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Research Note
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Ten Basic Steps to Getting a Good Deal

Many enterprises focus on getting a good deal based on the initial price of a software license. Yet, obtaining contractual protections and entitlements can be more essential. We offer a checklist to increase the probability of a good deal.

Core Topic
Sourcing: Sourcing and Procurement Strategies

Key Issue
What are the fundamental elements that comprise successful sourcing and procurement strategies?

Strategic Planning Assumption
Negotiating a best-in-class software license agreement can reduce ongoing cost of ownership by 25 percent or more per year (0.8 probability).

Key Facts:
- Credible competition is the best leverage for negotiation strength for pricing and terms and conditions.
- A best-in-class deal requires a managed software procurement process.
- Include personnel experienced in technology procurement in all phases of the project.

There are many software vendors and many software products. Every enterprise wants to get a "good deal." Focusing solely on the initial license cost can cost more in the long run, because more of the total cost is based on price protections and entitlements in the actual contract. We offer a 10-part checklist to improve your initial price and long-term protections.

1. Form a cross-functional team.

A cross-functional team should be established for the project and the negotiation should be considered an essential part of the project management (see "A Team Approach to Technology Procurement," TU-14-2336).

2. Create a request for proposal (RFP).

Creating an RFP is time-consuming, but it is essential for any major procurement. An RFP will help:

- Identify appropriate differentiation criteria
- Structure criteria into appropriate context
- Assign relative importance with the structure
- Gather and validate objective vender information
- Help justify the selection throughout the enterprise

Enterprises should notify the vendors that their RFP response will be incorporated into the final contract.

3. Document the measurement criteria for RFP evaluation.

Discuss the measurement criteria with others in the enterprise to ensure that the software will meet business and technical requirements. Determine what is mandatory, valued or “nice to have.” Your requirements definition can also be a part of your RFP document.

4. Include your in-house or external professional negotiators on the cross-functional team at the beginning of the project.

Professional technology negotiators will be trained and experienced in the business contract terms and conditions that are essential to providing long-term contract protections. They can also play a neutral central point of contact for the software vendors, provide research on the vendors, and interface with the legal and procurement departments to handle their requirements properly (see “Professional Software Negotiators: Do You Need Them?” TU-14-4160).

5. Ensure credible competition.

Credible competition is essential to getting a good deal. By determining your enterprise’s requirements and searching out the software companies that meet these requirements, you are likely to find more than one company that will be a possible match. Do not choose your software based on which software company managed to get in to do a presentation. Evaluate competitive products and keep more than one vendor in the final stages of negotiation until the deal is signed.

6. Start the software negotiation when the RFP goes out or when talks with the vendor begin — whichever comes first.

Ensure that the contract negotiation is an important part of the final deal and is not negotiated after the vendor has been chosen. Frequently, an enterprise will focus on the initial cost of the software, shake hands on doing a deal and then start the contract negotiation. Once a product has been chosen, you immediately lose leverage in the contract negotiation.

7. Buy only software that you will have into production within a six- to 12-month time frame.

Software vendors will often offer large discounts on buying “complete solution” packages. In many cases, much of this software ends up being shelfware — either never installed or not accepted by the work force when it is installed. Because an enterprise will pay maintenance and support on this software (in addition to the software that was actually installed and put into production), the ongoing cost can be much higher than the resultant value. If you license such a package, at least ensure that you have component pricing broken down and a contractual provision that states you can remove separate components from ongoing maintenance.

8. Complete some of the consulting work prior to buying the software license.

Once you sign a license agreement, in many cases, you will be responsible for software support and maintenance cost starting immediately. At a cost of 17 percent to 24 percent of the license cost per year, this is money thrown out the door while the software is not installed or in production. Many enterprises use external consultants for various implementation roles. Some of this work can be done before the license agreement is even signed, including:

- Defining the scope of work to be performed
- Determining the initial software and hardware configurations needed
- Detailing the business areas that need modifications in workflow or software to meet requirements

9. Negotiate price protections for future purchases.

Implementing your package can often take more than six months. You may determine that you want additional licenses or user seats once the software goes into production. Negotiate for price protection for a minimum of a two-year period for additional licenses (see "Keep Software Prices in Check: Lock In Prices and Terms," SPA-13-4495).

10. Negotiate your maintenance agreement as part of the package.

Your maintenance and support costs and entitlements will be around long after you have paid the initial license fees. Many software vendors state that maintenance and support can be changed at their discretion. Even with price caps in place, software vendors have effectively reduced the value of their maintenance and support by reducing entitlements (e.g., only offering support five days a week instead of the seven originally contracted). Ensure that these entitlements are guaranteed as part of your overall contract negotiation.

Bottom Line: There are many aspects to getting a good deal. Price is only one of them. Review this checklist before you start any major technology procurement to reduce your initial cost as well as long-term cost of ownership.