White Paper Series
Sales Strategies

WILL PROGRESSIVE PRICING WORK FOR YOUR ORGANIZATION?

$125

Sales Strategies

Will Progressive Pricing Work for Your Organization?

THINK "WAL-MARCUS"

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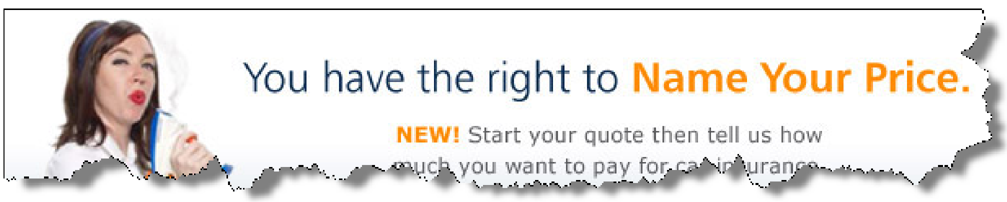
Will Progressive Pricing Work for Your Organization?

THINK "WAL-MARCUS"

There is rarely a Chief Sales Officer in the ranks of senior management

It's referred to as Progressive Pricing based on one of its most visible applications: Progressive Insurance. Like many other insurers, the insurance giant was losing clients during the economic downturn of 2009. They began advertising "Name Your Price" and began giving quotes to potential clients based on the fee the client was willing to pay.



Progressive Insurance would be able to manipulate their rates based on deductables, coverage, exclusions, etc. They would take advantage of their breadth of options to close more business and to retain existing accounts.

Could the same principle work for your organization?

Here is another way for you to evaluate this concept. What if Wal-Mart and Neiman-Marcus were under the same roof? The same resource could supply you with luxury goods or with budget alternatives. The store would offer multiple options so that whoever the buyer was – whatever criteria they had – the store could accommodate them.

Could you broaden your offerings to capitalize on progressive pricing?

Before answering the question (of whether or not it is a viable strategy for your organization) or simply rejecting the idea, consider how this works and how it *might* work for you. The core principles involved in this strategy are:

- You get what you pay for – Customers who pay less will settle for less, often reluctantly.
- Sometimes less is more – Some customers do not need your full offering or can temporarily make do with less.
- Most customers don't know what they want – They typically try to solve their problem based on ***their*** best understanding of your products and services. Since they do not know as much about your offerings as you, they may be making the wrong decision.
- Client retention - It is usually more profitable to keep a customer than to try to replace them. Progressive pricing can help you hold on to existing customers.
- Sell what the customer wants or needs – During economic downturns, some customers simply do not have the funds to spend. They still need the advantages of the product or service; there is no funding available for your offering unless you can modify it to meet their budget.

Progressive pricing is nothing new. Have you ever driven down a rural road and seen the "pick your own fruit" signs? Drive into one of these orchards and you'll find that for a few cents more, you can buy fruit that has already been picked and packaged.

So why do people sweat it out in the orchard, get dirty and fight the stinging insects?

More than saving money, they get the exact fruit they want

There is a professional approach to this scenario: a B2B, value-added form of Progressive Pricing. In its simplest form:

The client tells their vendor what they want or need to accomplish and how much they are willing to spend. The vendors respond, each with their own best offer and the client chooses an option from the responses.

Notice that progressive pricing is not built on what the customer wants to buy; it is built on what they want to accomplish. A *contributing* factor is what they want to spend.

When the customer asks you how much you will charge for your product or service, you can simply quote your price. Or you can use the value-added approach of asking what they are trying to accomplish. This will occasionally lead to a progressive pricing opportunity.

So, there is a value-added approach for discounting!

It's called "Quantified Discounting".

The fundamental requirement for a vendor that wants to offer progressive pricing is that they be able to offer multiple variations of their products. Each variation carries its own price point which can be justified based on the value of the variation to the specific customer. Rather than only removing features, the different variations should require greater effort or involvement on the part of the customer.

THINK WAL-MARCUS

What if WAL-MART and Neiman Marcus were to become one company? If they could offer the best of their two worlds, how would that change their markets? What might their customers experience on each visit? The budget-minded customer would see the differences in the high-end products and upselling would increase.

High-end buyers would see how much farther their dollar would go with the lower-priced alternatives. Would this result in high-end customers trading down to lower-cost items?

