

Under the Buzz

Back to Basics in e-Business

July 2002 - Vol. 3, Number 7

Under the Buzz is an electronic "newsletter" authored by Philip Lay, managing director at the Chasm Group, a Silicon Valley strategy consulting firm. It is published each month, and delivered free to subscribers via email. It is also posted on the Chasm Group website at: <http://www.chasmgroup.com/underthebuzz.htm>. Back issues can be downloaded from the site at: http://www.chasmgroup.com/underthebuzz_archives.htm.

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Sign of the times:

New post-Enron/Global Crossing/Arthur Andersen/Qwest/WorldCom definitions:

“EBITDA: earnings before I tricked damn auditor.

EBIT: earnings before irregularities and tampering.

NAV: normal Anderson valuation.

CFO: Chief Fraud Officer.”

1. Is There Any Way of Closing Deals in Today's Corporate Marketplace? ***(Winning the Competition for Corporate Funds)***

Quotes from corporate executives speaking on a panel at the recent Enterprise 2002 Conference (excerpt taken from *Enterprise Critical* newsletter, a publication of the Sand Hill Group, 06.05.02):

“Because of the state of euphoria over what (large software vendors) thought they could deliver, there was a time over the past two or three years where they over-promised and dramatically under-delivered. And they didn't have a great tendency to listen ...”

- Steve David, CIO at Procter & Gamble

“So, if you want to sell to me, come into my office with a demonstrated solution to a problem I've got. ... That means you've got to understand my business, how I make my money and what my problems are.”

- Roger Krone, VP & GM of Boeing Rotorcraft

“I think that the power has moved back to the customer. The small guys who(m) we love to talk to and who have some really innovative products are great. But we have had some problems when we've gone with some smaller vendors that didn't have a well-capitalized balance sheet. Then [that vendor's product] becomes some kind of lynchpin within one of our apps someplace and we end up pumping capital into the company to keep it afloat.”

- Roger Krone, VP & GM of Boeing Rotorcraft

Faced with this kind of corporate reaction to past years of real and perceived abuse during the boom times, high-tech vendors are getting frustrated with the stiff barriers erected by corporations to making IT investment decisions these days. In fact, many software company executives and sales reps – especially those who grew up professionally during past several years - are finding it extraordinarily tough to adapt to the challenges of today's marketplace. To be fair, the situation is worse than one might have ever imagined just 18 short months ago. "The worst software buying environment in memory", is one complaint I hear regularly these days. So, what more can one do to develop and close deals, except just try harder and harder against all odds?

To look at this situation another way, one can argue that tough times call for tough, and even different, tactics. In fact, I would go so far as to argue that two key qualities in today's sales force and management ranks count for more than any others: firstly, contrarian, inquisitive thinking, and secondly (believe it or not) solid sales discipline. In my view both of these qualities will be rewarded significantly more than the aggressive, even brazen, marketing/sales approaches that characterized the crazy nineties. Puzzlingly, many firms still seem unable to give up their hard-sell tactics, despite all the evidence that they don't work today, even for 'established' product categories, such as ERP and CRM. In this article I shall share with you an approach that, after over 20 years in enterprise sales (including a start at IBM), I know will work, provided you apply it in a consistent manner. The approach I am about to describe can ensure success to any company with decent (i.e., not necessarily exceptional) product offerings in a relevant product or service category (i.e., not necessarily a recognized hot category). Furthermore, I will make the following assertion: Unless your company is a bona-fide leader in an established, growing product category, every time you lead with product (as most software vendors still do), I can assure you that you are likely to fail in today's market. And, it's no use wishing any longer for this miserable environment to turn positive anytime soon, because as articulated in past *Under the Buzz* articles (and corroborated in a thousand or more recent press articles), the bad times ain't about to end just yet.

