

Sales Application Note

“It’s too early to say” Pricing negotiation techniques

Introduction

Price positioning and price negotiations are the most tricky and demanding part of the whole sales and marketing cycle. Price too high and you risk losing the business – price too low and you may gain the business but lose margin. So how do you fix and then announce a price in a way which avoids or at least minimises these risks?

The problem is that many sales and marketing people are groping in the dark when it comes to pricing, and the primary reason is that they don’t really know how to price, or at what level. So the big challenge for Sales and Marketing is to make the activity as logical and process-driven as possible, to eliminate errors and maximise the opportunity, but also to be able to successfully play the poker game that is price negotiation with the buyers. Revealing your hand too early kills off your chances to optimise the price for your company. This Application Note explains a key technique you can employ in price discussions and negotiations.

Detail

“It’s too early to say”

At some stage in the pricing discussion the customer will inevitably ask ‘How much is it?’, but in fact it’s almost certainly too early to say! In some cases, particularly with some Korean and Chinese price-sensitive customers, the question about ‘how much it is?’ can arrive very, very early in the discussion! In fact they may even say that it’s a precondition of the discussion, because they want to know whether you are in the ballpark before they spend further time with you on the discussion, and before they have heard the sales pitch.



From the buyers’ point of view, this would seem to be a very powerful and successful technique. After all, it’s the buyer who holds the Purchase Order in their hand, and if you don’t play ball you won’t get the order! So the temptation, when they ask the question “how much is it?” is to give some reply. But in the game of poker that you play with your customer, he just asked to see your cards, and you just showed him your hand! So if you give the price when he asks and early on, its game over, and you can forget about optimising your chances.

How to avoid the poker trap

When I first started working in Japan, I was dealing with many different Japanese companies - a very different experience from the American companies that I had been using to dealing with prior to Japan. Dealing with American companies had always seemed relatively easy. First they spoke English: then they were open and welcoming and apparently friendly; then they were responsive - you asked for something and they tried to respond to your demands. So getting to ‘yes’ - the yes one wanted - always seemed relatively easy, because even if we did have tough discussion and negotiations, we always got a decent response.

Japan though was very different, and when I first said, probably somewhere in the middle of the discussion with a potential supplier “yes, I like it, but how much is it?” I could not have imagined the lengthy agonising and protracted discussions which followed. After a lengthy discussion by my opposite counterparts (in Japanese of course, which I couldn’t understand!) their discussion was obviously starting to wind down, and one of the opposite party was obviously about to give a response. During the 15 or 20 minutes that they had been discussing the question about ‘how much was it’, I had fantasised about particular pricing levels, made calculations about what volumes I would be needing, roughly added up what duties and taxes might be payable, in order to anticipate the price that they were about to give to me. But instead of getting the response that I expected and wanted, my counterpart said “it’s too early to say”. Heck, it was a simple

enough question! Didn't they know their own pricing? So I asked the question again. And again. Then I rephrased it. But each time the response was the same: "it's too early to say!"

The next Japanese company I talked to I went through a similar process, but again the answer came back "it's too early to say!" Over time, this response drove me mad. I was frustrated. I wanted an answer and I wanted it quick - and the supplier wasn't giving to me what I wanted. Technically their reply of 'it's too early to say' didn't even begin to respond to what I needed. But I was also struggling with it conceptually. How early is early? What is too early? Who says it's too early? Too early for what? But eventually, I buckled down with my Japanese translator and tried to make sense of what it what they were saying, and more importantly, what was the thinking behind this type of response?

And eventually I got the answer to that, but also started to understand the concept and the thinking behind that concept of being too early. Because what they meant was this:

- *It's too early for us to give you a price because we don't understand who you are, what you are really looking for, how you will use our product, and what things you really need and value.*
- *It's too early for you to be given a price by us, because you don't know who we are and what we offer. You haven't seen and don't understand our approach to design, R&D, manufacturing, our fantastic quality and service and support, etc. So any price we give you will be meaningless.*

Then I understood what they meant! And of course they were right!

The basic point here is don't reveal your hand early. But it's about much more than simply game play, and you have to understand the process or science of what's going on here.

