Negotiating Win-Wins with IT Vendors: How to Plan and Execute for Mutual Benefit

Underlying the strongest long-term IT vendor/customer relationships is the feeling that both parties have a fair deal. In this age of fiscal pressures and significant IT costs, federal agency CIOs are particularly challenged to create such relationships. On the other side of the table, suppliers are being squeezed by macro-economic factors, competition and industry consolidation. Given these similar challenges, how can CIOs and IT vendors work better together? The answer is to avoid battling over unit prices by developing and executing a strategy that focuses on managing total costs and ultimately benefits both parties.

Focus On Total Cost Of Ownership (TCO)

In addition to developing requirements, analyzing spend and planning acquisition, sourcing teams should focus on lowering the total cost of ownership (TCO). Beyond the initial purchase price, TCO includes such elements as administrative overhead, demand and capability rightsizing, delivery efficiencies, labor and opportunity costs, and software utilization. These cost drivers can account for up to 75%[1] of potential savings.

[1] Based on Oceaneast analysis of multiple IT categories

The most important step in addressing TCO is to document the current baseline. This arduous process often involves collecting and analyzing data from disparate sources on areas not often tracked separately. The aim is to quantify the costs associated with contracts, license usage, spend not under management (i.e., P-card), and labor, administrative and opportunity costs among others. While suppliers can provide some of this data, it must be must be heavily vetted to ensure accuracy.

Despite the work involved, using a holistic approach to capturing savings will increase the chances of getting the best deal on the table and strengthen the long-term relationship with the supplier.

TCO CASE STUDY

A small sub-agency wanted to put its email and collaboration services on the cloud but had little understanding of the drivers that made up the current TCO. The engagement team developed a comprehensive business case which incorporated spend analysis on licenses, overhead, *(i.e. facilities costs, server real estate costs)*, labor *(i.e. support and integration services)* and productivity losses. With a clear picture of the current environment, the client could align the proposed cloud solution to its actual needs for capabilities and cost.

The result: The OEM benefited from a deep understanding of what the customer sought and provided a solution that cost ~60% less than historic benchmarks. Both parties also benefited from a stronger, more committed relationship.

Find The Mutual Value

Traditional strategies often define success as a zero-sum game, where every dollar an agency saves comes directly from the revenue of the supplier. While this may be true if the focus is solely on lowering SKU price, there are ways to create efficiencies and savings for both parties, including:

- **Lower oversight and administrative costs by consolidating spend**
- **More efficient license utilization and delivery through better software asset management**
- **Lower audit and compliance risk by improving the quality and frequency of communications between parties**
- **Increased productivity gains by aligning software capabilities to user needs**
- **Long term cost savings and operational efficiencies through strengthening supplier relationships**

In order to find mutual value, supplier negotiation teams should do their homework through the following steps.

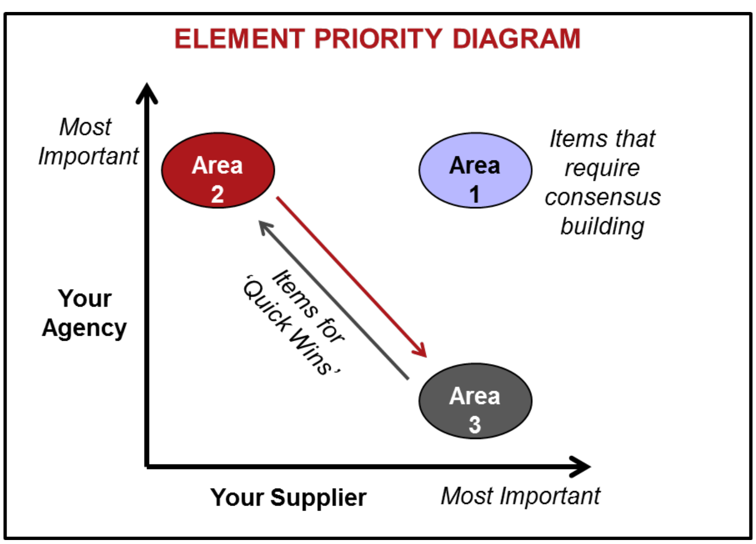
Clarify the agency's interests regarding this particular supplier. Understanding the agency's true objectives is key. Is the focus on lowering total cost of ownership or is it also on increased functionality / efficiency within the agency? What areas can the agency give on (i.e., customization, compliance) in exchange for better pricing or terms? What are the 'must-haves' of the engagement and where can the agency make concessions?

