LAW MATTERS

DOES MY BUSINESS SPEND TOO MUCH ON IT?

SPONSORED COLUMN

JONATHAN BATHO

IS THE rhetorical question on many CEO's lips, even though they are inwardly sure it is so.

IT advisory companies such as Gartner provide guidance with industry averaged ratios on IT spending, such as IT spend as a percentage of revenue, of operating expense or cost per employee.

These guidelines are supplied, however, with caveats relating to the uniqueness of a specific business's competitive environment and other factors which drive context.

Factors which drive context are all important.

The first of which are historic IT investment decisions based (hopefully) on a business case or other assurance of future value. These implemented systems and landscapes will drive operating run costs as well as depreciation and amortisation. As quoted in the classics, our lives are the sum total of all the choices we have made, so too is a business's total cost of IT.

While these historical landscapes should be reviewed within the broader IT strategy, our focus here is on the factors within your control which will impact IT spending into the future. Specifically in the setting of the increasing pressure for businesses to adopt appropriate new technology solutions in order to remain relevant, effective and profitable.

Implement quality procurement processes.

Formulate a proactive procurement strategy which addresses business requirements, financial objectives, commercial approach, governance plan and any operating model implications.

Engage the supplier market under a structured and impartial procurement process, and leverage competitive tension to extract the best available pricing.

The most economical way of implementing a new system or technology is to get it right the first time.

Contract with care.

Software houses, infrastructure and service providers are notorious for their attempts to introduce 'commercial guard rails' into their contracts, which will invariably drive additional cost through inflexibility, complexity and revenue commitments.

Organisations also need to ensure that their contracts deal with compliance requirements for existing and new regulations introduced by policy makers.

Entrench governance processes.

Value is anchored and delivered through operational governance, which should include service, commercial and contractual requirements.

These are the underlying factors materially contributing to business's total cost of IT, that require specialist expertise not typically found in traditional procurement or legal departments.

"Productivity isn't everything, but in the long run it is almost everything." | Paul Krugman, 1994, *The Age of Diminishing Expectations*.

JONATHAN BATHO is a Partner at Cox Yeats where he is head of the Information & Communication Technology Practice.
He is an Information Technology Specialist in procurement, commercial and contracting of IT systems and infrastructure landscapes, with more than twenty years' experience in procuring and contracting technology systems, infrastructure and services from all the major software, technology and consulting houses both internationally and locally. He can be contacted on 031 – 536 8500 or via email: jbatho@coxyeats.co.za.

COX | YEATS

attorneys