



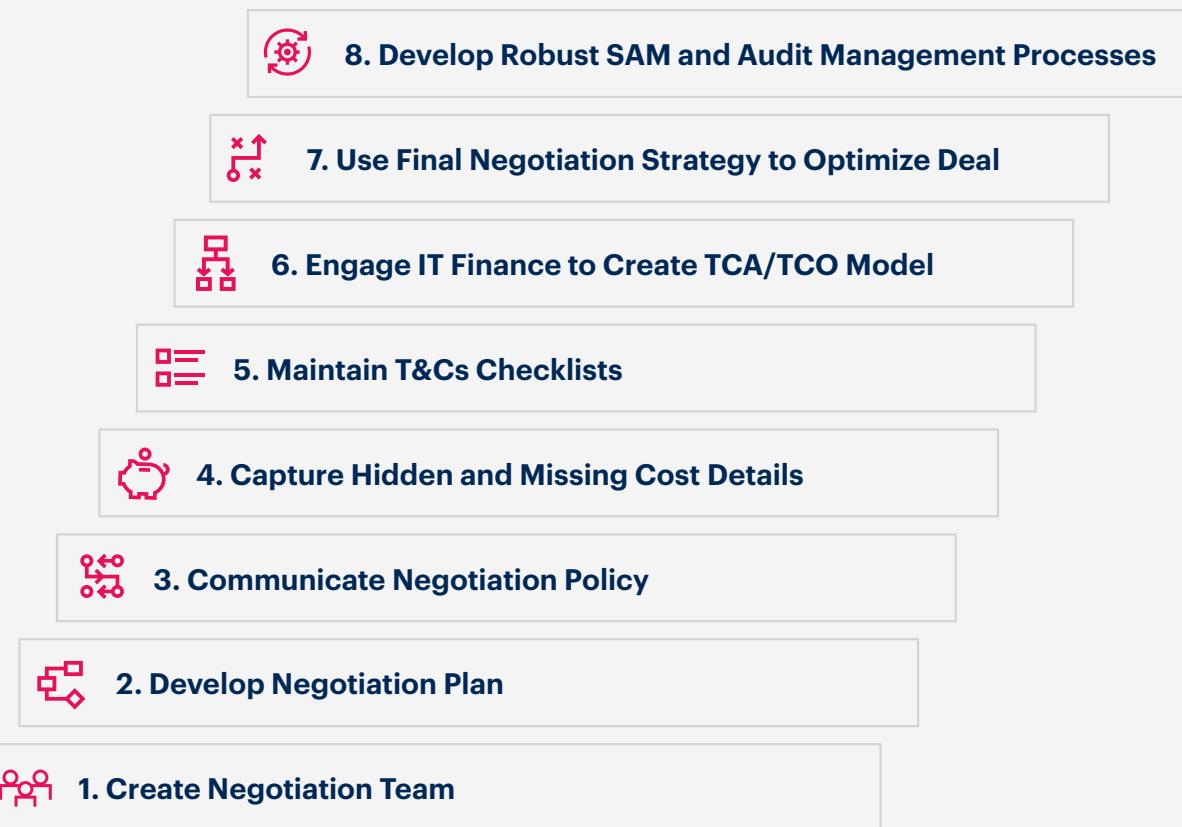
# 8-Step Playbook to Optimize Software and SaaS Negotiations

Sourcing, procurement and vendor management (SPVM) leaders who do not adequately prepare for vendor negotiations reduce their organization's bargaining power and increase its risk. Follow these eight steps to successfully plan and execute software and SaaS negotiations to optimize pricing and terms.

#### Key findings

- SPVM leaders who do not collaborate with IT and business stakeholders fail to optimize costs and minimize risks when negotiating software and SaaS contracts.
- Many SPVM leaders do not know what questions to ask and when to ask them to identify hidden costs and missing terms, which can result in budget overruns and noncompliance fees.
- CxO power can be leveraged to improve pricing and T&Cs during final negotiations, but insufficient preparation, communication and planning can result in missed opportunities.
- Failure to communicate contract terms, metrics and vendor policies to asset management teams limits their ability to maintain robust asset management processes for audit readiness.

