

Doesn't It Always Come Down to Price?

by Robert B. Miller, Founder, Miller Heiman



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It Always Comes Down to Price

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The conventional wisdom: "It always comes down to price."

The reality: "Customers will pay for value."

When salespeople are asked why they just lost a big deal, almost 60 percent will blame a competitor's lower prices. In their minds, they seem to truly believe that the cheapest product or service will win any deal. But that's just total hogwash! In any complex business-to-business sale, pricing is virtually never the primary reason for a customer's decision. I'm expecting that many people will strongly disagree with me on that, but I firmly stand my ground. Let me explain.

If every deal did indeed always come down to the question of who had the lowest price, then ask yourself this: Why doesn't the company with the lowest price get the sale every time? Every one of us has had the absolutely deflating experience of providing what we thought was the best solution for a customer at a reasonable (if not the lowest) price, only to see the

sale go to a competitor – at a *higher* price! Why does that happen?

Price is but one factor in the decision to buy. What really drives purchases is not price alone but customers' perception of value to be received and the belief (or not) that they will indeed obtain that value if they buy from you. If they don't believe that, then they will buy another solution from someone else even if that offering is priced higher. The risk is simply not worth it. Or you may be an unproven or unknown entity. Therefore, customers will perceive a bigger risk that you won't deliver the value that's promised.

Remember the Yugo? In the mid 1980s, it went on sale as the cheapest new car sold in the United States. At \$3,990, it was thousands of dollars less than the next

car up. Even though dealers only had photos, no actual cars, hordes of people lined up to make deposits on Yugos yet unseen. When 1,500 cars finally arrived, the 90 dealers had orders for five times that many. But within weeks of delivery, owners were experiencing premature engine failure, bad brakes, poor shifting and transmissions, faulty electric systems, and terrible dealer service. To add insult to injury, the insurance industry said the Yugo was not crash-worthy and *Consumer Reports* declared that the vehicle “barely qualified as a car.” Many owners reportedly spent as much on maintenance and repair in the first year as they had on the original price of the auto, and by 1989 Yugo America was bankrupt. Consumers had expected that they would be getting a comfortable, dependable, cheap car, equipped like other vehicles sold in the United States – similar to the Volkswagen bug, a generation earlier – and not the mechanical disaster they now own.

Now contrast the Yugo debacle with the success of many top brands, not just high-end autos like BMW and Porsche but also Apple, Kohler, Bose, Krups, Louis Vuitton, Sony and countless others. Those companies can command premium prices because customers are secure knowing that they will get the value that’s promised. With Vuitton handbags, for instance, the leather comes from cows raised in colder climates (so that the hides have fewer blemishes from insect bites) and the zippers are randomly tested by opening and closing them several thousand times. It could be argued that many luxury brands like Louis Vuitton are

successful *not* in spite of their high prices but *because* of them. (In fact, many consumers firmly believe that a higher price is an indication of greater value.) A key insight here is that most people are followers, that is, they make decisions based on what others have done, and for them brands with proven track records lessen the uncertainty and risk of any purchase.

In industry after industry, our research has consistently shown that companies with products that are fairly priced or value priced (and not necessarily the lowest price) tend to outperform competitors. This is true across the board, not only for B2B sales but also for B2C purchases. That is an important difference between Sam’s Club and Costco, for example. The premise of Sam’s Club is warehouse buying – providing consumer goods in large quantities at rock-bottom prices. Costco has a decidedly different strategy – selling *quality* items at discount prices. At Costco, shoppers can find Waterford crystal, Fendi sunglasses, and other goods of impeccable quality – the late Julia Child used to buy her meats there – but at mark-down prices. Guess which retailer has historically outperformed the other?

Indeed, companies should never underestimate just how much people are willing to pay for things they value. Back in 2001, Whirlpool introduced the Duet, a front-loading washer-dryer combo for \$2,300. At first glance, that hefty price tag was ludicrous – other models were being sold for about \$600. But many consumers were willing to open their pocketbooks and

pay the huge premium. Why? Because the Whirlpool product could wash and dry larger loads, thus minimizing the overall time it took to do laundry. For many busy people, an increase in free time to spend outdoors with their children, play golf, or participate in some other desired activity was well worth paying almost four times as much for a household appliance.

