cloudeagle

Top SaaS
Negotiation Strategies

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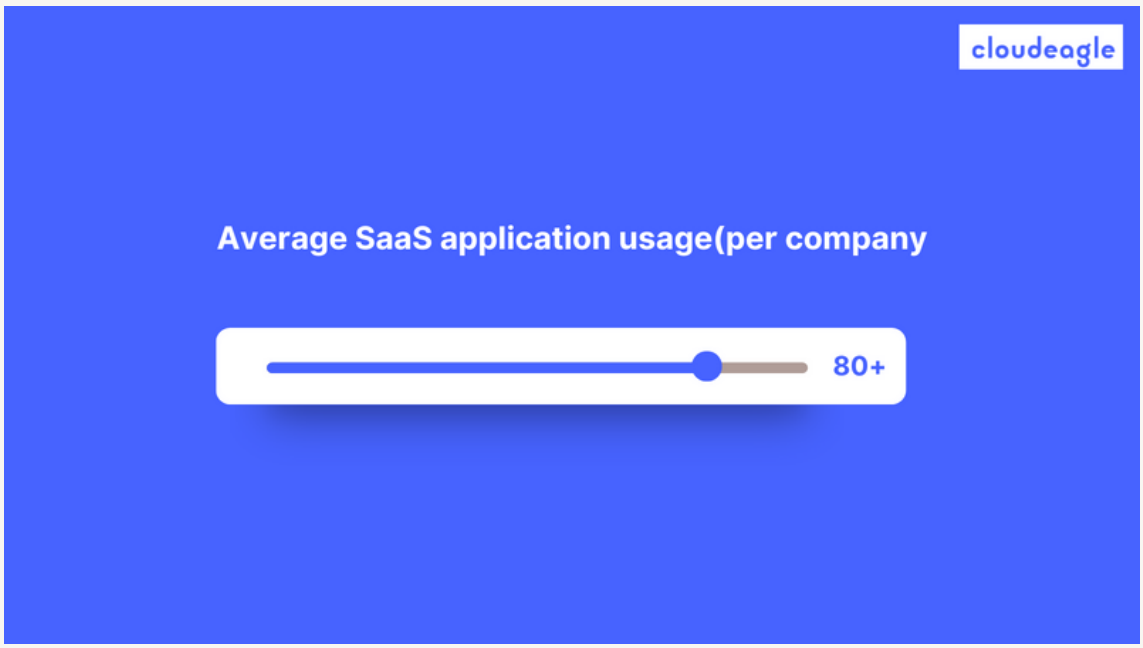
Introduction

In 2022, a company only takes less than 7 hours to get started with a new SaaS software. In contrast, it took over 50+ hours to integrate with a new SaaS app a decade ago.

The growth of SaaS applications has been impeccable as businesses now prefer cloud solutions as they're faster, robust, and easily accessible.

This ease of accessibility is why a company uses 80+ SaaS applications on average to handle various operations like customer support, data & analytics, marketing automation, customer onboarding, etc.



SaaS applications have become the largest spend for a company, medium-sized companies have spent $2.47M per year and enterprise companies have spent $4.16M per year. A business spends more on SaaS applications than on its employees.

If you think this is shocking, wait till you hear this – Vertice has reported that 90% of SaaS buyers are overpaying.

"Decentralized buying, shadow IT, and a one-sided buying cycle means the majority of businesses are spending much more than they should be on software"

Eldar Tulvey, CEO, Vertice.

The primary reason for the overspending is poor SaaS negotiation strategies. Companies don't negotiate SaaS contracts because they think it doesn't exist. Also, 55% of SaaS vendors don't disclose their pricing online, making it hard for negotiators.

But here's the truth!

SaaS contract negotiation does exist, and we'll show you the best strategies to use while negotiating that can save you millions in your SaaS spend.

The need for SaaS contract negotiation

Reports say that only **45% of vendors disclose their pricing online, whereas 55% keep their pricing hidden.** Most SaaS buyers consider vendors with hidden pricing as a red flag.

Why?

Vendors with hidden pricing plans will often ask the buyer to contact their sales team to know the pricing. Now, the sales team will ask for details about your current SaaS stack, customer base, and other information and adjust the price accordingly; this can be a disadvantage to the SaaS.

