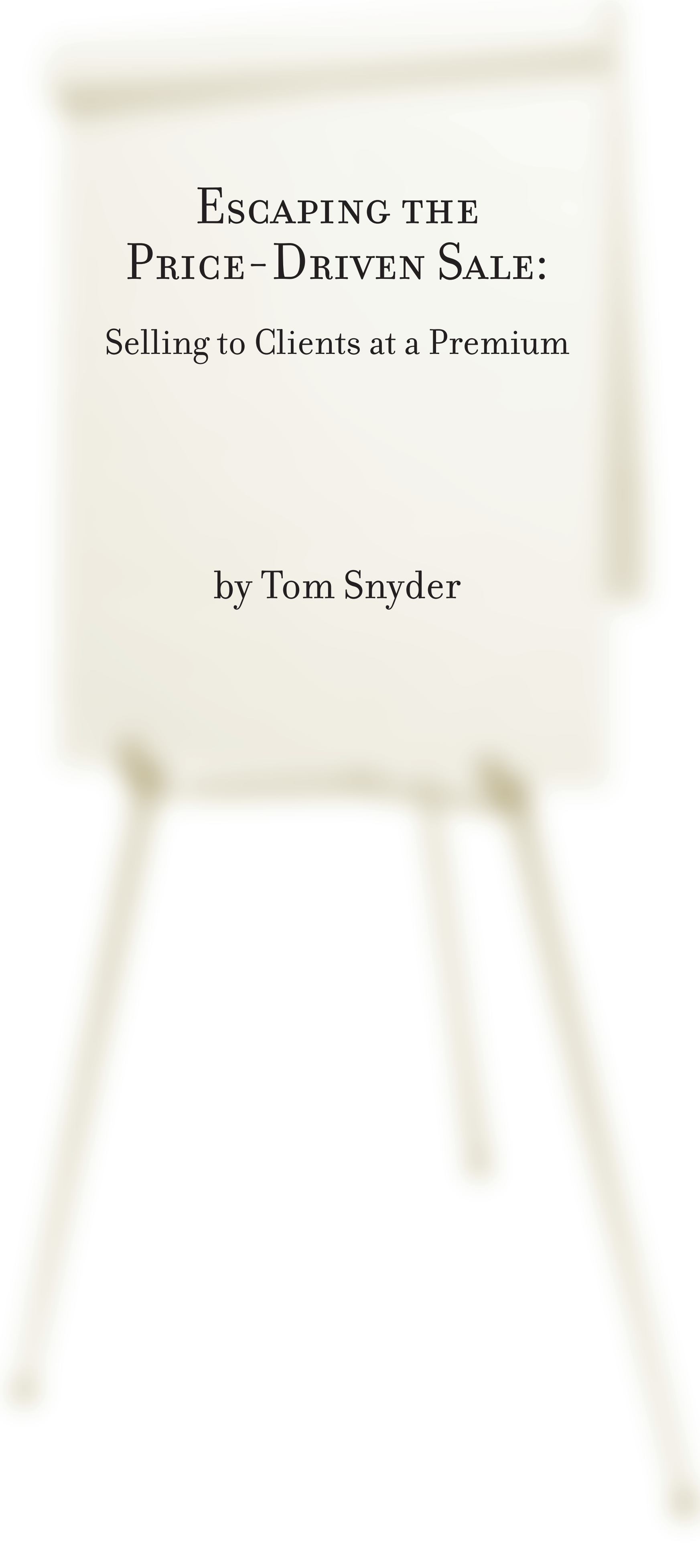
Huthwaite®

Escaping the Price-Driven Sale:

Selling to Clients at a Premium

by Tom Snyder



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Introduction

How many sales efforts do you know of that don't claim to be about selling "value"? Finding individual sales people or whole companies that don't boast about offering things like "value added services," "value selling" or don't claim to be selling "solutions" is likely to be a fruitless effort. Yet, how many of these sellers actually know what their customers would define as value? Moreover, how many sellers can precisely identify what kind of "value" their customers are willing to pay a premium to receive? If value is defined as something that causes a customer to reduce their price concerns, then effective sellers should be able to answer with a list of specifics. The unfortunate reality is, most will answer with guesses and platitudes.