#### 8 Steps for Negotiation Success

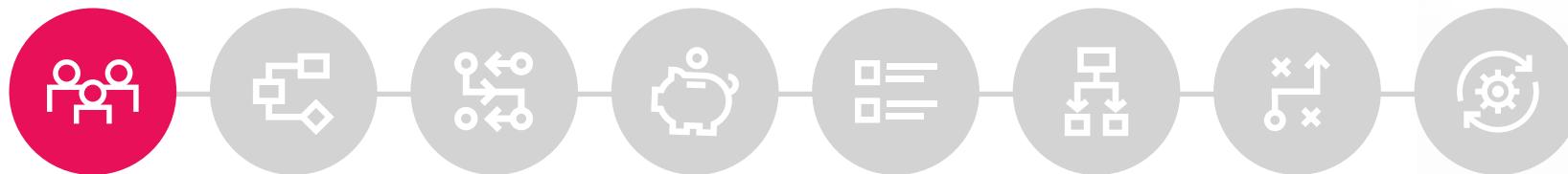


Source: Gartner

## Step 1

# Create a Negotiation Team

To ensure negotiation success, SPVM leaders must use a collaborative team approach to capture IT, business, legal, risk management and financial requirements. Each team member has unique talents, knowledge and expertise to bring to the development of the negotiation plan.





## Step 1

# Actions

### 1. Assemble your team with key stakeholders included and represented.

Ensure you have representation from all the above departments and other stakeholders as the acquisition requirements may dictate.

### 2. Communicate commitment needs.

Proactively engaging the entire team at a negotiation planning kickoff meeting is the time to ensure the team commitments are reviewed and individual assignments confirmed.

### 3. Create your project plan.

Approach high-spend, major negotiations using a structured project plan with deliverables and due dates for each team member.

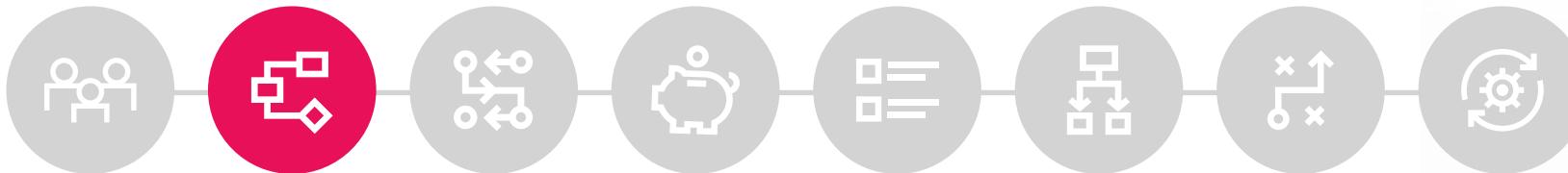
### Key Team Members and Responsibilities

- IT Procurement: Negotiation leader, RFP creation
- Legal: Contract development and review
- Contract Management: T&Cs checklist
- Business Owner: Business need communication
- Technical Services: Hardware and software requirements

## Step 2

# Develop a Negotiation Plan

A well-defined negotiation plan should be described to the negotiation team as a set of shared goals for negotiating software and SaaS contracts that will optimize and balance cost, risk and value for the organization.





## Step 2

# Actions

### 1. Create a template.

Collaborate internally to identify and rank financial, technology, business and project-specific requirements using a simple “starting point” template. The sample dual-purpose requirement ranking/vendor scoring matrix, shown on the following page, allows you to identify and rank requirements, and build your vendor scoring matrix for the RFP.

### 2. Identify all viable competitors, alternatives and options for your organization.

Build in the time for IT to provide you with competitive vendor names and products, as well as alternatives and solutions. This ensures you have created a powerful competitive environment that will serve as one of the most helpful tactics you can use as leverage throughout the negotiations, beginning with the RFP.

### 3. Research vendor-specific tactics and strategies.

- Fiscal year-end dates: Consider a final negotiation “string-along” using vendor quarter-end and fiscal year-ends to strategically time the close of a negotiation to align with these key dates. A vendor’s sales team may be under pressure to close deals at those times.

