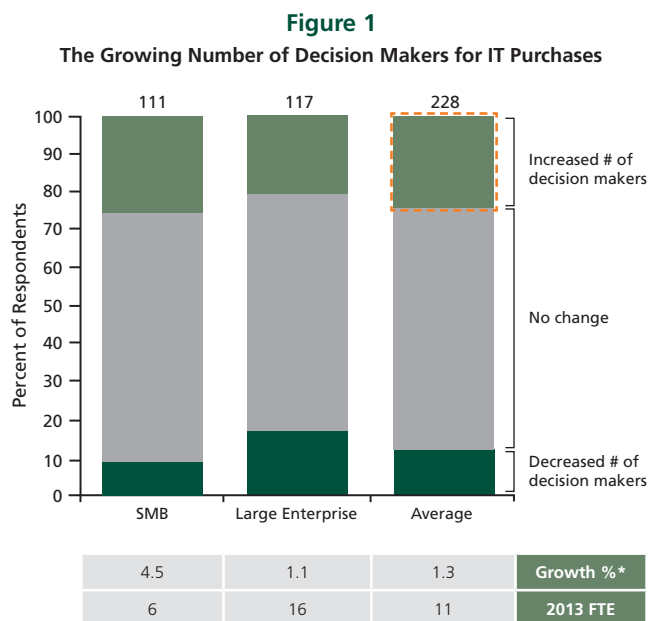# Cloud Disturbance: How IT Vendors Can Succeed In a Time of Shifting Buying Trends

The IT industry is undergoing a fundamental shift in the way companies buy IT solutions. At the heart of this shift are three trends: The decision-making process is being influenced by a larger and more diverse set of individuals; those individuals are increasingly savvy and self-educated; and easy-to-buy, cloud-based options are proliferating and gaining market share.

These trends are changing how IT vendors compete and are disrupting the traditional ways that vendors market and sell their products. We believe IT vendors that understand the changing landscape can position themselves to win. To facilitate that understanding, we recently completed a study on the evolving trends in corporate technology procurement, which included a survey of 228 IT decision makers across all verticals and company sizes. This paper explores some of the insights from that study.

Figure 1
The Growing Number of Decision Makers for IT Purchases

	SMB	Large Enterprise	Average	
	4.5	1.1	1.3	**Growth %***
	6	16	11	**2013 FTE**

*Percent change in decision makers, 2012-2013.

Source: L.E.K. survey and analysis

We Now Live in a World of Crowd-Sourced Procurement Decisions

Purchases-by-committee have become increasingly common over the past few years in corporate technology procurement. According to our analysis, committee sizes continue to swell and their makeup continues to broaden. Our study found that an average of 11 people are involved in the IT purchase and decision-making process today, and a quarter of respondents expect that number to increase further in 2014 (see Figure 1).

One result of procurement-by-committee is lengthier buying cycles due to the need to satisfy multiple stakeholders; another is multiple competing priorities in the procurement decision-making process (see Figure 2). Some stakeholders may be most concerned with cost or total cost ownership (TCO), others will focus on ease of use, while still others zero in on the vendor's industry ranking and the trustworthiness of the brand. In some

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cases, the multitude of decision makers will pose sales challenges that remain invisible to the vendor, as the vendor will be selling to people he or she might never meet or even know are involved in the procurement process.

Decision Makers are Increasingly Savvy and Self-Educated

Making the IT sales rep's job even more difficult, these de facto purchasing committees now consist of self-educated and empowered buyers that form early opinions on technologies and vendors with minimal direct input from the vendor or the channel. Instead, they rely on company websites, online communities and Google search results to self-educate and help develop their short lists (see Figure 3). Value-added resellers (VARs) continue to play a role in the customer discovery and purchase-decision process, but their importance is diminishing. While VARs are engaged nearly 80% of the time in the procurement decision process, our study found that they are consulted late in the process and are influencing purchase decisions less and less (see Figure 4).

The Cloud is Being Used to Streamline the Procurement Process

Certain buyers – most often the end users who need software to power the processes that impact them directly – are increasingly frustrated by decisions-by-committee. In some cases, these stakeholders are seeking to circumvent the drawn-out, sometimes politically charged process by moving procurement decisions outside of traditional channels. In fact, our study suggests that roughly a quarter of corporate technology procurement decisions today are made completely outside of the IT department.

