

Cloud looms for software vendors

Enterprise software vendors have had it their way for a long time but Cloud is giving clients a chance to fight back.

Nigel Kelley, a founding principal of Software Sense, has found that businesses are so focussed on moving to Cloud that they sometimes lose sight of their existing investment in software. “At a time when they’re taking their systems to the Cloud and their legacy software vendor is in the weakest bargaining position ever, customers often just abandon millions that they have invested over many years.”

‘The balance of power is shifting from vendor to client’

However, this does not have to be the case and clients have an opportunity to regain control over their vendor relationships according to Mr Kelley. “We’ve become used to asymmetry in vendor negotiations. Once a platform is selected it becomes very difficult to change and the vendor knows that. However, moving to the Cloud can disrupt established relationships providing an opportunity to gain greater control and redefine vendor relations.

“Established vendors are struggling to maintain market share as the Cloud matures.” says Mr Kelley. “They are losing to new entrants with flexible offerings which they are finding hard to compete with. A big part of the problem is because of the different revenue models. Established vendors need to move their reliance on up-front revenue to recurring revenue without destroying their share price and market position. This inevitable change needs to be managed carefully and is where thoughtful and creative clients have an opportunity to capitalise.”

So how do clients realise the benefits from these changing market conditions? This is where Mr Kelley becomes excited by the possibilities. “Imagine if you could fund your transformation journey within your current projected operational budgets? What if you could gradually decommission legacy systems and support over time and repurpose that spend on Cloud/SaaS services, avoiding duplicate expenditure and significantly reducing risk? And, in the process, define the licensing terms and conditions that *you* need?”

‘Organisations that have made the effort to plan their ‘enterprise’ Cloud strategy have a unique opportunity to gain control of their vendor relationships like ever before.’

The key to making all this possible, according to Mr Kelley, is for clients to understand the vendor’s needs as well as your own. “Of the clients that Software Sense has taken through this journey the most successful have been the ones who have leveraged the advantage they have in a period of disruption by learning what drives each vendor, their incentives and processes, what they would be willing to do and what is impossible. But even before approaching the vendor they have to get their own house in order. While no two situations are the same the key elements of this strategy are:

- Take a whole of enterprise approach. Procurement usually focus on the lowest price for a particular widget. A more strategic approach may be to leverage existing investments, e.g; by reusing licences, dual use (on-premises and SaaS/Cloud), credit and re-purposing of decommissioned licences to Cloud services.



- Get an accurate baseline of current software assets and deployments, not only usage but line item costs. It may seem obvious but most clients don't have one and it puts them at a disadvantage in any negotiation.
- Perform projections based on the viable platform alternatives and change timeframes.
- Give consideration to the commercial drivers that will attract vendor engagement – up-front revenue, recurring revenue, revenue growth, agreement term and TCV.
- Document the price range, terms and conditions, principles and success criteria that need to be met.
- Develop a negotiation strategy specific to each vendor according to the role they could play in your transformation journey.
- Establish a governance regime in vendor agreements with milestones, tracking and reporting to ensure that you and your vendors remain aligned to your transformation journey and that the anticipated benefits are realised

This approach requires preparation and usually outside expertise but the benefits can be enormous. It puts clients back in control of their business and resets vendor relationships for years to come.”

“The bottom line,” says Mr Kelley, “is that while the industry is rapidly changing the big vendors will remain for the foreseeable future. They will be providing ongoing support for legacy core systems, SaaS and Cloud enabled services and trying to compete with the more nimble newcomers. But, they are losing the control they once had and clients who can think strategically and get the right advice can use this period of disruption to their advantage.”

Nigel Kelley is Principal and co-founder of Software Sense. He has been negotiating major software contracts for major vendors and most of the largest Australian and Asia Pacific enterprises. After seeing clients that were poorly prepared against more experienced vendors, he and a group of industry leading experts in SAM, software contracts, pricing and commercial negotiations founded Software Sense, an independent consulting organisation which helps organisations to transform, reduce cost, manage risk - and even the balance in vendor negotiations.

For further information please contact Nigel Kelley 0411 513 700 or email nigel.kelley@softwaresense.com.au