ECONOMIC IMPACT DRIVES CHANGE

The fact is, buyers today have changed the way they buy as compared with the past. There are many more considerations when making corporate strategic buying decisions. Assessing the economic impact of a purchase, for example, is one of many changes in the buyer's process that have occurred in the past decade. Organizations are looking at every dollar budgeted on strategic purchases and the impact of those purchases on their corporate financial health. They want to know the impact on their balance sheet, income statement, cash flow, and shareholder value, for example.

In addition to assessing economic impact, organizations are looking at lowering their risk when making major strategic buying decisions. Risk mitigation is a major concern for today's buyer. This chapter is designed to provide insight into how buyers are approaching major strategic buying decisions, and to provide some insight into what you can do now to prepare yourself for the future of selling. I will examine each step of selling through your buyer's eyes in the "new" buying process.

The New Buying Process

The biggest, most impactful change from selling in the past is the Internet boom and social media. According to Statista (The Statistics Portal) worldwide use of the internet exceeds three billion users. In 2005 there were just over one billion users. Internet usage is up by both the buyer and the seller. Along with the Internet came more tools for the buyer and the seller to perform detailed research on each other. Great new business intelligence tools are available today for research, such as OPEXEngine, ZoomInfo, Google Alerts, InsideView, Dun & Bradstreet, and Hoovers. The invention and advancement of social media tools like LinkedIn, Facebook, YouTube, and Twitter have increased everyone's digital footprint. These new digital social media tools contribute greatly to influencing the way buyers need to buy and sellers need to sell. More information, personal and otherwise, is now available for the taking. Privacy is nearly out the window. Once you are involved in the social media sensation, your information (and your buyer's information) is available from a smartphone, tablet, Apple watch, and of course a computer. Remember this next time you post something provocative online; it could end up costing you a sale.

I live in Wisconsin, and several years ago our governor was going through a recall election brought on by the local unions. I came out publically supporting our governor. I simply believed that because Wisconsinites voted him in, we should allow him to finish his term. This comment cost me a major deal with a company that supported unions. There was nothing I could do or say. They followed my personal Twitter account (@mjnspw) and saw my support of our governor. A few days later they stopped negotiating with me and told me it was due to my political views against unions. It wasn't anti-union—it was pro–my governor and my state.

Economic Impact Analysis

Let's look at buying through your buyer's eyes. In the chart below I look at the changes the buyer has made in their process, taking into account the advances made in Internet search engines, business intelligence tools, and social media. I will hold off on displaying the seller's process until we have completely discussed the buyer. Again, level of concern is on our vertical axis and the time it takes to make a purchase is on our horizontal axis.