To these frustrated buyers, the cloud offers an attractive alternative due to the relatively cheap and easy transition to third party, Internet-based hosts. Consider the real-world example of a global telecommunications company with a long-standing corporate mandate to use a legacy, on-premise sales-operation platform. One regional Sales VP felt that the system was laborious and did not support the information and reporting needs of the team. Rather than suffer through a lengthy, tedious
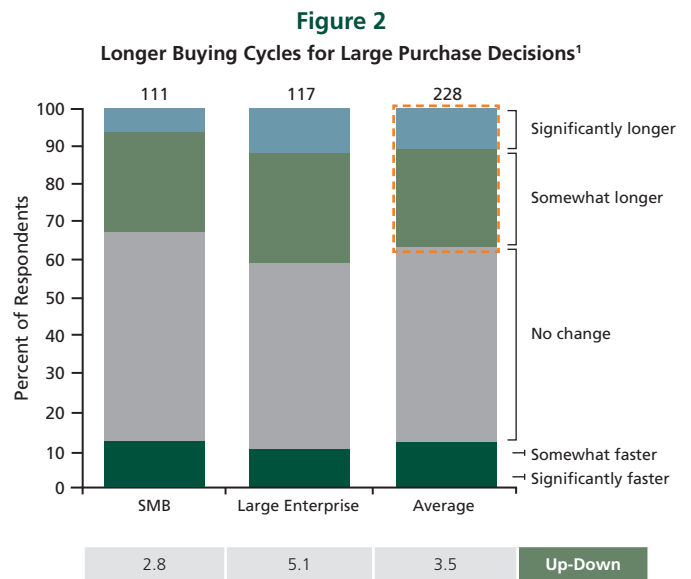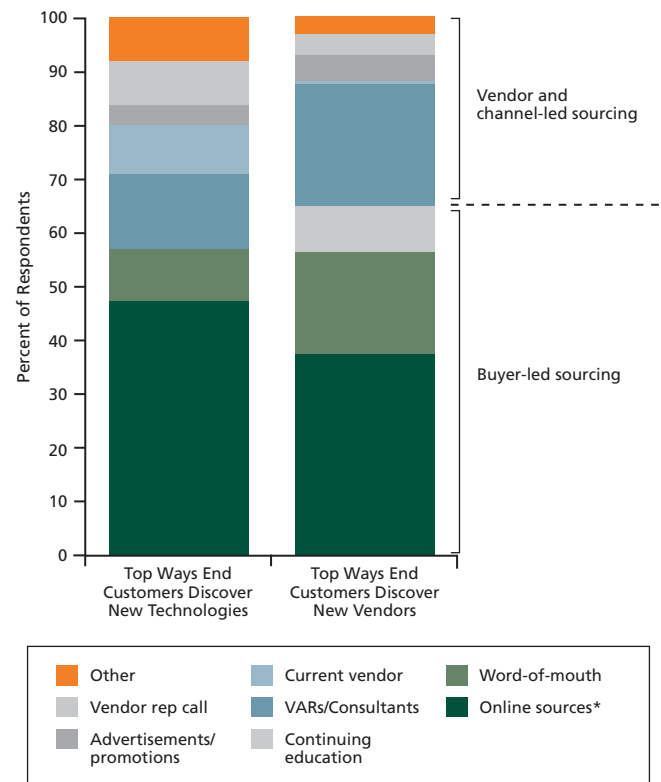
Figure 2
Longer Buying Cycles for Large Purchase Decisions[1]

*Percent change in decision makers, 2012-2013.
[1]Q9 – Average number of decision makers involved in approving IT investment decision: 2012, 2013, 2014
Source: L.E.K. survey and analysis

Figure 3
Primary Way End Customers Discover New Technologies and Vendors

*Includes industry newsletters, technology websites, internet searches, and online discussions/community sites
Source: L.E.K. analysis

Figure 4
Point at which VARs First Get Involved in the Decision Process

Needs Definition (~20%) → Technology Selection (~40%) → Vendor Selection (~20%)

VARs are involved in ~80% of decisions

Source: L.E.K. analysis

purchase process, the VP moved his team to salesforce.com. All that was required was a credit card and diversion of some internal resources to implement pipeline tracking and reporting. Within six months, the organization saw firsthand the impact of salesforce.com and migrated entirely to the cloud. IT sales reps can expect to hear more such stories about their own disinter-mediation in the future.

Despite The Hype, the Cloud is Not Yet a Rainmaker

The benefits of cloud deployment are well-known and have certainly been hyped: improved disaster recovery, lower upfront capital requirements, flexibility to add or reduce seats, and reduced requirement for in-house IT staff.

Vendors that can deliver on this promise stand much to gain. However, to succeed, they must address the negative percep-tions associated with cloud-based services, namely concerns about privacy and security, lack of internal control, higher total cost of ownership, and WAN reliability. These concerns continue to loom large and will erode only slowly.

This hesitancy is reflected in our study; we found that the aver-age preference for pure cloud services (versus on-premise and on-premise managed services) is still less than 20% and varies dramatically by software application and customer profile. The applications most preferred for deployment in the cloud are audio conferencing, web collaboration and CRM, while the one that IT decision makers least prefer to access via the cloud is ERP.

