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Listicle Ghostwriting for Client's CEO

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About the project: I researched and wrote this listicle byline, negotiated changes with the editor, and placed it in a key vertical publication.

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5 Warning Signs Your Technology Expenses Are Too High

By Blake Wetzel

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AIQ recently compiled data from more than a decade of procurement consultations and found that enterprises are paying technology prices that are, on average, 79% higher than what market conditions warrant.

This represents a massive opportunity for companies to optimize their supplier management and harvest tens or hundreds of millions of dollars in operating capital to boost enterprise value, increase budgets and avoid layoffs.

But how do finance leaders know if they are paying too much for their enterprise technology?

Read on to learn some of the obvious — and not-so-obvious — warning signs that your company might be spending too much money on technologies like SaaS, cloud and data services, CRM, billing software, network storage, telecommunications and data center technology.

1. Your suppliers have shifted from “acquisition mode” to “maintenance mode"

When is the right time to renegotiate an existing contract? You might be surprised to learn that vendors may be willing to renegotiate lower costs after as little as 12 months. SaaS technology vendors, for example, typically realize ROI on new business sales within 12 to 18 months. Their initial prices are frontloaded to cover the cost of marketing, sales and technical implementation. After these upfront costs have been recouped, their price negotiation posture shifts from “acquisition mode” to "maintenance mode," and they are often willing to negotiate reduced prices based on their own lower costs of servicing and maintaining the business. It can pay dividends to re-bid and renegotiate contracts, even if they are only a year old.

2. Technology has matured since you signed the contract

Another warning sign that you might be paying more than necessary is if you have contracts that were negotiated two years ago or more. Technology evolves quickly, and the value (and the high price) of innovative technology often does not withstand the test of time. Technology matures and new competitors enter the market, often resulting in more favorable pricing.

For example, SD-WAN commanded a premium price when it was introduced in 2014, but prices dropped within a few years because numerous vendors entered the market and open-source solutions grew in popularity. Other examples of technologies where the maturity of the technology and competitor landscape rapidly transformed the pricing dynamics include video conferencing, CCaaS/CPaaS, CDNs and many other categories.

The lesson: Don’t assume the market is stagnant. Businesses should take advantage of changing dynamics when a technology becomes ubiquitous or when new competitors enter a market.

Develop a baseline for your current FP&A practice and a roadmap to improve in various key areas with the AFP FP&A Maturity Model.

3. You’re paying multiple vendors for the same product or service

According to AIQ research, nearly every company examined was found to be paying for and using redundant solutions, with multiple vendors contracted to provide similar and overlapping products or services.

Some amount of redundancy can be good for a company, especially if it is for a critical service like data centers or telecommunications. If you have two vendors providing the same service, and one of them goes belly-up, or their service level declines, or they jack up their price, it's good for continuity to be able to quickly shift to another.

But oftentimes redundancy is not planned and has no strategic value. For example, when a company has undergone a merger or acquisition, considerable redundancy may now exist in the tech stack of the combined company. Similarly, if a company has shifted to a centralized business model, IT products and services that were once managed in autonomous geographic regions or business units may now be redundant. This is common with technologies like CRM, ERP, contact center technology and services, and BPOs. In cases like this, consolidating vendors not only represents an opportunity to negotiate volume discounts but also makes ongoing supplier management more efficient.

4. You have auto-renew contracts

Auto-renew supplier contracts can be a source of unnecessary spending. According to AIQ research, 60% of companies reviewed did not effectively manage auto-renew contracts, oftentimes resulting in spending on products and services that were no longer in use. It's easy to lose track of auto-renew contracts, especially if a company has experienced staff churn or hasn't built processes to automatically issue alerts when contract terms are approaching.

5. You haven't tried different negotiation and dealmaking models

Most technology contracts are the result of RFPs, one-to-one direct negotiations between the vendor and the buyer, or a combination of the two. But there is another less-commonly-used negotiation and dealmaking model available that is more effective for reducing costs: the procurement auction. If you haven't used procurement auctions to negotiate or renegotiate pricing, then you are probably leaving money on the table.

In a procurement auction, multiple vendors are invited to compete against one another for the buyer's business. Bidding from all auction participants is transparent — participating vendors get real-time feedback on how they rank each time a competitor enters a new bid, triggering them to compete by lowering their own bid. This is a dynamic that is unlike traditional one-to-one direct negotiation (where there is no competition) and unlike RFPs (where there are multiple competitors, but the pricing is not transparent).

In a procurement auction, transparency and the competitive spirit combine to naturally compel suppliers to drive costs down well below their list prices, and even well below typical pre-approved discounts. A typical two-week auction involving a handful of vendors often produces hundreds of bids, usually concluding in a frenzy, with dozens of bids entered in the final hours.

The procurement auction is proven to be more than twice as effective for cost reduction as traditional RFPs or direct one-to-one vendor negotiation, saving buyers, on average, over 40% on their technology expenses. Auctions are powerful for finding new vendors that cost less and better fit the buyer's needs. They're also effective for simply reducing the cost of incumbent vendors already in use by the buyer. In fact, it is common that an incumbent vendor will drop their price by 20-30% as soon as you notify them you are taking the product or service to auction.

If any of the previous warning signs exist, you should strongly consider using procurement auctions to re-bid and renegotiate contracts.

Conclusion

In today's uncertain economic climate, with flattening growth and interest rates that have created the toughest environment in decades for securing outside funding, businesses are looking for ways to optimize P&L. Reducing technology expenses can be a powerful and relatively painless way to improve enterprise value, fund growth projects and avoid layoffs.

About Blake Wetzel

Blake Wetzel began his career as an FP&A executive with Qwest Communications/CenturyLink. He is now CEO of AIQ, a recognized leader in procurement consulting and e-auctions. AIQ provides an end-to-end service, from performing the spend analysis, to sourcing and qualifying vendors, to roadmapping the overall renegotiation strategy, to running auctions, to delivering renegotiated contracts to the client. For the past 20 years, AIQ has delivered, on average, 44 percent savings on technology costs, helping their clients organically increase operating capital, improve EBITDA and enterprise value, invest in growth projects, and fend off cuts to budgets and headcount. Learn more at www.aiq.co.

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