Techniques for Obtaining Reasonable Prices
On Sole or Single Source Contracts

Roslyn Watrobski and Jim Davidson, OSC
and John McGrath, DCJS
Single or Sole Source

- Major purchase - $$$$$$$$$$$$$$$
Objectives

- Genesis

- Key techniques
  1. Determine Need
  2. Assess Competition
  3. Gather Information
  4. Welcome OSC
  5. Run the Numbers
  6. Negotiate
Genesis

- Maintenance agreements
  - Equipment
- DCJS
  - Software and applications systems
 Maintenance Research

 Articles

 The Elephant in the Software Maintenance Room
 Negotiating Better Maintenance Terms

 Industry Experts
Key Techniques

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
1. Determine Need

What are we buying?

Define the procurement:

- Best value procurement
- On time, passes acceptance test
- Maintenance always available and trained
- Parts in stock now and future – (OEM)
- Financing incentives – trade in
- Penalties and bonus incentives
- Support future products
- Corporate guaranty – Letter of Credit
1. Determine Need

- How much?
- Critical?
- Risk exposure?
  - Alternatives

- Response time:
  - 2 hours
  - 4 hours
  - Next day
1. Determine Need

http://www.experts-exchange.com/

- 50,000 experts
- 2.8 million solutions
- 250,000 concurrent users
- Response rate – 46 minutes
Key Techniques

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
2. Assess Competition

- Real
  - Trade associations & exhibits
  - Users groups, sales force, blogs
  - M & A, D & B, Google, and Bing
  - Product lines – Harvest products
2. Assess Competition

- Perceived
  - Bidders conference
  - Publicize your procurement, RFA’s
  - Bifurcate procurement
  - Written questions – both ways
Key Techniques

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
3. Gather Information

- OSC – number one resource
  - Vend Rep, Bureau of Contracts
  - Bureau of State Expenditures, Legal
  - Experience and interest of staff

- Other agencies - similar procurement

- Other agencies - same vendor
  - Procuring same services
  - Common elements of procurement
3. Gather Information

- Data from similar size companies, within your own geographic area, product mix
- One or two unusual companies can skew the numbers
- If you can identify an industry group (e.g. - SIC code) data will be less distorted
3. Gather Information

- Trade associations
- State records, includes others/Federal Agencies
3. Gather Information

- Bidders conferences let you know who is out there – as in competitors - sign in
- Presentations by Offerers on how committed they are might also provide a window on organization expenses – on the record
- Public data – employment advertising
- References, VendRep information
3. Gather Information

- Yahoo Finance
- Edgar
- SEC
- Vendor’s web site (annual report)
### COMPANY

<table>
<thead>
<tr>
<th>Profile</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Value/Revenue (ttm):</td>
</tr>
<tr>
<td>Enterprise Value/EBITDA (ttm):</td>
</tr>
</tbody>
</table>

### Key Statistics

#### SEC Filings

#### Competitors

#### Industry

#### Components

### ANALYST COVERAGE

#### Analyst Opinion

#### Analyst Estimates

#### Research Reports

#### Star Analysts

### OWNERSHIP

#### Major Holders

#### Insider Transactions

#### Insider Roster

### FINANCIALS

#### Income Statement

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (ttm):</td>
<td>97.38B</td>
</tr>
<tr>
<td>Revenue Per Share (ttm):</td>
<td>74.65</td>
</tr>
<tr>
<td>Qtrly Revenue Growth (yoy):</td>
<td>2.00%</td>
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<tr>
<td>Gross Profit (ttm):</td>
<td>43.78B</td>
</tr>
<tr>
<td>EBITDA (ttm):</td>
<td>24.16B</td>
</tr>
<tr>
<td>Net Income Avl to Common (ttm):</td>
<td>14.01B</td>
</tr>
<tr>
<td>Diluted EPS (ttm):</td>
<td>10.58</td>
</tr>
<tr>
<td>Qtrly Earnings Growth (yoy):</td>
<td>9.10%</td>
</tr>
</tbody>
</table>

