Seneschal Incorporated Newsletter

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Not Every Problem is a Nail

Often an Information Technology project is based on a software package from a vendor. It may be customer relationship management, factory automation, telephone call routing… anything from a long list of possibilities.

The bigger and more complex that package is, the more you are likely to need outside help putting it in place, setting it up to fit your needs, and perhaps adding changes or associated software to take care of specific needs that the package does not address the way it comes out of the box.

To run your project—analyze what you need, determine how those needs should be met, manage the resources and schedules, resolve all the problems—you can use expertise from the vendor who makes the software package you chose, or someone on your staff, or an independent.

No concrete rule can determine which is best. There are tradeoffs, and you have to decide which factors are most important.

When Projects are Run by the Vendor

Obviously, nobody knows the software better than the vendor supplying it. If the vendor understands exactly what you need, nobody else can make the software come closer to a just-right fit.

But there are two sides to that coin. The vendor does not know your business inside and out. Worse, the vendor may be so mentally wrapped up in the software that its specialists are unable to wrap their minds around what you need to do.

The result when that happens is predictable. Everybody does it from time to time—when the tool in your hand is a hammer, it's tempting to bash the issue at hand as though the issue is a nail.

When Projects are Run by Your Staff

The project can be overseen and directed by someone on your staff instead. Although your staff cannot know the software as well as the vendor does, your staff knows how your business operates. If the IT project will basically automate existing processes, intimate understanding of those processes is essential.

It is not so great when the IT project is intended to allow you to improve business processes. In most instances, your staff lacks exposure to other ways of doing what your business needs to get

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from the project. After a while working for an employer, people become accustomed to thinking and acting within the boundaries of the company’s usual methods. That will inadvertently constraint improvements to business processes. Some problems your project encounters might already have been solved elsewhere, but your staff may be unaware of those solutions.

When Projects are Run by an Independent

Your third option is to bring in an independent to run your project. The independent does not know the software as well as the vendor does, or your business as well as you and your staff do.

The boost you get from a good independent is experience from other places, which provides an entirely different perspective. If your project is intended to significantly change the way your business operates, this is often more important than being an expert in the vendor’s software or being an expert in the way your business operates now.

Choose Based on Your Priorities

Choose based on the priorities for your business. If you are keeping current business processes and only changing the IT systems behind them, you’ll probably want either the vendor or your staff to run the project—depending upon whether knowledge of the new software or your business processes is your main concern. If you hope to change business processes in concert with the new IT system, an independent consultant may be best.

Smoothing the Way for Repeat Business

Many years ago, I learned to structure consulting contracts in a way that encourages ongoing business. I use the same structure for some of my other ventures, too. Our contracts are designed to minimize hassle for our clients. This seemed easy and obvious to me.

Since a professional associate is struggling to get a grip on it, maybe it isn't as obvious as I thought. Here is the essence of it for your benefit.

The contracts come in two parts. The first part is the core Agreement. It establishes the basic business relationship between my company and the client company. That means it says which of us is providing something to the other, establishes a "force majeure" waiver, which jurisdiction's laws are the governing laws, what jurisdiction is the venue for resolving any disputes, whether we will use mediation or arbitration or courts for disputes, the framework for handling travel expenses, the "heirs and assigns" succession clause.... the basic legal foundation. It does not set specific prices, specific services or products to be delivered, or anything else that is likely to change over time.

We only execute a core Agreement once with each client. The core Agreement typically has an initial term of 6 months or a year, but after that it automatically renews until either party provides written notice of termination. Usually 30 day advance notice is required to end the Agreement. Some of our core Agreements have been ongoing for nearly 15 years, neatly riding through the transition when a client has gone through as many as four mergers.

The core Agreement goes through the approval cycle for contracts. At big multinationals Seneschal does business with, that can require several people up the management chain to review it. Someone as high as a VP or CFO may be required to sign it.

Each bundle of products or services to be delivered to the client gets its own Statement of Work (SOW). All the SOWs are governed by the core Agreement. SOWs simply reference the Agreement instead of needing to repeat the legal foundation.

SOWs specify exactly what is to be delivered, how it is to be paid for, and any other details pertinent to the work package. For big multinationals, SOWs correspond to Purchase Orders. As a result, an SOW only needs to go through the approval procedure for Purchase Orders.

This makes follow-on business easy. A low level manager can approve an SOW without bothering anyone higher in the management structure. After the Agreement is in place, anybody at the client company who has authority to write Purchase Orders is able to do business with Seneschal.

As an example of where the dividing line falls, the Agreement may specify that for travel within the USA, meals and incidentals for overnight travel will be billable on a per diem basis using the rates published as standard by the federal government for the time when the travel occurs. That establishes a standard, yet allows the rates to fluctuate with inflation. It does not set rates in stone.

The SOW is explicit about delivery details. It may specify that XYZ project will be done on a fixed price basis for $XXXXX, that travel is limited to 2 site visits by 2 people for a total of 10 staff-days, that any additional travel required by the client will cost $YYYY per person per day for labor plus travel expenses... and that the fixed price is payable 25% up front, 50% before the final Factory Acceptance Test begins, and 25% within 15 days after the client signs off final acceptance.

Typical SOWs are valid for no more than a year at a time and are constrained to a specific project. It is possible for an SOW to extend longer, but only if any prices in it have a way to float with the financial climate. For example, a longer term SOW might specify revenue on a percentage basis. Commission deals are often appropriate for SOWs that are as open-ended as the core Agreement.

If you have been using a complete Contract for every piece of business you do with every customer (or vendor!), consider whether a two-part system like this would fit instead. Where deals are substantial and repeat business is likely, this system makes your relationship much more comfortable because it is so easy for the client to call upon you (or for you to call you're your vendor) whenever the need arises.

About the Business Climate

We have one client in particular who is a great barometer in regard to the business climate. They make the nylon cord that reinforces tires on huge construction machinery. When construction is down, demand for their product is down because tires on those big machines are not getting worn out and replaced.

At long last, after a painful drought, demand for their product has risen. They are making as much as they can… with the half of their factory that is running. They permanently decommissioned about a quarter of the factory. About another quarter is currently shut down and would require weeks of effort to restart.

Their situation neatly encapsulates what we are seeing in most places. Manufacturers that found a way to dramatically scale themselves back have gradually clawed their way up to being able to keep what's left of the business running. Companies that are faring best are the ones that make something. Companies that provide services or sell goods that someone else makes are struggling—some of those tell us that their gross revenue is still trending downward.

The economy is better, but it isn't time to break out the champagne yet.