

Drive Cost Optimization and Efficiencies With IT Vendor Portfolio Rationalization

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The availability of technology service and solution options and vendors can lead to an unwieldy and inefficient vendor portfolio. Sourcing and vendor management leaders should periodically direct an effort to rationalize and consolidate vendors to improve spend and performance.

Key Challenges

- Sourcing and vendor management leaders often inherit a portfolio of vendors, resulting in supply redundancy that can negatively impact costs and performance.
- A vendor rationalization initiative often is met with internal resistance, thereby reducing opportunities to consolidate spending and vendors.
- Too often, business requirements for a vendor's solutions and services are inadequately defined, thereby limiting the effectiveness in communicating needs to the market, and leading to poor sourcing decisions.

Recommendations

Sourcing and vendor management leaders who are building a proficient vendor management capability should:

- Identify rationalization opportunities by performing contract and spend analysis on their current technology supply base.
- Drive savings and efficiencies by defining, socializing and executing a technology subcategory rationalization plan.
- Balance the need to get innovation from their technology vendors while maintaining consolidation through a preferred supplier program.

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Introduction

Vendor portfolio rationalization leads to consolidation and preferred supplier strategies, which are popular techniques to improve the controls over vendors and to optimize technology spend.¹ With cost optimization remaining a top business priority,² technology vendor management leaders are tasked with finding creative measures to improve costs while maintaining quality. Vendor rationalization is the process of leveraging your total spend across your supply base, and optimizing the number of vendors that you are using for a category of spend (for example, professional services, contingent labor). Figure 1 highlights the structured approach for rationalizing the portfolio of technology vendors and service providers.

Figure 1. Use Gartner's Five-Step Vendor Rationalization Approach as the Foundation for Success



Source: Gartner (May 2017)

These are the top three benefits to rationalizing the spend across your vendors:

- Leveraging spend across fewer vendors can lead to increased discounts.
- Managing fewer vendors can decrease operational costs and risks.
- Strategic commitments to vendors can strengthen relationships, performance and business outcomes.

For example, consider the efforts of a large company that was looking to reduce its technology spend. It created a rationalization plan with the intent to decrease the number of vendors and, ultimately, its annual spend. After gaining executive support and sponsorship, the company

executed a plan of multiple subcategory sourcing events, reducing its number of vendors by nearly 25% and netting an annual savings of 20% of its annual spend.

There are times when having more than one vendor for a particular service or solution area is appropriate, and that's what a rationalization exercise should also uncover. You can determine sources of supply, including the number of vendors, by a consistent strategy that evaluates competitive offerings and leverages your full spend. The reasons to have a multivendor, or multisourcing, strategy might be to reduce dependency in order to mitigate concentration risk and to maintain competitive tension between providers.

Time pressures to reduce spending may lead to only reviewing existing vendors and bypassing running competitive sourcing events. This limited view will likely miss some key opportunities:

- New suppliers may have entered the market and may be more competitive on price and capability.
- Incumbent suppliers may have established rates that don't account for the actual volume of the services consumed.
- Incumbent suppliers may not offer you the most competitive rates without you introducing a credible competitive threat.
- Incumbent suppliers may not provide alternative pricing models and technologies without an incentive to do so.

The ultimate goal in rationalization is to drive some consolidation of work and, therefore, spend among your existing supply base in order to reduce the work involved in a transition. Performing a sourcing event before this process will ensure an optimal outcome.

Analysis

Identify Rationalization Opportunities by Performing Contract and Spend Analysis on Your Current Technology Supply Base

Step 1: Analyze Spend and Prioritize Subcategory Opportunities

Begin by performing a spend analysis to understand how much you are spending by technology vendors, and what you are buying.³ To locate your spend information, start by either leveraging a spend analysis tool or rummaging through your accounts payable data (which is, unfortunately, sometimes the only accessible and credible source). While this approach likely won't uncover 100% of the spend, getting to 80% may be good enough for a first initiative. Collaborating with finance colleagues is a valuable approach to gain insight into your spend (see "Use These Spend Analysis Best Practices to Improve Processes, Find Savings and Reveal Trends").

