



Peter E. Cohan

The Second Derivative

1532 Scenic Drive

Trinidad, CA 95570

T: +1 650 631 3694

E: PCohan@SecondDerivative.com

W: <https://GreatDemo.com>



The Advantages of Being the Incumbent Vendor

—

And Its Impact on Managing Competition, Renewals and Expansion Sales

“Get their data, and their hearts and minds will follow”

Michael Cusumano, The Business of Software

Let's explore some of the advantages enjoyed by being the incumbent vendor and how you can leverage this position for renewals and expansion sales, while holding your competition at bay. We'll look at:

- Sunk costs and energy
- Change avoidance
- Risk avoidance
- Burn victims
- Social capital
- Users' Groups
- Leverage

Vendor Selection

First, it is likely that a large sum of energy was expended by your customer in bringing your software aboard and implementing it successfully into production use. Very simply, this is work they really don't want to do again, without a very compelling reason to change.

This is like you and your customer climbing a mountain together. After great investment in preparation and an exhausting ascent, you and your customer are now enjoying the view from the summit. Starting again at the bottom with another vendor is not a pleasant thought!

The climb likely included the following energy investment:

- **Problem Recognition:** At the beginning of your customer's process, their first stage was realizing that they have a problem and putting definition around it. Additionally, the owner of the problem may have struggled to convince others that it was important to solve – and to allocate budget and other resources to make it a real project. That took effort and political capital...
- **Solution Evaluation:** The bigger the problem (and the more expensive the solution), the more thorough the evaluation process. Your customer may have had numerous Discovery calls,

demos and other discussions with several vendors, including you. There may have been an RFP process, competitive bakeoffs or POCs executed with multiple people involved from the customer's side. This may have consumed several people's time over a period of months.

Here's a partial list of the activities your customer likely completed:

- Formation of a buying committee.
 - Problem and timeline definition.
 - Researching solutions.
 - Internal "build vs. buy" discussions.
 - Managing "[Group Dysfunction](#)".
 - Identification of possible vendors.
 - Initial discussions with SDRs or BDRs.
 - Initial demos.
 - Discovery conversations.
 - More demos.
 - Vendor elimination to a "short list".
 - Data privacy and security reviews (often extensive).
 - IT architecture reviews.
 - Reference checks and other social proof.
 - Vendor bakeoffs or POCs.
 - Building and presenting the business case.
 - Vendor selection (and communication with the losing vendors).
 - License agreement terms negotiation.
 - Purchasing SOW and terms negotiation.
 - Price negotiation.
 - Raising the purchase order(s).
 - Signing the license agreement.
 - Implementation discussions.
- Each of these steps involved members of the buying committee, often *plus* other impacted departments – Data Privacy, Security, Governance, IT, Purchasing, Legal, senior management, as well as users and users' managers.

That was a *big* investment!

A *lot* of climbing with a large team, in our analogy – perhaps it's more like an expedition seeking to summit a major peak like Everest or Mount Khuiten. And while the expedition *did* reach the summit, consider how many people contributed substantial energy in planning and logistics, load-carrying, camp setup and maintenance, preparing gear – not to mention repairs and rebuilding after a serious storm. This is just like the internal processes and challenges involved in selecting a vendor.

Solution Implementation

That was selection – now for implementation:

- Solution Onboarding: It is likely that you and your customer invested similarly or even more in the process of implementation – it's another, different expedition:
 - Assembling the implementation team.

- Implementation kickoff, strategy and planning meetings – assignment of resources.
- Pre-installation or implementation assessment.
- Installation, as necessary.
- Administrator training.
- Meetings to determine and agree upon fields, configuration and profile parameters, dashboard layouts, processes, rules, approvals pathways, alert thresholds, etc.
- Data migration; data loading; QC.
- Implementation of configuration, profiles, process, rules, alerts, dashboards, etc.
- Interoperability testing with the customer’s existing software and communication with those vendors.
- Pre-rollout QC.
- User training.
- Go Live and initial rollout.
- Tuning as appropriate.
- Broader rollout.
- Internal progress reviews and updates (including tracking on Value Realization Events).
- Old system shutdown and removal (and termination of license agreements with the old vendor, as necessary, by Legal, Purchasing, and Accounting).
- Periodic meetings with your Customer Success/Account Management team.

