DILIGENCE CENTER

Supplier Contract Risk Hides in Every Spend Category

Finding Savings and Risk in Confirmatory Diligence

Most deal teams see just a sliver of a target's supplier risk and cost take-out opportunity before they sign.

Every acquisition target buys across dozens of indirect categories, and each one carries its own pricing gaps and contract risk. In Diligence Center, Green Cabbage covers exactly where that risk sits: **Technology**, **AI**, **Third-Party Labor**, **MRO**, **Marketing**, **Travel & Expense**, **Employee Benefits**, **Finance & Insurance** **Market Data**, and **Aviation Tech & Services**.

Technology is one of the clearest examples of what gets missed, because it's growing faster than almost anything else on the P&L. Gartner forecasts worldwide IT spending will reach $6.37 trillion in 2026, up 14.2% from 2025, with software spending up 15.5% to nearly $1.47 trillion (Gartner, July 2026). Yet deal teams often underwrite technology spend the least carefully, both the savings opportunity and the unbudgeted P&L or capex risk, because technology supplier relationships are opaque and contractually complex.

Even teams that rigorously model go-forward operating costs often struggle with the fixed minimums, bundles, and per-seat floors that dominate technology contracts. The middle market is especially exposed, as switching costs are high and internal IT and procurement resources are limited, so vendors can more easily exploit information asymmetry.

As a result, deal teams, and the operating consultants they bring in when time allows, have limited visibility into the prize or unbudgeted risk. In confirmatory diligence, a team might review one or two dozen of the largest IT contracts at a cursory level. These reviews typically follow a reverse Pareto: they focus on the largest contracts and miss most of the savings and risk that sit across the broader portfolio.

Like "Staring a Snowy, Foggy Night"

According to Jason Busch, Spend Matters former founder and private equity diligence practice leader (and an advisor to Green Cabbage), the core problem is that "technology spending is uniquely opaque when looking at it over a short period of time in diligence efforts, like staring into a snowy, foggy night where you can't tell where the road ends and the horizon begins, let alone all the obstacles that are likely directly in front of you which you can't even see."

"Not only does vendor discounting vary widely, but list prices also are not even a good reference or proxy, and now with AI add-ons and continued SKU proliferation (and

changes), the thick foggy air is even more dense, blocking all visibility into whether a particular organization has pricing power or whether it in fact could face even larger price hikes in the future with renewals."

Busch adds, "In more companies each year, technology spending is falling into and growing as a component of COGs. And when technology and licensing costs move into cost of revenue, they compress gross margins and simultaneously reduce the EBITDA that is multiplied to arrive at enterprise value, creating a dual drag on valuation."

Sizing the Prize (or the Trojan Horse in Your Future Portco)

Take a $1B high-tech components company that designs and manufactures optical interconnects and photonic components for data center and AI infrastructure. Revenue is growing 35% a year. Procurement and IT have been focused on keeping the business running, not on extracting value from suppliers. Business users specify technology purchases with little pushback.

Technology spend is roughly 5% of revenue, or about $50M: 55% software and SaaS, 25% cloud, 20% telecom, hardware, and services, with a growing share in COGS. Weighted average annual escalation is about 7.5%. Several agreements carry 8–12% increases or CPI plus a floor. AI SKUs are attaching at or near list.

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- Jason Busch

Spend Matters founder and diligence practice leader

An acquirer without contract-level benchmarks would likely model spend rising at the existing escalators (or assume modest post-close negotiations on the largest contracts). With benchmarks across the top 40 vendors, the deal team can identify 18–28% savings on addressable spend:

- Cloud (primary hyperscaler): $3.3M (22–30%) through commitment restructuring
- ERP and modules: $1.6M (15–20%) through shelfware reduction and support renegotiation
- Productivity suite and AI: $1.4M (20–25%) through seat true-ups and AI pricing
- Cybersecurity: $0.8M (15–18%) through term and endpoint alignment

Separately, $4–6M in cost avoidance is available over 24–36 months by locking pricing before escalators hit and moving growth-driven cloud usage onto lower-rate commitments. The same review surfaces every auto-renewal with a 90–180-day notice window, ratcheting minimums, change-of-control resets, and egress fees. It also identifies two agreements with competitive-benchmarking clauses that have never been exercised.

When the Fog Lifts

These findings produce a conservative $7M in run-rate savings plus $4–6M in avoided costs. At a 15x multiple, the run-rate savings alone support more than $100M in enterprise value. The work is completed in confirmatory diligence, before the definitive agreement is signed.

The savings number is only part of the picture. The same analysis improves:
Bid conviction. A contract-backed savings figure shows the team where it can stretch on price versus where it must hold, and gives it numbers it can defend to the IC.
Leverage at signing. Change-of-control resets, ratcheting minimums, and audit exposure sit outside standard R&W coverage. Found early, they become price, escrow, or a specific indemnity. Found after close, they become a liability.

Timing. Renewal clocks start before close. Interim operating covenants can control renewals between signing and close (if the team knows the dates). In a business with a 7.5% annual increase, missing a single 180-day notice window locks in the higher price for another full term.

Exit symmetry. Even with proper diligence and an initial sourcing wave, SaaS sprawl and vendor uplift typically rebuild during most holds, and faster in a company growing 35% a year. The next buyer will no doubt benchmark the stack if they're smart. Either the current owner closes the gap and captures the value, or it hands the gap to the next buyer.

With apologies to Homer, Troy skipped diligence on the horse. Deal teams shouldn't skip it for the technology stack (or any other category where you can benchmark vendor pricing and terms).

About Green Cabbage

Green Cabbage is a procurement intelligence company that helps enterprise, midmarket, and private equity teams negotiate better deals and reduce supplier and contract risk. Our Harvest platform draws on 2.6 billion data points from deals that actually signed, across more than 18,000 suppliers.

Technology is just one of the nine indirect spend cubes we cover: Technology, AI, Third-Party Labor, MRO, Marketing, Travel & Expense, Employee Benefits, Finance & Insurance, and Aviation Tech & Services.

See what's hiding in your next target's contracts

Diligence Center puts agentic AI to work on every supplier contract in an acquisition target, across all nine spend cubes. Twelve AI agents price each contract against our market data and flag risk across ten M&A terms, in minutes.

Explore Diligence Center >

Never negotiate alone.