

How to Structure the Big Deal and Avoid Seller's Remorse

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Introduction

Software Pricing Partners

- **Unique focus since 1987**
 - Pricing computer software
- **Practice areas**
 - Value-Driven Pricing
 - Value-Based Selling
 - Strategic Discounting
- **Results**
 - Improved financial performance
 - More value from products & services
 - Increased sales effectiveness

Introduction

Our Work With Big Deals

- Pricing “deals” similar to pricing products
- Realize higher prices
 - Packaging, price structure, levels, discounting
 - Consistent discounting practices and policies
- Leave less money on the table
 - Specials, off price list
 - Negotiating give and get
- Make deals easier to do ...
 - ... Make them happen faster

Introduction

About This Presentation

- **This presentation shows...**
 - How to look at big deals
 - Useful tools, frameworks
- **It can be helpful...**
 - Do more deals, faster, less pain
- **But it is not...**
 - Major account selling primer
 - Negotiation workshop

Agenda

- **Saga of a Big Deal**
- Big Deals and Seller's Remorse
- Better Deals Mean Less Remorse
- Lessons Learned

Saga of a Big Deal **Previously...**

- **>12 months since first contact**
 - Many touches
 - Technical discussions
 - Business meetings
 - Preliminary negotiations



> 12 months ago

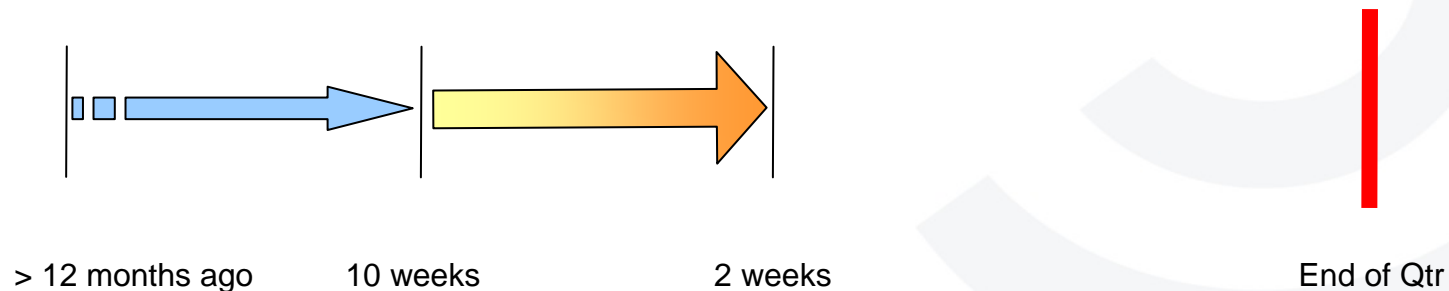
10 weeks

End of Qtr

Saga of a Big Deal

Heating Up...

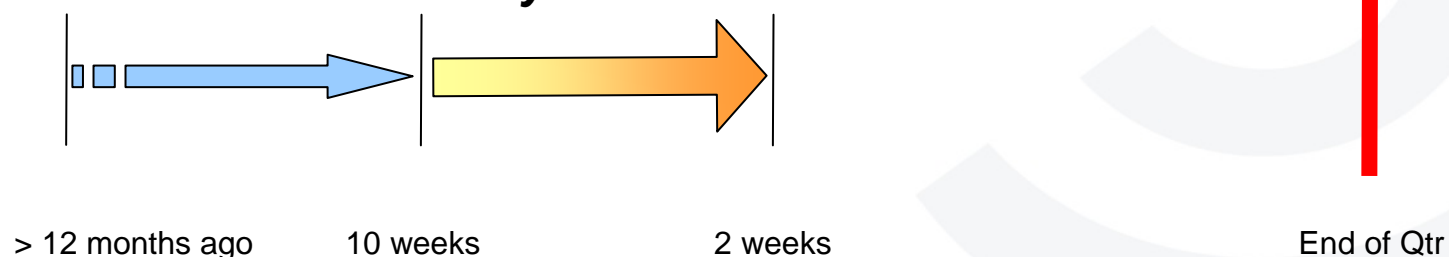
- **8 weeks of phone calls, meetings**
 - **F2000 customer wants to standardize on application**
 - **Negotiations with people inside customer**
 - User, economic buyer, purchasing, contracts
 - **Negotiations with people inside company**
 - Sales management, finance, pricing, contracts



Saga of a Big Deal

The Prize...

