

THE PSYCHOLOGY OF IT PROCUREMENT

IS YOUR BUSINESS A PROTECTIVE OR PROGRESSIVE PURCHASER?



*Making the decision to invest in a core piece of business technology is up there with buying a house or getting married – it will change your life, hopefully for the better, and it will cost a packet to boot. To make it more complicated, the rules for buying the new house are changing and the CIO no longer has the deciding vote. **CLARE COULSON** set out to unravel the technology procurement conversation in the era of cloud...*

Ever since the first punch card machines were introduced into the work place in the 1950s, technology has gradually been ingratiating itself within organisations. It has gone from being ancillary to business processes, to being core to what an organisation does, computing information and pumping it to its extremities. As technology's grip has tightened, so the person in charge of the IT department has risen in consequence. In the 1990s the term 'chief information officer' or 'CIO' was popularised and began the journey to the executive table.

In the two decades that have followed, the relative purchasing power of the CIO has fluctuated and today it is being challenged by the democratisation of technology and the availability of eminently consumable cloud computing services. The economic squeeze that came with the GFC only hastened the trend. Adam Dodds, research manager for IT services, IDC New Zealand, says that while larger procurement decisions are mostly still being made based on a well-considered business case process managed through the CFO and CIO offices, cheaper as-a-service technologies that do not require sign off by the upper echelons of management have caused the budget to shift to the wider business and line of business managers who are closer to the customer.

The result has been a fracture in the traditionally solid and risk-averse technology procurement

processes. "The CIO office is perceived as delivering the functional requirements of technology rather than the effective opportunities," Dodds says, suggesting that the CIO office is only seen as providing core systems and is not agile or responsive enough to supply lighter weight cloud technology services that address specific and immediate business needs and opportunities. This perception means that so-called 'shadow IT' is a growing influence, as evidenced by Gartner's IT spend forecast for 2015 which shows that although the overall spend continues to rise in A/NZ (up 4.1 percent to A\$78.7 billion in Australia, and 2.9 percent to NZ\$11.6 billion), local CIOs are seeing their IT budget dwindle and predict that their budgets will actually fall.

Moreover, a survey of 1000 senior executives across Asia Pacific by the Economist Intelligence Unit has highlighted a mis-match between how CIOs and CEOs view the CIO role. According to the resulting report *The Future CIO, which way is up?* CEOs believe CIOs need to develop a greater understanding of the business; learn to think strategically; and develop a greater awareness of broader industry trends in order to use technology to generate revenues. CIOs by contrast think where they need to lift their game is in being able to create a better business case to secure IT investment, and keeping up to date with technology advances. This "blind focus on

technology" could be the reason that senior executives believe their CIO's greatest contribution in the last 12 months has come from efficiency improvements rather than innovation.

The changing landscape is not going unacknowledged however. Peter Sondergaard, Gartner senior vice president and global head of research, told the audience at Gartner's Symposium held in Sydney last November that a survey of 161 A/NZ CIOs found 79 percent of them acknowledged that they needed to change their leadership style in the next three years. >>

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WHO HOLDS THE PURSE STRINGS?

Deloitte Australia's national managing partner for consulting Robert Hillard agrees, saying he has seen a big change in the last six to nine months, with the best CIOs reclaiming procurement governance and relinquishing their desire to be in sole control of technology procurement. For a short while the power to procure IT reached right down into the lower levels of organisations, thanks to the small operational expenditure required to fund as-a-service products under the operating budget. Now the pendulum has swung back towards the ranks of middle management, but it is unlikely to swing all the way back to the C-suite. Hillard says many CIOs are now taking a step back from hands-on procurement and simply outlining the aspects of governance that they really do care about, such as how the organisation gets access to its data, its governance obligations and the like. He also says that the feedback loop on technology purchases made below executive level has closed and the advent of better technology has made it easier to manage different types of cloud accounts centrally.

