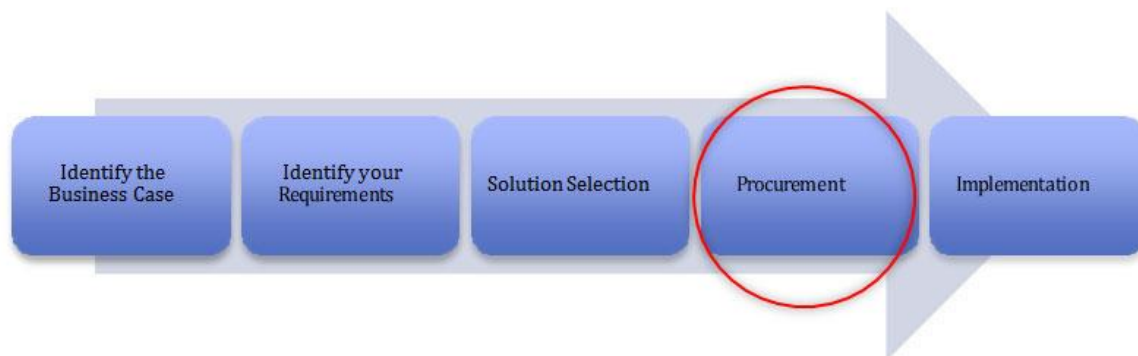




Quick guide: Procuring an IT solution for your Business

This Quick Guide is part of a series of information products aimed to assist small to medium sized businesses purchasing an Information Technology (IT) solution.

The focus of this Guide is on the procurement of a new IT system. Essentially, procurement is the process of buying, leasing to purchase, or renting of products or services - in this context, IT products or services. This could include a new financial management system, an Enterprise Resource Planning (ERP) solution, a Customer Relationship Management (CRM) system, or a new cloud-based IT service.



Procuring a New IT System

The process of procuring a new IT solution for your business started when you developed your original business case. It was at this stage that you identified the issues that need to be addressed, the business objectives you want to achieve, and the budget you anticipate having to spend. After identifying your business requirements and selecting the product/service that best meet your needs, this next stage involves purchasing the solution of your choice

A simple procurement process involves a number of steps: information gathering; working out your requirements; supplier contact; review and assessment of the product/service options; due diligence of the product/service provider; vendor negotiation; and product purchase/service fulfilment.

This Guide focusses on the latter of these:

- vendor/supplier negotiation
- product/service purchase

Previous steps have been covered in earlier related Quick Guide materials. The following outlines the key considerations associated with these aspects of the procurement process.

Negotiation

Having decided on the product/service that best meets your needs, the following issues should be discussed and potentially negotiated with the supplier.

Price

- Clarify pricing arrangements: what's included, what additional costs are involved?
- Are training and support documentation included and in what form (e.g. online)?



- What is the break-down of license versus implementation and support costs?
- Is migrating your data to the new system included in the cost?
- Potential discounts, e.g. where you have an existing product from, or are an existing client of, the supplier.

Availability

- Is the product available now (off the shelf) or is it developed on request?
- If development work is required, how long will this take, is it inclusive in the price?
- Is there a waiting period?

Trial Period

- Can a trial period be negotiated during which the business can test and identify 'bugs' in the system that need to be resolved? Is this free of charge? Do you get a discount if you end up buying the product?

Deployment Options

- Are hosting options available?
- In the case of hosted and cloud services, how accessible is data? What privacy and security arrangements are in place?

Delivery

- Is the product installed locally or set up and configured remotely?
- If set up remotely, how is this done and what are the implications for your business, in particular the privacy and security of your data?
- How long will it take to have the product installed and ready to use?

Customisation options

- To what extent can the product/service be customised to your needs?
- Can you customise the product yourself or must the vendor do this?
- Is this an additional cost? What scope is there to do this within the quoted price?

Contract conditions and obligations

- Clarify the obligations of the vendor and of your business
- Check ongoing licenses renewal arrangements, e.g. is ongoing access to the system contingent on payment of an annual license fee?
- What happens if you don't pay that fee? Can you continue to access your data?
- What arrangements are in place if you want to move to another product or vendor? Can your data be easily migrated to another system?



Maintenance and Support arrangements

- Are maintenance and support arrangements standard or can these be negotiated to meet the needs of your business?
- How frequently is the product updated and is this included in the support costs?
- Are there guaranteed response times or hours of availability (e.g. for over the phone assistance)?

Financing Options

Some vendors offer financing options for their customers. While these require careful investigation, they are a viable option for businesses that have stable and reliable cash flow but not necessarily ready capital for a substantial upfront investment.

Payment Options

Some vendors offer payment options depending on the needs and cash flow of the customer business. These can include:

- Payment on the day of installation of the product
- Staged payments based on completion of agreed implementation milestones
- Monthly payments over a designated period of time (typically 12 months)
- Rent to own plans
- In purchasing a solution, it is advisable to investigate the payment options available and whether this can be negotiated with the vendor.

In terms of vendor payment, it is recommended that all payments are linked to a pre-agreed deliverable or milestone. This includes instances where payment is scheduled to occur when the system is deemed to be installed. .

Tax Considerations

The tax treatment of software and hardware can provide opportunities for accelerated write-offs of acquisition and implementation costs. This can substantially reduce the cash-flow impact of new system acquisitions by enabling acquisition costs to be expensed or offset against tax otherwise payable. These issues should be investigated with the business' accountant.

Note:

This Guide assumes a very simple procurement process suitable for the majority of small to medium sized businesses. However, there are a number of more formal ways in which suppliers can be approached to respond to business requirements. These processes have various descriptions, which are often used interchangeably, although their meanings are subtly different. Outlined is an explanation of the main processes.

Requests for Information (RFI) and Requests for Proposals (RFP)

- The purpose of a RFI or RFP is to collect written information about the capabilities of suppliers and their products. This process is generally used to help make a decision on what steps to take next in



terms of procurement options and may be used by the purchaser to refine their requirements in preparation for a next phase tender process.

- A RFI/RFP is usually non-binding on either party but the more detailed the request, the more useful will be the information received from potential suppliers. It is best to use a check-list or spread sheet to compare the responses received.
- If a supplier or solution is chosen as a result of the RFI/RFP process, it is best to ensure that the successful supplier first provides a detailed, binding quotation in writing, before making a final decision to proceed.

Requests for Quotation (RFQ) and Requests for Tender (RFT)

- A RFQ/RFT invites suppliers/vendors to bid for the supply of specific products or services to satisfy a specific set of requirements. Vendors are required to respond with detailed information about price, payment terms, product/service quality and contract/ project/ implementation timeframes.
- RFQs/RFTs can be advertised publicly or sent to a selection of suppliers that are likely to have suitable offerings. RFQ/RFTs can be used for standard, off-the-shelf items or items built to a specification.
- RFT's are often distributed to potential bidders through a tender service, allowing businesses to receive and search live tenders from a range of public and private sources.
- The level of detail provided in RFQ/RFT responses should be sufficient to enable order placement or contract negotiations to commence with the successful supplier.

Further information

Visit the business website at business.gov.au.