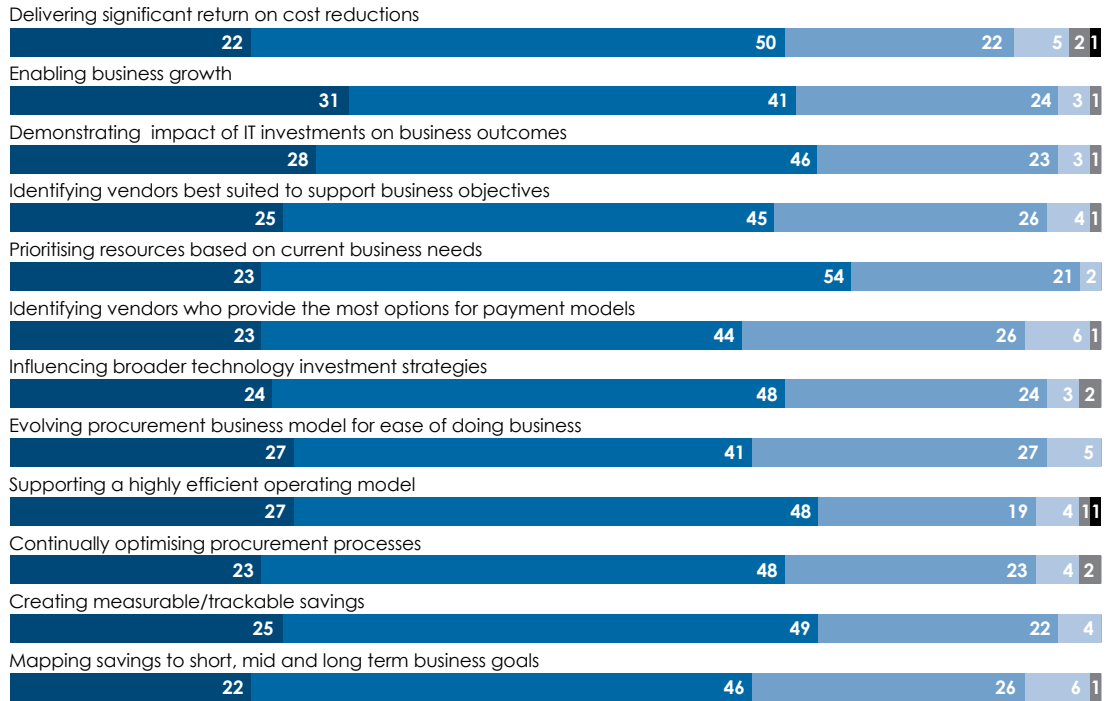
Select all that apply.

(% respondents)



How important is each of the following attributes in driving the value that the IT procurement function brings to your organisation?

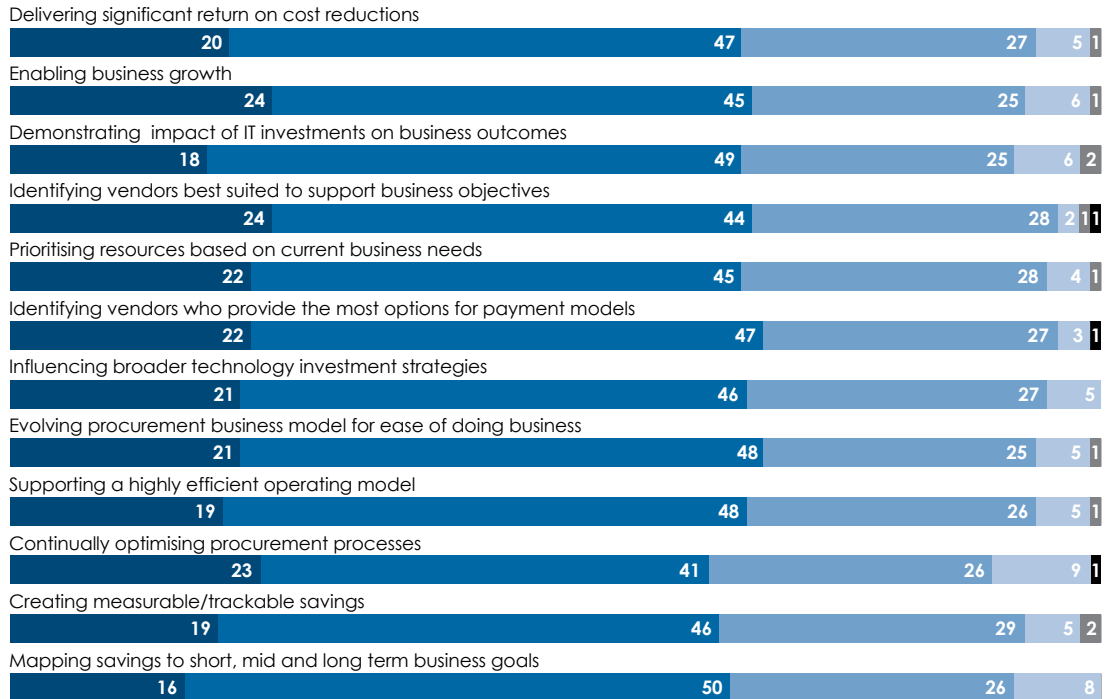
Select one for each attribute.
(% respondents)



