Negotiations Best Practices

September 13, 2017

The purpose of this presentation is to:

1. *Provide negotiations best practices and basics that can be utilized when dealing with major vendors*
2. *Re-familiarize the team with a Strategic Vendor Management (SVM) framework and how it can help enable successful negotiations with major vendors*

Agenda

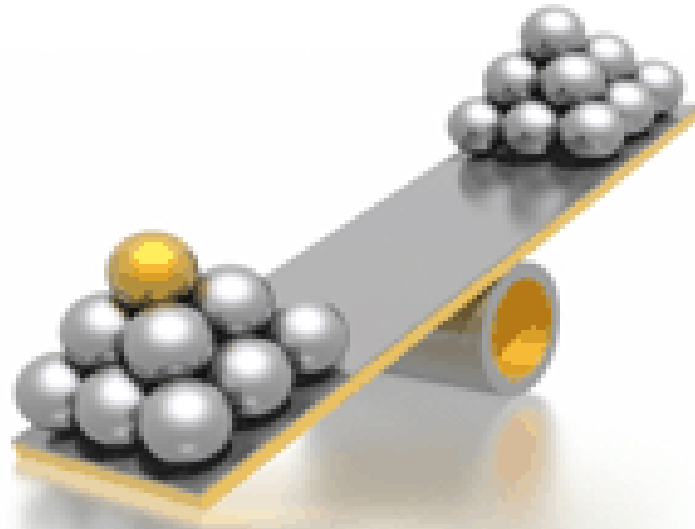**Negotiations Best Practices**

How SVM Can Help Aid Negotiations

Practical Examples

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"In negotiations, leverage is the power that one side of a negotiation has to influence the other side to move closer to their negotiating position. A party's leverage is based on its ability to award benefits or impose costs on the other side…"

PREP, PREP, AND MORE PREP!

Why is preparation so critical for the Government?

Because Software OEMs are always going to come to the table well prepared…

- Sales personnel, legal personnel, and contract specialists from the OEM are trained to negotiate – they do this for a living and are offered formal training

- They typically have access to valuable data include your install base and utilization that you may not have

- They have negotiation scenarios and tactics already well laid out

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The Government can prepare for software negotiations by spending ample time analyzing, researching, and planning

Analyze
- Understand your current install base and utilization
- Estimate your future demand signals
- Understand your current pricing

Research
- Understand what others are paying for similar deals
- Research the market including understanding what competitors can offer

Plan
- Bring customers and stakeholders onboard
- Build the right team for negotiations
- Identify your ideal terms and conditions
- Set negotiation goals and targets
- Conduct scenario planning

Vendor Tactics and Motivations

- De-emphasize terms and conditions by saying they are non-negotiable and waiting until the last moment to discuss them
- Sales personnel generally don't care about terms and conditions unless it impacts their commission

- Bring highly trained sales personnel and negotiators to the table from publishers, resellers, and / or integrators to try to establish a position early before negotiations

Best Practices

- Focus first on discussing and optimizing terms and conditions and ensuring the right products are being offered first - don't focus on pricing and discounts first when negotiating / evaluating potential agreements

- Know with whom you are negotiating is key – publishers vs. resellers vs. integrators
- Understand the financial incentives and motivations of the sales team
- Ensure you have skilled and experienced personnel with the ability for innovative thinking and deep analysis of data as part of your negotiations team

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Vendor Tactics and Motivations

- Provide pricing based on a scope in mind, their view of your future needs and current utilization, and discounts off of published list prices

Best Practices

- Don't focus on negotiating discounts
- Don't accept limitations on your licensing as a way to reduce your price
- Ensure you have quality data at your disposal including an understanding of your currently install base and future demand signals
- Make sure you understand the license type(s) being offered and find the right fit

Other Best Practices and Lessons Learned

Timing — Publisher's business is driven by fiscal quarter and year ends and concessions typically occur during the last week of a quarter – time your buy to correspond to the end of quarters / year

Budget — Vendors will use knowledge of your budget to price their products and services accordingly – remember to never, ever let the vendor know your budget

Volume — Vendors will provide better pricing and discounts based on volume – remember that the bigger the deal, the more leverage you have

Competition — Publishers are always concerned about competition – identify alternatives and let the publisher know that you could walk away (only applicable in certain situations and with certain OEMs)

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Managing strategic IT OEM vendor relationships as a **_single enterprise_** is the most effective way to maximize the value an organization realizes from those relationships

Managing strategic OEM IT vendors as an enterprise through Strategic Vendor Management (SVM):

- Allows a Government organization to achieve **maximized savings**, **improved vendor performance**, and unprecedented **enterprise-level visibility**

- Helps to foster **"win-win" partnerships** that lead to **joint collaboration, information sharing, and innovation**