First, the case for considering a 'new' selling approach:

As we all know, the scenario inside large corporate organizations today is quite different to what it was just 18 months ago, when arguably the top 30 or so IT projects at any one time may have got funded at some point. True, this was probably due partially to the profligate nature of corporate IT investment management at the time – profligacy which has now come home to roost, as billions of dollars of unimplemented software and equipment lie on the shelf in these organizations. In contrast, the situation in most corporations today is that, in relative terms, only the top *three* IT projects on the list at any given time stand a chance of getting funded. And it is every sales rep's job to make sure that the deal they are trying to close be a part of one of those few funded projects. Put another way, the obstacle course that most technology vendors face today can look as daunting as this:

- First, you have to 'compete' against all other proposed IT projects to be one of the customer's 'top three' funded investments (knowing that even these can be deferred at any time);
- Then you have to compete against existing in-house initiatives and workarounds;
- If you are still standing at this point, you must then compete against the threat of the customer using some of the excess 'shelf' software acquired during the past two or three years;
- *Then* you confront the threat of vendors from an adjacent product category who may claim to solve the same set of problems as your category addresses;
- Finally, you may be competing against vendors in your own category! (it wasn't supposed to be this difficult, but this is the nature of the game nowadays.)

Looking further, the way in which corporate budgets are being managed can send misleading signals to understandably antsy sales reps. For example, instead of the lines-of-business getting to use up their budget allocations, they now need to obtain sign-offs from not only the CFO but also the increasingly involved CEO for anything above, say, \$100k in some companies. Besides expecting to see clear corroboration that the project has been well researched, and that it will generate a payoff in the short term, the chief executive is asking one simple, but critical question that is enough to put a nail in the coffin of many a promising investment proposal: "Why *now*?"

Just as software vendors in the late nineties all became versed in such skills as finding the where the budgets are in their customer's organization, the puck has now moved to a different spot on the ice: let's face it, enterprise customers have become used to fending off vendors' advances with the 'vanishing budget' argument. And when customers apologize late in the sales cycle that their budget has been 'frozen', it may be no exaggeration these days. Despite what some sales professionals might want to believe, corporate budgets are nothing more than best-guess funding allocations made in a prior fiscal year or quarter, and liable to be temporarily or permanently 'frozen' or 'reallocated' at any time that economic conditions warrant greater caution or resource scarcity.

Regarding the financial justification for IT investments, I believe that customers resist vendors' "ROI" arguments for a number of reasons – apart from the fact that they often come across as no more than sales-enablers designed to serve the vendor's interests:

- (a) The ROI study does not focus on a specific, sufficiently critical problem that the customer admits to being desperate to solve in order to prevent an unacceptable outcome, such as lost market-share, lost profits, or worse;
- (b) Often, vendor-driven ROI calculations only take into account the cost of licensing and implementing the vendor's software, rather than considering the entire investment required to solve the problem;
- (c) It fails to show clearly what *assured* short-term, incremental gains will result in a first phase, in order to fund the remainder of the project in a second, then a third, phase;
- (d) The study does not necessarily create a case for doing it NOW versus later – after all, companies manage to live with many problems, even serious ones on an ongoing basis; and,
- (e) It usually fails to establish clearly enough in the customer's mind why they should buy from this vendor 'X' versus vendors 'Y' or 'Z'.

Above all, I cannot over-emphasize how critical item (c) above, regarding short-term gains, can be in today's market. Every enterprise customer knows that any project worth its salt will take time to implement. Nonetheless, the initial payoff needs to occur early in the life of any significant IT project. Many vendors, it seems, have misunderstood this to indicate that large corporations have become unreasonably concerned with achieving *all* the gains immediately (i.e., in two quarters or less). This is just not the case. In fact, in any significant investment, customers are quite amenable to the idea that benefits will accrue in stages over time, with some occurring in the mid-term and even the long-term - provided they can be sure of achieving some tangible benefits within a three-month or so window. Importantly, these early benefits help in a very direct way to 'fund' the remaining investments. More than any other consideration, though, investments in relatively new categories don't get funded out of existing budgets (because these have usually been set up to cater for investments in known product/service categories), but out of the only reliable source of funding in tough times: in other words, the savings or new sources of revenue unleashed by solving a critical operational problem. So, how can companies – many of them 'designed' in anticipation of a 'tornado' of internet-generated demand during the investment bubble – overcome such extraordinary challenges to find the necessary funding for the deals they are trying to close?