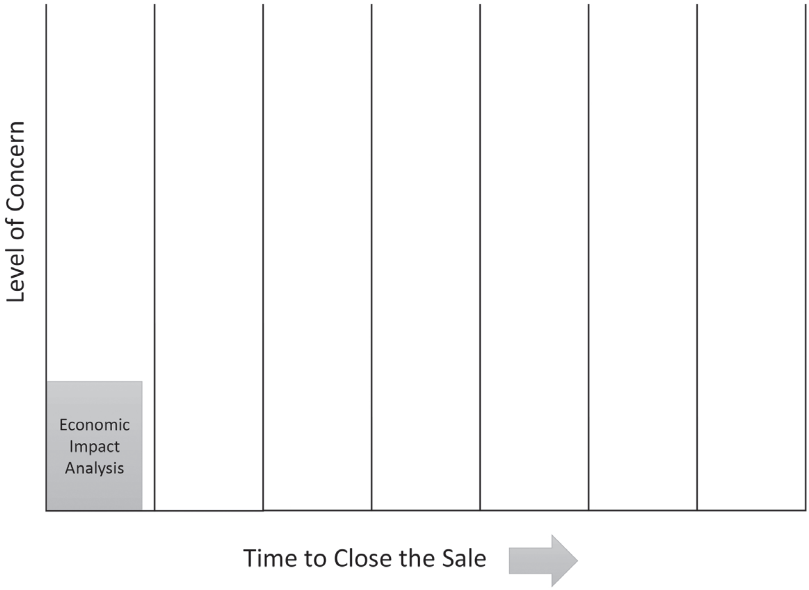

Figure 2.1 Buyers process

A major change from the past has occurred in the first step of the buyer's process (see figure 2.1). I'll call it Economic Impact Analysis. What this means is that a financial expert within your buyer's organization is calculating the potential financial impact (on the entire organization) of making a major strategic purchase. They are gauging the impact on the financial health of the organization, and its impact on the overall corporate strategy. In my book *The Key to the C-Suite* (AMACOM ©2011), I explored the concept of a financial expert using metrics like ROI, ROE, ROA, debt-to-equity, and net and gross profit to determine the potential economic impact of a major strategic purchase. There are dozens of metrics that could be potentially used to determine the corporate financial impact of any purchase.

In this first step (Economic Impact) the buyer hasn't told the market they are looking to make a purchase. This is important for you to know because they are a potential lead and you, the seller, are unaware of it. Organizations all over the world are trying to figure out the impact of purchasing products like yours, and you are completely unaware. In addition, the buyer is performing financial modeling based on a hypothesis of value they believe they "may" receive if they purchase a product or service like yours. Financial hypothesis is just that: a guess as to the measurable value they want to obtain from their strategic purchase. Finance personnel must hypothesize the estimated cost, expected financial return, ROI, payback period, economic impact, and much more. Remember, this is going on before you even know they are considering a purchase.

A Prospect's Buying Strategy

The second step for the buyer is one that was never considered in the past when making strategic buying decisions: developing a buying strategy and selecting multiple vendors to communicate with. Step two (figure 2.2) is a key change in the buyer's process from the past as well. This is a two-part step. The first is establishing a buying strategy. This entails developing a plan to acquire a product or service. This product or service would ideally have the most positive impact on cost and revenue, and the least amount of impact on cash flow, credit, and the general financial health of the organization. This includes future strategic buying decisions.

When the buyer looks at laying out a strategy, they must consider how they are going to pay for this purchase. Does it impact their capital (capex) or operating (opex) budget? (I'll go into greater detail about these two shortly.) Depending upon what the purchase is, financing may be the best path forward. Other options they may consider are paying cash, or perhaps borrowing the money outright. Most companies have a line of credit they can tap into. Regardless of how they are going to pay for the purchase, this is one of the strategic decisions that is considered when developing the buying strategy.

