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VENDOR-AGNOSTIC EXPLANATIONS AND ADVICE FOR THE INFORMATION TECHNOLOGY BUYER
Navigating Information Technology Horizons℠

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Managing IT Procurement — Partnership is Better than Transaction

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Management Summary

Is your enterprise planning a major IT purchase? Perhaps a new software application, such as e-mail or enterprise resource planning (ERP), or additional servers, storage, and networking equipment to keep up with growing demand for processing power, storage capacity, and connectivity? Whatever your need and rationale, this IT purchase is a significant investment that involves upfront and ongoing costs as well as returning benefits over several years. Unlike buying a meal or a taxi ride, this is not merely a discrete event. It is a long-term commitment. **How well you manage the procurement affects the costs incurred and benefits derived over time.**

Consider these two scenarios.

Scenario #1 – TransactCo

To keep up with spiraling storage requirements, TransactCo planned to upgrade and consolidate its storage into a SAN. TransactCo received bids from several vendors and winnowed them down to two final contenders offering acceptable solutions. It asked for price concessions from both vendors and skillfully encouraged a bidding war during the end-of-quarter period, when vendors are most susceptible to pricing pressure. TransactCo then purchased 80% of its storage needs from the lowest bidder and 20% from the other in order to maintain a competitive, heterogeneous situation in the data center. The purchasing contracts defined the relationships with the vendors. TransactCo installed the two brands of storage, hired extra staff, and trained them on the different management tools. When technical support issues arose in TransactCo's storage environment, the vendors assumed an attitude of "innocent until proven guilty", whereas TransactCo assumed the opposite, making it more challenging to resolve issues.

Scenario #2 – PartnerCo

To accommodate its growing IP data and voice communications, PartnerCo planned to upgrade its LAN and WAN infrastructure. PartnerCo turned to the networking vendor with whom it had a long-established relationship. The vendor was familiar with PartnerCo's business and computing environment and quickly provided a proposal that incorporated the latest technologies and reflected PartnerCo's unique requirements. There was negotiation on price, though the vendor's pricing was reasonable and PartnerCo did not try to low-ball it. Both parties looked at the purchasing contract as only one aspect of the overall relationship. When support issues arose, the vendor went above the call of duty to fix the problems, knowing that maintaining the relationship and being a responsive partner helped ensure future business.

These two scenarios illustrate two approaches to managing IT procurement – as a transaction or as a partnership. Which approach is best? While each has its advantages, a partnership can yield better long-term results, especially if IT is a strategic part of your business. **Read on for insight into the partnership approach and what to look for in a prospective IT vendor.**

IN THIS ISSUE

IT as a Strategic Investment

Information technology is strategic to modern business. We live in the Information Age and rely heavily on creating, processing, transmitting, and storing digital information. Enterprises depend on IT to run their internal operations efficiently and to interface with the outside world. Software applications provide critical support for nearly all processes. Imagine a day without e-mail, word processing, spreadsheets, ERP, or whichever applications you normally use.[1] IT has become a major enterprise resource, activity, and expense.

Furthermore, IT systems are a capital investment, similar to factory equipment and buildings. A large IT purchase includes a series of steps, stretching from the present into the future.

- Requirements definition,
- Comparison of solutions,
- Purchase,
- Installation,
- Training of users and administrators,
- Ongoing management and support,
- Expansions and upgrades, and
- Eventually decommissioning the system.

This is clearly more than a discrete event. It is a long-term endeavor and commitment, which involves a stream of costs and benefits. How skillfully this process is managed throughout will significantly affect the total costs incurred and benefits derived. This includes managing procurement and vendor relationships.

Partnership vs. Transaction

Taking a partnership approach with IT vendors yields better long-term results than engaging in a series of transactions. See the different partnership and transaction characteristics listed in *Exhibit 1: IT Vendor Management Paradigms* on the next page.

