



# The Law of Large Numbers Power to Predict and Deliver Savings

## Take the Savings, Increase Enterprise Value, Reinvest in New Opportunities

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“The result of this effort has been a \$10M savings, which has really gotten the attention of everyone and helped the company redeploy capital in a way that makes it an even better company with a higher performing product.”

-Larry Oeffinger, Sr. Director, Cloud Production, Dynatrace



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## There are five related areas of interest in this white paper:

1. **BUDGET SEASON:** How to accurately identify and quantify forward-looking savings sufficient to budget for next year & achieve challenging EBITDA targets.
2. **TWO APPROACHES:** Auction, or GPO? Two completely different approaches to saving money, either of which may be useful for differing situations or needs.
3. **IT SERVICES BUSINESS PROCESS OVERVIEW:** How to get to savings in IT.
4. **PROOF:** An actual example of an outcome achieved by a PE-owned portfolio company.
5. **QUICK SAVINGS ESTIMATE:** How you can quickly identify and approximate potential savings areas and their respective order of magnitude impact on your own organization.
  - a. What others have achieved
  - b. Customized report of what you can achieve





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## 1 IT'S BUDGET SEASON

CFO's are heads-down looking at budgets to determine where they can save money to gain extra EBITDA improvements for their investors. If the CFO can drive savings in one area, it may also free up capital to allocate to other investments and grow the business. In this critical time of year, CFO's need all the help and transparency they can get, as line organizations are sometimes not keen on giving back budget for next year. Conversely, if the CFO can map out where to reduce costs without reducing quality or capabilities, then that money can go to other purposes. (More on that later.) For now, let's cover a couple of potential approaches that you can put in place right away in order to produce those material savings that you need for next year.

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## 2 TWO APPROACHES – Different types of expenses warrant different approaches

**IT Services:** There are around 2,700 vendors on a TTM AP vendor list for an average mid-market portfolio company. For a technology-enabled company, exclusive of employee costs, the broad category loosely defined as IT Services often represents the lion's share of COGS and operating expenses. This is one of the largest and least transparent non-employee costs in the

enterprise. Since this expense category may include hundreds of suppliers and is often distributed throughout the organization, it can be a daunting task for the CFO to completely review it and precisely understand where savings may be had. AIQ is an IT Services-focused provider of online reverse auctions with deep technology expertise, market data, business process, and vivid decision support. Through their business process, their PE clients have averaged savings of 42.6% off of their current run rate, typically producing permanent annual savings in the \$3-5M range per mid-market portfolio company.

**“Other” category:** Conversely, there are other significant expenses that may be meaningfully impacted. Expenses such as air travel, rental cars, hotels, office supplies, maintenance, repair, & operation supplies, are all easily commoditized and may be purchased through a Group Purchasing Organization (GPO) model. Based on published data, AIQ believes that the GPO process typically produces savings in the 10-15% savings range on the “other” categories in which GPO's often specializes. For a quick hit that does not take a lot of deep operations discovery, AIQ believes that this level of savings achieved through a GPO, at no cost to the portfolio company is probably a good value.

**What's the difference?** Obviously, the differences are many, however, AIQ thinks about the GPO process as being a good way to drive incremental savings in ongoing cost and purchase-oriented spends through a passive process, paid for by suppliers, according to group contracts that the GPO's organize among their membership base. Since the suppliers pay the GPOs to bring

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them business, effectively acting as a paid channel, the savings are somewhat modest. Also, AIQ clients and PE's have often stated that the lack of customization and deep discovery that comes with a deeper dive is a limiting factor to the GPO process. Nonetheless, it is potentially "free money" for services and purchases you might otherwise already be making, so why not take advantage of it?

Conversely, AIQ's business process is not GPO, and it does include an auction, but is much more than just an auction. It includes an immediate free, initial savings estimate for

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some of your biggest expenses, followed by deep operational discovery, review of every detail of every contract and invoice and consumption for every line item with your (large) IT services expense category, followed by a disciplined documentation and discovery process involving customization with input from your stakeholders and SME's. It generally supports and includes complex architectural and operational strategy review and validation/rationalization of current services and planned growth and technology migration.

It is often used to not only materially save money and increase EBITDA, but also to prepare your company to grow and scale.

Beyond just saving gobs of money due to incremental per unit cost reductions, AIQ will also help clients find areas of waste, such as abandoned services that should have stopped billing, and things that were planned to be purchased that needn't be, and services which should be curtailed or

disconnected. Certainly, if your only focus is to "buy more" even if at a discount, and paid by a vendor, there is no structural motivator to buy less and discontinue service. The AIQ process saves its clients millions of dollars yearly just by not buying when buying doesn't need to happen.