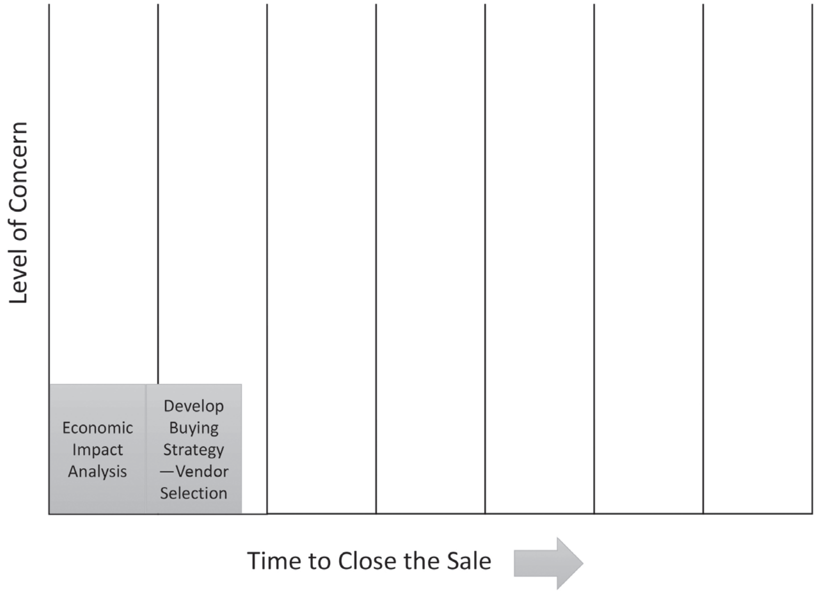

Figure 2.2 Buyers process

Next, the buyer will lay out a plan to determine whether they will buy a product, or perhaps build it. If we are talking about software this is always a major discussion. If the purchase is piece of construction equipment like a front-end loader, or another fixed asset, it is unlikely that they'd build it. However, they may consider new versus used equipment. You need to know the difference and impact of a capex versus opex buying decision. The difference between the two should and will likely play a role in how you structure the sale.

Capex is a capital expenditure that creates future benefits. It is incurred when a business spends money either to buy fixed assets or to add to the value of an existing asset by giving it a useful life that extends beyond the tax year. Capex expenses cannot be fully deducted in the period when they are purchased. Tangible assets are depreciated and intangible assets are amortized over time.

Opex or operational expenditures refer to expenses incurred in the course of ordinary business, such as sales, and general and administrative expenses (excluding the cost of goods sold or COGS, taxes, depreciation, and interest).

Another consideration when making a strategic buying decision is the option of outsourcing. Rather than buying equipment, or building a software application, some companies are just lopping off parts of their organization and sending it abroad where labor is less expensive and more predictable. Outsourcing is growing around the world. Countries like Peru, Ukraine, and Mexico, for example, are competing heavily with India for programming opportunities.

The next consideration the buyer will look at when planning their buying strategy is when they are going to purchase. Timing can be a key factor in today's market. Wall Street is unforgiving of those organizations that miss their predicted results. The one area of a business the C-suite can control is their expenses. Therefore, strategic purchases can sometimes be timed to go along with the corporate forecast. (Hint: When selling to publically held companies, listen in on their quarterly call by the CEO/CFO if you want insight into when they will be spending on strategic programs.) Buying decisions don't always follow forecasts, but more times than not budgets are based on predicted revenue. If sales isn't achieving the company's revenue goals, budgets are likely to be put on hold, and limited strategic buying is going to take place.

As simple as it sounds, part of the strategic buying process is determining how buyers are going to make a decision. Who will be responsible for the final decision, and who should be included on the committee in the buying process? This could be a simple appointment or a full committee. In either case, when developing a buying strategy the buyer must determine who is going to make the final buying decision, and whose budget or budgets the purchase will come out of.

The second part of this step is selecting vendors to consider. The Internet, business intelligence tools, and social media like LinkedIn have put tools in the hands of the buyer that they never had in the past. Today's buyer is now doing considerably more research on the companies selling to them. They will research Twitter accounts, personal and corporate LinkedIn postings, and Facebook pages.

They will run Google searches and set you up on Google Alerts to make them aware of the Internet press on you. Clearly, the research process has gone far beyond a simple website review. As noted previously, as a seller, this is somewhat problematic because buyers may determine you are not a vendor of choice because of a social media post, your website, or some article out on the Internet. In such cases you're out before you've had any opportunity to get in on the deal. Keep in mind: every piece of press, good or bad, is out there forever on the Internet and you are subject to anyone finding it with just a little effort. Search engines have become very powerful and will continue to evolve even more in the future.

My final point on this current change in the buying process is that these two steps I just discussed are occurring without you even knowing you're a prospect. Most of these activities are done behind the scenes, unbeknown to any potential seller.

Determining the Buyer's Needs

Determining the buyer's needs is an important part of the process, one that most sales professionals fail to take advantage of. There are many individuals throughout the buyer's organization who contribute to preparing a needs document, which considers every department affected by the purchase. This document will eventually be presented to senior management. The folks preparing this document come from several different departments. This is a very good thing to know because you have several opportunities to get into a deal early in the process by communicating with someone on the team as you try to determine their needs. I'm a big fan of selling from the top down; however, the knowledge of a project starting up could be in the hands of a half dozen or more mid-level managers or even end users. Your odds of winning the business increase when you can find out about a project sooner rather than later by just inquiring at all levels within a prospect's organization.

