

Special Edition

May 2007 Issue: An 'IT and software procurement' special briefing

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This Month's Hot-Links
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Previous issues of *Think Procurement* on the web:
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Local Economic Growth Initiative How to Tender Seminar on 16 May 2007 at St Helens Chamber.
[St Helens Chamber event](#)

North West Universities Purchasing Consortium and English National Purchasing Consortium have appointed Brian Farrington Ltd to design and deliver training programmes: [Universities Procurement Training Programmes](#) **Commercial Awareness** on 15 May 2007 in Liverpool and **Supplier Evaluation and Performance Rating** on 28 June 2007 in Manchester.

"Winning Public Sector Business" Hawksmere Seminar:
20-21 June 2007, London
[Winning Public Sector Business Hawksmere seminar](#)

"IT and software procurement" Hawksmere Seminar
19-20 September 2007, London
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1 IT and software Procurement

There are a wide range of technical and commercial skills required when procuring IT hardware and software. The international I.T. market has a hard core of large suppliers who are expert. They employ specialists in technology development and

applications, preparing and presenting tenders, negotiation, handling contractual risk, marketing, selling, pricing, contract management and contract change. They have, over the years, established their processes for operating in a commercial environment. This has been accompanied by arrogance, dominance of customers and a marked reluctance to negotiate. Smaller companies have jumped on this particular bandwagon, sometimes because the founders used to work for the large companies.

The above, broad picture, must be compared with buying organisations. They are often characterised by poor decision-making skills. The operational side of the business is driven by budgets (often created by the potential supplier), urgency, and comfort with established suppliers. The operational side of the business are regularly at conflict with commercial colleagues in procurement/contracts. They are perceived to slow things down and to be pedantic with contract detail. Suppliers are adept at manipulating the Decision Making Unit (DMU). There can be little doubt that a disorganised, uncoordinated DMU will not get the best deal, and may not get the right business solution.

The I.T. market is littered with examples of projects overrunning cost and timescales. There are lawsuits arising from badly drafted contracts and poorly negotiated contracts. In virtually all I.T. disasters, the same 10 themes recur:

1. An unavoidable hankering to be over ambitious;
2. A feeling among computer managers that they should know it all, and cannot admit when they don't;
3. A belief among the entire project team that computerisation must be a good thing, and to suspect otherwise is an Orwellian thought – crime;
4. A chief executive who is in the best position to judge a computer project because he knows nothing about computers but fails to intervene – because he knows nothing about computers;
5. A readiness to accept “it'll-be-all-right-on-the-night” assurances from suppliers – assurances that suppliers studiously avoid writing down;
6. An over-reliance on consultants who, like some vets, may have a financial interest in prolonging ills;
7. An avoidance of cheap, proven, off-the-shelf packages in favour of costly, unproven, custom-built software; or, worse, the tailoring of a standard proven package;
8. An unwillingness by middle and senior management to impart bad news to the board – mainly because the board will make known its resentment of anyone who tries;
9. The buck stops nowhere;
10. A mistaken belief that the contract makes it easy to sue the supplier if all else fails.

Source: “Crash” Tony Collins, Simon & Schuster. ISBN 0-684-81687-3

[Link to Amazon for Tony Collins' books](#)

Brian Farrington Ltd has no commercial link with Tony Collins.

What do *you* think about *IT and software procurement*?

Subscribers' contributions, comments, queries, questions and input to *Think Procurement* are all very welcome!

Please email ThinkProcurement@brianfarrington.com

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Key features of IT and software procurement:

1.1 High cost of introduction

I.T. Projects very often carry a high cost of introduction. This depends on the nature of the project but there are corporate considerations. The supplier considers this important enough to have a Key Accounts Executive who may only have one client! It is their job to grow the account and to enhance the income and profit from that account.

1.2 Complex decision making process

This is a challenge in many organisations. Research suggests that there can be up to twelve people involved in a decision to purchase I.T. They will be in different functional areas and each may be seen as having conflicting roles. This could be characterised by procurement who certainly have an agenda aimed at optimising the expenditure, helping to manage risk and getting value for money whereas others may be driven by time schedules alone.