Because most SaaS buyers will look at the pricing from multiple vendors for comparison; now, vendors with hidden pricing will make this comparison harder for the buyers, thus making it cumbersome to choose the right SaaS application.

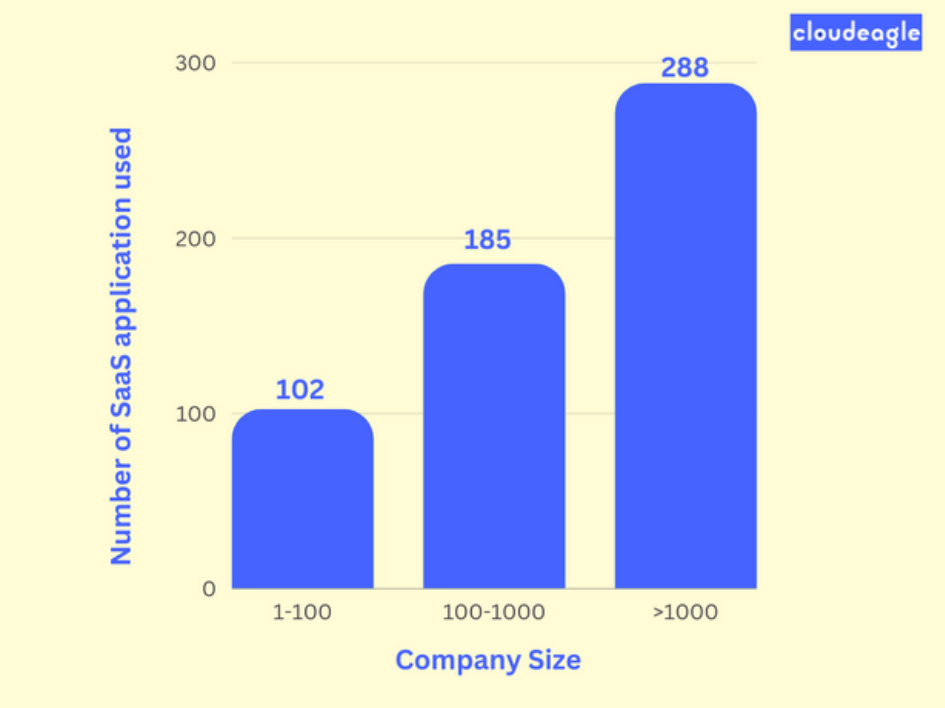
This is why businesses need to focus on negotiating SaaS contracts. It will reveal all the intrinsic details from pricing, SLAs, and other additional costs, helping the SaaS buyer make an informed decision and not just pay the list price.

As Eldar Tulvey said, "Decentralized, shadow-IT and one-sided buying are some of the major reasons for the increase in SaaS spend," having a proper SaaS negotiation strategy will help minimize shadow IT as the procurement team will have complete control over SaaS buying.

Are you still not convinced about SaaS negotiation? Take a look at these statistics;

- SaaS spending by companies has increased by 50% in the past two years.

Company size-wise SaaS application usage,



- **SaaS applications constitute 70% of the total software used by a company.**
- **SaaS spending is increasing more than any other software.**
- **$186.6 billion is a SaaS market value as of 2022.**
- **The SaaS industry is seeing consistent growth of 18% annually.**

These data prove that SaaS applications are here to stay until 2030 and even longer than that. Running a seamless business operation will soon become harder without the help of SaaS applications.

This is why you must prepare your SaaS contract negotiation strategy to save your SaaS spend, or you'll lose millions on your SaaS investment.

Best time to negotiate SaaS contracts

The most sought-out question is: When exactly should I start negotiating?

Before we get to the time, here are the prerequisites,

- **Detailed understanding of your business requirements.**
- **Identifying the number of employees who'll be using the particular application.**
- **Your actual budget.**
- **Knowledge of your existing SaaS stack to avoid negotiating for the same app.**

Once you define these details, you can start the negotiation process. The sooner you begin negotiating SaaS contracts, the better; we recommend you start negotiations 90 days in advance. SaaS vendors raise their prices by 10% per year; be mindful of this.

2023 is going to be no different; SaaS vendors will face inflation and might raise their pricing plans to astronomic levels. So if you're looking for the right time to negotiate, now is the time.

