

# Vendor Selection - A Roadmap to Success



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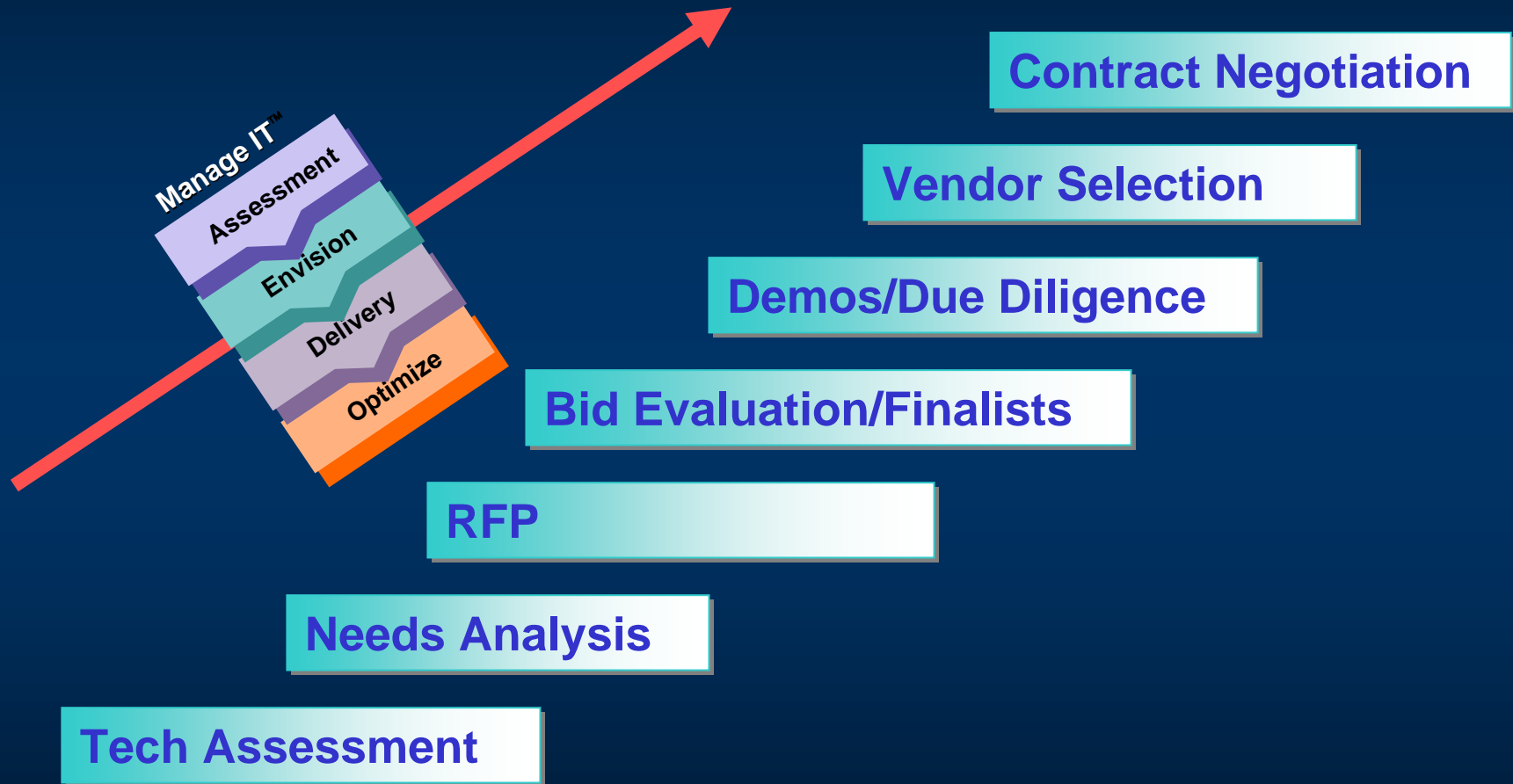
# Selecting a Technology Partner

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- Vendor selection is a key strategic issue over the life of an assessment project
- The selection process must involve the key members of the utilities' user communities' management team
- IT can coordinate the selection process, but does not have to. Decision Interface recommends a senior management team comprised of the CIO and the manager's of the user community.
- The CIO must drive the technology planning process from the top!
- There is no single correct vendor answer. Each has pros and cons depending on the strategic vision, competitive position and existing operations of each client.



# Milestones in the Vendor Selection Process



# Selecting a Core Systems Vendor - Criteria

Category	Explanation
<b>FUNCTIONALITY</b>	<ul style="list-style-type: none"><li>• The current features and benefits of the system and the ability of these features to allow the client employees to do their jobs better</li><li>• The users' perception of future systems migration and the impact it will have on the client</li><li>• The ability of the system to support the sales and service goals set by the client</li></ul>
<b>VENDOR STRENGTH</b>	<ul style="list-style-type: none"><li>• The ability of the vendor to support and enable the strategic goals of the client</li><li>• The ability of the vendor to deliver promised systems and programs on time and with consistent high quality</li><li>• The track record of the vendor in supporting other utilities</li><li>• The perception of client management that the vendor understands the client and its unique strategy and will proactively aid in its realization</li><li>• The financial strength of the vendor and the ability to continually invest in system upgrades and enhancements</li></ul>
<b>PRICE</b>	<ul style="list-style-type: none"><li>• The base unit prices that will be charged</li><li>• The structure of price increases over five years in various growth scenarios</li><li>• The additional products and services that are included as part of the base price</li><li>• The value the client will receive in products and services for the money paid</li></ul>