Huthwaite's recent research has revealed a precise and compelling definition of the overused, yet elusive, concept of value. It is the position of Huthwaite that when a seller employs the correct selling tactics, three enviable outcomes can be achieved:

- Price will become less important to the customer.
- In situations where the seller seeks an ongoing relationship with the buyer, the customer will erect barriers to the seller's competition and will redefine the nature of the buyer/seller relationship.
- The seller will identify areas of the expanding depth and breadth of opportunity available to them from each customer.

This is a critical topic for any company that finds itself increasingly trapped in a commoditized marketplace. It is only through real and individualized value creation that an organization can differentiate itself from the competition and break the barriers of commoditization.

Where This New Definition of Value Came From

Huthwaite developed insight into this new definition of client value by assembling data on several thousand transactions that had a curious common characteristic. Specifically, Huthwaite looked at transactions across a wide variety of industries (including those that are product- and service-driven) which met two criteria:

- The customer reported that in an effort to purchase a particular product, service or bundle of capabilities, they were faced with a group of competitors seeking their business whose offerings all looked the same. In other words, despite the best intentions of the sellers and despite the seller's efforts to "sell value," the buyer could find clear a differentiator: price.
- Despite this apparent similarity, the customer in these transactions did not select the low-cost offering.

It was Huthwaite's contention that if this seemingly odd behavior by the customer could be understood, these transactions offered a perfect opportunity to discover what customers meant when they reported receiving "value." Why else would these customers do something so seemingly illogical? Why would they pay more to receive a product or service when an alternative competitor offered the same product or service for less? Most sellers will find the answer compelling, and one that challenges the current definition of sales excellence.

The Four Value Drivers

At its simplest, what these customers reported receiving was one or more "value drivers." That is, these customers were willing to pay a premium, redefine the buyer/seller relationship, erect barriers to the seller's competitors and establish the seller as a trusted advisor when:

1. The seller revealed to the buyer an **Unrecognized Problem** that the buyer or the buyer's organization was experiencing.
2. The seller established for the buyer an **Unanticipated Solution** to the problems that the buyer or the buyer's organization was experiencing.
3. The seller created or revealed an **Unseen Opportunity** for the buyer or the buyer's organization.
4. The seller served as more than just a vendor of products or services, but instead served as a **Broker of Capabilities**. Specifically, the seller served to make available to the buyer the full range of capabilities of the seller's organization in such a way that these capabilities contributed to an expansion or redefinition of the customer's success.

As intriguing as these results are at first blush, reflection on their implications reveals that buyers are redefining what professional selling really means. It is no longer enough to have great products and it is certainly no longer enough for a seller to have mastered the characteristics of the products or services they represent. Sellers now need to trade on their *expertise*. Sellers must bring to the benefit of the buyer insights that the buyer cannot achieve on their own.

Why It's Not *What* You Sell, But *How* You Sell That Makes the Difference

In the book, *Rethinking the Sales Force*, Neil Rackham and John DeVincentis delineated a set of market forces that had forced a new reality in most marketplaces. The confluence of two forces in particular had rendered product-focused selling obsolete.

First, the amount of information publicly available (principally over the Internet) has redefined buying in almost every market. Because of the enormous increase in quantity and quality of information available about products, services, companies, sellers, etc., buyers are now fully informed about the features and functionality of most products, services and companies before they ever meet with a sales rep.

This same information flow, because it is available to every competitor in every market, has accelerated the natural force that drives innovations to become commoditized. It is now easier than ever for a competitor to adopt any feature or characteristic that appears to offer buyers a differentiated reason to favor a particular supplier. The speed with which companies now adapt to innovations by their competitors has made it increasingly difficult for buyers to associate any brand or any seller with a value-driving product or service. The lines of differentiation have blurred.

Secondly, purchasing strategies have changed. Buyers are increasingly adopting a segmentation strategy in their supply chain management system. Typically, this segmentation process measures each of a company's suppliers against a set of criteria such as those listed on the axes of the graph below. Then, a different purchasing strategy is adopted for each category.