1.3 Technically complex

The constant development of products in the I.T. market places a tremendous burden on the buying organisation. The pace of technology change and obsolescence continues unabated. The continual evaluation of all products and solutions is not possible. When a purchase is identified there are usually business pressures to do something quickly. Products cannot be tested without an on-site trial period and that in itself can be disruptive and attract a cost which may be hard to justify.

1.4 Commercial expertise required

In the vast majority of I.T. purchases there should be an injection of appropriate commercial expertise. This will typically be the accountability of procurement/contracts who have the commercial expertise to ensure that value for money is obtained. The training of these specialists would include the management of price and cost relationships, risk management, contractual expertise and negotiation skills. There are other critical aspects of commercial knowledge and skills that will be acquired and which will not be matched in other parts of the organisation.

1.5 Contractual safeguards

A detailed knowledge of contracts is a specialist role and must involve procurement/contracts. There is a process for creating contractual agreements and if this is mismanaged, risk will be created. Contracts can be created orally, through letters of intent and instructions to proceed. The supplier will generally seek to place contractual and financial risk onto the buying organisation. This must be countered. A simple example, such as ensuring that precedents do not prevent negotiation when it is called for, illustrates the point.

1.6 Product support - long term implications

In some instances procurement hardware may be the easy part. The longer term implications of product support requiring engineering backup and availability of spares is a serious matter for the contract. The undertaking given by the supplier must be reflected in the contract to ensure that any deviation from the agreed obligations will have a contractual remedy for the purchaser.

1.7 Expert knowledge vests in the supplier

You may consider that the supplier always has the advantage because of the nature of the purchase. They certainly know the product, they know their costs, they know

the market, they know the customer and their people, they know what custom and practice has dictated and they employ specialists. It is the purchaser's task to ensure, that so far as possible, this expertise is matched.

1.8 Identifying product costs

The supplier's general stance is that cost is no business of the buyer and many technical people would share that view. If the price is within the budget that would probably be acceptable by many people. This is a jaundiced view of the world. Prices must be challenged and cost breakdowns should be sought. Technical staff must do everything possible to support their commercial colleagues in their endeavours to control prices. The I.T. market is no different than any other where cost exposure is practised.

1.9 Price benchmarking

Within the I.T. market there are price benchmarking services available. It is a fascination to compare prices being paid for exactly the same product. Differentials of 40% would not be uncommon. This is no surprise when we consider the range of pricing policies that are available to the seller. There is for example buyer related pricing, skimming, full cost, penetration, promotional, product off-loading, for example.

1.10 Choice of supplier

This should be a balanced decision involving technical and commercial people. There may be a pre-qualification process, and there should most certainly be supplier appraisal, taking account of the supplier's financial performance. There should not be any closed loops in the decision making. Fraud and corruptive practice can often be found in these situations.

1.11 Reference site visits

These are often the excuse for recommending a favoured supplier. We should consider the true benefit of this activity.

1.12 Financial evaluation

This is a serious task and involves more than just asking if the supplier is viable. The potential for obtaining bank guarantees or performance bonds will be considerations. The agreement to pay 'up front' money and agree payment schedules should be related to financial performance.

1.13 Expected benefits

When expenditure approval is being sought there must be a financial justification of the benefits that will accrue from the expenditure. This is a task for which individuals should later be held accountable when the projections are proved to be awry. The origination should be found in the business case.

What do *you* think about *the key features of IT and software procurement?*
Subscribers' contributions, comments, queries, questions and input to *Think Procurement* are all very welcome!

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2.0 Who is Brian Farrington Ltd?

Brian Farrington Ltd (BFL) is an independent procurement consultancy with over 25 years experience, gained with some of the World's leading organisations. We provide our services across all sectors with a key focus on public, finance, retail and

manufacturing. A key area of spend - across all markets - is IT and we seek to add value in the procurement (and contract management) of complex ICT and software solutions. Public sector is a core market with national security a speciality, illustrated by our involvement with Government funded organisations in nuclear, defence and security operations.

