



## ***Major IT suppliers: when will a balanced business model and practices emerge?***

On 24 June 2019, at the 2nd Cigref press conference on relationships between large companies and public administrations and their IT service providers, Bernard DUVERNEUIL, President of Cigref, and Philippe ROUAUD, President of the Club "IT Suppliers Relationships" of Cigref, reviewed the illegitimate practices of the major suppliers that continue to exist. They re-examined the suppliers' business model in light of the economic and socio-environmental challenges to be met. They called on suppliers to return to a balanced business model aligned with real value.

### ***Practices regularly denounced, which have not changed.***

Cigref, like many associations of digital service users, regularly denounce the illegitimate practices of major IT providers. The latter disproportionately burden their customers with the cost of their conversion to the cloud. In doing so, client companies deplore the fact that the commercial force of suppliers adopts «bounty hunter» behaviours, favoured by a compensation model that values «sell more» rather than «sell better», i.e. advice and added value for the customer.

To maintain double-digit growth in a mature market, with a level of services deemed to be declining, suppliers secure recurring revenues through their contractualization model (licensing, subscription and support contracts) and their pricing model.

The economic model of the support contract (recalculated, in the event of a decrease in the number of licenses, to remain at constant cost), the offer packages, the application of increases in the event of a reduction in the subscription volume or licenses... are just a few examples of these pricing practices contested by customers.

The lack of clarity of certain contractual clauses and metrics, interpreted to the advantage of suppliers, contributes to this ratchet effect.

Finally, the practice of suppliers, which consists in approaching business departments directly and bypassing IT teams, despite the governance of the customer/supplier relationship set up in major groups, has several consequences: the development of shadow IT, a greater complexity of urban planning and IT architectures, as well as an inflation of IT budgets. This practice also represents a risk to the integrity of systems, for which ISD is responsible.

#### **About Cigref**

Cigref is a network of major French companies and public administrations set up in order to develop its members' ability to acquire and master digital technology. It is a key player and federating body in the digital society, thanks to its high-quality thinking and the extent to which it represents its members.

Created in 1970, Cigref is a not-for-profit body in accordance with the French 1901 Law of Associations. It counts among its members some 150 major French corporations and public administrations across all business sectors. It is overseen by 15 board members who are elected by the General Assembly. Its day-to-day work is carried out by a team of ten permanent members of staff



### ***The response is organized.***

Under these conditions, even if the approach is long and costly in the short term, more and more customers are reducing the footprint of major publishers in their information systems and thinking about exit strategies through the search for alternatives, especially open source. The explosion in licensing and support costs tends to make exit procedures economically viable or even attractive.

The Cigref working group «Open-source, an alternative to major IT providers» was a great success in 2018 (68 organizations for 124 participating employees, 7 meetings). It was continued in 2019, after the publication of the eponymous report, to meet the requests of Cigref members looking for alternatives to Oracle JDK, Microsoft Office 365 and Google Suite for the office automation part, to Adobe for the creation part... The market is also getting organized, to promote open-source alternatives: Cheops Technology has just announced the launch of an Oracle database migration automaton to its PostGreSQL equivalent.

More and more groups are publicly displaying their break with legacy suppliers and their choice of support services from third-party suppliers, such as RiminiStreet and Spinaker, to reduce their Oracle and SAP maintenance costs. The choice of a third-party service provider is mainly motivated by the scissor effect between the inflation of support services and their decline in value over the years. This choice is often the first step towards a term exit.

Finally, as pointed out at the conference, the pilot of the work «Alternatives to large suppliers», Cigref observes a recrudescence of internal development policies within its member companies. This third approach has the advantage for companies to create an intangible asset that they own and that they can deploy at a lower cost. It is also a way to enhance their expertise in the market.

### ***Critical questions about data and system security that remain unanswered.***

Established one year ago, GDPR has contributed to significantly raising the level of vigilance, requirement and expertise of companies in the field of data protection and security, whether personal or business. Many suppliers still do not meet the legitimate contractual and operational requirements of major groups.

Without going back to the examples regularly provided by the press of customer data leaks or security breaches among suppliers, Cigref wishes to clarify the disagreement between user companies and their IT suppliers on the interpretation of compliance with the GDPR. Customers are forced to work with standard supplier contracts but are solely responsible for the errors of their subcontractors. Faced with the rigidity of the contractual framework, clients denounce two phenomena. On the one hand, excessively long (from 6 to 18 months) and resource-intensive negotiations, which end just before the supplier's closing date (when they end!). Companies are therefore in a perpetual loop of negotiation with their suppliers. On the other hand, that the contract proposed by the suppliers is more akin to a membership contract than a service subscription contract.

Finally, in a general context of a proliferation of texts of various kinds, regulating data between Europe and the United States, which keeps companies in a climate of legal uncertainty, the responses provided over the past year by suppliers concerning the CLOUD Act are considered unsatisfactory by the members of the Cigref.

To leave the field of contractualization and return to commercial practices, a growing number of companies are denouncing the commodification of security by suppliers. When will there be a Security by design that is not a paid option but natively integrated into digital services?



## ***Questions about the legitimacy of the supplier business model.***

In 2018, Cigref insisted in its first press conference on the challenge of rebalancing the relationship between providers and users of digital services, with a view to performance and innovation.

In 2019, noting that the practices denounced are not changing much, the members of the Cigref alert their ecosystem to the problems of distortion of competition linked to certain contractual or commercial practices such as bundles that are similar to tied selling, or the «corkage fee» applied by certain major suppliers to interconnect the services of third party suppliers and allow customers to access their data. The inventive licensing of suppliers and certain underwriting methods (KPI on the attrition rate, return to the list price in the event of a decrease in volume) are tools for locking in the market: the customer is forcibly retained and competitors are kept at a distance. This is why issues related to service interoperability, reversibility and data transferability from one cloud to another, always occupy a major place in customer/supplier discussions.

The business model of major publishers serves a short-term profitability strategy to reward shareholders. Their strong growth ambitions lead to marketing models that are disconnected from customer needs and the real value of services, and from the challenge of digital sobriety. These business models are based on revenue recognition and strategies of scheduled software obsolescence, unwanted purchases, double operation... at the expense of service value (for example, SAP ECC vs S4/HANA and Microsoft Windows and Office).

The major software publishers and cloud service providers, mainly American, are taking a drain on wealth creation in France and Europe, not compensated by value creation for their customers' businesses. This is to the detriment of the capacity for innovation and investment of our economic actors, and thus of growth, job creation and national taxation.

### ***In conclusion***

**In the digital age and in an interdependent ecosystem, the path chosen by some major suppliers appears illegitimate and unbalanced in view of the economic and socio-environmental challenges to be met collectively.**

**Once again, Cigref members are calling on their major suppliers to do more and to adopt practices that encourage the emergence of win-win partnerships to enable both user companies and their suppliers to calmly pursue their necessary digital transformation, both technological and human.**

**Cigref leads working groups on supplier relations in accordance with its corporate purpose, which stipulates, in particular, that Cigref's mission is to «share with members their experiences in the use of technologies» and «make known and defend the legitimate interests of member companies...».**

