

De-Risking Software and Consultancy Buying

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IT contracting > Vendor Negotiations > Cost Audit



A recent survey of 3000 IT decision makers by Forrester showed that 30% intend to spend their IT budgets over the next 8 years on developing new applications and programmes rather than on maintaining older systems.

With such focus on buying new software and services, getting good value for money has never been more important. However, many IT managers agree that negotiating on complex software and services can feel very different to haggling over box prices.

IT software and implementation purchases are often complex, time-consuming and high value, with the added jeopardy of entrusting essential functions to third parties. For such a high risk venture, it is key to field a team with the time and expertise to ensure a successful outcome.

Researching the market will clarify options and provide stakeholders with background information to support recommendations. The more detailed the customer requirements, the more accurate the suppliers' pricing can be. And accurate requirements early on can lower the risk of extra costs later. Note that this can be in conflict with stakeholder demands for rapid progress.

This is a classic area of stress on a project, where the irony is that investing some time and effort in a well-defined scope will speed up the agreement of vendor terms, allow work to start earlier and improve the odds of the vendor getting it right first time

Additional costs can be minimised by anticipating future needs during the initial negotiation. These might include configuration of the software, training, additional licences or extra support. To avoid having to pay list price for such changes once the deal's done, it's good to have negotiated a provision for these at the start of the contract, whilst the buyer's negotiating position is strong. This might mean negotiating a price for additional licences over and above the bulk purchase, or ensuring that all parts of the buying company can use the licences, which will affect the type of licences bought. Ad-hoc consultancy needs can be managed by negotiating day rates at the start.

If the contract commits to purchases over a number of years or allows for contract extensions, it is often advisable to allow for inflation within the agreement, rather than leaving the supplier to simply increase costs according to their list price at the time. This avoids massive uplifts in cost later, whilst ensuring that the relationship remains strong by allowing for a reasonable margin. This is often an area where relationships rapidly sour, so it is invaluable to have it resolved at the start.

Once the purchase is made, it's good practice to review the requirements at least annually. As the relationship between the parties develops, both will get used to the working practices of the other and service efficiencies will ensue, leading to reduction in cost to provide the service. For larger software and/or services contracts, this can be provided for in the agreement by giving the supplier targets for continuous improvement, which should be monitored to ensure delivery. In the case of software, as the users become more skilled and system errors are removed, the number of support calls reduces. Regular reviews of the level of need will ensure that the buying company is not paying for something that they don't need.

When negotiating software and services purchases, early preparation, planning for the future and the right mix of staff on your buying team can significantly reduce overall cost and increase the likelihood of delivering a successful project.

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