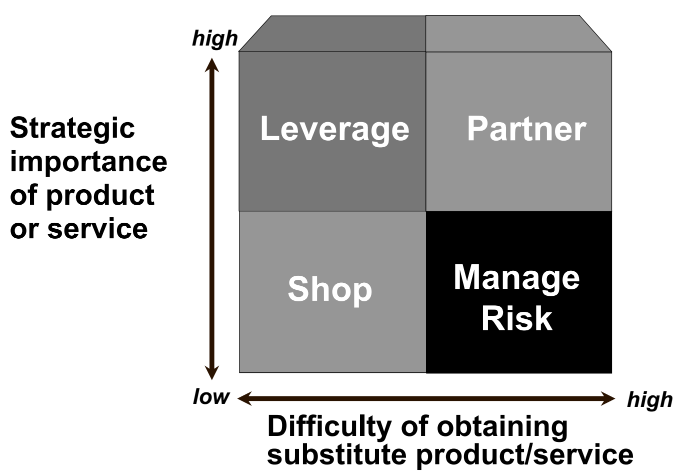

Figure 1

As can be seen in Figure 1, those suppliers that the customer categorize as “Easy to Substitute” and “Not Strategically Important” fall into a quadrant labeled “SHOP.” The purchasing strategy adopted here is to treat suppliers as commodity brokers. In purchases such as these, the customer employs only two criteria to make a purchasing decision: (a) ease of acquisition, and (b) price.

Think copy paper. Very few companies would regard suppliers of copy paper to be either difficult to substitute or strategically important. They just don’t want to run out of it, don’t want to have to store too much of it and definitely don’t want to pay too much for it.

Moving up the vertical axis, if the customer identifies a particular customer as “Easy to Substitute” but “Strategically Important,” then the purchasing strategy adopted can be labeled “Leverage.” Here the customer utilizes their buying power to extract the biggest bang for the buck. The strategy is to combine all related purchases into the biggest possible carrot and offer it to as many suppliers as possible. This may entail national or global contracts, multi-year terms, large product/service mixes, etc.

> *… if a customer identifies a particular supplier as being “Difficult to Substitute” but “Not Strategically Important,” then the purchasing strategy most often employed can be labeled, “Manage Risk.”*

One area where this strategy has had a big impact in recent years has been in the area of commercial banking. There was a time when any commercial enterprise most likely had a banking relationship with the local or community business bank. With consolidation, however, there are now a number of banks with national or global footprints. From the standpoint of the commercial banking client then, a “Leverage” purchasing strategy for banking services became the preferred option. Most banking customers today have done away with the practice of allowing each facility around the country or globe to establish a separate relationship with their local or community bank. National, even global, banking relationships are now the norm for such companies. What these companies have been able to do is obtain a greater breadth of service at a more competitive price.

Alternatively, if a customer identifies a particular supplier as being “Difficult to Substitute” but “Not Strategically Important,” then the purchasing strategy most often employed can be labeled, “Manage Risk.” The risk being managed in this case is the risk to the customer of being too beholden to any one of the few suppliers available. In these cases, the customer consciously chooses to maintain more than one supplier relationship in order to keep their options as open as possible.

Overnight shipping services provide a great example of how this particular purchasing strategy can work. For many companies, overnight mail services are not so vital to their operation that they would be considered “Strategically Important.” On the other hand, there are only four companies that control more than 90% of the market. Therefore, many companies have accounts with more than one overnight delivery service. This way, if one of the suppliers has a problem, or if one raises rates, the customer has some way to mitigate the inconvenience and/or their exposure to change.

The final purchasing strategy is one adopted for those suppliers who the customer judges as supplying products or services that are deemed "Strategically Important" and the supplier is seen as "Difficult to Substitute." This strategy could best be labeled "Partner." One note of caution is warranted in this case, however, because the word "partner" could be the most over-used word in the business lexicon. So often a customer or client will deem a particular supplier as their "partner" when what they are really referring to is the kind of supplier that takes abuse and yet continues to come back for more. This is not what the label "Partner" means in this case. What is meant by the label in this segmentation strategy is that the purchaser sees so much that is important and unique about a particular supplier that the purchaser is willing to make fundamental changes in the structure and operation of the purchaser/supplier relationship.