# Selecting a Core Systems Vendor - Criteria

Category	Explanation
<b>ARCHITECTURE</b>	<ul style="list-style-type: none"><li>• The technical design of the system and the underlying hardware and software used to support it</li><li>• The ability of the vendor platform to support the continual upgrade and improvement of the core systems</li><li>• The vendor's stated technology plan and its funding to support the plan</li><li>• The ability of the platform to incorporate and maximize the benefits provided by new technologies</li></ul>
<b>RISK</b>	<p>Risk is divided into three categories:</p> <ul style="list-style-type: none"><li>• <b>Technology Risk</b> – The potential that newer, unproven or undeveloped technology will cause problems in the operating units. Conversely, the risk that older technology will lack the functionality and flexibility needed by the client</li><li>• <b>Conversion Risk</b> – The possibility that the conversion to new systems will negatively impact the ability of the client to execute plans and attain goals</li><li>• <b>Operations Risk</b> - The possibility that back office and other client operations will be negatively impacted, either during or after conversion</li></ul>



# Present a Project Plan to Your CEO

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## Planning/RFP Development

- Review strategic plan to determine key technology and information implications for the future
- Survey employees to discern user system requirements and operational plans for the future
- Develop request for proposal (RFP) soliciting bids from the vendor community
- Develop vendor short list to receive RFP
  - Decide upon desired delivery as early as possible
- Have RFP approved by senior management team



# Decision Interface RFP Philosophy

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- Articulate what's important strategically to the organization
- Include an organized, complete summary of the current systems environment:
  - Applications
  - Infrastructure
  - Third-party systems and interfaces
  - Account and transaction volumes
- Include the client's technical standards
- Do not prepare 300 pages of "check the box" requirements
- Challenge your vendor with 6 – 8 critical "essay" questions
- Share the evaluation and selection criteria
- Give vendors 4 – 5 weeks to respond



# Review of Vendor Background and Experience

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## Recommended Approaches:

- Article search/industry reports on vendor
- Annual report/financial statements of vendor
  - Demand financial statements even from private companies
- # of installs by delivery channel and asset size
- Evaluate market momentum
- Ask for a long list of references with contact information
- Ask to see information concerning:
  - R&D budget
  - Training and user group offerings
  - Current interfaces!



# Review of Vendor Technology

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## Recommended Approaches:

- Ask for technology “white paper” from vendor
- Ask for product architectural details in RFP
  - Product name
  - First and last installation dates
  - Original developer
  - Programming languages
  - Data structure and database product
  - Operating system
  - Hardware
  - Communications



# Review of Financial Proposals

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## Recommended Approaches:

- Build a five-year cash flow projection
- Ensure that each proposal includes the same products and services to compare fairly
- Build a 10% - 20% contingency into each proposal
- Identify any “variable” charges that may become expensive as transactions and/or accounts grow
- Don't forget COLA!



# Review of Financial Proposals

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## Recommended Approaches:

- Attempt to negotiate fixed arrangements as much as possible
- Ensure that any required additional hardware, software, communications and staffing investments have been identified
  - This is especially important when comparing in-house proposals to service bureau/ASP proposals
- Integration experience
  - The difference between “Can do” and “Have done” can easily be six figures
- Calculate a total five-year cost and an annual cost for accounting purposes



# User Demonstrations and Due Diligence

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## Recommended Approaches:

- Live demo at client site
- Written questions to vendor
- Active phone campaign with peers
- Live demo at vendor client site
- Visit to vendor corporate office



## Recommended Evaluation:

- Devise a score sheet for each system user
- Use a worksheet to evaluate conversion, support and operational risks



# Sample Vendor Score Sheet

*Rate vendors on a scale of 1 (poor) to 10 (excellent)*

	Weighting	Product A		Product B		Product C	
		Raw	Weighted	Raw	Weighted	Raw	Weighted
Functionality	X%						
Vendor Strength	X%						
Architecture	X%						
Price	X%						
Risk	X%						
TOTAL SCORE	100%						



# Contract Negotiation

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- Decision Interface understands the myriad issues that can arise in the Vendor Selection process.
- Decision Interface's Contract Negotiation Services include:
  - A thorough review of key pricing and service terms
  - An examination of the proposed vendor contract
  - Close coordination with you to resolve documented issues
  - Interface with the vendor (as directed by you)



# Contact Negotiation



- Decision Interface's Contract Negotiation Services are entirely client-directed.
  - We can act as Lead Negotiator
    - Saving you time and preserving the client/vendor relationship.
  - We can provide "behind the scenes" assistance
    - Supplying you with a detailed issues list that you can use as the foundation for negotiations with your vendor.
- In every contract negotiation, Decision Interface can be available for insight and advice.



# Contract Negotiation



- Decision Interface conducts a comprehensive evaluation of every element of your proposed contract, including:
  - Price, initial costs, license fees, conversion and training costs, operating expense, etc.
  - Term
  - Business issues
  - Payment terms
  - Service level agreements
  - Conversion timing
  - Termination penalties
  - Performance warranties
  - Ownership of custom enhancements
  - Escrow arrangements
  - Bank and vendor responsibilities

*Note: Decision Interface does not provide a legal review of the contract.*



# Contract Negotiation



- The terms of the contract you sign with your vendor will be with you for years to come.
- Decision Interface can help ensure you the best possible advantage.

# Contract Negotiation Tips



- Keep contract to a five-year maximum for core processing, less for newer technology
- Real time versus batch interfaces
  - Vendors often “forget” to mention when it’s a batch interface
  - Cost difference can be dramatic
- Set a hard cap on COLA or guaranteed revenue growth to vendor
- Aggressive SLA’s in the contract help to set the tone of the upcoming relationship early



# Questions?

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