Negotiating with Content Vendors

An Art or a Science?

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Editor's Note: This article was originally published in *eContent Quarterly* (June 2014).

Libraries spend millions of dollars to purchase huge amounts of content and sophisticated technology to fulfill their mission. Some deal with hundreds of vendors every year, others with only a few. All of these vendors are crucial to positive user experiences of library content and services. But the scale of library scope and budget does not necessarily impact the efficiency of the vendor negotiation process. This article examines the need for a more documented negotiation process, with specific review points and measurement concepts illustrating the opportunities in making vendor negotiations yield more value for the library organization. We will examine some of the economic value components and motivations from the vendor side of the negotiation process and how those drivers impact customers' buying patterns but may also lead to opportunities. In addition, we will explore and explain at a high level some of the business models vendors employ and how they may impact sale price and, in turn, purchasing behavior. The article will take a "commercial approach" to the purchasing of library-oriented content and technology. It will examine business models, components of negotiations for content or technology, commercial drivers, and economic value arguments that are part of every negotiation but not always recognized. My opinions are based on more than two decades of experience in the information industry as a line employee, senior executive, manager, and founder of various information and technology businesses.

Before we get into details about the business side, it is important to work from a common vocabulary. While the library and the vendor segments are more collaborative than many industry markets, the vernacular used internally is not necessarily common. Throughout the article, there are terms that are standard commercial lingo, but not always standard in this customer base. In the interest of "speaking the same language," let's define some terms for the purpose of this article:

- **Aggregator**—An aggregator may be a publisher, but it produces large compilations of related material, generally curated with subject matter expertise–driven editorial policies. It may include creation of metadata used as finding and explanatory aids and licensed as well as unlicensed content.
- **Commission**—Variable compensation typically paid to revenue-producing employees or a discount offered to sales agencies by manufacturers to compensate them for their efforts in selling the manufacturer's products and services.
- **Compensation Plan**—The measurable documentation of the variable compensation or commission opportunities provided to sales staff and others.
- **Contribution**—The amount, after expenses, a product provides to cover other company expenses. Sometimes people use another term, *product line profit and loss*.
- **Cost Structure**—The aggregate costs a department, function, or business has expressed relative to its operating functions.
- **Distribution**—Product and service distribution from manufacturer to customer. Distribution may be direct or indirect. Direct distribution is defined

as a direct path from producer to customer with no third parties involved whatsoever. Indirect distribution is where a third party is involved in the distribution (selling or product provision) function on behalf of the manufacturer.

- **General and Administrative—**These include functions like facilities maintenance, office rent, insurance, executive salaries, some professional expenses such as legal fees, and so on.
- **Imperatives—**Actions that must be completed.
- **Incremental Cost—**The cost to provide an incremental unit of a product to a customer. The incremental cost will likely be much lower than the total cost of the first unit delivered.
- **Marketing Mix—**Also referred to as the *Four Ps* (price, product, place, promotion). *Product* is defined by its features, benefits, and capabilities. Included in product are the aspects of packaging and design. *Price* is the cost of the product and the price model. *Place* is the point of delivery, how it is sold and how it will be delivered. *Promotion*, which includes all promotion, teaching, education, and so on, is the process of informing the market about the product. Promotion actually includes several components: sales, public relations, advertising, and marketing, among others.
- **Market Segment/Sector—**A defined section of an industry. The library market can be defined by types, sizes, focus, or geographic section. For example, the academic library market is really a segment of the overall library market.
- **Net Growth—**Businesses measure growth. Net growth can be measured as growth in an existing account, or overall growth vs. a previous period, generally a quarter or year in duration.
- **New Sales—**New sales to a new customer or new sales of a product to an existing customer.
- **Perpetual Rights License—**A license to use content or software for perpetuity. This license does not provide ownership to a buyer, but rather, it provides the right for the buyer to use it as if they own the product. It typically does not transfer ownership rights such as copyrights. The license specifically details the rights that are granted to the customer.
- **Price Components—**The individual components that make up a price such as royalties, technology fees, contribution, and so on.
- **Product Management—**The function of product creation from beginning to end. Product management includes inception, design, development, distribution, financial modeling, and performance measures.

There are several environmental points of reference we must use:

- The library market segment, as a whole, is a slow-growth industry. It is almost a zero-sum game in financial terms. The cost of creating and distributing information technology has declined dramatically over the past two decades.
- The migration of print to digital content and the evolution of digital-first (or -only) products have resulted in more products available and targeted to libraries than ever before.

Let's look at some of details behind these statements. According to the Department of Education Academic Libraries Survey, expenditures for information resources continue to rise, growing 7 percent from the 2008 to 2010 academic years. In fact, most categories of electronic materials showed modest increases from the previous period. Imagine the joy that brings to publishers of business planning processes. And expenditures for bibliographic utilities, networks, and consortia also increased by 4 percent, again reason for excitement if you are in any of those businesses or provide products and technology through those mechanisms.

