

# CIO Playbook: 4 Powerful Steps to Combat Inflation During Vendor Negotiations

Luke Ellery

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# Follow These Four Steps for Tips, Tactics and Techniques ...



## ... To Improve Negotiation Leverage and Bargaining Power

# **Case Study 1: Banking Client**

**22% Annual Increase  
on Legacy Software  
Support Renewal**

## ***Scenario:***

Annual renewal for legacy software product subscription and support received in April for \$3.3M, a 22% increase over last price paid (LPP) the previous year of \$2.7M.

## ***Background Information:***

- Renewal Date July 31 — No Renewal Price Cap in Current Agreement
- Vendor Explained Increase Due to Inflation, Increased Labor and R&D Efforts
- Legacy Products Are Perpetual Licenses
- Vendor Proposed Subscription Trade-Up to Avoid Future Year Increases

## 1

# Ask the Right Questions to Reveal Hidden Costs and Missing Details

## Deal-Specific Vendor Questions/Requirements Checklist

**✓ Price**

What is list price, entitled price and offered price?

**✓ Itemization**

Provide updated quote with line-item pricing by SKU

**✓ Versions**

Provide the latest version announced and released by SKU

**✓ Support Options**

Provide all support levels and pricing and descriptions for each level

**✓ Announcements**

Provide links to price increase announcements

**✓ Incentive Compensation Plan**

Describe how your sales compensation plan works

**✓ Bonus, Commission, Spiffs**

How are you compensated for support vs. product sales?

**✓ Resellers and Business Partners**

List of resellers/partners that specialize in each product

***Action Item: Insist That Vendors Provide Root Cause Details When Increase Is Due to Inflation — Line-Item Details Documenting Inflation Driver for Each Price.***

## 1

# Ask the Right Questions to Reveal Hidden Costs and Missing Details

## IT and Key Stakeholder Questions Checklist

✓ **Support Requirement**

Can we use perpetual licenses in an unsupported mode?

✓ **Installed Versions**

What version is installed today for each product?

✓ **Third-Party Support Viability**

Which products do not require new versions once released?

✓ **Competitors/Alternatives Switch Viability**

What competitors' products or alternatives are credible?

✓ **Technical Support Calls**

How many support tickets have been opened the past year?

✓ **End User Support Tickets**

How many end users have submitted helpdesk tickets, and severity level for each product?

✓ **Technology Strategy and Roadmap**

How does each product fit in our overall technology plan?

✓ **New, Trade-Up or Hybrid Offerings**

Do vendor's new or trade-up offerings provide value?

***Action Item: Customize Stakeholder Questions to Be Technology- and Deal-Specific — Answers to Questions Are Critical to Develop an Effective Negotiation Playbook.***

## 2 “Vendorize” Your Negotiation Strategy — One Playbook Doesn’t Fit All Vendors

### 1. Eliminate Support on One Product —

Feasible to use perpetual license in unsupported mode

### 2. Third-Party Software Support (TPSS) Viable for Two Products —

TPSS provides 50%+ cost reduction

### 3. Vendor Sales Team More Highly Compensated for SaaS —

Risky to relinquish perpetual licenses, ask for dual use

### 4. Request 1-, 2- and 3-Year Proposal for Trade-Up —

Motivates sales team to see opportunity for a *new* sale

### 5. Vendor Fiscal First-Half End Date June 30 —

Early renewal with trade-up should motivate sales team

### 6. Leverage 4.5% Economic Cost Index (ECI) for Counteroffer —

US Bureau of Labor Statistics (<https://www.bls.gov/news.release/eci.t04.htm>)

***Action Item: Engage IT Finance to Create Customized Cost Models. Use Region-Specific Economic Indicators (e.g., CPI, ECI, PPI) to Justify Your Counteroffer When Increases Are Exorbitant and Not Clarified by Vendors.***

• U.S.: U.S. Bureau Of Labor Statistics • EU: Eurostat • UK: Office for National Statistics (ONS)

# 3

## **Create Deal-Specific Cost Models — Essential for a Powerful Negotiation Playbook**



## 4

# Execute Your Plan — Collaboration and Timing Are the Keys to Success

**Vendor Renewal Proposal**  
**\$3,321,088**

**Client Counteroffer**  
**\$1,359,000**

**NEGOTIATION  
SUCCESS!**

**Net Difference:**  
**(\$1,962,088)**

(Budget Impact When Comparing  
Vendor Proposal to Client Counteroffer)

**ANNUAL  
SAVINGS  
\$422K**

- Three-Year Trade-Up to New Security Suite — New Product Discount Applied Across Bundle
- Third-Party Support Threatened Vendor Long-Term Revenue Loss
- Final Offer: Three-Year Deal for New and Existing Products — \$2.3M Per Year
- \$422K Less Than Last Price Paid \$2.722M

## **Case Study 2: Healthcare Client**

**25% Inflationary  
Increase on New  
Analytics and Business  
Intelligence Solution**

## ***Scenario:***

Five-year proposal received from Vendor A for an Analytics and Business Intelligence solution based on RFP sent to 5 qualified vendors. Proposal details:

- Proposal Total: \$3,989,564
- Term: 5 Years
- Description: SaaS offering for 5 Administrators and 1,000 Report Viewer Users including Implementation Services and Training.

