

The Renewal

Pricing models, renewal clauses and total cost of ownership

The theory behind the scenario · About 15 minutes to read · All figures are fictional

Software renewals are where buyers lose the most money with the least resistance. The vendor controls the timing, the quote and the framing, and the renewal notice usually arrives when there is too little time to do anything but negotiate the number in front of you.

This guide sets out the four analyses that change that — the contract, the pricing metric, total cost of ownership and sensitivity — and the negotiation habits that turn analysis into a better outcome. The worked figures come from *The Renewal*: Northwind Systems quoting \$210,240 against a current \$167,040, and a challenger, Kestrel, quoting \$14 per employee.

01 • THE CONTRACT

Start with the contract you already signed

A renewal quote is an offer, not a price. The agreement you are renewing often limits how far that offer can move, and what happens if you do nothing. Vendors generally write renewal quotes from a current price list; your contract may already overrule it. Read it before you read the quote.

What to extract from the agreement

- **Price increase cap.** A fixed percentage, or an index such as CPI plus a margin. Check whether it applies at renewal, not only during the term.
- **Renewal mechanism.** Automatic (evergreen) or by agreement, and for how long it renews.
- **Notice period.** How many days before expiry you must act, and in what form, to keep the right to renegotiate or exit.
- **Price holds.** Whether unit rates are fixed for additional licences bought mid-term.
- **Audit and true-up rights.** How over-use is measured, and at what rate it is charged.

IN THE SCENARIO • THE CAP

Clause 4.2 limits renewal increases to $\text{CPI} + 3\%$. With CPI at 3.1%, the most Northwind may add is 6.1%. The quote asks for 26%.

Current annual fee	\$167,040
Maximum increase (6.1%)	+\$10,189
Capped renewal	\$177,229
Northwind's quote	\$210,240
Value of reading the clause	\$33,011 a year

PRINCIPLE

Read the renewal clause before you read the quote.

02 • THE PRICING METRIC

Know the unit before you compare

Every subscription price is a rate multiplied by a driver. The vendor chooses the driver, and that choice decides who carries the risk as your business changes. Two quotes built on different drivers cannot be compared on rate at all — a lower rate on a bigger base can cost more.

Pricing metric	You pay for	Cost is driven by	Risk to the buyer
Per named user	Each person with a login	Licences you assign	Low. You control it, but idle licences cost the same as active ones.
Per concurrent user	Peak simultaneous logins	Usage peaks	Low to medium. Needs monitoring of peak use.
Per employee	Whole headcount, users or not	Your hiring	High. Grows with headcount you don't manage and the product doesn't serve.
Usage or transaction	Each call, record or event	Activity volume	High. Grows with success; check overage rates and caps.
Tiered bundle	A band of users or volume	Crossing a threshold	Medium. Costs step up sharply at tier edges.
Platform fee	Access, regardless of use	Nothing — it is fixed	Low day to day, but a frequent target at renewal.
Revenue or spend-based	A share of revenue or managed spend	Business growth	High. Cost rises without any extra value delivered.

How to normalise two quotes

- **Convert each quote to total annual cost** at today's volumes, including fixed fees.
- **Divide by one common denominator** that reflects value — usually active users; sometimes employees or transactions.

- **Compare, then repeat at forecast volumes** (section 4). A comparison that holds only at today's volumes is not yet a decision.

IN THE SCENARIO • LIKE FOR LIKE

Northwind charges \$68 per licensed user; Kestrel charges \$14 per employee across all 900 staff. On headline rate Kestrel looks 79% cheaper. Converted to one basis, the gap nearly disappears.

Northwind: \$210,240 ÷ 900 employees ÷ 12	\$19.47 / employee / month
Kestrel: licence only	\$14.00 / employee / month
Kestrel: licence plus recurring extras	\$19.19 / employee / month
Real difference on a like-for-like basis	1.4%

PRINCIPLE

Convert every quote to one basis before you compare.

03 • TOTAL COST OF OWNERSHIP

Model the full term, not year one

Year-one price is the vendor's number; total cost of ownership (TCO) is yours. It is every cost you will carry across the term, with one-off and recurring costs kept separate and contractual uplifts applied year by year.

TCO = one-off costs + recurring costs in each year of the term, with uplifts applied

- **One-off:** implementation, data migration, integrations, training, and the cost of running two systems in parallel.
- **Recurring:** licences, platform fees, support tiers, usage and overage, storage or hosting add-ons.
- **Uplifts:** annual escalators, CPI links — and the price at the renewal after this one.
- **Internal cost:** staff time to switch and re-train. Often the largest item, and the one most often left out.