But something about these numbers does not mesh with what we hear in the marketplace. The anecdotal evidence suggests that budgets have been under severe pressure. Customers tell us: "If I want to add something to my collection, I have to figure out what has to be discontinued." If you are selling technology products targeted toward libraries, you would have found the market to be especially tight; budget dollars for expenditures for computer hardware were down just over 10 percent from the previous reporting period. But there is a big push in this category and new product announcements all the time. And this is a mature segment, almost fully saturated as total expenditures for academic libraries have flattened since 2008, showing literally no growth. As table 3.1 shows, there was less than ½ of 1 percent growth from 2008 to 2010, and under 3 percent growth from 2010 to 2012. If we were to assume that prices increased over the same period equal to the rate of inflation, the total expenditures would actually be a decline in buying power of almost 6 percent.

How are content and technology being paid for? Simple: other spending categories are down. Among the categories that have declined since 2008: number of branches, number of librarians, number of paid staff, expenditures for preservation, and so on. Table 3.2 shows a sampling of line item reductions.

Yet, even during severe economic periods, libraries continued to acquire content at similar rates as they did in previous years. Some content categories grew tremendously while the growth in others declined. Generally, year in and year out, libraries increase their collections by some amount. In recent years there have been large increases in acquisitions of e-books, for example.

Table 3.1. Total Academic Library Expenditures

	2008	2010	2012
Top 500 Academic Library Aggregate Total Expenditures	4,981,437,070	5,003,854,991	5,143,780,237
Percentage Change Year to Year		0.45%	2.80%
Percentage Change 2008–2012			3.26%
Five-Year Inflation Rate			9.3%

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Total Expenditures | Country: USA – [Data-file]. Retrieved from www.data-planet.com, Dataset-ID: 017-015-024. doi:10.6068/DP1443140BCFA0.

Data-Planet by Conquest Systems, Inc. (2014). Bureau of Labor Statistics. Inflation rate: 3 Year | Country: USA | Consumer Item: All items – [Data-file]. Retrieved from www.data-planet.com, Dataset-ID: 002-010-002. doi:10.6068/DP144755AAEB314.

Table 3.2. Sample of High-Level Trends from Most Recent Three Academic Library Statistics Surveys

	2008	2010	2012
Librarians & Professional Staff Count	21,514	21,137	20,346
Total FTE Staff	60,070	56,733	54,418
Expenditures for Preservation	$37,335,518	$28,084,930	$24,155,598

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Expenditures for Preservation | Country: USA – [Data-file], Retrieved from www.data-planet.com. Dataset-ID: 017-015-019. doi:10.6068/DP144758AB8E816.

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Staff Count - Total FTE Staff | Country: USA – [Data-file], Retrieved from www.data-planet.com. Dataset-ID: 017-015-007. doi:10.6068/DP144332C8E6B80.

Data-Planet by Conquest Systems, Inc. (2014). National Center for Education Statistics. Academic Library Statistics: United States: Expenditures for Preservation | Country: USA – [Data-file], Retrieved from www.data-planet.com. Dataset-ID: 017-015-019. doi:10.6068/DP144332C9CDD81.

If we were to work on the top line numbers alone, this industry appears to be stable and mature. Even during periods of great financial turmoil, the industry maintained a similar growth rate as in previous years, probably due to the advent of the print-to-digital and then digital-first content production impact. When you dig deeper into the numbers, you will find that some categories of new content acquisition have declined significantly, and they have been replaced by other categories—more varied offerings of digital content. The shift to digital content has been obvious for more than twenty years, but it is continuing in new media types, such as audiovisual content and raw data. But the business terms for new forms and formats of content and the expertise necessary to negotiate the requisite contracts must evolve as well. Content delivered in multiple formats, via multiple technology platforms, which enable broader access, are licensed under different business models that are evolving constantly. For example, when a library acquires perpetual access rights to a content collection, are there specific technology rights that must be negotiated? What is the business model that is used to determine the real value of the sale to the provider and the customer? Perhaps there is a technology company which acts as a third party for distribution and maintenance of the content. Or a third-party escrow holder for computer code and/or content. How are these items considered in the acquisitions process, or documented in the contract?

The market is much more complex than the top line numbers make it appear. It is a collegial and mission-driven marketplace where the customers must be able to adapt quickly to changing terms and new business requirements on an ever-expanding product base with few staff. Why not use the same tools and strategies the vendors use? The additional effectiveness in negotiations will result in greater competition, new product categories, and more innovative solutions for the customer base as well as growth opportunities for the vendors.