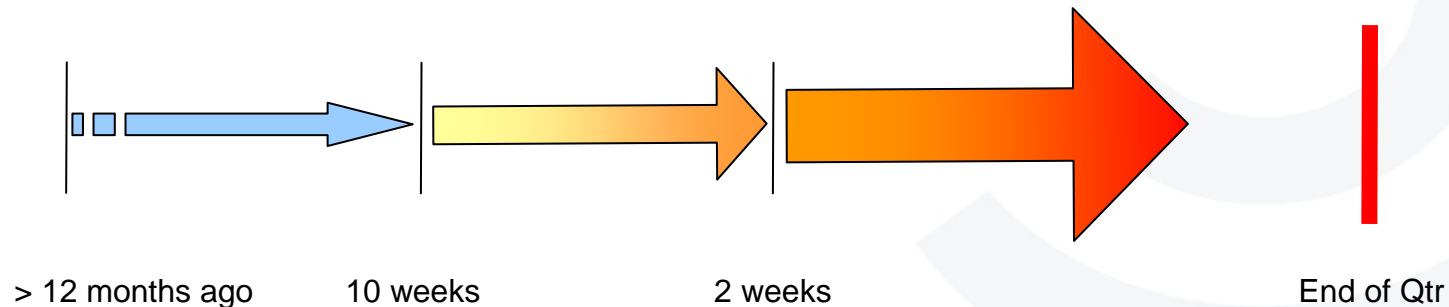
- \$1M deal based on 500 perpetual licenses
 - 3-year M&S (highly discounted) net license price
 - Priority support, training, customization
 - N. America first... then???
- No license counting (for ease of administration)
- Uncertain elements
 - Usage - 500 licenses a guess
 - Unknown access to specialized options (added value)
 - Assumed mix of user types (additional discount)
- ... *It took only 5 contract drafts!*



Saga of a Big Deal

The Final Step...

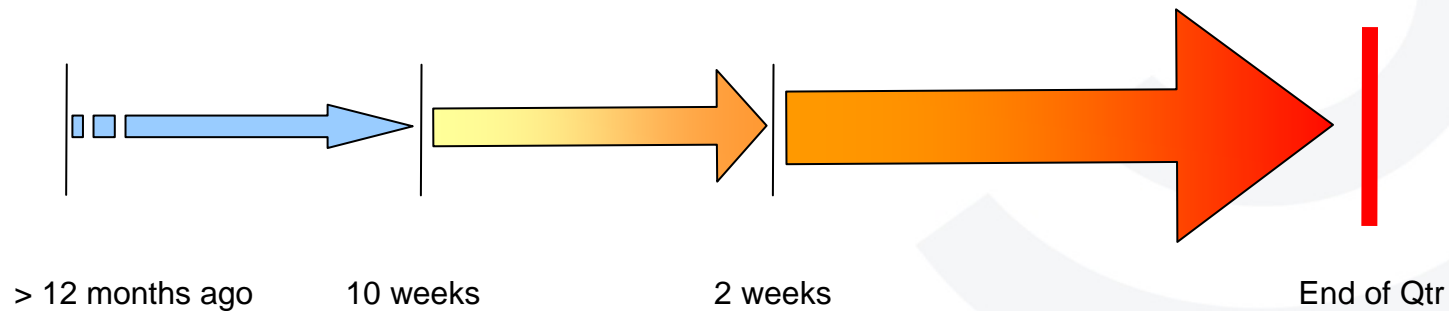
- Customer ready to sign contract
- Rep goes to purchasing
“Just one minor thing before we sign...”
- Final concession
... Additional products and services for HQ
- Contract now ready to be signed
 - Being sent to General Manager



Saga of a Big Deal

Frustration...

