WHITEPAPER TECHNOLOGY PROCUREMENT METHODOLOGY

beyond technology

Beyond Technology Consulting | Greg Spencer

WHITE PAPER: Technology Procurement Methodology

Abstract

Technology procurement presents several challenges to an IT department: it is a complex process requiring skills not normally required of IT, the budgets involved are large, services contracts and hardware depreciation cycles mean that the selected technology vendor will be around for several years, and it must be executed within the context of the busy day-to-day activity of an IT department. This document presents a comprehensive 9 stage model to guide IT through all forms of technology procurement. It also presents the rationale behind using external specialists for executing some or all of the process and the significant benefit that may flow from this.

Technology Procurement Methodology

Summary

Beyond Technology's TPM provides organisations with a proven methodology and framework to undertake Telecommunications and Technology procurement activities. Due to the complex nature and hidden interdependencies of many areas of technology, procurement departments often struggle to deliver the benefit that is expected by the business. Similarly technology departments find managing ongoing functional support relationships while maximising competitive tension in an approach to market difficult and often counter-productive. This paper outlines an effective technology procurement strategy and highlights areas that organisations should seek the services of specialists in the field.

Methodology

The Technology Procurement Methodology (TPM) takes the form of a nine stage process. As each organisation and each procurement has different requirements, the level of detail required for each stage varies. Similarly the benefits from using an independent 3rd party to facilitate each stage will depend on a number of factors.

"the 9 stages can be grouped into a three phase plan"

For each procurement project, the 9 stages can be grouped into a three phase plan. These are the initial Discovery phase that concentrates on the capture and analysis of requirements. The Development phase that documents these requirements into a formal approach to market, and the Approach phase that represents the commercial process.

Discovery Phase

Decide Strategy
• Considering key objectives decide on your approach to market strategy

Capture existing capability
• Document the existing business expectations and usage patterns

Define Future Goals
• Document the future state vision, including flexibility, scalability and agility of the solution

Development Phase

Develop Service Level Framework
• Defined by the business requirements, specify outcomes that are both measurable and achievable

Define Evaluation Criteria
• Separating the detailed financial analysis, all quantitative and qualitative criteria should be agreed

Development of Market Approach document
• The document should clearly capture your requirements while maximising the competitive tension .

Approach Phase

Brief providers and release Market Approach Document
• Avoid misunderstandings and maximise market competition, utilise a 2 stage process if appropriate

Evaluate Responses
• Utilising a fair and formal evaluation process with separate detailed financial modelling and analysis

Implement Transition Plan
• Using an understanding of the common pitfalls of transition, detailed planning is critical to success

Figure 1 Beyond Technology's Technology Procurement Methodology

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These nine stages are described in detail below.

Decide Strategy

Depending on your organisations maturity and key objectives it may be more ideal to approach the market with a Whole of requirement request, or a select sourcing model. While a whole of requirement contract is often considered easier to manage and simpler to define the requirement boundaries, it will normally provide a less desirable service and cost outcome than a correctly defined and managed select sourcing model. Specialist advice from a third party can provide significant time and cost advantages during this stage.

"Specialist advice from a third party can provide significant time and cost advantages"

Capture existing capability descriptions

The starting point for any technology procurement is understanding the existing capability. Weather this is provided by the incumbent vendor, or by internal staff the ability to define the existing capability being provided and the current costs are critical to process. Most organisations internal documentation is augmented by staff experience and informal "business as usual" processes. To provide potential service providers and vendors with an understanding of the existing capabilities a discovery and documentation process is often required. This process can be assisted by 3rd parties, but will require significant involvement by existing staff and service providers.

"Predicting what will be the exact requirements by the end of the contract is often not possible"

Define Future goals

As your requirements will continue to evolve, so must your vendors capabilities/services. Predicting what will be the exact requirements by the end of the contract is often not possible, however developing a solid understanding on the areas will/already need service improvement over the existing provisions and the areas that will need flexibility and agility will help to ensure that these future changes don't have unexpected cost impacts.

