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NEWS AND ANALYSIS FOR RETAIL EXECUTIVES

Digging Deeper: Three Areas of IT Overspending Every Retailer Should Eliminate **June/July 2010**

When it comes to IT, most major retailers will tell you that they're running as lean as operationally possible. There's simply nothing left to cut. Staff resources are minimal and new technology investments are few and far between. This may seem true on the surface, but this is where the claims of lean IT meet reality. And, the reality is that retailers are still overspending on technology.

The problem with IT overspending is that it's subtle. Technology overspending in retail happens in well-hidden areas masked by poor spend data and a lack of vendor pricing visibility. More often than not, it can be found in the processes surrounding the management of existing IT investments and vendor relationships.

Today's common areas of overspending include the latest new technologies and upgrades in inventory management, customer analytics and POS technologies. But, to some extent, overspending in these new "exciting" areas is to be expected. What is not expected are the hidden, less sexy areas of overspending that are making major threats to the retail IT budget. These hidden areas include SaaS, software maintenance and business continuity/disaster recovery agreements.. Each of these areas represent a significant lack of pricing visibility and creative vendor negotiation tactics.

SaaS

The cost and administrative benefits of the software as a service delivery model are becoming clear, but that doesn't mean vendors aren't diligent about extracting more dollars across the length of your contract. Be sure to review the following aspects of these deals.

Get rid of minimum purchase clauses. These clauses mandate the purchase of a minimum number of licenses or users over the contract term, and they should be removed immediately. This will prevent you from reducing the number of users in the event you have to downsize business operations, cut staff, etc.

Establish data ownership, including migration costs. If you are embarking on a new SaaS purchase (or finally getting around to one that was put on hold last year), clearly establish who owns the data as well as who is responsible for data migration procedures and costs. Many companies assume these costs will be incurred by the vendor. That's not always the case, which can add another cost and complexity layer to your SaaS purchase.

Reject or limit renewal rate increases. Be sure to address renewal rates in your contract by inserting language that limits or prevents renewal rate increases. Not doing this empowers your vendor to enact unreasonable rate increases once your contract is up for renewal.

Specify termination costs and data transfer guidelines. Should you choose to terminate your vendor agreement, you need to understand the costs of doing so beforehand. Specify these costs, as well as data transfer costs and procedures, in the contract up front.

Software Maintenance Agreements

The bread and butter of a software vendor isn't the upfront license purchase; it's the maintenance agreement. Every year, retailers overspend millions of dollars on unjustified, but widely-accepted annual rate increases. We routinely find retailers can reduce their overall maintenance costs by 5-8 percent with little to no reduction in service.

Stay Educated. Let's say your SAP maintenance agreement jumps from 17 percent to 22 percent (as most are!). What are you getting for that extra five percent? What are your peers doing to push back on this increase? We're in an age where information sharing about big vendors through blogs, LinkedIn and industry groups is rampant. Take advantage of the chatter and learn how you can leverage other organization's successes. What you'll uncover is valuable vendor and pricing insight.

Demand Vendor Justification. Today's savvy procurement organizations are digging out their original maintenance agreements and reviewing carefully. Review what you originally paid for the initial software purchase and maintenance, then track the pricing escalation to current day. Ask your vendors to justify this price increase. In some cases, it may be wholly justified. In instances of poor justification, you may be able to negotiate lower fees.

Conduct a Maintenance Overhaul. There are two types of maintenance. The first is maintenance that you truly need because of frequent patches, dot releases, updates and well-used support licenses. The second is insurance-policy maintenance; the kind of maintenance retailers keep just in case they need help or need a new release (but, in fact, rarely do). Segment your software maintenance portfolio into these two buckets. Then, take all of the agreements that are in the "insurance bucket" and build a business case for forgoing maintenance. Explore your options with your vendor. In each case, you have the option to not renew, renew at a lower price or pay for peace of mind. If your vendor feels like you're taking peace of mind out of the equation, they will feel the risk and pressure to help you lower your maintenance costs.

Business Continuity/Disaster Recovery

In light of the natural disasters that have impacted business operations since the beginning of 2010, many retailers are revisiting their BC/DR strategies thereby making it a perfect time to calibrate your BC/DR investments for savings. Here are some things to look for:

Eliminate retainer-based, oversubscription DR contracts. Many retailers have what the industry calls "checkbox DR," which means that they have partnered with a vendor who will provide drop-ship BC/DR resources within 72 hours of a disaster. Unfortunately, resuming operations within 72 hours of a disaster is too long for today's pace of business. In addition, your "check-box" vendor will need to confirm that the circumstances constitute a disaster which presents both another timeline obstacle as well as possible point of dispute.

Finally, these vendors oversubscribe their BC/DR equipment. For example, a vendor may have only 100 servers available to 20-plus clients. They hedge their bets on the fact that no more than a few clients will ever need those servers at the same time. Just in case, they prioritize who will have access first. Between the insufficient timeframe and the chance that you will not have readily-available access to the very resources you've paid for, these vendor agreements are rife with overspending for too little, too late.

Assess cloud-readiness before you delve into a cloud computing DR strategy. Virtualization and cloud computing have enormous savings potential, especially as it relates to BC/DR. But, not every application or IT operation is ready for the cloud. If the majority of your applications are closely tied to underlying hardware, you can easily spend more in the long run than you will save to achieve status quo functionality in a cloud computing environment. Before you leap into a cloud strategy, assess your IT environment for compatibility.

Establish volume discounts in your high availability contracts. Going to a high availability (HA) environment is no longer twice the cost of a single site. Advances in technology have made HA setups very attainable, but there are still dedicated components that will require a long-term investment, such as real-time data replication and extra network and storage area network (SAN) capacity. It's important that you understand the cost accelerator variables in your contract, such as the vendor pricing and cost impact should your volume of data drastically increase. Make sure your

contract includes a rate structure that provides volume discounts and rate tier changes should your data volume increase.

The low-hanging fruit of IT overspending is gone. As retailers continue to feel pressure to reduce costs across their IT operations, they must find the hidden areas that slowly – but surely – extract hundreds of millions of dollars of excess fees out of retail operations every year.

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