Once you've gathered spend data for preferably the past 12 to 24 months, segment your spend by vendor and focus on the highest total spend amount. This exercise should first address the top 80%

of spend, with subsequent efforts focused on the remaining 20%, or "long tail" of spend. Identify the proper relationship owners for these vendors and collect contract and relationship details. Without buy-in from the relationship owners, making changes to their supply base is likely futile, unless you can demonstrate measurable returns that equate to value they can see. Figure 2 provides an example of the minimum data elements to collect. All data reflected is for example purposes.

Figure 2. Collect the Following Data Elements for Spend Analysis

Vendor Name	Annual Spend	Relationship Owners	Category	Service/Product Subcategory	Complexity to Transition	Contract Expiration Date
Vendor A	\$1,000,000	John Doe	IT Services	Application Development	Medium	04/08/XX
Vendor B	\$2,500,000	Jane Smith	IT Services	IT Contingent Labor	Medium	06/30/XX
Vendor C	\$5,000,000	Lane Ryan, Stacey Smith	IT Services	Application Testing	Medium	01/31/XX
Vendor D	\$3,000,000	Carl Rung	Telecom	Mobile Providers	Low	12/31/XX
Vendor E	\$3,000,000	Jane Doe, John Doe	Software	Software Resellers	Low	12/31/XX

Source: Gartner (May 2017)

- **Vendor name:** Be aware that vendors may be billing under multiple names or entities. Sanitize your data to create consistent vendor names in order to show the company's full spend.
- **Annual spend:** This is the total historical spend within your last full fiscal year with this vendor. If needed, contact your accounts payable/finance department for guidance on how to gather this data.
- **Relationship owners:** Identify the managers and executives representing the user base, and, at a minimum, the contract sponsors that are accountable for the spend.
- **Category:** Identify the category of spend. Potential categories include hardware, technology contingent labor, technology managed services, software, software as a service (SaaS), telecommunications and cloud. The goal behind categorization is to group services that can be treated and analyzed in a similar way from a sourcing perspective.
- **Service/product subcategory:** Identify the subcategory of spend. Potential subcategories include application development, mobile, data circuits and Tier 1 help desk.
- **Complexity to transition:** Define the level of complexity to change. Suggested ranks include "low," "medium" and "high." Start by looking at the termination language in your contracts, along with any financial penalties, and assess potential service and operational impacts. Next, evaluate what alternatives you have, if any, and whether canceling the service outright is a feasible option. You should also consider whether switching costs are reasonable, and whether there is critical supplier-owned proprietary intellectual property (IP). Vendors commonly include their IP in delivering services, and it may not be transferable. Verify the impact of and

alternatives for embedded IP, or contractually negotiate ownership or continuous use after termination. See "Prepare for Effective Vendor Transitions to Mitigate Costs and Minimize Business Disruption" for further Gartner research on this topic.

- **Contract expiration date:** This is defined by the notice you are required to give to either cancel the contract or exercise the right to renew. If you have multiple contracts with the same vendor, then prioritize based on the earliest expiration date.

Once you've captured your spend detail, identify where you have the greatest opportunity for vendor rationalization by counting your vendors by subcategory. Figure 3 provides an illustrative example with representative sample data. From there, prioritize subcategory opportunities where you have the highest spend with the lowest amount of transition complexity.