Please rate how your IT procurement function performs on each of the following attributes.

Select one for each attribute.

(% respondents)



Which of the following does your IT procurement function draw on when making technology decisions?

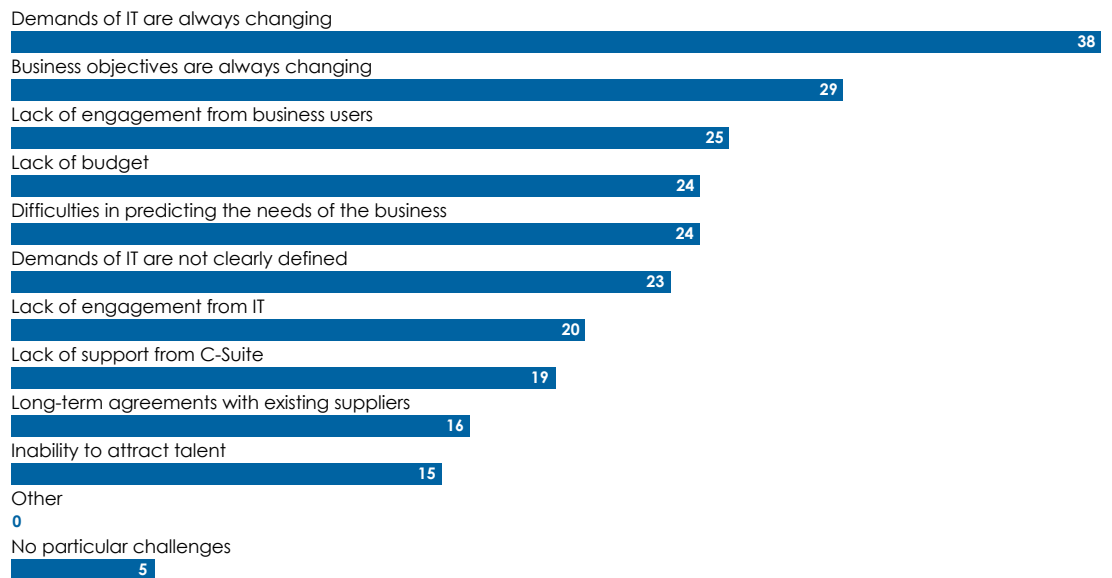
Select all that apply.

(% respondents)



