



The Ultimate Guide to Outcomes Based Negotiation

Learn how to reduce your IT Software Costs



THE NEGOTIATOR GURU

How to Reduce your IT Software Expenses Through Outcomes-Based Negotiation

For many companies, IT software expenses operate inside of a black box.

For the CFO, CEO, COO, and CPO, they simply do not understand these IT expenses in depth and struggle to develop any sort of expense reduction action plan.

For the CIOs, they are focused on the IT infrastructure of the company and are not trained in negotiation or purchasing.

Software vendors know this, and they capitalize upon this disconnect. This includes vendors such as Microsoft, Salesforce, Oracle, SAP, telecom providers and more.

As a result, a vast majority of enterprise software contracts have an added 10-50% margin over and above industry rates.

Yes, even if you think you have great rates, you are more than likely still paying far above market average for a company your size.

In this article, we are going to share how you can reduce your IT software costs through outcomes-based negotiation tactics.

Right size your contract through a software roadmap

One of the biggest problems with IT Software is that companies buy more than they actually need. While this may seem like a simple solution to fix, it is often more complex than it sounds.

The reason that this is a challenge is that you have so many stakeholders involved with each software vendor. In a simple deal with a company like Salesforce you will have to gain alignment from multiple key stakeholders in your organization. For example:

- CIO - For the technical infrastructure
- CFO - For the costs and budget of the contract
- VP of Sales - To ensure you are getting them the licenses and add-ons they need
- CMO - To ensure the marketing team has what it needs to be successful with Salesforce or Pardot
- Salesforce Admin - The in-the-weeds person responsible for handling Salesforce in your organization
- Sales Reps - The actual reps who will be using the product on a day to day basis

Right now, if you went to each of those contacts in your organization and asked “What do you want in our upcoming negotiation with Salesforce?” you would get drastically different answers.

This is true across a Microsoft deal, Oracle, SAP or any other enterprise software.

Alignment within your organization is step #1 in reducing your costs. Your software roadmap is the foundation of a successful negotiation.

Why internal alignment is so important in an IT software negotiation

Lack of internal alignment is the #1 reason that software vendors are able to charge so much for their services.

There are three primary reasons that this is the case:

1. Lack of alignment enables divide and conquer tactics

Whenever your organization is misaligned, the vendor’s sales team will use its relationships across your organization together conflicting stories from key executives and departments.

When those stories don’t align, you may inadvertently put yourself in a defensive position and purchase more than you need. Has your C-Suite ever been wined and dined by your vendor?

This is an example of divide and conquer tactics at work.

2. Lack of alignment distracts the conversation from rates

Whenever you don’t have alignment within your organization on “what you need,” then the entire negotiation becomes focused on the “what you need” instead of the “how much.” Each time you send back your renewal for a re-write and you swap out products, you are missing a valuable opportunity to instead be negotiating on rates or terms.

3. Lack of alignment undermines any one individual’s authority in the negotiation

Imagine that you have put your VP of Enterprise Apps in charge of handling this negotiation but, during the sales process, your vendor invites the CFO and CEO out to a basketball game. During that game they hear a conflicting story about what you need from that vendor. Suddenly the VP of Enterprise Apps is no longer in the power position in the negotiation. The software vendor now no longer believes it actually owns the decisions and will continuously go around them to get the largest deal.

Without that internal alignment, you don’t stand a chance in the negotiation. Instead, you as an organization will be fighting among yourselves instead of focusing on the negotiation with the software vendor.

Organizational alignment is the most important piece of a successful IT software negotiation.

How to create an IT software roadmap for a specific software vendor

Let's use Microsoft as an example. Imagine you are the CIO and your Microsoft deal is up for renewal in nine months. You know that as a company you have over purchased at your last contract and you want to reduce these expenses to free up budget in other areas.

Step 1) What do you have?

The first step is to gather all of the information about your current Microsoft products in one place. Often you will have a large contract that is up for renewal along with many small additions or a-la-carte contracts that happened over the years.

Get all that data in one place to establish a working baseline.

Step 2) What do you need?

Take some time to think through the future of your organization and what your ideal world looks like with Microsoft over the coming years.

What products or services do you want and need?
What products or services is your team not actually using?
When do you need these new products and services?

Your goal here is to create a simple table showing two things.

- What
- When

This table will show the products and licenses you are purchasing, and when in time you will buy them.

Your goal in this step is to create a two to three-page PowerPoint that you can share internally in your organization. This deck will detail your vision for this software contract inside of your organization.

Step 3) What does your organization need?

Once you have your vision for this software vendor documented in a basic deck, it is time to take that to other stakeholders on your team.

Your next step is to set up meetings with all of the key stakeholders who will weigh in on this upcoming contract and negotiation. The key here is not to go to each person with a blank slate and ask "What do you want for this software vendor?"

That open-ended question is not productive and will waste countless hours on back and forth debate with conflicting stakeholders.

Instead, you go to those stakeholders and say, "I have created this document which outlines my ideal vision for X vendor. Since you are heavily involved here, I wanted to get your thoughts and feedback."

By establishing a baseline for the conversation, you are able to have a much more constructive conversation with each person. After each internal meeting, you update your deck based on the feedback and input from each stakeholder.

By the end of this process, you will have gained internal alignment from your organization on what you need for your upcoming negotiation.

Step 4) Create a communication plan so your organization speaks from one voice

Once you have received buy-in from your organization on your roadmap and gathered everyone's feedback, the next step is to summarize and get everyone on the same page.

An easy way to do this is to send out a finalized version of the roadmap with key talking points to key stakeholders inside your organization.

This doesn't need to be complex, but instead, it should be a simple slide of what to say and what not to say.