Philosophy and Emphasis

A partnership embraces a win-win philosophy and long-term outlook. It is a mutually beneficial relationship with an emphasis on the total customer experience. In this arrangement, a customer partner can benefit from good products and pricing as well as from a vendor that understands its business and computing environment and is responsive to its requirements, such as for recommending the appropriate solutions, resolving technical support issues, and so forth. A steady vendor partner brings continuity and avoids disruption and reeducation, contributing to availability and lower costs. Furthermore, a vendor that is willing to go the extra mile to resolve technical support issues is very valuable because downtime is expensive in terms of lost productivity and revenue. From a vendor partner's perspective, receiving regular and perhaps exclusive business from a customer is a major benefit. Since the most expensive aspect of sales and marketing is acquiring new customers, it is well worth the effort to be a good partner, extend fair pricing and sound proposals, and provide competent support in exchange for future business. Thus, both parties can win if both conduct themselves as good partners and act according to long-term interests.

A transaction approach is a zero-sum game, which emphasizes acquisition cost. The primary motivation is getting the best deal on product pricing, whether the smallest price (customer's perspective) or the largest price (vendor's perspective). In this situation, one party's gain is the other's loss, so negotiation can be intense. A shrewd customer plays vendors off one another to get a better price. But there is less incentive for a vendor to provide exceptional service and to really know a customer's business, because these activities take time and cost money. If future business may well go to a competitor, depending on who is willing to offer the lowest price at any given time, then why go the extra mile? A transaction approach typically leads to a greater number of vendors and product upgrades.

Interactions and Problem Solving

Partner interactions tend to be open and trusting. Customer partners are open with their business models, even sharing confidential details like cost structure, so vendor partners can better understand how to contribute to their success. Vendors share product roadmaps and technology innovations and solicit input from customers. The attitude toward problem solving is "shoulder to shoulder", meaning they jointly own problems and work together to find solutions.

Interactions based on transactions are more guarded and arms-length. Since the main concern is what each can extract in the short term, the parties are less interested in being transparent or under-

> ***Is IT Strategic to Your Business?***
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> IT plays a prominent role in modern commerce, but is it strategic to your particular enterprise? The answer to this question helps determine its relative priority, since strategic issues deserve more attention and care.
>
> This is a matter of footprint, of its size and impact on your organization.
>
> - *Do important business processes rely on IT?*
> - *Is IT a significant budget item?*
>
> If your answer to these questions is *yes*, then consider it strategic.

[1] This basically leaves pencil and paper, since even telephone systems can be voice over IP.

Exhibit 1: IT Vendor Management Paradigms

Characteristics	Partnership ⟷	Transaction
Guiding philosophy	Win-win	Zero-sum
Emphasis	Total customer experience	Acquisition cost
Interactions	Open, trusting	Guarded, arms-length
Problem solving stance	"Shoulder-to-shoulder", solve problems jointly	"Head-to-head", Tend to assign blame
Technology infrastructure design	Standardized, simplified	Heterogeneous, customized
Number of vendors	Fewer	Greater
Potential risk factors	Technology lock-in (higher switching costs), miss some features	Difficult to manage infrastructure, more skill sets and people required, forklift upgrades
Short-term benefits	Lesser	Greater
Long-term benefits	Greater	Lesser
Personal and business satisfaction	Greater	Lesser

standing the other's situation. They may be fearful of sharing confidential information in case it will be used against them or passed on to a competitor. Problem solving for customers is focused on assigning blame, while vendors are apt to presume innocence. If responsibility is not clear and another party could be at fault, then the vendor is off the hook and does not need to spend its time and resources on the problem.

Technology Infrastructure

Enterprises that subscribe to the partnership model have fewer IT vendors to manage. Their technology infrastructure is standardized and streamlined, which is simpler to configure and manage. There is a risk of higher switching costs (i.e., potential for technology lock-in) and possibly missing some more recent features, if the vendor does not yet offer them.

Enterprises that subscribe to the transaction model have more vendors to manage. Their technology infrastructure is heterogeneous and customized, as they can have multiple sources for any given technology category, such as storage arrays, servers, or network switches. This means greater management complexity and a need for additional administrators, skill sets, training, and management tools. When switching from one vendor's product to another, there is the potential for forklift upgrades and user disruption.

Benefits

A transaction approach is likely to deliver the lowest acquisition cost, but partnerships have the greatest potential for long-term return on IT investments. A lower purchase price is great today – but after factoring in higher management costs, support issues that may take longer to resolve, and the potential for installing solutions that are less than ideal because vendors are not as familiar with your business – the long-run return for the transaction approach is not as strong. On the other hand, pricing in a partnership ought to still be fair and reasonable (for both parties). A partnership will take more time upfront to establish, but the infrastructure continuity, management simplicity, and having a knowledgeable and responsive vendor contributes to higher long-term returns. Besides, handling business issues and resolving problems in the context of a partnership is smoother and more rewarding than in a series of discrete transactions.

