WHY BENCHMARKING FOR IT NEGOTIATIONS DOESN'T WORK AND HOW TO BEAT THE "LOWEST PRICE"

Let's imagine for a moment that you're buying a house. You find a property that you like, discover the list price, and ask your Realtor to provide comps for similar listings that have recently sold. You use these sale prices to develop the number on your purchase offer.

Now imagine that the comps provided by your Realtor are based on deals that have been poorly negotiated, or that the numbers have been entirely fabricated with the best interests of the sellers in mind. How does that insider knowledge influence your trust in those comps? Do you still feel like they represent a reasonable foundation on which to base your offer? If not, where else would you look for help?

While purchasing software licenses isn't exactly the same as purchasing real estate, basing software pricing on vendor-supplied benchmarks is a lot like making an offer on a house based on faulty comps. Organizations have the best intentions and feel that utilizing benchmarks is the responsible method for developing pricing models. But any insider will tell you: Benchmarking data for software negotiations holds about as much weight as a house made of straw.

WHY BENCHMARKS ARE COMMONLY USED

There is a common belief amongst organizations that pricing on software is standardized. The sales reps will state this outright in an effort to mitigate questions and maintain higher prices.

"Our contracts are based simply and transparently on the size of the organization, SKU's purchased, and the length of the contract term. No ifs, ands or buts."

Sounds reasonable, right? It makes sense that hardware and software vendors would have a strict set of discounting mechanisms, and that once those mechanisms have been set in place, there is little left to negotiate. Therefore, using benchmark data that represents the lowest sale price should be an excellent way to measure the cost effectiveness of your company's deal.

Unfortunately, however, benchmark data is not nearly as cut-and-dry as vendors would lead you to believe. When examining benchmark data, it's critical to ask two key questions:

1) WHO NEGOTIATED THIS DEAL?

Do you understand the details of the deal that produced the benchmark data? Who was negotiating on the purchaser's behalf? If you can't guarantee the skill of the negotiators, it's difficult to definitively say whether the lowest pricing possible was achieved.

2) WHO SUPPLIED THE BENCHMARK?

Many organizations are surprised to learn that vendors will supply Benchmarking Aggregators with benchmarked numbers specifically orchestrated to benefit their

bottom line. Conduct a simple Google search on "Benchmark Cheating" and you'll find countless suits involving numerous vendors, all tweaking the numbers slightly. Unless the benchmark number has been supplied by an unbiased third party, it's unwise to trust it as the definitive authority on pricing.

FORGET THE BENCHMARKS: THE REAL BASIS OF MSA NEGOTIATIONS

The truth is that pricing and negotiation are based on numerous factors that have very little to do with the actual ticket price of the solution.

MARGINS

Pricing on a deal with 70%+ gross margin is mostly determined by how badly the vendor wants your business. The data becomes less important when the vendor has greater room for negotiation via cushy margins.

TIMING AND TERMS

The rush to push sales through before the end of a financial quarter is a real phenomenon- ask any software sales team member, or notice how much your phone rings at the end of each month. Oftentimes, the combination of the right timing and the right terms will lead to 90%-plus discounts.

NEGOTIATION SKILL

It is extremely common for vendors to produce massive discounts following what they had presented as their "Best-and-Final Offer". When the client suggests that they may walk away or choose another supplier, vendors often lay all their cards on the table, resulting in impressive deals. Understanding how to utilize these final moment tactics can mean the difference between bloated numbers and millions of dollars in savings.

INSIDER KNOWLEDGE

Every vendor works differently, and every company has its own set of discount mechanisms. Much like a lawyer utilizing their knowledge of case law to develop a legal strategy, former employees from a vendor's sales department can be a priceless asset during the negotiation process, supplying information that can make or break a deal.

Bottom line: Basing your negotiation on benchmarks is simply basing your pricing on other people's old deals. It's poor logic. You wouldn't plan a picnic based on yesterday's weather, and similarly, you shouldn't base pricing negotiations on yesterday's deals.

In 1936, Aeronautical Engineer TP Wright published a paper stating that the cost of airplanes should decrease over time as manufacturers gain experience on the build process. Today, known as Wright's Law[1], the principle stands that costs for hardware and software should decrease over time. So is it possible to use historical pricing information when negotiating deals? Absolutely. But the key to utilizing benchmarks is to determine the true, real-time data, as produced by an unbiased third party, and factor in Wright's Law for additional decreases.

A BETTER WAY TO BENCHMARK

What if a team told you that they consistently beat the benchmark in more than 97% of their negotiations? For the team at Deal IQ, this is the reality. How do they do it? By throwing away the traditional benchmark pricing models and developing their own, unbiased benchmarks based on real-time data.

Once the client has chosen a vendor, Deal IQ conducts an initial intake call to learn more about the key commercial terms that are being sought in the agreement. Questions include which specific services are being purchased, how many user licenses are required, and which factors the client wishes to learn more about through the benchmarking process. Deal IQ then takes this information and compare it to a historical pricing database, while consulting with their team of experts.

Deal IQ's network of experts includes a wide range of individuals with previous experience working in sales at a number of vendor organizations. Real-Time Benchmarking services combine the information from historical databases with the knowledge of these experts, resulting in an in-depth understanding of not only the pricing fairness, but also the various discounting practices and negotiation tactics of the specific vendor. Utilizing the market pricing knowledge and specific details about the vendor, Deal IQ produces a written Benchmarking Report, allowing the client to make an informed decision about their purchase.

The team at Deal IQ has a keen understanding of sales behaviour, and, in fact, has even trained some of these very same organizations how to sell. Therefore, they can accurately predict how your vendor will behave in the end stages of the negotiation and use this insider knowledge to produce savings on your behalf.

For more information about how Deal IQ's real-time benchmarking practices can help your organization produce more effective negotiations, reach out to their team today by calling 1(877) 272-8240.

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[1] CIO, "How NOT to use Benchmark Data in Vendor Negotiations", https://www.cio.com/article/2984965/business-analytics/how-not-to-use-benchmark-data-in-vendor-negotiations.html