WHITE PAPER

BIG
VENDOR RISK

Why the smaller independent software vendor (ISV) can be the **lower risk** choice than the industry behemoth.

AUTHOR

Rob Lautt, Co-founder and CEO of A3 Solutions

Introduction

Fear. Uncertainty. Doubt. The ability to paint a picture of risk in working with the smaller vendor is the stock-in-trade of every enterprise salesperson. For as long as upstart entrepreneurs have been so bold as to take on industry leaders, we have had to defend ourselves against F.U.D.

I recall one sales cycle in which we thumped our large competitor technically and functionally while demonstrating much lower total cost and quicker deployment.

Impressed by discussions with our customers, our “champions” on the customer side affirmed that the CFO’s signature was a formality and the order was ours. Unfortunately, Medusa’s tentacles reach into the office of the CIO, and product superiority, while necessary, is not sufficient to bring her down. In this case, the CIO with whom our salesperson had failed to obtain access while our counterpart enjoyed a familiar, long-term relationship, simply would not put his reputation and his company’s analytical processes in the hands of such a little known entity.

The Case for the Smaller ISV – Three Reasons to Take a Closer Look

In the CPM market, as in other markets, selecting the small independent software vendor carries with it some risk: vendor could go out of business, support demands could overwhelm limited resources, less proven product could fail under large-scale production use. Still, if these issues can be mitigated, the benefits of choosing the innovative ISV can be substantial.

BENEFIT #1

Better product, better solution.
Small vendors almost always bring product innovation to the table, some outside-the-box new way of solving the business problem. Often this is born of a founder’s vision after spending years as a user struggling on the front lines with more traditional solutions. For example, where larger vendors tend to acquire disparate products to address the various silos of a business problem (sometimes attempting to “integrate” all functionality after-the-fact), smaller developers may invent an elegant solution encompassing the entire scope of problem that results in a more flexible, feature-rich, and responsive product. This may mean users are more productive,

BIG SOFTWARE DOESN’T ELIMINATE RISK.

completing their tasks in a fraction of the time. Perhaps they emerge from their process with greater insight which leads to intelligent recommendations and better decisions. Since these benefits to both the top and bottom lines accrue continuously and steadily over time, the long-term ROI vs. Big Software can be large.

There's always risk. Big Software doesn't eliminate, or even reduce risk. They just redirect it to areas that may not be as obvious. Consider the large vendor that requires installation of multiple products to achieve the same scope of solution. That single item could increase risk related to costs associated with installation, integration, consulting, training, license fees and on-going annual maintenance. And then there's the risk to expected functionality and implementation deadlines. As costs escalate and managers are forced to compromise on expected functionality, frustration and disappointment can set in. While most such situations are not ultimately declared failures, customers often find for practical reasons they are forced to settle for a 50% or 60% solution compared to their initial vision. Again, these costs and reduced productivity accrue continuously and indefinitely.

BENEFIT #2

Higher quality service, personalized attention.
I speak from experience when I say that to the smaller vendor, every customer is perceived as crucial to their success. When you are brought into the fold as a new customer it's all hands on deck until you become a reference and source of referrals. Whether you are aware of it or not, as a new customer, your influence is significant. You enjoy greater access to company executives which gives you influence on product direction. Not only does your team experience priority response time, your feedback and new product ideas will often find their way directly onto the vendor's product roadmap.

TO THE SMALLER VENDOR, EVERY CUSTOMER IS IMPORTANT.

To illustrate, we recently won a contract with a public sector entity whose wish list included a feature set beyond the traditional definition of CPM, namely, to catalog, audit and version control a large repository of diverse, unstructured Word, XLS, and binary graphics files and data. Not entirely by coincidence, this capability was already on our product roadmap, although not scheduled for delivery any time soon. For a small software developer this is a golden opportunity. We re-prioritized our roadmap and, careful to avoid adverse impact on the core solution delivery, engineered and tested these new features (at our cost, of course), and delivered the new capability in the context of the overall project. Because the customer chose the more agile and responsive ISV, both we and the customer benefited in a way that could not have been foreseen and that would have been virtually impossible had they chosen Big Software.

BENEFIT #3

Lower total cost of ownership (TCO). Higher ROI.

In the CPM industry where all benefits and most costs are considered “soft” and difficult to quantify, an ROI calculation —the annualized ratio of $benefits/$costs—is often looked on as too subjective for decision making purposes. For this reason, a TCO calculation limited to an aggregation of hard costs over the life of the solution is most often used.

This is not all bad news for the ISV whose margin requirements are typically a fraction of the large vendor who must continually “feed the (marketing and sales) beast”, but it means that half of the story is never told. After all, it is likely that the smaller upstart makes your short list due to a claim of technological breakthrough to increase your margins, revenue, and/or competitiveness, and not simply save you money. If a true ROI were used, this would give the smaller vendor an opportunity to move both the numerator and the denominator, potentially creating a multiplicative affect.

$$\text{ROI} = \frac{\$\ \text{Benefits} \uparrow}{\$\ \text{Costs} \downarrow} = \textbf{ROI}$$

ROI will make a good topic for a future paper, but for now, let’s take a look on the next page at the components of a “hard” TCO calculation vis-à-vis the innovative ISV vs. Big Software, Inc.

Big Software, Inc. vs. ISV

Pre-Production	
Initial IT infrastructure costs (hardware, network, OS)	Multiple products and integration layer may mean much more HW to support Big SW.
Software license fees	Since Big SW often involves purchase of multiple products, be sure these costs do not remain hidden. For example, if you will need dashboards in phase two, clarify costs up font. A seeming afterthought such as dashboards, which ISV's may include free with their core solution, can completely change your comparative ROI.
Admin and developer training	Multiple prods, multiple teams to train.
Project Consulting	This is where the hidden costs will escalate. Getting all of Big Software's moving parts to inter-operate, achieving the promised functionality despite architectural and functional shortcomings, may require costly coding and workarounds. Unfortunately, when these costs are discovered it is usually too late and the choice becomes a choice between high cost or settling for less functionality and a narrower scope. Unfortunately, ISV is often out of the picture by the time these costs start rising.
Ongoing Costs	
Annual software maintenance	Annual maintenance fees are almost always tied directly to initial licensing fees **at retail**. So regardless of the licensing dis-counts you may receive, maintenance fees, especially if multiple products are involved, can be an unexpected jolt.
Ongoing consulting services	Often large enterprises become conditioned to accept one or two full-time FTE from the outside vendor to manage their solution ongoing. Compare to ½ or ¼ FTE of an *inside* resource. This can amount to a 10X or 20X difference in total cost.
Other	Consider dedicated internal resources. These may be difficult to quantify. In many cases Big SW can be more resource intensive due to multiple products and additional admin complexities.
TOTAL COST OF OWNERSHIP	**70% savings is not uncommon, and we have seen where the ISV has saved the customer 90% over Big Software**

Conclusion

This paper is not intended to minimize the potential risk of choosing a small vendor that is not up to the job (vetting your ISV is another topic for a future paper). What this paper is intended to convey is that the upside of using the highly qualified ISV may be much more than imagined.

Furthermore, ROI risk cuts both ways. While the ISV has the opportunity to move both the numerator and the denominator of the ROI calculation to create a multiplicative benefit, a typical Big Software implementation, with its high costs and compromises to functionality, may end up moving both of these numbers in the wrong direction, before you know it driving ROI down to a level where the project does not pay for itself over its expected life. This Big Vendor ROI risk is real and should be explored.

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