

Terminating an IT Vendor

Transition Planning is Critical.

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Part Three in a Three Part Series

When most organizations engage with an IT Vendor they typically develop a business relationship and over time it's normal to begin to think it will last forever.

You have followed the advice in my two previous articles, "Selecting An IT Vendor" (Part One in this series) and "Managing an IT Vendor" (Part Two in this series). However, despite your best efforts, it's crossed your mind that perhaps you might need to change your IT vendor.

With any vendor, there will be incidents where their performance is not what you contracted to get. More troubling would be vendors whose performance has begun to disappoint on a regular basis. You have talked to the vendor about your dissatisfaction and given them ample opportunity to resolve the problem. In spite of your efforts, nothing has changed and you are convinced that changing vendors is the best or only option. There are many reasons for terminating your relationship with your current IT vendor, including:

- Your vendor is no longer responding to your needs. They may be missing dates, coming in over budget, or have substituted less experienced personnel to support your account.
- Your business has grown and your vendor has not been able to grow their support team to meet your expanded business needs. As your business expands (e.g., product lines, employees, locations, adding channels such as e-commerce, etc.), many vendors (especially small consulting firms) cannot or do not "ramp up" their support to provide adequate service.
- Your business requirements have changed and your vendor can no longer provide the scope of services you need. This could be a result of your business growth and diversification, or new industry standards, security, or compliance with government mandates (Sarbanes-Oxley, HIPAA, HL7, etc).
- Sometimes, it's not a performance issue. If your vendor seems to be exploiting your relationship by suggesting new technologies (that you may or may not "need"), or regularly increasing their hourly rates, you may wish to step back and review the "value proposition" related to their services/support. If you're finding that your monthly bill has consistently "trended" higher (for no reason) and often contains unexpected or unreasonable fees, it probably time to consider changing vendors.

If you are actively "managing your vendor" you should spot any of the above symptoms quickly. If not, then you may have just been "jolted" into the realization that your current vendor is not meeting your needs and/or expectations. At this

point, when you come to the realization that you may need to (or, should) change your IT support vendor, it is imperative that you do these four things:

1. Don't panic, however,
2. Make this a priority (among whatever else you are doing), and,
3. Develop a Plan (with a timeline), then,
4. Follow your Plan (stay on your timeline).

Before you can terminate your vendor and engage another support vendor, make sure that you keep a level head and handle the situation in a very purposeful and methodical manner. Except in the most severe situation, do not react to a bad situation by firing the vendor. A planned transition to a new vendor is always beneficial to you, if you can accomplish it.

After deciding to terminate the relationship, there are some things that you must do to assure a smooth transition. You should remember that this is a short term situation. Here are some steps to help you.

Review the Contract

Hopefully you entered this relationship aware of the possibility that it could end and planned for this contingency with a legal contract. The details of how to handle a split are typically defined in your contract. Review the contract for the following:

- Are there defined reasons for termination?
- Do you have to give the vendor notice?
 - How is the notice to be provided?
 - How far in advance to you need to provide the notice?
- Is the vendor obligated to participate in a transition process?
- What information, data, or intellectual property is the vendor required to turn over to you, and in what timeframe?

It is imperative that you have a full understanding of what, if anything, is contractually required of each party. Notify the vendor that you intend to terminate (or, not renew) their contract and ask for their support in effectively transitioning to a new vendor. In my experience, most vendors will agree to this, especially if the situation hasn't already become an emotionally-charged one.

That's why if you have effectively planned for this and outlined responsibilities of both parties in your contract with the current vendor, managing the transition is somewhat easier. Pay particular attention to the following issues.

Terminating the Current Vendor

Most contracts require some notice, typically 30 – 60 days, be given to the vendor to advise them that their services are being terminated. Often, this notice must be provided in writing. Do NOT give the vendor anything more than required, as this may expose your organization to unnecessary risk. Be professional.

Identifying and Engaging a New Vendor

Typically, you do not terminate your current vendor before you have identified, selected and completed contract negotiations with your new vendor. Consult an attorney to determine if you should enter into a contract agreement with the new vendor which specifically addresses their role and responsibility during the transition from the current vendor. If this requires you to delay the termination, it is usually worth for the wait.

Identify a Replacement

Since you must identify a replacement vendor before you terminate the current vendor, there are a few nuances worth mentioning as you proceed through the vendor replacement process.

First, you must be discreet. The last thing that you want is the current vendor hearing through the grapevine that they are on their way out the door. If they do, you open yourself up to risks such as, legal action, malicious behavior, or premature termination (initiated by the vendor). It is both prudent and to your advantage to keep your decision private until you are prepared to act.

