

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

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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:**

- AUS: Australian Bureau of Statistics • EU: Eurostat • NZ: Stats NZ
- UK: Office for National Statistics (ONS) • US: U.S. Bureau Of Labor Statistics

# 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
Totals:		\$1,109,000	\$668,325	\$701,741	\$736,828	\$773,670	\$3,989,564

## 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
Totals:		\$264,000	\$893,325	\$701,741	\$736,828	\$773,670	\$3,369,564

## 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)

**NEGOTIATION  
SUCCESS!**

*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 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 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 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)