Using Price as a Scapegoat

The simple lesson that customers will pay for value seems to elude many sales professionals who, deep down inside, still believe that deals inevitably come down to the question of which vendor has the lowest price. But that type of mindset is insidious because it allows salespeople to blame price as an excuse for their sloppy selling. In a Miller Heiman survey, more than half of the respondents said that when they lose deals the primary reason is price (and not service, not the product, not the brand nor the salesperson's relationship with the company). In my 40 years of sales experience I can't think of a single deal that came down mainly to the issue of price. Instead, customers will pay for value even in price-sensitive markets.

Consider, for instance, a client of ours – a large, international, managed-services company that was facing extreme pricing pressures from its customers, including universities and other large educational institutions. Salespeople were complaining that they needed to lower prices or they'd lose big deals. But the executives at the company felt that price wasn't the primary issue. So my colleagues and I conducted

a research study of various colleges and found that the top five value drivers those organizations most desired in a food-services vendor were the following: responsiveness, shared vision, student advocacy, culinary leadership, and approach and culture. Notice that nowhere on that list are the words "price" or "cost." After analyzing the study data further, I learned why "responsiveness" was so important. The university officials responsible for choosing a vendor knew that because of the inherent nature of the food services business, things are bound to periodically go wrong – dishwashing equipment will malfunction, workers will fail to show up, food supplies will be delayed, and so on. So what they really wanted was a vendor that could fix those problems quickly before students complained to their parents. What they specifically didn't want was a situation in which parents (who were paying expensive room-and-board bills) would be calling the Dean of Students. Thus, any food services company that had a solid history of excellent customer response would have a clear advantage over competitors with lower prices but poor track records.

Indeed, our research has consistently shown that people are willing to pay more when they are confident that their value expectations will be met. And this also applies to *existing* customers. Years ago, a client of Miller Heiman discovered that it was losing money on nearly 900 accounts. So we helped the company – a large, interstate trucking business – to assemble a corporate "SWAT" team of salespeople to address the situation. The plan was that, over a period of a month,

the team members would personally contact each of those accounts and give them three options: 1) a price increase, 2) a change in the mix of products so that the deal would be profitable, or 3) a termination of business. Not surprisingly, everyone on the “SWAT” team ominously predicted that all those customers would defect to the competition. But, as it turned out, more than 90 percent chose to have their prices raised or to change their product mix. Interestingly, the most common response from customers was, “We were wondering when you guys were going to get around to doing something about your rates.” In other words, they knew that they had been getting a good deal. Moreover, of the customers that did decide to take their business to the competition, almost all were marginal accounts that our client was not especially interested in keeping anyway.

Extracting Real Reasons

In a Miller Heiman annual study, barely a quarter of all sales professionals surveyed said that they get accurate feedback from customers on all proposals (win or lose). That is an appalling statistic. Think about it: without such customer feedback, how are salespeople going to improve? Your staff might be losing sales for reasons other than they think. Moreover, they might be winning sales in *spite* of their methods and approach. In other words, the only way people are going to know the *real* reason why they lost (or won) a sale is to directly ask the individuals who know.

Of course, many customers will claim that price is the main reason because that’s an easy answer. But

if you prod them and say you sincerely want to know, most people will level with you. Unfortunately, many salespeople simply don’t have the guts to ask why they lost a sale, so they walk away blaming price as the reason for their failure.

When a customer says that price is the primary factor, you can be sure that the true underlying reason is something else. It might be your product’s performance, a lack of credibility, your poor track record, a failure to find the right solution for him, or a combination (or none) of the above. That’s why you need to be tuned into certain code words and phrases. For instance, if the customer says, “Well, I’m sorry but our budget was cut at the last moment,” then what has really happened is that maybe you weren’t able to reach the right level of decision maker. If you had, then that person might have been able to insulate your sale from the cutback.