Price Components and Cost Structure

The end result of any negotiation with vendors is a contract, license, or agreement for products or services and delivery of the same. As the industry has migrated to more technologically involved and curated content offerings, product business models changed, and clarity in pricing has become more infrequent. In fact, I would suggest that some pricing philosophies are more opaque intentionally. Yes, there are "price lists," but there are also "price calculators," intricate spreadsheets with multitudes of options with which salespeople must confer in order to develop a price proposal for a more complex offering. And when customers purchase as a consortium or through a buying group, vendors have a need to customize price modeling based on a myriad of factors.

Table 3.3. Price Components and Cost Structure

Content Product	Technology Product
Editorial staff	IT staff
Content royalties	Technology licenses/royalties
Technology development/licenses	Project management
If printed: paper, printing, binding	Product management
Cost of sales, service, and support	Marketing
Cost of distribution (technology/shipping/distribution)	Cost of sales
General and administrative	General and administrative

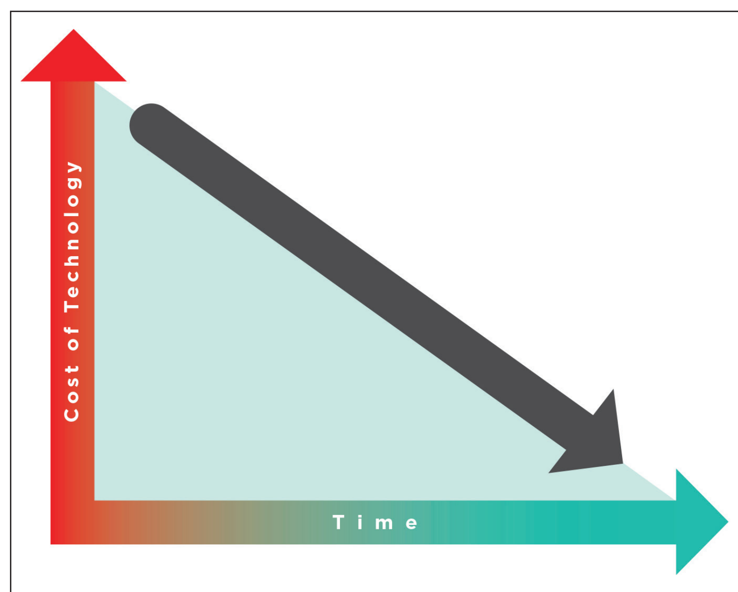

Figure 3.1
Basic cost of technology (to perform the same function) over time.

Price can be determined by the producer in a number of ways, but generally, it depends upon a few components: product cost, labor, cost of promotion/sales, target margin contribution. In the information industry, these items may look similar to the lists in table 3.3.

While the cost structures in the information industry may look like most any business, there are some unique attributes to this industry, whether print or electronic:

- Once content is produced, it can be sold many times, thus creating a long-term revenue stream and releasing the content production function to create more content.
- Cost of distribution declines over time for electronic products.
- Cost of technology becomes less expensive over time, reducing overall technology costs for the provider. Exceptions: if the provider is a leading-edge technology company or if the company has a significant R&D component to its cost structure. See figure 3.1.

Similarly, certain costs go down as the business grows. There are many different types of royalties and royalty calculations: fixed royalty, minimum guarantee, unlimited rights, usage based, and so on. Let's examine a simple royalty structure for a content product. We will call it a fixed price royalty: An agreement is made to pay an annual fee (or a one-time fee) for the rights to the content regardless of revenue associated with the product. In this case, as product sales amass, the royalty stays fixed, and no matter what the sales are for a particular product, the royalty will be fixed. In this case, we will use a number of $10,000, per annum. And we will assume the product sales grow quickly, from zero to $250,000 over five years (see figure 3.2).

If the royalty is not fixed, but variable based on a sales percentage, the chart would look different (see figure 3.3).

In either case, the vendor has a lot of margin to use in paying the other costs of the product, but also, very different profit opportunities. Similarly, a recurring revenue product builds in value for the provider, and product costs are lower for renewal in many categories. Costs that are reduced on renewals include cost of sales, incremental cost of development, distribution commissions, and incremental cost of distribution technology.

Businesses do much research and make projections based on market analysis, product costs, and the like. Included in those projections are target profit metrics they look to achieve, along with revenue objectives for each component in their product mix. Various price analyses are considered to arrive at a price the company believes the market will pay for its products.

Business Models

There are lots of economic models vendors can present. Below are some that are popular:

- recurring revenue vs. one-time purchase
- bundle pricing
- time and materials
- evergreen (items reordered frequently, but not categorized as subscription)

For the purpose of this discussion, we will concentrate on recurring revenue and one-time purchase models.

Recurring Revenue—Annual Subscription

There is no secret that recurring revenue can be a powerful force.