Perhaps the best example can be seen in industries where industrial design and manufacturing are complex and long term, but the dynamics of the marketplace drive a rapid pace of change. Consider the market for computer chips. It can take several years to perfect a new chip, but the time horizon for a new chip design to move from unique in the market to just a commodity is quite brief. This means that the manufacturing line producing new chips has to be ready to start up almost simultaneously with the completion of the design and test work. It is not possible to wait until the design has been finalized to begin designing and constructing the production line. Therefore, to the chip manufacturer, the supplier of production line chip manufacturing machinery is very difficulty to substitute and strategically essential. These companies establish very unusual degrees of transparency, intimacy, information sharing, etc, in their supplier/customer interactions.

… it is no longer possible to win the value battle or to escape the price-driven sale if all of the value the customer obtains is embodied in the product or service.

One might legitimately ask, "Interesting dissertation on supply chain management, but what does it have to do with value?" In a word, everything. If market forces are now overwhelming the capacity of corporate strategists to create value through product and service innovation; if this has resulted in a tectonic shift in what defines professional selling; and if this now means that sellers have to be the primary value-creating engine of a supplier, then this segmentation tool provides a clear litmus test for how any given sales force is performing. In a nutshell,

If customers cannot identify what it is that makes any particular seller, "Difficult to Substitute" and/or "Strategically Important," then that seller is losing the value-creation battle.

Ask yourself a simple question: What is it that my sales force is doing today, independent of the products or services we sell, that they would say makes us Strategically Important or Difficult to Substitute? Don't be surprised if your answers make a very short list.

If the seller is failing to meet this test, then it is inevitable that the purchaser is assigning the seller to the SHOP quadrant where the only decision criteria that matters is price. Huthwaite's research has shown that many sellers are behaving in a manner that begs the customer to put them in a SHOP quadrant. Sellers who rely on product features, demonstrations, presentations, pricing models, "value added services," etc, are failing to offer the customer real differentiation. This is dangerous ground. Once the customer hears similar stories and gets a product-centric approach from sellers, it is inevitable that the buyer will adopt a SHOP quadrant, price-driven purchasing strategy. What should be especially frightening to most sellers is that the competition between SHOP quadrant vendors will ultimately result in a single winner—the low-cost supplier. And one primary strategy for becoming the low-cost supplier is to do away with the direct sales force. If customers are only going to decide on price, no one needs a walking, talking quote machine. The very behavior of most sellers is spelling their own doom.

> *The kinds of questions that are most effective are those that reveal insights to the buyer that have direct bearing on the buyer's business and success.*

In summary then, it is essential to have great products and services. No one can effectively compete with superior offerings. But it is no longer possible to win the value battle or to escape the price-driven sale if all of the value the customer obtains is embodied in the product or service. The seller has to *create* value, not just *communicate* value throughout the selling process.

How It's Done Part One: You Can't Just Tell 'em

Recall that earlier the word expertise was identified as the key to driving value. This means *bringing the seller's expertise to the benefit of the buyer during the selling process; i.e. before the sale is made*. But one path that is surely destined to fail is to adopt a "gosh, you're lucky I'm here to tell you about all of your Unrecognized Problems, Unanticipated Solutions, Unseen Opportunities" approach. Is there anything more annoying to a customer than a know-it-all attitude from the seller? The key is for the seller to employ a particular form of diagnostic questioning.

The word "diagnostic" cannot be overstated in this case. Merely asking questions may be a good way to get the buyer to talk, but in and of themselves, seller questions become nothing more than a polite interrogation if overused.

It is instructive to remember that great selling must be conducted within the constraints of what Huthwaite calls the "boundary conditions" of communication:

- Customers put a higher value on what they say and what they conclude than they do on what they are told.
- Customers place a higher value on what they request than they do on what is freely offered.

This is why so many sales calls and sales strategies which focus on description fail to connect in a value-driving way with customers. It is also why the value drivers in and of themselves are only guidelines—not outlines—of the things you tell the customer. Bringing the value drivers alive requires conducting calls and strategies which help the customer draw conclusions, establish value expectations and extend initiations to the seller to describe their offerings and capabilities. The key is asking the right questions.