Capabilities

BFL's four core areas of procurement and supply chain capability are:

- strategic review and commercial governance
- performance delivery and transition
- major project support including lead negotiator roles
- learning & development in support of organisational aims

Clients are supported through each stage of the procurement process from OBC through to contract management and financial close, helping to manage the EU regulatory demands, internal policies and procedures as well as the interfaces and relationships within clients and between clients and their suppliers. Clients include 33 of the current FTSE100.

Our skills in IT and software procurement

We are not IT technical experts and that is a strength. Typically, our clients have their own IT specialists and may also engage third party IT advisers. It is quite normal for them to also engage top class lawyers, with whom we work very closely. Our skill is to provide expert procurement and related financial, contractual and negotiation advice. Our expertise is derived from:

- Extensive real time experience on challenging IT projects, including disputes requiring resolution.
- Extensive networking capabilities to establish world-class practice.
- Extensive worldwide research into IT and software procurement, including Audit Reports and Best Practice Guides and contract databases.
- Our ability to produce high calibre risk assessment models and to conduct relevant due diligence studies.
- Extensive experience of exposing and negotiating the supplier's cost model.
- Evaluating IT contracts, post-award, for the delivery of Value For Money.

The use of our services offers clients the following advantages:

- The opportunity to differentiate between technical and commercial implications of a contract, without losing the overall integration of these vital considerations.
- Our competitive fee structure that is not saddled with Central London overheads or a desire to maximise the fee income from particular clients.
- The avoidance of cliché ridden solutions.
- Complete independence from any IT providers, either software/hardware suppliers or service suppliers.
- An exacting risk evaluation process, based upon years of practical experience, but supported by extensive world-wide research.
- Our ability to transfer our skills to client's personnel.
- Expert negotiation ability.
- Expert training and development solutions, in addition to the consultancy services.

- Excellent team members, able to handle stress associated with resolving seemingly conflicting objectives.
- Excellent knowledge of the legal process and past experience with HM Treasury Solicitors, City of London solicitors, etc.

Learning and development

We are retained to deliver programmes on IT and software procurement and a range of other professional matters for CIPS, CIPFA and Hawksmere and as visiting lecturers at University of Manchester on their Engineering Doctorate programme and the National School for Government (the new name for the Civil Service College). BFL delivers the CIPS-examined Certificate of Competence in Purchasing and Supply, most recently delivered for OGCbuying.solutions. Publications include a guide on the commercial use of DEFCONs, the CIPS course book on 'contracting with the public sector' and the UKs most popular procurement text 'Purchasing and Supply Chain Management' (seventh edition).

Summary

The range of skills and expertise that we are offering and believe are appropriate to IT and software procurement include:

- Project Initiation Documents.
- Risk Registers.
- Preparing Outline Business cases.
- Preparing project feasibility studies.
- Evaluation of project resourcing, planning and finances.
- Life cycle costing and project through life contracting.
- Knowledge transfer across in-house participants.
- Facilitation of review meetings, including "challenge" scenarios.
- Stakeholder consultation.
- Evaluating the procurement cycle and key milestones.
- Networking across FTSE firms/HM Government to track "Best in Class".
- Preparing a procurement strategy.
- Value for money studies.
- Due diligence studies.
- International research to identify project disasters and successes.
- Satisfying potential NAO and PAC standards.
- Sensitive interview techniques with project team and stakeholders.
- Preparing relevant reports.
- Project skill analysis.
- Business process change.

What do **you** think about **IT and software procurement and Brian Farrington Ltd?**

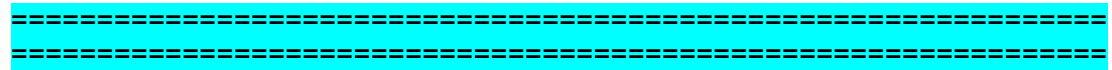
How can we complement your in-house IT and software procurement resources? Deliver a briefing to your senior management team? Provide interim specialist resource? Coaching or informal ad-hoc advice? Review a project to consider lessons learned?

Please contact Stephen Ashcroft on 01744 20698 or s.ashcroft@brianfarrington.com.

Thank you

Until next month,

Stephen Ashcroft
Brian Farrington Ltd



Helping procurement and related professionals manage third party expenditure and mitigate risk.

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