The purpose of this slide is to make sure that your organization is all speaking from one voice. Each person on your team is sharing the same story with the software vendor. This shows that vendor that you have internal alignment and prevents against many of its most powerful tactics.

Once you finish up that roadmap, your next step is to build your talking points and distribute this out to your team.

Reduce your IT expenses through outcomes-based negotiation tactics

Your software roadmap is the foundation of a successful negotiation. Without that roadmap and internal alignment, you don't stand a chance.

Once you have that in place, you can begin focusing on and implementing outcome-based negotiation tactics which will help you reduce your costs and invest the vendor into seeing your company succeed.

Below are a few examples of outcome-based negotiation tactics, which are incredibly powerful in an IT software negotiation.

Negotiate savings with a press release, case study, or white paper

One of the easiest and low hanging fruits in any negotiation is the offer of a press release or to partake in the vendors marketing materials. The reason that this is so powerful is that it gives you a bargaining chip to reduce costs on your contract without costing you a dollar.

You negotiate this so that the vendor has to create the materials and you simply provide availability and the cooperation of your team in the creation of the assets. You can negotiate final approval before it goes live to keep you in a safe position.

This is an extremely valuable tactic because it only costs you little but creates tremendous value for the vendor.

Structure your contract around milestones

The next tactic you can use to reduce your contract is to structure in milestones into your contract.

Examples of Milestones could be:

- Software implementation project is complete
- Adoption rate of current licenses reaches at least 80%

The key here is to think through what the milestones are in the contract that will require full cooperation from your vendor to achieve. If your vendor is not pulling their weight to get the integration complete, then you should not be paying extra for that time.

By structuring your contract so that their payments are tied to a specific milestone, the vendor will be incentivized to achieve those outcomes in the most efficient and effective manner.

To make your milestones even more powerful, structure incentives and penalties around each milestone.

To begin with, let's focus on the adoption rate example. We could set a milestone of 80% adoption rate by X date.

- If an 80% adoption rate is achieved by this date, then the software vendor receives a 10% bonus payment.
- If an 80% adoption rate is not achieved by this date, then the software vendor pays a 15% penalty.

This type of bonus and penalty incentive is extremely powerful. It will get your vendor working for you to ensure their tool is successful within your organization.

For software vendors, you can also use Milestone payments to roll out additional licenses of your product. Instead of trying to structure penalties or incentives, you could simply say "We will purchase an additional 20 licenses once we achieve 90% utilization of our current licenses."

You can take this same approach with a professional services or software consulting firm. You tie their compensation or payments to the full implementation of the software within your organization.

This approach organically aligns your vendor's interests with success criteria that you establish. In this example, the vendor would be focused on increasing adoption.

Executive Access

One thing you must understand about these software vendors is that every time they achieve access into a new department within your organization, they classify that as a large win.

For example, Salesforce may start as just a CRM for your sales team. Over time, they will fight to break into your customer service team with their Service Desk offering.

Each time they break into a new department they see that as a “land grab.”

It is important to understand how important these “land grabs” are to your software vendors because you can use them as bargaining chips during your negotiation.

For example, in a Salesforce negotiation you could offer up a meeting with the CMO to view a demo of Pardot. Or you could offer up a meeting with your VP of Customer Support.

The key with giving executive access like this is to do it with intent. Don’t just agree and then send your CMO into a meeting with no prep.

Instead, have a prior meeting with the CMO to discuss roadmap alignment before they engage with the vendor. You present them talking points and tell them “what to say” and “what not to say” in that meeting.

When you combine executive access with a strategic communication plan, you create a very powerful bargaining chip in your negotiation.

Utilize “business investment funds” by building a vision for your vendor

One thing that you may not know about a majority of the software vendors in the market is that most have some variation of what is called a “business investment fund.” For Salesforce this is called “Customer for Life.”

These business investment funds are basically pools of money that sales reps are given to use at their discretion in one of two ways:

1. To keep an account from churning
2. To help grow an account

These “business investment funds” are free money which can create massive discounts on your account.

Software vendors don’t just hand these out to anyone. They use them very strategically to ensure the long-term success of their accounts.

That means that in order to access these funds, you need to create a very strategic relationship with your sales representative. This tactic is probably the least straightforward and teachable tactic in this article, but it is one of the most powerful when executed properly.

Here are a few examples of stories you can tell your vendor. These all paint the picture of both risk and growth for the vendor:

- Your team is beginning to examine other alternatives to the vendor that could be more affordable and have increased functionality;
- We see the opportunity to grow our use of your software within our organization, but we need support from you to get that adoption and buy-in from our team;
- Other departments within your organization are considering adding some of your products that we are not already purchasing;
- We would like to move from a three-year deal down to a one-year deal as we are having doubts about our long-term commitment, and;
- We are going through an M&A and there is an opportunity to bring your tools into our newly acquired company.

These are just a handful of examples, yet each situation will be unique.

The objective here is twofold:

1. Create fear in the vendor that your account could shrink or churn
2. Create a vision of future opportunity with the vendor for potential growth

These stories are powerful motivators for software vendors. When you properly paint this picture you incentivize the vendor to utilize a “business investment fund credit” to help grow or support your account.

Key Takeaways

Achieving internal alignment on your software roadmap is the first step to a successful negotiation. Without internal alignment, you are setting yourself up for failure

To create a roadmap, you must analyze what you have as well as what you need.

Once you have your roadmap, you must align your internal team by providing talking points so everyone is speaking from one voice.

Only once you have achieved that internal alignment can you begin to utilize outcomes-based negotiation tactics. These tactics can help you reduce your rates or gain more favorable terms in a negotiation.

Tactics specific to software vendors include:

- Collaborating with the vendor on a white paper, press release or case study
- Structuring your contract around milestones
- Providing executive access to the vendor
- Utilizing business investment funds