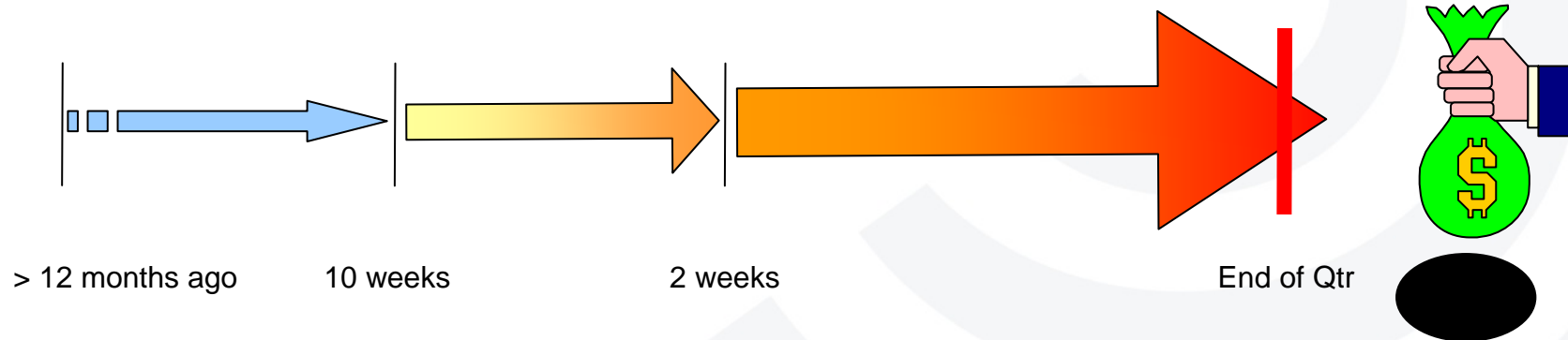
- **Rep calls purchasing**
 - LVM - Pick up copy of signed contract – when?
- **Call purchasing again**
 - LVM - Pick up copy of signed contract – when?
- **... three more days left!**



Saga of a Big Deal

Joy... Despair... Remorse

- Call is returned from Purchasing!
- There is a delay in signing
 - GM called out of town
 - Contract ready next week
- End of quarter missed
 - Discounts given in vain
 - Money and effort down the drain



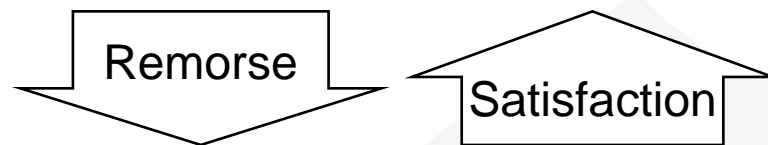
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- **Big Deals and Seller's Remorse**
- Better Deals Mean Less Remorse
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Big Deals and Seller's Remorse

Coping with Remorse

- **Pervasive “bad” feeling**
 - Nagging, not quantified
- **Calls into question...**
 - Judgment
 - Confidence
 - Competence
 - Identity
- **Interferes with satisfaction**
 - Takes edge off accomplishment
- **Understand remorse and deal with causes**



Big Deals and Seller's Remorse

Big Deals Are Valuable

- **Value delivered to customer**
 - Significant value now
 - Very significant potential value
 - Product/service offering – now/future
- **Value delivered to seller**
 - Significant revenues now
 - Significant potential payoff
 - Enhanced reputation
 - Competitive advantage
 - Future revenues?
- **Typical seller's remorse**
 - Paid too little for value delivered
 - Unfair arrangement will continue
 - Gets worse

Big Deals and Seller's Remorse

Big Deals Have Risk

- **Customer risks paying too much**
 - Putting too much money on the table
 - Unexpected business risks
 - Seller underdelivers
- **Seller risks getting too little**
 - Left too much money on the table
 - Customer promises not kept
- **Typical seller's remorse**
 - Reward too low; risk too high
 - Misunderstood or mis-estimated risk
 - Bright future didn't happen
 - Customer from hell