- Play detective: Ask vendor questions to uncover valuable information that will give you power and leverage during negotiations, such as:
  - How do you get paid — straight commission, or salary and commission?
  - Do you get bonuses throughout the year? When do you get your biggest bonus?
  - Are you more highly compensated on some products and services than others — which ones, and how does the compensation incentive program work?

### 4. Create your Plan B — be prepared to execute or walk away.

When you begin negotiations early, and when you have identified other options, vendor solutions or alternatives, you have created a Plan B and positioned yourself to walk away.

### 5. Monitor vendor investor relations websites.

- Financial reports: If the vendor had a weak first quarter close, you know it will be hungry to “catch up” in Q2, and you can use this to your advantage to get improved pricing and deeper discounts along with special terms.
- Strategic acquisitions: When you see your vendors announce new strategic acquisitions, you know that your vendors’ investors want to see that these acquisitions were profitable.



## Sample Dual-Purpose Requirements and Vendor Scoring Template

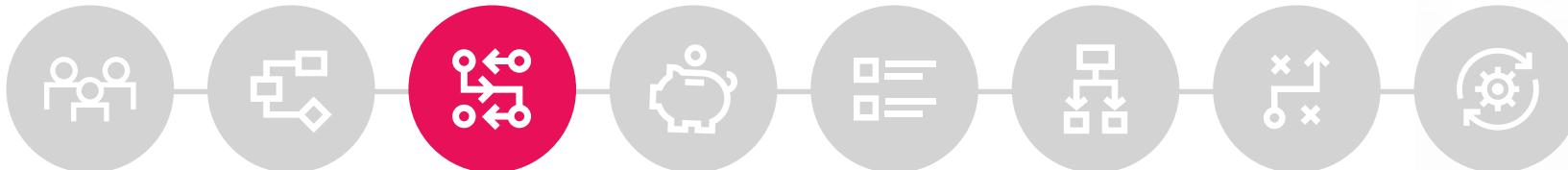
Category	Vendor A		Vendor B		
	Weight	Score	Weighted Score	Score	Weighted Score
License Fees					
Maintenance and Service Fees					
Customization/Implementation Cost					
Training Cost					
Features and Functionality					
Financial Requirements (Capex/Opex)					
Business Process Requirements					
Security and Regulatory Requirements					
Financial Stability					
In-House Evaluation/POC Success					
Training Program Options					
T&Cs Risk					
Negotiation Ease					
Audit/Compliance Management Risk					
<b>Total</b>					

Source: Gartner

### Step 3

## Communicate a Negotiation Policy

In way too many situations, vendor sales teams are thought of and treated like employees and given complete freedom within end-user organizations. You can't blame the vendors if care is not taken to ensure that their access is monitored and controlled through a vendor sign-in policy and visitor badges with restricted access.





### Step 3

## Actions

#### 1. Follow vendor do's and don'ts.

Avoid letting important information slip that vendors will use to improve their knowledge and power.

#### 2. Avoid attending vendor social events.

Attending events during negotiations could diminish leverage and show favoritism.

#### 3. Stick to negotiation roles.

Remind IT and business to provide business and technical specs or requirements only during negotiations.

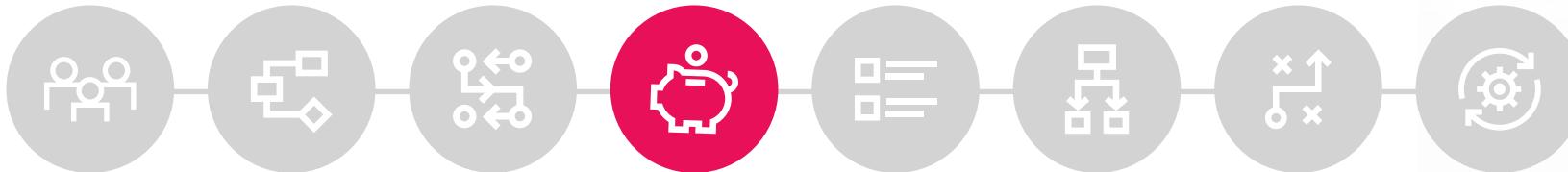
#### 4. Review meeting protocol.

