



Tropic Negotiation Toolkit

Negotiation Preparation Guide: What to Do Before Negotiations Start

Preparation is your greatest advantage, so we put together this guide to help you get the best value for your needs.

August 2024



What to Do Before Negotiations Start

Failing to plan is planning to fail. This is especially true when negotiating with software suppliers, because a few meetings, calls, or emails have the potential to impact your business for years to come. Preparation is your greatest advantage, so we've put together this resource to help you prepare for software negotiations. **Reference this preparation guide before you begin to kick off conversations with suppliers.**

Note: This is meant to be a robust guide - some steps, tips, and levers may not be appropriate for your situation. Discern the actions you need to follow closely based on your business needs and use-case.

Here are the steps to successful preparation that this guide will walk you through:

1. Understand Business Needs

- Understand the Needs of the Business and Internal Stakeholders
- Determine Must-Haves, Nice-to-Haves, & BATNA

2. Source Suppliers

- Conduct Preliminary or Competitive Sourcing
- Research Potential Suppliers Thoroughly
- Leverage Competitive Data

3. Develop Your Negotiation Strategy

- Learn Which Strategic Levers to Pull

1. Understand Business Needs

Meet with Internal Stakeholders and End Users

Whether you have a procurement team, a designated procurement pro, or none of the above, successful negotiations involve collaboration. Your stakeholders don't have to be directly talking with your supplier, but gathering some information from them ahead of time ensures you understand what everyone needs so you can ask the right questions and guide conversations and sourcing exercises toward successful outcomes. If you're buying on behalf of another team, it's even more important to understand their requirements so you can align your purchase to meet their goals.

Meeting with each end user will help you determine:

- True needs and must-haves for the solution (helps you focus on sourcing the best-fit tool)
- What is going well and what is not going well (get insight to use for negotiations)
- Who the executive sponsor is for the engagement
- Number of seats or usage needed (may need to find out from admin)
- Level of customer support needed
- Right contract length and renewal structure (i.e. month-by-month, year, multi-year)

How to determine the right contract length for your business

Contract length is one of the most important aspects of software buying, as negotiating the wrong length is costly. Procurement has a chance to influence and educate the business here as different departments may have conflicting views and various levels of approval may be needed.

Locking yourself into large multi-year agreements can result in unwanted shelfware. Conversely, signing a one-year contract can invite unfortunate uplifts later on.

Here are a few questions to consider that may help you determine which contract length will be the best fit:

- Do you have a bit of uncertainty about the supplier? Are they new?
- Are you unsure how much your company will grow in the next year(s)?
- Are you unclear about what budgets will look like in the future?
- Are you concerned you will not realize the ROI?

If you answered yes to those questions, a one year deal may be a better fit for you.

Even if a one year deal is best for your needs, still ask for multi-year proposals to help you understand their pricing, discount range, and motivations.

- Have you worked with this supplier before and proven their proof of concept?
- Would switching be far too expensive and time consuming?
- Does this supplier have a tendency to raise prices every year?

If you answered yes to these questions, a multi-year contract may be a better fit for you as it is a great way to recoup savings long-term.

Here are a few internal stakeholders to meet with:

*You may need to connect with more teams depending on your organization

Finance

Finance owns budgets and expenses, but they can also provide you with timelines about budget changes and future hiring plans so you can determine how many licenses you may need and what price you can afford them at. The CFO can offer crucial insights to inform your negotiations, such as the company's financial KPIs, department budgets, non-negotiables (i.e. payment terms), items they're willing to concede, and company growth metrics that can be used to leverage better pricing from suppliers.

INFOSEC

Dedicated to reducing risk, INFOSEC is a critical stakeholder to vet suppliers. They'll look over SLAs, contracts, terms and conditions, security qualifications, and more to ensure it's even worth your time to enter into negotiations. If a supplier doesn't have SOC2 certification or has unfavorable terms, you'd much rather know before you invest effort into them because they can get blocked by INFOSEC.