Big Deals and Seller's Remorse

Special Deals Filled With Remorse

- **Extremely exciting megabuck deals**
 - Severe time, revenue, competitive pressure
 - Above-average negotiated discounts
 - Many free services, product
 - Large downstream very possible
- **Customer gets "foreign" licensing scheme**
 - AYCE, Site, WW
 - Casual, power user, percent utility
 - Follow-the-sun...
- **Customer treated favorably in future**
 - MFN, price protection
- **Seller "can't" walk away – back to wall**

Special Deals Filled With Remorse

Sources of Special Deal Remorse

- *Extremely exciting megabuck deals*
 - Draining experience
 - Gave up a lot
 - Expectations not met
- *Customer gets "foreign" licensing scheme*
 - How much value delivered to customer?
 - Customer did very well – did we?
- *Customer treated favorably in future*
 - Similar future benefits for seller?
- *Seller "can't" walk away – back to wall*
 - Didn't have a choice
 - No wiggle room

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Better Deals Mean Less Remorse

Three Techniques for Better Deals

- **Manage revenue risk**
 - Mitigate (can't eliminate)
- **Monetize concessions**
 - How much value is being traded?
 - Revenue loss, margin loss
- **Improve deal process**
 - Make less time consuming
 - Faster turnaround
 - Manage more opportunities

Three Techniques for Better Deals

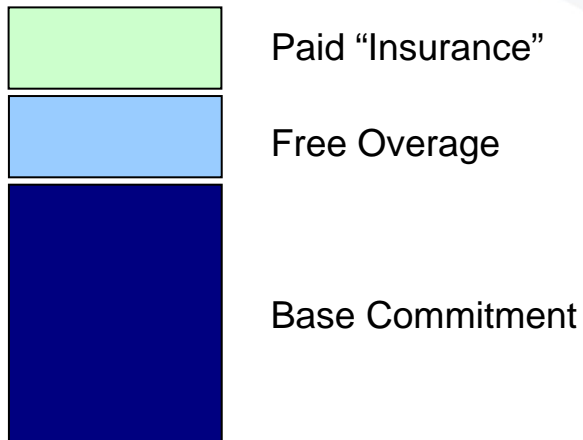
Manage Revenue Risk

- **Decrease risk**
 - **Near-term**
 - Increase up-front commitment
 - **Longer-term**
 - Set time limits
 - Do a true-up using data
- **Increase longer-term reward**
 - Keep pricing flexibility
 - Criteria for future orders
 - Defer concessions
- **Shift some risk to customer**
 - Future uncertainty – prices, budget
 - Limit access, availability – product, support