The kinds of questions that are most effective are those that reveal insights to the buyer that have direct bearing on the buyer's business and success. For those familiar with the SPIN® questioning paradigm, the power of this form of questioning is obvious (see *SPIN Selling* by Neil Rackham). Knowing how to elevate a buyer's awareness to a level where the buyer is willing to take action is a direct line to being a value-creating sales professional.

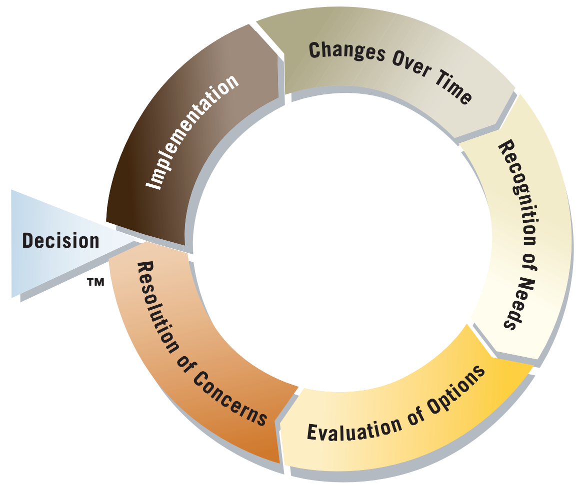

Figure 2

How It's Done Part Two: You Gotta Know Where The Buyer Is

Another aspect of delivering value is to understand how a customer's view of value changes as they move toward a buying decision. By studying thousands of transactions across multiple industries, Huthwaite built the model of buyer behavior seen in Figure 2.

At first blush, this particular model of buyer behavior may seem quite obvious. Anyone who has been in sales for very long could tell you that buyers move from recognizing their needs, to evaluating who to buy from and then through a decision and an implementation phase. What only the exceptional sellers realize, however, is the degree to which a buyer's definition of value changes as they move through a decision cycle. At its most basic, each phase of this cycle has a very different orientation of buyer focus:

- **Changes Over Time**—The buyer perceives no reason to change from the status quo.
- **Recognition of Needs**—The buyer is evaluating whether to make a purchase or to do nothing; they are trying to define what a successful outcome will look like.

(continued)

- **Evaluation of Options**—A decision to make a purchase has been made, the question is, from whom?

- **Resolution of Concerns**—The buyer has made a tentative choice of who to do business with, but is examining consequence issues associated with completing the purchase.

- **Implementation**—The contact has been signed and the buyer is looking for expected value.

Although these are clearly five very different frames of reference, it is surprising how many sellers adopt the exact same approach to every buyer in every selling situation.

Bringing alive the four value drivers requires that the seller has three related capabilities:

- The seller has the ability to recognize where the buyer is in the decision cycle at any given time in their buying process.

- The seller has the ability to apply one or more of the four value drivers to the particular priorities of the customer in each phase of the cycle.

- The seller has the ability to move the buyer back and forth in the cycle in order to position themselves and their offerings in the best possible light.

Conclusion

Painfully few companies, sales forces or individual sellers have recognized how dramatically their market has changed. Specifically, few sellers have recognized how value has been redefined by their buyers. Even fewer sellers have adapted to the new definition of professional selling. There is a bad news/good news scenario here. The bad news about this situation is that most sellers are still operating under the old idea that value *communication* is the path to value selling. Unfortunately for them, this is now the path to commoditization and pure price selling. The good news is that for those companies, sales forces and individual sellers who make the transition, there is a unique opportunity to capture a greater share of their market and to do so with a lower percentage of customers who make purely price-driven buying decisions.

About Huthwaite

Huthwaite is the world's premier sales performance improvement company.

Huthwaite's powerful selling models were developed from research conducted on more than 35,000 sales interactions over a 12-year period. In the past 20 years, we've helped hundreds of organizations achieve competitive advantage by developing sales skills, sales management and strategy programs, and innovative sales force responses to marketplace demands.

Talk to us about helping your organization develop your selling, coaching and negotiation skills, sales management, and overall sales strategy to a world-class level. Huthwaite already serves dozens of Fortune 500 market leaders. For more information, call us at 703.467.3800, or visit our website at www.huthwaite.com.

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