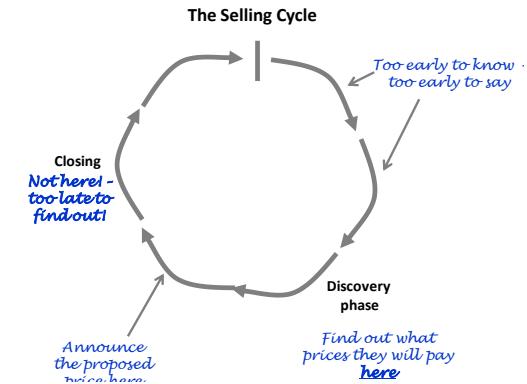
Getting process into price negotiations

Buyers love to negotiate a price downwards just before they give the order, so many Sales and Marketing people share the opinion that the negotiating stage is towards the end of the buying or selling cycle, and just before the order is placed or the contract signed, because that's how they've always seen it done. But unfortunately, this is a failure by Sales and Marketing to understand where and how the real negotiating phase and price discovery takes place and some 'science' behind the thinking.

1. Before either side can meaningfully discuss let alone negotiate price, they have to understand what each other is really looking for in the deal and what there is on offer. That offer is always relative; relative to price (price: performance ratio); relative to what is really available from the competition; sensitivities to price and performance on the part of the customer. Finding out all the key factors is called 'price discovery'
2. Price discovery is essential part of the 'Discovery Phase', which comprises initial discussion and research with potential customers/ buyers very early on in the selling cycle. It is a phase which is often quite poorly done, or when hustled by the buyer to give a price quickly, not done at all.
3. Price is never an absolute. There is no single price in this world for a cup of coffee, a polo shirt, a car, a plane journey, a CNC machine, a new medical scanner - there are only price /performance ratios, e.g., what do you get in relative performance for any given price? So the research task in the discovery phase is to test different needs, expectations and price sensitivities in relation to differing performance levels that are on offer from us and our competition
4. Price discovery feeds into the continuous loop of qualifying the prospect - e.g. if you discover that the price that the potential buyer is willing to buy is far too low for you, the probably now is the time to back out of the deal and not wait until you get to get the end where you find that the gap between you and they was too big to close and in the end unfortunately you couldn't do the deal. In other words, conduct the price discovery early in the cycle, after you have built to the trust necessary to ask penetrating questions necessary for pricing discovery
5. Turn the discussion from one where you give to the price to one where you discover what price performance and sensitivities they have. Get the buyer to talk. Get the buyer to speak first. Find out what criteria they are looking for and which aspects they value.

In conclusion, the 4 key things to discover in price discovery are:

- Sensitivities
- Priorities
- Relativities
- Expectations



Graphic 1

Try this at home!

Many salespeople we meet are sceptical about the viability of not answering the buyer's question "how much is that?", and feel that they will be thrown out of the meeting if they fail to answer the question. (And we accept that there are buyers who will throw you out if you don't answer the question "how much is it?", but you might want to seriously consider whether you actually even want to do business with that company, because they have just sent a message that they only value the ticket price and are not concerned about quality, but that's another story!). So try this simple exercise. Ask someone to sell you something simple and to hand (we usually do it with a felt tip pen, but any simple object will do...). Before they start to sell, write a price on a piece of paper (the price that you would pay for the product in reality if you were actually buying it). You might wish to experiment with a low price (say 30 cents for a felt tip pen) or a slightly high price for a superior product (say \$1.50 for a felt tip pen). Then ask the person selected to start selling it to you. Listen for a few moments then try interrupting, and forcing the issue of price, saying something like "yeah, yeah, all very interesting, but let's cut to the chase - how much is it?" If he hasn't read this article (!) then he is likely to crumple and give you a price (typically they'll probably say somewhere between 50 cents or a \$1, and then you can reveal what you had in fact been prepared to pay).

Of course it will be apparent to everyone that in fact he was stabbing in the dark - with no real idea how to price the product, because he had no ideas about your pricing expectations and sensitivities.

The second thing to know with this exercise is that it shows the danger of what is often called 'anchoring', that's to say that the discussion tends to get stuck around (or anchored around) the first price that was ever mentioned. So if the seller is the first to mention a price of 50 cents of whatever, much of the rest of the discussion will be spent arguing around the 50 cents, and not on discovery, and certainly not a discussion about value!

Whilst this is a somewhat simplistic game, it illustrates the basic problem you face as a seller when asked to give your price, and whilst in the game it will appear obvious that the seller was unable to correctly price his product, many will also grimly recognise that that's how it's often done in practice, under pressure from a professional buyer, and forced to show your cards.

Practical ideas of how to delay giving the price

As we have stated many salespeople feel it's not realistic to delay giving a price, or to not respond to a request for a price. This is because that's how they are used to playing the game of poker. So how can you realistically delay responding to insistent and impatient buyers?