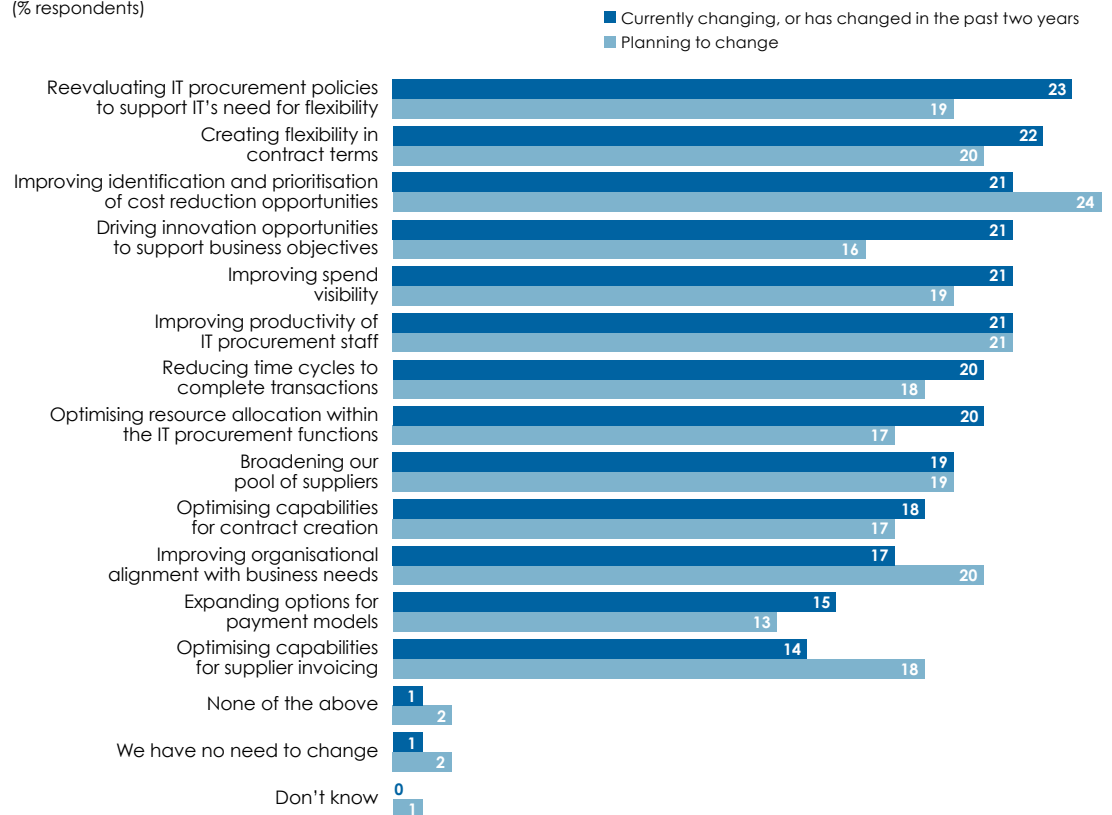
What are the biggest challenges you face in trying to drive change in the IT procurement function?

Select up to three.
(% respondents)



How, if at all, is your organisation changing the IT procurement function?

Select up to three.
(% respondents)



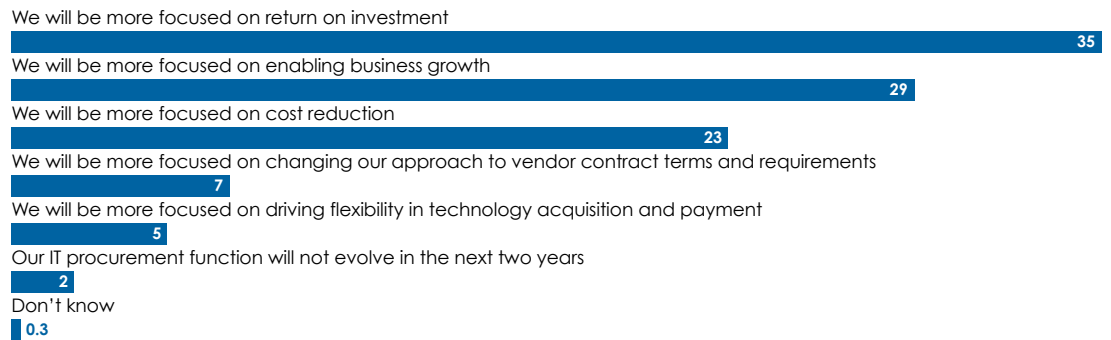
Which of the following changes have the greatest impact on how your IT procurement function operates?

Select up to two.
(% respondents)



How, if at all, do you expect your IT procurement function to evolve in the next two years?

Select one.
(% respondents)



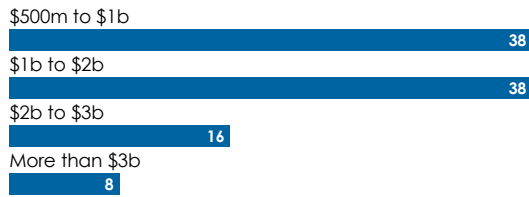
Is this evolution unique to IT procurement or is it the same for all of the company's procurement?