Figure 3. Count of Subcategory Opportunities by Vendor

Subcategory Count	Subcategory	Annual Spend	Complexity to Transition
9	Application Development	\$11,000,000	Medium
6	IT Contingent Labor	\$10,000,000	Medium
5	Application Testing	\$9,000,000	Medium
4	Mobile Providers	\$8,750,000	Low
3	Software Resellers	\$6,000,000	Low

Source: Gartner (May 2017)

Items to Consider When Prioritizing Subcategory Opportunities

- **Services:** Often, depending on the service, there are multiple service providers in the marketplace for competitively bidding IT services spend. Exceptions to this can occur for niche services, and when proprietary and customized software is a critical element. Any change to services should still be in alignment with your service sourcing strategy.
- **Hardware:** This can be purchased through standardized configurations and sources in order to consolidate your spend with fewer vendors. The exception to this can be due to specific engineering and architecture requirements. An example of this would be standardizing your laptop devices and performing a significant buy.
- **Telecom:** Multiple options are typically available for mobile, voice and wireline. In some areas, there may be limited options for wireline services. Consider the switching costs to reissue new phones and disconnect/switch wireline services, which often require an initial upfront investment and contract term.
- **Cloud/SaaS:** There may be specific technology and security requirements to consider. In niche SaaS applications, there may be limited alternatives. Furthermore, review exit or transition assistance details, should you have them on your current contract, and consider data migration requirements.

- **Software:** This is complicated to rationalize because there are often tooling costs to replace the software with an alternative product.⁴ Contracts are to the vendor's advantage, and they create inflexibility to rightsize maintenance. Consider partnering with your enterprise architecture (EA) team to inventory and identify application rationalization opportunities.

Finally, develop a roadmap that identifies which categories you will approach and when. Start by focusing on one subcategory where you think you can get the most benefits with the least resistance in order to show your value and build your credibility. From there, you can continue down the path of rationalizing further subcategories.

Drive Savings and Efficiencies by Defining, Socializing and Executing a Technology Subcategory Rationalization Plan

Step 2: Develop a Plan for Each Subcategory

Determine Internal Demand and Scope

Your internal demand profile should include an overview of historical spend by each vendor, as well as future anticipated demand. It should also highlight an executive summary of the scope of work and any anticipated benefits/changes sought. Partner with the relationship owners you identified in your spend analysis and have them weigh in on this section. Summarize your contract terms and termination language in order to inform stakeholders of these key components.

Analyze the Subcategory Market

The next step in developing your plan is to perform a market analysis on the vendors in the industry and on those you will solicit in a sourcing event. Include information on recent market trends and pricing changes, and profile the strengths and weaknesses of the incumbent vendors. Utilize IT market and benchmark data to support this step. See "Leverage Technology Procurement Tools and Automation to Increase Savings and Speed" for more information.

Develop a Sourcing Plan

Define your sourcing plan and likely savings targets, along with the series of events required to rationalize your vendors and transition successfully. Your plan should consider collecting detailed requirements, building a formal RFP, soliciting vendor responses, down-selecting vendors and transitioning. Review your contracts to understand the transition language so you can start your process far in advance in order to allow time for a sourcing event, supplier down-selection and a successful transition. This plan should also evaluate potential switching costs. See "Prepare for Effective Vendor Transitions to Mitigate Costs and Minimize Business Disruption" for further Gartner research on this topic.

Step 3: Socialize Plan and Gain Buy-In

Once you have created your subcategory plan, you must socialize it and gain buy-in and support from principal vendor relationship owners, stakeholders and executives. Look for opportunities to socialize this at a CIO-level staff meeting, and with the individual IT and business executives who are primarily responsible for and affected by any proposed vendor changes. It's also critical to conduct periodic reviews with your rationalization sponsor to address relationship owners' and stakeholders' concerns, and to avoid making a plan that never gets enacted.

This plan needs to identify the opportunity and the market, and it must anticipate potential transition risks. It should be tailored to increase your chances of gaining the support you need to move forward. The goal here is to have the business case speak for itself while identifying the risk versus reward, and how you will proactively remediate any identified risks.