Second, the approach I recommend – “Provocation-based Selling”:

In this section, I want to cover three topics related to the hand-to-hand combat required for high-tech sales teams and executives to close deals: a) what do you say to the 'big dog' to get them interested in your potential solution?; b) what are the main priorities for marketing to support the field?; c) how do you take account of the differing interests of the various target constituencies you must deal with in typical enterprise-level sales cycles?

A. Sales Process Model

Selling complex solutions into an emerging market means selling services-led offers, where consulting and systems integration, both from the lead vendor and from its partners, help to

backfill what is as yet an incomplete product offering. And, in order to 'cross the chasm' into a first mainstream market, the target customer is likely to be a line-of-business executive or manager responsible for solving critical business problems through the use of IT solutions. In this model it is critical to establish deep lines of communication with the customer in order to set their expectations and gain their support. This, in turn, requires a very different sales model from that of selling an established product. Here is the model for selling emerging solutions:

1. Get a personal introduction to the line-of-business executive. Everyone knows to call high, but high people have elaborate defense mechanisms to keep salespeople out. The only reliable way to get past these defenses is by way of a personal introduction. Delegate this problem upward into the organization until someone knows someone who can pave the way. Prior to getting the introduction, it is fine to meet with lesser-ranking people in the organization to gather intelligence, but the sales cycle does not formally begin until this meeting.
2. Bring a provocation to the meeting. Identify what you expect will be a major concern of the executive, and present a thought-provoking point of view. Your goal is to engage an executive who does not know you in a serious dialog, and to evoke some level of anxiety in them to solve the specific problem you are there to discuss. You cannot afford to play safe as this will look like you are wasting their time; after all, when the executive agreed to the meeting, they did so in the hope of getting some special insight as to how to address their problem. Therefore, it is critical to show your appreciation for the problems they face. It also makes sense to take a senior executive along to the meeting, in order to establish a multi-level relationship early on.
3. Capture their reaction to the provocation. If there is no reaction, retreat with dignity. Interestingly, this is the worst thing that can happen, so it's best to accept it and leave. If there is a negative reaction, explore it for deeper understanding, seeking a common ground. This reaction can be the best one, because it might indicate that you have hit a nerve. Use the tag team to handle this situation, with one of you thinking while the other is probing to find out the root-cause of the customer's adverse response. Above all, don't confront their reaction, as this may create a negative vibe that is difficult to recover from in future contacts with the customer. Finally, if there is a positive reaction, move on to discussing war stories.
4. Discuss war stories. These are *not* customer references—it is too early in the market's development to have many, or even any, of these—but instead are problems that the other companies in the industry are struggling with, and perhaps ones where the vendor is already at work trying to help. The point here is to position the company as having knowledgeable people who have seen the problems before and are bringing new technology to their solution. This also provides an opportunity to establish empathy early in the relationship.
5. Offer a diagnostic. Having positioned its people as knowledgeable, the vendor's first offer is to have them come in and take a look at the prospect's situation. This can be positioned as a mini-study for a fee or as the front end of a business proposal detailing a complete solution to the critical problem. In either case, the intent is to create a valuable deliverable for the line-of-business executive regardless of whether they purchase a product from them or not.
6. Use the diagnostic process to identify and open relationships with every major constituency in the buying process (see Section A above). This will allow you to discover a sponsor, determine who the power sponsor is, uncover much of your competition, learn about the in-house efforts that compete as well, and in general get the lay of the land. It is important to remember that this is like a passport into the organization to get up close and personal – more like a visa, since it only lasts a short time – so the opportunity should be exploited for multiple purposes.