- Pushes beyond simply executing new agreements in order to develop improved partnerships that drive **efficiencies and reduced total cost of ownership (TCO)** for a Government organization

- **Levels the playing field** between the vendor and Government by arming the organization with key internal data analysis and market intelligence to **_support effective vendor engagement including negotiations!_**
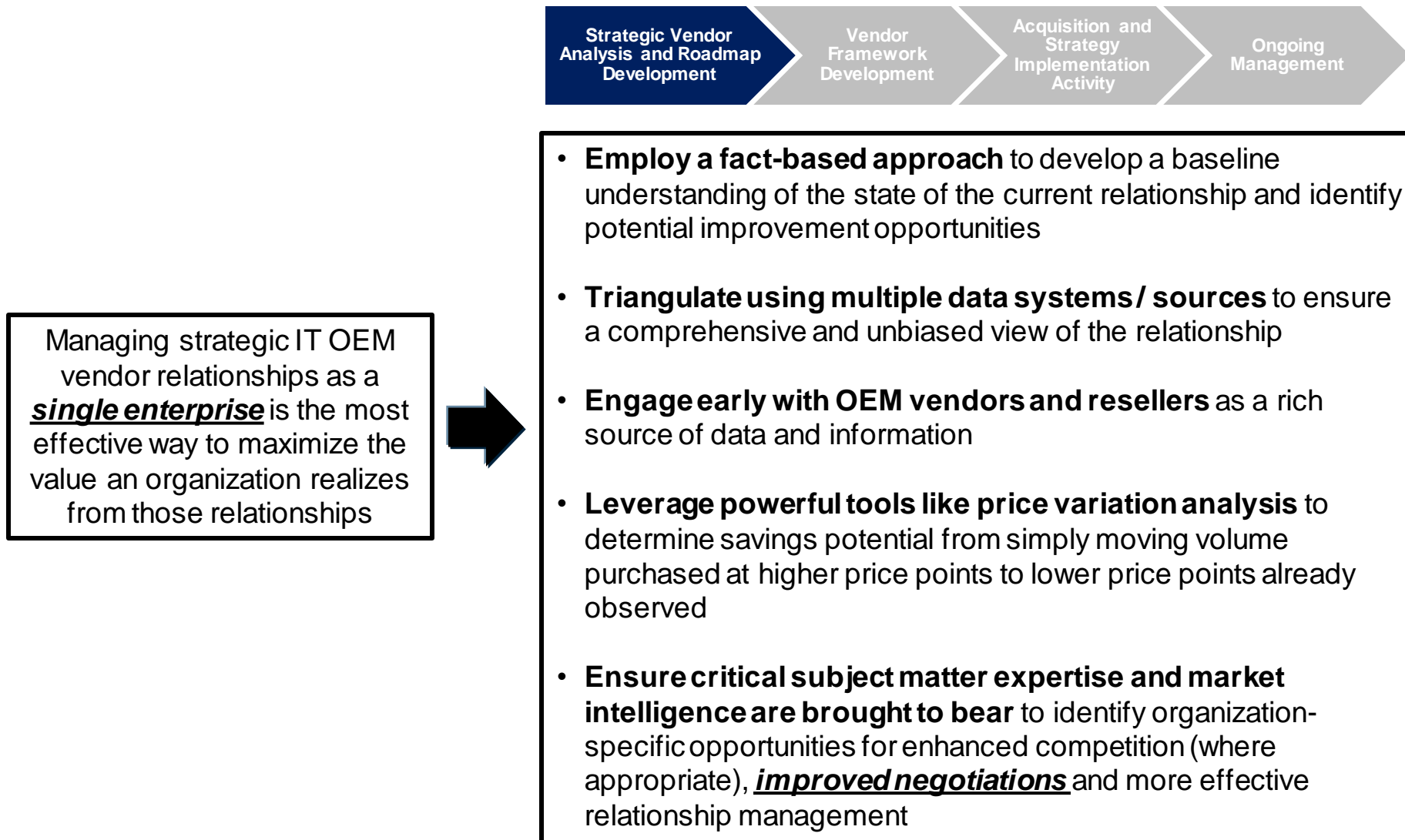
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Why is it challenging to manage strategic IT OEM vendors as an enterprise?

Managing strategic IT OEM vendor relationships as a **_single enterprise_** is the most effective way to maximize the value an organization realizes from those relationships

- **_Fragmented Relationships_** – A diverse range of customers (requiring activities, program offices, CIOs, etc.) maintain <u>numerous fragmented relationships</u> with the OEM vendor and its channel partners (resellers, wholesalers, integrators, etc.)

