VITAL ANALYSIS

What kind of technology vendor does your firm want?

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Executive Summary

Great cultures can be found in yogurt, acidophilus milk and some firms. Unfortunately, great cultures don't always exist in technology firms that you've come to rely upon. And, if you do business with a technology firm with a bad culture, it could be a very expensive, frustrating, long-term decision. Can your organization afford being stuck with a bad choice for a decade or more?

In nature, many animals can identify their predators by telltale signs. Maybe it's the predator's scent that tips them off. Sounds can also alert potential prey to an approaching predator. But software buyers have to also detect which technology providers have a great culture, too. Specifically, they need to find the vendors that will treat them fairly and transparently. And, if these buyers don't separate the vendors that could be partners from those that may be predators, then that customer is going to get trapped in an ugly relationship.

Vendors with a selfish, greedy culture will create lots of work for you, are hard to deal with and tend to overreach at every opportunity to empty your corporate bank account. This culture issue really matters because:

- You must hire expert negotiators, outside counsel, etc. every time you acquire new modules, renew a subscription, add more users, change servers, etc.
- Defending your firm against a vendor's lawsuit is expensive
- Correctly forecasting future charges from your tech vendor is almost impossible
- You cannot afford to take time away from all your other responsibilities to prepare for and defend your firm from an adverse software audit
- You will likely be stuck with this vendor and its products for ten years or more

Your company likely expects good behavior from all of its suppliers, so why should a technology vendor get away with being such a bad actor?

This white paper shines a light on some of the best and worst technology vendor practices and offers up a checklist for use in your next technology selection. It is intended to help your organization enjoy, not dread, your technology acquisitions.

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The Buying Process

Software buyers have choices to make with new technology. The selection process often looks at:

- Functional fit
- Technical alignment
- Modernity of the solution
- Ease of implementation
- User experience
- Regulatory compliance
- Use of advanced technologies (e.g., machine learning)

Yet the most important selection criteria may be the vendor's past and present behavior and how that may foretell its actions during your firm's use of the solution. This cultural assessment is often a challenge for many software buyers as:

- Few ever get the opportunity to meet the leadership of short-listed vendors
- Vendors try distractions (e.g., taking the selection team to a major sports event to "bond") during the sales process that suggest pre-deal behavior will match post-deal behavior
- Few buyers actually understand the mechanics behind the vendor's pricing and how it compounds over time
- Even fewer understand how price increases will get triggered or how much the increases will be

There's a spectrum of behaviors out there but the two extremes are ***partner*** or ***predator***. The best technology selection decisions depend on buyers knowing the difference between the two and picking vendors that align with (not run contrary to) their business practices.

Wallet-Fracking?

Hydraulic fracking is an oil & gas practice where water and sand are forced under high pressure into hydrocarbon-rich strata. As a result of this pressure, valuable oil and gas floats to the top for recovery by the driller. Sadly, many technology providers have adopted wallet-fracking techniques to pressure your firm into forking over more of your capital.

Instead of sand, water and pressure, technology vendors use a trilogy of litigation, auditing and unfavorable contract terms that put pressure on their own customers. Specifically, vendors are:

- Launching excessively frequent and ambiguous usage audits
- Producing unfavorable audit results that can 'disappear' with more customer spending
- Demanding new document or document line-item pricing on top of subscription fees
- Requiring long-time maintenance paying customers with perpetual product licenses to re-buy the solutions. What was all that maintenance money going for if not to improve the solutions?

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The Predator Profile

Many animals flee when they detect the *silhouette* of predator. They don't need to see the predator. They only need to see a part of their outline or shadow.

Before we discuss the telltale signs (aka silhouette) of a predator, let's profile these vendors. A predator vendor:

- Can't exist without prey
- Is short-term focused
- Continuously preys on its victims. That's right, some vendors never quit wallet-fracking your corporate bank account
- Wants a deep, permanent relationship with your checkbook
- Will relentlessly set traps to force you to pay and pay
- Likes to confuse or disorient its victims by using confusing language, ambiguous wording and voluminous contracts
- Has numerous armaments at their disposal (e.g., usage audits)
- Lives for naïve, overly trusting prospects

Predatory behavior is often institutionalized within a vendor. It shows up in its organization structure, processes and even the software it provides you. In a lawsuit against a major ERP vendor, the complaint alleges that the vendor "*would install its on-premises software in the clients' ecosystem with a variety of preferences already enabled that, unbeknownst to the customer, caused the customer to arguably – and unknowingly – exceed the limits of its license*." Apparently, these violations would trigger software usage audits that a vendor would resolve if the customer would acquire additional software subscriptions. That vendor program was allegedly called: Audit, Bargain, Close. [1]

The Predator's Playbook

A review of one ERP vendor's contract for a mid-market firm showed the vendor's true colors. This contract:

- Weighed in at approx. 100 pages in length
- Had dozens of embedded URLs within the core contract paper
- Included a document line item charge that started at approximately $800,000 annually that could jump to over $20,000,000 at the 3-year renewal date
- Would only show pricing for the initial term
- Required a number of third-party services (e.g., hyperscaler tuning) not needed in other multi-tenant solutions
- Stated an initial software subscription price of approx. $300,000 annually that requires almost $8 million to implement

Worse, the vendor didn't care that it's implementation '*partners*' pitched a methodology that requires a customer to sign a services contract before knowing what the true project scope will be.

