Feature article

Choose wisely: making the library's money work for the library in the system procurement process

Carl Grant

The author

Carl Grant is President, Ex-Libris (USA) Inc., Draper, Utah, USA.

Keywords

Libraries, Automation, Purchasing, Contracts, Consultants, Lawyers

Abstract

Procurement processes for automated library systems need examination to determine if libraries are choosing the best methods for getting the best return on their investment. Understanding the costs involved and how typical decisions in procurement procedures add to the costs of systems will allow libraries to judge if the process better serves the library than using the money in other ways. Alternative processes including standardized request-for-proposals, contracts and understanding how to utilize lawyers and consultants are suggested in an attempt to show that procurement processes could achieve the same goals using different methods while allowing libraries to use their money to purchase other goods and/or services. The benefits of the implementation of such processes are also reviewed.

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New Library World
Volume 100 · Number 1152 · 1999 · pp. 302–306

The moment comes in many library automation procurement processes where the vendor is asked to provide a discount. That request may be greeted with shock, disdain or it may move directly to the question of how much. The difference between those reactions might be theatrics but, more likely, it is the result of how your library conducted the procurement process.

If you are like most purchasers, you will tell the vendor how that discount will allow you to buy another module your users desperately need, or maybe you will tell the vendor how they are too expensive and need to be competitive. There are a dozen different reasons that you might cite, each of them worthy of discussion. As a vendor on the other side of the table, however, I have to sit there and run through the costs you added to the cost of the system. That amount will be subtracted from any discount that might have been available to you. The question I think both parties need to consider in this process is this: *are the costs you have added to the purchase of the integrated library system both necessary and productive for your library and the constituency your library represents?*

Let us examine those costs and understand them. In today's environment, you need to spend your dollars very wisely. If, after reading this article, you think the present process is still valid, fine. However, I suspect you will understand that much of what we do today is because we have always done it that way and, in fact, there are better and more effective ways to spend your library's money.

Understanding costs in Library automation today

To understand many of the reasons for the cost of automation, you must understand that basic to any vendor's continued existence is the need for their operation to be profitable. Profit for library automation vendors is largely derived from three revenue sources:

(1) the sales of hardware;
(2) software; and
(3) services.

Against these sources of revenue, vendors must be able to pay the substantial costs associated with developing, selling and supporting those products. In today's rapidly

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changing environment, these are substantial costs. A look at each of these areas can help.

Obviously, the cost of hardware has fallen while the amount of computing purchased per dollar has increased dramatically over the last several years. Manufacturers of the hardware are, of course, also dealing with cost issues and many of them quite poorly. Reported losses are nothing new for any of the major hardware producers. The result for both the producer and the reseller is radically smaller profit margins on each piece of hardware sold. The ramifications for you as the buyer are many. In the past, for most vendors, the profit margin on the hardware is what is paid for the value-added features that the vendor provided as part of the turnkey sale, including design of the configuration, installations, training, response time and capacity warranties. Today, the decreasing profit margins mean that many of these value-added features are now priced separately, or the cost has been built into the software price, or the service is simply no longer provided.

Software, however, is something that most vendors write themselves and consequently this represents a much higher profit margin. The problem that vendors' face with software is the increasing complexity created by the growing functional needs of the customer. This means that production, testing and quality assurance has also increased by the same factor of complexity. These create increased costs in development tools, staffing and quality assurance programs. Any vendor without the substantial financial resources required to fund development in this atmosphere is clearly on the losing end of the proposition.

Once the vendor has produced their product, they are also facing increased costs in selling that product to the library marketplace. While all vendors expect and include the cost of the long selling cycle (two years is average in this market), the place where the vendor begins to face significant and costly hurdles in moving the product from their shop into the library is the request for proposal (RFP). On average, today's RFP from a library will cost a vendor US$5,000 to answer. The questions asked in the RFPs do not vary substantially from the RFPs that were received ten years ago. Frequently the questions go into massive detail on functionality that has long since been perfected by any vendor with any significant market experience. As vendors we will ask ourselves the question "Why do we have to keep answering these questions?" There has to be a better way.