Select one.
(% respondents)



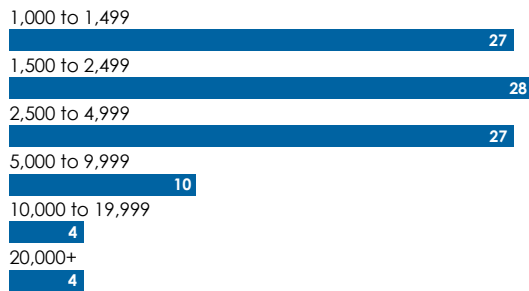
What are your organisation's global annual revenues in US dollars?

(% respondents)



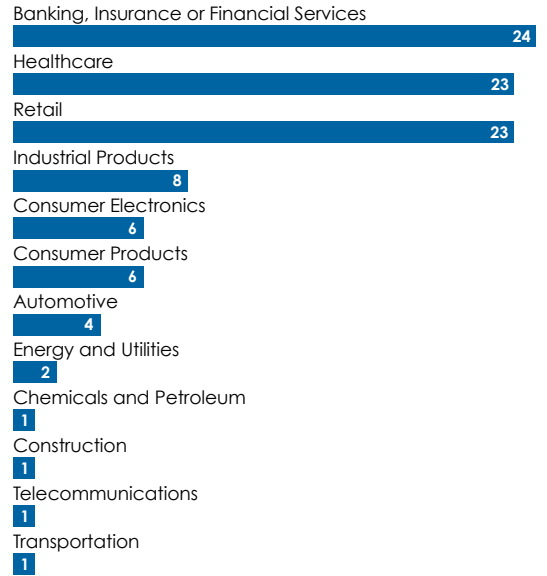
What is your organisation's number of employees?

(% respondents)



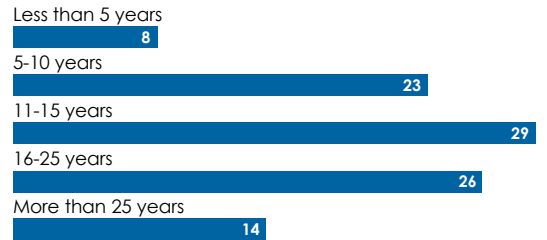
What is the primary industry of your organisation?

(% respondents)



What is the age of your company?

(% respondents)



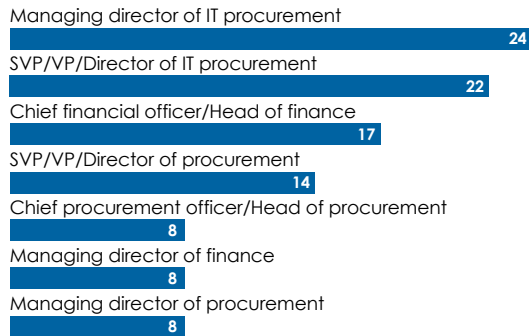
In which country are you personally located?
(% respondents)



What is your main functional role?
Select one. (% respondents)



Which of the following best describes your title?
(% respondents)



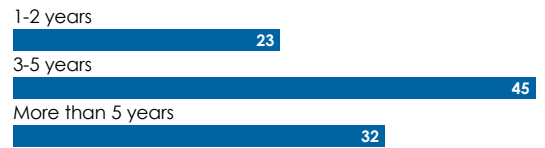
How long have you been in your current role?
(% respondents)



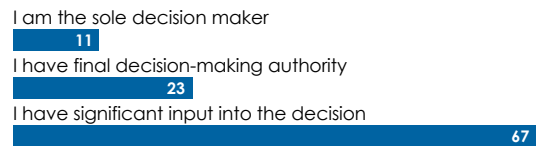
How long have you been in procurement?
(% respondents)



How long have you been in IT or technology procurement?
(% respondents)



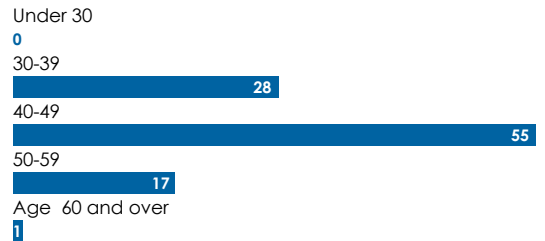
How would you describe your role in the IT investment decision making process when your organisation acquires new technology products and services to support the business' overall objectives?
(% respondents)



What gender do you identify yourself as?
(% respondents)



What is your age?
(% respondents)



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