The Workday Negotiation Playbook

Know what to expect, and understand the negotiation levers.

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Workday has approximately 10,000 customers including medium-sized businesses and up, boasting that it provides services to more than 50% of the Fortune 500. While Workday's revenue growth has averaged between 19% to 22% over the past three years, there are some economic headwinds now and the most current analyst consensus estimate is for 17% ($7.26 billion) growth for fiscal year 2024 (which begins February 1, 2023). Workday has followed suit with many other large technology companies in announcing a reduction of their workforce. Workday has reported that it has eliminated 3% of its global workforce as of February 2023.

Workday has been a leader in Human Capital Management (HCM) but the market is becoming more fragmented and competitors are becoming much more aggressive, and these factors are contributing to economic headwinds. In the small to midsize company space, competitors such as UKG and Ceridian are often considered as an alternative to Workday, but Workday normally fares very well in terms of functionality when compared against UKG and Ceridian. In larger companies, established competitors such as SAP and Oracle offer very compelling products and often fare very well against Workday in a competitive scenario.

While Workday has been a leader for quite some time in the HCM space, Workday applications for financial management, planning, spend management, and analytics are also being adopted by many organizations across the world as Workday continues to add market share in the finance sector. Workday is reported to be working with over 50% of the Fortune 500 across its product suite.

Organizations considering a Workday solution or a contract renewal struggle to gain leverage and information during the negotiation process, as Workday excels in masking individual module costs, licensed on a per employee per month model, by combining many modules into one large bundle and assigning a price to that bundle. Organizations also find that getting any meaningful contract concessions from Workday is a very difficult, frustrating process.

Workday doesn't often push their implementation service on many medium-sized organizations and implementations and advanced configuration for large organizations can become difficult if a thorough Statement of Work, including adequate scoping, is not put place prior to the work commencing.

There are many competitive options to Workday and when faced with a competitive process such as a Request for Proposal or a dual negotiation, Workday is much more aggressive in its pricing. The additional leverage from competition creates an environment where Workday will reduce subscription pricing and potentially put pressure on the implementation partner to reduce its implementation costs or provide other business investment incentives.

The Playbook

One important thing to do before you develop your negotiation strategy is to make sure you understand what features and functionality are important to your organization. Workday has many SKUs (modules) such as Human Capital Management, Payroll, Recruiting, Benefits, Time Tracking, Absence Management, and Finance that can be purchased, and each impacts your total cost. Working with IT, Finance, and Human Resources is a must to fully identify the modules your organization needs.

There are five key levers customers can effectively negotiate to mitigate costs in their Workday agreements.

1. Full-Service Equivalent (FSE)
2. Subscription Rights Bundling
3. Annual Renewal Subscription Fees
4. Growth Event Discounts
5. Implementation Ramp Up

Lever 1: Full-Service Equivalent (FSE)

Instead of using the typical worker count to determine monthly costs, Workday uses an FSE profile model to calculate the total number of FSE's to apply module charges to. The FSE Workers are calculated by multiplying the number of total workers by the applicable percentage for each worker category, then adding all the FSE counts to get the total FSE count. See Figure 1 for a sample FSE calculation.

The FSE calculation is the most important negotiation lever in a Workday Subscription Order Form. There are two key pieces to negotiate here: the Worker Category Definition, and the Applicable Percentage for each Worker Category.

Workday will always propose their standard Worker Category Definitions. The customer should review Workday's worker descriptions, as illustrated in the Sample Worker Category Definition (Figure 2) closely to see if they align with their employee definitions. If the customer's employee definitions are different than the ones that Workday provides, the customer can negotiate and either add or subtract from the Worker Category as needed. Categories can be created based on the specific description of the role. Some examples we've seen include "Labor/Service Full-Time," "Labor/Service Part-Time," or "Emerging Markets."