Assess Vendor Partnership Potential

IT vendors vary in their willingness and ability to engage in partnerships. Some are more adept than others. So, what should you look for in a potential partner? *Exhibit 2: Framework for Assessing Vendor Partnership Potential*, on the next page, presents a list of ideal characteristics.

Vendor partners should take a *consultative* approach to sales. This begins by asking questions, understanding the enterprise's situation and needs, and *then* proposing a solution that specifically and optimally meets it. It is fundamentally a problem-solving approach. On the other hand, a traditional sales approach starts with the vendor product offering, proclaims the reasons to buy it, and then presses for a purchase order.

A suitable vendor partner will believe in the partnership approach. They understand its merits and ideally have a track record of successful customer partnerships.

Product lines should be competitive in the industry, perhaps in the top five. To be the product leader is a bonus but not necessary. Product markets are like horse races, with vendors jostling for position, sometimes leading and sometimes lagging at any given point. The important thing is to be in the lead pack. The solutions offered should meet present and expected future requirements. A vendor's long-

Exhibit 2: Framework for Assessing IT Vendor Partnership Potential

Area	Ideal Characteristic
Sales approach	Consultative – understands your business and helps solves problems
Partnership approach	Understands and buys into the partnership idea, track record of customer partners
Products	Competitive in the industry (top 5)
Solutions	Can meet your present and expected future requirements
Future vision	Not divergent from your enterprise's IT vision
Product development roadmap	Commitment to innovation or at least competitive parity
Compatibility	Supports your enterprise environment, other mainstream technologies, and open standards
Configuration and installation	Involved with your design team, can implement solution onsite
Training	Able to train your team
Technical support	Responsive, even proactive
Quality	Reliable products, commitment to continuous improvement
Pricing	Fair and competitive, provides assurances for upgrades and expansions
Financial viability	Indicates long-term stability
Reference customers	Satisfied long-term customers
Culture	Compatible and can work with your team

term technology vision should be compatible with your own. Its product development roadmap demonstrates a commitment to at least competitive parity on standard features, with sparks of innovation in areas they have potential to lead. Products should be compatible with mainstream technologies in general, your enterprise environment in particular, and open standards.

For configuration and implementation, a vendor should be able to involve its field engineers with your design team and install solutions at your site. Training for administrators or users should also be available.

Responsive technical support is very important. Poor support increases business disruption and is certainly frustrating for administrators! A vendor should be quick to respond to support issues (onsite, if necessary) and to competently resolve them. Proactive troubleshooting is particularly impressive, when products monitor themselves for impending failures and generate automatic requests for parts replacement before downtime occurs. Products ought to be reliable. If a vendor has implemented continuous quality improvement processes, it suggests product and support quality will improve even in the future.

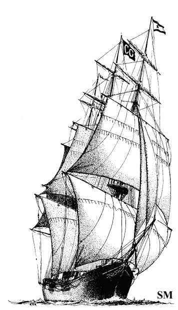
The bywords for pricing are fair and competitive. For upgrades and expansions (e.g., disk drives in storage arrays, port cards in network switches), look for assurances that the vendor will pass on future cost reductions. In terms of financial viability, you should have confidence it will remain in business and not go bankrupt or disappear.

Vendors should demonstrate satisfied reference customers. Ideally, these are long-term customers – happy after the purchase and years down the line. Finally, a vendor's working culture should be compatible with yours, so your team can effectively work with them.

The bottom line is to look for a vendor that is competent, dependable, and able to meet your present and future needs. While it is unlikely that any vendor perfectly meets all the criteria, the framework helps discern which vendors are the best candidates for partnership.

Conclusion

If information technology is at all strategic to your enterprise, it is better to manage vendors and your technology infrastructure in the context of partnerships rather than transactions. Both parties will derive more value from it. Look beyond product acquisition to the long-term value and total customer experience. Partnerships take a little more upfront investment in time and selecting the right vendors, but it pays off with a more stable environment and a lower total cost of ownership.



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