7. Draft—but be reluctant to submit—a sales proposal. As long as you are drafting the proposal, you have permission to go back to the organization for more information, during which you can do more selling. Once you submit it, you have to take your chances from there. Try to defer submittal until you are confident you have won the deal. Though this might feel counter-intuitive to sales teams and executives under pressure to make quota, this is a critical game to play at this stage of the relationship. One celebrated example of this tactic at work was Ross Perot's tactic of holding a 'pre-proposal review', in which the vendor's executives and account team would present their proposal to the customer's executive team as a trial balloon to obtain their 'feedback'. If the customer showed that they were satisfied with the proposal and corroborating information, the Perot team would ask for the order then and there, and in this way they almost never got to the formal 'proposal' stage. They *always* asked for the proposal documents to be returned before they left the meeting, on the realistic basis that once the proposal is submitted, all control over the decision process passes to the customer.
8. Construct the proposal in three phases. Phase One is what the vendor can deliver right away. It is normally heavily weighted toward services. Phase Two is what it can deliver within the year. This is normally built around the next release of the system. Phase Three is everything else the customer wants or needs which the vendor cannot supply within a year and which, hopefully, can be deferred. If they cannot be deferred then the vendor must refer in a partner, even a competitor, in order to keep the relationship of trusted advisor.

B. Marketing Support

To make this sales process work, the field needs significant support in these four areas: introductions to line-of-business executives, provocation development and delivery, war stories, and diagnostics. Each requires a program to develop. Here are some key learnings:

1. Introductions to line-of-business executives. This is the only lead generation program that matters. Be careful not to waste a lot of resources on getting leads lower down in the organization. That tactic works for mature markets, not for emerging ones. Instead, the vendor should focus on getting the organization chart right, targeting the key individuals, and then working its executive network and their contacts to find a way in. Treat the way in as a precious resource, and be sure the field is well prepared before you use it. Second chances are rare.
2. Provocation development and delivery. This is a job for the brain trust. The sales team should have developed an industry-wide point of view on the key issue at hand that is truly provocative. At the same time, research on each prospect, particularly a study of securities analysts' reports and SEC documents, should provide additional material. The field cannot be expected to do all this without support.
3. War stories. This is a job for the field. At every gathering, trade show, seminar, or the like, everyone in the field needs to interrogate customers, partners, even competitors, about what is working, what is not and who is trying what with what success or lack thereof. Marketing's job is to read the periodicals for the same information. Twice a year sales and marketing should gather to capture and share war stories. Again, these are not customer references but rather customer anecdotes about the broken process they are suffering from. They are the mainstay of establishing credibility in executive conversations.
4. Diagnostics. Marketing should work with the best minds in the organization to set out a template for a diagnostic specifically targeted at the problem being addressed. The field should be familiar with this template but should still call in the "A Team" for top prospects, not because the field could not do the work, but because we want to build deeper connections to the prospect team.

C. Target Job Titles

It goes without saying that, in order to sell a complex enterprise-wide solution or project to a large corporate or government customer, sales teams must inevitably target 'C' level executives at some point during the sales process to be the key sponsors of any enterprise-critical investment, alongside the middle managers and others who also play important roles in the relationship. Furthermore, in order to align interests, it is important to bear in mind the different roles that each constituency has in the decision process. Here are some general examples, each with their respective concerns and responsibilities:

- Chief Executive Officer (CEO): Ultimately responsible for the company's competitiveness and success in the market, and thus for strategic investment decisions. Normally delegates the vendor selection decision, but uses trusted strategy advisers on key issues. In difficult economic times, becomes more engaged in signing-off on key investments.
- VP-level line-of-business executive (such as VPs of marketing, sales, operations, or engineering): Ultimately responsible for the effectiveness, efficiency, and integrity of their organization's operations and results. May have strong vendor preferences in their area of expertise, related to which vendor best understands how to address their business problem. May or may not delegate the vendor selection decision.
- Chief Financial Officer (CFO): Ultimately responsible for the Return on Invested Capital and thus the funding decision. Normally participates in the vendor selection decision, as member of a steering or investment committee.
- Middle manager (in marketing programs, product lines, materials management, supply chain, regional sales, customer service, etc.): Ultimately responsible for managing the resources and projects under their direct authority, related to their primary functional goals. Has strong views about productivity and efficiency of their department's activities, and tends to defer to IT specialists in their department or in central IT function for IT product selections and investment decisions.
- Chief Information Officer: Ultimately responsible for information systems enterprise-wide. Cares about maintainability and compatibility with legacy systems. Has strong technology preferences relating to aspects such as architecture and scalability, as well as strong 'SLA' preferences, which impact the vendor/product selection decision.
- Purchasing/procurement manager: Ultimately responsible for supplier selection, pricing and sourcing decisions. Has strong views about pricing, discounts, and other terms and conditions which impact both vendor and product selection.
- End-user (in any of the operational or administrative functions): Ultimately responsible for using technology to do their job more efficiently. Generally has strong views about feature/function/benefit attributes of offerings from technology vendors.
- IT Director for line-of-business: Ultimately responsible for installing, training, and supporting their user community. Cares about user satisfaction and productivity.