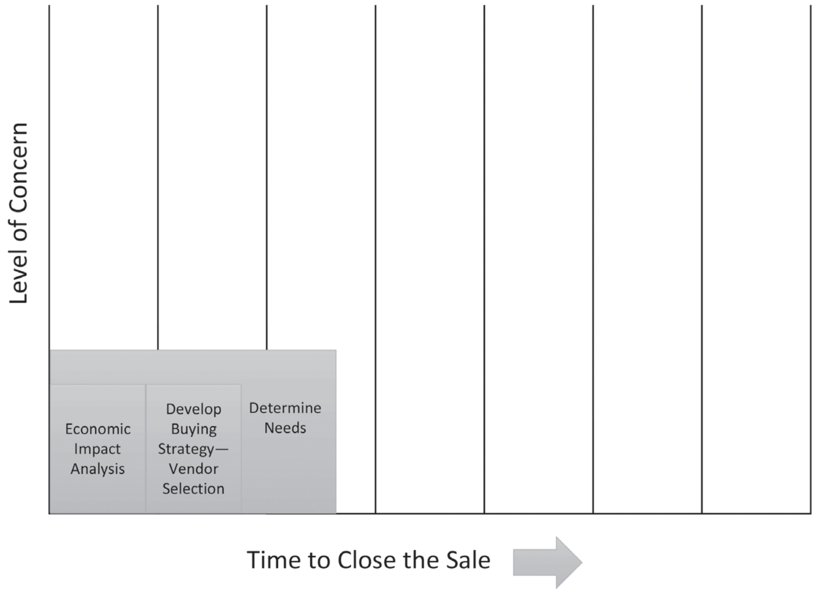

Figure 2.3 Buyers process

For example, let's say a major corporation is going to purchase a new CRM system. As part of the buying strategy they'll of course name a project lead. Next, they'll look for someone from IT to be on the team. Someone from the user community will also be added, as well as a marketing person (or two), because every major project needs internal marketing as well as external. They'll also likely have the training department, integration people, data conversion staff, end user testing, and even the events coordinator because they may need to train all over the world.

With all these different individuals participating in the development and deployment of a new project, it is the perfect time to influence the needs documents with features from your products. You can use techniques like offering white papers, assessments, articles, or perhaps a value hypothesis (more on this later). The more of your key features they can add to their needs document, the more your odds improve exponentially of closing the sale.

Needs determination will take up a significant part of the buyer's process. Realize too, the "Determination of Needs" may be going on simultaneously with the economic impact assessment and buying strategy. Those vendors involved with the buyer from the beginning have a better chance of aligning their value with the prospect's stated needs list.

Evaluating a Prospect's Options

"Evaluate Options and Alternatives" (figure 2.4) is the step where the buyer typically tips their hand. They become known to the market as having an active project, for which they are seeking a solution. One thing you should notice immediately is how far along the horizontal axis the buyer has traveled without you knowing they are a viable prospect. In addition, it is possible (and probable) the buyer has had input from a competitor on their needs and economic impact. This of course puts you in a bad position if you are vying for the business.

The buyer's method for evaluating their options is determined in the buying strategy stage. If you have had any influence at this point you are likely in a good position. If not, you may be in trouble. In either case the buyer has a strategy for buying. It could be as simple as reviewing multiple vendor demonstrations, or could move on up to the very complex "request for quote" or (RFQ). This stage of the process is critical because it is your opportunity to bond with the prospect, establish credibility, and demonstrate that you can meet and exceed the buyer's needs and expectations. Remember, it's easier to establish yourself as an expert earlier in the sales process rather than later. Try to impress your prospect with your expertise when challenges arise or questions are raised about what they really need to accomplish. Focus on solutions.

