

VENDOR TRAPS AND VANITY METRICS

Navigating the AI procurement minefield



Executive Summary

The current software market is heavily saturated with legacy automation tools repackaged as "AI" to justify aggressive price premiums. For institutional boards and scaling SMEs, procuring these proprietary "black boxes" introduces severe margin compression, hidden API scaling costs, and unmeasured systemic risk. This briefing provides four strict architectural heuristics to cut through vendor hype and ensure every AI deployment drives genuine operational leverage.

Briefing

The "Black Box" Audit: Four Rules for Evaluating Third-Party AI

Software vendors are currently in an "AI-Washing" arms race. They are taking legacy IF/THEN automation, wrapping it in a Large Language Model (LLM) interface, and charging a 40% premium for "Intelligence."

For the C-suite, the risk is building your commercial engine on a foundation of "Black Boxes"—proprietary tools you don't own, cannot audit, and eventually cannot scale. To protect your enterprise margin, apply these four heuristics to every AI procurement mandate.

Rule 1: The "Algorithm vs. Wrapper" Test

Many vendors are simply "GPT-wrappers." They provide a slick UI for a third-party model (like OpenAI or Anthropic) without adding any proprietary structural logic.

The Heuristic: Demand to see the Logic Layer.

Ask the vendor: "If your underlying model provider triples their API pricing tomorrow, what proprietary value remains in your tool?" If the answer is "none," you aren't buying a commercial moat; you are renting an interface. Do not pay a premium for a middleman standing between you and the raw intelligence.

Rule 2: The "SaaS-to-Success" Ratio

Vendors love vanity metrics: tokens processed, messages sent, or "engagement" time. These represent OpEx, not ROI. In the boardroom, the only metric that matters is Operational Leverage.

The Heuristic: Apply the EBITDA Litmus.

Every AI tool must be linked to a specific reduction in the Cost per Transaction or a measurable increase in Revenue per Headcount. If the vendor cannot map their tool to a line item on your P&L, it is a vanity spend that will bloat your overheads without scaling your

margin.

Vendor Claim	The Strategic Reality	The Board's Counter-Move
"Our AI is 95% accurate."	Accuracy is irrelevant without context.	Ask for the "Cost of Hallucination" (The structural cost to fix a wrong answer).
"It integrates with everything."	"Integration" often means a manual API patch.	Demand a Friction Audit of the data-onboarding phase.
"It's a proprietary model."	Most "proprietary" models are just fine-tuned.	Ask for the Model Origin and strict data-privacy terms.
"It pays for itself in 6 months."	Most ROI calculations ignore "Integration Debt."	Apply the 4x Multiplier (License cost x 4 = Real Cost).

Structural Case Study: The API Margin Squeeze

The Mandate: A scaling financial technology firm deployed a third-party AI compliance tool to scan client onboarding documents, aiming to reduce headcount in the middle office.

The Structural Friction: The vendor charged a base SaaS fee plus a volumetric API cost per document scanned. The board viewed this as a variable cost that would scale with revenue.

The Commercial Reality: The mathematical architecture was flawed. As the firm scaled from 1,000 to 10,000 clients a month, the API costs scaled linearly, while the Customer Acquisition Cost (CAC) remained static. The AI tool did not create operational leverage (doing more with the same capital); it simply swapped human wages for API fees. When the vendor raised API costs by 15% at renewal, the firm’s onboarding margin was entirely erased.

The Actuarial Fix: The board deprecated the wrapper and built a localized, open-source model designed strictly for document classification—a fixed-cost asset that actually depreciated per transaction as volume increased.

Rule 3: The "Data Sovereignty" Audit

Some vendors use your corporate data to "train" their overarching models, effectively making you pay them to improve their product for your direct competitors.

The Heuristic: Verify Model Ownership.

Ask: "Who owns the weights and the refined logic resulting from our data?" If you do not own the refinements, you are building a "Rented Moat." Institutional buyers and private equity firms actively discount valuations where the core intelligence of the business is owned by a third-party vendor. A premium exit requires you to own your commercial architecture.

Rule 4: The "Technical Debt" Stress Test

AI tools move fast. A tool that is "cutting-edge" today may be entirely obsolete in 12 months. If that tool is deeply embedded in your operations, the "switching cost" becomes a severe structural risk.

The Heuristic: Demand Model Agnosticism and Apply the 4x Multiplier.

Can the tool be easily swapped from one LLM provider to another? If the vendor has built a "walled garden" that traps your data and logic, you have introduced systemic risk to the business.

Furthermore, apply the **4x Multiplier** to any quoted deployment cost. The true commercial cost of an AI tool is rarely the license. The math breaks down as follows:

- License Fee (1x)
- Data Cleaning & Migration (1x)

- Workflow Integration & Staff Retraining (1x)
- Ongoing Prompt Maintenance & Quality Assurance (1x)

If the projected EBITDA lift does not comfortably exceed the 4x Multiplier, reject the procurement.

The Procurement Filter

Procurement in the age of AI is a defensive discipline. Your goal is not to find the "coolest" technology; it is to identify the tool that removes the most structural friction with the least amount of integration debt. Ignore the marketing labels. Look at the math. If the mathematical architecture doesn't expand the EBITDA margin, it doesn't belong on the P&L.

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