Of course, the best time to uncover the true reason why a customer isn’t sold on your deal is *before* he takes his business elsewhere. But getting at the real answer can be tricky. In “Conceptual Selling,” a book I co-authored, I taught the distinction between a Basic Issue and an Objection. A Basic Issue is someone’s personal feeling that he might lose in a deal (i.e., the opposite of a Win). That personal feeling (with the emphasis on “personal”) is then expressed as an objection. Thus, when a customer says that the price is too high, that’s the objection. What he might really be saying is that he’s afraid you won’t deliver the product as promised, and that’s the underlying issue (i.e., your

credibility). The following types of question can help elicit Basic Issues:

- What concerns do you have about the proposed solution?
- Is there anything that you're uncertain about?
- Are you feeling uncomfortable about any of the items in the proposal?
- Does any aspect of the proposed solution make you hesitant going forward?
- Is there anything unclear about the proposed solution?

These questions need to be asked face-to-face. Otherwise, it'll be extremely difficult to ferret out the real reasons for a customer's reluctance to close a deal. Many salespeople might feel uncomfortable asking such probing questions of someone point-blank, but the truth is that unless they do they won't be able to uncover any Basic Issues that might block a sale. Furthermore, if indeed there is a Basic Issue, a salesperson is much better off uncovering it face-to-face with the customer so that at least he'll be present to offer a response. Otherwise, the issue isn't magically going to disappear; it will surface later on and torpedo the deal.

Incidentally, salespeople should not only investigate why they lost a sale, they should also regularly ask customers why they *won* a deal. I would bet good money that the true answer will never be pricing. Even when the customer says that price was the primary factor, the real reason will likely be something else,

and that piece of information will tell you exactly what the customer perceives your product's value to be.

Resisting Pricing Pressures

Of course, I recognize that numerous industries have been suffering increasing pricing pressures. And I'm not so naïve to believe that those pressures aren't daunting, even for experienced sales managers. At the same time, though, companies that quickly capitulate and offer price concessions are playing a dangerous no-win game. Instead, sales leaders need to train their staffs to aggressively resist pricing pressures using the following steps:

1. Prove Value. The standard argument of "You get what you pay for, and we're the best" just doesn't cut it anymore. Salespeople need to prove that they will deliver what they promise and that the value of their product or service will be well worth the cost. An effective means to demonstrate value is through cost-benefit analysis. Ideally, salespeople should perform the analysis using the customer's own system, which might be some variation of return on investment (ROI), economic value added (EVA), total cost of ownership (TCO) or net present value (NPV). In a Miller Heiman survey, we found that fewer than half of all sales professionals use some kind of cost-benefit analysis to close deals. But those who did were substantially more likely to succeed.¹

2. Become a Partner. A company can also prove value by being more than just a supplier; it can become a true business partner to the customer, which can be

especially important in commodity markets. Consider the transportation of goods from a manufacturer to its distribution center. On the surface, that might look like a commodity service that would go to the company with the lowest price. A smart trucking company realized that getting finished goods to a distribution center is just part of a customer's needs. Doesn't the customer also require shipment of raw materials to its production facility? The trucking company figured out how to make that entire supply chain more efficient and reliable so that the raw materials were still fresh when they reached the facility. The company's service was no longer a commodity; it became an important, valued solution. And that's the key to becoming a partner: you need to sell solutions – and not products – to the customer, who will then be more willing to pay a premium price for doing business with you.

3. Sell at the Final-Approval Level. Generally speaking, the least pricing flexibility occurs lowest in an organization. Staffers in a purchasing department are often under the gun to cut costs, and they typically have the least leeway (and authority) to grant exceptions to suppliers. That's why salespeople should get coaching to identify who in the customer's organization will be giving the final approval for a deal, because it's at that level that executives will be more concerned about value and return, and less worried about price. Of course, selling high into an organization is much easier said than done, but the alternative is a failed deal because the customer can't grasp the price/value of a solution. This is why I recommend that important B2B deals should be

handled at the top: a C-suite executive from the seller's organization might be needed to talk to someone at a similar level in the customer's company.