In addition, buyers will evaluate their options based on the needs determined in the previous stage of their process. For example, if the buyer decides to build a software solution in-house, then evaluating their options may include selecting development tools, a database, and a method for development, or even consultants to help them. If, on the other hand, the buyer decided to buy something in the open market, evaluating their options could mean something totally different. They may be looking for best-of-breed solutions, or one solution from a single vendor.

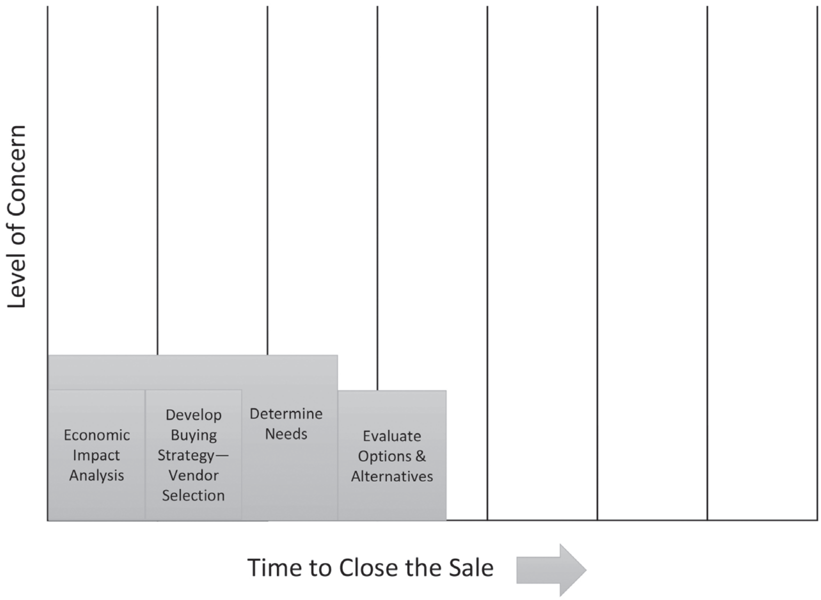

Figure 2.4 Buyers process

Vendor Selection

When the buyer selects a single vendor (or multiple vendors for best-of-breed solutions), they are committing to working with that vendor to resolve all their issues, pains, and goals (figure 2.5). They are also committing to agree on a price to perform.

Before this occurs, the buyer has done research on various vendors, has potentially checked references, and has possibly sent out an RFQ. Too often a vendor is invited into a buyer's process through an RFQ and they simply respond because they "think" they have an opportunity. They don't! The fundamental problem with an RFQ or being invited into the opportunity this late in the buyer's process is that you are likely column fodder (at least the odds are you column fodder) for the rest of the field. Column fodder is when you are used to justify the vendor the buyer really wants to buy from. As you can see from the diagram above, there have been a lot of steps completed by the buyer at this point. If you haven't been involved in any of these steps, or have only been remotely involved, run! Run fast—you have no chance of getting this deal. You are wasting your time and money pursuing a deal you have little or no chance of closing.

