THE GOOD PEANUT

"AVOIDING THE SLIDE TO COMMODITY AND THE DOOM OF DISCOUNTING IT BRINGS WITH IT"

A major challenge facing companies today is their inability to stand out from the competition resulting in prices spiralling down and eventual loss of control to faceless buyers

A research paper on professional selling by Julian Griffith

Remember, there will always be a competitor who will do it cheaper.....

I recently visited a specialist watch dealer in Sydney to buy a gift. I knew exactly which watch I wanted and was on a mission to get it before anyone else. The business is located in an old building in the city and you have to go up to their floor in one of those old claustrophobic lifts. When arriving at their office showroom you are instructed to ring the bell and stuck to the door is a note on a sheet of A4 paper which states ***"NO DISCOUNTS"***.

What a fantastic clear message to all those who are about to cross the threshold. It made me smile and has stuck with me because one of the constant worries CEO's share with me is that their salespeople too readily discount to win business, incurring losses to their company and the cry that we're now having to do more for less.

So how does the watch dealer succeed in holding his position?

The website explains that the owner is a third generation watch maker, and it immediately becomes clear, an expert in his field. As an expert he has several thousand subscribers to his daily newsletter with the latest arrivals. You simply know you're buying a genuine high quality product which has been priced correctly in the first place and that if you're not prepared to pay the price then somebody behind you is.

At the other extreme, a few years ago I had a couple of meetings with the CEO of the then largest Australian manufacturer in their field of print and mailing products. He explained their sales strategy was to own even more market share and they were prepared to undercut prices to win a larger piece of the pie. Seeing they were already well on the slippery slope of discounting I was concerned and questioned this strategy, it really had danger written all over it. Our discussions went no further and within a year the company entered into administration with the loss of several hundred staff.

Let's all agree discounting and cutting margins to "meet the market" or chase volume really must be avoided if at all possible. What's more have you noticed how customers who demand the biggest discounts are usually the slowest payers?

According to McKinsey & Company, for the typical large company a ***1% increase in discounts turns into an 8% or more decrease in operating margins.***

So where do we go from here?

Let's kick off with the premise that you the business leader are clear that you will do whatever is possible to maximise margins and instruct your sales team to walk away from business that doesn't fit.

So your strategy is in place. Your finance team get it. Your estimators get it. You have got your sales managers and their salespeople on board. All is clear – no exceptions.

So what do we need to have in place to deliver? In a nutshell three things...

1. Your sales team firstly have the right mindset and then the skills to deliver
2. Your sales team clearly understand and have the ability to articulate to the client the "Differentiated Value" your business offers to them
3. Your sales team are talking with the right people and not wasting their time with those who are not in a position to make the decision

But have you got the right sales team to deliver this for you?

If you've spent years training consumers to obey the sweet siren song of discounting, you can't really complain if they snub your wares for a better deal. Aaron Tyrrell - Editor, Money Morning

They need to understand the long term corrosive impact of discounting on customer relationships and future business….

- *Do your salespeople train your customers to behave badly?* If so the client quickly works out that "Extra discount pressure works. I'm going to use this approach every time we negotiate"
- *This leads to your sales team losing credibility.* Your buyers concluding "Their pricing was inflated all along"
- *Then your solutions become a commodity.* Your customers reckon "We were right. It *was* really just about the price"
- *You then suffer from compound discounting.* In other words, the discount you give *this* year creates the base line off which all subsequent discounts are

applied. The deeper your discounts *this* year, the less revenue you receive in every subsequent contract renewal cycle

If this is happening to your business, and I am told by CEO's it is happening more and more, action needs to be taken now. You should implement a strategy of differentiating the value your business offers and avoid the doom of discounting.

In an earlier white paper I talk about how the way we buy things for ourselves will either support or sabotage us when in a sales situation.

When working with my private clients the starting point is always to evaluate their current sales organisation in order to get a totally clear and objective understanding of their people, systems and processes and from this I can tell you that an alarming percentage of sales managers and salespeople have what we term a "non supportive buy cycle". This means that when buying things for themselves they carry out lots of research, go to several suppliers or retailers and look for the lowest price. I examined this data further and from a sample of several hundred salespeople and their managers I had worked with, about 65% self evaluated as having this sales weakness.

To add to this problem, about the same percentage reported being uncomfortable when discussing money and had a low money threshold, in other words what they consider a lot of money to be isn't that much.

The reason I have highlighted these statistics is to help paint a picture of the real reasons behind why your sales organisation may be struggling to do what you need them to do in order to maintain those precious sales margins. Without the right people in your team it will be an almost impossible task to drive this change through.

Okay, let's move on and assume you now have the right people in place because as Larry Bossidy advises *"At the end of the day, you must always bet on people, not strategies".*

Clients tell me they're getting caught out by new decision makers, a last minute change to the buying process and fresh competitors throwing their hats into the ring after they'd been lead to understand they were just about over the line. These are symptomatic of a company's "differentiated value" to that client being eroded.

Really strong business relationships commonly start with the "Emotional Customer". They are the decision maker who is feeling the pain of things going badly and grasps the consequences of not finding a fix. Salespeople who rattle on about their "stuff" don't capture their attention, it's not of interest, what they need to know is whether it will take them away from pain. The senior executive invariably has "skin in the game", can instruct others to buy from whom he chooses and signs off the invoice. The higher up the food chain your salespeople engage with your customers the easier it is to win the business because that person is emotionally involved. The problem here is that for the majority of salespeople, discussing issues with people at the executive level is outside of their comfort zone, most preferring to have tea and biscuits with the guys in purchasing.

Let's talk about the guys in purchasing. They're easy to find and are open to having a meeting. But unlike the executive they're not a decision maker. In fact they all have the power to say no, but seldom yes. Their KPI's focus on cost reduction, they've been trained to always look for the lowest price, may have a vested interest in staying with their current suppliers and at the end of the day are rarely exposed to the consequences of making the wrong decision. They are the logical buyers, and the unfortunate fact is that your salespeople are probably spending far too much time with them.

So if you're determined to focus on protecting your sales margin you must be clear about what "Differentiating Value" your business truly offers to your clients. Search hard here because if you can't identify areas where you are either unique or demonstrably better than your competitors you will be sucked into the downward spiral of discounting in order to win new business and retain existing clients.

Clearly understand where you are different and have on board the right sales team to articulate it and margins will be protected, the sales cycle shortened and valued clients retained.

The End

About The Author

Julian Griffith is the most sought after private advisor to CEOs specialising in sales force performance for three specific reasons. 1) He tells it like it is 2) He doesn't play politics and 3) He has an uncanny gift to uncover sales blockages that most CEOs don't always recognise on their own. Having held senior sales leadership positions both in the UK and Australia, Julian has seen the good, the bad and the ugly among sales leaders and why they innocently miss hidden performance blockages within their own sales teams.

Julian is the Managing Director and Founder of The Good Peanut. As a CEO Insider himself, he has witnessed firsthand the key ingredients needed to transform an underperforming sales team into a world-class sales organisation and he and his team work with CEOs intent on building high performance sales teams to drive growth for their companies.

In his book "The CEO Solution", Julian discusses the leverage that you need to optimise your sales organisation's ability to perform at a world-class level, he unmasks the truth about what is really going on in your sales force and covers specifics such as how you can prevent your sales team from eroding margins in your business in order to "close the deal", together with the beliefs we hold and whether they support or hinder sales performance.

You can contact Julian Griffith on 1300 728 940 or 0416 115266
Julian@thegoodpeanut.com.au

www.thegoodpeanut.com.au

The Good Peanut PO Box 97 Pyrmont NSW 2009