Assumption: product selling price is $1,000 per year, with a 90 percent renewal rate and a 5 percent price increase.

The customer looks at this as a $1,000 serial commitment, and may budget a price increase from year to year. It might look like table 3.4.

But the company looks at it a little differently. The vendor looks at this opportunity in terms of the product's total customer base. Table 3.5 shows several of the other factors a company takes into consideration relative to price. Thus, while a single customer may look at the product as a $1,000 annual obligation in the beginning, the vendor looks at this example as $50,000 initial product line revenue with the potential of generating more than $300,000 in the seventh year.

A company selling a product for a price, say $1,000, which renews every year, is very different from a single purchase of $1,000. But, since the costs are lower for renewal sales than new sales, the out years are much more profitable than the first year for the company. And when you add a modest price increase every year (in some cases not so modest), then the $1,000 sale can become a sale valued at more than $12,500 if renewed for nine years. This works the same for content products or technology products. However, technology products have differing recurring revenue calculations. Namely, there may be a premium charge on the first year with a ~20 percent annual maintenance fee on the out years.

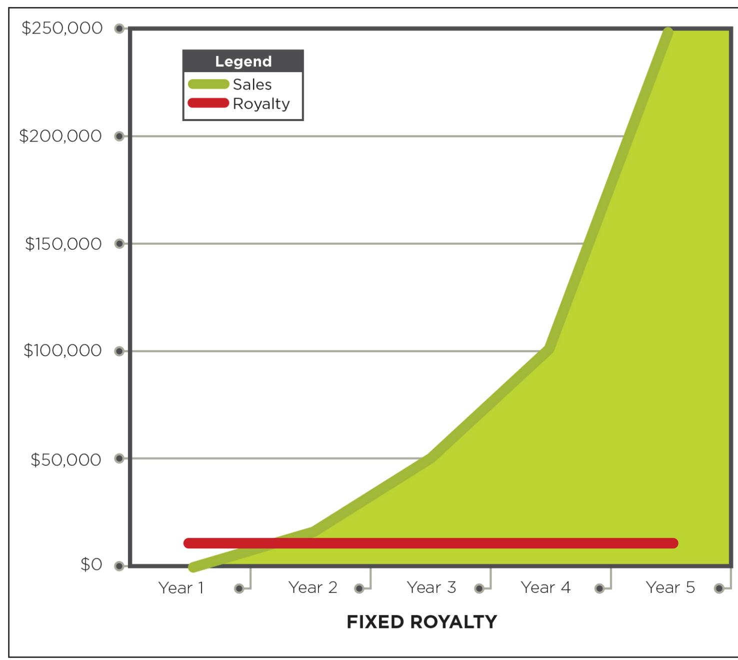

Figure 3.2
Fixed-price royalty.

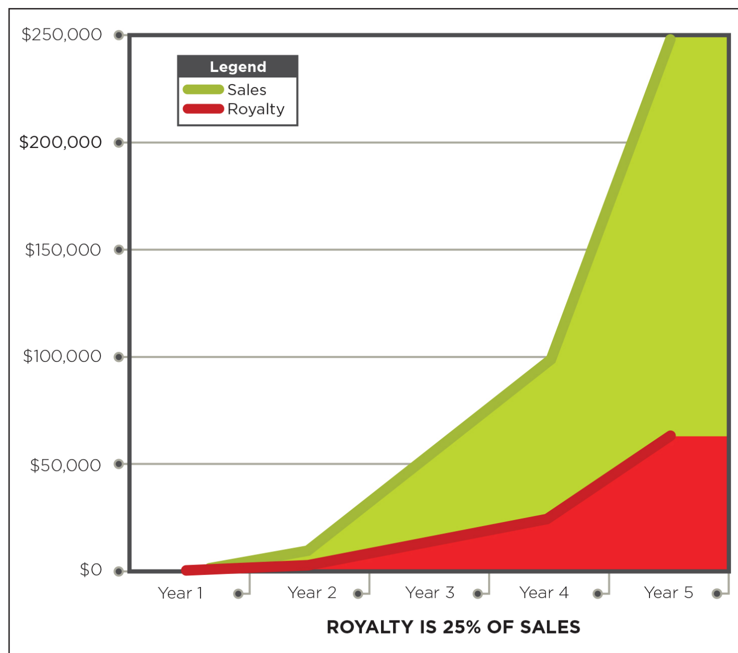

Figure 3.3
Royalty at 25 percent.

First Year Purchase with Annual Maintenance

The one-time purchase/maintenance model works exactly the same as above. However, the purchase/maintenance model is a little different. It may be less costly to the customer over time than the annual subscription model, but the company must depend on a longer product life cycle and greater annual sales volume or a much higher initial sales price to make up the difference. The solution to this is to add new modules that fall outside the purview of maintenance.

