

Crunching the Numbers

How the Economy Can Save You Money on IT Transactions

Given the challenges presented by current economic conditions, cost savings in IT transactions are more important now than ever, even considering the potential of federal stimulus money going to health IT. This article will address several ways of reducing IT costs, both with regard to existing contracts and new contracts.

REVIEW EXISTING CONTRACTS

The first place to look to reduce costs is with existing vendors. Identify those vendors with which the majority of your information technology dollars are being spent. If you have a good relationship with these vendors and they want to keep your business, discuss reducing existing payments, such as fees for term-based licenses, maintenance and support fees, professional service fees and subscription fees. In addition, many license and maintenance fees renew on an annual basis, giving you bargaining power with your vendors as a result of your power not to renew. Though vendors may not be legally obligated to alter existing contractual obligations, the dour state of the economy should compel them to discuss reducing fees. At the very least, such goodwill could make them more attractive when the current storm has passed.

In addition, take a closer look at the extent of licenses and the maintenance

programs. For example, if you purchased more concurrent user licenses than you needed because of anticipated growth, perhaps you can now reduce your concurrent user licenses to the number you actually use. What maintenance and support program are you currently receiving? Would your organization be able to get by with a lower level of support?

If your contract was negotiated during better economic times, you may not have scrutinized the fees you were paying at the time as closely as you might today. Did you pay a non-discounted or under-discounted price for your system? Is your annual maintenance and support fee in the range of 15 percent to 18 percent of the license fee paid for the supported software?

You should also review the terms and conditions of existing contracts to see if you are taking full advantage of the existing terms (pricing for new products purchased, caps on renewals, etc.). When negotiating information technology con-

tracts, I frequently include provisions in the contract for my client's protection, only to realize later that those protections have not been followed or are not being utilized. Vendor sales representatives often function according to their standard terms and conditions, not realizing that you have negotiated better terms (a cap on annual increases to the maintenance and support fee). Thus, a quotation supplied to you may not reflect the reduced pricing you are entitled to under the contract.

NEW CONTRACTS

When negotiating a new contract, license fees, maintenance fees and consulting/implementation fees should all be closely scrutinized. What does the current market look like for these products and services? What kind of demand is there in the market for these products and services? The vendor may be willing to make some concessions based on the current economic situation.

You should also consider restructuring the deal. Would a term license or a perpetual license make more sense? Would it make more sense to pay more money for the license, but extend payments over a period of years (term-based license) or pay less total license fees, but pay most of it upfront (perpetual license)? Do you have an option to have the application hosted by the vendor in order to avoid the additional upfront infrastructure costs that would

be associated with hosting it internally? If you need a perpetual license or the vendor does not offer a term license, you can also consider using a leasing company to finance the transaction to allow you to make payments over time, but be sure to review the terms of the lease arrangement carefully. You may be required to make payment to the leasing company regardless of whether the vendor performs under the agreement or not (this is another article in itself).

With regard to ongoing costs in the contract, make every attempt to lock in rates for future purchases. For example, if you foresee purchasing more of the same licenses, or even different products, vendors will often agree to list the products in the contract and lock in a price for a certain period of time, typically a year or two. You may even try to get them to honor the price after that time with an agreed upon cap on annual increases. With regard to recurring fees paid under the contract, such as maintenance and support fees, if you are not able to lock in pricing for a set period of time, you should at least put caps on annual increases and require that you receive prior written notice of the increase a certain period of time prior to it becoming effective.

Another area of cost savings is negotiating the commencement date of maintenance and support services. You should not be paying for maintenance and support services while you are covered by warranty. Errors must be corrected under warranty just as they would under maintenance and support. As such, the maintenance and support term should not start until the warranty expires. However, you will want to make sure you have telephone support and receive

all updates, upgrades and enhancements while on warranty, so be sure those services and products are provided free of charge until warranty expiration.

Holding onto money as long as you can may also save you money based on the concept of the time value of money. Whoever holds the money can, in theory, earn interest on it. If you are able to hold onto your money longer, you could conceivably earn interest on that money until payment is due under the contract. In order to take advantage of this concept, structure payments as far out into the future as possible, withholding as large a percentage as possible until acceptance.

Finally, additional language can be added to a contract requiring the vendor to agree that the pricing offered to you is as good as any other similarly situated customer buying similar products and services. If the vendor refuses to include this clause, at the very least it will allow you to have a conversation with the vendor about why you are not getting the best deal they can offer. Also, you should consider adding language that prevents a vendor from charging additional license fees over time based on the upgrades or updates you make over time to the equipment with which you use the software, commonly referred to as tiered pricing.

CONCLUSION

Cost saving with regard to IT transactions has never been more important, considering many healthcare entities

have significantly curtailed their non-essential IT purchases due to financial concerns. It is also advantageous if you can obtain assistance in this process

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from individuals with experience dealing with various healthcare IT vendors and familiarity with their willingness to reduce costs. In addition, additional out of pocket costs may be realized by finding beneficial fee arrangements for individuals assisting in realizing these cost savings (e.g. - my firm charges for these services based on a percentage of the savings realized). Every bit counts while weathering the economic storm. **JHIM**

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