

Software Selection Whitepapers

Vendor Selection
Contract Negotiations



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VENDOR SELECTION CONTRACT NEGOTIATIONS

Executive Overview

The Successful Software Selection white paper series offers project teams the opportunity to garner consultant quality insight in manageable portions. Based on *The Software Selection Handbook*, the white paper series pares down selection project elements into subsets based on areas of interest. The series is ideal for committees just getting started on their selection project or teams well on their way to finding a new solution provider.

Vendor Selection: Contract Negotiations reviews negotiating the best package for your business.

Contract Negotiations

The object of this task is to negotiate terms and conditions that best protect the interests of your organization, while securing pricing that is within the budget established for the project, all while achieving a successful implementation.

Sounds easy enough, however the software vendor is also attempting to get the most value for their products and services. After all, they made the investment to develop the software, respond to your RFP, have their staff present the software in the demonstration, schedule staff to train and implement it at your site, and will support you with maintenance and upgrades for years to come. Like your organization, they must achieve a fair profit in order to remain in business.

So what these negotiations must ultimately result in is a balance between their costs and your budget. Once implemented, their software will provide value to your business and through a return on investment analysis (ROI), they hope you see that value and will pay a fair price for the software.

Each software vendor prices their software, support, maintenance, training and implementation based on their costs and profit objectives. However, they are in the business of selling software, so as a prospective buyer you are still in an enviable position.

The standard license contracts are usually straightforward, however you might want your attorney to review it to protect the company's interest. It was written by attorneys for the software company to protect the vendor's interests.

Changes to the contract generally involve a few key areas;

- Price to be paid for user licenses in the future
- Prices paid for maintenance and support
- Rates charged for consulting and training
- Jurisdiction where disputes will be addressed
- Arbitration versus Litigation to address legal issues
- Support for hardware and third party software

Bargaining for the initial hardware/software price and other cost related items (training, support, etc.) will be completed at this time. Most software companies require a percentage of the price to be paid when the contract is signed, with the balance due within a 30-60 day period. Often this is only for the actual software.

Implementation and training is handled differently by each company. While most vendors will provide you with an estimate of services, remember it is only an estimate. Virtually no company will provide you with a fixed price contract for services, unless it is quite high. Their reasoning is that they cannot control your business, nor make your staff perform tasks. If your staff drag their feet on the project, there is little the vendor can do to solve the problem. Some charge on a "pay as you go" basis, so you are only charged for what you actually use. Other companies bundle all their services together, requiring you to pay for them early in the process. Still other companies use third party consulting firms to do their implementations. Frequently, most of these costs are subject to some level of negotiation, but be prepared to write a check - unless you decide to secure a lease - when the contract is signed.

In addition, there may be multiple contracts associated with this project. These would include:

- Hardware purchase
- Custom software development
- Maintenance and support

As a rule of thumb, many software companies will negotiate on the software price or their module price. They will also negotiate on maintenance and support, frequently allowing you from 90 days to one year of free support. They may negotiate the rate for their staff, but since this is a fixed expense, the level of negotiation will be minimal. Vendors often are willing to provide hours of "free training" as another discount. All of these are areas that you should be aware of when beginning your negotiations.

Just like with car dealers, the end of the month, end a quarter or the end of their fiscal year, is the best time to negotiate with a vendor for software. They all have quotas to meet and the end of any Period is generally a good time to be signing contracts.

About The Authors

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About *The Software Selection Handbook*

Developed at the request of our clients who recognize the methodology we have developed over the past 20 years as the best in the business, *the Software Selection Handbook* details the same process employed by our consultants for client engagements to help you tackle the difficult task of finding the right software for your business. Multiple copy discounts are available.

The Software Selection Handbook includes an electronic version of every form on CD and provided in electronic format at no additional charge. The forms, supported on any Windows PC platform, are available as Microsoft Word, Microsoft Excel and Adobe Acrobat (PDF) format files.

The Software Selection Handbook was created as a guide for organizations interested in reviewing and selecting new software and technology through the use of a well-structured process. The authors, publishers and distributors do not make any representation or warranty as to the suitability of the following information for a specific business or business purpose. It is up to each organization to assess their situation and take the appropriate action.

To order visit:

http://www.software4distributors.com/resource/software_selection_handbook.aspx

or contact Cory Metz at 314.983.1216 or via email cmetz@bswllc.com

About Brown Smith Wallace Consulting Group

St. Louis based Brown Smith Wallace Consulting Group, founded in 1976, is a leader in the strategic use of technology to create competitive advantage. While other firms may bring answers based on their experience, we use our experience to help our clients find the unique answers to their unique situations. For more information visit www.software4distributors.com.

Brown Smith Wallace, which has revenue of \$13 million, is the second largest locally owned independent full-service CPA and business consulting firm in Missouri. Brown Smith Wallace, with offices in St. Louis, St. Charles and Chicago, makes a measurable difference in clients' lives by making sure clients get more than just a good return on their investment, finding hidden value, looking where others forget, bridging gaps to form long lasting relationships, being accessible and by putting a guarantee in writing. For more information visit www.bsllc.com or call 314.983.1200.

Additional Resources:

- Distribution Software Guide
http://www.software4distributors.com/resource/distribution_software_guide.aspx
- Successful Software Selection -- Getting Started: Project Management (White Paper)
- Successful Software Selection -- Getting Started: Project Teams (White Paper)
- Successful Software Selection -- Getting Started: Documenting Where We Are
- Successful Software Selection -- Vendor Selection: RFPs and Reference Checks (White Paper)
- Successful Software Selection -- Vendor Selection: Demonstration Planning (White Paper)