When the vendor adds a new module, it becomes part of the product, but for an additional cost . . . and

Table 3.4. Annual Subscription—Example of Year-to-Year Budgeting

Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
1,000	1,050	1,103	1,158	1,216	1,276	1,340	1,407	1,477	1,551

Table 3.5. Simple Subscription Product Pro-Forma

Annual Subscription	Yr1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Selling Price	1,000	1,050	1,103	1,158	1,216	1,276	1,340	1,407	1,477	1,551
Number of New Accounts	50	150	150	150	150	150	150	150	150	150
Total New Sales	50,000	105,000	110,250	115,763	121,551	127,628	134,010	140,710	147,746	155,133
Total Renew Sales		47,250	148,838	156,279	164,093	172,298	180,913	189,959	199,456	209,429
Total Sales	50,000	152,250	259,088	272,042	285,644	299,926	314,922	330,669	347,202	364,562
Cumulative Sales		202,250	411,338	531,129	557,686	585,570	614,849	645,591	677,871	711,764

Table 3.6. One-Time Purchase

Purchase Maintenance	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	Yr 8	Yr 9	Yr 10
Selling Price	1,000	1,050	1,103	1,158	1,216	1,276	1,340	1,407	1,477	1,551
Number of New Accounts	50	150	150	150	150	150	150	150	150	150
Total New Sales	50,000	105,000	110,250	115,763	121,551	127,628	134,010	140,710	147,746	155,133
Total Renew Sales		10,000	31,500	33,075	34,729	36,465	38,288	40,203	42,213	44,324
Total Sales	50,000	115,000	141,750	148,838	156,279	164,093	172,298	180,913	189,959	199,456
Cumulative Sales		165,000	256,750	290,588	305,117	320,373	336,391	353,211	370,871	389,415

then may or may not add onto the annual maintenance cost of the product as a whole.

One-Time Purchase

When negotiating for content or technology products with vendors, it is important to understand their business models in order to negotiate effectively. Otherwise, you are negotiating against an unknown target, and price quotes are meaningless, as are the discounts offered in an indefensible price quotation.

A one-time purchase agreement where no additional modules are projected can be a great deal. Generally, the company will multiply the annual license price by five to arrive at the perpetual rights price. In addition, there may be an annual "access" fee that is required to enable access to the content. This model works well until the time comes where the aggregate "access fees" add up to the equivalent of the annual lease or until a new module of the product becomes available and it is another 5x premium on the base price (see table 3.6).

What is frequently overlooked in this negotiation are the technical details of the content and the customer's rights with regard to accessing the content under the terms of the license. Perhaps the customer wants to have a third-party technology partner load the content on a hosted platform and manage access on behalf of the customer. And to load that content on any platform of their choice. After all, the customer has paid for perpetual access rights to the content. In reality, some vendors place restrictions on this opportunity to preserve their technical interaction with the customer. Or maybe the customer did not ask for the source code, or content to be placed in a third-party repository or held in escrow, in the event there is a liquidation or the vendor's systems are destroyed for some reason.

One-time purchase negotiations may be easier than annual licenses, but the final agreement does not always contemplate long-term access, escrows, multiple platform access, editorial or content fixes, or other items that may be important to different customers.

The Negotiation

Now that we know more about the company's cost structure, we can start negotiating. When a customer is buying anything, it is making a purchase decision based on a number of variables: budget availability, need, constituent pressure, relationships with vendors, and so on.

The library is a mission-centric organization, whereas the business is a financial-centric organization. Regardless of the company mission statements and tag lines, tax status, or otherwise, it is in business

Table 3.7. Customer Negotiation Objectives

Renewal rate	Target renewal rate increase cap at 3%, accept 4%
Rights to technology	Adhere to organization policy of technology deposit in escrow managed by third party
Ensure rights to third-party technology	Legal clause stating rights, indemnification clause
Provide periodic check on deliverables	Document all development promises or provide financial or development mechanism for make-up in contract
Maximize return on budget spend	Quantify metrics associated with projected dollars to acquire product

for financial reasons. It has financial goals and objectives as well as other "soft" objectives which cannot be met without first achieving the financial requirements of the business.

The ground rules, thus, are as follows:

- Information professionals are required to negotiate with an array of vendors for content, technology, equipment, terms and conditions, licensing, training, and price.
- If it is not documented, it cannot be measured.
- Successful negotiations will result in more budget dollars available for new products and services.

The sheer number of products and services offered to the library market is staggering. In addition to external organizations, libraries must also deal with internal organizations: government entities, shared service vendors, facilities departments, administration, political positions, development partners, and various other constituencies.