Possibly. There could be as much upselling as downselling.

This is where a major shift in sales strategy is essential and where only a value-added sales team can be most effective. **QUANTIFIED DISCOUNTING IS THE ABILITY OF THE SALES PROFESSIONAL TO SHOW THE CUSTOMER MULTIPLE PRICE POINT OPTIONS WITH A QUANTIFICATION OF THE VALUE OF EACH OPTION TO THE SPECIFIC CUSTOMER.**

RULES:

1. **Sales strategies must be built on transparency.** Also known as integrity, transparency is the open acknowledgement that almost nothing can be hidden from the customer anymore. Customers talk. Competitors talk. And with the plethora of online and other communication media available today, customers can verify anything we say immediately. Also, if a better alternative is available, our customers will know about it. Without a reason to stay with us, they will jump to the low-priced alternative, the one that seems to offer better performance or another that seems to have additional features our product is missing.
2. **Sales must be built on value, not price, features, benefits, applications or any other factor.** Whatever we use to close a sale will be used to take it away from us. Win a sale on price and you'll lose it to the next vendor with a lower price. Close a sale on value and you will have to lose it on value and precious few salespeople truly sell on value.

SIDE-BY SIDE COMPARISONS ARE INEVITABLE.

People who pay less receive less

People who pay more receive more

People who pay less do not appreciate the **value** of the higher-priced item – this is the classic situation for value-added selling

That is the basic principle behind progressive pricing. If the customer wants the best available option, you have it. If they need to spend less, you have a lower cost option available.

In the WAL-MARCUS store, there would be cashmere sweaters on one table, wool sweaters on another and polyester sweaters on yet another. All of the price points would be represented; customers paying less would receive less. The polyester buyer could experience first hand the feel of cashmere.

Also in the WAL-MARCUS jewelry section there would be watches from Rolex, Timex and Swatch. The Rolex buyer is much less likely to step down to the Timex than the Timex buyer is to consider upgrading to the better timepiece.

In the automobile section, a customer could buy a specific tire for their car, have the tire mounted and balanced and be given a 40,000-mile warranty. For a lower price, the warranty would be removed. For an even lower price, the customer would be expected to mount and balance their own tires.

In every department there would be multiple price points. All products, however, would be supplied by the trusted WAL-MARCUS store. The quality would be the best available at each price point.

Your customer wants to buy the lower-cost alternative from you.

There is a reason why your customer still wants to buy from you. Do you know what that reason is? (Many times we do not! This is usually because we have not asked them recently why they are buying from us[1].) Are there elements of your product or service you could remove and lower your price without creating a hardship for your customer? Are there some things your customers would do in exchange for lower prices?

Progressive pricing has advantages for both customers and vendors.

CUSTOMER ADVANTAGES	VENDOR ADVANTAGES
• Buys from a trusted source • Believes the quality will be highest at that price point • Supplier understands their specific needs	• Client retention • Creatively expands offerings • Keep abreast of customer wants/needs • Grow existing accounts

[1] Make a habit of asking your customers why they are buying from you.

MANUFACTURERS VS. SERVICE PROVIDERS

Does progressive pricing work for both manufacturers and service providers? The tactics are different and, yes, progressive pricing works for both.

Service Providers often have greater latitude in their pricing. As a service provider (speaking, training, consulting), I have found some of these to be the most effective:

- Reduce the level but not the quality of service
- Do what you do better than anyone else; just do less
- Offer additional service for the same price
- Quantify the reduction in fee by quantifying the reduction in your costs (fewer hours = lower costs)
- Reinforce the value of your full service offering to insure the customer knows what they are missing – eliminate buyer's remorse
- Offer to delay some of your payment until the customer realizes the gains in revenue or profit your service generates
- Pass-through: rather than marking up elements of your service provided by others, pass them through at cost

There is greater buyer's remorse form under-buying than from over-buying

Manufacturers can find ways to reduce their costs. As a manufacturer (audio and video products), I have found some of these to be most effective:

- Offer to use lower cost components (I ship CDs and DVDs in paper rather than hard cover packaging)
- Use more economical shipping methods
- Bulk ship to a single location and let the customer distribute to their other locations
- Use Lean Manufacturing to reduce production costs – or –
- Use batch-and-cue which requires longer lead times (the customer will receive their order when I have accumulated enough orders for a full run)
- Find low-cost outsource alternatives: quality may drop, delivery may take longer but the customer eventually has what they think they want
- Pass-through: rather than marking up elements of your product provided by others, pass them through at your cost

Sell them what they want or need

Your customers want to achieve an objective or solve a problem

Most customers don't know what they want. This is a basic tenet of value-added selling. The customer is trying to accomplish something and they use their knowledge and experience to determine a way to make it happen. Then they shop for the best resource.

