

# Midsize Business Road Map for Selecting IT Vendors

**Gartner**

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# Key Issues

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- What are key challenges that midsize businesses face in making an IT vendor selection?
- What are the best practices and key selection criteria necessary to make a strategic decision?
- What are the best practices for IT contract negotiation?

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# MSB Vendor Selection Environmental Challenges

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- Growing number of products, services and vendors targeting the mid-market
- Technology changing rapidly and vendors over hyping their products
- More-complicated license models (user-based, server-based, transaction-based, per-module, concurrent, etc)
- It is becoming increasingly difficult to differentiate product offerings
- Lack of structure and methodology for vendor selection process
- Tactical versus strategic decisions being made;  
*“Many MSBs negotiate products and services on a project-by-project basis and end up paying 10% to 40% more than enterprises that negotiate based on annual or multiyear deals”*

# MSB Vendor Selection Organizational Challenges

They have no idea what we really need.

All they want to do is count pennies.

## IT Professionals

- Compatible technology
- Support requirement
- Impact on staffing
- Security

## End Users

- Application requirements
- Ease of use

Why are we the last to know?

## Legal

- Terms and conditions
- Sublease and assignment possibilities
- Business flexibility

All they want are new toys.

They don't understand the consequences of their actions.

## Finance/Accounting

- Financial statements
- Cost control
- Accounting rules
- Tax implications

## Procurement Professionals

- Negotiations
- Relationship

We can't do that!

# Gartner Vendor Selection Methodology

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## The Three Phase Approach; reduces time and resources by 20 percent

**1** Internal Needs Assessment

**2** Vendor Analysis

**3** Negotiation and Selection

# Vendor Selection Methodology: More Detail

## Internal Needs Assessment:

- Create project team
- Define requirements
- Prioritise requirements
- Identify qualified vendors
- Create and issue an RFP

**2 to 4 months**

## Detailed Vendor Analysis:

- Evaluate and analyse RFP responses
- Product demonstrations
- Check references
- Select finalists

**3 to 4 weeks**

## Negotiation & Final Selection:

- Develop terms & conditions
- Leverage competitive vendors
- Ask about discounts and incentives
- Select vendor
- Place contract

**2 to 3 weeks**

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# Features and Functionality: Stay Focused on What You Need

	Config 1	Config 2	Config 3
Desktop SFF			
P4 Processor	2.8 GHz	2.4 GHz	2.8 GHz
Memory	256 MHz	256 MHz	256 MHz
Hard Drive	40 Gbyte	20 Gbyte	80 Gbyte
Speakers	Speakers	None	Speakers
Removable Media	CD-ROM	None	DVD/CDRW
Monitor	CRT	None	Flat Panel
	\$ 1,603	\$ 1,088	\$ 2,277
Less Discount	321	218	455
	\$ 1,282	\$ 870	\$ 1,822
1000 PCs	\$ 1,282,000	\$ 870,000	\$ 1,822,000



**Config 1 vs Config 3 = \$540,000 in savings**

\* Estimates as of Jan 31, 2003

# Consider Total Cost, Not Purchase Price

## What was Licensed:

Module A \$250,000  
Module B \$400,000  
Module C \$125,000  
Module D \$50,000  
Module E \$35,000  
2000 Named Users @ \$1250 \$2,500,000  
Total List Licenses: \$3,360,000  
Discounted 50% \$1,680,000

**Yearly Maintenance @ 20% \$336,000**

## What is in Production:

Module A \$250,000  
Module B \$400,000  
Module C \$0  
Module D \$0  
Module E \$35,000  
1200 Named Users @ \$1250 \$1,500,000  
Total Software Using: \$2,185,000  
Discounted 40% \$1,311,000

**Yearly Maintenance @ 20% \$262,200**

**Shelfware Cost: \$73,800**



# Storage Vendor Evaluation Matrix for SMB Market

## Weighted Vendor Attractiveness Analysis

	Weight	HPQ	IBM	Sun	Dell	EMC	HDS	NetApp	STK	LSI	Dot Hill	XIOtech
Financial Strength/Stability	25%	0.38	0.25	0.38	0.25	0.38	0.38	0.25	0.25	0.44	0.63	0.75
Service & Support Strength	40%	0.60	0.60	0.80	0.60	0.60	0.60	0.60	0.60	0.80	0.80	1.20
Breath of Product Line for SMB	15%	0.15	0.15	0.30	0.15	0.30	0.30	0.15	0.30	0.30	0.30	0.30
ISV & IHV Relationships	20%	0.20	0.20	0.20	0.20	0.20	0.40	0.20	0.20	0.40	0.40	0.40
Vendor Risk Analysis Score	100%	1.33	1.20	1.68	1.20	1.48	1.68	1.20	1.35	1.94	2.13	2.65