Sample Total FSE Worker Calculation

Worker Category	Total Workers	Applicable Percentage	FSE Count
Full-Time Employee	1,356	100%	1,356
Part-Time Employee	516	50%	258
Contingent Worker	104	50%	52
Former Workers With Access	5,010	2.5%	
Total FSE Count	5,881		4,438

Fig. 1. Sample Total FSE Worker Calculation
Source: Workday

Sample Worker Category Definitions

Worker Category Definition
"**Full-Time Employee**" is an employee of Customer regularly scheduled for more than twenty hours per week regardless of the method of payment or actual hours worked, whether or not such employee is eligible to receive employee benefits in accordance with Customer's internal standard practices. A Full-Time Employee will be considered non-temporary if they are hired to work for a period of more than three months in a given year.
"**Part-Time Employee**" is an employee of Customer regularly scheduled for twenty hours per week or less regardless of the method of payment or actual hours worked, whether or not such employee is eligible to receive employee benefits in accordance with Customer's internal standard practices. A Part-Time Employee will be considered non-temporary if they are hired to work for a period of more than three months in a given year.
A "**Contingent Worker**" is a non-employee independent contractor or worker either directly engaged by Customer or employed through another entity and who is categorized in the Service by the Customer as contingent with an Active Record in the Service.
"**Former Worker With Access**" is a former worker that continues to have access to the Service through the Employee Self-Service features. Former Workers With Access are only included in the Subscription Rights for the Human Capital Management Service.

Fig. 2. Sample Worker Category Definition
Source: Workday

The negotiation of Total FSE Worker Calculation is critical during the initial purchase of Workday. Once the Applicable Percentages are applied, they are impossible to reduce.

Lever 2: Subscription Rights Bundling

Workday is very deliberate in their effort to bundle as many of their modules into the main HCM module. This bundling is an attempt to limit the amount of benchmarking a customer can do. Only organizations like Info-Tech Resource Group, that have massive amounts of data points, can begin to zero-in on what the HCM module should cost, given all the modules included in the HCM bundle.

In addition to the bundling of as many modules as possible in the main HCM module, Workday employs a one-size-fits-all strategy by applying each full bundle cost to the entire FSE count, not just to that group of users that will use the module. Figure 3 below is a good example of what a typical Subscription Rights Table might look like:

Subscription Rights Table

SKU	Service	Pricing Metric	Annual Subscription Rights
HCM	Human Capital Management	FSE	Full Enterprise
TLO	Talent Optimization	FSE	Full Enterprise
CCB	Cloud Connect for Benefits	FSE	Full Enterprise
LRN	Learning	FSE	Full Enterprise
REC	Recruiting	FSE	Full Enterprise
FIN	Core Financials	FSE	Full Enterprise
TT	Time Tracking	FSE	Full Enterprise
PRO	Procurement	FSE	Full Enterprise

Fig. 3. Subscription Rights Table
Source: Workday

Notice that the Recruiting module (REC) is bundled into the larger HCM module and although a very small subset of users will use the Recruiting module, the entire FSE population is charged for the module. When asked to reduce the FSE count for the Recruiting module, Workday will point to the fact that the Recruiting module is part of the

Human Capital Module as depicted in the Annual FSE Expansion Rate Table (this table outlines the cost to add individual SKUs in the future) depicted in Figure 4 below:

FSE Expansion Table

SKU	Annual Expansion Rate
HCM, TLO LRN, REC	131.14
FIN and PRO (combined)	45.99
TT, CCB (combined)	55.78

Fig. 4. FSE Expansion Table
Source: Workday

Customers should start negotiating the overall bundle price lower and ask Workday to provide a breakout cost of each of the various modules in each bundle. These bundle fees are negotiable, but the unwillingness of Workday to breakout the bundles into individual module costs make the fees very difficult to understand – and benchmark.

Lever 3: Annual Renewal Subscription Fees

Although Annual Renewal Subscription Fees are not part of the immediate costs, they are a very important part of the overall future cost of Workday. Workday uses Innovation Fees and a Consumer Price Index (CPI) to continually increase subscription fees over time. Workday typically describes the Innovation Fees as their continuous improvement to the functionality and reliability of the software. They combine this Innovation Fee with the CPI to determine the future annual cost of using Workday. CPI is a widely used metric to determine changes in the prices paid by consumers for a typical market basket of consumer goods and it can vary wildly from year-to-year. For example, the US City Average CPI for "All items" was 1.4 in 2020 and 7.1 in 2021 (as reported on the US Bureau of Labor Statistics website).