#### Balance Sheet

| Total Cash (mrq): | 12.25B |

### Trading Information

#### Stock Price History

| Beta: | 0.68 |
| 52-Week Change (ttm): | 7.50% |
| S&P500 52-Week Change (ttm): | 6.48% |
| 52-Week High (Jan 19, 2010) (ttm): | 134.25 |
| 52-Week Low (May 6, 2010) (ttm): | 116.00 |
| 50-Day Moving Average (ttm): | 127.79 |
| 200-Day Moving Average (ttm): | 127.85 |

#### Share Statistics

| Avg Vol (3 month) (ttm): | 6,347,090 |
| Avg Vol (10 day) (ttm): | 4,908,470 |
| Shares Outstanding: | 1.26B |
| Float: | 1.26B |
| % Held by Insiders: | 0.05% |
| % Held by Institutions: | 60.90% |
| Shares Short (as of Aug 13, 2010): | 15.20M |
| Short Ratio (as of Aug 13, 2010): | 2.30 |
| Short % of Float (as of Aug 13, 2010): | N/A |
Search the Next-Generation EDGAR System

Note: EDGAR Search Changes (see below)

Since 1934, the SEC has required disclosure in forms and documents. In 1984, EDGAR began collecting electronic documents to help investors get information. The SEC’s new system requires data disclosure — the next step to improve how investors find and use information.

You can search information collected by the SEC several ways:

- Company or fund name, ticker symbol, CIK (Central Index Key), file number, state, country, or SIC (Standard Industrial Classification)
- Most recent filings
- Full text (past four years)
- Boolean and advanced searching, including addresses
- Key mutual fund disclosures
- Mutual fund voting records
- Mutual fund name, ticker, or SEC key (since Feb. 2006)
- Variable insurance products (since Feb. 2006)

Custom searches:

- Confidential treatment orders
- Effectiveness notices
- SEC Central Index Key (CIK)
INTERNATIONAL BUSINESS MACHINES CORP CIK#: 0000051143 (see all company filings)
SIC: 3570 - COMPUTER & OFFICE EQUIPMENT
State location: NY | State of Inc.: NY | Fiscal Year End: 1231
(Assistant Director Office No 3)
Get insider transactions for this issuer.

<table>
<thead>
<tr>
<th>Filings</th>
<th>Format</th>
<th>Description</th>
<th>Filing Date</th>
<th>File/Film Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>8-K</td>
<td>Documents</td>
<td>Current report, Item 7.01 Acc-no: 0001104659-10-046756 (34 Act) Size: 1 MB</td>
<td>2010-08-31</td>
<td>001-02360 101050373</td>
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<tr>
<td>SC 13D</td>
<td>Documents</td>
<td>General statement of acquisition of beneficial ownership Acc-no: 0000950157-10-001534 Size: 854 KB</td>
<td>2010-08-23</td>
<td>001-02360 10990727</td>
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<td>8-K</td>
<td>Documents</td>
<td>Current report, Item 9.01 Acc-no: 0000950157-10-001239 (34 Act) Size: 256 KB</td>
<td>2010-08-04</td>
<td>001-02360 10990727</td>
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<td>424B5</td>
<td>Documents</td>
<td>Prospectus [Rule 424(b)(5)] Acc-no: 0001047469-10-006976 (33 Act) Size: 362 KB</td>
<td>2010-08-04</td>
<td>333-168333 10990169</td>
</tr>
</tbody>
</table>
SOI Tax Stats - Corporation Source Book: U.S. Total and Sectors Listing

Return to Tax Stats home page.

The Corporation Source Book presents balance sheet, income statement, tax, and other selected items by size of total assets for all returns with and without net income. Statistical tables are available by industrial sectors, major groups within a sector, and minor industries within a major group. Industry detail is based on the North American Industry Classification System (NAICS). The Corporation Source Book, which underlies the Statistics of Income--Corporation Income Tax Returns publication (i.e., the Complete Report), is part of an annual series.

