

SERVICE PROVIDER RELATIONS

Take the  
Driver's Seat to  
Negotiate a  
Successful  
Partnership  
with a Service  
Provider

ISG



## INTRODUCTION

You've heard the old saying, "You have my word." Or maybe you know the song, "Promises, Promises."

There's another saying that I try to remember every time I help clients with contracts: "Talk is cheap." If you want to have a lasting and successful partnership with a service provider, then you and the service provider need to develop a contract that gives you both what you need — perhaps not all that you want, but what you need. Both parties should walk away satisfied that they have a transaction that will be profitable for them and will sustain their relationship over time.



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The companies that I work with create products and services to sell to other businesses or the general public. Negotiating contracts is usually not part of their core business. They probably have negotiated product contracts, which can be very complicated, and they may have negotiated services contracts, such as for printing. But most have not negotiated an outsourcing contract to transfer services that are usually done in house — such as accounts payable — to a provider outside of their own company and potentially overseas.

On the other hand, service providers sell sourcing services to companies and must negotiate multiple contracts each year as part of their core competencies. So what should companies do to level the playing field? Get in the driver's seat — and develop a negotiation strategy that gives you control from start to finish.

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## DRIVING A SUCCESSFUL NEGOTIATION

- 1. Ask for help.** An advisory firm and external attorneys can assist you with facilitating the contract. Advisory firms can provide the market information you will need, not only to ensure that you get a good price but that the operational side of the contract is equitable. ISG provides this service by assisting clients with requirements definitions, market-based service levels based on the functional areas involved, and market pricing information, among other things.
- 2. Start with your paper.** A master services agreement for outsourcing can be developed by internal legal counsel, but it is usually developed by an external attorney who understands the nuances of outsourcing. Either way, you need to ensure that you start with an agreement that has been vetted and has all of the necessary going-in provisions that meet the needs of your company. Using any other agreement (such as a non-outsourcing agreement) to begin the negotiation process will not suffice and will quickly put you in the passenger seat. Furthermore, some companies have chosen to start the negotiation process with the service provider's in-house agreement. This not only makes you the passenger instead of the driver, it also makes you vulnerable as negotiations continue.
- 3. Know what you must have.** What 10 to 15 contract elements are non-negotiable? For example, these elements might include liability, indemnification, or termination clauses. The list will be different for each company, but you should develop it before negotiations begin.
- 4. Know when to walk away.** It's important to discuss the list of non-negotiable items with the service provider before you spend valuable time on other issues. If the service provider cannot bend on these issues, then walk away.
- 5. Know what you want** – and prioritize. Wanting a particular item in the final agreement is very different than needing that item in the final agreement. For example: you may prefer to have the ability to benchmark on a yearly basis, but you may be willing to trade this item for something more important.
- 6. Know what the service provider wants.** This is where ISG can help. We have assisted with more outsourcing engagements in the past 21 years than any other advisory firm. We bring extensive knowledge of service providers, and we can assist our clients in understanding the potential positions that a provider may take.
- 7. Know how to trade.** In the beginning of negotiations, it's often important to go after numerous contract provisions knowing that you will eventually give up some of them for something else. While you work through issues with the service provider, you can find out what is most important to them and you can use that to get what you need.



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**8. Don't bleed the service provider.** In addition to negotiating the terms and conditions, you will be negotiating the price for these services. Every company wants the best price and the highest quality service. But remember, if the service provider walks away with less profit than it needs, you will most likely receive poor service or find yourself back at the table within a year.

**9. Keep a sense of humor!** Negotiating is a lot like dating. Both parties start off liking each other and hope the end result will be a long-term relationship. Both parties want to negotiate the best deal, but it's important to start the relationship respecting each other and feeling good about the future. Mutual respect doesn't mean you can't arm-wrestle an issue to the ground — just be sure you help the other guy get back up.

Most companies considering outsourcing understand the importance of communicating their requirements and developing a business case to support the project — but they may not understand the importance of developing a negotiation strategy that clearly puts them in the driver's seat. The above suggestions should help you lead a negotiation toward a successful and long-term relationship with your chosen service provider.

## ABOUT ISG

**Information Services Group (ISG)** (NASDAQ: III) is a leading global technology research and advisory firm. A trusted business partner to more than 700 clients, including 75 of the top 100 enterprises in the world, ISG is committed to helping corporations, public sector organizations, and service and technology providers achieve operational excellence and faster growth. The firm specializes in digital transformation services, including automation, cloud and data analytics; sourcing advisory; managed governance and risk services; network carrier services; technology strategy and operations design; change management; market intelligence and technology research and analysis. Founded in 2006, and based in Stamford, Conn., ISG employs more than 1,300 professionals operating in more than 20 countries—a global team known for its innovative thinking, market influence, deep industry and technology expertise, and world-class research and analytical capabilities based on the industry’s most comprehensive marketplace data. For additional information, visit [www.isg-one.com](http://www.isg-one.com).

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