

Supply Chain Software

by Alex Borg

The last five years have seen huge advances in supply chain software; there have also been significant changes in the way software is sold. Companies can now purchase only the supply chain software needed and pay only for what they use.

To get the software that fits their supply chain needs at the most flexible and affordable prices, companies should prepare carefully for negotiations and consider multiple products and product sources.

So, what's new in supply chain software? Just about everything. Advances include functional capabilities, such as multi-echelon inventory optimisation, collaboration and Radio Frequency Identification Data (RFID). There have also been significant changes in the way software is sold.

Growth in outsourcing capabilities and Application Service Providers (ASPs) has allowed much more flexibility and affordability in supply chain software. While ASPs aren't really new, their options and ways are continually being refined, based on the expressed needs of potential users.

Traditional - license fee

The traditional method of pricing supply chain software has a license fee. These fees are usually significant, and as a result the buyer needs to have significant proof of return on investment (ROI) to justify both the license fee and the high implementation costs.

Because of this history, software companies have been looking for ways to make their pricing more flexible and solutions easier to implement. Traditional big supply chain software players have invested a great deal of time in becoming more flexible, while ASPs are able to reinvent themselves more easily.

One way in which the established, traditional supply chain software providers are attempting to compete against the newer, more flexible supply chain software companies is to team up with large integration services firms to offer different levels of functionality at varying price levels.

New pricing options

The ASP model has a structural edge, because it focuses on ease of solution implementation, primarily built as an offering via the Internet. The Supply Chain Management (SCM) solution provider and their ASP partner offer unique pricing options compared to the traditional methods.

With this ASP model, you can pay to gain access to software either by the transaction, by a time period, by number of transactions or on an unlimited basis (similar to the license fee). In addition, you can choose which pieces of functionality you want to use.

This flexibility can be a boon to many companies who are unsure of how best to utilise or deploy software solutions. They can implement a piece of functionality and pay by transaction to see how it works without a significant investment.

How easy can it get? Some software can be purchased via a credit card over the Internet and you can start using it immediately.

Negotiating for flexibility

What is open to negotiation with the software provider? Just about everything. It is fully recognised that many software providers have predetermined pricing and functionality offerings; however, with some research, you can get just about whatever type of pricing and functionality combination you need (within reason, of course).

Many companies think they are getting a good deal based solely on the initial price of a software license, only to learn that the flexibility of the contract is restrictive and expensive. To avoid these pitfalls, preparation for negotiations with the vendor is essential and should be done through a team strategy that includes representatives from purchasing, legal, information technology, finance and, most importantly, the end-user organisation.

When the vendor is limited to a single point of contact with the company, there could be problems navigating through this process, representatives from other departments should also be involved in this process. Each team member should know the vendor's pricing model and product prices before negotiations and sufficient time allocated for the negotiation process.

The first key element of the contract is a list of critical terms and conditions defined through results-based metrics (such as the successful deployment of a pilot application or proof of concept). Secondly, all the key issues in the request for proposal (RFP) should be included and resolved in the contract before signing. Finally, the team should respond in writing to any changes in contract terms and should not authorise any vendor paperwork or commitments until the final contract signing.

Negotiation is best done with a solid understanding of the vendor's market position, reputation and current market conditions (the team should be knowledgeable of the vendor's pricing structure and levels of discount). If the vendor is known to discount heavily within a certain market or against a low-cost competitor, there may be more opportunities for concessions.

The negotiating team should directly confront the vendor with any deficiencies in their product capabilities and services; they should work to either resolve them or gain financial benefits for them. The company should maintain the flexibility and leverage of considering multiple products or product sources as a contingency.

Key questions before negotiations

Make sure you have these questions answered before you enter negotiations for new software:

- Number of transactions;
- How many "uses" for software will you have in a day, week, month or year?
- Number of supply chain software users;
- Determine the number of maximum users at any single point in time;
- Breadth of functional coverage desired;
- Make sure your needs assessment has been thoroughly completed prior to speaking with software companies;
- Do not allow the software vendor(s) to influence you; stick to your prioritised requirements;
- How long the software will be used for.

Some companies want to try the software for a while and evaluate the results based upon pre-established metrics. In other cases, there is a 'bridge' period to evaluate specific functionality.

Still other companies will establish a methodical path to phase in functionality, based on employee understanding, system integration and performance metrics.

Using this checklist to make a selection from the many new products and flexible pricing options currently available, any company should be able to find an economical and well-fitting solution to its supply chain software needs.

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