The listing below is shown by industrial sector. You may select: (a) the U.S. Total for aggregated data for all industries; (b) one of the sectors to access data for that sector as well as data for the major groups and minor industries within that sector; or (c) Download all source data contained in the Excel files as one comma separated value (.CSV) file. Click here for more information on this option.

Please visit the Corporation Metadata page for additional information about the Corporation Source Book.

Data is available for years 2000 - 2007.

**U.S. Total**

Agriculture, Forestry, Fishing, and Hunting  
Mining  
Utilities  
Construction  
Manufacturing  
Wholesale and Retail Trade  
Transportation and Warehousing  
Information  
Finance and Insurance
3. Gather Information

- Under Regulation FD (Fair Disclosure) companies can’t selectively disclose financials ... are increasingly publishing "guidance" on future financials when they report quarterly earnings. Searching a company's investor relations web site may prove fruitful.


- http://finance.yahoo.com
3. Gather Information

- Google, Bing, the Vendor
- *Dun & Bradstreet*: sales, employees, net worth, nature of financing, credit worthiness, balance sheet / income statement / ratio data, law suits, public filings, liens, judgments
- *The Risk Management Association*: your bank probably uses this to benchmark your performance so it’s well worth the money to know what it says
- Morningstar.com
Where do your tax dollars go?

New Yorkers should know where their tax dollars are going. Open Book New York is part of State Comptroller Thomas P. DiNapoli’s effort to promote more openness in government and give taxpayers better access to the financial workings of government.

Track New York’s Stimulus Spending
Track how the State is spending federal stimulus money. Data is updated daily.

Search State Agency Spending
Find out what State agencies spend on salaries, travel and more. Data is updated monthly.

Search State Contracts
Look at active State contracts and see who is doing business with the State. Data is updated daily.

Search Local Government Spending
See how your county, city, town, village, fire or school district gets and spends your money. Data is updated annually.
<table>
<thead>
<tr>
<th>Vendor Name</th>
<th>Agency Name</th>
<th>Contract Number</th>
<th>Current Contract Amount</th>
<th>Spending to Date</th>
<th>Contract Start Date</th>
<th>Contract End Date</th>
<th>Contract Description</th>
<th>Contract Type</th>
<th>Original Contract Approval Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>MORPHOTRAK INC</td>
<td>Office of Temporary &amp; Disability Assistance</td>
<td>C009289</td>
<td>$45,227,591.00</td>
<td>$40,560,250.29</td>
<td>04/01/2002</td>
<td>08/31/2010</td>
<td>AUTOMATED FINGER IMAGING SYSTEM</td>
<td>Consultant</td>
<td>03/27/2002</td>
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<tr>
<td>MORPHOTRAK INC</td>
<td>Office of Temporary &amp; Disability Assistance</td>
<td>C009667</td>
<td>$35,074,983.00</td>
<td>$28,369,801.72</td>
<td>03/31/2004</td>
<td>06/06/2011</td>
<td>COMMON BENEFITS IDENTIFICATION CARD</td>
<td>Service</td>
<td>03/31/2004</td>
</tr>
<tr>
<td>MORPHOTRAK</td>
<td>Division of Criminal Justice Services</td>
<td>C002111</td>
<td>$6,995,781.00</td>
<td>$2,520,179.46</td>
<td>04/01/2009</td>
<td>03/31/2012</td>
<td>STATE AUTOMATED FINGERPRINT IDENTIFICATION SYSTEM MAINTENANCE</td>
<td>Equipment</td>
<td>08/31/2009</td>
</tr>
<tr>
<td>MORPHOTRAK</td>
<td>Division of Criminal Justice Services</td>
<td>C002102</td>
<td>$16,420,614.00</td>
<td>$600,623.00</td>
<td>09/22/2009</td>
<td>09/21/2019</td>
<td>STATEWIDE AUTOMATED BIOMETRIC INFORMATION</td>
<td>Consultant</td>
<td>09/22/2009</td>
</tr>
<tr>
<td>MORPHOTRAK SAGEM MORPHO</td>
<td>Division of Criminal Justice Services</td>
<td>C002107</td>
<td>$260,000.00</td>
<td>$0.00</td>
<td>04/20/2010</td>
<td>04/19/2011</td>
<td>EXTRACTION OF NYPD PALM DATA FOR USE WITH SABIS</td>
<td>Service</td>
<td>07/27/2010</td>
</tr>
<tr>
<td>SAGEM MORPHO INC</td>
<td>Office of General Services - P Contracts</td>
<td>PT64062</td>
<td>$500,000.00</td>
<td>$0.00</td>
<td>09/23/2008</td>
<td>08/26/2015</td>
<td>SECURITY SYSTEMS &amp; SOLUTIONS (ALL STATE AGYS &amp; POL SUBS)</td>
<td>Service</td>
<td>09/23/2008</td>
</tr>
</tbody>
</table>
Contract Transactions

