
Wait a minute! Why do my customers always want a deal?

Does every visit with your customers seem to end with a request for price concessions? Do your customers always tell you about competitors who have offering features you don't have? Are your really good offerings discounted by your customers?

If you're like many managers, the answer to every one of these questions is yes! And, it's getting worse – even your most loyal customers seem to enjoy picking on your sales force. If you're a pricing manager you may feel as if you're in a tsunami of requests for price cuts; and if you don't grant them, the sales force just knows it will lose the business.

Of course customers are always interested in price. And of course customers will always compare your offering to competing offerings. No customer will buy without considering the price. Further, no customer buys without considering competing alternatives. But price is often well down on the list of purchase decision criteria. And the list of competing alternatives that will really be considered is surprising short.

If all of that's true – and it is – why do customers routinely use price and competition so aggressively? It could be that we have trained them to behave just like they do!

The key to getting rewarded for your offerings lies in clear and consistent value creation, value delivery, and value communication. All of this has to come together if you're going to get out of the price reduction pit.

But hold on, you say. It's clear your offerings have lots of stuff competitors don't. And you know that customers always get your best offerings.

COMMUNICATION ISSUES

So let's assume you really do understand what customers need – those things that impact their economics. And, we'll further assume your offerings have a real and significant impact on your customers' businesses. Yet you still get hammered for lower prices. What do you do now?

Well maybe what's wrong is how you communicate with customers. Take a look at your advertising and the scripts you ask the sales force to use. What's in there?

Many companies get all tied up in what they produce while ignoring what customers buy. Say that again! How can what customers buy be different than what suppliers produce?

It's simple. Suppliers sell products and services, with all the features that go with them. So the physical properties of your products and services, the warranties, customer service, quality – all of that is what a supplier sells.

But that's not what customers are buying. Customers buy what happens when they use a supplier's product or service – the benefits that come with using the supplier's offering. So a quality component might mean the customer has higher yield. Or a supplier's product might allow the customer to sell their products at higher prices. Or market intelligence you provide might allow the customer to get to market sooner. All of these benefits emerge not when the customer buys your offering, but when the customer uses your offering. It's these benefits the customer is really buying – not the offering itself.

So what does this all mean? **If you want to avoid the price pressure, you first have to talk with the customer about what they**

are buying – not what you are selling.

That means your advertising and selling scripts should start with the benefits the customer can achieve using your offerings.

But if you only talk about benefits, you still won't get out of the price concession trap. To deal effectively with customer price resistance, you have to go further. Your customer communication must take your understanding of customer derived benefits to the next step – to what those benefits are worth to the customer. Worth – or value – is the economic consequences of the benefits, either in terms of reducing the customer's costs or increasing the customer's revenue. When you show the customer that your price is fair and reasonable given the economic consequences of the benefits they get only from you, price pressures are relieved. Of course price pressure doesn't disappear – it never does – but it is reduced. And connecting your offering to economic worth gives you the means to deal with price pressure.

Connecting your offering to the economic worth customers receive in using your offering reduces price pressures. It does this because you move from being part of the customer's costs to becoming part of their success. You make your contribution to their profits visible this way.

WHAT ABOUT COMPETITION

OK, so while that may deal with one aspect of price pressure (by making visible your contribution to the customer's profits), what about competition? If you're like many managers, it seems customers are always comparing your offering's features to a competitor's offering. And they do it in the most negative way – there is always something missing in your offering. Sometimes you compete against the mythical competitor – you know, all the best parts of 5 or 6 competitors pulled together in “Non-Obtanium,” an imaginary offering constructed to show you everything you lack.

So, what's up with that? Well, again the problem is we have trained our customers to think about us in terms of offering features – not in the context of value delivery. When our advertising and selling scripts focus on offering features – what we sell – we encourage our customers to compare feature – whether the features they are comparing deliver economic worth (value) or not.

Competition is important for two reasons. First, customers think of every supplier in the context of some other alternative offering – you always have competitors. From a pricing perspective, the real issue is whether customers think of you in the context of the “right” competition.

What is the right competition? The right competition is that alternative offering that is the next best competing alternative for the customer – not the perfect competition, but the next best available alternative. It is an alternative the customer could realistically use. And it is the alternative the customer would actually go to if they did not have your offering.

But competition is important for a second reason. Your offering cannot be differentiated until you have competition. Without competition, you cannot show the customer why your offering is a better choice. Better, of course, is a relative term – better than who is the question. What you want to avoid is competing against “Non-Obtanium.” You do want to compete against good, viable alternatives.

VALUE BASED COMMUNICATION

So let's plan our market communication – sales scripts and advertising – to manage our customers. Go back now and look at your current advertising and selling scripts, asking yourself: “What do we communicate? Are we talking about what we sell (our offering's features) or what customers buy (their benefits and the worth of those benefits)? Do we assume that

customers can jump from our description of offering features to the benefits they receive to the economic worth of those benefits? **Do we leave it up to the customer to decide whom we compete with?** Do we encourage our customers to compare our offerings to competitors' offerings by focusing on features?"

If you're uncomfortable with the answers to those questions, you should refocus your market communication to a value based approach. A value based approach makes your contribution to customer profitability obvious. And, it is a key part of reducing customer price resistance.

There are three parts to value based market communication:

- 1) **Start with framing the appropriate competition.** Your market communication should start with asserting the right competition: never allow the customer to create the reference competitor (which is often "Non-Obtainium"). Of course the reference competitor you specify must be a realistic alternative for the customer.
- 2) **Next, frame your differentiation.** Differentiation is the benefit and economic worth the customer gets only when using your offerings. Differentiation is also the economic penalty the customer incurs should they decide to adopt the competing alternative.
- 3) **Finally, talk about your warts.** Customers may incur unique costs in using your offering – costs they would not have if they bought from the competitive alternative. You talk about your warts because they are real – if you want your market communication to be credible, you have to talk about your warts as well as your differentiation.

Every interaction you have with the customer should remind the customer why they do business with you. So

every customer interaction (advertising, sales calls, management visits, customer service, invoices, etc., etc.) should be reviewed for its market communication potential. Every customer interaction should include the three steps of value based market communication (framing the competition, framing differentiation, and warts).

TAKING IT TO PRACTICE

Right now, look at your market communication. Is it sending value based messages, or is it encouraging customers to ask for price concessions? If you see problems with your market communication, start right now to make it value based. Understand how using your offering creates benefit for customers, and what that benefit is worth to customers. Build value messages into all customer interactions. And make sure your messages are consistent across all your customer interactions.