

Sales.

Escaping the Price Trap

In other words, to escape the race to the bargain basement, the answer does not lie in WHAT you sell but HOW you sell.

In 2005 The Sales Board undertook a Price Competition Study to understand the reasons behind a dilemma that is facing sales teams in companies of all sizes, and across all industries, in the USA. The dilemma is the challenge of price competition.

In today's global economy, salespeople are under unprecedented pressure to match or beat lower prices offered by their competitors. When they do, their sales margins shrink, resulting in lower profits for their companies and lower commission-based earning for themselves. To make matters worse, every time salespeople cave in and discount to match a competitor's offer, they are teaching their customers to always ask for discounts. This creates a vicious cycle in which haggling becomes the focus of sales conversations, with value propositions having no place.

The purpose of the 2005 Price Competition Study was to quantify the problem on a national level and to provide statistically valid data that would shed light on a number of questions vital to the future of companies and salespeople across the industrial spectrum.

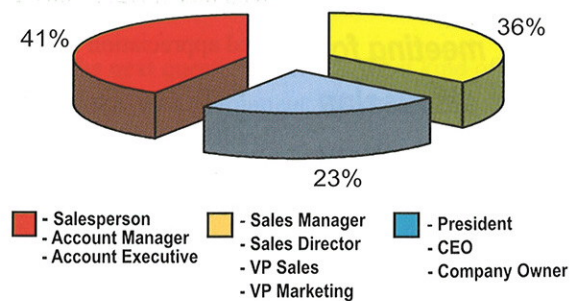
Among those questions were:

1. Is price competition a worsening problem for many or most companies?
2. Is it pushing companies and salespeople into a discounting cycle that threatens margins and amounts to a self-defeating race to the bargain basement?
3. What factors are contributing to the problem?
4. What strategies, if any, appear to be effective at combating the dilemma and allowing salespeople to protect their margins?

The study's key finding is that the number one factor enabling companies to compete on a basis other than price is the behaviour and practices of individual salespeople. In other words, to escape the race to the bargain basement, the answer does not lie in WHAT you sell but in HOW you sell.

Study Overview

Data was gathered via a Web-based survey during August and September 2004. The 722 respondents represented a broad cross-section of US industries, company sizes, and geographic locations.



Why Price Pressure is Growing

The study leaves no room for doubt; price competition is growing more intense across all industry categories.

- **89%** of respondents say that price competition is a "growing issue" in their industries.
- **51%** report that their sales margins are shrinking – even when sales volume is rising.
- **58%** say their personal income is being impacted as result of price competition.

Asked to name factors that play a significant role in their own industries, respondents pointed to a number of causes.

- More competitors are taking a low-price strategy - **56%**
- Products appear to be identical (commodities) to the customer - **54%**
- Salespeople are less able to differentiate themselves from the competition - **45%**
- Services appear identical to the customer - **44%**
- Buyers are more informed today than the past - **44%**
- Technology (Internet) is providing low-cost acquisition options - **29%**

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While “competitors taking a low-price strategy” is number one on the list, it is difficult to find these mysterious competitors who are deliberately leading the race to the bargain basement. Asked to describe how their companies position themselves in the marketplace, **only 1% of respondents said their strategy is to be the industry price leader.**

In truth, only one company in any industry can be the low-price leader. Indeed, that’s why price competition ultimately is so destructive to so many. But if only 1% of companies are intentionally pursuing a lowest-price business strategy, why do 56% of respondents conclude that “more competitors” are doing so? Evidently, most of those price-cutting competitors must actually be the respondents themselves. In fact, more than half of the salespeople in this study say that they offer discounts to match competitors’ prices **at least 70% of the time**

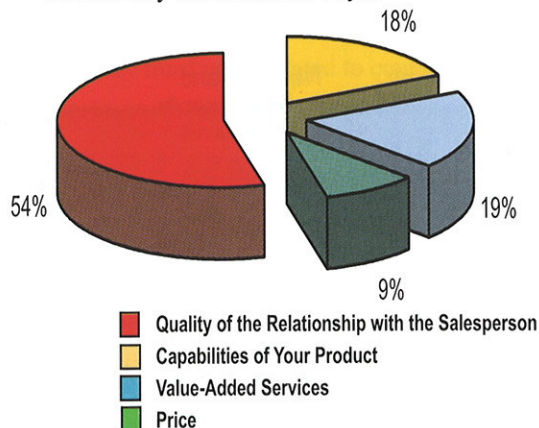
The real question is; do salespeople actually compete on price simply because they don’t know what else to do? Two findings from our study suggest this may be true.

Only **16%** of salespeople always follow a consistent selling procedure.
 Only **24 %** of salespeople ask for commitment in at least 9 out of 10 sales calls.

Why Customers Buy

Respondents agree that the number one reason why customers choose to buy from them instead of their competitors is not because of price but because of a high-quality relationship with a salesperson.

When you win a sale, what is the most common reason why the customer buys?



Again we come back to the strong suggestion that it isn’t WHAT you sell but HOW you sell that determines whether the customer will buy from you rather than from one of your competitors. And, will you just win the sale, or win your price as well?

Escaping the Price Trap

Every company faces a fundamental choice. Either it must build a business strategy on being the low-cost provider in its industry, or it must find a way to compete on some basis other than price. To justify a higher price in the customer’s mind, **salespeople must differentiate themselves or their wares** somehow, but, regardless of what salespeople have to sell, chances are their competitors offer something very similar if not identical.

The one thing competitors cannot match quickly or easily is a high-quality relationship between an individual salesperson and a customer and as this study has shown that is the number one reason why customers choose to buy from one company instead of another. Therefore, the way to create a lasting competitive advantage is to teach salespeople how to build quality relationships with customers, consistently and dependably. Top performers create value propositions in which the key-differentiating factor is **not so much the product** or service as the salespeople themselves.

If average salespeople can learn to do the things top performers do then the sales force becomes an enormously valuable asset. It can be the engine that pulls a company out of the price trap.

Salespeople must learn some systematic process that can be relied upon to build high-quality customer relationships, a process that can be followed, practised and refined, step-by-step, in every sales call. A sales system designed to do exactly that is **Action Selling.**

David Flint

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