Vendor Name: MORPHOTRAK
Agency Name: Division of Criminal Justice Services
Agency Code: 01490
Contract Number: C002111
Current Contract Amount: $6,995,781.00
Spending to Date: $2,714,506.71
Contract Type: Equipment

Original Contract Information

Transaction Type | Transaction Amount | Contract Start Date | Contract End Date | Description | Transaction Approval Date

Original Contract data not available for this contract record. Transactional data only exist for records as of April 2003.
3. Gather Information

- Under Regulation Fair Disclosure (FD), companies can no longer selectively disclose financial projections to Wall Street analysts or buy-side investors. Thus, companies are increasingly publishing their "guidance" on future financial metrics when they report quarterly earnings. Searching a company's investor relations web site may prove fruitful.
3. Gather Information

- If you have access, Valueline, Wall Street Reports, DJNS, Hoovers finance.yahoo.com
- Google the Vendor
- http://www.census.gov/econ/ind ex.html
3. Gather Information

- Bureau of Labor Statistics
  www.bls.gov
  - Labor Productivity and Costs
  - Labor Pay and Benefits - provides information on wages, earnings, and benefits by geography, occupation, and industry.
  - Labor Producer Price Index
3. Gather Information

- **US Department of Labor**: reports hours, wages, and earnings reports by industry.

- **US Census Bureau Economic Census**: provides annual and trend data on sales, payroll, and number of employees by industry, product, and geography.
3. Gather Information

- **US Census Business Expense Survey**: reports sales, inventories, operating expenses, and gross margin by industry.

- **US Census Annual Survey of Manufacturers**: covers employment, plant hours, payroll, fringe benefits, capital expenditures, cost of materials, inventories, and energy consumption.
3. Gather Information

- Use data from similar size companies and, where possible, within your own geographic area.
- Use a source that represents a large universe of inputs so that one or two unusual companies don’t skew the numbers.
- Choose the industry group (usually based on NAICS or SIC code) that best represents your business.
3. Gather Information

- VendRep
  - In doing the vendor responsibility analysis we learn a LOT about the company
  - Especially if the product is built from subcomponents by subcontractors
  - We expect a long life cycle. Where does the cash flow come from to sustain?
3. Gather Information

- VendRep Financial Questions
  - Some of the “R&D” costs might pay for new development, BUT
  - Should the maintenance operation bear a charge of 9 per cent for R&D? – A question pointed out by OSC.
Vend Rep - Strategy

- Important – what is their business unit turnover strategy – are they committed – do they grow in-house or by acquisition (Morpho – Motorola – Printrak)

- “Good” vendor invests in company, product

- Vendor presentations are good but beware of glossy brochures
Key Techniques

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
4. Welcome OSC

- **Background - DCJS**
  - Processes fingerprints
  - Maintains criminal history files
  - Serves law enforcement