## ***Background Information:***

- RFP response scoring resulted in 2-vendor shortlist for competitive negotiations
- Vendor A pricing 25% higher than the pre-POC estimate and 15% higher than Vendor B
- Vendor A explains increase due to inflation and scope change identified during POC exercise
- POC engagements successful for each vendor solution
- Vendor A scored substantially higher in business and technology categories
- Vendor B worrisome due to position in Gartner MQ for Analytics and BI Platforms

# 1

## Ask the Right Questions to Reveal Hidden Costs and Missing Details

### Deal-Specific Vendor Questions/Requirements Checklist

#### ✓ Price

Explain the root cause for the inflationary increase compared to the pre-POC estimate

#### ✓ SaaS Itemization

Provide updated quote with line-item pricing by SKU for SaaS

#### ✓ Storage/Disk Space

State how TBs are being provided in proposal and cost per TB/GB for add-on disk space

#### ✓ Implementation and Training

Separate pricing to see line-item details for implementation costs vs. training costs

#### ✓ Role-Based Details for Implementation

Provide details on the roles for deliverables in the draft implementation SOW

#### ✓ Price Caps for Capacity Increases

Provide clarity on the RFP question related to price increase protection for growth

#### ✓ SaaS Renewal Price Protection

Provide confirmation that the language in the RFP is accepted — CPI or 3% (whichever is less)

#### ✓ Resellers and Business Partners

List business partners that specialize in this solution for enhancements and support

## 1

# Ask the Right Questions to Reveal Hidden Costs and Missing Details

## Sample Project Plan Forecast for BI and Data Analytics Project — Implementation, Testing, Production, Acceptance

Deliverables & Actions	Success Criteria	Year 1				Year 2				Year 3			
		Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4	Qtr 1	Qtr 2	Qtr 3	Qtr 4
<b>5 Administrators</b>													
• Training and Implementation	5 Administrators in Production												
<b>1,000 Report Viewer Users Deployment Plan</b>													
• Technical Services & Applications	125 Users In Production												
• Security & Risk Management	20 Users In Production												
• Finance	55 Users In Production												
• Sales & Marketing Business Units	425 Users In Production												
• Manufacturing	200 Users In Production												
• HR	25 Users In Production												
• Supply Chain	150 Users In Production												
<b>Acceptance Testing</b>													
• Sales Business Unit Acceptance Testing	Meets Business Intelligence Criteria												
• Final Acceptance Test	Meets Predictive and Data Analytics Criteria												
• Project Completion	Meets Go Live Production Criteria All Users												

**Action Item: Engage Stakeholders to Forecast Usage and Implementation Plan — Critical to Customize Cost Model that Maps Payments to Timing of Product Deployment and Go-Live Dates.**

## 2 “Vendorize” Your Negotiation Strategy — One Playbook Doesn’t Fit All Vendors

**1. Maintain a Competitive Environment —**  
Ensure vendor knows competitors are under consideration

**2. Remind IT and Business of Vendor Engagement Do’s and Don’ts —**  
Leaking information during competitive negotiations can derail outcomes

**3. Build vs. Buy Is Still a Viable Solution —**  
Include both CTO and CIO in final negotiations

**4. Agree to Be a Reference and Speak at Vendor Engagement —**  
Motivates vendor to lower pricing/improve terms

**5. Use Vendor Financials Showing Profitable Quarters —**  
Increases in both software and cloud segments past 2 quarters

**6. Use Step 1 Deployment Plan to Map Payments to Usage —**  
Vendor proposal front loads implementation and SaaS before deployment

***Action Item: Engage IT Finance to Create Customized Deal-Specific Financial Models to Reveal Hidden Costs and Serve as Powerful Tools for Negotiation Leverage and Bargaining Power.***