Understand the interests of the supplier. Does it want a long term relationship or just a one-time sale? What is going on internally within the company that can be leveraged? Share price, company financials, market trends, threat of competitors and new technologies are all elements to examine in the market analysis and incorporate as appropriate in the negotiation strategy.

Determine where agency interests overlap and align with those of the supplier. Both parties may benefit from asset management, capability right-sizing (i.e., getting the right product to the consumer), contract efficiencies (i.e., optimizing length, scope, breadth etc.), volume commitment (i.e., driving customers to the right vehicle) and even industry perception (i.e., both parties looking good in the trade magazines).

It is useful to plot the relevant terms and conditions (T&Cs) on an Element Priority Diagram (Figure 1). It shows the agency's desired T&Cs versus the vendor's anticipated reaction to them. Most T&Cs will fall into one of three distinct areas

Figure 1



1. *Both the agency and the supplier deem the T&C indispensable:* If these potential road blocks are identified early, the agency negotiating team can sequence them most advantageously in the discussion. For example, if compliance monitoring is a likely obstacle, it will probably not be the first item on the agenda.

2. *Both the agency and supplier deem the T&C indispensable and the supplier does not:* These areas can provide quick wins for the agency, as the supplier will be more willing to make concessions when its interests are not threatened. Identifying these T&Cs shows where an agency can and cannot make tradeoffs (e.g., license reporting, license true-downs).

3. *The supplier deems the T&C indispensable and the agency does not:* Know what the agency be traded away to maximize return. Additionally, articulating the supplier's pain points will demonstrate the commitment to a solution that both parties will find acceptable.

MUTUAL VALUE CASE STUDY

A large civilian agency wanted to lower costs by consolidating and standardizing on an office productivity suite, but the OEM was pushing back on price. The engagement team identified and implemented a solution based on mutual TCO reductions and license delivery optimization which benefited both parties.

The result: The agency realized 45% across the board savings on a zero committed-volume Blanket Purchase Agreement (BPA). The OEM saw greater adoption of its core set of products and a broadening of its customer base.

Master The Negotiation

The previous sections focused on factors in the negotiation strategy. But execution is the crucial phase. Months of preparation can be squandered if the team fails to clearly articulate and then capture areas of mutual value. The following tips will position the team for success.

Know your engagement levers. Depending on the relative strength of the supplier (i.e., incumbent status, lack of competitors) employing a variety of the following levers can obtain concessions and generate real savings:

1. *Emotional:* Enforces the importance of developing a long term mutually beneficial partnership.

2. *Logical:* Emphasizes areas that benefit both parties (win-wins).

3. *Bargaining:* Highlights that collaborating now will benefit them later (i.e., new product adoption, larger market share).

4. *Threat:* Used as a last resort. What are the alternatives to an agreement? The goal here is to bring the supplier back to the table.

Bring the right people to the table. Deploy the right mix of strategy, acquisition and licensing SMEs to execute the strategy, and ensure that each participant understands his or her role. A common pitfall when entering discussions with a large team is failure to maintain a unified front. Internal disagreements are inevitable, but have these discussions behind the scenes. Any obvious dissention in the ranks will present the wrong message to the supplier.

Take the lead in running the discussions. More often than not, suppliers come into a session with their own view of how the process should take place. Meetings may conclude without addressing the items most critical to the agency. To get the most out of the sessions:

1. *Understand the FAR constraints:* A good portion of the engagement strategy depends on which channel is addressed (i.e., LAR/VAR versus OEM) and the phase of the acquisition plan (i.e., market research, evaluation, post-award). To stay FAR compliant and limit the threat of protest, take these conditions into account in both the sequence and scope of the engagement.

2. *Conduct a pre-meeting strategy session:* With the negotiating team, clarify the objectives, priorities and tradeoffs, desired outcomes, messaging roles and anticipated supplier responses. This meeting will reinforce the agency's unified front.

3. *Develop the meeting agenda:* A meeting agenda will help ensure that objectives are met and the meeting does not get stalled by a contentious point. The agency facilitator can use the agenda to pace the discussions and provide opportunities for sidebars.

4. *Create working documents:* Bringing proposed 'win-win' solutions will reinforce the fact that the supplier's needs are understood and that the team is actively seeking collaborative solutions.

5. *Document consensus:* Be sure to clearly and explicitly define areas of agreement by documenting them on paper. Thorough documentation will prevent having to rehash old items and most importantly, avoid miscommunication.

Takeaway

Effective leadership and team coordination are essential in creating mutual value between two parties with differing interests. The previous sections have touched on a few approaches to tackle this issue, but a detailed analysis of the current environment and supplier relationship will help identify and capture those elusive win-wins.

For Additional Information

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