"Today it is a much more sophisticated relationship. Increasingly the CIO is not the person who signs the purchase order. But the best CIOs have actually written papers and embarked on education of IT stakeholders to explain the implications of different types of services. They have acceded that they are not going to stand in the way but they are going to facilitate. Some have also even distributed some of their staff across their organisation."

"EXPERIMENTATION IS ALSO TAKING PLACE IN THE FORM OF DIGITAL START-UPS POPPING UP WITHIN LARGE ORGANISATIONS."

Not every CIO is on board, he admits, but he figures that about half of CIOs are on this track. The other half is still frantically trying to protect its territory and grow its IT teams to bolster its importance.

Statistics from IDC gathered across a number of surveys and a year's worth of executive interviews in 2014 (including the *NZ Ecosystem Study 2014*; CIO roundtables; mobility, cloud and IT services surveys during the 2014 period; and the *C-suite Survey 2014* which focused on CxOs) reflect the split between progressive and protective CIOs. Over 55 percent of organisations surveyed say their CIO is involved in setting the organisation's strategy and reports directly to the CEO. The transportation, communications & media, and utilities industries are leading the charge, with local and central government following suit. Meanwhile, at least 35 percent of CIOs are not actively involved in introducing technology services to the wider business - in particular in the health and education sectors, and the professional and personal services - which suggests that many departments are circumventing the CIO's office in an effort to get the IT they believe they need. Equally when it comes to the budget for funding technology adoption, less than 30 percent of organisations share it across the CIO's office and line of business managers.

On a more positive note, over 90 percent of organisations say their executive team is actively involved in setting the technology strategy.

Vendors have also started to get wise to the shift in purchasing power and Gartner says 50 percent of IT vendors now sell to the business rather than IT departments. It suggests that 38 percent of all IT spending is now taking place outside the IT shops - and expects it to rise to more than 50 percent by 2017.

A NEW PROCUREMENT MODEL

Dodds calls the structured procurement process "a procurement office game" that usually sits in the portfolio of the CFO or the COO under 'strategic sourcing'. It is typically a slow process filled with detailed business cases and risk assessment. The unstructured process is, he says, adopted when a business or business unit needs a more dynamic, faster-moving approach to purchasing. "Where the investment is aligned to cost of sale or customers the controls are looser and the business tends to

go around the CIO office," says Dodds, adding that 71 percent of marketing departments exclude IT from decisions.

Procurement in its broader sense is a hot topic in its own right, and Hillard says he is seeing many companies put a real focus on streamlining procurement (from stationery to transport infrastructure and real estate) to make it easier to do business while using the scale of the organisation to get the best possible deal.

"That's been happening in parallel with this trend towards more sophisticated buying of technology," he says.

The trend is for businesses to disintermediate the relationship between doing something and delivering value. For example, rather than researching and documenting a traditional business case for supply chain optimisation then going to tender with a fixed budget in mind, organisations are striking deals with vendors to try their off-premise technology on an incremental basis, Hillard explains. This way they can put part of their supply chain through the new solution and measure its performance. They can even run technology from two or more vendors on different tranches of the supply chain and try different settings for different geographies and demographics so as to see what satisfies their customers best.

"This year we think that there will be more experimentation. At the moment the procurement decision is still made in the company but increasingly the power is also going back to the customer. By picking two or three vendors and randomly assigning them to customers you can see whose satisfaction levels are most improved," says Hillard.

Cloud computing is changing procurement in another sense too. In the past vendor agreements were signed for a set number of years and any changes to the technology were carefully planned and rolled out. Now, businesses have to try to evaluate technologies that are constantly being updated by the cloud providers. Hillard says many executives are asking exactly how they can actually build a company around such instability and this is often the deciding point between investing in a technology with CAPEX or OPEX. Dodds is also seeing this dilemma and says one of the questions IDC is most often asked is whether companies should have different procurement processes for

what he calls 'functional IT', core systems which underpin the business, and 'effectiveness IT' which is purchased and rolled out quickly in response to a specific business need. And, when companies do purchase cloud solutions, they want to understand how to set up governance programmes and accountability for operational expenditure. After all, license management remains one of the biggest problems in procurement.