Don't let your negotiation strategy sit around; use it to negotiate your contract renewals; most businesses only negotiate when they're procuring the app for the first time – experts say that negotiating your renewals can be far more effective than negotiating the contract while signing up.

Because with renewal, you have the leverage; customer churn is a SaaS vendor's nightmare —they'll do anything to retain their customers.

So, use it to your advantage and negotiate your monthly, quarterly, or annual renewal now and save your SaaS spend.

Ten Proven SaaS Negotiation Strategies

SaaS negotiation is often overlooked, but now you know why your business needs it and when you must start your negotiation process. Next, let us get into the strategies you're looking for; these are proven, time-tested techniques to follow, and SaaS negotiation experts worldwide vouch for them.

Strategy #1: The high pricing trap

Let's start the strategies with an obvious trap; do not fall for the high-pricing model.

You've probably experienced this pricing strategy at various times. A vendor will set their initial price higher than the product's actual price during negotiation.

The SaaS buyer will perceive this pricing as the base price and will try to negotiate for a lower one. The vendor will use this opportunity to quote a lower price than the initial one; the SaaS buyer will consider this a sweet deal and purchase the application.

But in reality, the deal pricing would still be higher than the actual pricing of the product.

You can see that the negotiated pricing is still higher than the actual pricing of the product – this is the bull pricing trap.

So, how do you avoid falling for it?

You just need to perform more research on the SaaS application; a vendor research platform like CloudEagle can help.

We have years of negotiation experience and crucial details about the pricing plans thousands of SaaS applications.

We'll show you the actual pricing plans of the product, so you can stay clear of the bull pricing trap.

Also, CloudEagle will reveal the customers using the vendor's products and let you contact them to learn more about the vendor's pricing plans, services, and more.

Our price benchmarking data will let you know the competitive pricing for the product; our servers will scan through all the SaaS pricing plans worldwide and provide you the latest pricing plans so you can leverage those data while negotiating with your vendor.

Strategy #2 : Start your negotiations early

Let's imagine you're already using a SaaS application that is not being properly utilized by your team to justify its payment. So you've decided to negotiate during the next renewal to get a price that explains your usage.

But here's what you should remember: do not wait until your renewal arrives; if you're looking to lower the cost, you should start your negotiation early.

What happens if you don't begin to negotiate early?

1. As the renewal gets closer, the vendor will devise an upselling tactic and persuade you to upgrade your plan.

The vendor will use the renewal date to create a sense of urgency, and you'll end up paying what the vendor expects.

2. As the renewal date gets closer, the vendor will not remind you to renew, and your plan will be set for auto-renewal, and you'll end up paying more than you expected.

Avoid this by taking control of your renewal process; negotiating three months in advance will give you a better chance of lowering the price.

Why?

A simple answer is customer retention. Your vendors need you, not the other way around. Vendors know that retaining their existing customers is more effective than acquiring new ones. So, they'll be open to your negotiation, but only if you're early.

Negotiating a week before renewal won't work; negotiating early will give you and the vendor ample time to think about it.

But what if the vendor doesn't agree to lower the price?

Since you've started the negotiation early, you'll still have enough time to look for other options and come up with competitive pricing to outsmart your vendors. You can use this competitive pricing as leverage to get your vendors to lower their prices.

SaaS providers are notorious for increasing their pricing plans without any announcements.

This is why you must identify what your team needs and negotiate the pricing only for those features and not give in to their tricks.

Pay only for what you use. This is possible only if you start your negotiations early.

Strategy #3 : Don’t plan too early

(Note: This strategy is set before you choose a SaaS application and is not similar to the renewal strategy we discussed in Strategy #2).

Assume that your business is just a few months old and that you have an email list with 500 customers. To engage with them, you need an email automation tool. What kind of plan will you choose now?

Option A: Your forecast says that your email list will reach 10,000 in 6 months—so will you pay for a plan that offers 10,000 emails monthly? even though your current email list has just 500 customers.

or

Option B: Will you go with a plan that only allows you to send 500 emails per month? And keep scaling the plan as your business grows.

There are two answers to this,

1. Most used option
2. Recommended option

The most commonly used option is "Option A." Businesses often plan too early, thinking their business will grow, and the plan will be sufficient by then.

This is a bad practice; it is similar to purchasing a size 10 shoe for a toddler and thinking that the shoe will eventually fit him 15 years later—you get the context.