## Weighted Product Attractiveness Analysis

	Weight	HPQ	IBM	Sun	Dell	EMC	HDS	NetApp	STK	LSI	Dot Hill	XIOtech
Product Life Cycle	20%	0.60	0.30	0.60	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.60
Value-added Features	15%	0.45	0.23	0.60	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.15
Availability & Reliability	5%	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Server Support	5%	0.05	0.05	0.10	0.05	0.05	0.05	0.10	0.05	0.05	0.05	0.05
Scalability	5%	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08	0.08
Upgradeability	5%	0.10	0.10	0.15	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.05
Average Cost per Megabyte	40%	1.60	0.40	1.20	0.40	1.20	2.00	0.80	0.40	0.40	0.80	0.40
Performance	5%	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Product Attractiveness Score	100%	3.03	1.30	2.88	1.20	2.00	2.80	1.65	1.20	1.20	1.60	1.48

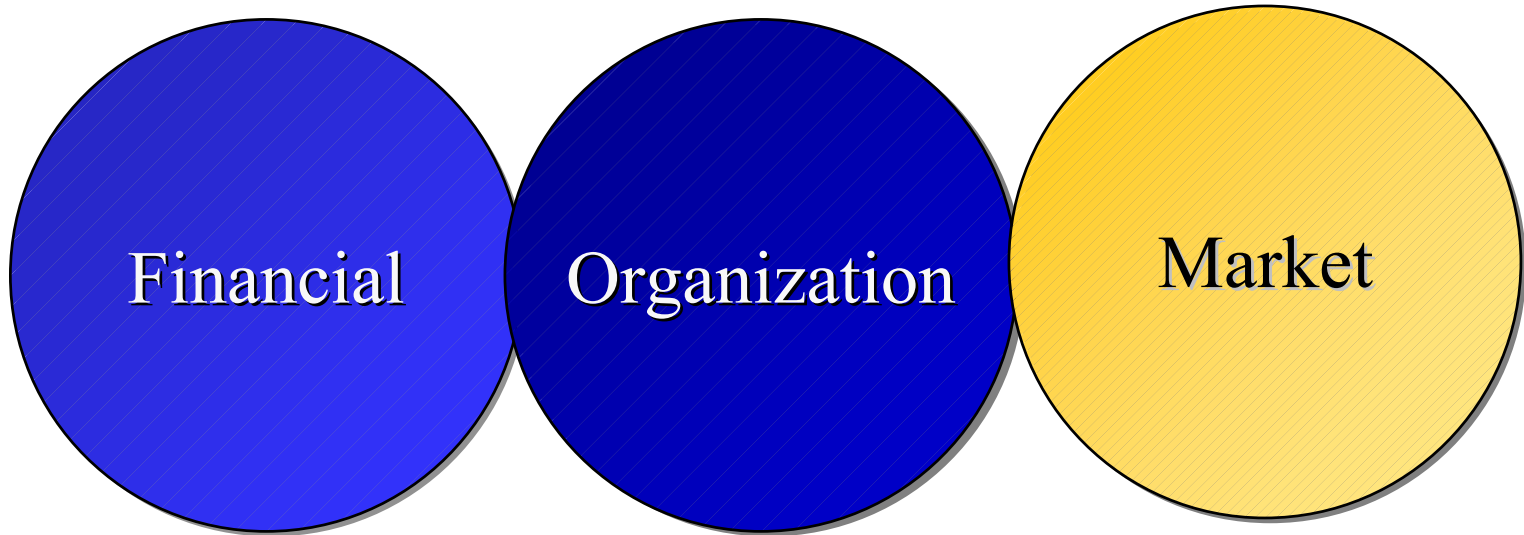
Total Vendor Score		4.35	2.50	4.55	2.40	3.48	4.48	2.85	2.55	3.14	3.73	4.13
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Commitment to You		NE	NE	NE	NE	NE	NE	NE	NE	NE	NE	NE
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◆ Vendors rated on a weighted scale of 1 to 5 with 1 being best