Second, remember that your current IT Vendor probably has access to (and may be able to) view your emails. Therefore, in your dialogues to consider terminating your current vendor and/or conducting a search for a new vendor) you should think about using an external third party email account (e.g., Yahoo, Hotmail, or Gmail), or to avoid all email at this point.

Third, if the current vendor has staff located at your office, meetings should be scheduled and held off-site in an effort to keep your plan low-key and “off the radar” of people who don’t yet need to know. Do not share the plan with anyone outside of your transition planning team too early. Do not think of this as being sneaky; you are being prudent and protecting your business interests.

Create a Transition Plan

It is very desirable to create a transition plan where both the outgoing and incoming vendor are working together. Sometimes this is not possible for a variety of reasons. However, where it is possible and can be managed effectively -- with two vendors who are willing to work together (albeit for a short period of time) -- this can provide you with many benefits and a very smooth transition.

In any case, you will provide the new vendor with any pertinent information related to your contract termination activities. Do not provide more than is necessary. They will need to be aware of any timelines and/or notification periods defined in the contract with the outgoing vendor.

- Some vendors like to have the option of calling the previous vendor after the transition plan has been completed. They (previous vendor) may need to provide services on a limited or as needed basis. You will need a separate contract with them that defines the terms of that relationship.
- Still other vendors will simply choose to cut all ties and not participate in any post implementation support services. If you are able to successfully negotiate a post transition support agreement, make sure that you have defined explicitly when the new vendor can and cannot call the previous provider.
- Better yet, you may choose to identify a person on your staff or a neutral consultant who will approve or handle all such requests.

Throughout the transition period you will be in close contact with the new provider. They should identify a Transition Team Leader who will be the person on their team who is responsible for a successful transition. You should plan to conduct weekly (or more frequent) meetings with the project team to address any issues that come up, and to make sure that all assigned tasks are being completed as required.

For a transition timeline of 30 – 90 days (typically), it is easy to lose track of time and miss key deliverables. Make the most of the time that remains with the current provider, directing their time towards an effective transition to the new vendor.

Notify the Current Vendor

After your transition plan has been defined, schedule a meeting with the current vendor. This meeting should be done in person but without the new vendor participating. At the meeting you should advise the vendor that you have decided to terminate your contract with them. If the vendor asks why (and they should) be prepared to respond clearly and candidly about what prompted the decision. The conversation should stay focused on the purpose of the meeting. You should communicate the transition plan and advise them of your expectations for their participation during this time.

Do not make this discussion or situation personal. If you have had a long term relationship with your current vendor (and, especially if they are a small firm) they may feel hurt or upset. You must make it clear that your decision to terminate the relationship is a business decision, not a personal one.

Implement the Transition Plan

The specifics of the transition should be defined and managed by the new vendor. You will need to identify someone in your organization or a qualified consultant to serve as the liaison to the current vendor.

You need to plan on the likelihood that both vendors will need to work together at some point. You should clearly communicate that you expect them to work together professionally during this time. If there are conflicts, the new vendor should report any issues to you so that you can address them directly with the appropriate party.

The transition plan will include completion activities for in-process work, knowledge transfer, information transfer, and training. You need to be sure that there is a plan for every day of the transition. At a minimum you will want to make sure that all of the following are covered in the plan:

- Completion of In-process work
- Transition of work that cannot be completed during the transition
- Login IDs and Passwords for all equipment and software
- Vendor Lists and Contact Information
- System Documentation and Procedures
- Backups
- Inventory
- Software Licenses
- Physical/Facility Security
- Intellectual Property

Expect the Unexpected

Despite the best planning efforts, you should expect and be prepared to deal with issues that arise. At one company, a significant issue arose on the first day of the transition period because the current vendor did not want to turn over the administrative passwords to the new vendor. This might sound like the vendor was just being difficult, but in the technology world this was a legitimate concern. From their perspective, they were responsible for network security until their contract ended. Therefore, until they received an addendum to their contract that addressed this issue, they will not provide the information until the last day of the transition. This, obviously, can present problems for the incoming vendor.

Another request that should take place on day one of the transition is that the new vendor should be given system backups. They will likely create a replica of the environment on their own network as part of their learning curve to support your organization, particularly if they will be providing software development services.

Hopefully the current vendor has been completing documentation for the systems they support as part of their contractual obligation to your organization. If not, this is when you will find out and this will present a significant challenge for the new vendor, both in terms of providing support as well as coming up to speed with your systems. This is especially important as it relates to custom software applications. You should request that the current vendor create this documentation (if you discover that it doesn't exist) as part of their transition activities.