It would be best to consider uncertainty, as you can't ensure that your business will have similar growth to fit into that plan. Also, SaaS vendors will keep increasing their prices every year.

So, by the time your email list reaches 10,000 customers, the pricing will have increased by 10%. Your advanced planning would have done nothing but cost you more money; this is one common mistake that most businesses make.

Option B is the recommended practice: pay only for what you use, and keep scaling your plan as you grow.

This way, you'll have more control over your SaaS vendor, and you can even opt out of it if you're looking for a different vendor—it won't be the same case with Option A; it'll be harder for you to switch vendors.

Avoid planning too early during a SaaS negotiation; consider uncertainties and scale your plans as you go.

Strategy #4 : Ask the right questions

Harvey Mackay says, "You do not get what you want. You get what you negotiate."

So, how will your SaaS negotiation be effective if you don't ask the right questions? It'll be inviting for the vendor to upsell the plan if they don't ask enough questions.

You don't need to pick your brains when choosing the questions. Just ask your internal teams what they need in an application and how much the team will use it.

Let's take the previous example: your email list contains 500 users, so you'll need an email automation plan that can send 500–1000 emails per month. This should be your requirement.

If you're not particular about the requirement, you wouldn't know what questions to ask to get the required pricing. Vendors will see it as their payday and overwhelm you into purchasing higher plans by quoting business scalability.

So, what questions should I ask? We have listed some common questions to ask during SaaS negotiation to avoid giving in to the vendor's plan,

- *How will you adjust pricing based on the usage?*
- *Is it possible to pay only for the features we need(scalable pricing)?*
- *Will we get discounts on the pricing plans if a long-term contract is signed?*
- *Will the plan be sufficient for our company's size and needs?*
- *Are future renewal negotiations possible?*
- *What clauses should be signed along with the contract?*
- *Are there any penalties for breaking the agreement?*
- *Will you provide a dedicated onboarding specialist for KT sessions?*
- *What does the SLA define?*
- *Will I be reimbursed during application downtime?*
- *What's the implementation cost?*
- *Is the app pure SaaS or multi-tenant architecture?*
- *Is there a Free version available?*
- *Can we exclude an unnecessary feature after signing the agreement?*
- *Who'll be responsible in case of a security breach? Is there an Indemnity clause for that?*
- *What kind of support will we get if we choose scalable pricing?*
- *How will you secure my data?*
- *Is there a notice to submit before quitting your application?*
- *How will our data be stored? Will we get access to the stored data?*

These are some common questions expert negotiators ask during SaaS negotiations. Take note of it and ask them while you're negotiating to save on SaaS spend. Do not let your vendor get the upper hand.

Strategy #5 - Don’t make a half-hearted approach

Most SaaS buyers perform poorly in negotiations because they don't put much effort into preparing for the negotiation, unlike SaaS providers, who'll have a detailed analysis of the buyer.

To avoid this, you'll need to define the following factors before negotiating,

Budget

What's your budget for the SaaS application? How much higher can you go if the product is expensive?

But most SaaS vendors don't reveal their pricing on their websites, so how will you decide your budget?

Luckily, CloudEagle has cultivated excellent relationships with vendors; you'll get to know the updated product prices right away. Our robust servers will also track and alert price changes on any SaaS application so that you can make data-backed decisions.

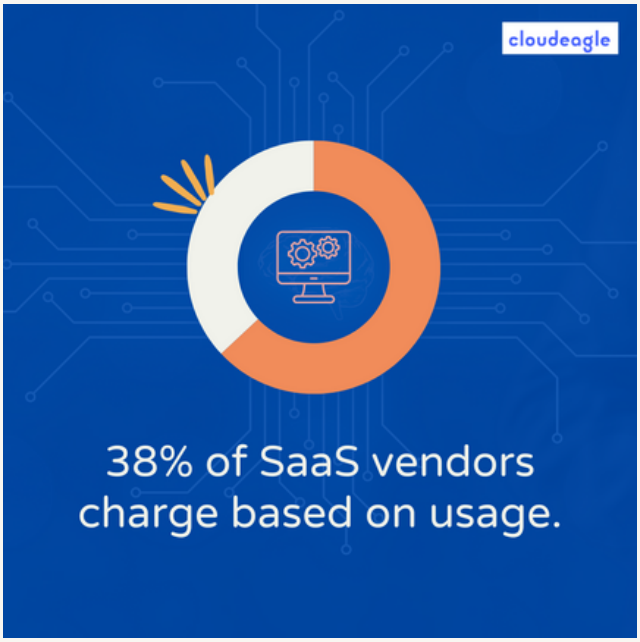
No more staying in the shade; make accurate data-driven negotiations with your vendors with the help of CloudEagle.