Vendors spend huge amounts on training and educating their sales staffs on negotiation skills. In recent research I have done, I learned that libraries rarely spend much, if anything, on negotiation skills for their staff. Yet, they are tasked with managing millions of dollars for product acquisition, technology implementation, outreach, and community engagement and instruction.

According to an article in the *Journal of Personal Selling and Sales Management* from 1996, companies spend tens of thousands of dollars training and educating each member of their sales staff (Dubinsky, Alan J. "Some Assumptions about the Effectiveness of Sales Training." *The Journal of Personal Selling and Sales Management* [1996]: 67–76).

Companies also use sophisticated software to track all interactions with customers and prospects. This software tracks contact names, product interests, notes, e-mails; almost every communication between customers and the company can be entered into the system. In fact, vendors spend time and money on sales training, systems, and modeling before they ever make a presentation to a customer.

All of this expertise and expense in training commercial staff can be countered to some extent by implementing a few concepts into regular product acquisitions workflow. In the end, a more effective negotiation will ultimately help all parties involved. Customers will be able to acquire more products and services in pursuit of their mission and vendors will be able to find customers for new products and services. Also, due to the increased complexity and size of library collections over the past decade, more process may make it more manageable for the smaller staff size to handle the increase in collection size.

Objectives, Timetables, Team, and Strategy

Objectives, timetables, team, and strategy are the four items that should be part of any planned negotiation:

Team

The team is important. And the team has multiple members. It doesn't matter if you are a large or small organization. There can be multiple teams, but the roles are going to be similar. And the team players can use each other at different points in the negotiation process. Team members include functional responsibilities:

- **Organizer—**the person who organizes the process for that particular negotiation.
- **Financial Authority—**the person responsible for financial calculations and possibly, financial approval recommendation.
- **Technology Authority—**the person responsible for vetting the technology and requirements thereof. This could be the lead of a technology team.
- **Expertise—**the person, subject matter, systems, or process expertise depending on the product or service under contemplation.
- **Legal—**the contracts person. May or may not be an attorney, but must have working knowledge and the ability to go to counsel when necessary.
- **External—**very important. There will be numerous external parties, faculty, community members, and so on who can be helpful to your negotiation. They can be used to do research or gain perspective on company performance.

Table 3.8. Vendor Negotiation Objectives

Maximize revenue	Initial price quote
New product penetration	Yes/No. Is this a new product to your organization
Maintain operating margins	Ask about operating margins, or research the company. May be harder to do, but with the information you have about cost structure, you can make assumptions
Generate long-term revenue opportunities	Renewal/maintenance/platform fees, long-term projection
Establish/maintain positive brand	Survey your team and users

Everybody on the team has a role, but not everybody must attend every vendor meeting. The key to the team is to delegate and utilize expertise at the appropriate time. The key to utilizing the team is to keep the members abreast as to the status of the negotiation or project, so that everyone is working in sync with counterparts on the vendor side. Yes, the vendors also have the same team members; it is just that they are typically represented by one or two vendor representatives. Rest assured, they have the same expertise in their organization guiding their customer-facing staff.

Vendors routinely review customer negotiations. Some vendors will have sales manager reviews weekly or monthly. Some may have “major opportunity” reviews, which go into more detail on larger sales opportunities. Therefore, customers can have the same type of review system in place. Status checks are taken on important negotiations and product acquisitions. These reviews need not last a long time, but they should be prioritized in order of importance.

Regardless of budget cycles, negotiations can take place throughout the year. The year should be defined by the customer’s calendar. Vendors love to make “end of year” offers. They may be great deals and may be good for the customer, but more often than not they are based on the vendor’s financial calendar, rather than that of the customer.

Objectives

Objectives must be documented, but they need not be overly complex. In fact, the simpler they are, the better. In addition, they must be measureable. For example, if you are negotiating an SaaS product acquisition, you may want to quantify the value components of the product in terms that every member of your team can relate to easily: For example, customer objectives could be:

- a maximum on a renewal increase over time
- ensure rights to the technology in the event of a company default or contract violation
- ensure the vendor has rights to the technology it is reselling to you
- provide periodic checks on deliverables and promises
- maximize return on budget spend

Each of these items can be quantified in simple ways so the entire team can view their individual analysis and detail negotiations within a common frame of reference (see table 3.7).

Meanwhile, customers must assume the vendor has a set of documented objectives as well. A simplistic overview of vendor objectives:

- maximize revenue per account
- establish new product penetration
- maintain operating margins in the range of xx percent
- generate long-term revenue opportunities
- establish/maintain positive brand image

Again, these can be quantified as shown in table 3.8.