The classic example[2] is: "If a man goes into a hardware store and asks for a quarter-inch drill bit, what does he want?" Many people answer, "He wants a quarter-inch drill bit." He actually wants a quarter-inch hole. The only way he knows to get the hole is to buy the bit, take it home, insert it in his drill and bore the hole. Is there a better way? Always.

The alert value-added sales professional <u>responds</u> to a progressive pricing opportunity by focusing on outcome; typical salespeople <u>react</u> by "sharpening their pencil" and putting together a great package, offer, deal or other metaphor for "price cut".

Further, seasoned value-added sales professionals can turn a reverse auction or internet auction into a progressive pricing opportunity.

Is this the same as an Internet Auction?

Progressive pricing is actually the <u>opposite</u> of internet or reverse auctions.

REVERSE AUCTION	PROGRESSIVE PRICING
The customer creates a list of products or services they intend to buy and solicits bids.	The customer explains an outcome they would like to achieve, quantifies their budget and solicits options.
Vendors bid with the understanding that the lowest qualified price will win. They may or may not be able to see the competitive bids; they may or may not understand what "qualified" means.	Vendors offer alternatives for achieving the desired outcome. Some options will be concepts the customer had never considered. Decisions are made based on value, not price.

In a reverse auction, the customer develops a list of products or services that they think will help solve their problem. This list is compiled

[2] I expand on this extensively in my seminars to prompt seasoned sales professionals to think outside the box. First, we must drill down and determine what the real issue is since the customer may be overlooking something. Then we qualify and quantify the issue. Then, and only then, can we offer a solution.

This list is compiled based on the customer's current knowledge of the capabilities of the vendor's products. This knowledge is usually incomplete or out-of-date.

MORE ON REVERSE AUCTIONS CLICK HERE

based on the customer's current knowledge of the capabilities of the vendor's products. This knowledge is usually incomplete or out-of-date.

This often results in a commoditizing of the vendors and their products. The buyer sits back and watches the invited vendors battle in the arena use their price-cutting swords.

A reverse auction is an opportunity for a value-added salesperson to create a value-added buyer (*see Value-Added Buyer section below*). When the buyer places a list of items in front of a number of vendors, what are they really trying to accomplish? They either have a problem to solve or a goal to attain. Unfortunately, rather than trying to figure out what they are trying to accomplish, too many vendors try to see just how low they go on their price in order to get the business.

PROGRESSIVE PRICING

Progressive pricing requires that two key factors be quantified early in the process:

- **OUTCOME**
  - What does the customer want to accomplish?
  - How will they measure success?
- **BUDGET**
  - What are they willing to invest?
  - Do they see it as an investment or expenditure?

Armed with this information, a vendor can use progressive pricing to go after the business. Even when the stated budget is below the listed price for the vendor's product, there may be a way the vendor can still win the business.

EXAMPLE: A YEAR OF CUSTOMER SERVICE SALES TRAINING FOR $300

A client called needing sales-focused customer service training, an area where I have expertise. During the initial needs analysis I learned that the company had laid off several employees, they were in a cash flow crunch so my fee would probably be out of their current range. A sales-focused customer service team would actually morph into an inside sales team over time. The customer estimated that the team would generate $1 million annually – eventually. Would I train this ten-person team now and accept payment "later"?

What would you do?

