Q&A

WEBINAR: *Examining Indirect Services Inside the Pricing Game*

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1) **What are some measures to challenge fuel surcharges proposed by service providers, as they do not seem to be well-managed or removed from contracts, even once crude oil prices fall?**
A: The best thing here would be to make sure prices are tied to a market index as opposed to a set amount. Also contracts with valid surcharge clauses should be monitored on a regular basis, preferably yearly at a minimum. Any contracts with surcharges that are not relevant or indexed should be updated and/or removed during any contract review or renewal.

2) **What's an effective price index to use for pricing adjustments related to services?**
A: For the US, CPI (Consumer Price Index) is a popular reference index for most labor related services adjustments.

3) **What is a good argument for wanting price reductions on labor *i.e. IT consultants?**
A: There are many "good" arguments for price reductions including market conditions, corporate cutbacks, reduced operating expense initiatives, etc. However, the ability to actually reduce the prices will depend on your ability to develop leverage with the various suppliers by introducing competition (or at least the "real" threat of competition or alternatives)

4) **Is there a methodology to obtain YOY price reductions for staff augmentations?**
A: Typical staff augmentation will have marginal YOY cost increases, hopefully tied to a specific index like CPI. There may be opportunity for YOY reductions if committed volumes are increasing YOY however with a managed service or outsourcing type arrangement where there are non labor components such as hardware and/or software then there are opportunities to negotiated YOY cost reductions based on increased efficiency rates and falling cost of hardware, etc..

5) **In the first part of your presentation, you talked about the IT Service Supplier's desire to increase margin. Assuming one is negotiating a large, long term contract, what is your experience with open book costing to mitigate margin increases?**
A: Typically services firms are reluctant to disclose margin targets or achievement with clients however I have seen instances where clients have successfully negotiated a fixed margin for labor on larger long-term contracts. However it is difficult to determine if the rates and margins they reveal are accurate and it will still be incumbent on you to find some way of monitor and manage those rates and margins.

6) **How do you negotiate a change order so that it would be more favorable?**
A: Change orders are very difficult to negotiate because by their very nature it means you are in the middle of an existing project and will not be in a good position to generate leverage for negotiation. The biggest thing you can do is have good project governance in place to make sure you minimize any change orders and that the change orders being proposed are actually valid and not just an attempt by the supplier to make up for misestimating on their part.