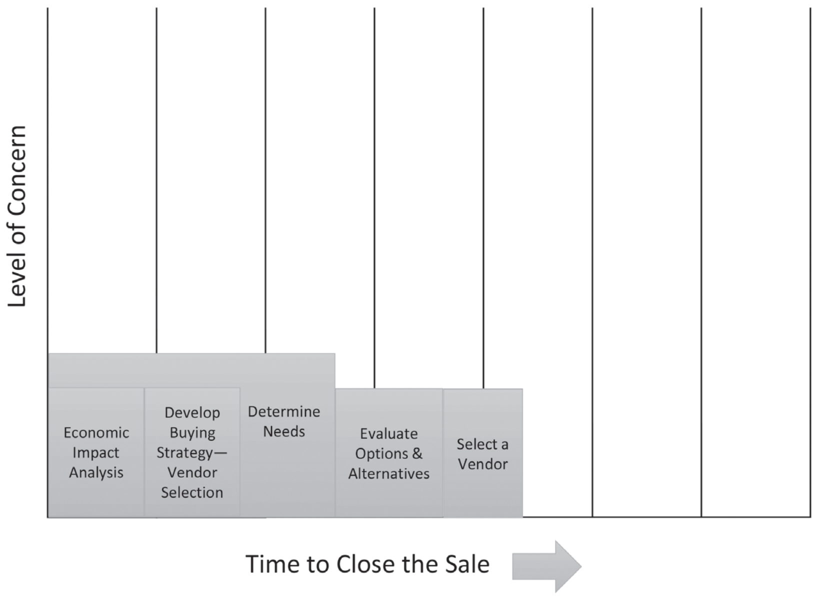

Figure 2.5 Buyers process

If, on the other hand, you have been involved early and in many of the steps the buyer has taken to this point, and you are one of the selected vendors to go forward, you still have a lot to do to close the sale. There are many additional steps the buyer is going to go through, and at some point in the process you will need a comprehensive business case, proposal, and risk mitigation plan.

The buyer's late-stage selection process today takes into consideration much more information than in the past. Vendors are expected to provide more information like insurance, staff profiles, or even financials. Today's buyer is looking to get more for their money, mitigate their risk, and push vendors to prove their success during and after the project is implemented. Buyers will oftentimes send you their agreement to sign. Caution: be sure to have good legal counsel before signing anyone else's agreement besides your own.

Risk Mitigation

Selecting a seller or a vendor to work with is a scary and challenging process for many buyers. There is a lot of risk in settling on a solution provider. The risks include: Will they deliver what they promise? Will there be an increase in the price if they underestimated the real cost? Will this vendor go out of business? Will this vendor expose our dirty laundry to the market?

Buyers are human after all, and even though they are spending the corporation's money they still may experience some buyer's remorse. This concern will cause the buyer to second-guess their buying decision. It is your job as the seller to help the buyer realize they made a great decision. Instill as much confidence in them as possible with professional follow-up, documentation, staff assignments, and a high level of communication. The more professionally you approach the sale, the less risk the buyer feels they are taking on.

A buyer's risk concerns (figure 2.6) are compounded by their anxiety over whether they will get a return on their investment, and how a project will ultimately affect their financial health. They will want to know if their hypothesis is correct at the beginning of the buying process.

Too often sellers overlook the potential risks and anxieties that the buyer is going through in their mind. These sellers ultimately lose the deal because after due diligence, the perceived risk of doing business with you is too high. This can happen even after being selected as their vendor of choice. Many organizations are requiring all sorts of insurance policies just to do business with a seller. They want to mitigate the amount of risk they are willing to accept. As early as possible, try to identify the risks your buyer will perceive, and understand why you could lose the opportunity because of the lack of a risk strategy on your part. It is not uncommon for a buyer to keep multiple sellers "on the hook" (unbeknownst to the sellers) until all due diligence is completed. Only then will the final decision be made as to whom the selected vendor will be. That decision could very well come down to a simple case of who presents the least risk in partnering and doing business with.