Protect confidential data during negotiation meetings. Remember, everything said or done during negotiations has a value.

## Step 4

# Capture Hidden and Missing Cost Details

Capture hidden or missing cost details during the RFP process by asking your vendors the right questions.





## Step 4

# Actions

### 1. To uncover and expose all hidden costs, group your questions into three categories:

- Software and SaaS services
- Maintenance and support
- Professional services and training

### 2. Create a checklist to reveal critical cost details from vendors.

 Note: Gartner clients will gain full access to a detailed checklist that includes a list of powerful questions for vendor negotiations to better collaborate with IT finance to understand the true or total cost assessment of the vendor proposals or options.

### 3. Ensure that RFPs include cost questions.

Ensure that necessary details are evaluated for effective scoring by asking open-ended cost questions (e.g., instead of "How much will maintenance cost?" ask "What is the ideal maintenance staffing model?"). Use your critical cost checklist to guide the creation of these questions.

## Checklist to Reveal Critical Cost Details From Vendors

Software and Services	Maintenance/Support	Prof. Svcs./Training
<b>Fees</b> List and Net Price	<b>Warranty</b> Period and Expiration Date	<b>Options</b> Fixed Price vs. T&M
<b>Type</b> Perpetual/Subscription/Term ...	<b>Options</b> Provide All Coverage Types/Prices	<b>Rules/Levels</b> Pricing for Each
<b>Metric</b> User vs. Processor vs. Revenue ...	<b>Descriptions</b> For All Coverage Options	<b>Rates</b> Blended vs. Role-Based
<b>Itemization</b> Pricing by SKUs, Part Numbers, PIDs	<b>Itemization</b> Pricing by SKUs, Part Numbers, PIDs	<b>Acceptable Criteria</b> Payment Upon Acceptance?
<b>Policies</b> Virtualization, DR/Test/Dev. Use ...	<b>Subscription vs. Support</b> Provide Pricing for Each	<b>T&amp;E Included in Price</b> If Not, Not to Exceed Cost Limits
<b>Delivery Method</b> On-Premises, Hosted, SaaS ...	<b>Discount Percentage</b> Provide Percentage of Net License Fee	<b>Training Options</b> On-Site, Remote, Online
<b>Add-On Capacity</b> Licenses at Same Discount Percentage	<b>End-of-Term Price &gt; Caps</b> CPI or 3% (Whichever Is Less)	<b>Training Prices</b> Descriptions for Each Option

Source: Gartner

## Step 5

# Maintain T&Cs Checklists

T&Cs are highly impactful to the contract's risk-and-reward balance. To negotiate the best T&Cs, create and maintain both standard and vendor-specific checklists.





## Step 5

# Actions

**1. Create standard contracts that have best-practice T&Cs for on-premises and SaaS and cloud contracts.**

**2. Create vendor checklists to capture specifics such as:**

- Governing agreements
- Usage rights and restrictions
- Vendor-specific policies, like bring-your-own-license rights
- Restrictions when porting software license use from on-premises to public cloud environments, like Amazon Web Services (AWS), Google and Microsoft Azure

**3. Create and maintain relevant T&C checklists.**

 Note: Gartner clients can refer to the following Gartner toolkits to develop and maintain standard on-premises software and SaaS and cloud T&Cs checklists that control costs and mitigate risks:

- Use “Toolkit: Five-Step Process to Optimize Software License Contract Terms and Conditions” for on-premises software.
- Use “Toolkit: Minimize SaaS Risk and Cost by Efficiently Negotiating Optimal Contract Terms and Conditions” for SaaS and cloud services.

**4. Tailor the negotiations to be vendor-specific.**

 Note: Gartner clients can review “Follow Gartner’s T4 Process to Optimize Negotiations: Tactics, Templates, T&Cs and Timing.” This research explains how one negotiation process does not fit all vendors, and the T&Cs are no exception.