Another predatory act occurred during the height of the 2008/9 recession. At a time when many ERP customers saw their businesses contract 30-50%, their ERP vendors would offer no reduction in maintenance fees. In fact, one major vendor actually tried to raise maintenance fees from 12-18% to 25% at that time. After user pressure, they scaled back the increase to 22% but the damage to their reputation was done.

Technology buyers need to know what the telltale signs of a technology predator are. We believe the characteristics on the following chart are solid indicators that your firm might have an expensive, negative vendor experience during your usage of the vendor's product(s).

[1] https://www.cbronline.com/news/oracle-sued-audit-bargain-close

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Category	Tell-Tale Sign: Predators	Vendor 1	Vendor 2	Vendor 3
Pricing	Vendor pricing is not available until after the vendor has made the short list			
Pricing	Hard to get pricing comparables from other customers			
Pricing	Vendor requires a signed non-disclosure prior to providing pricing or initial contract			
Pricing	Vendor litigates prospects or customers for disclosing pricing or other contract terms			
Pricing	Pricing changes frequently			
Pricing	Pricing can escalate at a rate in excess of GDP growth or inflation rate			
Pricing	Pricing only goes up - it never comes down even after a divestiture, recession, etc.			
Audit	Vendor aggressively audits its customers usage			
Audit	Vendor has a separate sales unit to push additional products when audit results signal an infraction			
Contract	Contract documents run into the dozens or hundreds of pages			
Contract	Audit infractions can invoke draconian penalties			
Contract	Contract contains redundant language, ambiguous language, etc.			
Contract	Terms change frequently			
Contract	Contracts contain embedded URLs whose contents can change unilaterally			
Contract	Material pricing and other term changes possible via clickthrough language in patches or upgrades			
Contract	Customer often needs outside experts to understand contract nuances			
Contract	Outside counsel often needed to protect the customer's interests and rights			
History	Vendor has a history of litigating its own customers			

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Vendor as a Partner

Years ago, I stood at the window of high-rise office tower with an executive from one of the largest firms in the world. He said, while pointing to the building across the street, *"The integrator in that building has 7 floors of people dedicated to our account. They think they are our most strategic partner. Two other big tech companies think the same thing. All of them are wrong."* His most strategic partner firms turned out to be smaller technology companies that were making key technology that would materially enhance their competitive position.

The lesson in this is that '*partner*' standing is a relative thing. The size of your firm's spending with a given technology vendor may be important financially to the vendor but do little for your firm (and vice versa). A partnership is more about shared goals, perspectives and behaviors. It's also something that takes time to earn and can be quickly lost due to one party's antics. In short, a great partnership can occur when there is cultural alignment.

The profile of a great partnership is one where:

- Both sides are committed to the relationship
- The partnership is built on more than an economic relationship
- Both sides are in this for the long-term
- Both sides are working to the same and/or directionally aligned goals

A technology vendor partner is one that wants a happy, reference customer. Where these vendor partners spend their time and energy is also important. The best partners would rather spend capital building out their products and/or pursuing net-new customers (not tormenting and wallet-fracking their existing customers).

To create great partner relationships with their customers, technology vendors need to design processes, communications, contracts, policies, etc. that will create an outstanding and long-term customer experience. That means that every aspect of the firm must be primarily focused on making the customer successful and very satisfied. That does not mean that Sales can choose to ignore these cultural alignment objectives.

How One Firm Picked its ERP Partner

A mid-sized Midwest firm has been in business over 90 years. Amazingly, many of their suppliers have been with them most of that time.

When it came time to select a new ERP solution, they looked at a vendor's culture carefully. The selection team flew out to Silicon Valley to meet with the executives of finalist vendors. This trip was designed to assess '*partner*' characteristics and to negotiate a few final items.

One vendor was eliminated from further consideration as their CEO told a number of misleading or outright falsehoods about a competing solution. The buyer doublechecked these statements with other vendors, consultants and industry experts.

The buyer's COO stated that they don't do business with firms they don't trust and that they could see no way that this potential supplier would ever be a supplier for decades to come.

Culture matters!