Pay only for what you use

You can only save on SaaS spend if you stop paying additional expenses for features you don't use. Have a clear understanding of the features that your team needs and only pay for them.

Multiple vendors will be open to negotiating prices based on your usage, but even then, you must be precisely aware of what you need, or the vendor will get the upper hand.

They'll try to sell features that have no use for your team. This is why in the previous section, we stressed that you ask the right questions.



But what if the vendor gets annoyed with all the questions?

Questions will frustrate the vendors, but most will be optimistic about it and clear all your queries. If a vendor is reluctant or has problems answering your questions, consider it a red flag and move on to the next vendor.

If all of this seems like too much for you to handle, you can always seek the help of experts like CloudEagle to negotiate on your behalf and get you the deal that'll minimize your SaaS spend.

Strategy #6 : Always have a Plan B

Only go into a negotiation with a solid backup plan; remember, there's always a better option.

So, how to create a backup plan?

You can use CloudEagle's vendor research features to look into multiple vendors and their pricing plans. Or, CloudEagle even has assisted buyers; these experts will perform a detailed analysis for you and provide you with a list of suitable vendors and competitive pricing plans.

Now, your Plan B is ready. Start negotiating with your primary vendor choice, use your Plan B as leverage, and entice the vendors into lowering their prices. Vendors will be mindful of not losing a customer who is ready to convert into your customer, so the chances are they'll give in to your "Plan B" leverage and lower their pricing.

What if they don't give in?

This is where "BATNA" (Best Alternative to Negotiated Agreement)' comes in. If the negotiations fail, go for the best alternative option that you possess. And if you're unable to convince the vendor with a BATNA, you can move to another vendor of your choice.

If you don't have a Plan B or multiple BATNAs, you'll have no choice but to pay whatever the vendor quotes, and you'll end up paying higher than what you planned initially. So, ensure that you enter negotiations with multiple BATNAs and vendor choices.

Strategy #7 : Look for discounts

Many SaaS buyers are oblivious to SaaS application discounts; they think they don't exist. SaaS vendors have discounts, but to get that discount, you need to nail 'Strategies #2, #5, and #6

Here are the two best ways to get SaaS discounts,

Time of Negotiation

You need to negotiate at the right time to earn discounts. SaaS vendors offer discounts during holiday sales like Black Friday, Cyber Monday, and end-of-year sales. Most vendors will offer a 30–50% discount on their pricing plans during the holiday season.

Or negotiate during the quarter, half-year, or year-end; SaaS vendors will be more open to offering discounts during these occasions. So, be mindful when you negotiate.

Pre-negotiated discounts

If the above tip seems like a stretch, you can always reach out to CloudEagle. We have numerous pre-negotiated discounts with vendors worldwide, and we'll help you purchase the product at lower pricing and save your SaaS spend.

Thanks to years of healthy relationships with vendors, we possess pre-negotiated vendor discounts that other platforms can't offer. We'll help you procure the right software that doesn't cost you a fortune.

Strategy #8 : Know thy vendors

Vendor relationships are crucial for the success of your business; they might not be as important as your stakeholder relationships. However, they are still your kind of business partners.

Building a great relationship with your vendors is essential and starts with the negotiation process.

Hidden pricing plans can be the first red flag; the vendor might have a few tricks up their sleeves. Look for soft-spoken vendors who don't push you to purchase.

A vendor must show how you can benefit from the product and not just list all the features. At times, you won't even need most of their features.

Choose a vendor that is friendly to engage with and is open to renegotiations. SaaS investment should be long-term, and you need the right vendor to achieve it.

Strategy #9 : Don't settle for lower pricing

This strategy can be divided into two,

- Asking for a lower price
- Cheaply priced product

You should be mindful of how you negotiate these two scenarios, as both are a red flag within the SaaS negotiation landscape.

