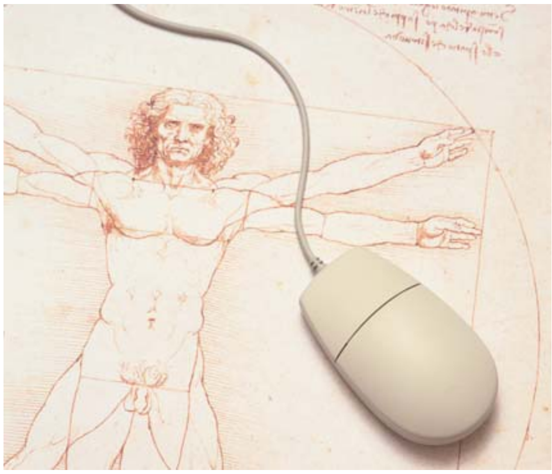
DA VINCI CODE

There's a Renaissance feel about the IT industry. But are you still in the Dark Ages?



SOURCE: GETTY IMAGES

HAVE YOU HEARD of "Web 2.0"? Yes, I'm afraid it does require a bit of explanation, not least because the term rolls up so many developments. It's broadband meets mobile meets Wi-Fi. It's new ways to collaborate and "social network". It's new jargon like blogs, wikis, podcasts and more. And Web 2.0 doesn't even begin to include BPO offerings from India, open source from Scandinavia, or "software as a service" from Silicon Valley. Together, all these technologies are re-defining the platform for business for years to come.

The froth of innovation and creativity feels like Florence during the Renaissance. And the arrival of these developments couldn't be better timed, as executives in the West fret about cost-based competition from China and India.

The economics of these new offerings are even more exciting. Joe Kraus, co-founder of Excite, said recently that it cost $3m for the search site to go from idea to launch. His more recent start-up, Jotspot, took only $100,000 as he leveraged open source software, global labour and Google-type search-based marketing. It's a powerful statement on how technology costs have changed in the last six or seven years.

But as the "raw materials" of technology become cheaper, so should the finished product that you have to budget for. So why isn't it?

As we know, the Dark Ages preceded the Renaissance. And many of you are still in a dark mood on IT. Why? Most of you just don't have the money to take advantage of these innovations because you spend 60 to 80 per cent of your budgets on "utility" IT – that is, "keeping the lights on", maintaining software, renewing basic hardware and so on.

I recently asked the CIO of a large SAP client about his most innovative projects. He mentioned a telemetry system (GPS, RFID – you've seen the IBM ads about intelligent boxes...) which speeded up trucking across the Canadian border and tracking in the supply chain. He talked about Wi-Fi access in his offices. It's made his workforce hugely more productive. Small projects, in the grand scheme of things, but with huge payback. But he expressed no real excitement about SAP's big innovation, its planned "web services" architecture.

I've asked other CIOs about Microsoft Office 12, Oracle Fusion, IBM's On-Demand offerings. The reaction is usually yawns. But that's not surprising. Most large software companies spend only 15 per cent of their revenue on R&D. And quite a bit of that R&D goes toward bug fixes and re-platforming, not real innovation. We'd howl if a charity distributed only 15 per cent of income to its needy causes. But we've let the IT industry get away with it. And it's not just software. HP cartridge ink costs more per ounce than Chanel No 5. Cross-border cell-phone calls can cost more than an airfare to the same destination. Where's the revolution?

My contacts also grimace about tech companies' acquisitions. In a survey of CIOs last summer, 87 per cent said industry M&A increases "vendor lock-in". Only 17 per cent said it would improve reliability or customer service. Consolidation around a handful of large vendors makes sense from a management perspective, but we're paying the price with huge "baked-in" costs.

But as an Accenture partner once told me: "Don't blame us. I don't hold a gun to the FD's head when he writes cheques that you think are too big." In my consulting work, I'm amazed at how many companies think they've done a good job beating down IT costs. But software vendors are making 90 per cent gross margin on their annual maintenance fees. It doesn't sound like their customers are driving a hard bargain.

The average technology buyer is badly outgunned in negotiations. For example, your IT director may do a major software deal once or twice a year. The vendor salesperson does that every day of his life. Similarly, your lawyers have to look at all sorts of deals. IT vendors have a full time battery of attorneys who do nothing but focus on IT sales contracts.

You *can* turn the tide – and switch the 70/30, utility-to-innovation ratio upside down. Broadly, any infrastructure product introduced over 18 months ago, and any software or services introduced over three years ago, should be well on its way to "utility" pricing. Most vendor investments in these products should have been recouped. If Microsoft can afford to pay a $32bn cash dividend, it can afford to pay an "innovation dividend" back to you, their customers, for "old" products.

So take some calculated risks. Benchmark your existing contracts and take early cancellation penalties if need be. Create a culture of working with new vendors, not just the established brands. Sure, nobody gets fired for buying IBM, but you pay a lot for that "insurance". Question traditional thinking – annual software maintenance does not have to be bought from the software vendor. Learn from previous contracting mistakes. And if you do it right, you may well stay with your incumbent vendors, but on dramatically different terms. Accenture Philippines, anyone? That is certainly part of the new Florence.

Vinnie Mirchandani, a former Gartner analyst, now helps companies negotiate software, outsourcing and offshoring contracts, www.dealarchitect.typepad.com and www.florence20.typepad.com