Table 1

| What the buyer asks | Your response |
|---------------------|---|
| So how much is it? | Ah yes, I thought you would ask about price, but could we come to that in a moment? |
| So how much is it? | Yes, I am going to deal with the price, but could I first tell you about /ask you about....? |
| So how much is it? | I'd rather not answer that right now, because I don't feel at this stage I understand enough about what your are looking for to be able to quote properly, but let's come back to that in a bit.... |
| So how much is it? | I can't give you a single price quote, because it depends upon what you want... (options, quality levels, specification, versions, etc, etc |
| So how much is it? | What price are you looking for? |

Like many techniques, it might seem clumsy and awkward to use at first, but be polite but firm and practice it until you feel comfortable with the reaction that you will receive when you don't immediately respond with any price when asked.

Practical price discovery questions

Once you have succeeded to delay the customer's urgent pressing for a price, then you need to turn to the discussion towards Discovery and particularly price discovery. This assumes that of course you have spent some time to build a rapport and gain the confidence of your interlocutor. But once you have got their enough trust you can start to ask some questions which will help reveal what their real expectations are about pricing are.

This stage is vital otherwise you have absolutely no basis on which you can sensibly quote a price. As we have said earlier, price is never an absolute, and price has no meaning without understanding about values. As we saw earlier in the example of what can happen in Japan there are two dimensions to value: what values are the customer looking for (in other words what does he really value?); and what values do we deliver in relation to the competition. So price discovery is not just about discovering price but is about transitioning the price discussion towards value rather than price

Some questions that you can ask are shown in the table 2 below:

Table 2

| |
|--|
| What are you buying at the moment? |
| What do you see as the market pricing at the moment? (or, what are you paying for xxx at the moment?) |
| ... and what specification is that for? |
| What specification / performance / offering are you looking for? (i.e. what are your purchasing criteria?) |
| Out of the criteria you just listed, how would you rank them? |
| And out of the criteria you just listed as being most important, how does the competition perform? |
| And out of the criteria you just listed, how important is price? |
| What trade offs have you considered? - what price for what performance etc? |
| Which parts number / module number of the competition is that? (so we are comparing like with like) |
| Why are you speaking to us? Looking at other suppliers? |
| How many will you buy over the next 12 months? |
| What are the delivery loads / quantities / call off schedule? |
| What levels of service / support do you currently get / are looking for? |
| What levels of delivery / availability do you currently get / are looking for? |
| What levels of payment terms do you currently get / are looking for? |
| Do you place a single annual order, or regular smaller lots? |
| Do you guarantee to buy the quantities you order / commit to? |

What about Marketing's role in price negotiation?

Well, we would love to keep it simple and say that Marketing doesn't actually have a role at all in price negotiations! But this is only partly true! What we mean is that price negotiation is a job for Sales. It's a skilled game of poker between professionals and marketers' skills lie elsewhere rather than trying to do battle with skilled, trained, professional killers (sorry, we meant buyers!). So in short, bow out at that stage and hand over to the sales person.

But of course Marketing do have a role in pricing, but it happens not at the end when price negotiations are taking place, but right in the early stages of the selling cycle, at the 'discovery phase'. Marketing have a key role to engage the customer or potential market at the early stages, to conduct research, and find out what sensitivities they have and what is price/performance ratio and trade-off that they are looking for. If you are in Marketing and want to read up more about this phase and how it's done, see the Application Note at http://www.marketing-generics.com/knowledge_base/item/the_marketing_discussion_with_a_customer. But otherwise, leave the final price discussion to trained sales people.

Conclusion

First, understand that selling is a cycle with a discrete number of stages of which price discovery is a key stage, but it implies that you actually discover price, relativities, sensitivities and expectations before you are in a position to show your hand. Use the price discovery questions listed in Table 2. If you get asked 'what is the price?' before you have done the price discovery, under no circumstances give a price, because if you're honest, you have no real idea what price to give at that stage. So give the delaying questions in the table 1, and then try to move to the price discovery questions in table 2.

Finally, give or reveal the price only after the price discovery but also only after you have detailed all the advantages, benefits and features and performance of your solutions, so by now the buyer understands all the values you are delivering to them, and therefore can put the price into context. Make reference to the price requirements and expectation that the buyer outlined to you in the price discovery phase, showing how you responded to his requirements, so that you avoid the need to go into lengthy discussion later when you get to the final negotiations.

If you can do all of this, there should be no surprises at the final negotiations - the buyer is not surprised and dismissive of the price you are quoting, and you are not suddenly surprised by how low a price is the buyer is demanding! If you can do all of this, the final negotiations become a less painful and protected phase, and more a formality to endorse something already discussed and known.

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