- **24/7/365**

- **Fingerprint system can’t be “down”**
4. Welcome OSC

- Background - DCJS
  - Current vendor is named in Executive Law
  - Must support Biometric identification
  - SAFIS more than 10 years old
  - New biometric technology (SABIS)
4. Welcome OSC

- Background - DCJS
  - Two Offerers respond to SABIS RFP
  - Incumbent was successful
  - OEM is only maintenance provider
  - “System integration” maintenance
  - Need interim SAFIS maintenance for 3 years
4. Welcome OSC

- DCJS goes where few agencies have gone before
  - October 2007 – DCJS approaches OSC regarding SABIS RFP
  - June 2008 – DCJS releases SABIS RFP
  - March 2008 – OSC starts SAFIS examination
Two Maintenance Contracts

SAFIS
Interim Contract

SABIS
New Contract

(OSC examination)
OSC Examination

- SAFIS
  - $2.8 million annual hardware and software maintenance
  - Cost-savings opportunity?
OSC Examination

- Direct Costs
  - Personnel
  - Parts (maybe)
  - R&D (maybe)

- Gross Margin
OSC Examination

- Determine need
  - 24/7/365
  - Interview IT managers
  - Governor’s office
OSC Examination

- Determine deliverables
  - Hardware maintenance
    - Manual
    - Replacement parts
OSC Examination

- Determine deliverables
  - Software maintenance
    - System enhancements
    - Basic routines
    - Routine upgrades/version releases
OSC Examination

- Vendor Resources vs. Price
  - Direct Costs
    - Personnel
    - Parts
**OSC Examination**

- **Personnel**
  - Salaries + Fringe Benefits
    - Titles and/or skill sets
    - Total FTEs

- **Parts**
  - OGS contracts
  - Market prices
OSC Examination

- January 2009
- OSC updates DCJS on findings
  - Who’s Who @ DCJS
  - > $765,000
OSC Examination

- After OSC findings meeting
- DCJS commences negotiations
- CIO invites OSC into contract negotiations with vendor
Key Techniques

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
5. Run the Numbers

- If this is the only game in town, how do we measure reasonable profit?
- Go back to the fundamental objective: “Maximize value for the Shareholders”
- Maximizing value - tangibles/intangibles
- EVMS and other Project Management
- Incentives/Penalties
- NYS can be a reference for this vendor
5. Run the Numbers

- Gross Margin, sometimes Gross Profit Margin is the difference between sales (revenue) dollars and production costs

- Gross margin is the amount of contribution to the business enterprise, after paying for direct-fixed and direct-variable unit costs, required to cover overheads
5. Run the Numbers

- **Gross margin** is

  - Gross profit divided by sales either overall or for a particular endeavor or segment.

  - An indicator of the degree of profitability resulting from use of labor and materials – comparing one to another.

  - The most widely used because it is an apples to apples number across varying types of products or endeavors.
Government Resource

- SEC Guide to Financial Statements

http://www.sec.gov/investor/pubs/begfinstmtguide.htm
<table>
<thead>
<tr>
<th></th>
<th>Apple</th>
<th>Dell</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Margins (%)</td>
<td>41.7</td>
<td>17.2</td>
</tr>
</tbody>
</table>

Apple sells $583 worth of stuff for $1,000.

For Dell to hit $1,000 in sales, it has to provide $824 worth of parts, of which Windows is only about $65 dollars.
Gross Margins at Apple

Apple: Aggressive iPad Pricing Will Lower Gross Margins in Q3

Aggressive pricing on the iPad is going to result in lower gross margins for Apple during the June quarter, according to company executives. Apple CFO Peter Oppenheimer told analysts in a conference call Tuesday that he expects gross margins to fall from 41.7% in the just-completed March quarter to 36% in the June quarter, and that some of this decline is due to aggressive price. - April 20th, 2010 – Bryan Chaffin, the MacObserver
Half a Percent