Do not wait until the last day of the transition to get important items from the outgoing vendor. Ask the current vendor to put all of the documentation onto some portable media (CD or DVD) so that you can provide it to your new provider (so that their staff can review this information and become familiar with it). Explain that you need to have the new vendor ready to provide complete support on "day one." Have the new provider review all documentation and submit questions or raise issues for discussion with the current vendor.

If the current vendor has access to your office, be sure to get all keys and/or electronic fobs back on the last day of the transition. You will also want to make sure that all building security codes are changed. Establish a plan for access to your systems or network (e.g., passwords) by outgoing vendor staff, email accounts (on your email server), and outbound phone messages if they had staff onsite using your phone system. These actions should be common practice when anyone leaves your organization, not just a vendor.

Understand Your "Carrots and Sticks"

When you are planning your transition you need to perform a "risk assessment" and develop risk mitigation strategies. For example, how will the current vendor react to your decision to terminate or discontinue their services? Prudent planning demands that you consider the worst case scenario. The vendor may at a minimum be angry, at worst they may sabotage your systems or threaten legal action. By doing your homework, planning, reviewing the terms of your contract, and securing legal counsel, you can be prepared for whatever may arise. Remember that you are a customer and you certainly have a choice of what vendor you choose to deliver services for your organization.

While you might like to think that every vendor will conduct themselves in a professional and ethical manner, unfortunately, that is not always the case. I've heard some of my customers express concern that the outgoing vendor has nothing to lose, so why would they cooperate with the transition plan or the new vendor. Well, I can think of at least two very valid reasons for them to cooperate:

1. Businesses live and die by their references (especially, firms that provide services). If they conduct themselves professionally, it is possible that they might go out on a positive note. At least it would benefit them to end their relationship with you in an ethical and professional transition to another

vendor (a competitor). So even if their service levels had declined to a point where you needed to make a change, they could still show that they can do good work and be professional. Usually, the business community in which they operate is small and vendors should not want to burn any bridge.

2. Withhold final payment. Holding final payment as a condition of the outgoing vendor's participation in the transition plan is the ultimate leverage. Typically, payment to a vendor comes after the service is delivered. Given that there is some value in the services a vendor delivers (even up to the very last day) clients have the ability to find these services acceptable or not.

Communications

A frequently overlooked issue that can arise as a result of a vendor transition is the impact of this change on your staff. This is especially true if your previous vendor was with you for a long time, shared space in your office, or had direct and frequent contact with your staff. Terminating the vendor means a lot of familiar faces will no longer be part of your office. This can become an emotional issue that you should plan to address.

Your staff may not understand why you are changing vendors, because they were not involved in the management of the previous vendor or they do not understand the strategic direction of the organization. This can result in some of your staff developing bad morale issues that might negatively impact upon the success of the transition.

There is a fine line between communicating too much or too little. Part of your transition plan should include a communication plan that defines what is communicated, to whom, and when. I cannot stress the importance of this enough. You want your employees to feel valued and involved. You want them to understand why the change is important. If you make this a priority, your staff will embrace and support the change, even if they are typically resistant to change.

After The Dust Settles

After the transition you will return to "managing" your new vendor. In my article, "Managing an IT Vendor" I provide advice on ongoing management activities that defines how to successfully manage your vendor. By committing to being responsible for the management of an outside vendor, you can build a long term relationship with positive results.

If you do not have the time or the skills needed to terminate a vendor or to effectively manage vendor, consider obtaining the services of an unbiased consultant who can perform this activity for you. A good consultant views their job as helping you to achieve your business and your organizational objectives. They should serve as your client advocate in managing the vendor and making sure that you are receiving industry standard support services and meeting their contractual obligations.

IT Transition Checklist

Assess Situation

- Review situation and identify areas of concern
- Determine if the relationship can be salvaged

Identify New Vendor

- Define Business Requirements
- Identify Potential Vendors
- Follow "Selecting An IT Vendor" Checklist

Termination Process

- Review Contract for termination reasons and other contractual obligations
- Notify vendor verbally
- Provide written notification of termination including termination date

Transition Planning and Management

- Conduct meeting with New Vendor
- Define Transition Plan
- Conduct Weekly Meetings and Create Status Reports
- New Vendor Assessment
- Manage tasks to Plan

Create and Management Communications Plan

- Initial Announcement to Staff
- Process Changes Announcement to Staff
- Announcement to external audience (e.g. customers), if required

Post Transition Management

- Conduct Post Transition Meeting/Review
- Manage Vendor (see "Managing An IT Vendor" article)