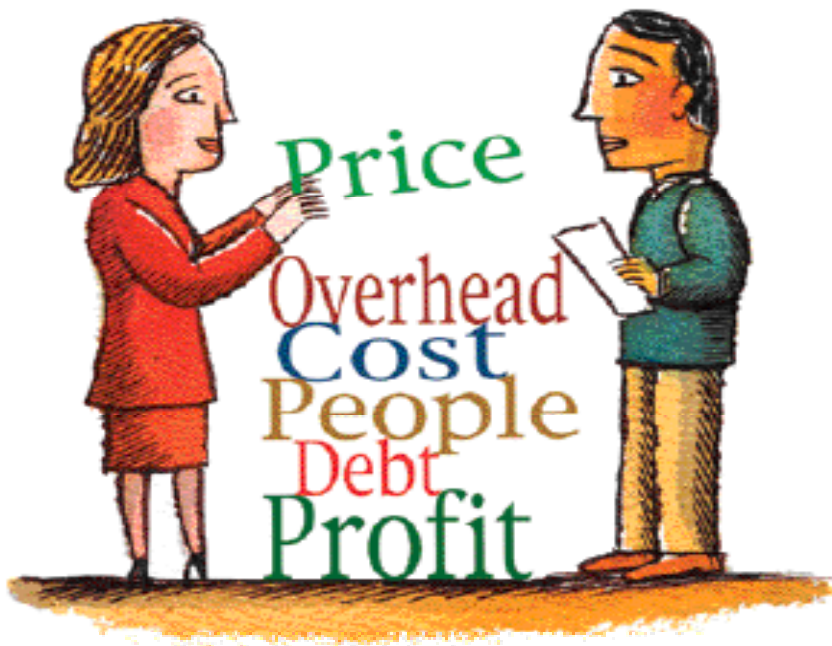


The Price Is Right

Help your salespeople overcome the pressures of price objections by teaching them the fundamentals of your finances. By Rick Davis



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Of all the challenges salespeople face in our industry, none is more pervasive than the “price objection.” The true challenge lies not in the objection itself, but rather in the expectation that salespeople should always be able to do something about it. Sales Leaders and managers can offer the best support by creating an environment that recognizes the importance of a well-structured pricing system.

I still vividly recall a lecture during my pursuit of an economics degree when Daniel Fusfeld, the former head of the University of Michigan Economics Department, noted that “costs determine price.” It was a rather profound statement to make given the fact that classic economics theory and sales practice have assumed that supply and demand are the primary determinants of price. But that theory does not always prove valid in the real world.

If you need proof, consider the drastic price fluctuations of OSB last year. When OSB prices nearly doubled, LBM dealers throughout the country were forced to increase pricing to cover costs. It didn’t matter to most

LBM dealers whether their customers would squawk; the fact was that the dramatic cost increase of materials prohibited them from holding their pricing steady. This simple example has been repeated constantly over the years. Costs determine price.

In order to help your salespeople recognize the importance of this fact, sales managers should educate their sales staffs (and perhaps themselves) about the fundamentals of a typical LBM dealer financial statement. Teach your salespeople what happens to every dollar earned by the company. They most likely will be surprised to learn how little is left over at the end of the day.

To begin with, a typical LBM dealer invests between 76 and 78 cents of each dollar to purchase the materials that will be resold. This should come as no surprise to a salesperson because most should know that the gross margin

price of a product is commonly 22 to 24 percent. After that expense, a dealer typically invests between 9 and 12 cents on their people; between 6 and 8 percent on capital expenditures; and another 2 percent on bad debt and other miscellaneous expenses. Ask your sales staff to estimate the gross profit of your company. You may be surprised by their answer, but not as surprised as they will be to learn that a successful LBM dealer earns 3 percent gross on the bottom line!

The implications of this are significant. First and foremost, your salespeople will discover that even a “point” (i.e., 1 percent) reduction in price equates to a 33 percent loss in profit to the company. Moreover, the price reduction is often unnecessary because your competitors have no significant buying advantage over you in the marketplace.