Each of these groups requires a different dialog and thus differentiated sales and marketing materials, though in this article we are more interested on describing an approach for engaging successfully with "C" level executives. In emerging markets, such as those being targeted by vendors in e-business categories such as collaboration, procurement, and others, the first four audiences above tend to be key. In established markets, such as client/server ERP or CRM, the last four above tend to become more important in the sales process.

Third, how you make it happen:

Though it has been borrowed straight from the management consulting business, this 'provocation-based' approach is still uncommon enough among high-tech vendors that it can result in a definite competitive

edge for those companies that use it competently. Therefore, it is worth going beyond merely getting one or two aspects of execution just right; field engagement, for example, is especially critical. In sharp contrast with what most executive teams decide to do with respect to new market initiatives, this is not a place to put your less experienced or less talented resources. On the contrary, companies need to put their most experienced consultative people in the SWAT team(s) they field for the first solution-focused initiatives; even if they are fortunate enough to discover that as many as 10%-15% of the sales force has strong consultative skills, they should make sure to allocate their best business consultants as domain experts on the sales team. Teams of two or three people – i.e., sales rep, business consultant, and possibly systems engineer - are probably best, provided that they can have priority call on other resources on the 'bench', including the executive ranks, as well as operational resources such as technical support, product engineering, customer service, finance and operations, as needed. Above all, the most valuable characteristics to recruit from internal as well as external sources are as follows: non-conformist, even rebellious, thinkers, who are also determined, action-oriented types who will go through walls to achieve the mission.

Goals, metrics, and compensation plans are also important; these must be quite different from the time-honored revenue-based objectives that are typical of most sales plans. If accelerated penetration of a target market segment is the overriding goal, then all goals and compensation must be geared toward incenting and rewarding the teams for achieving, say, the first three-to-five deals of a defined size and scope within the target segment. On the balancing side, any other objectives must count as anti-metrics – which means that any focus or energy spent on other activities may need to be actually penalized in the SWAT team's compensation system. Only in this way can such initiatives succeed. Oh, and last but not least, executive management must also be incented and rewarded in proportion to the importance of taking this hill, versus accomplishing the plan through other means related to business-as-usual activities. In this case, the executive team needs to manage all of the company's business, not just the (new) target initiative. Nonetheless, their quotas and comp should represent a mix that is tilted toward the success of the target market initiative, so that when push comes to shove, they will continue to prioritize resources, including their own attention, to the initiative that results in maximum shareholder value for the company – i.e., the strategic one that is aimed at securing market dominance for the company.

2. Price Discounting Article in June Edition: Additional Note and Reader Letter on

One omission from last month's article on price discounting relates to the paradox of charging too little, and *losing* business as a result. A folksy way of putting this is this: "the less you charge, the lower you will sell in the organization, and – wait for it – the *longer* it will take, in many cases, to close the deal". This is especially true of selling to large enterprises or government agencies, where each level has distinct recommendation and sign-off limits, and lower-placed supervisors and users have a terrible time getting any attention internally to their investment proposals. Besides the difficulty of getting executive attention to, say, a \$100,000 software investment, whenever vendors lower the price in order to 'reduce the barriers to purchasing decisions', customers get worried that the vendor may not be around to fulfill their post-sales obligations.