Instead of quoting my fee, I asked for their budget. The client said they had no budget but mentioned that they had recently received a $300 *refund from a vendor and the CEO would allow those funds to be used for training. So here is what we did:*

- *Since my curriculum for this training is available in audio form, I sold them a license for one year*
- *I also provided handout materials, most of which already existed and shipped it in digital form so they could reproduce the materials for their people*
- *I provided a Leader's Guide for the facilitator*

The win-win was that they received the training they needed and I kept a client happy. How do I justify charging so little? It was the low cost to me in terms of time and materials and the customer's willingness to accept less and do more themselves. They were willing to use generic training instead of the highly customized training I normally deliver on-site. Other contributing factors:

- *The audio files were already available for download*
- *The printed materials were mostly available for download*
- *The entire process took less than an hour*
- *The customer downloaded, reproduced and distributed the materials*
- *The customer was willing to facilitate the training (a one-hour session once a month for a year)*
- *The customer saved significant dollars by eliminating my in-person fee, travel, etc.*

VALUE ADDED BUYERS

There is an increasing number of value-added buyers. These are professionals buyers who use something other than price to make their decisions. A value-added buyer respects a value-added salesperson and they eat the lunch of a commodity salesperson.

Value-added buyers are created through:

- Negative experiences with commodity salespeople
- Positive experiences with value-added salespeople
- Experience with progressive pricing

In progressive pricing, the buyer's thinking is shifted from specific products to specific outcomes. So when the buyer uses progressive pricing, they post an opportunity differently from the way a traditional buyer would present the same opportunity.

TRADITIONAL BUYER	VALUE-ADDED BUYER
Company seeking bids on a 200-foot, Type 3 conveyor belt	Acme Widgets needs to replace a 200 foot Type 3 conveyor belt, reduce downtime, increase throughput and reduce costs
Company seeking bids on outsourcing accounting functions	Baker Industries is seeking outsourcing for day-to-day accounting services, payroll and AR

A reverse auction is an opportunity for a value-added salesperson to create a value-added buyer

You will notice that less information is available in the traditional approach and often the buying company is masked. In any of the four scenarios above, value-added salespeople will respond one way, traditional salespeople another.

In the Acme Widgets example, traditional salespeople will submit their lowest quote for a Type 3 belt. Value-added salespeople will submit a proposal that addresses the real issues. For instance, they may suggest that the Type 3 belt is being replaced more and more often by the new X-Type. The newer belt does not stretch and requires less maintenance and adjustment. It has a lower heat factor and therefore can run faster without failure. It costs 25% more and reduces belt maintenance costs by 50% and increases productivity by 10%.

Any other time the buyer would have jumped on the X-Type belt. But, with money being tight, the buyer might decide to use the traditional belt – at least for now. This is where progressive pricing comes in. The value-added salesperson reminds the customer that installation and a three-year warranty are included with the new belt. Those could be eliminated to help hold down costs. However, due to the X-Type being a new technology, installation has to be supervised by a factory representative.

A progressive pricing solution might be:

Here is a progressive pricing solution

1. The customer buys the belt at a reduced cost
2. In exchange:
    a. the customer sends one of their technicians to the vendor's factory for training
    b. the customer does the installation
    c. the installation is overseen by a factory rep using a web cam
3. No warranty or a limited warranty is included

The idea behind progressive pricing is to be flexible and creative in delivering what the customer actually wants or needs.

IS THIS BAIT AND SWITCH?

This is not bait-and-switch.

When the customer is adamant about their ability to pay – and many are during a down economy – be prepared to deliver less for less. Just make sure that your "less" has greater value that the competition's "less".

It is the responsibility of the value-added sales professional to quantify the value of their options. If the customer understands the increased value to them and if there is any way they can find the funds, they will go with the higher-value option most of the time.

A VALUE-ADDED APPROACH TO A REVERSE AUCTION

If the customer cannot be persuaded to a progressive pricing approach, you may need to play their reverse auction game.

One of the most frequent questions I have been asked in the past few years is how to manage the reverse auction. Without going into all of the details involved, here is a synopsis of the process:

1. Recognize that the customer is trying solve a problem or achieve a goal
2. Be aware that the buyer is using their current understanding of the capabilities of your product or service to develop their list of products they want to buy
3. Know that their knowledge of your product or service is probably out-of-date. (Can you keep up with all of the changes in your market, industry, technology, applications, etc? Neither can your customers.)
4. Make contact with the customer and determine their desired outcome
    a. Qualify as much as possible
    b. Quantify
    c. Offer immediate alternatives when appropriate
5. Bid on the project as written
    a. Use the customer's requirements
    b. Make sure your bid is among the higher ones
6. Offer an alternative bid
    a. An even higher price
    b. Alternative solutions
    c. Qualified advantages (based on step 4)
    d. Quantified cost justification (based on findings in step 4)