Again, there was a terrific investment in time, people and money to bring your solution aboard – similar to staging an expedition into the Himalayas. It was an enormous effort, including numerous side-trips, solving problems with supplies and provisions, unanticipated challenges, injuries and related. Most customers *really* don’t want to go through that effort again, particularly in the short term!

Once your solution is in production use, the appetite for your customer to repeat these experiences is typically very low. Reinforce and leverage this! During renewal and expansion discussions, remind your customer that all of these steps are *already done* (and don’t have to be duplicated, as would be the case for a new vendor).

Your customer doesn’t have to climb that mountain again; they don’t have to face freezing winds and oxygen deprivation. They can enjoy the rewards of that journey without reexperiencing the pain!

And a competitor that might try to displace you hasn’t even defined a plan for their proposed expedition, as far as your customer is concerned. You are in a competitively advantageous position.

Caveats

However, we need to make a very important set of assumptions for the above to remain true:

1. Your customer achieved their Value Realization Events – and is tracking well on the path to full ROI or has already achieved it.
2. You have regular communication meetings with your customer via your account management and/or customer success teams – so you are aware of any issues your customer is facing with your product or implementation (and have concrete plans to address).
3. You regularly discuss product roadmaps with your customer – to head off competitors’ “new and improved” offerings and capabilities. Your objective is remain “ahead” of competition, with

respect to functionality, or to minimize any perceived negative functionality gap between your offering and competitors’.

Roadmap discussions are also opportunities to bind your customer more closely to you, by giving them more “weight” in the feature/function definition, prioritization, timing, and implementation processes.

In our expedition analogy, this last item is similar to discussing future excursions and encouraging your customer to participate in decisions about desired destinations, routing, daily travel distances, food and beverage choices and sleeping arrangements.

Change? No Thank You...

Fundamentally, most people don’t want to change.

Let me say that again: Generally speaking, people don’t want to change. Even if they don’t like their current state, they will preferentially stay with their current tools rather than take on the tasks above.

They would rather stay with “the hell that they know” rather than seek a solution. Oh, they’ll whine about their current situation; they’ll talk for hours about how much they don’t like it. But if the problem isn’t big enough (or the solution isn’t sufficiently compelling), then most people will stay with what they have.

Want proof? In the world of software sales, one of the biggest “competitors” is No Decision – when the customer chooses to do nothing. On average, 43% of all forecasted opportunities end up as No Decision outcomes. [See this [Forrester study](#) and this [article](#) for more data.]

Why do No Decision results happen so frequently? Because making a business decision on major software selection is expensive as described above – and risky as described below...

Risk

There is risk associated with anything new. As consumers, we tend to repeat purchasing from vendors that deliver sufficiently on their goods, expected capabilities and associated promises. Why take the risk of trying another vendor?

It is only when we have a *bad* experience that we consider changing (and many people *still* won’t change – it’s the hell that they know!).

A similar situation exists in business with software purchases. If you have had a good experience with one vendor, you’ll preferentially return to that vendor for other offerings or more licenses (upsell and expansion), because the perceived risk is lower. This is true even if a competitor’s offering appears to be “better”.

Example? For a period of about 1000 years (plus or minus a few), there was a famous expression, “No one ever got fired for buying IBM...” It is much less risky to stay with the current, well-characterized vendor and their products than to move to a new, unknown provider.

Why would you engage a new, untested expedition company when you know and are comfortable with how your current vendor performs? Why take the risk?

Burn Victims – Fear and Loathing of Risk Unrewarded

There is great risk in change – often accompanied by fear and loathing. And for good reason!

Have you ever seen an implementation effort fail? Have you ever met a customer who was unable to gain the desired value from an offering? Have you ever encountered someone who had to roll back to a previous solution?

People in business who have suffered these fates are known as “burn victims”. They may be angry about being burned – and they will be hard to convince to pursue the same or similar route again.

This would be like paying for and participating in intense preparation for a major expedition only to face severe weather part way up the mountain and have to turn back without even glimpsing the summit! All that time and energy invested – for nothing.

Opportunity cost is also an issue. A customer that decides to change from their current state will consume the resources described previously – time, people, money, and political capital. What else could they have used those resources for, instead? Perhaps a more profitable expedition could have been launched in its place.

This is also painful for customers who go through the entire evaluation process only to decide to do nothing (the “No Decision” outcome). Very expensive! (“We spent months preparing for the expedition, but then called it off at the last minute...”)

