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Before You Enter an IT Contract, Plan Your Exit Strategy

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It may seem counterintuitive, but one of the most important steps you should take before engaging a technology services provider is to prepare a plan for exiting the relationship. Why? A thoughtful IT exit strategy developed before contracting with a vendor is not only a best practice for protecting against the risk of a failed vendor relationship, but it can also strengthen your IT procurement and contracting process. All too often, however, companies (large and small) do not invest the time to think through the end of the relationship before signing on the dotted line.

Yes, the process of planning an exit strategy takes time and resources, and it requires a company to focus on the prospect of a failed vendor relationship just as the parties are kicking off what everyone hopes will be a successful, often long term, partnership. But there is no better time to engage in this type of planning.

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Consider the following benefits of getting your exit strategy in order before you enter a contract with a vendor:

You Can Negotiate a Better Contract. By developing a termination plan in advance, you are able to identify areas of weakness in the proposed contract with the vendor in enough time to fix them. For example, as I've noted in an earlier blog post, many subscription agreements for cloud services and hosted solutions fail to include language addressing the return of the customer's data in a platform-agnostic format, or restrict the return of customer data. The return of data is often an essential piece of transitioning to a new vendor. Likewise, termination planning often prompts companies to take a hard look at early termination fees in the vendor's agreement (both their amount and how long they remain in effect during the term).

You Can Develop The Plan With A Clear Head. In the best case scenario, the vendor relationship draws to the close at the end of the contract term, with plenty of time to find a replacement vendor and execute a smooth switchover between vendors. But vendor relationships can end much more suddenly – as a result of a dispute between the parties, following a period of failed performance, or even in the midst of a disaster that knocks the vendor offline. In those scenarios, you likely will not have much advance notice to prepare a transition strategy, find a replacement provider, and execute your exit. Plus, problems with an existing vendor's services often impose heightened pressure and time constraints as business owners, end users and senior leaders call for a speedy fix.

When there's little time to consider your options, planning and executing an effective transition can be extremely difficult. That's precisely when a pre-developed exit plan can be most useful. Without a prepared strategy in place, your exit from the failed relationship may be more akin to jumping out of the window of a burning building, rather than a calm exit using the stairs. Both get you out of immediate danger, but one is much more likely to end in a painful landing.

You May Improve Your Procurement and Vendor Selection Process. Companies often measure potential vendors by focusing on the products and services they promise to deliver (and for obvious reasons, that should be a major part of the process). But you can enhance your vendor evaluation and selection process by also taking into consideration the costs and risks involved with trying to leave the relationship. If two vendors' solutions are otherwise equal, but one vendor's solution locks you in for the long term while the other offers greater flexibility to switch platforms or providers, you may find the second vendor is more appealing because of its compatibility with your exit plan.

Additionally, the process of developing an exit strategy can also identify additional areas where you want to perform due diligence (for example, determining the vendor's reliance on subcontractors that could impede a smooth transition of services) or additional requirements that you want vendors to address in their proposals (such as a request for ongoing knowledge transfer to your internal IT team throughout the life of the relationship).

Termination Planning Is a Best Practice. Increasingly, preparing an exit strategy for third party vendor relationships is cited as a contracting best practice. In its fall 2013 Risk Management Guidance to national banks and federal savings associations, the US Department of Treasury repeatedly cited the importance of termination planning as part of an effective risk management process. Likewise, the Federal Reserve System's December 5, 2013 Guidance on Managing Outsourcing Risk noted the importance of maintaining an exit strategy (including a pool of comparable service providers) and ensuring that agreements for outsourced services sufficiently address the transition of services upon termination. If you are in a regulated industry – or provide services to customers that are regulated – you may be increasingly required to show that you have sufficient termination plans in place in order to satisfy regulators' recommendations and requirements for third party contracts.