Another frustration with RFP's is that most vendors know that on average 50-80 percent of the RFPs they answer will not result in business. So why do we answer those 50-80 percent? Because we do not know and the library will not tell us ahead of time if they have a preferred solution because they have to conduct a fair procurement. In effect the libraries transfer the cost of doing a sole source procurement from themselves to the vendors by submitting RFPs to firms whose products they have no intention of purchasing but to whom they need to submit a response in order to justify the procurement of the system they actually want to purchase. The effect is obvious – consider a vendor that answers a 100 RFPs a year. This represents a cost of US$500,000. If that same vendor sells 30 systems in that year, US$16,666 of the cost paid by the library buying the system is to pay for the cost created by them as well as those libraries that did not buy but wanted an answer to their RFP.

Once a vendor has made it to the short list of preferred vendors (and most will), the demonstration cycle begins. This procedure is to show the library staff that the system can, in fact, do all that was promised by the vendor while responding to the RFP. Today, because of the increased functionality of the software provided and the desire of libraries to ensure that all staff get a chance to participate (consensus building) in such an important procurement, it is rarely possible for a single day of demonstrations to suffice. Nowadays, demonstrations frequently range from two to four days. Frequently, vendors must provide enough staff to man two or three terminals during the entire demonstration period. When adding up the costs for this, we are looking at costs as shown in Table I.

Table I Example of demonstration costs

Air fare	US$500 × three people =	US$1,500
Hotel and food	US$150/day × three people × three days =	US$1,350
Staff time	US$250/day × three people × three days =	US$2,250
Total		US$5,100

Even more cost is introduced when the vendor is sometimes asked to repeat the entire sequence a second or third time!

Now, let us factor in the cost component created by this scenario. Using a vendor who answers 100 RFPs per year and gets invited to demonstrate at each site, we have now added another US$510,000 to the cost of the sale. Divided by the 30 awards the vendor wins, you can see where another US$17,000 has been added to the cost of the system. Thus far, we can account for US$33,666 of the system cost in paying for the existing RFP and demonstration process held by both the purchasing libraries and the RFP and demonstration process held by those who did not purchase!

If the vendor has been successful in all of the previous steps, and is notified of the intent to award, the final costly phase begins with the start of the contract negotiations. Numerous works have been written on contract negotiations in the literature and I do not intend to recount those themes here (see references). However, it is very important for you to understand that when a lawyer or consultant is introduced to the process (especially one who is paid by the hour, not by the project) you are going to see a very lengthy and drawn out process. You can be sure that when a vendor encounters either of these situations, the expected cost of dealing with that situation is being built into the price you are being quoted. It is not uncommon for this step to double the cost of the RFP and demonstration cycle. In other words, US$67,000 of the cost of the system is now attributable to the procurement process.

Another current trend that drives costs up is the best and final offer (BAFO). This greatly overworked vehicle has lost its purpose. Most vendors now realize that when they see the best and final offer it will only be the first in a recurring series of efforts to pit the vendors against one another. The vendors know this. The prices quoted reflect this. There is no real benefit derived by the library. Vendors hold out their best and final offer, never actually submitting it on paper at this point. No sane vendor will, because they know that until the contract negotiations are completed, the actual cost of the sale is not known. If you submit your best and final before this point, and then find out you will be required to give away thousands of dollars in products or services to get the contract signed, or that there will be another best-and-final-offer, you run the risk of losing money. Big money. So, the game continues and, ultimately, no one profits. Best and final offers – are not.

Once the library has selected and signed a contract for an automation system, vendors begin to provide both the product and the services agreed upon. In today's environment, services are the one bright spot in the vendor's life. However, many challenges exist. Most vendors are used to providing a high level of services as part of a system sale. In today's rapidly changing environment wherein client/server and networks are increasing the complexity of these services, the potential for growth in the provision of services is great. The one major challenge that remains is helping libraries to understand that these services are not free. As mentioned earlier, when vendors sold the entire system, there was enough money to cover the cost of these services. In the new environment, the library has likely purchased the PCs and the associated network locally. The expectation that the system vendor will integrate these products at no cost is unrealistic. Any vendor willing to do this on a long-term basis is not likely to be around for the long term. The trend today, which is not clearly understood yet, is that the vendor from whom you purchase your system will, for a cost, integrate the solutions your library acquires. Most vendors realize that this trend to sell services in this area represents a high growth and profit opportunity. Libraries need to realize that client/server architectures, networks and PCs increase, not decrease the need for vendor integration services. One way or the other, the vendor will build this cost into your contract. You may think you have negotiated it into the contract at no cost, but the vendor knows the cost and that cost is covered somewhere in that contract.

