

Dynamic Cost Management for IT Hardware Platforms

a report by

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At a time when analysts are predicting a wave of product simplification that could reshape the electronics industry, ADR International is preparing to launch a Web-based tool that provides an innovative means by which their clients can achieve substantial and sustainable cost savings when sourcing a range of hardware platforms.

'Cost Tracker' is new and unique. It will allow ADR's clients to improve upon the price they pay by identifying and tracking the major component costs that make up the platform. It is a dynamic, effective and accurate way to undertake cost analysis – be it on entry-level laptops or server ranges. ADR has witnessed first-hand the growing demand for greater insight into the cost (as opposed to price) of hardware platforms. ADR's approach to cost analysis is driven by the need for clients to secure access to detailed current and forecasted cost breakdowns combined with an insight into market forces. Such knowledge will shape the strategic intent and options for a company, even if they are sourcing at the local level, and can dramatically impact their negotiation aspirations and/or the sourcing strategy. Viewpoints from a variety of clients point to some consistent frustrations:

- The increasing speed of innovation is undermining clients' technology strategy, before the ink is dry.
- Certain hardware platforms, frequently labelled as commodity items, are wrapped in technological jargon, which obstructs the clients' ability to perform cost analysis.
- The absence of a dynamic tool such as this enables suppliers, be it indirect or direct from manufacturers, to progressively dilute the value negotiated by clients through new platform releases and platform obsolescence.

The dilemma facing many procurement practitioners is their inability to adequately demonstrate value for money (VFM) when making the sourcing decision, where VFM is measured as improvements in the combination of whole life costs and quality that meets the user requirements. For example, often,

there are no independent points of reference to determine the optimum time to make a technology transition so as to maximise cost savings, except for enthusiastic press.

Besides, many buyers do not have enough time to fight through the morass of the manufacturer's technical road-maps and configuration data that otherwise helps to shape the sourcing decision. This lack of time, coupled with lack of visibility, often coincides with the supplier's stance of inflexibility to move away from fixed price regimes. To this end, and while it has had some justified criticism, e-auctioning has yielded clients some success in undermining and breaking free from lengthy fixed-term pricing. However, Cost Tracker will, in future, provide clients with a key weapon – transparency in cost and market analysis – which may avoid this type of adversity in relationships, especially where the service demands can be significant and can be adversely impacted by polarised positions over contract terms.

Cost Tracker will monitor the cost of the major components and sub-assemblies such as the processor, motherboard, storage devices, memory and display plus other costs to give a factory price for a finished platform.

A core competence for many procurement practitioners must be to manage cost and to locate value, i.e.:

- to find more effective ways of purchasing what is currently offered within the existing supply market;
- to analyse and understand the balance of power within the given supply market and supply chain and apply leverage accordingly; and
- to understand the structure of supply chains and be prepared to challenge it or manipulate it to the benefit of their organisation.

Cost Tracker provides several means to alter the conditions under which an individual or company can



achieve greater control over the negotiation outcome or sourcing strategy. This can create purchasing leverage to significantly improve upon profitability.

Where expenditure and/or business criticality is significant, by using Cost Tracker, a client could shift their focus from short-term tactical negotiation, based on limited insight and 'market intel', to a longer-term analytical sourcing approach driven by transparency and meaningful key performance indicators (KPIs).

Cost Tracker will enable the management and control of hardware costs to be improved and will provide insight on when to undergo platform transition to yield the best price-performance balance. This is achieved by the forward tracking of costs down to individual component levels and understanding how any change within the overall platform costs.

Cost Tracker consists of an integrated package of databases that can provide a regular health check on the price your company is paying for a given hardware platform – monthly for pricing and quarterly to summarise key market movements.

Other incumbents in the supply chain (i.e. other than the client/end-user) can also benefit from the increased knowledge and awareness that Cost Tracker

provides. Distributors and resellers who are exposed to carrying valuable stock levels can leverage the 'intel' from Cost Tracker to better plan for stock management. With the forward knowledge of likely cost movements and new platform releases, they can manage the financial risk and business exposure that could result from carrying surplus or obsolete stock.

With the increasing trend towards outsourcing, many clients further distance themselves from the IT hardware supply chain and 'rely' upon the outsourced service provider to manage the issues discussed here on their behalf. Even in the more sophisticated outsourced relationships, where KPI's have been identified to provide performance governance, the availability of hard, reliable and accurate measurement data is often limited, resulting in checking and duplication or, even worse, no action. In this situation, Cost Tracker can provide hugely powerful data that may be used to manage price throughout the supply chain, thus leaving parties to focus on other areas of performance improvement. ■

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