

Vendors as Allies: How to Evaluate Viability, Service, and Commitment

By Steve Heye and Steve Lancman, January 2007

When you're using enterprise software to help run your organization, the software vendor becomes a key ally – and the right relationship may be as important as features or price. Steve Lancman and Steve Heye recommend methods for comparing the intangible aspects of vendor services.

This article reflects the experiences of two national nonprofits that help their member agencies evaluate and select software. YMCA of the USA is the national resource office for America's 2,671 neighborhood YMCAs. JCC Association, based in New York, is the umbrella organization for 350 independent Jewish Community Centers ("JCCs"), YM/WHAs, and their camps, in the U.S. and Canada. Although Y-USA and JCC Association collaborate informally on the initiatives described in this article, Y-USA and JCC Association are independent organizations with no formal relationship.

YMCAs and JCCs provide an amazing range of services to their communities. The typical YMCA/JCC runs athletic, cultural, and social service programs; membership-based fitness centers; early childhood services and kindergartens; summer camps; and more. Although a large percentage of an agency's budget typically comes from fees for service, YMCAs and JCCs serve everyone regardless of their ability to pay. And every Y/J tailors its services, pricing, financial assistance, and billing to the unique needs of their respective communities.

Perhaps not surprisingly, good Y/J management software has been hard to find. YMCAs and JCCs are a small niche market with complex needs, some unique requirements, and cost-conscious customers. Our member agencies typically expect the support and relationship provided by the traditional vendor model, but this space isn't the most attractive market for a vendor. In spite of this, successful relationships between software vendors and YMCAs and JCCs have been achieved – where YMCAs and JCCs get good, constantly improving software, and vendors get the revenues they need to support ongoing investment in the Y/J market.

This article describes how Y-USA and JCC Association have helped their member agencies evaluate vendors as potential allies in YMCA and JCC operations – and how their methods might work for your organization.

The Challenge of Vendor Partnerships

In the late 1980s and early 1990s, several vendors developed good software for YMCAs – but few YMCAs invested and the vendors moved on. Observing that YMCAs were under growing pressure from boards and communities to improve efficiency and service by using software, Y-USA acquired the rights to these systems and entered the software business itself – intending to provide leadership, support, and subsidies to help YMCAs succeed with software. By the early 2000s, Y-USA's internal software unit was selling and supporting three different systems used by more than 60% of YMCAs.

But by the early 2000s, it became increasingly clear that software development was far too complex and costly for an in-house division of a nonprofit. In 2002, Y-USA announced that it would transition from building software for YMCAs to helping YMCAs better evaluate and use software systems from private vendors. Y-USA developed standard tools for evaluating vendors, offered seminars and training on software selection, and launched a Y-USA software provider certification program. Today, the Y-USA certification program includes many activities that nurture strong relationships between the certified vendors and their YMCA customers, and also facilitates data reporting and analysis for benchmarking across the YMCA movement. Over the last 3 years, nearly all the YMCAs on Y-USA software have transitioned to software supported by private vendors, in many cases those certified by Y-USA.

The JCC story has many similarities. In the late 1980s and early 1990s, several vendors developed software systems for JCCs. Although over 70% of JCCs bought these systems, the JCC market was too small to sustain several competing vendors. By the mid-1990s, some vendors went out of business, and others were providing only the most basic support for their JCC software products. By the early 2000s, most JCCs were running operations on antiquated and largely unsupported software.

In 2003 the JCCs asked the continental JCC Association to evaluate options for JCC software, and recommend a system that could potentially be used by all JCCs. The JCCs felt that if each JCC independently evaluated software, resources would be wasted on duplicated efforts, and poor decisions might be made. The JCCs also wanted JCC Association to help pool limited JCC buying power to obtain better pricing and commitments for JCC-specific software enhancements.

JCC Association put together a committee of representatives from JCCs across the US and Canada, supported by a consultant, to evaluate vendors and systems. After almost a year of research, the committee chose a winning vendor that offered the best combination of software functions, price, and customer support – and had been in business for many years, with much of its revenue coming from outside the Y/J market. Nearly 1/3 of the JCCs have purchased software from this

vendor, and JCC Association runs a program that helps JCCs succeed with the vendor's software, and that, like the YMCAs, facilitates data reporting and analysis for benchmarking. For those JCCs who want to conduct independent evaluations, all of the various tools used in the JCC Association evaluation are available.