EFFECTIVENESS IT

'Effectiveness IT' and its associated experimentation is also taking place in the form of digital start-ups popping up within large organisations. Sondergaard commented on them in his speech in Sydney, discussing how business units, such as the marketing, HR, or logistics departments, are acting as technology start-ups, taking a digital first approach. It goes to show that departments such as marketing which are used to a more agile approach to projects will work around IT if they perceive that they are not getting the help they need. That said, IDC's managing director of Australia & New Zealand, Ullrich Loeffler said in a LinkedIn post that CIOs and CMOs can either compete for a share of the ICT budget or collaborate to become "the organisation's power couple".

"The benefits to both parties are irrefutable, with growing empirical and anecdotal evidence showing that when CIOs and CMOs collaborate, their organisation is usually more competitive than their industry peers," he said, adding that this new partnership was supported by the vast majority of CEOs (80 percent). On the flipside, CIOs who don't collaborate with the marketing department will see more of their budget diverted directly to the CMO.

THE C-SUITE CONVERSATION

The CIO/CMO relationship is not the only one that counts. All members of the executive team have a role to play in the technology conversation to one degree or another. You can't be an executive in 2015 without having an understanding of technology. Equally, the CIO needs to broaden his or her executive relationships to reach beyond the CFO and include the whole team. As the technology budget shifts to non-technical business units, now, more than ever, there needs to be a holistic technology conversation at the executive table as well as multiple side conversations

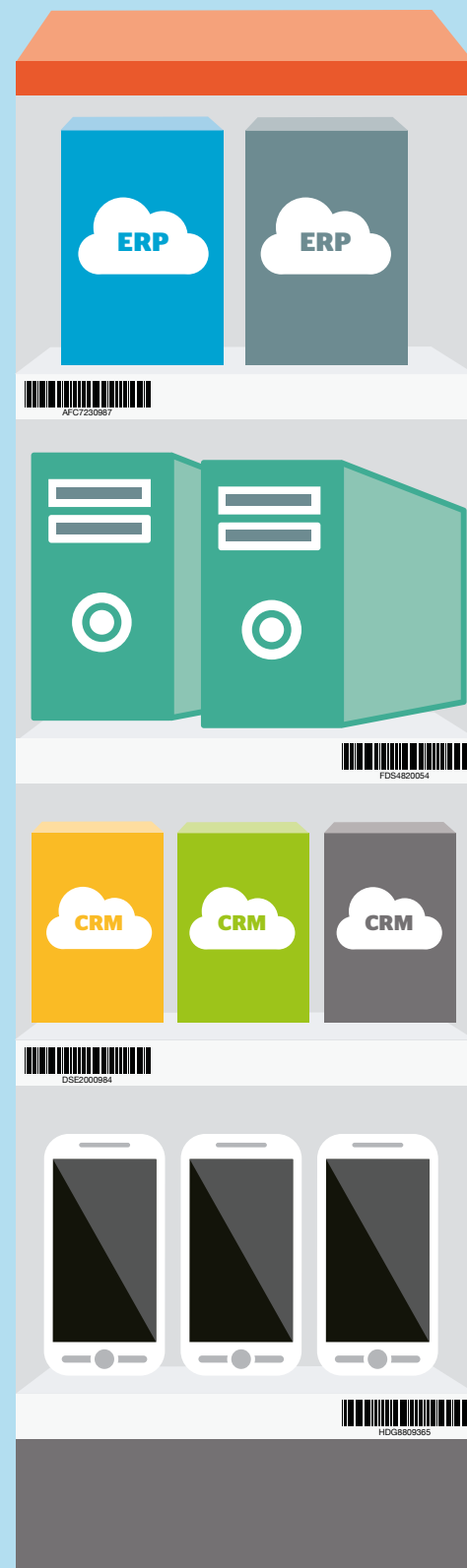
between different groups of relevant executives.