4. Get Something in Return. Salespeople should never discount their prices. Sometimes, though, they might have to bend that rule when dealing with an important customer that is absolutely adamant about a price concession. But in such cases, the salesperson needs to get something of equal (if not greater) value in return. In a Miller Heiman study of best sales practices, we found that only 20 percent of companies get something in return for giving price concessions. But for top-performing sales organizations, that figure is double: 40 percent. In exchange for a lower price, those top companies get something back, and the *quid pro quo* can take many forms. Many restaurants, for example, offer early-bird discounts to fill empty tables at off-hours. In B2B deals, a sales organization might obtain full payment in advance, extend the length of a contract from one to three years, change the service agreement from 24/7 to regular weekday hours, and so on. Or perhaps the product being sold includes features that the customer doesn't need. By eliminating them, you can provide just the parts of the solution that the customer truly values – and is willing to pay for – and sell that subset at a reduced price. Sales managers should also consider creative alternatives to obtain intangible but important value. The customer might, for instance, agree to become a reference account in a new market, or he might host a pilot installation of a future product to help with testing.

Avoiding Mistakes

One of the biggest mistakes that salespeople make is that they sell on value and then negotiate on price. But that only sets them up for self-destructive haggling just before a deal closes, asserts Grande Lum, a partner of Miller Heiman and the managing director of Accordence.² We all know that aggravating feeling: we've worked for months on landing an account and have seemingly come to an agreement when, at the last moment, the customer says he wants a 5 percent price discount. To prevent such frustrating transactions, value negotiation should be an ongoing activity from start to finish – from the moment a salesperson begins talking with a prospect to the moment he closes the deal, and even far beyond that point in time. In other words, salespeople should be negotiating (and not just selling) value because through that back-and-forth process they will learn exactly what's important to the customer, and the customer will have a better understanding of the true value (and corresponding price) of the proposed solution.

Another common mistake is to interpret everything in terms of price. The classic example is when a prospective customer says she sees value in your offering but claims she needs more time to make a decision. Many salespeople then get nervous and assume that the underlying issue must be price. So they give the customer a quick discount when the real reason for her hesitation was something else. Slashing prices to compensate for other factors – for instance, the customer doesn't yet have proof that your solution

actually works – just sets you up for a relationship in which somebody (you, the customer or both parties) ultimately loses.

Indeed, salespeople who make it all about price need to ask themselves whether that's the best way of doing business. Of course, some firms can thrive on a business built on rock-bottom prices and high volumes, but few organizations are set up to be the Wal-Marts of their industries. For every company you show me that claims it never loses a sale based on price, I'll show you a business that could probably have healthier margins if it learned to walk away from certain deals.

Moreover, there's a huge danger in playing fast and loose with pricing. A well-known company in Silicon Valley had discounts that ranged anywhere from 1 percent to 90 percent. Of course, people who were receiving close to the 1 percent were none too happy when they learned that they were well on the low end. And that's the problem: when customers find out – and they will find out – that others are paying much less, they will start holding out for bigger price discounts, not understanding that some customers are getting the best deals for a reason (larger volumes, for instance).

It is also important to remember that, just as value affects pricing, the reverse is also true. In blind taste tests, consumers will tend to rank a product higher when they think it's more expensive. That power of suggestion even has a basis in biology. In a fascinating

experiment, people were asked to drink wine as their brains were scanned. When the subjects were told that a wine was more expensive, the scans showed more activity in the area of the brain associated with pleasure, regardless of the true quality of the wine.³ In other words, pricing is a subliminal indicator of value (almost like a product feature), and that's true not just for luxury items. Consequently, a company that has wildly fluctuating prices is tampering with customers' expectations and perceptions of the true value of its offerings. And once people are confused about the value of something, they are likely to consider alternatives. On the other hand, firms that can clearly establish the price/value of their products in customers' minds will be able to avoid marketplace confusion, and such clarity can be absolutely priceless in helping to close deals. ■

¹ "The Virtue of Value: Why Cost + Margin Is a Poor Means to Determine Sales Price," Miller Heiman (2007).

² Grande Lum, "Why Selling on Value and Negotiating on Price Does Not Work," Miller Heiman (2006).

³ Jonah Lehrer, "Grape Expectations: What Wine Can Tell Us About the Nature of Reality," The Boston Sunday Globe, February 24, 2008, p. D1.

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