# Vendor Viability

**By 2004, 60 percent of the vendors currently targeting SMBs will exit in failure, be acquired, or just abandon the market (0.8 probability).**



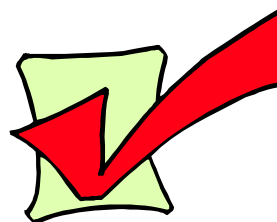
# Vendor Selection: What to Look For

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- Has the vendor been strategically servicing the midmarket before 2001, prior to the economic downturn?
- What is the vendor's track record with midsize businesses in offering tested size- and vertical-specific solutions?
- How many MSB customers does the vendor have? How many did it add in the past 12 to 18 months?
- Does the vendor generate less than 25 percent of its revenue from MSBs?
- What is the quality (not just quantity) of the vendor's business partners?
- How well does the vendor understand the unique needs of your business?
- Is the vendor focused on your business goals, or merely IT details?

# What to Look For (continued)

- Look for pending lawsuits that might reflect past contract disputes and check to see how the dispute was settled to get an indication of the vendor's propensity for litigation
- What is the quality and responsiveness of customer support?
- Perform intelligence on the vendor -- for example, buying a solution from a vendor that is trying to break into your vertical industry might result in concessions or discounted pricing.
- After-sales support and service capabilities and reputation
- Is the vendor prepared to handle your company's growth and change in needs?



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# Negotiating

## Plan and Control

- Planning is 80 percent of the negotiation process
- Define requirements; mandatory and “nice-to-have”
- Check vendor references
- Check vendor partners
- Understand product usage rights
- Know your vendor

