

Extended Counsel



5 Simple Ways to Save Money & Headaches with Vendor Contracts



These materials are for informational purposes only and not for the purpose of providing legal advice.

1. KNOW YOUR VENDORS

Keep an inventory of tools + vendors:

- Avoid multiple contracts with the same vendor.
- Confirm whether an existing vendor provides a similar tool/function before moving to a new vendor.

Existing vendors provide:

- Pricing discounts and other contract leverage.
- Accelerated due diligence (pre-vetted and integrated).

Sounds obvious but people get busy. Businesses merge, creating a complicated web of tools and vendors that takes time to untangle. Fast growth makes it easy to overlook existing capabilities and get distracted by the shiny new vendor.

2. AVOID AUTO-RENEWAL TRAPS

Missing a deadline to terminate before an auto-renewal deadline creates additional costs. If you can't avoid auto-renewals:

- Require vendor notices/reminders for renewal or termination dates.
- Set internal deadlines for re-evaluating the vendor and potential new vendors ahead of the renewal date.
- Cap renewal price increases.

For renewal decisions, calculate the expected time for evaluating the existing vendor and on-boarding a new vendor. Now triple it (it always takes longer). Use this number for your internal deadline.

3.

THINK AHEAD

Plan for future business changes when drafting assignment and termination clauses. Ex: What if everything goes to plan? Would you entertain an acquisition offer? If so, flexible assignment provisions, like assignment to a purchaser without consent, may be appropriate.

You also need protection from changes in the vendor's situation. Ex: Add termination rights or stricter assignment requirements for any vendor acquisition involving a competitor.

Industries change quickly. A vendor today could be a competitor tomorrow. Forward-looking terms provide a safety net.

4. DOCUMENT THE BUSINESS DRIVERS

Clearly outline important business drivers:

- Pricing drivers
- Timeline expectations
- Key contingencies

Turnover. Restructuring. Consolidation. The people at the table when the contract is signed are often gone when a conflict arises later. Draft the contract with business context that makes it easier to find a business resolution after all the warm feelings from the contract signing have worn off.

5. LOWER SWITCHING COSTS EARLY

Negotiate transition support upfront:

- Determine the transition support you need from a vendor if you switch vendors. Ex: rights to your prompt library after termination of an AI tool.
- Negotiate for transition support to be an included service or negotiate pre-set rates for transition support.

Customers have little leverage at the end of a contract. Front loading transition terms avoids inflated last-minute fees and post-termination access issues.

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