## Maintain Both Standard and Customized Vendor-Specific T&Cs Checklists

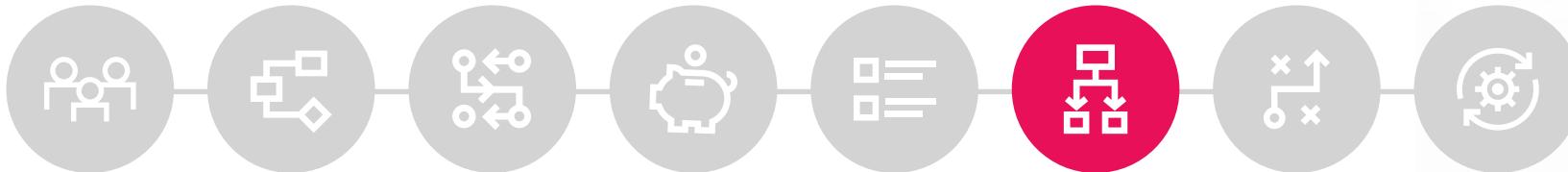
On-Premises Software	SaaS and Cloud	Customized Vendor-Specific
✓ Metrics Defined — Counting Rules Illustrated by Example	✓ Renewal Price Protection	✓ Governing Agreements and Order of Precedence
✓ HA/DR/Test Use Rights Clear	✓ Meaningful SLA Penalties	✓ Virtualization Policies, Rules, Tables
✓ Maintenance Renewal Increase Caps	✓ Clear Usage, Rights to Allow Production, Test and Development	✓ Production vs. Nonproduction Usage Rights
✓ Audit Rights Clear (e.g., Audit NDA Required)	✓ URLs Attached and Referenced in Agreement (No Change During Term)	✓ Direct and Indirect Access Rights
✓ Website Terms Printed and Attached	✓ Clear Data Privacy/Security Terms	✓ Processing for Third Parties and Affiliates Less Than 50% Parent-Owned
✓ Policies Defined Using Examples (e.g., Virtualization, Indirect Access)	✓ Support Clearly Defined (e.g., Bundled and Nonbundled, Basic vs. Premium)	✓ Pricing and Usage Rights If Vendors' Products/Services Are Acquired or Divested
✓ Hardware/Technology Change Cost Impact (e.g., Physical to Virtual)	✓ Cloud to On-Premises Re-entry Rights With Price Protection	✓ Metric Clarification for Each Production (Counting Rules Vary by Vendor)
✓ Bundling and Renaming Protection	✓ Exit Protection Provisions	✓ Cloud Migration Policies, GDPR Terms

Source: Gartner

## Step 6

# Engage IT Finance to Create a TCA/TCO Model

One financial analysis model does not fit all deals, so you must engage IT finance to create a customized total cost of acquisition (TCA) and total cost of ownership (TCO) analysis for cost transparency, and use these models as leverage during negotiations.





## Step 6

# Actions

### 1. Ask the right cost impact questions.

Use the software and SaaS cost checklists from Step 4 and the T&Cs checklist from Step 5 to ask questions that will help ensure that your TCA model reveals all the necessary costs for a “true” and total cost analysis of vendor proposals from both a cash flow and budget/profit and loss impact standpoint.

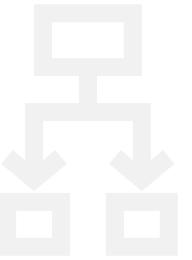
 Note: Gartner clients will gain access to a simple but effective case study scenario to demonstrate the importance of asking the right questions for an accurate and total cost impact analysis.

### 2. Collaborate continuously throughout the negotiation cycle.

Use checklists to ensure collaborative and proactive planning engagements between IT procurement, IT, IT finance and key business stakeholders are part of the negotiation planning process to develop the RFP.

### 3. Use customized TCA models as leverage tools.

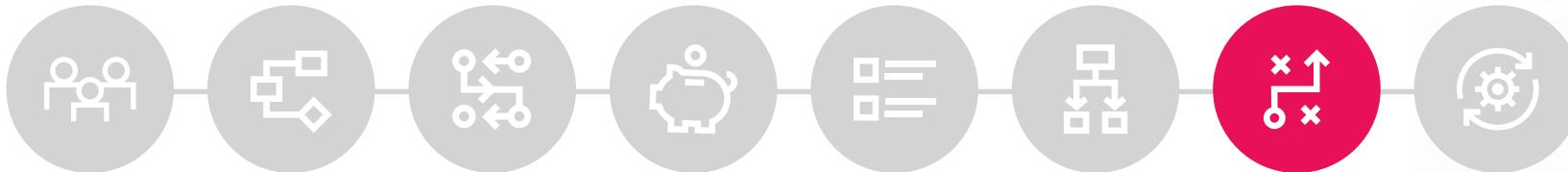
Use tools to bargain power during competitive and final negotiations to improve both pricing and T&Cs.



