



YOUR PRICE IS TOO HIGH!

Every salesperson and many others within selling organizations have heard this lament. Whether at the start of the sales process, or as a final objection to closing the sale, the prospect says, “Your price is too high.” Now, the selling *really* begins!

The successful salesperson learns to respond to this inevitable objection. Even the prospect who is ready to buy will present the price objection to obtain a discount. Knowledgeable buyers know that there is often a standard discount for which they qualify. For example, when checking into a hotel, the smart buyer will ask if this is the best price while signing the registry, knowing that this question will likely lead to a discount as a result of AAA, AARP, AOPA, USAA or some other organization. Often, the desk clerk has discount authority, and simply asking will result in a lower rate.

In business-to-business transactions, the price objection is often a request for more information to defend the purchase and is, therefore, an opportunity to sell the value of the product or service. This justification may be to satisfy senior management or the buyer’s own sense of getting the best possible price. *The danger is to respond to the wrong price objection.*

Six Basic Price Objections

There are six fundamental perspectives regarding price:

- PRICE VERSUS COMPETITION
- PRICE VERSUS APPROVED BUDGET
- PRICE VERSUS BUYER EXPECTATIONS
- PRICE VERSUS A PROCESS ALTERNATIVE
- PRICE VERSUS A PERCENTAGE OF THE PRODUCT PRICE (FOR CONTINUING SERVICES)
- PRICE VERSUS “DO-IT-YOURSELF”

Each perspective must be understood, and the sales response to each should reflect that understanding. Responding to a price objection that does not currently exist in the prospect’s mind may simply raise that specific objection unnecessarily.

When faced with a price objection, the first challenge is to learn precisely which price objection is relevant. The best approach to the objection is simply to ask questions to

further refine the prospect's perception. One of my favorite responses to this query is simply "Oh?" The phrases "Tell me more" or "Explain," will usually elicit the information needed to respond positively to the price objection.

- PRICE VERSUS COMPETITION

The most common assertion you're likely to hear in the marketplace is that your price is too high compared to competition. Assuming that the marketing organization has properly priced the product or service, the challenge now is to discover the differences between what's being offered by the competitor and your proposal. Frequently, the competition's price is lower because the product or service is less robust. Sometimes, it is related to a time-specific "special offer." In either case, there is now enough information to respond positively to the objection: "Your price is too high!"

Consider this scenario. A company is exploring the purchase and installation of an Enterprise Resource Planning (ERP) system. Several software providers have been invited to prepare and present a proposal. After several meetings between the software manufacturers and various users within the company, the proposals are received and reviewed by the purchasing committee. Your proposal calls for a software license of \$150,000 and additional installation and support services of \$150,000, for a total initial cost of \$300,000. Annual maintenance cost is \$30,000 for this solution. The competition's proposal is for a software license of \$100,000 and additional installation and support services of \$150,000, for a total initial cost of \$250,000. They also propose annual maintenance cost of \$30,000. The competitor's proposal appears to be less expensive by \$50,000.



The information systems manager reviews the proposals in detail. He discovers that your proposal includes modules to connect your multi-plant locations, and the installation and support services for these modules and the annual maintenance fees are included in the base proposal. The competition has not included these modules in their proposal, proposing to install these modules later at additional cost. The additional cost will be \$30,000 plus \$30,000 of professional services and an additional annual maintenance cost of \$3,000. Analysis of the proposal, in detail, shows that the functionality between offerings is significant. Your price is higher than the competition, but it is more comprehensive and elegant in addressing the issues discovered during the sales process.

Further discussion with the prospect reveals these discrepancies. Now, you can either reduce your product offering to meet the competitor's price or show the enhanced value of your proposal to the prospect. Either approach will likely lead to an elimination of price as a valid objection.

- PRICE VERSUS APPROVED BUDGET

Sometimes a client develops a budget based on old or unreliable data. If the prospect learned about your company through word of mouth, she may have been told about a less expensive solution provided by your company to a friend. Her situation, however, may require a more expensive solution. If a budget was established based on the friend's solution, then this situation needs to be explored. This process will result in reducing the proposed solution, or acceptance of the higher price for the original solution. In either case, the key to responding to the price objection is to ask questions and gain more information.

Probing questions will reveal how the prospect established the budget. If the basis was inadequate data, there is an opportunity to address the issue of value you are providing. Value is based on three propositions:

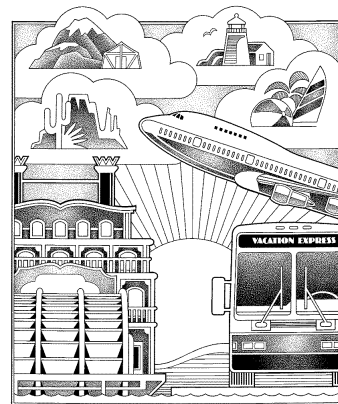
- Your proposed solution will increase revenue for the firm.
- Your proposed solution will reduce costs.
- Your proposed solution will avoid additional costs in the future.

Each of these basic propositions may be present in your sales situation, and there may be the added psychological buying needs of status, image, and similar intangibles. The important concept to keep in focus is the need to determine how the budget was developed and to provide additional information that increases the value as well as the budget. If this objective cannot be met, then the challenge is to reduce the scope of the proposed solution to fit into the approved budget.

- PRICE VERSUS BUYER EXPECTATIONS

Price expectations are often unrelated to value or competition but are simply an intuitive feel for what a product or service should cost. This can be a difficult objection, since the perception must be addressed, and it may be cultural or psychological, and unrelated to value.

