



Price Cutting – The Way to Win Some Sales and Lose the Business

Once price cutting starts it is difficult to stop. It is a practice that will depress you and your staff, denigrate your business, teach your customers that they have control of your business ... and could cost you the business itself! It doesn't have to be that way...

Competition is fierce and customers are unyielding: "Either give us a better price", they say... "Or lose the business!" But the question is, "whose business will be lost, theirs or ours?" Let's say we surrender to the pressure and sell for less, after all there are staff and suppliers to pay and overheads to meet, what choice do we have? So we decide to move forward by moving price backwards, a seemingly strange move but obviously one we have to make. The sale is eventually made and so too are many others of a similar kind, but at least we are busy. OK? Not really, more like a case of KO!! To be busy is not the same as being successful; real success involves all parties winning not just the customer.

We are not referring here to those companies who use "low prices" with pride as a serious long term marketing strategy... a point of difference backed by appropriate staffing structures and levels of service. And nor are we alluding to the art of negotiation - a normal business practice that might involve a price reduction that is mutually acceptable to customer and supplier.

We are concerned here with the companies that start out with a purpose and pride, offering quality products and services at appropriate pricing levels, supported by a team of people and costs to match... who have allowed creativity and customer service to slide, and prices to plummet to absurd, humiliating levels.

And profit plummets too of course - if for instance your normal margin is 25% and you reduce your price by 10%... you will have to sell 66.7% more to earn the same margin dollars as you would have at the original price!

Not only is this a painful financial experience, it is frustrating and demoralising for the business owner... and a degrading, one way street to oblivion for the sales team.



Without question, the fault for getting into a price cutting mess lies with senior management. You can't blame the customers and neither can you suggest the problem was started by "other competitors". And if you do then you may have to wait until they change and that might take forever. But you might say, "But if other companies reduce their prices how am I to compete and survive?" The answer is; your goal should not be merely to "compete and survive"... you should aim to offer more and thrive.

The key to winning and keeping customers is to offer them better value than your competitors. Customers know they are getting value when benefits they receive are perceived to be greater than the cost to them.

You have a choice - you can increase the benefits that you offer to customers or reduce the cost. Price cutting is the easiest strategy to implement - but the hardest to defend. And while you might win a few customers in the short term, you could lose your whole business.

One contributing factor to the problem of price cutting is the psychological distance between the customers and the "Boss". Whereas in successful companies the most senior manager, perhaps the owner, is at the forefront in building customer relationships, creating sales and organising service support ... in so many cases this manager is rarely involved with customers personally and despite occasional contact and meetings with the sales team ... he or she is unable to "relate" to their problems and therefore is rendered helpless.

Under such intolerable conditions the sales force will usually surrender to the pressure of price... and then turn their selling efforts inward to convince everyone else in the company "that we must sell for less".

You know, it's ironic that most customers when purchasing "big ticket" products place price about 3 or 4 on their list of criteria when deciding on a supplier. But they will naturally tell the salesperson that price is critical!! It is up to the salesperson to identify the important factors in the mind of the customer and offer unique benefits to meet and exceed their needs. Here are some critical questions to consider and (if you have the courage and commitment) to answer...

What can and should we offer to customers that represents the best that we can give... and which we know to be valuable and special in the marketplace?

What type of customer would benefit from our company's special products/services and why?



What price levels, negotiating criteria, and profit margins should apply to the quality of the "special services" that WE offer?

What is the ideal quality and structure of people and departments and relevant overheads needed to compliment the sale and back up of our products/services?

What are the best ways to promote, represent and sell our products/services, internally and externally, to the customers that we have selected... on an ongoing basis?



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