



# SELECTING NEW SYSTEMS CHOOSING SUPPLIER/NEGOTIATION

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This presentation is designed for small/medium sized companies, who do not have anything like the project budgets and resources available for new business systems projects, but who's requirements are often as complex as their much larger counterparts.

The advice therefore is aimed at being practical, rather than necessarily following formal and 'recognised' methodologies to their full extent.

This is the second presentation, in this short series and is focused on selecting the final supplier and negotiating the best terms. Separate presentations show the process of first identifying the potential suppliers and some do's and don'ts of the project implementation process.

# Selecting the final supplier

- ▣ If you have chosen wisely so far they are both likely to be credible options
- ▣ Revisit your original objectives
  - ▣ Are they still 'real' /valid?
  - ▣ Which are now the most important?
  - ▣ You are likely to have learned something along the way
- ▣ Financial due-dilligence
  - ▣ Get the “facts”
  - ▣ But talk to them also...
  - ▣ The big parent company versus the individual investor

If you have done your initial selection properly (see presentation on Narrowing Down the Options), then you should be left with ideally two credible options.

But is that “must be in by year end” requirement really still all that important having spoken with the supplier? They may have in fact opened your eyes to a more important deadline, ensuring that the system is in before a critical business cycle or some other data conversion consideration, just because it makes the implementation easier for them...and that is in your interests.

By all means do financial due diligence, check them out with credit agency etc., but also be aware that a large parent company may not actually be interested in your little project (or indeed your industry sector), whereas a business owner or a single major investor may be very interested in the outcome of the project – can you have any contact with them?

# Selecting the final supplier

- ▣ Be clear that they are both quoting for the same thing
  - ▣ Or decide how you are going to compare them
- ▣ Do not leave the decision to the “spreadsheet monkeys”!
- ▣ Set a realistic timescale for a decision and stick to it...
- ▣ Document why you chose/did not choose
  - ▣ For your own benefit
  - ▣ But be prepared to share it.
  - ▣ Part on good terms.
  - ▣ You never know when you might need them...

A direct comparison, of the two suppliers, may not be possible if one is quoting “out of the box” and the other a “custom build” but make sure you know that they will both be delivering the same (or know what the differences are)

Don’t allow the decision to be taken by the “Spreadsheet Monkeys...” perhaps a purchasing dept or a consultant who just adds up scores in a spreadsheet...1 point for Yes 0 for No...the most honest and/or informed supplier may answer ‘no’ to a requirement, but then qualify how they would deliver it.

Set a date, for a final decision, that matters to you (and that you can achieve) and stick to it...not just “the next board meeting” when this decision may not be ready or get the priority it needs

Be clear why YOU are making your decision. But as in all business stay ‘friends’ with the two suppliers, even when you part company at this stage

# Negotiating best terms

- ▣ What are your key commercial needs/terms?
  - ▣ Cash flow?
  - ▣ Payment on milestone achievements?
  - ▣ Meeting a specific deadline?
  - ▣ Quality of deliverable?
  - ▣ Total cost?

Think about the most important aspects for you, in any contract; it might be extended payment terms, to protect your cash flow, or payments firmly linked to milestone achievements, delivering the project within timescale or budget, or by some measurement of quality. They may all be important to some degree, but be clear what is most important, where you have room for negotiation and where you will not budge.

# Negotiating best terms

- ▣ Understand the 'levers' of negotiation with the chosen supplier
  - ▣ Cash payments, up front?
  - ▣ Guaranteed regular payments?
  - ▣ Licence deal by a set date? (revenue recognition)
  - ▣ Split of licence and man time costs?
  - ▣ Annual/longer term revenue recognition needs?
  - ▣ PR associated with the deal; your 'name'
- ▣ Try to use their standard terms to limit legal costs

It really helps if you know your supplier and if you understand how software providers recognise their revenue.

If they are a reputable company, they should have reasonable standard T's & C's. If you want to minimise your legal costs then try to use these and make as few changes as possible...they must obviously be fit for purpose, but they are likely to have been used successfully with other of their clients.

# Negotiating best terms

- ▣ For everything you give, ask for something in return
  - ▣ Ask for things that do not necessarily 'cost' the supplier anything today – more user licenses, fixed support costs, delayed final payment etc.
- ▣ Be fair...this is likely to be a long term relationship
  - ▣ Should genuinely both walk away feeling comfortable with the deal that has been struck

As in all negotiations...always ask for something in return

"If I agree to pay 50% of licenses upfront, can you flex the final pay date?"

And ask for things that won't actually cost them today "...can I have a couple of extra users for no charge?" or "fix my support costs for 3 years" ...they will likely be concentrating on the deal now, not so much downstream.

But above all be fair...this is not a one off purchase, where the price is perhaps the most important factor, this is the start of a long term relationship.