In our analysis, all of these points need to be understood. I am not saying that all of these costs can be eliminated and, depending on your situation, some may continue to be entirely necessary. But, just for a moment, let us consider some ways we could lower the costs of library automation.

Do *you* want to lower the costs?

The reality is that neither vendors nor librarians can lower the cost of automation

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acting alone; rather they must act in concert. The realities identified above are just those – realities that must be worked out in order for a solution to be identified and implemented. What follows are some suggestions on how some of these realities can be dealt with jointly and as a means of starting an open dialog on the subject.

While the term may seem greatly overworked, partnership is the term that applies to this situation. The buyer must come to the table, willing and able to articulate the goals they have and to identify, in connection with the vendor, those that are in common, those that are not and how to best address the needs of both. As a buyer, the following steps greatly facilitate this happening:

(1) *Do your homework ahead of time.* Using the vendor as your research and development resource or to educate your staff adds greatly to the vendor's costs. If this is your goal, say so ahead of time. Investigate the systems that look like good fits with your library. Use conferences, which vendors have already spent considerable money to attend, to facilitate meetings and in-depth discussions. Do not mislead or waste the vendor's time. Do not worry about hurting their feelings or being accused of unfairness. If the vendor's product will not meet your needs, say so early so that you can save both the vendor and yourself the time and expense of continued, fruitless conversations.

(2) *Bring some sanity to the RFP process.* One way to greatly reduce the costs would be for an organization like the national library association (ALA in North America), which could in turn hire the consultants for this task, to develop a matrix of common features. It should be sent to all vendors and the responses recorded. This could serve as the basis of all RFPs by specifying that compliance with the matrix document is assumed and thus eliminate each library asking the same questions repeatedly. It would be the vendor's responsibility to file updates with the organization maintaining the matrix. The consultants could be retained to verify the accuracy of such updates. Ultimately, the RFPs must focus on that which is truly unique and different from the big view.

(3) *Contract negotiations and best and final offers.* In the case of contract negotiations, again this represents a huge opportunity for ALA to help libraries. Some group, such as LITA (Library Information and Technology Association), should hire and bring together a group of consultants, lawyers and vendors. A basic common contract form should be developed and offered as a common starting point. Use of this contract form should be required as part of the RFP process. Alternate wording could be suggested for topics as required.

Best and final offers, should be the final step in the negotiation. All aspects of the deal should be fully understood by all parties. When issued, the BAFO should be just that – the best and final offer. When vendors know that there will not be a second, third or fourth BAFO, they can submit a true BAFO and this will save the library and the vendors time and money.

(4) *Lawyers/consultants.* Know when to hire and how to use a consultant/lawyer in the procurement process. Too many procurements use a consultant to insulate the library from criticisms of unfairness and/or to conduct a formal process of building consensus among the staff. While these are certainly valid reasons, many times the director is doing this merely to offload responsibility that rightfully should only be held in their office. Consensus buying usually results in the library purchasing the lowest common denominator between the dozen committees formed. One must wonder if the lowest common denominator is what the library really needs in the fast-paced world of automation. A director who wishes to forge forward and lead their library must express a clear vision of the future and must lead their staff not by consensus but by daring. Likewise a consultant should not be used for process, but for education.

The use of lawyers must be managed and not allowed to run unchecked. Lawyers work for you and if you give them free rein they will maximize the opportunity to their advantage. You must remember that they are essentially consultants. Furthermore, you should remember that you would negotiate, with the vendor, the business issues of the contract. You should be paying your library for consultation on the legal issues of your contract.

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They are different! In all cases, you should listen to what your lawyer says, and you should weigh that advice for your situation. Use that which is appropriate and discard that which is not. If you wish to manage them, you must clearly state what your expectations of them are and what amount of money you expect to spend on their services. Lawyers do not work for free and if you set the parameters, they will respond accordingly. Ultimately, you want to be sure that the amount of money spent on their services is not to the detriment of other services you could be providing your users.

Will we see benefits?

Finally, many of you having read the above will say to yourself, vendors only want us to do this in order that they can maximize their profits. While there is certainly some truth to that, one must remember that lack of profits has driven many vendors from this field and/or resulted in numerous downsizings, mergers and acquisitions over the last few years and we are not done yet. Those that are left face increasing pressures on profit from competition and the demands of the marketplace. Ultimately, the money saved on what may well be non-productive processes will filter back into the products and services you purchase resulting in lower costs and greater value. That will benefit all of us.

Further reading

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