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Case Study - Tech Sourcing

To buy high-tech products and solutions is inherently complex. While it may not be a major sourcing category for procurement organizations, it is essential for nearly every business. Without technology, organizations struggle to function, and manufacturing facilities cannot produce or deliver their products and services.

The technology simply acts as the oil and lubrication in a vehicle—without it, modern businesses cannot operate. Consequently, understanding the intricacies of effective tech sourcing is critical to ensuring long-term organizational success.

The nature of Tech Sourcing

"Tech sourcing" is not like purchasing everyday commodities such as pens and paper. By nature, it is a complex and time-consuming process that involves multiple components and interdependent elements. If done incorrectly, organizations, offices, buildings, factories, and logistics operations may fail to function properly. This needs to be clearly understood within the business environment, especially when building procurement capabilities or planning sourcing projects.

Tech sourcing typically includes IT office essentials such as computers, software, servers or cloud services, and CRM suites, along with applications for HR, finance, sales, and R&D. It also encompasses solutions for managing industrial and manufacturing processes, supply chains, security and surveillance, as well as product and network applications.

The landscape between industrial technologies and other tech areas has already merge as it all about software, hardware and integrations of applications and solutions into a functional area. To buy these product and solutions for business operations, you ought to understand both the technical and the commercial inter dependencies in the light of Life Cycle Costs.
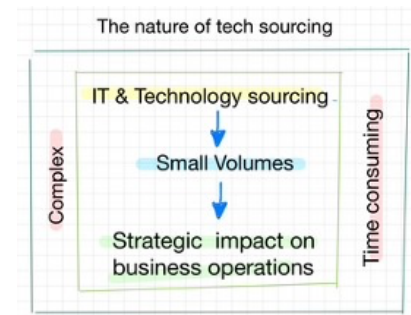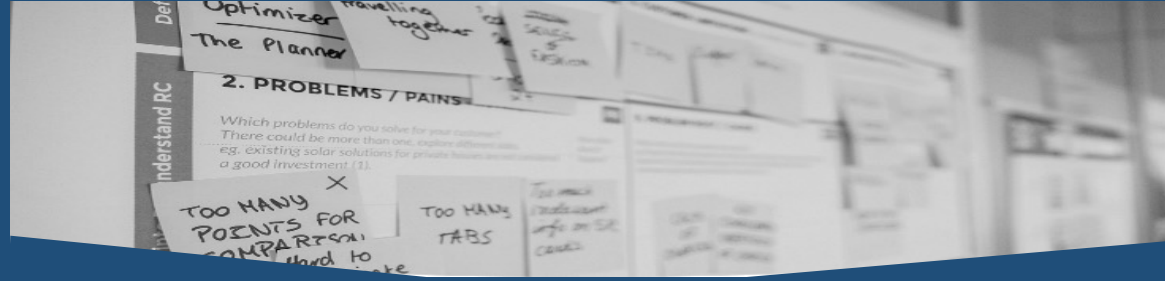

Modest cost

huge impact

The cost of acquiring these applications, and it need for om-going upgrades, over its life cycle is relatively modest compared to sourcing categories like raw materials. However, most of these applications are normally used for over a decade, when installed - and the cost of replacing them can be significant, both financially and operationally. Swapping applications carries major risks, including potential system faults and integration issues that could lead to massive production losses. Therefore, it is crucial for buyers to understand the role of tech sourcing within an organization, as well as its complexity and impact if managed poorly.

Compared to other sourcing categories, the delivery of tech solutions is typically a **combination of multiple components**, such as software, hardware installation and support. These often require integration with other systems, making tech sourcing even more complex than traditional procurement. Additionally, they need to consider long-term requirements for maintenance and support in a Life Cycle perspective.

Complexity

and skills

As tech sourcing involves multiple components, buyers must also understand various contractual and commercial structures. Delivering a tech solution typically requires managing at least two to four contracts, covering areas such as licensing, products, installation, services, and support. As a result, the legal and commercial expertise required to structure even a single tech agreement is extensive and time-consuming.

Commercial Puzzle

Furthermore, the growing need to align IT contracts with areas such as sustainability, corporate responsibility, GDPR, and security frameworks adds another layer of complexity. This drives the demand for more sophisticated contractual arrangements, requiring tech buyers to possess even greater legal and commercial expertise.

The tech industry largely lacks standardized contract frameworks. While few industries have established contractual terms recognized by both buyers and sellers, some sectors—such as construction—have successfully developed them. In construction, standard delivery agreements follow a common contractual framework with shared terminology, simplifying contractual arrangements.

Moreover, to put together a 'tech agreement,' it's essential to understand the entire solution beforehand, as there are many interdependencies, each with its own pros and cons.

In tech sourcing, some standard contracts exist, but they are rare due to the rapid pace of innovation, the vast number of applications and solutions, and the diverse ways technology is used and deployed. These factors make tech sourcing negotiations inherently complex and highly variable. Successfully managing this commercial puzzle requires buyers with significant expertise and experience.

Tech sourcing means a long list of complicated requirements in order to get a solution

- Business needs
- Tech specification
- Integration requirements
- 3rd party requiremnt
- Implemention consideration
- Support needs
- Maintenance over time
- Commercial demands
- …and others

Category Contracts

Category contracts, particularly volume-based agreements for raw materials, chemicals, components, services, and transportation, typically have simpler structures. These contracts primarily focus on volume, discounts, and delivery timelines, making them easier to manage. Additionally, replacing commodity suppliers to optimize costs is relatively straightforward. This simplicity enables both procurement professionals and senior management to easily understand, oversee, and execute such agreements.

Strategic impact

In contrast, tech sourcing is often overlooked and perceived as a "small and abstract procurement category" or an under-prioritized area. This is largely because other procurement categories tend to have a more immediate and tangible impact on business operations. However, despite its lower visibility, ineffective tech sourcing can lead to severe strategic consequences, ultimately affecting an organization's long-term success and operational resilience.

Tech investments are of strategic importance to organizations, as they drive innovation, digitalization, and deployment across various functions, few other investments have such a far-reaching impact on operations or remain relevant for such an extended period. Consequently, tech sourcing should hold a more strategic position within organizations. It is not merely a commodity but **rather the driving force that keeps the entire ecosystem running**—much like oil fuels an engine. When managed effectively, it becomes a foundational resource that enables sustainable competitive advantage.