Workday will normally propose a very high Innovation Fee, normally three to five percent, and combine that with the CPI. These Renewal fees are negotiable and there is little consistency from customer to customer. In the tables below there are two Renewal Table examples. The first table is an unnegotiated, Workday-proposed Renewal, and the second is a negotiated Renewal.

Workday Proposed Renewal Table

Renewal Term Years	Annual Renewal Subscription Fees

1st Year of Renewal Term	Base Subscription Fee x (4% Innovation Index + Renewal Term CPI)
2nd Year of Renewal Term	Previous Year Subscription Fee x (4% Innovation Index + Renewal Term CPI)
3rd Year of Renewal Term	Previous Year Subscription Fee x (4% Innovation Index + Renewal Term CPI)

Negotiated Renewal Table

Renewal Term Years	Annual Renewal Subscription Fees
1st Year of Renewal Term	Base Subscription Fee x (1% Innovation Index + Renewal Term CPI), not to exceed 3%.
2nd Year of Renewal Term	Previous Year Subscription Fee x (1% Innovation Index + Renewal Term CPI), not to exceed 3%.
3rd Year of Renewal Term	Previous Year Subscription Fee x (1% Innovation Index + Renewal Term CPI), not to exceed 3%.

Fig. 5. FSE Expansion Tables
Source: Workday

You can see how quickly the Workday-proposed escalation fees can compound over time when no escalation cap is negotiated.

Renewal Term	Annual Cost with Workday Proposed Escalation*	Annual Cost with Negotiated 3% Cap
Baseline Amount	$750,000	$750,000
Year 1	$817,500	$772,500
Year 2	$891,075	$795,675
Year 3	$971,272	$819,545
Year 4	$1,058,686	$844,132
Year 5	$1,153,968	$869,456
Total 5 Year Cost	**$5,642,501**	**$4,851,307**
*Using 5% CPI and 4% Innovation Index		

Fig. 6. Example Fee Escalation Table
Source: Workday

Because implementation costs, subscription fees, and switching costs for any ERP solution are substantial, the relationship with Workday will likely be long term. These renewal fees should be vigorously negotiated to ensure that costs don't balloon in the years after the initial term is complete.

Lever 4: Growth Event Discounts

Growth Event Discounts can help you reduce costs in the case of a growth event that results in an increase of FSE Workers of 10% or more. Growth Event Discounts must be negotiated into the Agreement; we typically do not see Workday include these discounts in initial proposals.

Increase in FSE Workers over Baseline	Discount (%)
10%-19.99%	2%
20%-29.99%	4%
30%-39.99%	6%
40%-49.99%	8%
50% or more	10%

Fig. 7. Growth Discount Table
Source: Workday

Please note that this table is for reference only. The discount percentages may vary based on the overall components of your deal. Workday will insist on language in the Agreement that puts the responsibility on the customer to request the Growth Discount on the annual reporting date.

Lever 5: Implementation Ramp Up

The Workday Implementation can be very tricky and take as long as 12-18 months to complete, but Workday expects you to pay for the licenses as of the day the agreement is executed. This has been the source of a great deal of consternation by many organizations – no one wants to pay for shelfware. Unfortunately, one of the more difficult points to negotiate is a reduced payment for some of year one of the agreement. In a single source situation – business that Workday is convinced that they will be awarded – there is very little chance that Workday will negotiate a ramped-up payment schedule.

A competitive situation can absolutely create opportunities for a discount of ramp up fees if negotiated correctly. Workday will never provide you with free licenses during implementation, but they will reduce the year one payment if they must to win new business.

Summary

Negotiating with Workday can be very difficult, and success depends on how well factors like competition, benchmark information, executive relationships, and downstream increased spending opportunities are leveraged during the negotiation. The customer has most of its leverage during the negotiation of the initial contract, as the leverage shifts to Workday after the contract is signed. Customers need to negotiate **every** facet of the contract in order put a best-in-class Workday contract in place.

Want to know more?

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