“Many suppliers require a customer to be on an enterprise plan or 'higher' tier to include SSO or enhanced security. Knowing these requirements upfront will help you drill down the correct tier or package you need.”



Kelly Baccaro, Commercial Executive

IT

IT guides potential integrations for software tools and approves SaaS spend to help prevent maverick or shadow spend. They'll ensure any purchases follow established policies and go through the right processes and channels. The IT team will also likely have the best understanding of what the current tech stack looks like to make sure there's no overlap in tools.

Legal

Legal helps navigate contracts. Running general terms by your legal team is very helpful as many suppliers will enforce a minimum spend to allow redlines. Knowing this upfront helps in negotiating.

System Administrators

System administrators can provide visibility into how many licenses exist, how many are deployed, and most importantly, some usage data to showcase who is using the tool, how often, and for what purpose. Understanding usage is a key unlock to drive savings. Companies should only be buying what they need (and negotiating for the possibility of adding on later).

End Users

End users are one of your most important stakeholders to meet with ahead of any negotiation. They are the teams or people who will be using the product. You need to make sure the supplier(s) you're looking into are the right fit for end users. Do features meet their needs?

Getting clear on what success looks like for each stakeholder will prepare you to negotiate the best deal and highest ROI for the businesses. Your goal is more than driving savings - it's about getting the most value for your organization.

“The best way to spend less is to spend efficiently.”



Michael Shields, Head of Procurement and Strategy

Determine Must-Haves, Nice-to-Haves, & BATNA

Before ever speaking to a supplier, you should know your **decision criteria**. What features or specific requirements do you need (must-have) and want (nice-to-have)? What constitutes a need? If the supplier doesn't have it, you would be willing to walk away.

A want is something you could live without. After speaking with each internal stakeholder and understanding their goals, you can piece together a must-have and nice-to-have list to reference during negotiations.

The most important aspect to identify at this step is your **Best Alternative to a Negotiated Agreement**, or BATNA. This is your backup plan in case negotiations don't work out.

Remember – you don't get what you deserve, you get what you ask for.

2. Source Potential Suppliers

Conduct Preliminary or Competitive Sourcing

You might think you have a single source (there are other options but you are just choosing one) or even a sole source (where there's only one supplier who can or is certified to produce something) that fits your needs. In reality, you probably have more options than you think you do.

Legitimate competition is the single biggest lever to drive savings beyond utilization. Your goal is to create true optionality, which keeps you in the position of power to make the best choice based on the aforementioned decision criteria, rather than choosing out of desperation.

"If you fail to demonstrate to a supplier that they aren't the only option you are considering, then you are setting yourself up for a challenging negotiation, whether it be a renewal conversation or a new purchase."



Jacob Leichtman, Director of Procurement Services

Compare **at least three suppliers** to ensure you're getting a large enough sample size to see what similar companies are offering and what they're charging for their product.

Research Potential Suppliers Thoroughly

The very reason Tropic was founded was to level the playing field between buyers and sellers.

You can trust that suppliers have done their homework on you, so you need to do the same. Typically, sellers have the upperhand because they don't publicly share pricing, they sell the same product dozens of times a day, and they spend most of their time preparing/conducting their own negotiations for the same product.

So, take a page out of their playbook. Do your research on them, their product, and the general market. It could save your company hundreds of thousands - if not millions - of dollars. Here's exactly what you should be looking for:

Understand the Product or Service

What is the value (not the price) of their offering?

Don't forget: Value and the price are not the same thing.

Price is arbitrary, meaning what may be incredibly valuable to you as a buyer could be irrelevant to a seller. Don't prioritize a low price at the expense of not meeting critical end user requirements (needs), such as a specific type of license, implementation and ongoing support, etc.

What is the market price for a company of your size?

Use commercial intelligence to benchmark the market price for each software line item.

How do competitors price their offerings?

One of the greatest levers you have when evaluating suppliers is the ability to compare pricing to develop a sense of what the market is willing to pay for a certain solution. Knowing what other competitors are offering and at what price will also help you objectively compare your options.