But, doesn't every vendor state that they are or want to be every customer's partner? Sure, that sales tactic is on page one of the software sales manual. Those are easy words to say but they are often hollow. At the end of the day, the vendor's sales contract will clearly state that no vendor

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representations are part of the deal. So, all of those proclamations of partnership are not binding or real.

So, to get a partner, a software buyer has to dig into the culture and business practices of the finalist vendors. No vendor can be a strategic partner to dozens, hundreds or thousands of customers. It's not feasible or realistic. But a vendor can have business practices that are based on fairness and delightful customer experiences. That should be your objective in a software selection.

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Category	Tell-Tale Signs: Partners	Vendor 1	Vendor 2	Vendor 3
Pricing	Vendor pricing is on their website			
Pricing	All customers use the same price schedule			
Pricing	Pricing and contracts do not require a signed non-disclosure agreement			
Pricing	Customers free to discuss pricing with others			
Pricing	Pricing static has been static for several years now			
Pricing	Price increases, if any, are tied to a reasonable third-party metric			
Pricing	Pricing scales up and down based on annual usage			
Audit	Vendor audit enforcement only occurs when aggregious behavior spotted			
Audit	Audit team members not paid commissions or other incentives to drive sales of unnecessary products			
Contract	Contract documents are less than a dozen or so pages			
Contract	Audit penalties, if any, are modest			
Contract	Contract language is easy to understand			
Contract	Terms have remained relatively static			
Contract	Totality of agreement is in one document			
Contract	Pricing constant during life of term and renewals			
Contract	Contracts are short, self-explanatory			
Contract	In-house counsel review should be sufficient			
History	No evidence of vendor litigation is apparent			

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Cautions

Cultures do change, though, and smart software buyers are vigilant in monitoring for key changes. The big cultural shifts often occur as a result of a material change of control of the vendor. When the ownership or leadership of a vendor changes, there is a real possibility that the new owners or management will change policies, contracts and processes. While some changes are minor (e.g., the retirement of a long-time executive), others can be quite major.

We believe the changes in control that warrant the closest attention include:

- Frequent ownership changes (e.g., going from VC owned to Private Equity owned to IPO in 5 years)
- Ownership shifts from founders to public shareholders
- Ownership shifts from founders or public shareholders to a private equity firm
- An activist shareholder acquires an equity stake in the firm and/or acquires board seats
- Key founders retire or are ushered out of the company

Sustainable Culture Signs

Not all material change of control events are negatives. In some situations, we've seen founders retire, new CEOs, new owners, etc. and yet, the company continues to behave as it always has. The key is to identify what makes some software firm cultures sustainable.

Here are some factors that protect tech company cultures:

- Orderly and planned leadership changes
- Executive promotions from within
- Founders retain all of the voting shares
- Clarity and longevity of product vision
- Growth and innovation around one core solution and not via acquisitions

Why are these so important to monitor? New owners often need to make the deal accretive as fast as possible particularly if they borrowed heavily to finance the purchase. To recoup their investment, they must increase margins by imposing price hikes, slashing R&D and many support functions to cut costs and increase free cash flow. At these junctures, a vendor often shifts from being a technology and innovation driven firm to a financial management entity. The culture and the partner relationship will often change, and, not for the better.

We recommend an annual review of the vendor, its culture and an assessment of how well it continues to fit with your organization. If the culture is changing in a negative way, identify mechanisms to mitigate and protect your firm. Otherwise, prepare to select new solutions.

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Summary

Supply chain professionals know that they must monitor the financial condition, product quality and shipment timeliness of their vendors. IT professionals should monitor their technology providers, too. Technology vendors can consume a material amount of IT spend, and if contracts are not well understood and fairly constructed, there could be some financially expensive surprises.

Not all technology vendors are great partners and some of the biggest can be quite toxic. Their owners or management may have grown the firm through guile, cunning and in taking advantage of trusting customers. Vendors may shift slowly from partner to predator or they may abruptly change when leadership or ownership changes occur. Regardless of the timing or the cause, a vendor that adopts an unfriendly attitude towards its own customers doesn't deserve a customer's business or monies.

Bottom line: choose your friends and your technology vendors wisely!

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About Vital Analysis

Vital Analysis is a very different kind of technology research organization. We are the intersection set where exceptional technology market knowledge meets the executive suite. Where other 'analysts' replay vendor press releases, we give you the:

- Impact new technologies will have on your business.
- Reasons why you should care about specific emerging solutions.
- Business justifications why you may want specific solutions.

Vital Analysis was carved out of TechVentive, Inc. in 2007 as a new, but related, business. As designed, Vital Analysis is the publishing, research and analytical arm of that company.
Our reach, like our blog readership, is truly global. We've consulted with top technology executives across the globe and have been briefed by technology providers from virtually every corner of the planet.

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