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Develop Service Level framework

A critical mistake that was often made in the past was to let the services provider define the service level framework. Although it is vital that the service level framework specifies outcomes that are both measurable and achievable, they should be defined around your business requirements. This framework should be developed and agreed by the business before the market is approached, and should be used in the development of the evaluation criteria.

"This framework should be developed and agreed by the business before the market is approached"

Define Evaluation Criteria

Once the service level framework and future goals have been defined, this is conjunction with the understanding of the existing capabilities being provided should be used to define suitable evaluation criteria. It is important that these criteria are able to be measure and marked from the vendors response documentation and should be considered in the context of your evaluation methodology. The experience of a specialist 3rd party can be of significant value during this phase.

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Development of Market Approach document

The market approach document and any market briefing that you provide has a direct impact on both the quality of the responses that you receive and the cost of the technology that you will end the process procuring. The market approach document has several key aims these include:

- Maximising competitive tension in the process
- Limit the uncertainty to both the provider, and in their response to you
- Align the objects around cost reduction via improved efficiency
- Maximise the consideration of new technology to improve efficiency

It is important to understand the objectives of your organisation and the technology provider have important common ground – you both want to reduce cost. They are looking to reduce costs to improve their margin, while you want to reduce costs to limit your expenditure. It is important that you take steps in both the development of the approach to market document, and in the evaluation to maximise the common ground, and limit the negative impact of non-synergies. Eg. Cost can be minimised by the vendor in ways that can increase the cost to you (such as scope exclusions) or they can choose alternatives that can improve the level of service via automation. Providing a framework that encourages the respondent to focus on total cost efficiency, and ensuring that you can correctly evaluate the impacts require specialist experience and understanding of the technology in use and available in the market.

Brief Providers and release Market approach document

To avoid confusion and misunderstandings it is important to include provider briefings within the approach to market process. This provides an environment that they can clarify their understanding of your requirement before they make a bid/no bid decision. It is also good practice to provide a defined question period in the response period. During either of these periods, any questions deemed to be material to the solution should have the answer provided to all respondents.

In many situations a two stage process is appropriate. In these situations the initial responses are evaluated to choose a short list, and these respondents are provided with a more specifically defined requirement to solicit a BAFO (Best And Final Offer).

Evaluate Responses

Each evaluation process has different requirements that must be considered. These include:

- Audit requirements
- Specific Internal probity guidelines
- Availability and ability of selected evaluation team
- Levels of confidentiality of process
- Levels of quantitative and qualitative analysis required

"your organisation and the technology provider have important common ground"

"Cost can be minimised by the vendor in ways that can increase the cost to you"

"In many situations a two stage process is appropriate"

"use of an independent 3rd party to manage the evaluation process can provide significant benefits to ensure the highest levels of both perceived and actual probity"

"transition from one technology provider to another, or from internal to external resources is a difficult process"

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The use of an independent 3rd party to manage the evaluation process can provide significant benefits to ensure the highest levels of both perceived and actual probity, limit the impact on "Business as usual" and ensuring the personal bias is removed from the process.

Implement transition plan

The transition from one technology provider to another, or from internal to external resources is a difficult process. Understanding the importance of capturing existing knowledge and the impact of organisation change is the first step in successfully managing the process.

The use of specialist technology consultants provides organisations with significant commercial advantages in 3 ways. Firstly as technology solutions are all generally complex and subtlety different, expert skills are required in both the various technology options available and commercial negotiation. Secondly access to pricing benchmarks and implementation experience provides significant confidence in the chosen outcome. Finally the efficiency of not relying on staff required for business as usual activity, and the clear message to vendors to put forward their best commercial offering can significantly reduce the time and effort required.

Although the ideal procurement process varies as much by organisation as by technology, the use of a formalised methodology implemented by an experienced practitioner is the most practical way to mitigate the risk and provide certainty of a positive business outcome. The potential for inexperience or an adhoc procurement process leading to inaccurate expectations around transition costs, service level alignment, achievable cost savings and unanticipated additional costs represents a valid concern for most organisations. This added to underlying potential for perceived probity issues leads most organisations to seek independent external help.