Asking for a lower price

SaaS providers don't invest hours; they'd have invested years in building their application. You're open to negotiation, but your expected quote should be justifiable.

A SaaS vendor would reconsider their pricing only to an extent—you cannot quote $100/year for an $800/year plan; it'll only frustrate the vendor, and you'll end up losing a good lead.

Your negotiation price should be justified and closer to the vendor's maximum limit. To do that, you need to have a detailed understanding of your requirements and needs.

For example, if you're a ten-person team with a customer base of 100 people, it is not valid to purchase HubSpot for CRM purposes.

Why?

1. You don't have enough resources to take advantage of HubSpot.

2. As your business is in the beginning phase with just ten members, you'll not have enough budget and requirements, so you'll end up quoting a price much lower than their base price.

Vendors consider SaaS buyers like these a red flag. Don't be tempted by popular applications if you don't have the resources or requirements to use them completely.

So choose the one that fits your business for now and scale as you proceed.

Cheaply priced product

Here's a red flag for the SaaS buyer to be aware of. You know HubSpot will not work for your company, so you begin looking for a lite version to handle CRM. You'll find multiple products priced as cheaply as cotton candy in this tier.

Don't settle for a cheaply priced product that promises features similar to top enterprise-grade applications. Their website pricing will be low, but they will have hidden fees that will cost you the same as an enterprise-grade application.

For example, paying $50/month for an email automation product might seem great. But once you sign the contract, the vendor will ask for an additional $100 for implementation, $200 for onboarding, and $300 for priority customer support, and you'll regret the decision.

There are hundreds of SaaS vendors like this, so never settle for cheap pricing. It is recommended to consult SaaS negotiation experts like CloudEagle to weed out shady SaaS vendors.

CloudEagle's powerful recommendation engine will help you identify the right vendors for your business. You can read relevant customer reviews and select the one that best meets your requirements.

If you come across a product with cheap pricing plans, even though it offers multiple features, it is better to stay clear of it and avoid getting into a negotiation.

Strategy #10 : Say no to the initial offer

It is not a recommended practice to accept the very first offer by a vendor. Listen to their quote, consult with your team and stakeholders, and thoroughly analyze the vendor's credibility and risk compliance before making the decision.

Risk compliance must not be overlooked; check whether the vendor follows all the necessary data security guidelines and ensure they are compliant.
Some necessary SaaS compliance includes

- GDPR
- HIPAA
- CCPA
- PCI DSS
- SOC.

Proceed with your counter-offer only after ensuring that the vendor has checked all required compliance standards.

Also, you must make it clear with the SLA.

Service Level Agreement

Service Level Agreement(SLA) is a commitment a SaaS vendor must adhere to after signing the SaaS contract. It is a mandatory agreement, and it will not be included in the pricing plan, and no additional charges will be collected from the buyer.

A SaaS vendor ought to provide the necessary services as per the SLA. This is what it'll include,

- Services and functionality of the SaaS application
- Ways in which the performance of those services can be tracked.
- Billing and Renewal details
- Minimum software uptime guarantee
- Security promises and compliance guidelines
- Minimum response time details.
- General support details

SLAs benefit both the buyer and the vendor, as they provide accountability and improve service quality. SLAs will ensure that the buyer gets the best service, support, and uninterrupted operation with minimal downtime.

In the event of downtime or a vendor breaching the SLA agreement, the SaaS buyer may seek reimbursement for losses incurred as a result of application downtime.

The SLA ensures that the SaaS vendor is liable for penalties and compensation in case of contract breach or losses incurred due to the product's malfunction. SaaS negotiations should never be complete without signing a service level agreement.

Sign the offer only after these requirements are met.

SaaS Negotiation Best Practices

You got to know the best SaaS negotiation strategies; businesses and negotiation experts have followed these strategies to negotiate the best deal. And they follow some of these best practices during the negotiation process.

Try before you buy

Most SaaS providers offer a Freemium version of the application with limited features; this will help the customers understand how it works and encourage them to purchase the paid version.

Suppose the application doesn't have a Freemium version.

In that case, you can negotiate with the vendor, request a limited trial version of the application, and decide if the application will suit your needs.

Start with the base plan

If the vendor doesn't offer a trial version or freemium; you can purchase the base pricing plan and see if it can be used to scale your business operations.