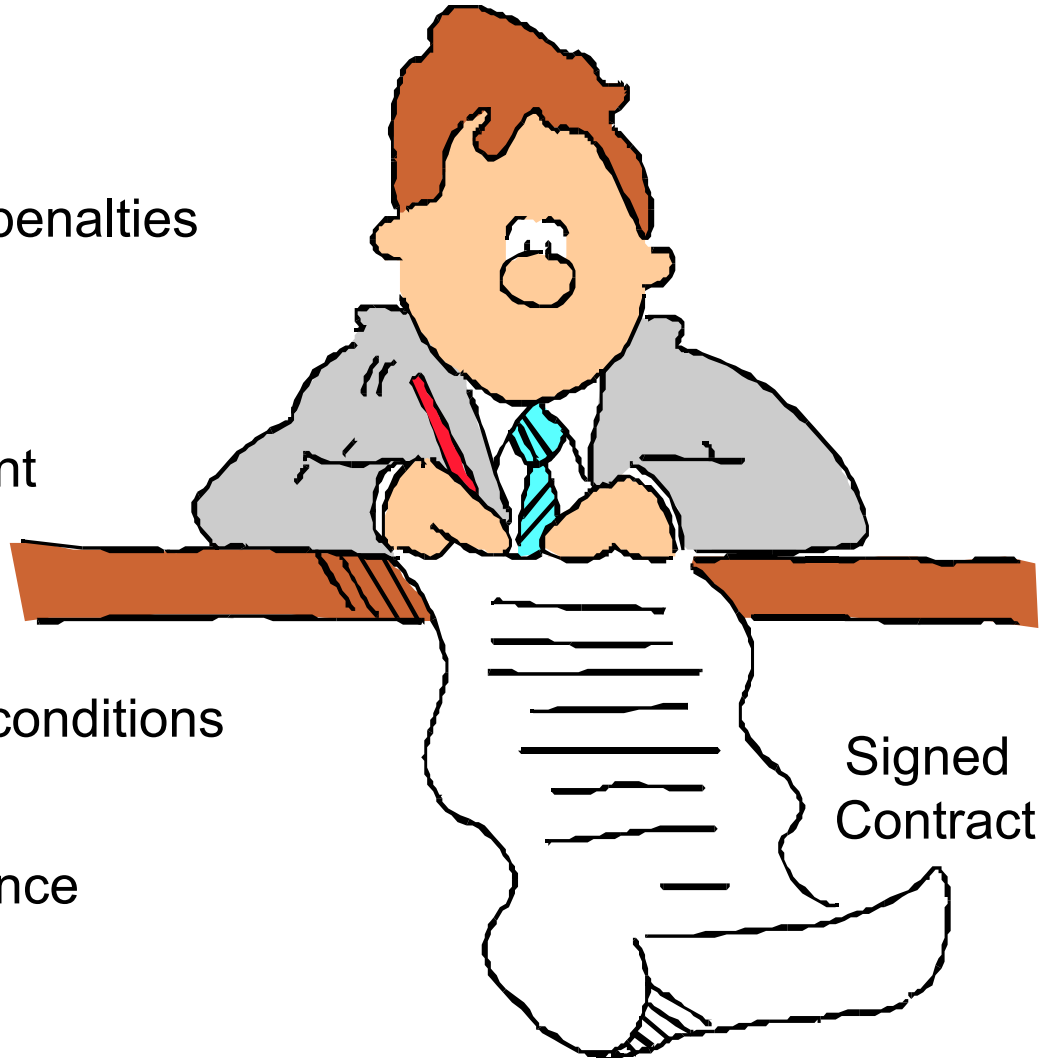


## Maintain Leverage

- Until the contract is signed, leverage lies with the enterprise
- Don't allow a vendor to start work before the contract is signed
- Keep runner-up in the wings in case negotiation falls through
- Negotiate payments to project deliverables
- Use current negotiations to get better future deals
- Always make the bidding process competitive

# Managing the Contract

- Prior to signing, build in terms that enable contract management:
  - SLAs
  - Remedies
  - Performance incentives/penalties
  - Scheduled reviews
- Document performance
- Implement asset management
- Consider renegotiation for:
  - Cost reduction
  - More-flexible terms and conditions
  - Price/discount protection
  - Improved price/performance
  - Budget predictability



# Important Terms and Conditions Often Missing From Contracts

## Before signing on the dotted line:

- Price protection for future purchases
- Right to remove unused licenses from support
- Protection against mergers and acquisitions
- Escrow clauses (access to source code)
- Right to change location or platform
- Maintenance and support entitlements
- Broad usage rights — parent, affiliates, subsidiaries



# Recommendations

**IT procurements should be made to address business needs and problems.**

**GOAL**



- Use a cross-functional team for vendor selection and negotiation
- Purchase technologies required by end users to perform their job functions. Nothing more, nothing less!
- Always make the bidding process competitive.
- Improve negotiation skills to save money, reduce risk and provide long-term contract protections.
- Establish a technology oversight process which provides insight into how the vendor has performed during the life of the contract.

# Questions?

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# Negotiation Tips and Tricks

- Typically, software vendors start out with artificially inflated pricing, as much as 20 percent over their negotiated price, holding back levels of discounts as incentives to close the deal.
- Vendors will also present attractive offers to you just before their fiscal or quarter end in an attempt to complete the deal at the last minute.
- A software vendor will often discount higher for early adopters of certain functionality to obtain reference accounts.
- You should ensure that skilled quality team members are not replaced by untrained and inexperienced personnel midway through the project.
- Negotiate clauses that address what would happen if your company suddenly downsized or decided to reduce the use of a particular solution.
- You should negotiate agreements with vendors linking payment schedules with time to implement the system. You can also consider risk-sharing contracts in which full payment is contingent on the IT solution performing to agreed-upon levels.
- Ensure the contract states specifically that the customization or upgrades are not accepted until it is functioning properly, regardless of time frame. Some vendors often include provisions that state that if a company doesn't accept or reject customizations within 45 or 60 days, they are automatically accepted.

# Negotiation Tips and Tricks

- **Negotiate maintenance fees to begin after the solution has been installed. Otherwise, prepare for deployment prior to buying the solution. At a cost of 17 percent to 24 percent of the license expense per year, this is money wasted during the period of time the solution is not installed or in operation.**
- **Be patient - frustration often arises when your negotiator is authorized to make contract concessions, while the vendor representative does not have the same authority. Vendor representatives have to continually consult and seek approval for changes at a higher level (much like car salespeople having to talk to their manager prior to making a deal). This tactic is sometimes used to drag out and reduce your negotiating leverage.**
- **When renewing a contract, we have found that enterprises that just renew their contracts do not get as good a deal as enterprises that make their contracts competitive. The differential is often as high as 15 percent. Making a contract competitive does not necessarily mean executing a formal RFP process. Just ensuring that the incumbent vendor knows you are getting quotes from other vendors will improve the price.**
- **Make sure training is not overlooked or under-emphasized**