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Playing hardball with vendors

1/10/2003 11:20:29 AM - Many of the dangers of getting locked into a long-term relationship with vendors can be avoided by being a tough, upfront negotiator.

by Gerry Blackwell

Rowena Liang, vice-president of IT and CIO at Vancouver City Savings & Credit Union (Vancity), is mad as hell at some of her software vendors and she's — well, she's probably going to have to keep taking it. That's the way it is anymore, right? Vendors call the shots.

But maybe not. While

software vendors often hold the whip hand — witness Microsoft forcing enterprise users to switch to subscription licensing for Office — CIOs are starting to pay more attention to techniques for vendor management, and learning some useful ways to level the playing field.

For many, Liang included, the Microsoft decision on Office licenses, was a flashpoint. "With the old licences," Liang says, "it was basically a capital outlay. If you couldn't afford it you didn't buy the new version. With subscription pricing, they've translated that to an ongoing operating cost. And you can't not subscribe if you want to use the program."

Microsoft's jack-boot tactics tend to stir things up, but it isn't just Microsoft. Nor is it just licensing issues. A number of drivers are combining to push vendor management up the CIO priority list, says consultant William Snyder, a program director with META Group Inc. of Stamford, Conn.

"Back in the late nineties when everything was going great guns, everybody was in a rush to add value and they gave cost a back seat," Snyder says. "They also all wanted to align themselves with the best of breed [software]."

"The problem with that philosophy is that you can get locked into a vendor. It becomes a long-term relationship. A lot of firms didn't go through the due diligence they should have before making that kind of commitment."

The result is that too many vendor relationships today are "defacto monopolies," Snyder says.

"A lot of money is spent around integration and training. Over time it becomes very difficult to extricate yourself — even if there's a competitive product out there with similar features and functionality. The cost of switching is too horrendous."

Now, most CIOs are being pressured because of the slowing economy to control costs. In most IT organizations, software licences represent the second biggest cost component after warm bodies. But thanks to those defacto monopolies, CIOs don't have much room to maneuver.

For their part, vendors are under a double whammy — first the inevitable tailing off in the number of big IT projects following Y2K, now the slowing economy. Hard times on both sides create more combative and contentious relationships.

The question is, how can CIOs gain the upper hand — or at least mitigate their apparently weak position? Liang was one of a dozen members of the CIO Association of BC (CIOABC), who met a while back to try and come up with some answers.

First they shared common beefs. Top of the list was forced subscription licensing from Microsoft — with other vendors to follow, they fear. Software licences are also growing devilishly complex, making them difficult to manage, most agreed.

Some vendors are reducing their support for old product versions as a way of forcing customers to upgrade to new versions before they're ready. Vendors are also using all manner of underhanded sales practices, including bait-and-switch ploys, CIOs say.

Liang, for example, complains about one high-profile vendor of mid-range computer software that recently, after luring Vancity into committing to its product in a big way, jumped license fees from a reasonable $3,000 or $4,000 to $10,000 per seat.

Another vendor used alleged improprieties in licence management by Vancity to "blackmail" the company with threats of collecting hundreds of thousands of dollars in disputed fees. The vendor took advantage of the situation to, as Liang puts it, "strong-arm some additional sales."

The CIOABC round table came up with some solid suggestions on how to better manage software vendor relationships.

"The only time you have any leverage," says Blaize Horner Reich, an associate professor of Information Technology at Simon Fraser University in Vancouver, who was at the round table, "is when you're negotiating the initial purchase of an application — always assuming there's a competitive product you're willing to go with."

CIOs need to learn to take advantage of this one time they hold the upper hand. In Reich's report on the CIOABC round table, she recommends companies:

* insist vendors clearly lay out in their RFP responses the total cost of licensing for a specified number of years

* state up front what they want and what they're willing to pay — forcing vendors to negotiate with themselves

* design an agreement that holds the vendor accountable for product defects

* stipulate that software maintenance costs be tied to inflation to smooth out costs and make them predictable.

Reich admits none of these ploys work when dealing with a juggernaut such as Microsoft. And they're much less likely to work well if you lack buying power — and thus clout. That's one reason joining a buying consortium makes sense, she says. Strength in numbers.

Another recommendation was to make better use of existing procurement staff.

"Sometimes we don't use our own purchasing people on IT deals, figuring they'll never understand," Reich says. "But of course they do understand the purchasing part. They know how to deal with vendors and they won't be rushed."

Snyder says there are three crucial factors customers can leverage when negotiating with software vendors: knowledge, time and money.

"The more you understand and know about those three," he says, "the better off you're going to be from a negotiations point of view and also, I would argue, from a vendor relationships point of view."

In too many cases, buyers know less about their own company's use of particular products than vendors do — often because IT is such a highly distributed function. It's vital to know what's going in your own company, Snyder stresses.

He tells of one IT manager with a U.S.-based multinational who was in the midst of tough upgrade negotiations with a software vendor when he learned, almost by chance, that the company's European unit was about to make a new purchase from the same vendor.

He and his European counterpart joined forces and were able to apply some pressure. "The vendor at that point came back to the table [in the U.S.] and dealt more rationally," Snyder says.

It's also important to know the real costs of switching to another product — not necessarily because you intend to do it, but so you know the "trigger point" in negotiations at which it makes sense to threaten switching.

Don't try bluffing, though, Snyder warns. It's tough to bluff a bluffer and once you've tried bluffing one vendor, and the bluff fails, word gets around.

Time and finances are important in a number of ways. Too often buyers negotiate discounts based on future growth. When that growth fails to materialize, as it often has in recent times, commitments to buy unnecessary seats or CPUs even at a discounted price means actual per-seat costs end up much higher. Buyers need to understand the risk involved in making such long-term growth estimates, Snyder says.

Customers can often negotiate better prices by offering to buy before upgrade deadlines when vendors may need sales to improve a year-end, or meet quarterly targets, Snyder adds. And understanding about prices — what's a good price, what list price is — and what the trade-offs are between price and terms and conditions are vitally important in negotiating, he says.

One thing is clear: learning to do purchasing well is a key to ensuring good — or at least more manageable — long-term vendor relationships. Bellyaching after the fact when vendors start putting the screws to you is much less effective.

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