- **_Systems Limitations_** – Existing systems / sources <u>do not provide a comprehensive view of activity</u> (spend, assets, etc.) with a particular vendor

- **_Organizational Limitations_** - Organizations typically lack the right organizational structure and processes to <u>align resources with the right skills and expertise</u> to effectively and efficiently manage an OEM vendor at an enterprise level

How can a Government organization think and act like an enterprise through an SVM process?

| Strategic Vendor Analysis and Roadmap Development | Vendor Framework Development | Acquisition and Strategy Implementation Activity | Ongoing Management |

Managing strategic IT OEM vendor relationships as a **_single enterprise_** is the most effective way to maximize the value an organization realizes from those relationships

- **Employ a fact-based approach** to develop a baseline understanding of the state of the current relationship and identify potential improvement opportunities

- **Triangulate using multiple data systems / sources** to ensure a comprehensive and unbiased view of the relationship

- **Engage early with OEM vendors and resellers** as a rich source of data and information

- **Leverage powerful tools like price variation analysis** to determine savings potential from simply moving volume purchased at higher price points to lower price points already observed

- **Ensure critical subject matter expertise and market intelligence are brought to bear** to identify organization-specific opportunities for enhanced competition (where appropriate), **_improved negotiations_** and more effective relationship management

How can a Government organization think and act like an enterprise through an SVM process? (cont)

Managing strategic IT OEM vendor relationships as a ***single enterprise*** is the most effective way to maximize the value an organization realizes from those relationships

Engage in OEM vendor discussions, held within the FAR rules of engagement:

- **Understand the rules of engagement** to effectively leverage vendor input to drive efficiencies (many organizations miss this opportunity)

- **Provide critical information to acquisition staff prior to acquisition activities** including an understanding of:
  - OEM vendor capabilities
  - Alternative agreement structures, rough costs, and trade-offs
  - Reporting / visibility requirements
  - Agreement performance requirements
  - Internal changes required to reach certain efficiencies

- **Ensure representation from multiple functional areas** within the organization such as IT, acquisition / contracting, budget, and policy

- **Jointly develop an overall operational framework** for driving increased value for Government through a more effective vendor relationship

- **Identify agreement alternatives and ROMs** to help better guide acquisition staff prior to contracting and **negotiations**

How can a Government organization think and act like an enterprise through an SVM process? (cont)

| Strategic Vendor Analysis and Roadmap Development | Vendor Framework Development | **Acquisition and Strategy Implementation Activity** | Ongoing Management |

Managing strategic IT OEM vendor relationships as a **_single enterprise_** is the most effective way to maximize the value an organization realizes from those relationships

- **Execute near-term acquisition strategies** focused on volume leverage and enterprise agreements

- **Initiate planning for phased execution of roadmap opportunities** including, but not limited to
    - Asset reuse / redeployment
    - Requirements management
    - Demand management
    - Enhanced competition where appropriate
    - Total cost of ownership (TCO) management

- **Develop a robust and proactive communications and change management plan** to ensure successful execution of strategies and compliance with new policy and process

- **Conduct effective negotiations** based on significant prior experience and success in working with the OEM vendor

How can a Government organization think and act like an enterprise through an SVM process? (cont)

| Strategic Vendor Analysis and Roadmap Development | Vendor Framework Development | Acquisition and Strategy Implementation Activity | **Ongoing Management** |

Managing strategic IT OEM vendor relationships as a ***single enterprise*** is the most effective way to maximize the value an organization realizes from those relationships

- **Actively manage and sustain the relationship** and associated processes, agreements, and performance over time by having the following in place:
  - o The right organizational structure and personnel resourcing
  - o The right capabilities and subject matter expertise
  - o The right processes (requirements review, vendor / market research, etc.)
  - o The right metrics that link back to business outcomes and the OEM vendor framework

- **Push beyond simply developing enterprise agreements and focus on proactive management of the agreements and the broader relationship** with the OEM vendor over time

- **Ensure the right metrics are in place** to track both vendor performance <u>and</u> internal compliance, process effectiveness, and other efficiencies

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A Practical Example

Scenario: A Government organization is purchasing a Publisher's software through a contractual agreement with a Systems Integrator (SI) that is expiring soon. In anticipation of the expiration, the Publisher approaches the SI and realizes that the Government may be under-licensed by 30% and is using options and products not on contract

What the Publisher Will Do

- Approach the Government about the upcoming renewal and bring up licensing issues

- Present utilization reports that try to demonstrate that the Government is under-licensed

- Conduct scenario planning in order to find ways for the Government to correct its deficiency

What the Government Should Do

- Don't automatically accept the Publisher's analysis

- Conduct own analysis of licenses and utilization to validate / dispute the Publisher's picture based on a mature software license management program in place

- Develop negotiation strategies and scenarios that anticipate Publisher tactics

- Consider 3rd party expertise to augment internal team

Any examples, best practices, or
lessons learned from your experiences
that you want to share with the group?

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- Please reach out to the ESCT if you have comments or issues regarding this deck or any other topics
- Next meeting: Audit Best Practices **(TBD)**

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