Step 4: Execute Plan and Identify Preferred Vendors

Develop a subcategory steering committee with your key stakeholders and sponsors. Use these meetings to stay aligned with one another, and review and adjust the dates to your project plan as needed. Host workshops with your internal stakeholders, if required, to build the requirements for your rationalization sourcing events. When you begin to receive vendor responses and bids, review them accordingly to determine whether your incumbent vendors will retain the business.

Plan and assess risks to transition before making any final awards. Mitigate the possibility of business disruption by proactively preparing for transition before executing your plan to rationalize vendors. Consider extending existing supplier agreements before performing your transition in order to protect against business disruption. Finally, if performing a transition, track your savings targets to actuals, and ensure that you allow yourself ample time to transition between vendors successfully.

Balance the Need to Innovate While Governing Your Preferred Supply Base by Creating a Preferred Supplier Program

Step 5: Implement Governance to Maintain Rationalized Portfolio

After you have executed your plan, begin to develop a preferred supplier list for each subcategory. Make this list visible to your key stakeholders, and create an exception process that requires leadership approval to add additional vendors. Next, ensure that you have a governance process for executing new contracts with preferred suppliers to source significant changes in scope/price before establishing new rates.

You need to ensure that your preferred vendors remain market-competitive from both cost and technology perspectives. To do this, assign owners for each of your subcategories and have them revisit their strategies on an annual basis. This process should include monitoring changes in the marketplace from supplier, price and technology bases. Utilize market data as the source for this information. This process will also become the basis for recommending future sourcing events for each subcategory. See "Leverage Technology Procurement Tools and Automation to Increase Savings and Speed" for more information on sources of market data.

Next, consider including benchmarking clauses in your contracts to help protect against changes in pricing. These terms can be particularly useful for services with high switching costs, long-term vendor contracts, and services with extended transition times because they can provide pricing protection throughout the contract term.

Finally, you do not want to become a roadblock for innovative initiatives that require adding new, justified suppliers. However, you also do not want to let "innovation" become an excuse for adding too many suppliers to your portfolio. To conquer this, establish an innovation committee as an intake and vetting process for new, innovative initiatives. Decide who should sit on the committee, and educate the committee on the potential costs and risks of adding new suppliers to your portfolio. As part of these preapproved projects, you may take into account fast-tracking any applicable vendors through your program to prevent sourcing and vendor management from being viewed as a bottleneck to innovative efforts. See "Bridge Your Innovation Delivery Gap Through Joint Ownership With Your Service Provider" for further Gartner research on this topic.

Gartner Recommended Reading

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

"Eight Steps to Revitalize Your IT Cost Optimization Initiative With Application Rationalization"

"Use Application Rationalization to Get Out of an Application Hole"

"Prepare for Effective Vendor Transitions to Mitigate Costs and Minimize Business Disruption"

"Leverage Technology Procurement Tools and Automation to Increase Savings and Speed"

Evidence

¹ Inquiries on the terms "vendor rationalization," "supplier rationalization," "vendor consolidation" and "supplier consolidation" increased a total of 65% from 2015 to 2016.

² From an analysis of participant respondents to Gartner's 2015 Digital Business Transformation Survey. When participants were asked, "What are your organization's technology procurement team's three most important objectives," the No. 1 response was "Enhancing cost savings or cost reductions." See Note 1 for the full survey methodology.

³ See "[CPO Rising 2016: How the Best-in-Class Leverage Spend Analysis for Superior Performance](#)," CPO Rising.

⁴ See "[5 Ways CIOs Can Rationalize Application Portfolios](#)," CIO.com.

Note 1 Survey Methodology

Gartner conducted a survey on the digital business transformation of software procurement. It was administered online between May and June 2015 among Gartner Research Circle members — a

Gartner-managed panel composed of IT and business leaders. In total, 142 members participated. Survey questions focused on uncovering what important changes are occurring in IT procurement behavior as a result of digital business and the industrialization of legacy IT, and how these changes are impacting suppliers.

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