Software procurement value

The "build or buy" dilemma continues to perplex decision makers concerned with tooling up the business with IT application solutions.

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One of the challenges facing most chief information officers (CIOs) today is how to demonstrate greater value to their stakeholders, while delivering quicker, cheaper and with improved quality. Proficient CIOs should be able to routinely and objectively judge whether the business is getting value for money for the software it procures and uses, to support its business operations and goals.

Software application procurement needs to be undertaken with serious consideration of the business objectives that it aims to address. The value businesses obtain from software spend is very much dependent on the extent to which the software supports business processes and is able to adapt to meet evolving future needs. Package acquisition is often regarded a less risky and is assumed to be quicker than bespoke development.

Understanding unique value propositions
It is often said that value is in the eyes of the beholder. This is true when evaluating software. Some businesses use software as a commodity to support services and processes that make them more efficient. This is akin to other utilities such as the provision of electrical power which needs to be always-on or digital connections which need to be reliable and fast. Commodity applications rarely differentiate the business in the marketplace. For such applications, IT procurement typically focuses on cost reduction, quality and efficient support.

Other enterprises or organisational departments may acquire and use software as a strategic competitive differentiator. What all CIOs should do, for starters, is judge whether their acquired or custom developed software is being acquired at a fair price.

Understand software size
The adjudication of "fair price" must relate to the quantity of software procured. Application software sizing is based on the business-functional capabilities of the software, such as the types and complexity of the business transactions the software is designed to process, and the richness or complexity of the data that it maintains and the management information that it provides.

International adoption
A number of emerging economies and indeed BRICS partners have adopted software quantity surveying or functional sizing as a de-facto standard when evaluating commercial software acquisition contracts.

This practice is particularly popular in Brazil where government agencies, banks, tecoms companies and airlines use a "price per function point" in software procurement contracts. In India, many leading outsource providers, use function points as a means of costing their software application delivery quotes for clients in the developed world. Function points are also used by large-scale technology groups like HSBC Global Technologies, IBM Global Business Services and Vodafone Global Enterprise.

In SA a number of leading banks, insurance and healthcare companies, telcom providers leading software houses have adopted the practice. Unit cost based costing is beneficial not only to large multinationals, but can effectively be used by all decision makers concerned about ensuring value for money software acquisition.

Benchmark to ensure cost effectiveness
Those business leaders concerned about cost effectiveness, often benchmark their software procurement, albeit in-house or through external suppliers. Reliable benchmarks can also be used to make objective decisions about the competitiveness and aligned risk of accepting suppliers' quotations to undertake delivery and integration of new or improved business software. Buying software on a cost-per-unit amount is not trivial but it has been demonstrated to lead to dramatic improvements in price performance and improved delivery to time and budget. ■