In addition, the psychological implications of a price reduction are significant. A builder who easily obtains a price reduction from a salesperson wonders why the better price wasn’t offered in the first place. Thus, a new precedent is set and the builder will continue to expect price

Sell Sheet

Profit/Loss Statement for XYZ Distribution

Revenue (100%)	\$1.00
Material	.78
People	.09
Overhead	.08
Cost of money/bad debt	.02
Total cost of operations (97%)	.97
Net profit (3%)	.03

reductions on future bids. The worst aspect of the price reduction is the nagging feeling the builder has when left wondering if the best price was actually

obtained. Therefore, it is possible, perhaps likely, that your salespeople will enhance their own credibility and the confidence of your customers by holding firm on your price.

The reality is that salespeople commonly offer price concessions unnecessarily. Of the many examples of this I've witnessed during my career, none was more poignant than the negotiation conducted by the purchasing director for a national siding dealer. A manufacturer salesperson displayed unusual zeal in pursuing the national account by asking the purchasing director, "How do my prices look?" The director casually responded, "You're within 75 cents per

square." Almost instantly the salesperson said, "I can get you 50 cents lower ... but that's it!"

The salesperson got the business, but this is not a story of sales success. The salesperson failed to consider that he may have already been 75 cents *lower* per square at the start of the negotiation, which was exactly the case! The purchasing director confided in me that he had already made his decision and was prepared to award the siding manufacturer the business. His last-minute comment was a casual ruse designed to ensure that he was receiving the best price. Among the many implications of the panicky sales response, the most profound was the loss of revenue for his employer that amounted to tens of thousands of dollars.

Maximize Your Margins

Sales leadership is not merely the ability to generate sales volume, but rather the ability to maximize gross margins. Thus, outstanding sales management leader-

ship requires that salespeople are trained and supported in ways to maximize pricing. Try the following to help your salespeople increase sales margins:

1. Educate salespeople on the financial fundamentals of your organization. If your company prefers to be secretive about the financial statements of the company, at least share with them general information that illustrates the thin line between profits and loss.

2. Set the price at which you will do business. The successful negotiation begins long before discussions occur. Personally, I prefer to set the pricing structure in a way that eliminates price negotiation. The Saturn car company has successfully built an entire business on this model. Offer your best price up front and you have nothing left to negotiate.

3. Create an equitable pricing structure. Nothing is more embarrassing than an important builder-

Sell Sheet

customer discovering that he has been receiving pricing that is higher than a lower-volume builder. Some builders, in spite of their purchasing clout, are more reasonable than smaller-volume

not to recognize that this is an industry of combative negotiations. There are, in fact, times when builders put pressure on the salesperson. In these situations, it is imperative that your salespeople are trained to slow down the process. All too often the salesperson rushes to the phone to plead with the sales manager for a better price. An outstanding sales manager will calmly begin asking

the necessary questions to determine how well the salesperson really understands the situation.

5. If you must negotiate, get something back. This is an essential component of the win-win negotiation for both parties. When a price reduction is offered, a salesperson should always receive a concession. This may take the form of financial remunerations such as long-term purchasing commitments or faster payment terms. It may also take

the form of intangible remunerations such as referrals or consolidating delivery packages. Whatever form the reciprocity takes, it is an essential component that allows the salesperson to justify his or her actions. At the same time, the customer is able to rationalize the reasoning for a reduced price without supposing that the original quote was mere game playing.

6. But try holding firm. There is a moment in the life of many salespeople when they decide to simply tell the customer, "That is my best price." At that moment, many careers are changed in dramatic fashion. It only takes one time to overcome fear forever.

Thus, the surest way to find out if you can gain a better margin is to hold your price. You may lose a sale in the process or, better yet, you may dramatically increase your profits. One thing is certain: You'll never know until you try. ■

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builders. A successful LBM dealer creates a pricing structure that rewards loyalty, sales volume, and the purchase of multiple product lines. When you create a solid pricing structure your salespeople and customers can rely on, more time is available for the important tasks of prospecting and customer service.

4. Slow down negotiations.

As a 20-year veteran of the building materials industry, I'd be pretty naive