At this point, most of my clients have been able to win the bid without having the lowest price. Some have even won with the highest price. The reasons are:

P.L.U.S.H. Selling

P – Positioning
L – Listen
U – Unique
S – Solution
H - Help

- They **positioned** themselves as something other than just another vendor
- They asked questions and **listened** to what the customer was really trying to accomplish
- They provided a **unique** alternative
- They **solved** the customer's problem
- They **helped** the customer better understand the problem, alternatives and how to manage future issues

When applied, this process allows the vendor to show the customer some viable alternatives for achieving their objectives. It often results in the buyer spending more than they could have. They do this because of the perceived payback from spending more based on the cost justification.

Now some of these same buyers are trying to reintroduce the same concept under the progressive pricing title. When the customer says they need 100 widgets and are willing to spend $1000 ($10 each), that is NOT progressive pricing. This is just another form of reverse auctioning. The buyer has inferred that all widgets are the same and whoever best meets the price point will win the order.

What if widgets normally cost from $15 for the off-shore, mass-produced model to $25 for high-end, domestic widgets? The low-cost provider seems to be in the ideal position to win the deal. After all, a 33% price cut ($15 down to $10) is easier than the 60% price reduction ($25 down to $10) the high-end manufacturer would have to give.

HEAD ROOM

Whenever a customer says, "that's as high as I can go," consider that there may still be some "headroom". When a meeting planner asked my fee and I quoted it asking, "Is that within your budget?" he said "No." After pausing for a minute he said, "I guess we could have one less elephant in the closing ceremonies." He wasn't having elephants – what was he saying? If the need was high enough and the cost justification was there, he would find the necessary funds somewhere else in the budget. You may have to suggest this to your customers.

How To Implement Progressive Pricing

Here are some steps you and your organization can use to develop and implement progressive pricing. The goal is to retain the customer without compromising your price integrity.

Step One: Develop Alternatives

- Start bottom-up by asking salespeople what reductions in your products and/or services could be implemented and still be a salable offering
- Summarize their ideas
- As a team, select the ones that your deem to be the most viable
- Test these assumptions with customers and potential customers
- At the Strategic Level (CEO, CFO, COO, CSO) develop the multi-level pricing program

Step Two: Train the Sales Team

- This will be a new selling dynamic
- Insure that you have a consistent, positive message in the market (customers talk!)
- Encourage the salespeople to use progressive pricing as a last alternative (there will be a tendency to sell on price)
- Reinforce your cost justification methods
- Develop new, more sophisticated cost justification methods

Revisit Compensation and Incentive Programs

- Less revenue usually means less profit and sales compensation needs to focus on profit
- Salespeople may be able to increase volume to make up for lost income
- “Tie your compensation to your expectations” is the most violated rule in American business; focus on this!

Of course, call me if you have questions or need clarification.

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Chuck Reaves, CSP, CPAE, CSO is a pioneer in the latest trends, tools and capabilities in sales and sales leadership. For more than twenty years he has been assisting CEOs, sales leaders and salespeople in taking their performance to the next level. A former top producer for AT&T (number one out of 1,100), he works with Fortune 100 and start-up companies and everything in-between. He has written five books, created hundreds of sales tools, and is one of the highest rated speakers to the world's largest membership organization for CEOs for which he has delivered more than 600 presentations.

Using P.L.U.S.H. for Progressive Pricing

P.L.U.S.H. Selling

Sales professionals using the P.L.U.S.H. sales process methodology will be able to capitalize on this concept quickly without compromising their future. Here is a synopsis of how you can use these five principles to keep your offering competitive now without compromising your future value and price points.

P – Positioning Position yourself with the contacts in your client organizations who can best:

- Determine what they can live without
- Quantify the value of your reduced offering
- Restore you as full-price, sole provider during the recovery

L – Listen It's time to ask different questions of your customers. Help them sort through what is essential, what is important and what is "nice to have". Quantify each category. Then, as the recover progresses, add categories and increase your prices accordingly. Some customers will want to ramp up slowly; be available to help them.