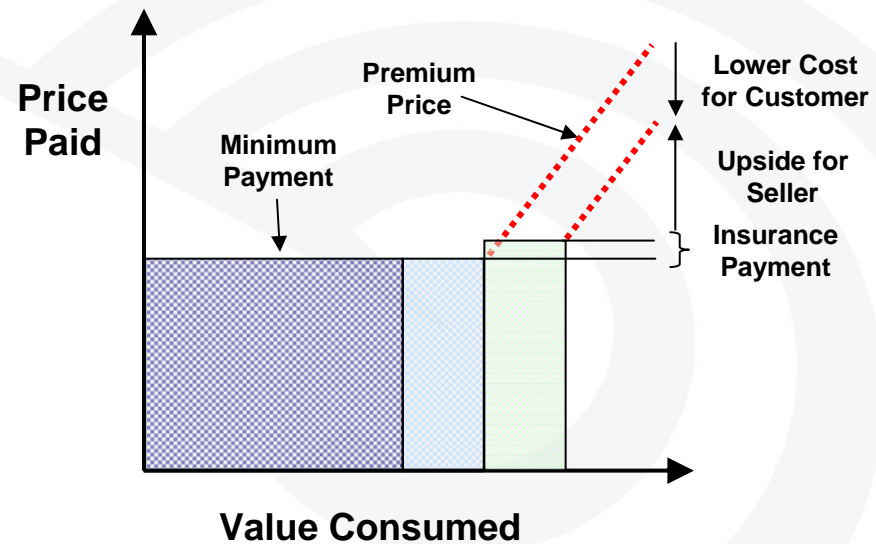
Manage Revenue Risk

Risk Management Example

Customer wants usage flexibility



Seller gets an upside at true-up



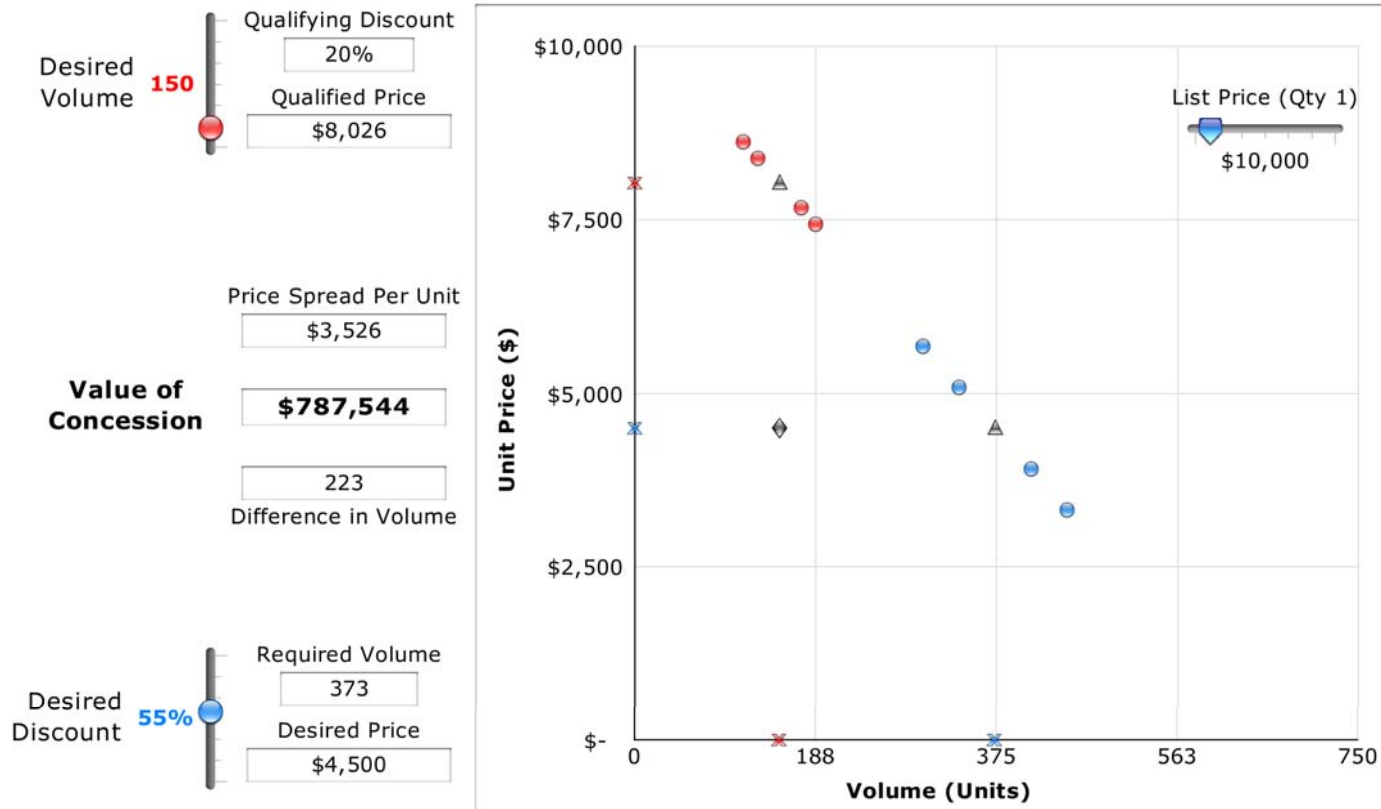
Three Techniques for Better Deals

Monetize Concessions

- **Two types**
 - **Services – margin impact**
 - **Price – revenue impact**
- **Estimate impact of concessions**
 - **Any estimate better than no estimate**
- **Restructure, unbundle, pare back services**
- **Watch price concessions**
 - **Visible vs. hidden**
 - **Negotiated discounts**
 - **Out of control?**
 - **Often driven by time pressures**

