

E-COMMERCE & IT



Total cost of ownership: System lets planners avoid surprises

By MICHAEL BURNS

Total cost of ownership is a good way to evaluate the costs related to a new system. You need to include not just the software license costs, but also all the other direct and indirect costs.

Sometimes vendors will give a low-ball cost for software, but will make up for it in later charges—you don't want any cost surprises part way through an implementation. So, what can you do to avoid this from happening?

Avoid ambiguity

You need to be specific about your needs so there is minimum ambiguity. If there is ambiguity, the vendors will be able to say that the needs were not communicated clearly enough, and that additional costs are required.

Avoid time and material quotes

The vendors would prefer to bill you on a time and material basis, especially when there are unknowns. For example, they may tell you they don't know how much training is required as they don't know the aptitude of the staff.

This concern can be dealt with by taking a train-the-trainer approach, whereby the vendor only trains key people over a defined number of hours, and the

key people train the rest of the staff. However, the big unknowns are in conversion, customization and integration. The vendors have a legitimate inability to fix costs for these activities.

Get the vendors to prepare specifications, which will enable them to provide a fixed price. The specifications should be prepared before the purchase of the software. The vendors are entitled to be paid for the time to prepare the specifications.

Boardroom pilot

Consider doing a board room pilot before you purchase the software. One objective of the board room pilot is to ensure all costs are defined before purchasing the software. This would be a good time to have the specifications prepared for conversion, customization and integration.

Include all direct costs

The vendor could be involved in many implementation activities. Make sure you have quotes on all costs.

In the higher-end systems, the implementation costs could easily be twice the costs of the software license.

Maintenance costs

Maintenance costs are usually charged at the list price, not at

the discounted price. You should also get a quote to maintain any customizations if there are upgrades to the core product.

The same principle applies to third-party products—you want to know the costs of upgrading the third-party products.

Hardware costs

You could be surprised by additional hardware costs. Make sure you know the recommended configuration for your workstations and server. You could also have additional costs if you require remote access.

Most systems today are not Web-based (*i.e.* you need more than a browser on a workstation). These systems often use Terminal Services or Citrix as a way to get good remote performance. But you may need to invest in additional hardware and software.

Include all indirect costs

There will be internal costs. You may need to hire additional resources. Many key employees will be spending time on the project, and will not be able to complete their normal work activities.

Talk to references

Don't just ask about the software—you should also ask about the implementation costs.

Include future costs

By doing a present value calculation you may find that the solution with the higher license costs is less expensive after three years.

Put it in writing

Your contract should include details on what is included in the implementation.

Beware of license costs

Beware of license costs that go up with more users. You may find that the first 15 concurrent users cost much less than the next 15.

Avoid customization

Don't automatically think you need to customize something that you're currently doing because its function does not exist in the software. There could be a workaround that will present itself after you have better understood the software. There could, in fact, be a better business process available with the new software.

I have spoken to many companies that are stuck with old versions of software because of all the customizations that have been done. They are reluctant to upgrade to the most current release because the customizations need to be redone, which will be costly.

There will be situations where customizations do make sense,

but you should understand the total costs before proceeding.

Business process improvement

You have a big opportunity to improve business process when implementing a new system. Don't simply just re-implement your existing processes.

You may be able to not only save costs during implementation, but also achieve significant benefits from an improved business process on an on-going basis.

Phased implementation

One effective way to deal with heavy up-front costs is to break out the implementation into phases. Do the essentials in phase one. Get the vendors to quote for each phase.

In a year or so, you may find that some of the things you thought you required are not really necessary after all.

Michael Burns, MBA, CA, is president of 180 Systems (www.180systems.com), which provides independent consulting services including business process review and improvement, business case development and system selection. He can be reached at: (416) 485-2200, or by e-mail at: mburns@180systems.com.