Choosing Vendor Allies

To help YMCAs and JCCs pick solid vendor allies, Y-USA's and JCC Association's tools evaluate vendors as carefully as features and cost. Evaluating vendors as a potential ally means asking vendors to provide almost as much information about their company, operations, customers, community and track record as they do about their software's features and price. It also entails carefully interviewing vendors' current customers whose operations and business practices are as similar as possible.

Y-USA and JCC Association help their members evaluate the vendor in three core vendor areas, which apply to most organizations choosing enterprise software:

1. **Viability.** Will the vendor be in business in ten years?
2. **Quality of vendor services.** Will the vendor help with Implementation, to configure the system and train staff to ensure that staff can do their jobs in the system? How is their Support? Are knowledgeable, helpful, and friendly vendor employees available when and how staff needs to reach them? Does the vendor provide careful Maintenance of the system, with continuous, well-thought-out enhancements, with needed documentation and training?
3. **Commitment to the specific market.** Will the vendor make ongoing investments in meeting the software and service needs of organizations in the same niche (in this case, YMCAs and JCCs), over the next 10 years?

Viability

It's a disaster when your software vendor stops supporting your market or goes out of business. Many organizations have constantly changing services, staff, and operations and need ongoing vendor training, support, consulting on best practices, and software enhancements to meet evolving needs. Without these vendor services, software can become functionally stagnant, become harder and harder to use, and can feel more like an obstacle to success than a platform for growth.

When a vendor fails, an organization can be hit with a double whammy. The cost of the old software, likely 3-5% of budget over several years, is lost. On top of that, they will need a major new investment in replacement software, with all the associated pain of selecting and implementing a new system.

To avoid these scenarios, try to think like an investor, or even like a lender, when evaluating software vendors. Ask, "If we lent this company money, would we get our money back? Would we get a return on our investment?" Ask vendors questions about their business, ownership, and financial results, including:

- How long has the vendor been in business?
- How many customers are currently paying for support and maintenance? How many for the specific system that you are buying? How many customers does the vendor have in your niche market? In other words, what revenue stream will support the vendor's ongoing investment in building and supporting software for your market?
- How many customers have left the vendor for another in the past three years?
- How strong is the support community around the vendor software? Are there consulting firms or individual consultants who have invested resources in learning about the software? If so, that implies that others believe in its long term viability.
- Who owns the vendor? Have there been major changes to vendor's ownership structure in last 10 years? Owners make decisions about where to invest resources, so it's helpful to know who they are and what - if any - operating roles they play in the company. Also, a past change in ownership structure sometimes results from a bankruptcy or other difficult period in a company's past – good things to know about a potential partner.
- Has the vendor has been the defendant in any major litigation?
- What is the vendor's financial situation? Ask for audited financial statements that show:
 - Vendor's profitability for last 5-10 years
 - Vendor's net debt (current and long-term borrowings less cash and equivalents) for the last 5-10 years

Asking detailed questions about ownership and finances can be uncomfortable, but if you are buying mission-critical software, the vendor should understand your need to investigate their long-term situation.

If your organization can do only one thing to evaluate vendor viability, try to make sure the vendor is profitable, has little or no debt, and has a straightforward ownership structure. Several vendors of enterprise software are publicly traded and therefore must make this information public – see, for example, <http://finance.yahoo.com/lookup>.

Vendors of niche software systems are often private and closely-held companies who won't share financial statements. A good compromise between your need for information and the vendor's needs for privacy is to ask for a letter from the company's auditor or accountant that describes the company's past profitability, indebtedness, and ownership structure. Explain to the vendor that you see them as a long-term partner in whom you are planning to make a major investment, and offer to sign a formal confidentiality agreement to protect their information.

If all else fails, you may be able to obtain some useful viability information for a fee from Dunn & Bradstreet credit reports at <http://smallbusiness.dnb.com>. You can also give greater consideration in your selection process to vendors who are willing

and able to demonstrate their viability.

Quality of Support Services

YMCAs and JCCs offer a very wide range of services - everything from men's basketball leagues to early childhood services to book clubs for seniors, all under one roof. Each service has its own pricing, registration, scheduling, and internal management needs – and each Y or J offers these services in a unique way, shaped by the limitations of antiquated legacy software, or modest staff computer and systems skills. The bottom line is no software system can accommodate everything a Y/J does in the way they do it.

This is typical of major software systems – nothing is likely to support your needs directly out of the box. A vendor ally that can implement, support, and maintain your system – either in house or through consulting partners - is a critical piece of an effective solution.