**Dell's Results Beat Forecasts, But Gross Margin Falls**

Dell beat Wall Street's profit and revenue estimates in the second quarter and said it expected demand for PCs among corporate customers to remain steady ... but the company's gross profit margin lagged Wall Street expectations and its shares fell in after-hours trading. Dell said its adjusted gross profit margin was 17.2 percent in the quarter, below the 17.7 percent expected by analysts. - Reuters August 19, 2010.
5. Run the Numbers

- Morpho’s gross margin?
  - Not published

- Competitor’s gross margin?
PASADENA, Calif., May 05, 2009 (BUSINESS WIRE) -- Cogent Systems (Nasdaq:COGT) today announced financial results for the first quarter ended March 31, 2009. First quarter 2009 revenues were $31.0 million, an increase of 26% over revenue of $24.6 million in the same year ago period. Net income on a GAAP basis for the first quarter of 2009 was $9.0 million, or $0.10 per diluted share. This compares to GAAP net income of $14.4 million, or $0.16 per diluted share in the same year ago period, which included $10.0 million, or $0.07 per share, in settlement income related to the Company's settlement agreement with Northrop Grumman.
"Gross margin was up over 1,000 basis points sequentially to 68.4% during our first fiscal quarter, well above our target range," commented Paul Kim, Chief Financial Officer of Cogent. "We generated $26 million in cash this quarter, ending the quarter with cash and investments of approximately $506.4 million, or $5.59 per share. Additionally, deferred revenue increased to $80.8 million at the end of the first quarter, up $5.9 million from the immediately preceding quarter."
COGENT, INC.
CONDENSED STATEMENT OF INCOME
Three Months Ended March 31, 2009 and 2008
(in thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td><strong>Revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Product revenues</td>
<td>$20,666</td>
</tr>
<tr>
<td>Maintenance and services revenues</td>
<td>10,368</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>31,034</td>
</tr>
<tr>
<td><strong>Cost of revenues:</strong></td>
<td></td>
</tr>
<tr>
<td>Cost of product revenues (1)</td>
<td>5,553</td>
</tr>
<tr>
<td>Cost of maintenance and services revenues (1)</td>
<td>4,261</td>
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<tr>
<td><strong>Total cost of revenues</strong></td>
<td>9,814</td>
</tr>
<tr>
<td><strong>Gross profit</strong></td>
<td>21,220</td>
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<tr>
<td><strong>Operating expenses:</strong></td>
<td></td>
</tr>
<tr>
<td>Research and development (1)</td>
<td>3,727</td>
</tr>
<tr>
<td>Selling and marketing (1)</td>
<td>3,155</td>
</tr>
<tr>
<td>General and administrative (1)</td>
<td>3,020</td>
</tr>
<tr>
<td>Income from settlement of lawsuit</td>
<td>—</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>9,902</td>
</tr>
</tbody>
</table>
5. Run the Numbers

- Number scenarios
  - DCJS projections
### Proposal A

**4/22/2009**

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<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
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<td>$3,000,000</td>
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<tr>
<td><strong>Direct Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel</td>
<td>26.67%</td>
<td>$800,000</td>
</tr>
<tr>
<td>HW/COTS</td>
<td>1.67%</td>
<td>50,000</td>
</tr>
<tr>
<td>Travel, Depr, Tax, Real Estate</td>
<td>6.67%</td>
<td>200,000</td>
</tr>
<tr>
<td>Dedicated Teams to task</td>
<td>3.33%</td>
<td>100,000</td>
</tr>
<tr>
<td><strong>Total Direct Costs</strong></td>
<td>38.30%</td>
<td>1,150,000</td>
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<tr>
<td><strong>Gross Profit Margin</strong></td>
<td>61.70%</td>
<td>$1,850,000</td>
</tr>
<tr>
<td><strong>Indirect Expenses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>9.00%</td>
<td>$270,000</td>
</tr>
<tr>
<td>Corp Overhead</td>
<td>25.00%</td>
<td>750,000</td>
</tr>
<tr>
<td><strong>Total Indirect Costs</strong></td>
<td>34.00%</td>
<td>1,020,000</td>
</tr>
<tr>
<td><strong>Total Costs Dir + Ind</strong></td>
<td>72.30%</td>
<td>$2,170,000</td>
</tr>
<tr>
<td>NPAT</td>
<td>27.70%</td>
<td>$830,000</td>
</tr>
<tr>
<td>Date</td>
<td>Proposal A</td>
<td>Proposal B</td>
</tr>
<tr>
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<td>$3,000,000</td>
<td>$3,000,000</td>
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**Revenue:**