### 3 IT SERVICES BUSINESS PROCESS OVERVIEW – Let's take a closer look at the AIQ business process for IT services:

What if you could quickly and confidently predict where you could find meaningful savings and cost take-outs without losing headcount or diminishing capacity and quality of the goods and services the enterprise consumes? AIQ is a company that doesn't just analyze your costs and predicts savings. It delivers the actual savings outcome.

AIQ provides a **free savings report** by comparing over 10M current data points within its Marketplace Intelligence Platform against your TTM spend by vendor ERP report. Within 72 hours, you will be able to predict your ability to reduce budget next year within a 95% confidence level. Once the decision is made to engage AIQ, for the categories selected by their client, AIQ then delivers the savings.

AIQ maintains a global marketplace that doesn't just analyze the top line.



Its models address scopes and descriptors at the atomic unit rate level. Doing so ensures that all components of a service's costs are cared for, and calculated results will align precisely with actual results at the mix of volumes being consumed.

AIQ provides a highly customized solution that works in even the most complex client situations. It has the data and a process that enables exact tailoring to the client's needs. Decision elements include characteristics such as performance attributes, features, capabilities, global coverage, terms and conditions, Service Levels, even the physics of the services being consumed. AIQ will work with your SME's to assure that all of their critical needs and wants are met, which results in a win for your whole team of stakeholders.

AIQ's offering is perfectly aligned with the needs of the CFO. AIQ is here to help you create and report your next business success story.

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## **4 PROOF** – Here is an actual example of an AIQ success story, written by an AIQ Client:

### [Dynatrace \(DT\) – NASDAQ.](#)

Having been a Senior Operations Director at Genentech, I gained a passion for improving operations and efficiency at my company. At Genentech, in the 1990's, I worked with AIQ while solving many technically demanding problems involving IT and access to our systems by our executives. After joining Keynote Systems, I began to take stock of their systems and processes. When it came to a particular area that was core to our business (the global data and collocation network that powers Keynote's core product – a global synthetic Cloud measurement system used by most of the large technology companies such as Microsoft), I invited AIQ to come and take a look. They quickly identified levels of complexity that could be simplified and improved upon, but more

importantly, they identified several million dollars of savings which could be produced through their process. Based on the cost justification that was created through their high level savings estimate, I was able to gain sponsorship from my CFO, Jim Peterson. On that basis, AIQ set to work and was quickly deploying its process among several expense areas.

The result of this effort has been a \$10M savings, which has really gotten the attention of everyone and helped the company redeploy capital in a way that makes it an even better company with a higher performing product.

At that time, one of the biggest savings that AIQ immediately delivered was rather shocking – a full 90% savings on our inbound service. This really got everyone's attention.

Then AIQ proceeded to deliver a 70% reduction on our collaboration services. By the time they started working on our mobility and gaining big reductions there, almost all of my team, and my boss, a VP, were on board, and were seriously interested and mostly aligned.

While these early savings were being recorded/reported, they were working on our global collocation and network that I mentioned previously. They were digesting contracts, reviewing bill data, reviewing maps, looking at speeds and feeds and locations and understanding the unique requirements of our service offerings (such as requiring cellular antennas at each of our 100+ global collocation sites.)

About this time, we were acquired by Private Equity. Our PE owners began to dial into our weekly calls and observe the AIQ process, our interaction with them, and see the progress that was being made and reported by Finance. As a result of the visibility that was gained, our PE started carefully tracking AIQ process and outcomes.

Subsequently, Dynatrace was acquired, Keynote was rolled up into Dynatrace, and I became their Senior Director of Cloud Production. At Dynatrace, I followed much the same process while working with AIQ. During the project, AIQ also helped Dynatrace rationalize, optimize and save money on the combined networks. This allowed us to improve performance, scale, and again, save money. The result of this effort has been a \$10M savings, which has really gotten the attention of everyone and helped the company redeploy capital in a way that makes it an even better company with a higher-performing product.

AIQ recently tracked and reported top savings areas for a group of CFO's in charge of around 35 portfolio companies owned by one of its Private Equity clients. There are two views provided in the illustrations below.

5. A.1) The first figure demonstrates which categories (among the more than 100 categories AIQ works in) provided the highest % savings. This is a good indicator of where you might be able to anticipate the largest savings in your organization, by mapping how your organization spends the most money among these illustrated categories.