Implementation Services

Implementing a major software system is not a trivial endeavor. It typically takes Ys and JCCs 3 to 6 months to launch initial membership and billing functions in a new system, and up to 12 to 18 months to be fully supported and running smoothly. As you evaluate vendors, it is essential to clearly identify how, to what extent, and at what cost, a vendor will help you with major implementation tasks. Ask whether the vendor will help you with:

- **Project Management.** Who will ensure the implementation meets your organization's business objectives, and runs on time, on budget, and with minimal disruption? This challenging and critical role is often the customer's responsibility, but if your staff doesn't have the time or skills to lead a system implementation, it may be important to work with a vendor or consultant who can provide this service.
- **System Configuration.** Powerful systems can have hundreds of screens and thousands of settings. Configuration must be driven by a careful analysis of your major business processes, in close collaboration with your staff, and with excellent insight into what the software can and can't do. Mistakes are costly, and can create angry customers, uncollected bills, and demoralized staff. Configuration design is often the role of a Business Analyst on your end– but it's essential to know how and to what extent the vendor will help.
- **Training.** Smaller vendors typically send a trainer, often from their support team, on-site to work with a few key people on a customer's staff. Training is informal but will likely cover all major software functions screen-by-screen, and will usually entail brainstorming system setup choices. Staff who get this "train-the-trainer" instruction then make configuration decisions, and train and support all their colleagues. Classroom training is more formal and more expensive. Bigger vendors with dedicated professional services teams configure a test system to reflect a customer's business practices. The vendor's consultants then teach customer staff how to do their jobs in the systems, hands-on in a classroom environment using the test system, often using customized procedure manuals or cheat sheets. Classroom training also generates good staff feedback on system configuration and related procedures - useful for fine-tuning before going live.
- **Data Conversion.** Information from legacy systems can almost always be extracted, cleaned up, and uploaded into the new system, but this requires careful planning and testing. The time required to map data from one system to another, clean data where necessary, move data, and test the converted data can range from days to months depending on the current state of your data and the difference in systems. If the legacy system is widely deployed, a vendor's data conversion services may cover all aspects of a data conversion; if not, you may need to do this yourself, hire a consultant, or manually enter legacy system data. When a new system manages mission-critical functions very differently from legacy systems, data conversion can overlap with System Configuration.

Support Services

Once a new system is live and your staff start using it day-to-day, staff calls for help will likely overwhelm your power users or IT staff. Most software vendors, large or small, have dedicated customer support teams available during business hours by 1-800 number or by email. Beyond that, support models vary enormously. Read the fine print very carefully, and ask:

- **Contact.** Who on your staff is allowed to contact the vendor's support team? Can anyone on staff call, or only certain authorized (usually specially trained) staff? What days and hours can support be contacted, and what are the policies and pricing regarding after-hours support? Holiday support? Emergency support?
- **Issue Management.** How does the vendor's support team manage calls or emails from customers? Is there a formal "tiering" system to help prioritize urgent issues or route them to more experienced support staff for faster resolution? How are emergency, holiday, and/or after hours support calls managed? Does the support team have a case management system to ensure that every call is tracked until it reaches a resolution that's satisfactory to the customer?
- **Support Staff.** How many people are on the vendor's support team? What is the ratio of support staff to customers paying for support?

Once you understand what it takes to talk to a human being at the vendor, ask to see the vendor's self-help resources, including:

- **Documentation.** Is there documentation available for all functions and modules? Updated with each new release? Available on-line, and in hardcopy?
- **Community Resources.** Are there on-line resources such as a knowledge base, forums, or chat rooms, where customers can help each other?

The Larger Implementation and Support Network

In addition to the vendor staff, it's important to keep in mind that there may be consultants or outside firms that can also help. A strong ecosystem of third parties who work with a particular software system is a very positive sign – this not only provides you more support and integration options, but means that the vendor is open to collaborators. As you look at software, consider:

- How many consultants and consulting firms can provide implementation aid or support for the software package?
- What is the strength of the relationship between the consulting firms and the vendor? Do the consulting firms support dozens of different software packages, or just the one?
- How does the vendor support their third party community? Do they encourage them with licensing programs, special access, or even development tools? Or do they discourage third party integrators and require you to work with their own consulting team?

Maintenance Services

All software has bugs, and no software system will do absolutely everything you want it to. Good vendors constantly improve their software - they correct bugs fast, and regularly add new and improved features to meet customer needs. The best vendors try to build to the best practices in the market niche to which they sell. Ask the vendor how frequently software updated. Most vendors have a stated policy of 1-2 major new releases each year (“whole number” releases, e.g. version 9.0), with multiple “point releases” throughout the year (e.g. version 9.34). Make sure you understand new release policies – for example your options for remaining on an older release, if you believe implementing a new release will be disruptive.