- **Direct Expenses:**
  - Personnel: 26.67% $800,000
  - HW/COTS: 1.67% 50,000
  - Travel, Depr, Tax, Real Estate: 6.67% 200,000
  - Dedicated Teams to task: 3.33% 100,000
  - **Total Direct Costs:** 38.30% $1,150,000

- **Gross Profit Margin:**
  - Proposal A: 61.70% $1,850,000
  - Proposal B: 65.00% $1,950,000

- **Indirect Expenses:**
  - R&D: 9.00% $270,000
  - Corp Overhead: 25.00% 750,000
  - **Total Indirect Costs:** 34.00% $1,020,000

- **Total Costs Dir + Ind:**
  - Proposal A: 72.30% $2,170,000
  - Proposal B: 69.00% $2,070,000

- **NPAT:**
  - Proposal A: 27.70% $830,000
  - Proposal B: 31.00% $930,000

- **Total Costs:**
  - Proposal A: $2,170,000
  - Proposal B: $2,070,000
<table>
<thead>
<tr>
<th></th>
<th>Proposal A</th>
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<th>Proposal B</th>
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<tr>
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<td>Proposal A</td>
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<td>Date</td>
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<td>31.00%   830,000</td>
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</table>
Summary

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
6. Negotiate

- Artful Negotiations
  - Win-win
  - Leverage resources
    - Commissioner
    - OSC
- Reasonable Profit – targeted gross margin
6. Negotiate

- A vendor’s primary goal is to sell their product at a target profit and grow their market share – they especially need NYS for that second “growth” objective.

- Agencies may feel the need to try and “beat up” the vendor for pricing and terms.

- To be successful in negotiations one should understand both their own needs and those of their suppliers.
6. Negotiate

- Don’t blame me, OSC has to approve this
- Timing is everything
- Possibly segment the procurement?
- What costs can you cut? Fixed? Variable?
6. Negotiate

- Old contract expired March 2009
- OSC findings meeting Jan 6, 2009
- Negotiations began Jan 2009
- Month-to-Month written extensions
- Same level of service
6. Negotiate

“No” doesn’t always mean “No”

- Industry reputation
  - NYS is big business
  - NYS reference
- Region/Home Office
  - Approval Required?
  - Meeting
6. Negotiate

- Don’t blame me, OSC has to approve this
- OSC can help
- Possibly segment the procurement?
- What costs can you cut? Fixed? Variable?
6. Negotiate

Timing is everything

- Time factors
  - End of year or quarter
  - Forecast, written, installed
  - Trade shows/publicity
Vendor Name: MORPHOTRAK  
Agency Name: Division of Criminal Justice Services  
Agency Code: 01490  
Contract Number: C002111  
Current Contract Amount: $6,995,781.00  
Spending to Date: $2,520,179.46  
Contract Type: Equipment

### Original Contract Information

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<th>Contract End Date</th>
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### Contract Amendment Information

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Result

- $1.8 million savings over 3 years
Summary

1. Determine Need
2. Assess Competition
3. Gather Information
4. Welcome OSC
5. Run the Numbers
6. Negotiate
G-Bulletin

Equipment and Information Technology Software and Applications Maintenance Contracts

- Assess need
- Determine price reasonableness
- Essential contract language
Thank You!

&

Questions?
Other Sources

- The Elephant in the Software Maintenance Room
- Negotiating Better Maintenance Terms