## Step 7

# Use a Final Negotiation Strategy to Optimize the Deal

Even if you have made a decision internally and selected the vendor and its options, this vendor should never know it has been selected at this point. When building your final negotiation strategy, include this set of tips and tactics.





## Step 7

# Actions

### 1. Maintain a competitive environment.

Always keep two vendors in the running until and throughout final negotiations.

### 2. Have CxOs and stakeholders swap roles.

Switch roles for leverage and bargaining power if you have been negotiating with the same vendor sales team for a number of years.

### 3. Use your CFO and your finance and accounting policies.

Unbundled detail is a must for a capex-opex cost analysis, and vendors know this. Use your CFO as a key decision maker if you need the leverage for unbundling.

### 4. Use CxO power.

Use C-level approvals, capital committee meetings, executive board approval, etc., to enable “string-along” timing to align with the vendor quarter-end or year-end date.

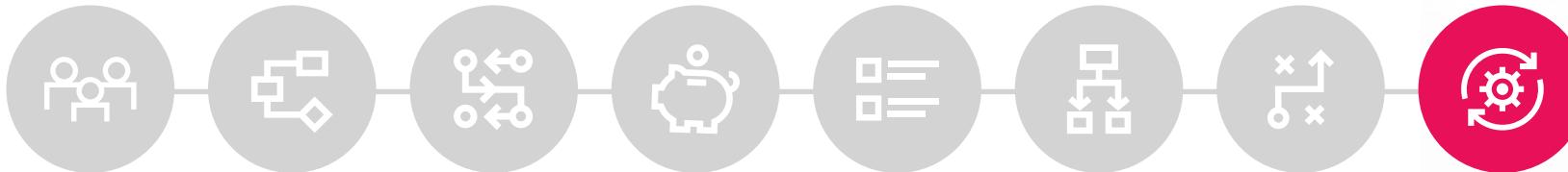
### 5. Request special T&Cs approval.

Whenever new products and services contracts are being negotiated with vendors, ask for “special approval” escalation and ensure you ask how the escalation process works and who the decision maker is who has the authority to approve your requests.

## Step 8

# Develop Robust SAM and Audit Management Processes

Often, after a complex negotiation is finalized and the contracts are signed, the negotiation team breathes a sigh of relief and might even celebrate the success and wins. However, the collaboration must continue to ensure that robust software asset management (SAM) processes are in place to manage compliance for software audit-readiness.





## Step 8

# Actions

### 1. Communicate with your team.

Ensure that metric definitions and counting examples of any new metrics proposed by vendors during the RFP process are communicated to your SAM team.

### 2. Create an internal audit management process.

To control vendor audits, create and maintain an internal audit management process and playbook.

 Note: Gartner clients can use “Toolkit: Optimize Your Software Audit Process and Results” to download each tool necessary for developing your internal audit-readiness kit (RASCI [responsible, accountable, supporting, consulted and informed] matrix and checklists for an audit-specific NDA, scope and methodology, and settlement negotiations, etc.).

# Actionable, objective insight

Explore these additional complimentary resources and tools for sourcing, procurement and vendor management:

## Webinar

Gartner Workshop: Follow Top 10 Tips, Tactics & Tricks for Negotiation Success

Maximize business value through optimization of negotiating contracts.

[Watch Now](#)

## Report

Gartner IT Score for Sourcing & Procurement

Identify the importance and maturity of your activities.

[Download Sample Report](#)

## Webpage

IT Sourcing and Vendor Management Page

Explore the hub for SPVM leaders to learn about Gartner resources and support.

[View More](#)

## Research

Cool Vendors Enable Radical Rethinking After the Reset

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