



How to improve your IT negotiations

The technical details of an IT contract remain the domain of the IT department, but bringing procurement into negotiations could save money in the long run

By Alex Sandercock

Traditionally it has been common for IT departments to keep procurement teams away from IT negotiations, for fear that only those well-versed in this specialist area could understand and successfully negotiate requirements.

But recently the landscape has started to change. As IT negotiations gain complexity and stories spread about failed IT projects, technology teams are more prepared to accept support from procurement, blending our commercial negotiation skills with their IT know-how.

As opportunities in IT procurement widen, our skills and expertise in the area need to increase so we can take advantage of them. Although there are huge similarities between buying IT and buying any other goods, there are also key differences. Knowledge of these and how to tackle them can mean the difference between a successful negotiation and a very unhappy IT team.

All good negotiations involve a balance of knowledge and a fair market price against the needs of the business. This is no different in IT. While the current economic uncertainty might seem like a good time to set about slashing rates, you have to remember that it always makes more business sense to build and nurture supplier relationships based on trust and longevity. There is nowhere that this applies more than in IT outsourcing contracts, which may run for 10 years or more. If the buyer has concentrated on making a big saving at the start, without a thought for the later years, the business is likely to see huge price increases over time as the supplier recoups early losses. Total cost of ownership must be calculated for the life of the contract to keep costs fair.

Where contracts do run for many years, such as outsourcing deals, there should be break clauses linked to benchmarking. Technology changes occur so rapidly now that pricing is quickly out of date, particularly for hardware, so a benchmarking process should be undertaken every two to three years to ensure that pricing remains appropriate. This process is typically undertaken by an external benchmarking company, and the full process should be written into the contract. With rapid technology changes and very dynamic business needs now commonplace, IT often has to be extremely light on its feet to support these needs, which means that IT contracts should be able to work with this flexibility. When negotiating IT contracts costs should be fully broken down and flexible to allow for change.

When the IT team is pushing hard to start work with a supplier, it's tempting not to ask too many questions about the total fixed cost that the supplier has presented. But this can hide a number of sins, causing costs to spiral as changes occur on the project. The total fee for all services provided should be broken down to show pricing for each activity, mapped against service levels and performance credits. Service levels should be reported on so you can manage the supplier's performance over time. The contract should allow for fluctuation in volume over time, for example in increasing or decreasing numbers of licences, helpdesk calls, or server racks to be managed. There should also be agreed day rates set out for ad hoc work, even if IT denies that there will ever be any other work.

Software systems in particular need careful up-front negotiation. Once in use, software often becomes critical to the business and onerous to replace, so the buyer's negotiating strength dwindles after implementation. Prior negotiation needs to cover not only the implementation process, but also management of ongoing requirements over the life of the contract.

If software is being implemented by the supplier, rather than simply supplied on disc, the payment

profile should map clear implementation milestones, with maintenance payments only starting once the software is in use. This retains supplier focus and accountability throughout the implementation process. Roles and responsibilities between buyer and supplier should be clearly laid out to avoid confusion.

The ongoing software contract should allow for changes in user numbers or types over time, perhaps allowing the buyer to shelve unused licences to reduce maintenance payments later. Any business-critical system should also be covered by a robust escrow agreement, ensuring up-to-date source code and any relevant documentation can be accessed by the buyer in the event of supplier bankruptcy. A word of caution though: escrow should be used sparingly, only for critical systems rather than all software, to avoid unnecessary cost. It should also be supported by an internal plan detailing how the source code would be used if required.

Software maintenance agreements are often set up to automatically renew annually. This should be carefully managed. Many IT teams find that, when they come to terminate maintenance, they have missed the notice period cut-off date, so have to pay an unwanted year's maintenance. It is far safer to negotiate automatic termination annually unless renewed. The supplier will usually prompt the buyer for the next year's maintenance requirements, which gives the buyer a good opportunity for renegotiation. This renegotiation is important, as support needs tend to drop over time: support calls will drop as users become proficient in using the software, so support costs should drop in later years as call numbers reduce. There should not be a percentage rise in support costs over years, as is often stated by suppliers, unless this is limited to an economic growth index.

There are many more ways in which IT differs from other procurement categories, but IT is clearly an area where purchasers can make significant impact by working closely with our IT colleagues as a single negotiating team. There is growing evidence to indicate that including procurement professionals within IT commercial negotiations can reap huge rewards for the buying company.

* **Alex Sandercock is a director at [consultancy Turnstone Services](#)**