Accordingly, customers who were previously burn victims (with other vendors) who now have enjoyed success in your hands will be predisposed to buy more from you than risk another vendor. You can leverage this experience in your renewal and expansion discussions, and in fending off competitors.

Relationships

Social capital is another area of advantage for the incumbent vendor. As the entrenched vendor, you have likely established and grown relationships with important customer players – champions, management, key users, system admins, etc. as well as built relationships with Purchasing, Legal, Accounting, IT, Data Privacy, Security, and so forth.

You’ve developed working relationships – vendor and customer teams have established comfortable processes for communication and interaction that are now familiar to both parties. It is likely that your customer success team is intimate with key users; your implementation team and your customer’s team have shared and overcome the challenges they faced, together.

This is valuable social capital that you’ve established; your competition would have to develop these assets separately. And while the competition’s salespeople might be known by your customer, they have not earned the trust and credibility that you have generated through a successful implementation process and resulting value realization.

You are the proven vendor – reinforce this when competitors loom and when you talk about renewals, expansion and other sales opportunities.

If you successfully completed a difficult, but satisfying mountain climb with one expedition company, wouldn't you prefer to work with that same organization when contemplating a new conquest? They know your food tastes, your preferences, your stamina level, your allergies – they've laughed at your jokes and listened in appreciation to your travel stories. It's a comfortable relationship!

Users' Groups Are Competitive Weapons

Users' Groups are like biological organisms – they want to grow. Each new customer that joins an active user community typically makes that community stronger and increases its collective knowledge. This is another set of important relationships and social capital!

Customers talk with other customers, sharing success stories and solutions, as well as roadmap preferences and new functionality requests. There is great comfort and safety in a community, along with a feeling of greater leverage with the vendor when the group as a whole agrees on a position.

In addition to user-user interactions, Users' Group meetings also represent opportunities for the vendor to establish and develop deeper relationships with customers. Customers expect to meet with sales and presales people during their buying processes – and with customer success folks during implementation and rollout. However, Users Group meetings provide opportunities for additional vendor teams and players to connect with customers, potentially including developers, product and marketing management, customer support and other teams.

These relationships increase your social capital “bank account”, equipping you and your customer with more reasons to resist change.

I encourage early-stage companies to establish Users' Groups as early as possible – even when there are only a dozen customers. And if you are a more mature vendor without a Users' Group, you should start one right away – and encourage every new customer to join.

In our expedition analogy, this would be like the vendor hosting regular post-expedition gatherings, with the clients sharing their experiences and stories with one another. Participants will not only reinforce their positive experiences (as well as push the vendor for improvements), but they'll learn about new, intriguing destinations – often selling one another on these opportunities more effectively than the vendor can. That's *very* powerful reference selling...!

Leverage

The incumbent vendor enjoys huge advantages that should be leveraged when exploring renewals, expansion, upselling, and in defense against competitors. Remind your customer of the investment they made in evaluating offerings prior to the sale. Recall the substantial investment now realized in implementation. Review the relationships – the social capital – developed, now in place and operating smoothly. Recall the pain of change and the associated risks.

Build on this foundation to secure renewals, drive expansion sales, and when introducing new products and solutions. It is much easier for the incumbent vendor with a successful track record *within* a specific customer to introduce and pursue these possibilities vs. starting from zero.

Similarly, the competitor without comparable history is at a severe disadvantage. From the customer's viewpoint, it is one thing to have personal positive experiences with a vendor vs. one with no first-hand proof of success.

When your competition talks about how much better their offering is than yours and introduces new, tempting capabilities, reinforce the investment your customer has already made, the value they are receiving, and the objectives they have achieved. Reinforce your customer's emotional desire to avoid change, and the comfort and safety of the status quo – and the avoidance of unnecessary risk.

With a successful implementation in production use and the customer enjoying the value gained, the incumbent vendor is perfectly positioned to secure renewals, drive expansion and acquire additional business.

[Hmmm – one additional thought: How many of you would now like to see a follow-on article on “Battling and Overcoming the Incumbent Vendor”?]

Copyright © 2020 The Second Derivative – All Rights Reserved.

For more articles on demonstration effectiveness skills and methods, visit our website at <https://greatdemo.com/>. For demo tips, best practices, tools and techniques, join the Great Demo! LinkedIn Group or explore our blog at <https://greatdemo.com/blog/>.