Seeking Assistance

In seeking this assistance organisations must consider the following factors:

Real and demonstrable independence

In your approach to market you would normally seek to achieve several things. Firstly the best commercial outcome for the procurement with your vendor relationship intact. Secondly, a market perception that the procurement process was undertaken fairly so that each participant is willing to invest in developing a response to the next request (i.e. maintaining the competitive tension on an ongoing basis). Both of these are difficult to achieve through an internal procurement process, and impossible if you use an aligned 3rd party.

Experience and understanding of the technology in question.

It is vital that your chosen practitioner is able to not only understand the technology being procured, but also provide an advanced level of understanding on the issues that differentiate the vendors from one another and the implications of these

differences to both the implementation and ongoing operational costs. Access to practical experience and cost benchmark information provides a valuable advantage.

Technology focused flexible procurement methodology.

Procuring any technology (apart from commoditised consumer electronics) is a complex process that is unlike the procurement of other products or services. While most procurement processes are seeking to specify and evaluate like for like offerings, technology procurement must work with wildly varying specifications and approaches that have markedly different alignment to business requirements.

Organisations that apply standard procurement methodologies to Technology and Telecommunications will find that they are not only provided with non-ideal responses from the market, but their evaluation of them provide an inaccurate representation of their value to the business. Additionally, technology procurement can vary from complex multi-service architectures worth tens of millions to small single service requirements.

The methodology must be able to scale in all three phases. i.e. The discovery phase for a small single service requirement should seek to largely rely on available documentation and requirement confirmation interviews, where are large multi-service architecture would utilise a requirement triangulation process to confirm both existing and future expectations from all areas of the business. The Development phase however should ensure that the appropriate approach to market format is used and is not only able to provide the respondents with an opportunity to differentiate their proposal, but maximises the commercial tension. The format chosen should vary with both market conditions and procurement goals. Lastly the Approach phase must be able to vary depending on both the governance and political requirements of the organisation. This may vary from the practitioner facilitating the evaluation through an internal evaluation team in a two stage process, through to them evaluating the market responses and providing a formal recommendation to the organisations executive team.

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Conclusions

1) The Discovery phase is crucially important to the successful outcomes of the procurement. This pre-work informs the market approach document thereby improving the quality of the responses received and the appropriateness of the solution.

2) Technology procurement is a lengthy process and rushing the process will reduced your commercial and technology outcomes. Ensure that sufficient time has been reserved within your plan, typically 6-9 months before the end of services contracts.

3) Developing a sense of urgency, particular in the important Discovery phase, can be difficult. Brief key executives on the project, its expected commercial outcomes, and resource demands early.

4) Keep stakeholders informed of progress. Tailor communication for the recipient, eg cost reduction, service improvement, supporting a new business initiative, etc.

5) Early in the Development phase brief the evaluation team, and their management, on the resource demands that will be placed on them.

6) Set aside time to manage the execution of the process, or seek external resources to assist.

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About the Author:

Gregory Spencer BE(Hons) MBA.

Gregory's engineering qualifications has provided him the foundation for a long varied career in IT management that has ranged from lecturing on IP networking at the university of Western Australia to various executive management positions (CTO, CIO and COO roles) in a number of Sydney based technology firms. Over the years Gregory has been invited to speak at a number of International and local events on a variety of technology topics. After gaining his masters in Business Administration (MBA), Gregory turned his eye to Consulting where he has been providing advice for the last eight years.

About Beyond Technology Consulting:

Beyond Technology Consulting is a boutique Australian consulting firm providing expert independent technology advice to its clients. Its focus is to provide business focused technology alignment. All of their consultants combine technology qualifications with years of industry experience. Advice that they provide is based on real world experience, industry best practises, and tried and tested technology to create optimal technical solutions for their clients. Beyond Technology has been operating in Australia since 1992, and running its New South Wales consulting business for over 3 years. Throughout this period it has maintained a positive growth outlook and has been steadily growing its reputation and client base.

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