***“Save money, improve performance, and simplify.  
We call it ‘The Trifecta’ ”***



For more information, please feel free to reach out to me on [LinkedIn](#)  
- Larry Oeffinger, Senior Director, Cloud Production, Dynatrace

As a result of this project, we now have all of our data centers optimally tracked, recorded, and organized with the latest uniform technology. It enabled us to readily deploy remote hands to specific items in our inventory anywhere in the world, as our levels of inventory, record keeping, and even contracts and other important assets are all current and correct. It has enabled our organization to perform at a much higher level and we no longer waste time trying to validate what is located at different locations across a global organization of inconsistent systems, as it once was.

5. A.2) The second graphic illustrates the average annual dollar savings per category attained among the top 100 categories. Keep in mind, these are for mid-market, PE-owned technology-enabled portfolio companies. Your actual profile and outcome, of course, will vary.

5. B) Fortunately, as a CFO, **there is an easier, surer way to estimate your potential savings** than just picking a number from a matrix. If you want to receive a savings estimate calculated at a 95% level of certainty, you need only contact AIQ, who will send you an MNDA and a customized ERP template. Once you generate the ERP report described in the template and share it with AIQ, they will produce a customized savings estimate created just for you, using your data. You can then use that savings estimate to determine if the savings are material enough to warrant engaging AIQ to actually produce the savings. This is a quick and convenient way for you to make a high confidence savings estimate to include as part of your budget planning process.

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## **5 QUICK SAVINGS ESTIMATE**

As a CFO, how can you quickly estimate what kinds of savings you might expect through the AIQ process? Here's a way to produce a gross order of magnitude guess without even talking to someone else, if you are a mid-market, PE owned technology enabled Portfolio Company:

