

Look for the Hidden Costs in Contracts

By: Robert D. Grossman

Most systems purchases are accompanied by a formal written agreement — clearly a wise decision considering the cost and complexity involved.

A contract is there to ensure both parties understand and agree to the work that needs to be done, that expectations are met and the end user gets the value they are looking for. The contract also allows the integrator to make a reasonable profit.

Unfortunately, the act of generating a contract in most organizations can lead to a lot of input and a lengthy document. While most of the input is based on hard-earned experience, there are items that can drive up the cost of an installation without providing added value to either party. Conversely, there are terms that can be included that can save both parties money and aggravation.

I've been getting a lot of feedback from integrators lately on these "Bridging the Gap" columns. Based on what I have heard, I am confident any legitimate integrator will be comfortable with any of these contract terms. If you're asking for some of these things in your agreement and the integrator has concerns, you may want to look at another integrator.

Training, Bonds are Considerations

Training is a good place to start. End users should use the agreement to clearly describe the level of training appropriate for their staff. If direct factory trainers are needed on-site — or a certain kind of training material needs to be left behind — be clear and up-front about it.

For a legitimate, qualified integrator, this represents little to no incremental cost and they will be happy to accommodate you. They will have contacts at the factory that can make this happen. They have also done it many times before and understand what goes into a training binder. However, an inexperienced or understaffed integrator may have concerns

or may promise things that they can't deliver.

Bonding is often put into agreements, and this is an area that can add considerable cost. A performance bond is essentially an insurance policy that covers you in the event the integrator is not able to complete the project. Like any insurance policy, the bond costs the integrator money and they will likely pass it on to you. Integrators with better track records can pay considerably less for a performance bond, giving you a good point of comparison.

In many cases, you're better off saving the money and structuring the payment schedule to allow you to disburse payment when milestones have been achieved. This gives you the same kind of insurance, as you'll retain enough money to complete the work should the integrator drop the ball.

Insurance, Warranty Can Add Costs

Unlike bonding, insurance won't usually add to the project cost and should be considered carefully.

If the insurance you are asking for is "usual and customary," the integrator will need to have it in place for any customer — so your project won't necessarily add to the cost.

If you ask for "exceptional" coverage, you may have to pay and should consider the value. For example, I was recently asked to carry an excessive amount of "Valuable Papers" insurance for a project. In this day and age of electronic drawings that are easily replaced and widely distributed, the value of any documents held for a client is minimal. Our usual coverage amount of \$5,000 is more than sufficient, so any insurance in excess of that would be passed on to the client.

Equipment warranties often add hidden costs as well. The manufacturer generally provides a "depot service" warranty for their products, allowing for a product to be shipped to them and returned once repaired.

While advance replacement is occasionally provided — allowing for a product to be swapped for a loaner or replacement unit — I don't know of

any manufacturer that routinely reimburses the integrator for the labor involved in swapping out a unit under warranty. If your agreement calls for this under the warranty period, you're probably paying for it.

Also consider service response time. Your agreement may call for a technician on site within four hours or one business day. While essential for critical applications, I know of many customers who ask for this feature and then decline to use it — "No, I'm busy today and tomorrow. Send someone out on Friday."

Integrators take their service response times very seriously. If you've got some flexibility, consider asking for a less demanding response time if it will save you money.

A well-written agreement is worth its weight in gold and will go a long way in reducing misunderstandings and ensuring that you get what you pay for. Careful attention to the hidden costs can be equally beneficial by ensuring that you don't pay for things you don't particularly want to get.

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