When was the last product update? How often are product updates happening?

Do some research to see if this supplier is continuously investing in their product and their customers. If you're speaking to them at the onset, ask if they're able to share any elements of their roadmap.

Who will be negotiating with you?

Businesses are just people, and people are emotional and biased. Find out who you'll be communicating with and learn everything you can about them so you can prepare and tailor your negotiation to them. What's their personality? Their experience? Their motivations?

Understand the Business

Perform a SWOT analysis.

Dive into the current state of the company, their growth, and funding (or financials if they're public). What are their strengths and weaknesses? Opportunities and threats? Are they desperate for customers or will they truly view you as a partner? What are their goals?

Read reviews.

Check G2, Capterra, TrustRadius, and other similar sites to see what customers are saying about the suppliers you're evaluating. Most suppliers will have reviews featured on their website, but you can be sure those will be their best. It's important to check negative reviews as well and see how a company responds to them (gives you a good sense of how they handle feedback).

Talk to customers.

You can ask for a reference directly and the company will put you in touch with a current customer so you can ask questions about their experience with their team and product.

Understand the customer support.

A tool is only as good as the support you receive. From implementation to long-term use, you'll want to partner with a supplier that offers dedicated customer success support and doesn't leave you on an island.

Ensure security compliance.

Too many times, teams spend weeks on negotiations and maybe even requisitions, just to get blocked by legal or IT because the supplier doesn't meet their security standards. Protecting your company is mission-critical, so make sure to double and triple check security compliance before spending any time on negotiation.

***For Renewals**

Understanding the business through the points above will be very useful, but you will ultimately need to understand how well the tool meets your needs. Take your research a step further when it comes to upcoming renewals:

- Ask internal stakeholders what worked well with the tool and what did not
- Ask end users within the company if they found the tool useful and what can be improved
- Dig into historical usage data to determine the tool's utilization rate within the organization

Understand the Market

In the past several years, companies have expanded their solution laterally as new customers become harder to sign. This presents an opportunity for procurement to rationalize their supply base. Combine that with the fact that most solutions are no longer willing or able to pay top dollar, they will sometimes compromise on less value that checks the boxes with fewer bells and whistles....especially if it means savings.

- **What's the supply and demand right now?**
- **How are the market conditions?**
- **What trends are happening right now?**

Leverage Competitive Data

Benchmark each potential suppliers' price using competitive data so you can anchor to a fair price during negotiations. You can perform this research yourself, or use [Tropic's Supplier Intelligence](#), which aggregates commercial data from our entire customer base to bring you accurate, unbiased pricing benchmarks so you can enter negotiations with an informed understanding of what other companies your size are paying for the same tools.

3. Develop Your Negotiation Strategy

Based on your objectives, criteria, research, and BATNA, you need to plan your negotiation strategy and tactics when meeting with a supplier.

- **Negotiation strategy:** The overall approach you will take to achieve your desired outcome, such as cooperative, competitive, or collaborative. It outlines how to accomplish your goal, combining your understanding of which tactics you can pull with the right timing.
- **Negotiation tactics:** The specific actions (levers) you will use to execute your strategy, such as opening offers, concessions, trade-offs, questions, arguments, and counter-offers.

Don't pull all your levers at once - doing so eliminates buying leverage on your side of the negotiating table.

Many negotiations will require a few different rounds, and rarely will a supplier meet your request on the first ask. You also need to anticipate the supplier's strategy and tactics, and prepare your responses and alternatives. You might also create a concession strategy to gain clarity on what you're willing to give so you can get what you really need.

In action, you might first anchor with a low budget and then leverage a multi-year deal to get closer to your ideal number. If you still need more to get to your number, you can concede that you'd be willing to be a customer reference. You should rank what's most important to you before entering negotiations so you can introduce concessions appropriately.