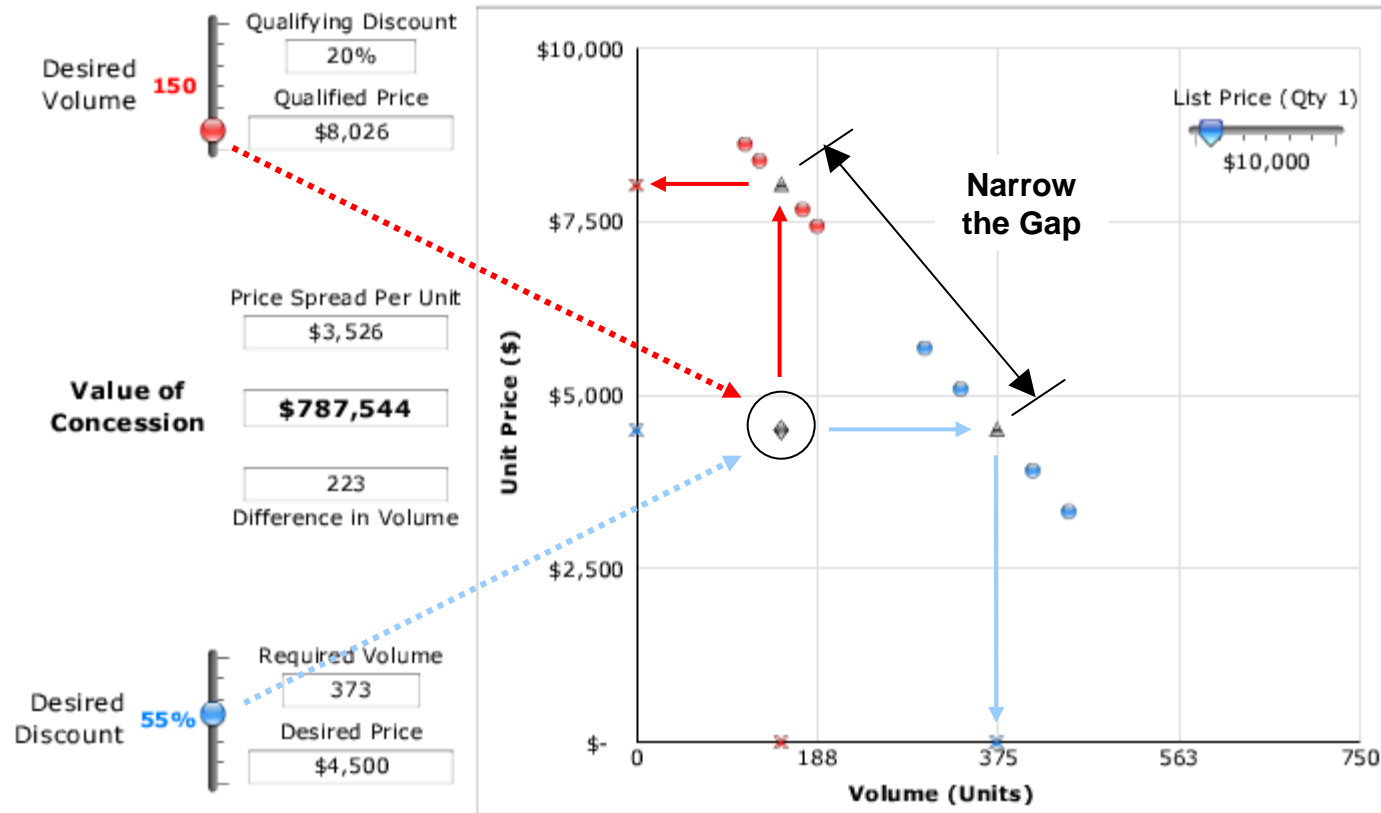
Monetize Concessions

Price Concession Calculator Example



Monetize Concessions

Price Concession Calculator Example



Three Techniques for Better Deals

Improve Big Deal Process

- **Allocate effort, resources**
 - More time on good deals
 - Less time on OK deals
 - No time on bad deals
- **Make time to evaluate**
 - A little homework in advance
 - Heads up and agreements
- **Improve quality**
 - Deals
 - Sales process
 - Management decision-making