Given that you now have both your objectives documented and an assumption about the vendors’ objectives, you can create a one-page document that provides a targeted list of items you will negotiate for, with a reasonable chance of success:

- annual license to software/3 percent cap on renewals for up to three years
- performance guarantee with all promised development documented in the contract; repay/makeup mechanism in place
- allocated budget is $xx,xxx for this category—any cost, and long-term projection must fall at or below $xx,xxx
- mutually agree on success metrics

There is a lot of detail behind the simple list, but much of that is dealt with separately. If these items are met and agreed to, both the customer and the vendor will have an equitable relationship, which will in turn engender more business between them in the future and support both the brand image of the vendor and the satisfaction of the libraries’ user base.

Timetable

No surprise here, everything has to be managed against the calendar. (See figure 3.4.) There is no specific time interval in this figure, but certain components of product negotiation happen at different times. It may not appear as obvious or straight-line as this

figure indicates, but the objective is to create a calendar that works for the library relative to negotiations. Note that negotiations can be run independent of product and budget reviews. There is no rule of thumb on this, although most managers like to keep them independent, but information collected during one part of the process informs other parts of the process.

Notice where "Price" appears in the process—not in the beginning. The first time you ask for price, you start negotiating on price. Salespeople are trained to recognize this as a "buying signal." Price is based on several factors; simply asking "what is the price?" is not the best way to get the value the product will bring to your organization, nor is it a good way to start a negotiation. A better way to phrase the question is: "How do you defend the price?"

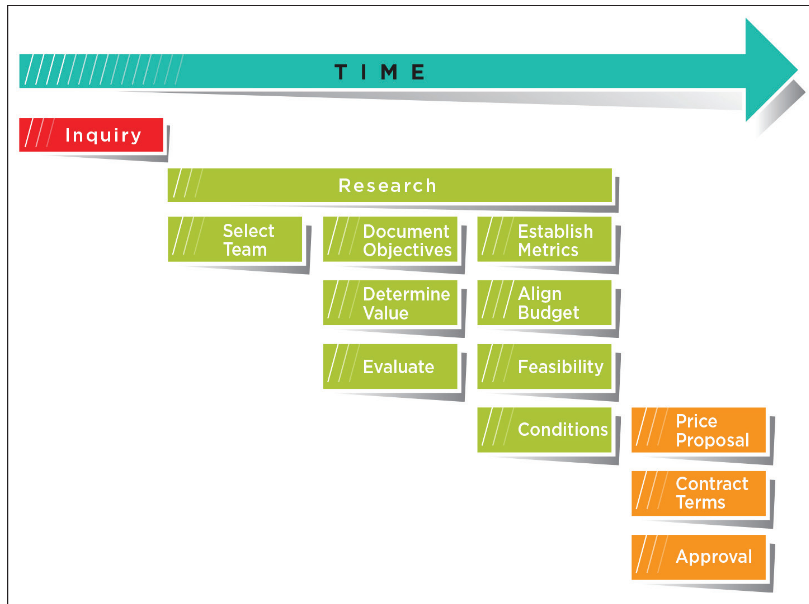

Figure 3.4
Negotiation timetable.

Here we didn't ask what the price is, nor did we start a pricing discussion. We simply wanted to know more about the cost structure of the product or service we are acquiring. Even so, it is better to hold this until the rest of the value components are identified and documented on your negotiation sheet. You also limit your ability to learn more about the product as the vendor becomes more focused on your pricing request. But you may need ballpark figures to put onto your "wish list" or "for evaluation" file.

Well-managed businesses have pricing objectives—that is, they establish a list of objectives the price component of their product is intended to support. For example, a short list of pricing objectives could be:

- establish new customers
- maintain renewal rates
- price to cover cost plus xx percent contribution margin
- simplify price calculations

Items 1 and 2 would generate lower price points and minimize renewal rate increases. Item 3 may be a corporate policy and a management directive, and item 4 could be a requirement to help bring efficiency into the organization, which could in turn, lower the overall cost structure and provide both more profit and more value for customers.

Price defensibility is the ability to explain the makeup of the price, as opposed to a price quote. For example, when you ask for a price, if the answer is something along the lines of "Our price is an FTE-based price depending on the classification of your organization, or population served," you have been given a price model, not a price defense. If the answer includes information about the product's cost components, the added capabilities or content, the investment the company put into creating the product, or other items that actually describe the basis of the price, then the price quote is defensible.

In some instances, price defense is based on current exposure, sales projections among a group, or some unique trait or capability of the product or company or even a development partnership between the customer and the company.

EXTERNAL/INTERNAL PRICE DRIVERS

There are many drivers of price and product—some obvious and others not so obvious—and all of which influence buying opportunities and buying behaviors.