Three-year TCO	Year 1	Year 2	Year 3	Total
Northwind (5% annual uplift)	\$210,240	\$220,752	\$231,790	\$662,782
Kestrel (incl. \$60,000 implementation in year 1)	\$267,216	\$207,216	\$207,216	\$681,648

Kestrel's recurring cost is \$151,200 licence + \$27,216 support (18%) + \$28,800 API overage (600,000 calls a month above the allowance at \$0.004). The challenger that looked 28% cheaper costs **\$18,866 more** over three years.

PRINCIPLE

Separate one-off from recurring costs, and never decide on year one.

Ask which number grows

A quote is accurate only for the volumes written into it. Before choosing, forecast the driver behind each price and test what happens when it moves. The safer pricing model is the one tied to a number you control, and that moves with the value you actually receive.

Questions to ask of every quote

- What is the billing driver, and who controls it?
- What is our forecast for that driver over the term?
- What does the price do at 20% above and 20% below forecast?
- Are there tier thresholds or overage rates that create step costs?
- Can we reduce the driver — remove idle licences, archive records — without penalty?

IN THE SCENARIO • HEADCOUNT GROWTH

The company plans to grow from 900 to 1,150 employees while system users stay near 240. Kestrel's price rides headcount; Northwind's rides licensed users.

Kestrel licence at 900 employees	\$151,200 / yr
Kestrel licence at 1,150 employees	\$193,200 / yr
Northwind at 1,150 employees (240 users)	unchanged
Cost of growth that never touches the product	+\$42,000 / yr

PRINCIPLE

Tie price to the driver you control.

Turn analysis into a better outcome

Analysis pays only when it reaches the table. Six habits separate a prepared buyer from a reactive one.

Lead with evidence, not indignation.

A contract clause or a normalised comparison gives the account manager something to take back internally. “That’s too much” gives them nothing, and earns a token discount at best.

Never make the first concession.

Offering a number before the other side has moved sets your ceiling — and tells them your real number is lower still.

Use alternatives as information and leverage.

Quote only what you have verified. Never bluff a fact the vendor can check, and don't volunteer that switching would be painful: declining to answer is not lying.

Trade; don't split the difference.

Give what is cheap for you and valuable to them — term length, payment timing, a reference — for what protects you: the cap, the pricing metric, a price hold. Splitting concedes half the gap for nothing.

Close on structure, not only price.

Carry the cap into the new agreement, index future uplifts, fix unit rates for added licences, and remove auto-renewal or extend its notice period.

Write it down the same day.

Summarise what was agreed in your own words before their paperwork arrives. Whoever writes the record owns the ambiguities.

06 • CHECKLIST

The renewal timeline

Most renewal outcomes are decided by what happens before the notice arrives. Work back from the expiry date.

When	What to do
120+ days out	Pull the agreement. Record the cap, the notice date and the auto-renewal terms. Export usage: licensed against active users.
90 days	Plan to remove idle licences. Request alternative quotes. Normalise every quote to one basis.
60 days	Build the three-year TCO and test sensitivity. Set a target, a walk-away point and what you can trade. Brief stakeholders.
Before the notice date	Send formal notice if the contract requires it to keep your right to renegotiate or exit.
30 days	Negotiate. Confirm the terms in writing the same day. Diarise the next notice date before you file this one.

07 • GLOSSARY

Terms used in this guide

Term	Meaning
Auto-renewal (evergreen)	The contract renews on its existing terms unless notice is given in time.
BATNA	Best alternative to a negotiated agreement: what you will do if this deal fails.
CPI	Consumer Price Index; a common benchmark for capping price increases.
Overage	Charges for usage above an included allowance, often at a premium rate.
Price hold	A commitment that unit rates stay fixed for a period or for added volumes.
Ramp deal	Pricing that steps up across the term as usage is expected to grow.
TCO	Total cost of ownership: every cost over the term, one-off and recurring.
True-up	A periodic reconciliation that charges for usage above what was licensed.

08 • SOURCES

Where these ideas come from

The analysis in this guide is our own, applied to a fictional scenario. The underlying concepts are long-established and are credited here.

- **BATNA** — Fisher, R. & Ury, W. (1981). *Getting to Yes*.
- **Total cost of ownership, pricing metrics and sensitivity testing** — general commercial practice; no single source.
- **Reading renewal, notice and price-cap clauses** — general commercial practice; no single source.

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09 • TERMS

Disclaimer and terms

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