## Largest % Savings by Category

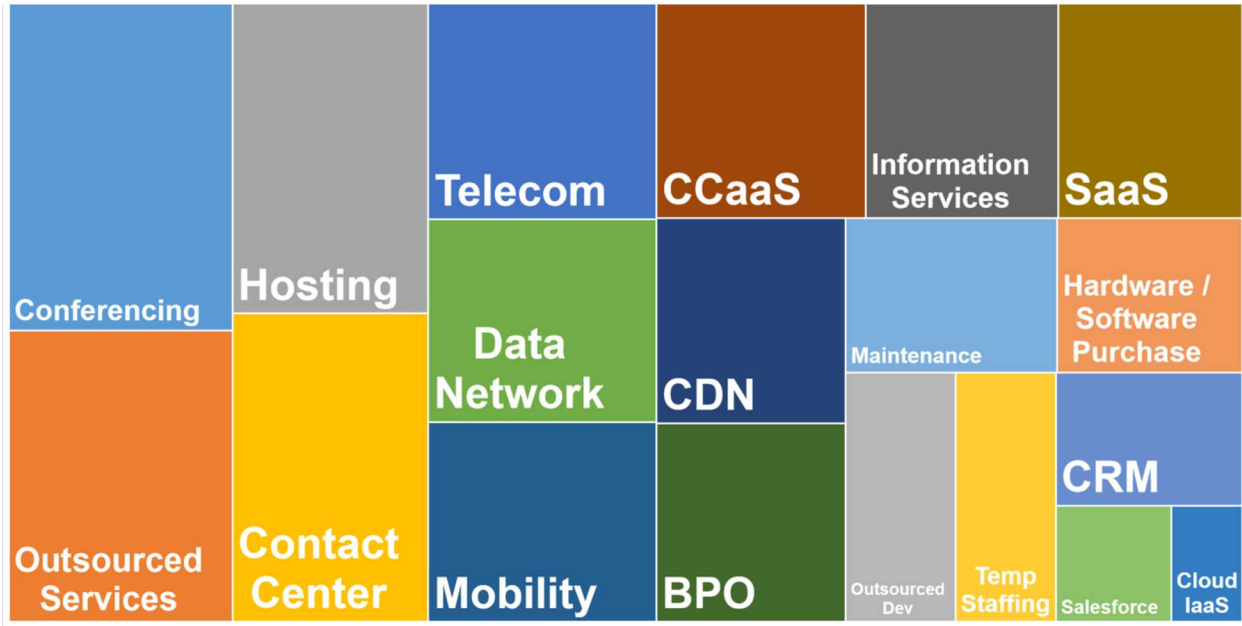


FIGURE 5.A.1

## Average Savings (per Client) by Category

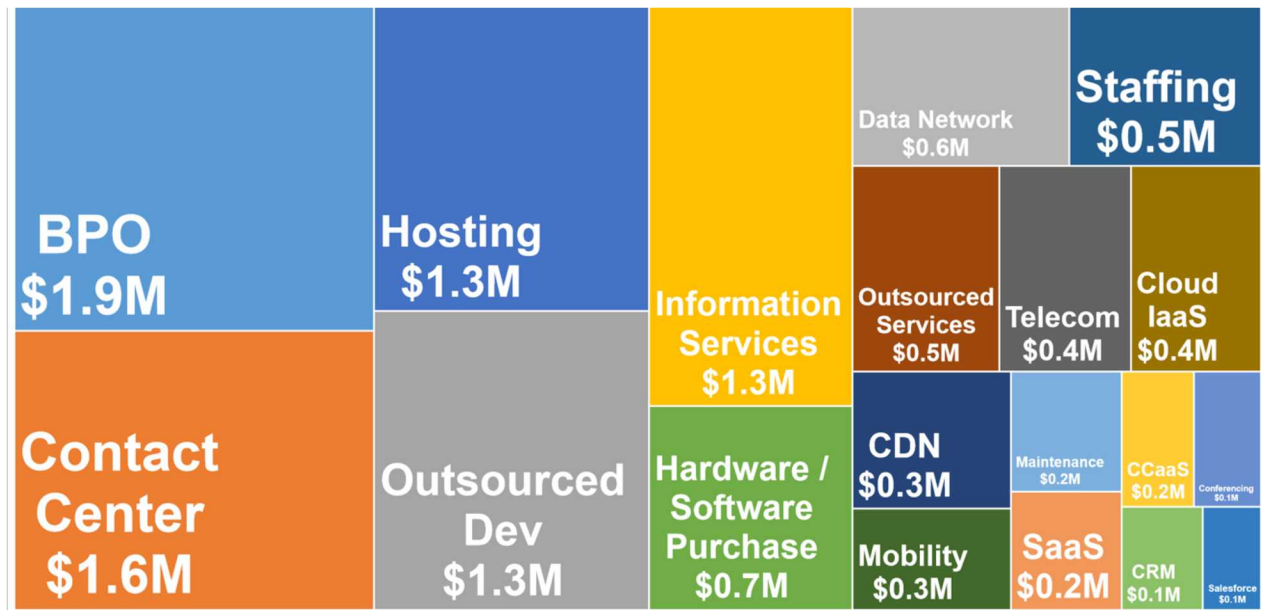


FIGURE 5.A.2

## SUMMARY:



# The Law of Large Numbers = Power to Predict and Deliver Savings

There are various platforms or buying options that can decrease costs and increase enterprise value. There are group purchasing organizations (GPOs.) GPOs can be good for services that are purchased on an as-needed, unpredictable basis, such as travel, lodging, and office supplies. However, GPOs produce sub-par results for services that are highly customized or complex, critical to the success of the business, consumed on a planned or committed basis, or for large equipment purchases.

You don't have to settle for the GPO model's average 10-15% savings. It takes a superior level of complex analysis, data processing, systems and process, working at the granular atomic level, to achieve the kinds of savings that

AIQ uniquely delivers – averaging 42.6% across all of the more than 100 categories AIQ specializes in. Enterprises can't do that on their own without a multi-decade development of an extensive, specialized platform, process, and great analytics.

Prior to these results, AIQ predicts savings pre-engagement by applying a statistical model using the totality of all the aggregate data from projects it has run prior. From that, it allows AIQ to provide the 95% confident high level estimate. Once engaged, AIQ is able to deliver actual savings against the initial free reported value, at a 99.5% level of accuracy, which is ultimately audited to deliver a perfect result compared to the prediction.

## Contact AIQ to Start Increasing EBITDA in 72 Hours

Send a note to [PE@AIQ.CO](mailto:PE@AIQ.CO) or go to their web page [AIQ.CO](http://AIQ.CO) and click on "Get a Free Analysis" button to request the report. AIQ will provide a free customized savings estimate by applying its 10 Million Market Data points against your ERP report so you can estimate your enterprise savings within 72 hours.

If you are a Private Equity Operating Partner, just drop a note to the CFO's of your portfolio companies to get in touch with AIQ at: [PE@AIQ.CO](mailto:PE@AIQ.CO) to receive its free custom savings estimate. You'll soon be on your way to improving EBITDA and increasing enterprise value!

Or call: 1 (844) AUCTION / 1 (801) 727- 4007  
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