The results of IDC's surveys and executive roundtables show that the conversation should target the higher level issues that technology can help with, such as how to prioritise the use of better technology, how to get value from a business's information, how to use technology to gain competitive advantage, how to drive technology adoption and how to mitigate security concerns. The infographic overleaf also outlines specific questions that the executive team should consider.

Members of the C-Suite also need to drill down into more specific questions in side conversations between relevant members of the team. For example, the CFO will want to discuss new technology adoption plans, cost structures, OPEX governance plans and business processes with the head of HR, the COO, CRO, CMO and CIO. The department heads meanwhile, Dodds says, want to discuss the type of technology they can adopt to achieve their business goals and gain efficiency. The CIO will also be able to provide advice on governance issues. Not everyone needs to be in every meeting and IDC's Dodds has prioritised the key conversations in the infographic shows. The full list of potential questions by role is available on *iStart* online.

One of the biggest questions that Dodds says he is hearing from IDC's local clients is whether they need a CIO office to run their business. The answer is yes, but it can no longer be the cumbersome, people heavy department of yesteryear that kept technology decisions to itself. Instead it needs to be part of the technology conversation going on in and across the various business units. As Hillard puts it: "There will be a certain amount of conversation which is about gaining efficiency and displacing inefficient processes... but the most interesting conversations are about how cloud can be used to allow collaboration to do something that's actually radically different. And the best conversations usually pull together a group of executives because no one executive is able to think up this on their own."

In a world where most business technology will soon be consumed via the cloud and businesses are subject to the changing whims of cloud providers, an agile and distributed IT department headed by a CIO who acts as a chief integrator and governance officer will be the winning formula. >>



IN THE BOARDROOM: THE CXO TECHNOLOGY CONVERSATION



	CFO	CIO	HR	COO	CRO	CMO
CEO	<p>How set up are we to manage OPEX-based solutions such as cloud?</p> <p>How does this change our existing procurement process for IT?</p> <p>Does this change how we value our business?</p>	<p>What is the role that you see your department playing in the adoption of technology?</p> <p>What are the resources that you need to fulfill this role?</p> <p>Where we choose to do this ourselves, what is the price or performance benefit compared to partnering?</p>	<p>What are the expectations of the new generations regarding the adoption of technology?</p> <p>How can we leverage technology to visualise how our business communicates with itself and its customers?</p> <p>Using technology - how do we make use of a more variable labour market?</p>	<p>How can our cost of operations be made more variable through the use of technology?</p> <p>How does our investment in systems and tools align to that of our competitors?</p> <p>What unique IP in business operations could be systemised and sold to the market?</p>	<p>How can we change our revenue models to be more aligned to the way in which our customers do business?</p> <p>Where is the new business threat where our competitors leverage technology?</p> <p>Who of our customers' strategic partners can we partner with to create something unique?</p>	<p>What is our digital strategy?</p> <p>How can we grow our addressable market through the use of technology?</p> <p>What information do we have about our customers that might allow us to diversify?</p> <p>What information do we not know about our customers that we need to understand?</p> <p>How do we establish a framework for innovation to capitalise on market opportunities with pace?</p>

LATER ON IN THE FINANCE DEPARTMENT...



...AND IN THE CIO'S OFFICE...



...HR...



...AND OPERATIONS...



Scan here, or visit <http://iStart.com.au/feature-article/who-owns-it/>, to see the conversations in full detail. Source: IDC studies including the *NZ Ecosystem Study 2014*; CIO roundtables; mobility, cloud and IT services surveys during the 2014 period; and the *C-suite Survey 2014* which focused on CxOs