- pressure from authors and providers for increased royalties on every renewal
- pressure from customers on price
- pressure from customers on product quality, currency, and technology deployment
- pressure from distribution channel competition
- pressure from ownership (for-profit and not-for-profit) for increased earnings and profitability
- financial instrument covenants
- sales compensation
- customer pressure from budget tightening
- pressure from customer constituencies requiring specific product acquisitions
- pressure from customer staff required supporting the products

There is a good chance the salesperson calling on the library is thinking of his or her compensation plan, or some other management metric that was put on their shoulders. Well-run companies use their salespeople to gather feedback from customers as well as to promote products and services.

One must recognize that price, on its own, is just a statement of value. When probing questions are asked about price during the negotiation, you will uncover drivers that can be disputed or accepted so long as they are defensible. Almost every driver to price can be quantified in one way or another.

Strategy

In order to negotiate effectively, it is best to start with a defined goal or set of goals to use while negotiating with multiple vendors. In every case, one must define the situation. This is an easy thing to do, but different objectives may rise or fall in importance depending on the situation. For example, a long-term technology acquisition is very different from negotiating for a content aggregation. A simple overview document or negotiation sheet can be generated for all team members to share. This sheet should include the definition of the situation; simple is best. Possible types include new product, renewal, questionable renewal, development partnership, major technology acquisition, minor technology acquisition, and consulting services.

For each of the items on the list, high-level imperatives can be documented. This can be simply documenting directives to be shared among the team: reduce spending in this category by 2 percent; limit renewal increase for 3 years to 5 percent per annum; negotiate source code escrow deposit; or negotiate multiple platform access and secure data delivery for perpetual rights access. Even if you are not successful in achieving a positive result on all of the items, you provide leverage in the process by raising all of the questions.

- **Recognize the leverage points you have—**It is just a matter of economics. Yes, larger customers have more leverage than smaller customers. However, smaller customers have leverage that is not always as recognizable. The library segment represents a large, mostly unnoticed industry. According to the Department of Education, the non-payroll-related academic library market in the U.S. segment is almost $4 billion—that is, total expenditures of about $7 billion, less total wages of $3 billion.

  So, while a large customer can have a direct and meaningful conversation with any vendor at any level of the organization, smaller customers still carry quite a bit of weight, especially when they are able to band together, or use their "word of mouth" power to communicate the positives and negatives of any vendor. There is tremendous leverage in the network of library management. One word of caution—be careful not to violate any confidentiality agreements you may have with your vendors.
- **Price and terms must be defensible—**If I am negotiating with a customer and the request to defend my price comes in, there are two ways we have to defend it. First, we point to the history of the product and the numerous customers that have purchased it at current or higher levels. Second, our sales people are authorized to discuss the cost components of the product: XX percent targeted royalty, XX percent toward technology and R & D, XX percent in content management systems architecture, and so on. All the way to the target profit percentage, of which most goes back into the company as investment in new products, enhancements, staff, and so on.
- **Value—**In the end, the total of the negotiation comes down to the customer's perceptions of the vendor's value proposition. This assessment has to include a holistic view of the product's usefulness and the terms and conditions under which it is acquired.
- **Multiple models—**In particularly difficult or sensitive negotiations, customers can request multiple acquisition models. There may be more than one model available for a given product. Potentially, there are configuration options, finance options, license options, and so on. When requesting multiple models, be prepared to evaluate them against your strategic imperatives and objectives.
- **Quantify as much as possible—**The more you can quantify, the more you have to use in negotiations. For example, let's suppose you are acquiring a new technology for your library. It is popular and useful, but you fear the start-up cost. Quantifying the start-up cost in terms of person-hours, or dollars associated with staff time, hardware requirements, and recurring staff time provides you with an overview cost in addition to the isolated cost of the technology itself. Presenting the total cost to a vendor at the appropriate time may result in the vendor making an adjustment in terms of price, term, or license terms that makes the acquisition more effective for your organization.
- **Leverage the power of buying groups—**There are lots of opportunities to participate with various consortia and buying groups. Most have agreements with vendors, and sometimes customers can demand that vendors work with these organizations.

Putting it Into Practice

As more products are produced for the library market, there will be even more pressure to justify spending. And there will be more pressure on vendors to provide more flexible models. Product acquisition, regardless of industry, is critical to the cost metrics of any organization. Libraries, being mission-driven, are not looked at as a revenue generator, yet they are essential to the mission of any organization they are part of. The proliferation of new products, both content and technology, in the library segment has made the job of negotiations more complex than ever before. A documented negotiation process, as opposed to a product review process, is an essential step in making any organization more effective in acquiring products and services. This doesn't mean that decisions are made centrally, it simply means there is a checklist that must be covered: Are the objectives documented? Have all of the team members provided their feedback? Has the vendor documented deliverables if any promises are made? Are we meeting or exceeding our objectives? Have we created an equitable relationship with the vendor? It is easier to work through difficult negotiations with some understanding of the vendor's cost structures, value proposition, vernacular, and motivations.

About the Author

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