

Stand and Deliver on Valuating Your Services

Define the value of your product, stand firm and protect your margin.

A customer once called our office to expedite a contract finishing order that wasn't due for another week. "What can you do to get it to us today?" was the question.

Our customer service representative explained that the schedule was full for the day, but it could be worked into the schedule the following day—later than the customer's ideal date, but a full six days earlier than the quoted lead time.

"That's not good enough," responded the customer. Our representative apologized, but explained that there was no better option. "That's what I don't understand about you people," the customer continued. "You're a plating company, and it's just a few parts." If only it were that easy.

I remember receiving a call from another customer who thought the price we quoted to zinc plate a part was too high. I asked her to explain. Had she received a quote from another supplier lower than ours? Did we currently finish a similar part for her company for which our price was less?

No. She explained that she had calculated the surface area of the part and multiplied it by the specified coating thickness to calculate the volume of zinc that would be required to plate

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the part. She had then determined the weight of that volume of zinc and multiplied it by the current market price of the zinc that would be deposited on the part. "Your price is like, 20

times the value of the zinc you're putting on the part. That markup is ridiculous."

Welcome to the world of being commoditized; a world that isn't limited to contract finishers. A good friend leads an OEM of high-tech, patent-protected equipment. He routinely receives input from customers and prospects that his product is overpriced. He says that an astute buyer will break down the rough cost of the product and conclude that the estimated material cost plus a "reasonable" markup is a fair estimation of what the buyer should pay.

There are two reasons why customers and prospects set their expectations of price (low) and service (high at a given price point) at unreasonable levels.

The first reason is that customers are crafty. A seasoned buyer may attempt to put a sales person in the position of justifying a "ridiculous" markup by focusing solely on the supplier's cost of the product being provided, like the example of zinc plating. If the sales person is unable to do so, the buyer will suggest a more "reasonable" markup and attempt to pull the sales person's price toward the lower number. Credit

the buyer; in many organizations, their job is to level the playing field by convincing all suppliers that their products or services are identical to those of the competition, and that the only way to win business is by quoting the lowest price. Many buyers have earned their year-end bonus by finding suppliers who play along.

The second reason why some customers and prospects set unreasonable pricing and service expectations is that many of them

simply do not understand the nature of business. Running a successful company necessitates investments and risks, of which many people have no concept. Developing intellectual property, insuring against risk, sales efforts, employee training, marketing, regulatory compliance, customer service and technical support—none of which are embedded in direct material cost—are all essential to operating a sustainable business.

In either event (crafty buyer or business-ignorant prospect), the sales person's response strategy should be similar:

1. Don't take the bait. Only one supplier "gets" to be the low-cost leader, and if that's not you then there is no benefit in arguing over material cost or price. I put "gets" in quotes, as I personally would rather compete on value.
2. Explain to the crafty buyer that your products are positioned to be analyzed on features, benefits and customer value first, then on price. I like to explain to customers that if the lowest price is their number one criterion, I would be happy to save us both time by directing them to low-price leaders. On the other hand, if they are looking for the highest value: on-time delivery, standardized quality, quick expedites, environmental compliance, etc.—then we have something to talk about.
3. I have found that there is little value in trying to enlighten the business-ignorant on running a business. Simply stand on the merits of your product and explain that you let the market as a whole determine the reasonableness of your pricing, and that your business is growing just fine under the current pricing model.

Let the rest compete on price. Define the value of your product, stand firm and protect your margin. **PF 80**



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