Below is a letter I received from a reader who took umbrage at my suggestions regarding how to manage price-discounting negotiations with customers. Please read on:

From reader Tim Weaver:

Philip:

Regarding your latest "*Under the Buzz*" Vol 3, Number 6, I have a question. In your article, you state:

"The last resort of all is discounting itself, pure and simple. Especially in such situations, vendors must extract a legitimate quid pro quo. This is because, as we all know, giving a product or service away for free in business is generally a bad thing, because your customer will not

attribute value to it and, worse, it creates a precedent in that customer's mind for repeating the practice in all future deals. Here is a short list of 'mutual' quid pro quos ('QPQ's) that can deliver compensatory value to the vendor in return for their readiness to be malleable in their financial dealings with the customer: (a) Certainty of winning the business: I am constantly amazed at the willingness of sales teams to offer discounts unconditionally. My reasoning here is that, if you are going to reluctantly offer a discount that by definition affects your company's profitability, it can only be in exchange for a commitment from your customer that the deal is yours as a result of the concession. Any discount offered without this QPQ just makes no sense."

The overall conclusion I come to is that if a vendor believes he needs to make price concessions to make the sale they are either selling to the wrong people or don't have a realistic expectation of what the real price should be. If you, as the software salesperson, offer the potential client this QPQ condition, will you allow him to think about it or "require" him to sign the agreement right now? The latter sounds akin to the tactics used at an auto dealership.

Let's imagine, however, that the client is allowed to consider the deal before signing. The prospect now knows s/he can now purchase the software for the discounted price and can, therefore, use this as a negotiating tool with another vendor. Therefore, your QPQ has no force behind it. If, on the other hand, you ARE forcing the hand, the client may not like this and could abandon the deal due to the strong-arm tactics. In that scenario, you lose the deal.

But let's say they don't and the client signs the contract. Now the customer has an expectation of a continued discount for future negotiations, does he not? If you came back a year and say, "it will now cost you X + 10% more", your client could very well say "too high...we'll continue business with you for the same price as last time, or we go to bid." You are now in the position of having to discount, yet again, in order to preserve your revenue stream, are you not? If no concession is offered, or the client somehow convinced there is more pain involved in going out to bid rather than to accept the price increase, the client will move on. And you lose the deal again.

By offering the original concession, the client understands that the software really isn't worth the original asking price and will come to expect the new price point to be the default selling price in the future. This would seem demonstrate two of several possible conclusions: if a vendor believes he needs to make price concessions to make the sale they are either selling to the wrong people or don't have a realistic expectation of what the real price for the software should be.

Tim Weaver
Market Intelligence Manager, Global Sources USA, Phoenix, AZ

Author's response:

Dear Mr. Weaver,

Thanks for your challenge to my statement in *Under the Buzz*. As implied in my article, I am totally against discounting in enterprise software and systems, and at the same time would avoid encouraging any vendor to adopt win-lose tactics associated with price manipulations of any kind. Therefore I agree with you that it is risky to get involved in discounting on any basis.

Having said that, in stark contrast with consumer-related buying decisions, enterprise-level decisions on disruptive technology products and services tend to imply lots of uncertainty in lengthy sales cycles, especially these days. In a few cases, where a software vendor's anxiety to close the deal (and concomitant high sales and marketing costs) leads them to want to do whatever they can to shorten the sales cycle, I wanted to suggest that they should never do so by *unconditional* discounting. In other words, if the customer can legitimately shorten, simplify or otherwise lower the cost of the sales/buying process, thus saving the vendor uncertainty into the

bargain, I think that *can* be considered a fair arrangement. Yes, it is also a precedent, which is why I propose documenting why it occurred, so that the company is protected against having to concede the same benefit in future without an equivalent *quid pro quo*. In the end, when companies do it this way, good-faith customers will want to avoid going to this extent, but will respect the vendor for handling this issue in a serious manner. I have to tell you that I know this to be true, from repeated personal experience.

Philip Lay

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