And then buy the required pricing plan based on your requirements.

Exchange a promise for a discount

If you're negotiating a discount from the vendor, the best practice is to promise something in return, like a long-term contract.

Promise the vendor that you will be a long-term customer and persuade them to give you a discount on their pricing plans.

Define your exit plan

So, if you promise a long-term relationship with the vendor, ensure to define exit clauses before signing the deal.

Or the vendor might charge a penalty for breaking the agreement; make sure you define your exit plan while promising a long-term deal.

Is it a true SaaS?

There are two types of SaaS applications: true SaaS and multi-tenant architecture.

In a multi-tenant architecture, each customer will be considered a tenant, and the product and the UI will be common for all customers; only the data will change.

In the case of pure SaaS, the application can be customized from end to end based on the customer's preferences.

This is an essential question to ask before signing the agreement during your SaaS negotiation process.

Never miss out on the Indemnity clause

Indemnity is the most crucial clause to negotiate while signing a SaaS agreement; a mistake here will impact your reputation and sales.

Imagine using a marketing automation platform with your customers' contact details for engagement purposes. A data breach here would result in the theft of all that sensitive customer information.

Customers could file a lawsuit, and you'll end up paying millions in compensation; in the worst-case scenario, your business might not recover from the reputation damage.

To prevent this from happening, you can include an indemnity clause in your SaaS agreement that says you'll not be responsible in the event of a data breach and that the vendor will be the concerned party who'll need to pay the compensation.

Likewise, the vendor can also include an indemnity clause that says they're not liable to be sued by third-party members; this will save them from a lawsuit.

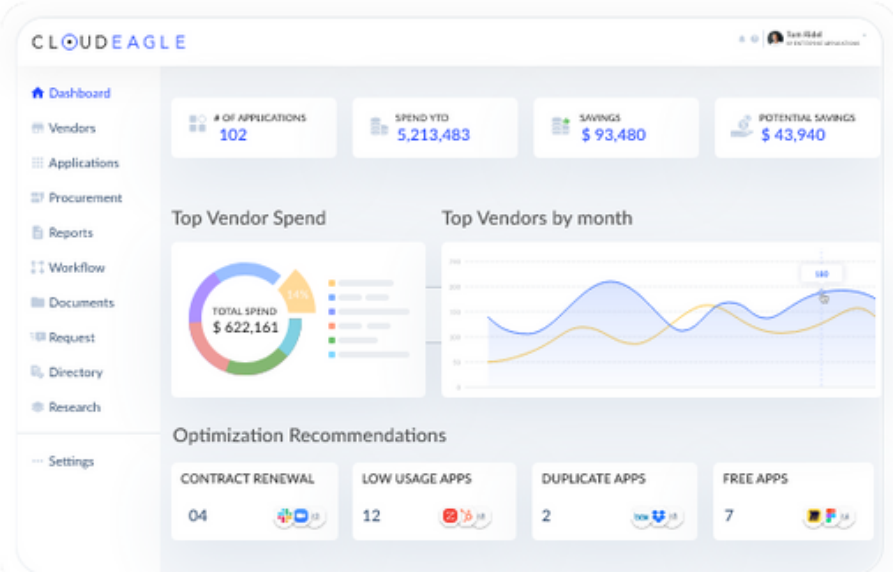
There you go, these are some of the best practices followed during the negotiation process by experts; be mindful of them when you're negotiating.

Trusty SaaS negotiation partner | CloudEagle

Did you take a huge gasp looking at all these negotiation strategies?

Don't sweat it; SaaS contract negotiations are easy if you know what to do and have the right partner to assist your negotiation partner. Fortunately, that is what CloudEagle aims to do.

We did not build this platform as a mere vendor recommendation engine – CloudEagle is a holistic SaaS management, procurement, and negotiation platform built to help businesses save on SaaS spend.



Our team of negotiation experts and assisted buyers have years of SaaS negotiation experience; we'll do the heavy lifting for you by negotiating with the vendor on your behalf.

Say no to paying the list price; empower your business with CloudEagle; manage your SaaS stack easily; automate your procurement process; negotiate smartly with benchmarking data, and save your expenses.

Let us do the hard work for you so you can focus on running your business and saving on SaaS spend.

Happy Saving!

Do you want to get started right away?

Get Guaranteed Savings with app optimization insights

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