

Adapted from **PARTNERING WITH THE CIO**

# Don't play pricing games at the end of every quarter and year

*Mad scrambles send the wrong messages to your customers*

By Michael Minelli and Mike Barlow

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**Certainly one of the strangest quirks** of the IT industry is the frantic wheeling and dealing that takes place at the end of every quarter and fiscal year.

“CIOs and purchasing departments are well aware of this and take full advantage of the opportunities to drive hard bargains,” says David Read, the CEO of Prestige Purchasing, a UK-based consultancy. But such predictable antics can have negative results, making software vendors look like tactical players instead of strategic partners.

In their mad scramble to meet sales quotas, IT vendors convey the wrong message to their customers. “It seems as though they’re more interested in one-night stands than marriages,” says Read.

Widespread belief in Moore’s Law makes it hard for IT vendors to argue convincingly that prices are on an upward trend.

“Everyone believes that technology prices go down over time and that by waiting long enough the prices will go down even more,” says Brad Miller, president of Perimeter Internetworking, an Internet security services provider based in Connecticut.

Priced-based sales strategies aren’t merely obsolete – they can be downright dangerous to the long-term financial health of an IT supplier.

“The more you focus on the dollars, the more your customers will perceive your product as a commodity,” says Miller. “People can smell desperation. They’ll assume that your company is in financial trouble or that no one else wants your product. Don’t send that kind of signal.”

CIOs are also irritated when IT suppliers try to confuse them by offering overly complicated licensing arrangements, or by changing the rules midway through a multi-year contract.

“Licensing gets very tricky. It’s crucial when you’re negotiating a contract to understand exactly how the vendor is counting users,” says Mary Finlay, deputy CIO of Partners Healthcare. “Sometimes vendors change their counting methodology. That can really sour a relationship.”

Jeri Dunn, the former CIO of Tyson Foods, agrees. “When it comes to licensing, you’ve got to get everything spelled out in black and white because you don’t want to get into an argument down the road. The worst thing that can happen is that you misinterpret or misunderstand the terms.

Nowadays the term ‘user’ can mean anything. But there are many levels of users. There are casual users, named users, regular users and super users. Make sure you understand how the vendor defines ‘user’ so there are no surprises.”

Arguments over license fees can be especially vexing for CIOs of large, global companies with multiple sites. Several CIOs complained to us about vendors that charged the same license fee for all users, making no allowances for the differences between light users and heavy users.

“If you have 120,000 employees, you shouldn’t have to pay the same fee for an employee using a self-service HR application and an employee making entries into a general ledger,” says Dunn.

### **Sacrifice in vain?**

Ron Rose, the CIO of Priceline.com, wonders how much revenue and margin could be increased by anticipating the end of the quarter more effectively and closing the most critical sales earlier.

“IT vendors give up a hefty amount of revenue and margin at the tail end of each quarter,” observes Rose. “It would be interesting to know how much more they would earn if they could avoid even half of that.”

For veteran CIOs, many IT sales pitches create an eerie sense of *déjà vu*. If the CIO shows little interest in the product, the sales rep quickly changes the subject to pricing. When that gambit fails, the sales rep assumes the CIO is merely being coy. At this point, the sales rep might begin talking about potential discounts or other incentives.

What the sales rep probably doesn’t know – or refuses to believe – is that the CIO’s budget was set months ago. Unless the supplier is riding to the rescue with an urgently needed product or service that will help the company address a pressing business challenge, there won’t be any money in CIO’s budget to cover the purchase.

Offering steeper discounts isn’t going to move the sale forward for two good reasons. The first reason is very simple: If zero dollars have been set aside for the purchase, a discount is meaningless. The second reason is that most CIOs have been around the block often enough to know instinctively that the first-year cost of any new IT purchase usually represents the tip of a much larger iceberg.

“If you’re looking at an IT purchase from a business perspective, you’re not just thinking about the initial costs. You’re thinking about TCO (Total Cost of Ownership), which includes continuing costs such as maintenance, upgrades and retraining,” says Paul Zazzera, the former CIO at Time, Inc.

So raising the promise of steep discounts on first-year costs moves the conversation in the wrong direction by immediately raising suspicions about the sales rep's motives. Since every CIO understands that sales reps have quotas, they can't help but wonder: How low will the price go?

"Then it turns into a game. The CIO tries to get the best possible discount. The supplier tries to hang onto his profit. The CIO knows that if he waits until 11:59 p.m. on Dec. 31, he'll get the best price," says Zazzera. "It's really a vicious cycle. I can't think of another industry in which there are so many cliff-hanger deals."

Almost all of the CIO's we interviewed for this book describe the rush to close deals at the end of a quarter or the end of a year as an ugly, industry-wide epidemic.

Mary Finlay recalls the time a vendor rep showed up at her office on Christmas Eve. "She was begging me to sign the agreement, saying it was the end of the quarter and that she wouldn't make her numbers unless I signed. But that's not how we do business. I said, 'Merry Christmas and I'll talk with you in January.'" "

Another sales rep left Finlay a message saying that if she didn't finalize a pending deal over the weekend, the price would go up. "I didn't even call him back – but I called his VP on Monday," she recalls.

Ray Hill, the chief procurement officer at Pitney-Bowes, remembers when two reps from an ERP vendor spent part of their Christmas vacation at his house trying to finalize a deal. "I knew we would get a better price because they were so desperate to close the deal before the end of the year," says Hill.

In many cases, however, there will be no deal – no matter how low the price goes. "Very few people are going to start sharpening their pencils at the last minute to figure out if a deal is worth doing," says Zazzera. "We don't want to have to buy like that. But that said, many companies don't offer their best deals until the last minute."



*Michael Minelli and Mike Barlow are co-authors of "Partnering with the CIO: The Future of IT Sales Seen Through the Eyes of Key Decision Makers" (John Wiley & Sons, 2007).*

*This article is adapted from the book.*