

Under the Buzz

Commentary on Strategy & Management Issues for Executives & Professionals in Enterprise Systems & Software Companies

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Under the Buzz is an email "newsletter" authored by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps to *catalyze* the strategy and transformation efforts of its enterprise systems and software clients. This journal is published periodically and delivered free to subscribers via email. It is also posted on the TCG Advisors website at: <http://www.tcg-advisors.com/Library/utb/utb.htm>. Back issues are available at the same address.

Beginning with this issue (Vol. 6, Number 3 – June 2005), this journal is being published in the form of a new blog at: <http://underthebuzz.typepad.com>.

Quoting Prices to Prospects - How to Avoid Getting Tied Up in Knots

One of the facets of doing business as an enterprise software or systems company that has become confusing to executives and salespeople is how to handle the question of pricing, especially in the early stages of a sales cycle with an unfamiliar prospect. This is particularly true when prospective customers ask the question, "How much does your product cost?", while they are kicking the tires, or putting competing vendors through hoops (RFPs, presentations, demos, proposals, etc.). At this point, salespeople and even managers feel an obligation to answer the question by quoting an exact number, fearing that they might lose any chance of a sale if they don't provide what the customer is asking for. Another aspect of this issue is that if you quote an exact price for your product, what do you do when you eventually discover that the total amount you will need to charge will be significantly higher, due to additional products and services that the customer needs to buy (from you or other suppliers) in order to address their requirements?

Now, nothing is more understandable than for a customer to want to know what they might be in for when the time comes to invest in a project to address whatever problem it is that they need to solve; everyone needs to budget for investments and expenses. But this is not the same as saying the salesperson or manager needs to answer the question straight on. In fact, in order to avoid future misunderstandings and embarrassment, it is critical that the vendor remind the prospect that they are not – contrary to what VCs or other figures might think and say – in the business of selling 'naked' products. First, they need to establish a context in which to provide a helpful, enlightening response that will actually help the genuine prospect to get what they really want – which is a real picture of what a customer can expect to pay to solve their problem.

So, what if any number should the vendor quote if they don't know what the problem is...Well, to follow the logic above, if you are indeed an enterprise vendor, I would suggest that you have no business quoting any specific price when you don't know what problem you are solving. That said, you can, if you feel you must, quote a *basic price* or *rate* for some product or service *component*. Better still, I would suggest that you quote a *range* of what customers can expect to pay for a specific project involving one or more product or service components. Remember, this is just to give the inquirer a rough idea, and even then I don't think it is 'public' information to be bandied about without a very good reason. After all, what would you think if a physician quoted you a price for an operation or other treatment without first knowing 'What Ails You.' To my mind, there is no qualitative difference between the service a physician provides to their patients and that which an enterprise-focused software vendor provides to their customers.

Put another way, let me provide this gentle reminder: As an enterprise software and systems company, you are under no obligation whatsoever to publish your prices. This latter practice is

limited to the world of volume operations businesses, such as Microsoft or Symantec, that customarily sell their shrink-wrapped products at well-established price points in some kind of retail outlet. Secondly, if you do choose to maintain a published price list, you should make it clear that the only items on the list are product or service *components*, so that there can be no misunderstanding on the part of your prospect that this is a business proposal. Thirdly, separately from any such component pricing information that you choose to make publicly available, you should remind your representatives to talk strictly in terms of problems that your organization can help customers to solve via delivery of products and services contained within an agreed project implementation plan.

Why should they do things this way? Because describing your business this way is exactly what defines an *enterprise* systems or software vendor as opposed to a consumer or departmental product vendor. The root of the problem these days, as I have come to understand it, is that people in our industry mix metaphors and models all the time. Unfortunately, there are two models that just don't mix: 1) the *complex systems* business model, and 2) the *volume operations* business model.

How can you know which model best describes your company? Well, as a rule of thumb, if your company sells software or related products or services in anything resembling a retail outlet, if it counts customers in the hundred thousands or more, and gets an ASP (average selling price) of, say, \$5,000 or less per transaction, you should ignore this message. But if your company sells its products and services via a professional sales force (even using channel partners), if it counts its customers in tens or hundreds, and if it gets an ASP of \$25,000 or more per deal, then you need to take this counsel under advisement.

Incidentally, if you are one of those companies that has an ASP of between \$5,000 and \$25,000 per *transaction*, then God bless you. Rather than having a choice of which of these two models to follow, you are almost certainly trapped in the software industry's "pricing no-man's-land." You can't have it both ways: either you have a complex systems offer requiring a consultative sales approach that is inadequately rewarded by the eventual price paid for it, or you are selling a volume ops offer that feels too pricey for any consumer or departmental manager to pay without a vicious struggle (and in case you have any doubts on this point, such struggles are generally won by the customer).

So, unless my logic appears way out of left field and too radical for you to countenance, I suggest you take a deep breath every time a prospective customer who has yet to explain to you what problem they are trying to solve asks you 'how much your product or service costs,' and reply politely with something along these lines (altogether now):

"We are in the business of helping medium and large enterprises (in XYZ industries) to solve \$3M-15M problems in the areas of ABC processes. We do this by providing a combination of products and services in a defined project, delivered in two or three phases over a period of several months. Invariably, the total cost of the project is exceeded many times over by the return on investment that accrues within a matter of months."

Alternatively, you can always use the physician/patient analogy described earlier in this article.

Furthermore, if by chance you are faced with an insistent prospect who says that they are in the midst of budgeting and just want to know the price of a given product (=component), of course you should feel free to provide it. However, I would suggest that you also make sure to point out that the product is not for sale on its own, since it cannot successfully address any problem without being combined with other relevant products and/or services, such as training, support, and possibly consulting.

My final point is this: If, having read this article, you feel the slightest concern with this suggested approach, please don't hesitate to challenge me on it. But please bear in mind that it is a tack

that I and many other enterprise sales professionals, in company with virtually all management consulting firms, have used successfully for many years!

Under the Buzz offers commentary on enterprise software and systems business and management issues. The goal is to provide provocative and accurate insights into the latest events and thinking shaping this continually evolving technology sector. *Under the Buzz* also provides commentary on strategies for building sustainable competitive differentiation and maximizing market valuation.

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