Travel is a case in point. Prices for all goods and services are considerably higher in Japan and Paris than in the United States. Most travelers have difficulty accepting these high

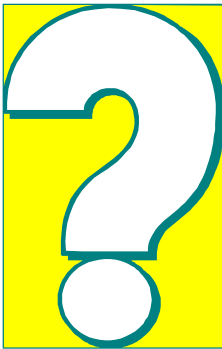


prices, and you will often hear people complain about these prices and vow never to return to those places again.

When selling business services in this situation, you might need to introduce the marketplace to validate the prices. Pointing out that your prices are competitive with other products or service providers, although risking introducing a competitor, is the only recourse. When this step is necessary, the strategy is to provide pricing relative to competitors whose higher prices or lower quality are well known in the marketplace, and against whom you compete very effectively.

- PRICE VERSUS A PROCESS ALTERNATIVE

There is often a process alternative for the prospect, and your price is being compared to that situation. Buying computer software to do a task may be compared to a manual method. This type of situation is common in business when a system is already in place, such as a customer service department, and a new solution is being proposed (CRM) which will alter the basic business process and produce benefits in addition to higher costs.



Once again, the key to success in overcoming the price objection is to explain and demonstrate the additional value of the proposed solution. In the example cited, the new CRM solution will perform new tasks that are not currently being implemented. The impact of this enhanced service may be a higher price. Probing questions will reveal the potential for increased revenue and profits as a result of a higher level of service to the customer. The system will also likely avoid the higher costs that occur when the additional tasks are not performed. For example, post installation and warranty communications will not only increase customer satisfaction, but also identify problems early in the life cycle of the product or service. Early identification will lead to early resolution and a delighted customer who will be a stronger reference account for your firm. Quantifying these data will overcome the objection of the higher price by demonstrating the greater value.

- PRICE VERSUS A PERCENTAGE OF THE PRODUCT PRICE (FOR CONTINUING SERVICES)

Sometimes the maintenance or continuing support costs become greater than the original cost of the product. Two decades ago, computer hardware and software were significantly more expensive than the continuing support costs. Today, with the reduction in the cost and the increase in power of both hardware and software, and the simultaneous increase in the cost of labor, this relationship has changed. In addition, support today may be more comprehensive than it was in the past for the same products. Questions and information can relate these changes to the prospect and disarm the price objection.

When the cost of continuing warranty support exceeds 10 percent of the initial cost of the product, there is likely to be price resistance. This is an important marketing issue, and the product-pricing decision makers will balance these factors when creating the product-marketing plan. A higher initial price will impede the initial sale while a lower initial price will help to sell the product. The trade-off is the continuing warranty and support cost. If it is too high, the customers will not commit to service, and the result will be customer satisfaction issues in the event of future problems. If the cost is too low, it will be difficult to provide continuing quality support on a subsidized basis. There are many variables that can impact the cost of continuing support services, and they are not all within the supplier's control.

If the price objection is heard with respect to continuing services after the warranty period, then an approach that could be explored is that of the total cost of ownership. Using the timeframe of the normal life cycle of the product, add the initial cost plus the continuing cost for the term of the product life cycle. Then, use this calculation to relate to the value of the product or service.

Another consideration here is the customer's own accounting system. Sometimes the initial cost is capitalized and depreciated as an asset, and the continuing warranty and service costs are expensed as incurred during the operating period. The prospect may have limited flexibility with the operating budget and more options with the capital equipment budget. This case would suggest bundling the continuing costs into the initial costs and providing no additional cost warranty for the life cycle of the product. These options are dependent upon accurately identifying the relevant price objection.

- PRICE VERSUS "DO-IT-YOURSELF"

The comparison of the price versus "do-it-yourself" often denies the cost of labor of the participant and the extended time involved for a person to accomplish the proposed solution. A simple example is lawn care. Certainly everyone can do this task at less expense than an outside service, yet few persons enjoy spending time on this chore. Those who choose to do it themselves place less value on their time, or truly enjoy this activity, than those who contract their lawn maintenance.



In selling to the education marketplace, and especially the universities, this is a difficult price objection. The university often directs graduate students to perform tasks that they are able to accomplish but that are not the best use of their time and talent. Yet, their services are "free" to the university. If the graduate student could be performing other work, which would provide income to the university, this approach to demonstrating value might be a solution.

*Albert R. Tetrault
Chairman*

Another situation, which is perhaps easier to address, is in the commercial environment. If a prospect indicates that she can “do-it-herself,” the challenge is to help her understand the value of her time. Then, you can compare the value of her time used to perform the task with the price of the service you’ve proposed.

In the simple example noted earlier, the business executive or sales representative who spends time on lawn maintenance can be approached logically. The first step is to evaluate the professional’s time. It is likely that this professional’s time is valued at more than \$50 per hour. The time required by the professional to perform this task is four hours per week. The cost of the lawn service is much less than \$200 per week. So, if the professional can employ himself for these four hours on productive tasks, there is a net advantage to outsourcing the lawn maintenance task. In addition, there are psychic rewards for the professional who does not enjoy lawn maintenance chores.

Summary

Every salesperson will regularly be confronted with the statement: “Your price is too high!” Then, selling begins. The challenge is to gain additional information through questioning, identifying the appropriate price objection, and responding with information supporting the quoted price. A rush to confront the price objection risks responding incorrectly, and thereby introducing another and different price objection.