Ask vendors to demonstrate their track record of enhancing their software by showing you:

- “Roadmap” documents, that announce plans for enhancements, and timing for their availability / release dates.
- The last 2-3 years of release notes – copies of the documentation that vendors provide, with new versions of their software.

Vendors enhance software in order to keep current customers and/or win new ones – so they tend to build features that will appeal to the largest number of current and/or potential customers. Some vendors will also customize their systems to meet the unique needs of individual customers, usually for additional hourly fees.

Customization of mission critical software is a complex subject. There is a direct correlation between how much you customize a system and how much it will cost. Consider not just the implementation of custom features, but also the associated staff training, support, and future maintenance. Keep in mind that customizations may make it difficult to upgrade your system to new vendor releases. Ask yourself how much customization is really necessary. It may be wise to evaluate and possibly adopt best practices for your niche, rather than incurring the substantial costs of customizing a system.

When evaluating vendors, try to determine where customization fits in to their business model. If the vendor was selling men's suits, would the suits be off-the-rack or hand-tailored? And which of these do you really need? Which can you afford?

Talk to your peers

No evaluation of a vendor is complete without talking to other customers with needs similar to yours. If you can only do one thing to evaluate the quality of a vendor's services, try to identify at least three peer customers using the system you are considering, and spend up to a day with each. With patience and probing, you can evaluate the scope, pricing, and perhaps most important, the quality of a vendor's services.

The vendor will likely be able to introduce you to customers - if they can't, that's a danger sign. Don't let concern about imposing stop you from contacting these customers, as they will likely be happy to help. Chances are they did this too when they were in evaluation mode – or wish that they had!

Prepare carefully for your day with these peers. Organize a small cross-functional team of the core staff who will be active users of the new system. Make sure each staffer has a written list of questions they will attempt to answer during the visits. Make sure your staff ask the same questions of each peer, and carefully track and compare the answers. During the visit, try to combine some group time to ask general questions of the peer's staff, and some one-on-one time where CFOs, marketing directors, etc can pair up to discuss function-specific issues and work with the system together.

Try to get a complete picture of the peer's experiences across the systems lifecycle, by asking questions including:

- What other systems did they evaluate, and why did they chose this one?
- How did they accomplish the major Implementation tasks described above, and what role did the vendor play?
- If the peer has been working with the system for some time, ask about their experience with the vendor's Support and Maintenance services. This may also help establish the relative importance of some of the above criteria. For example, if the vendor has limited after-hours support, but three peers tell you they've never needed it, it may not be much of an issue.
- Do they see the vendor as their ally? Why, or why not?

Commitment to Your Specialty Market

Even within a given niche market, customer requests for new and improved features can vary enormously. Vendors have finite development/programming resources, and typically prioritize enhancement requests based on:

- **Degree of difficulty.** How many person-hours will it take to develop, test, document, and create training services for the requested enhancements?
- **Revenue potential.** To what extent will the enhancement help to win new customers and/or keep existing customers?

A vendor may demonstrate financial viability and an excellent track record of helping its customers succeed with its software. It can however be difficult to determine whether a vendor will achieve a critical mass of customers in a particular niche market for software – critical mass being defined as sufficient revenue potential to justify ongoing investments in reasonably significant, difficult-to-develop software enhancements.

To consider a vendor's commitment, try to determine whether a given vendor has:

- already achieved critical mass in your market, which typically requires dozens of active customers similar to your organization, and a good track record of growth in your market.
- a strong market presence in a market niche that has similar software needs, such as municipalities, universities, etc, and an initial foothold of several satisfied customers in your specific market.
- a history in the market for over three years, preferably five years.
- some other way to demonstrate long-term ability to achieve critical mass in your market.

Choosing Your Ally For Years to Come

Selecting software on the basis of features and price might feel like it's an objective way to make a tough decision. You can exhaustively evaluate systems against checklists and, with careful analysis, compare vendor costs.

By contrast, intangibles like vendor viability, ability to help customers succeed with high-quality services, and long-term commitment to a customer's market niche are highly subjective criteria. Nevertheless, these criteria are often as important as features and price in selecting a vendor who will be your ally for many years to come. The Y-USA and JCC Association questions and processes discussed above have helped the Ys and JCCs select long-term partners for their mission critical operations software – and could be important food for thought for your organization as well.

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