Learn Which Strategic Levers to Pull

It's easy to forget that as the buyer, you actually have the leverage in a negotiation. Suppliers rely on customers to keep their businesses running, and they know you have options. The goal is to get to a win-win agreement where both parties get what they want. So, here are some examples of effective levers at your disposal when negotiating with suppliers to create mutual value, get the best price, and become more strategic in your approach:

Pricing & Term Discounts

In addition to timing, software pricing is based on a variety of factors like seat-based or usage-based contracts, all-inclusive or a la carte models, month-to-month/year-long/multi year agreements, and additional fees (i.e. support, add ons, etc.). But you can negotiate the pricing in a way that's mutually beneficial. Some examples include:

- If you know you'll be using a product for a long time, sign a multi-year agreement to lock in a great price now so you save more money long-term (suppliers will have a guaranteed customer for the long-term).
- Look for volume tiers to accommodate growth and lock in pricing, especially for sticky products that are difficult to rip and replace (suppliers know their product is deeply embedded so if you wait until renewal, they'll jack up the price if they can).

Getting ahead of renewals pays off. Our data shows a 39% savings improvement starting the process at least 6 months before the renewal date. Comparatively, at 30 days, the savings are 14% and at 60 days, the savings are 22%.

Payment Schedule

If cash flow is tight and you're struggling to make an up front payment in full, you may be able to postpone payment to buy time and working capital. This solution ensures the supplier can close you as a customer.

You can also ask for a custom payment schedule, such as quarterly or monthly payments, so the company can avoid a large impact in the short-term.

It may make more sense for your organization to cancel a longer subscription and switch to month-to-month until the company has more financial stability. This way the supplier gets to continue their partnership with you, and your business can improve efficiency.

Don't Pay for What You Don't Need

It's common for SaaS applications (especially enterprise software) to offer all-inclusive pricing, where multiple line items are bundled into one.

- **If you see a bundle on your order form:** Ask for a breakdown of all the line items in the bundle.
- **If you don't need certain features or levels of service:** Ask to remove unwanted line items to create a win-win scenario, where you get a more favorable price and the supplier gets a new customer.

Loyalty Discounts & Churn Reduction

It costs 5-10x more to acquire a new customer than to keep an existing one.

It's in the supplier's best interest to keep you as a customer, ideally for the long-term. With this in mind, you can ask for discounts in exchange for a longer partnership so you can lock in a decent price and the supplier can avoid churn.

Bundle Contracts

If multiple teams are using the same supplier under different contracts, you can bundle them into one company-wide agreement and negotiate a discount for it.

Contract Growth

If you're looking to consolidate multiple tools into one, you can ask the chosen supplier for a growth discount in exchange for an increase in your license count or utilization. Suppliers love to grow contracts and they're willing to offer discounts to see year over year growth. Not only will you get deeper discounts from consolidated volume, you'll also have fewer suppliers to manage.

Logo Power

Your logo is priceless to a supplier. There's a reason every company's website has logos featured on their homepage. Brand recognition creates massive trust in suppliers, so if they can leverage your logo, you can ask for something in return (usually, a lower price). It costs you nothing to allow a supplier to use your logo, and it creates immense value for them.

Case Studies, Reviews, & References

Similar to logos, case studies are an incredible tool businesses use to help close deals and showcase proof of value and concept to prospective customers. If you agree to produce a case study with your preferred supplier, you create a lot of leverage to ask for a lower price. Offering reviews on reviews sites or social media and agreeing to serve as a reference for a supplier are also great advocacy levers.

Value as a Customer

Beyond revenue, you bring a lot of value to the supplier. So why should they be inclined to give you a concession? Well, maybe they don't have a lot of customers in your industry, or of your company size, or who are growing as quickly as you, etc. Think through what you bring to the table and don't be afraid to let them know why they should be willing to concede based on the value you bring if you sign with them.

Remember, the goal is a partnership

At the end of the day, sellers are trying to make money and you're trying to enable your business, create value, and save money. Be open to all possible options, including the option that the negotiation may fail and you may have to find a better fit with another supplier.

Approach negotiations cooperatively and work with the supplier to identify the best path forward where both parties win.

It's a common misconception that negotiations imply someone loses. In reality, good negotiators create win-win outcomes.