We believe cloud adoption will increase materially over the next five years but is contingent on service providers addressing the real and perceived limitations of cloud deployment.

There is a Silver Lining: Three Steps to Winning Sales

The rise in complex, multiple-stakeholder and multiple-objective decisions changes the game for many IT vendors. According to our analysis, the winners will be those that can effectively achieve the following three steps:
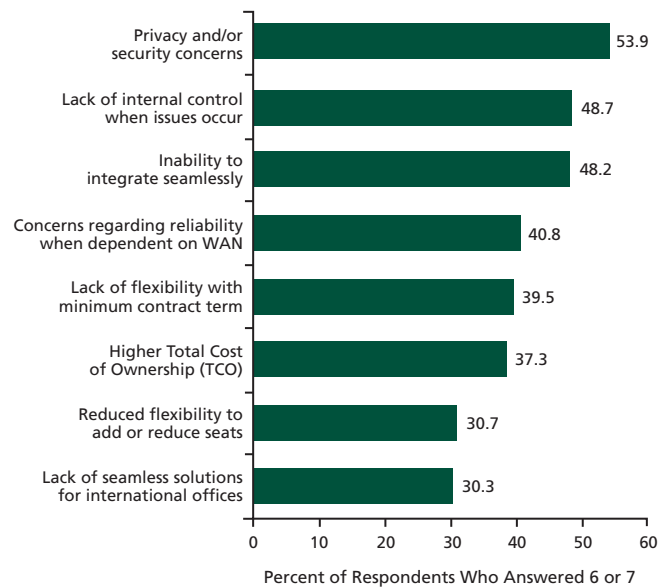
1. Stop selling and start helping. To be successful, vendors must transform their traditional approach to interacting with prospective buyers. Sales and marketing must adapt so as to address all stakeholders and their differing priorities – and often find ways to do so without any direct contact or interaction with the decision maker.

This requires an omnichannel marketing strategy, including a strong online presence (website, online communities, SEO, etc.) But it also requires vendors to shift their mindset from "sell at all costs" to "educate first and foremost," and prioritize content marketing over advertising and direct sales in almost all instances. Marketing campaigns must focus on the value propo-sition of the product as it pertains to each particular stake-holder in the decision-making process. For the buyer's CFO, for example, the marketing effort might demonstrate a robust return on investment, or articulate the total cost of ownership; for end users, the marketing campaign may want to focus on ease of use; for the IT department, the campaign might ensure the availability of favorable third-party IT reviews that highlight reliability and ease of integration.

2. Engage with and empower the channel. While VARs are involved in 80% of vendor selection decisions, many are often not involved in the crucial early phases of decision making when the foundation for the final vendor choice is laid. To address this, VARs must become more deeply involved in each customers' IT strategy, needs definition and technology evaluation before vendor selection has commenced; an understanding of the value proposition as it pertains to each stakeholder remains as crucial for the channel partner as it is for the vendor's own marketing efforts. Vendors therefore should have programs that motivate and enable VAR partners to build expertise and stand-alone capability in the full breadth of solution sales activities – from local marketing to technical sales, integration, execution and customer support.

3. Ensure you have a robust cloud solution. Companies with leading cloud solutions may have a compelling business case given their ability to deploy their technology quickly and cheaply. The cloud won't be right for every costumer (at least not yet), but having a solution for those customers for whom the cloud presents a compelling business case will be essential. To fully realize the cloud's promise, however, IT vendors need to provide solutions that more seamlessly integrate with enterprise IT environments, and then back their solutions by addressing the concerns of more conservative, large-enterprise buyers. Success in some sectors may require a hybrid approach that combines the benefits and capabilities of traditional on-premise solutions with multi-tenant cloud capabilities in a single system.

Figure 5
Most Important Barriers to Cloud Adoption

Barrier	Percent
Privacy and/or security concerns	53.9
Lack of internal control when issues occur	48.7
Inability to integrate seamlessly	48.2
Concerns regarding reliability when dependent on WAN	40.8
Lack of flexibility with minimum contract term	39.5
Higher Total Cost of Ownership (TCO)	37.3
Reduced flexibility to add or reduce seats	30.7
Lack of seamless solutions for international offices	30.3

Percent of Respondents Who Answered 6 or 7

Source: L.E.K. analysis

While the challenges posed by the shift in IT procurement may seem daunting, they're surmountable. Taking insights from our study as a starting point, L.E.K. works with players across the IT-services value chain to formulate strategies that effectively address the issues arising from the disruption to the industry. With the right strategy, IT vendors can exploit the profound changes in the way IT procurement decisions are made to realize a market advantage.

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L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded 30 years ago, L.E.K. employs more than 1,000 professionals in 22 offices across Europe, the Americas and Asia-Pacific. L.E.K. advises and supports global companies that are leaders in their industries – including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns.

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