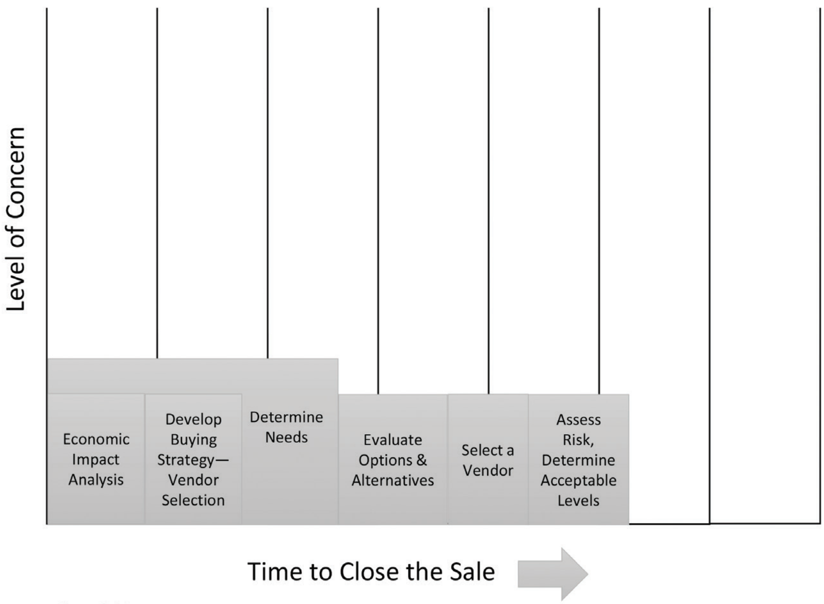

Figure 2.6 Buyers process

Be sure you know the type of buyer you are dealing with. Are they early adaptors? Are they conservative in their buying approach? Try to determine as early in the sales process as possible how much risk the buyer is willing to accept. Develop a risk-mitigation plan early and execute it throughout the buyer's process.

Due Diligence

At this point in the buyer's process, prior to coming to an agreement on a contract, there are other project issues that will need to be addressed. You must sort through the final issues and come up with resolutions that are acceptable to both parties. Although it displays on the chart (figure 2.7) as a box equal in size to the others, it is oftentimes not equal at all. This part of the process is critical because it can last days, weeks, or even several months. This is where decisions get delayed or put off entirely. The buyer is weighing risk, cost, economic impact, and of course unresolved issues. Sellers tend to ignore the importance and complexity of this stage of the buyer's process. Sellers will look at their own process and deem that everything is okay because they have moved from the demonstration stage to the due diligence stage, presuming at this point that "the buyer is still interested in moving forward."

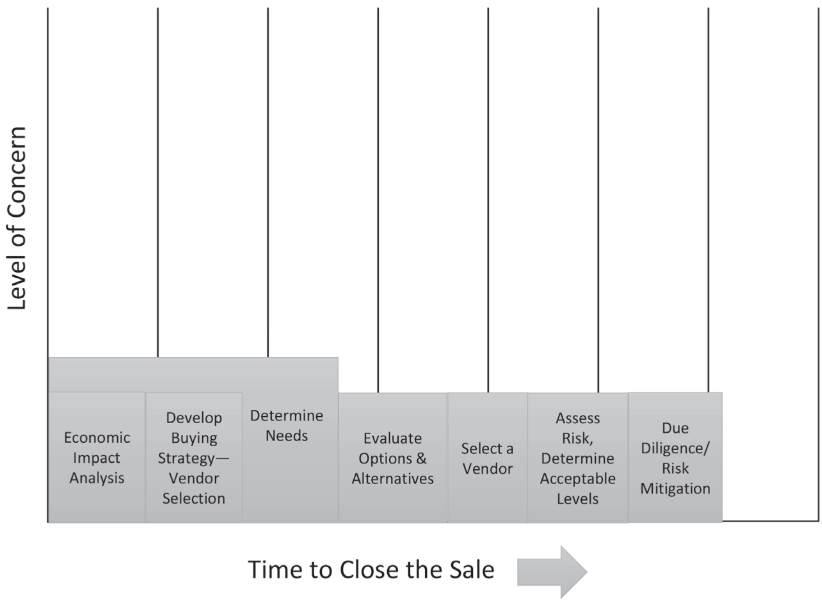

Figure 2.7 Buyers process

Due diligence is a key stage in the buyer's process. It is the baseline research in the buyer's risk-mitigation process. Early in the sale, most buyers have done some investigative work on a seller they'd like to explore. They have likely done an Internet search, perhaps some reference calls, and maybe a check on the executive team to ensure they are dealing with a reputable firm. LinkedIn's advanced search feature has likely provided both buyer and seller a tool to help identify personal relationships (between the two organizations) their staff may have.