## 3

# Create Deal-Specific Cost Models — Essential for a Powerful Negotiation Playbook

## Vendor Proposal — Itemized SaaS, Implementation and Training Costs

SKU & Description	Qty.	Year 1	Year 2	Year 3	Year 4	Year 5	Total
VS0001 — BI Administrators	5	\$16,500	\$17,325	\$18,191	\$19,101	\$20,056	\$91,173
VS0004 — Report Viewer User	1,000	\$620,000	\$651,000	\$683,550	\$717,728	\$753,614	\$3,425,891
Implementation — Fixed Price	—	\$450,000	\$0	\$0	\$0	\$0	\$450,000
Training — 5 Admin/25 Viewers	—	\$22,500	\$0	\$0	\$0	\$0	\$22,500
<b>Totals:</b>		<b>\$1,109,000</b>	<b>\$668,325</b>	<b>\$701,741</b>	<b>\$736,828</b>	<b>\$773,670</b>	<b>\$3,989,564</b>

## Client Cost Model Using Stakeholder Deployment Forecast From Step 1

SKU & Description	Qty.	Year 1	Year 2	Year 3	Year 4	Year 5	Total
VS0001 — BI Administrators	5	\$16,500	\$17,325	\$18,191	\$19,101	\$20,056	\$91,173
VS0004 — Report Viewer User	1,000	\$0	\$651,000	\$683,550	\$717,728	\$753,614	\$2,805,891
Implementation — Fixed Price	—	\$225,000	\$225,000	\$0	\$0	\$0	\$450,000
Training — 5 Admin/25 Viewers	—	\$22,500	\$0	\$0	\$0	\$0	\$22,500
<b>Totals:</b>		<b>\$264,000</b>	<b>\$893,325</b>	<b>\$701,741</b>	<b>\$736,828</b>	<b>\$773,670</b>	<b>\$3,369,564</b>

# 4

## Execute Your Plan — Collaboration and Timing Are the Keys to Success

Customer Forecast  
\$3,369,564

Vendor Proposal  
\$3,989,564

Net Difference:  
**(\$620,000)**

(Shortfall When Comparing Your Forecast to Vendor Proposal)

***Action Item: Use Your Implementation and Deployment Plan to Customize a “Should-Cost” Model to Compare to Vendor’s Front-Loaded Proposal and Serve as a Negotiation Tool for Bargaining Power.***

***Negotiation Success: Final Deal Resulted in Vendor Offer of \$3.5M, No Charge for Training, and SaaS Renewal Increase Cap of CPI or 5% (Whichever Is Less).***



# Four Steps at a Glance

## Step 1

### **Ask the Right Questions to Reveal All Costs**

- Insist vendors provide line-item details by SKU
- Insist on root cause details to explain increases by SKU and spend category
- Request all support options and pricing
- Customize stakeholder checklists to ask deal-specific questions

## Step 2

### **“Vendorize” Your Negotiation Strategy**

- Create and maintain a competitive environment
- Evaluate feasibility of other alternatives and switching costs
- Play detective — Find out what motivates your sales team
- Monitor vendors’ quarter-end financial results by segment

## Step 3

### **Create Deal-Specific Cost Models**

- Ensure cost models are included in your vendorized playbook
- Use region-specific economic indicators for should-cost models
- Map payments to deployment plan in should-cost models
- Analyze both the cash flow and P&L impact of vendor proposals

## Step 4

### **Execute Your Plan**

- Use your should-cost model for leverage and bargaining power
- Be willing to walk away — Have a plan B
- Time deals to align with vendors quarter-end and fiscal year-end dates
- Don’t forget your T&Cs — Renewal price increase caps at CPI or 3% (whichever is less)

# Recommended Gartner Research

- 🔍 [Quick Answer: How Should CIOs and Their Teams Strategize Vendor Negotiations to Combat Inflation?](#)  
Jo Ann Rosenberger (G00768536)
- 🔍 [Quick Answer: How to Handle Cost Increases Due to Inflation In Your IT Contracts](#)  
Melanie Alexander and Others (G00766496)
- 🔍 [CIO Tactics to Mitigate the Impact of Inflation](#)  
Bryan Hayes and Robert Naegle (G00769813)
- 🔍 [Toolkit: How CIOs Can Use 3 Powerful Financial Models for Negotiation Leverage and Bargaining Power](#)  
Jo Ann Rosenberger and Rob Schafer (G00762829)
- 🔍 [Toolkit: 5-Step Negotiation Framework to Reveal the True and Total Cost of Vendor Proposals](#)  
Jo Ann Rosenberger (G00751266)
- 🔍 [Toolkit: Estimate Impact of Inflation on the IT Budget](#)  
Bryan Hayes and James Anderson (G00773868)

Access to Gartner research is subject to entitlement. For information, please contact your Gartner representative.