U – Unique Continue to help your customers focus on the value of your differentiators. While doing this, make sure you are uncovering new differentiators that are meaningful to your customers. Customers buy from you for one reason during good times, another during down times and still another during transitions.

S – Solution Remember that solution selling and consultative selling continue through good times and bad. Customer problems may change and out solutions may change, but the sales process does not.

H - Your customers need your help more than ever and there are more ways to help them right now! Provide new ideas, contacts, services anything else that you can. Just remember to keep track of what you're doing so you can remind your customer during the recovery.

Update

Since publishing this white paper, numerous endorsements and inquiries came in. I will address some of these in this update.

From Arturo in South America:

> *Great timing for this info. I am just in the midst of such value – added discounting on a possible Lean project in Lima. And I tell you, you are dead on with your advise. I have gone from an implementation project to a training project and now the client is asking me to again re-visit the implementation scenario. And yes, we have cut back in expenses as we reduce the price……….only time will tell if we are not producing a Frankenstein in the Andes!!!*
>
> *Saludos cordiales*

Arturo is a sharp sales professional. He is wise to question whether or not he is creating a monster by boosting his sales with progressive pricing. Here is why he is safe:

- His customers understand why he is able to offer a more favorable price (they are temporarily cutting back on expenses)
- His customers are keeping him fully engaged by asking for additional services from him
- His customers are focusing on Lean principles and he is educated, equipped and confident in helping them in this area
- He continues to move the sales cycle forward

From Numerous Clients/Readers

> *Is progressive pricing the "new normal"? How do we know when it is right for each client?*

Progressive pricing is at least a part of the new pricing strategies for most companies. Whether or not it is right for your company and for different situations is something you must ***decide***. Don't guess. I have added a pricing calculator to the SaleSSuiteS site that gives you a simple, first look at the impact of progressive pricing. Use your best business sense balanced by market conditions to make your decisions.

Some organizations have decided to make progressive pricing a part of their business model for the foreseeable future. For them, it is a part of the new normal. Others have decided to use it only as a bridge to the recovery. For the latter, it is important to communicate to the customers that this is, indeed, temporary.

From Vistage Member Steve Blue

Great whitepaper! I am going to ask my sales team for some feedback and ideas around it.

That is the purpose of these white papers and the best use of them. Use topics and resources like this to generate new ideas in your organization. Remember, whenever two minds come together a third mind is created. Have regular brain storming sessions with your team members – there is always a better way to do things. When considering progressive pricing, include people from engineering, operations and finance in the discussions.

No matter how brilliant we are, including other minds will enhance our understanding.

From The Grapevine Group (Temporary/Full Time Placement)

In a newsletter to their clients:

Grapevine Group

Progressive Pricing Solution

In a down economy talent acquisition budgets are tight. It is important to work with someone who asks you:

What do you actually want?
What do you actually need?

So, try me! Tell me the outcome you would like to have and tell me what your budget is. I'll show you how we can work together.

Notice the directness. 1) Acknowledge the client's situation. 2) The challenge: "try me!" 3) Simplicity of the message: quick, easy read, immediate call to action.

From Newsweek Magazine (8/24 & 8/31, 2009)

Headline:

"Paid is the New Free"

Pay toilets on airplanes? Not likely, but what else would the customers/passengers be willing to pay for? Things that have been free are now having price tags attached. So the airlines, strapped for cash, are charging for each bag checked. Some are charging more for the second bag.

Will customers willingly pay for things they have come to expect for free? The jury is still out but the results are leaning heavily towards yes. This is less likely when the customer has the option of providing it on their own. Some examples:

- Airline luggage: rather than pay a fee for a checked bag, many passengers are buying larger roll-aboards and going through the hassle of taking it through security.
- Reduced flights: as the airlines cut back flights and push the supply-demand equation to their side of the table, travelers are finding ways of making time on the road more productive. (It's a great time for the introduction of Wi-Fi on airplanes.)
- Web: for years, the most active web users (18 – 32-year-olds) expected everything on the web to be free. A few lawsuits (Napster) helped to dampen that expectation. The introduction of the i-Phone from, of all people, Apple has made paying for downloads the new normal. No wonder the company that "never discounted" is cutting the price on the phones – there money in the apps.

Will progressive pricing work for your organization?

Will it cannibalize your sales?

Should it be a part of your new normal?