Remember, every bit of news, social media interactions, press releases, literature, webcasts, and YouTube videos are available to the world via the Internet. You cannot escape the reach of a good search engine. Buyers know this and are doing more extensive searches than ever before. Your website needs to be not only the hub of all information regarding you, your products, and your services, but it needs to be an electronic brochure too. Keep sections like executive profiles, blogs, Twitter feeds, news feeds, and YouTube videos up to date. Search engines like new content. When there is a lack of new information, old information will likely not work its way to the top of the search results.

Negotiate Contracts

Negotiating contracts (figure 2.8) would seem to be quite straightforward. In the past it was. You had a buyer and a seller, you discussed the terms and conditions as well as the price, and everyone signed the agreement. Today, however, it is different. The seller is forced to lay out all of their cards early.

During the buyer's process you have demonstrated all the features of your product, you have estimated the value you bring to the prospect, and you have submitted your proposal complete with an investment analysis and perhaps a simple business case. You even provided references, case studies, and potentially a customer visit. The buyer, on the other hand, has not revealed all that much. They have shared with you their value hypothesis assumptions from the economic impact analysis study they did at the beginning of the sales process. They may have confirmed the estimated values you expect to deliver, and they have likely discussed pricing with you. Unless you have done your own economic impact study—ROI, TCO,

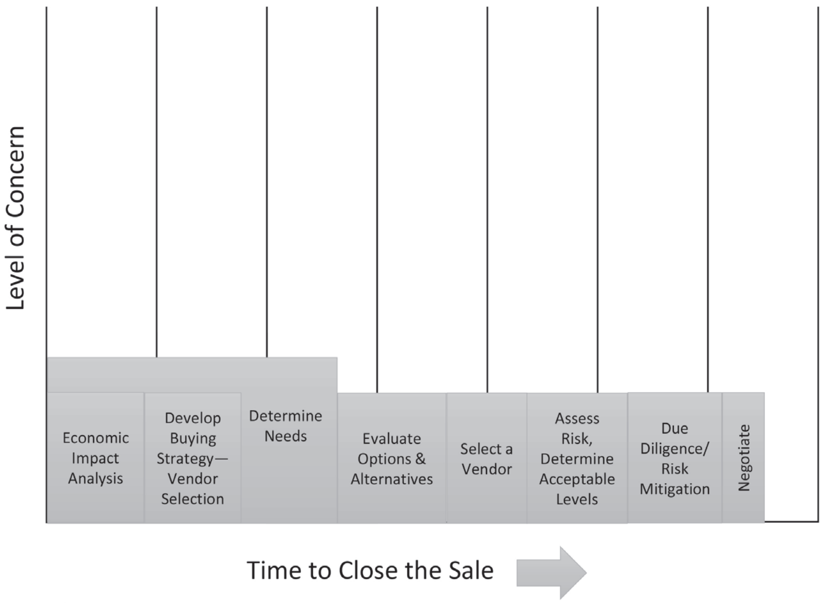

Figure 2.8 Buyers process

or some other financial impact analysis—you are simply proposing a price. What you don't want to do is come in second place solely based on price.

Too often we use the "hope is a strategy" strategy when dealing with buyers. We tend to convince ourselves that if our presentation was great, and the buyer wants to continue down our sales process, then we should win the deal. Unfortunately this just isn't true. Today's buyer is savvier than in the past. They are more sophisticated, educated, prepared, and informed—more so than in any other time in history. Sellers need to impose a negotiation strategy early in the seller's process. Prepare yourself with all the facts, including:

- Issues your prospect faces
- Current cost of status quo
- Cost of decision delay
- Value you bring to the table
- Potential impact on your prospect's business

Be sure you are ready when the time comes to negotiate the contract. My best advice is to have a negotiator in your company deal with the prospect. It is too emotional for sales professionals to negotiate contracts.

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