Improve Big Deal Process

Improve Big Deal Quality

- **Avoid case-by-case evaluations**
- **Categorize deals**
 - Create deal “buckets”
 - Minimum qualifications
- **Clearly labeled categories**
 - Big single transaction
 - Multi-year, multiple transaction
 - AYCE, site deals
 - Uncertain need/usage
- **Assess deal quality**

Categorize Deals

Deal Category and Terms Example

- **Multi-year deal qualifications**
 - Minimum 3 year term, \$1.5M
 - Yearly revenue increase >10% (p > 50%)
- **First year (uncertainty/risk highest)**
 - Free overage = 50% base commitment
 - Additional usage rights = 10% list up to 25% base
 - Excess use > 110% list (not net)
- **Annual renegotiation (true-up)**
 - Usage data available
 - Adjust base-level usage, product mix
- **Licensing flexibility**
 - Usage duration (for peak use)
 - Product access (no lock outs)

Assess Deal Quality

Deal Quality Scorecard Example

Revenue impact	Amount now vs. future	\$1.5M now + \$2.7M future?
	Future certainty	Med
Cost impact	Degree of certainty	???
	Cashflow vs. costflow	Large advance; support, training
Strategic value	Build credibility	NA
	Pre-empt competition	Yes
	Product impact	Nil
Risk mitigation	Data sharing	Cust. will share
	Financial flexibility	Price protection
	Share in uncertainty	About equal
Market segment	Importance	Normal
	Financial vs strategic value	Mostly financial
	Timing	NA
Competition	Meet vs. block	Block
	Reinforce our position	NA

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Lessons Learned

Big Deals Don't Just Happen

- **Often driven by impending event**
 - Anticipate – leave enough time
- **Prepare in small increments**
 - Get buy-in early, frequently, in stages
 - Work process inside company and inside customer
 - Set clear boundaries, trade-offs
- **Orderly evaluations**
- **Standardize ways to contain uncertainty**
 - Usage data
 - Time limits

Lessons Learned

Big Deal Quality Counts

- **Deals cost time, energy, resources**
 - Invest wisely
 - <5% of deals, >10x average order
 - Use right tools
- **All deals are not the same**
 - Different sizes and quality
 - Not all deals can be closed
 - Not all deals should be done
- **Beware of “peculiar precedents”**
 - Can lead to seller’s remorse
 - Downstream pricing headaches
 - Hard to book; hard on rev rec...
...today and tomorrow

Lessons Learned

Make Big Deal Value Explicit

- **What does it “cost” you**
 - What is it worth to customer
 - Put value on everything...
- **Estimating value, cost, worth**
 - Price and product – how many \$\$\$
 - Referenceability – value of specific activities
 - Future sales – expected value
 - Co-development – cost savings, time to market
 - Usage data value – improving estimate
- **Bad estimates better than none**
 - Compare actual to guesstimate
 - Improve ability to estimate over time

Big Deals and Seller's Remorse

Exercise Your Power in Big Deals

- **Deals are mutually beneficial**
 - Customer not all-powerful
 - Financials work both ways
 - BATNA must work for you
- **Offset the Golden Rule**
 - You are the means to the customer's ends
 - Give-a-little / Get-a-little
 - Use negotiating team
- **Knowledge is power**
 - Value you can deliver
 - Your costs, their costs

Lessons Learned

- Allow enough time
- Quality is important
- Run the numbers
- Exercise your power

Preparation + Discipline
= Big Deal Success – Seller's Remorse

Thanks!

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