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3535 Roswell Road, Suite 59
Marietta, GA 30062
770-509-9933
www.pricingsociety.com

Using Big Data to Sell More Effectively: Increase Profit with Fenced Offerings

Do the customers who are the toughest negotiators get your best product/service offerings – including all of your value-added services and your most favorable contractual terms – at the lowest price? If so, you need to use your pricing data to identify these customers and develop solutions for dealing with them profitably, as the author explains.

Scott Kraynak is a senior strategic pricing consultant with PROS. Kraynak works across a range of industries to help companies define and build the organizational capabilities required to develop pricing excellence. He can be reached at skraynak@pros.com.

We've all heard the proverbial story of how the "squeaky wheel always gets the grease." There are any number of business stories that illustrate the point, and I regularly see these play out with customers.

So today I'll pose the question to sales teams: *Does the squeaky wheel get your grease?* Do the customers who are the toughest negotiators get your best product/service offerings – including all of your value-added services and your most favorable contractual terms – at the lowest price? Companies need to learn how to use their big data to identify the "squeaky wheels."

Frequently the most aggressive procurement organizations – our reference points for "the squeaky wheels" – push extremely hard for savings. They put sales teams through multiple rounds of competition and negotiations, threaten to "pull their business" if the sales person doesn't acquiesce with a lower price and then ask for last-minute concessions that play on sales' desire to close the deal.

They are also the customers who represent your highest cost to serve, and create requirements that surface as three key problems for sales teams:

1. **Margin Erosion** – The "squeaky wheel" customers are very low-margin customers, which means sales teams always leave money on the table selling to them.

2. **Loss of Negotiation Discipline** – Sales teams become accustomed to conceding on price to win the deal – without asking for anything in return – which becomes a hard-to-break habit.

3. **Deteriorating Relationships with the Best Customers** – More often than not, customers who are paying a premium for the value a company delivers find out that the "squeaky wheel" customers are negotiating the same value at a much lower price, which clearly leaves sales teams with a relationship deficit.

Address the issue: Creating fenced offerings with distinct price points.

As a simple example, sellers can create two offerings that deliver a clear message to customers: lower prices come with lower value; and conversely, higher prices come with greater value. The no-frills offering is provided without value-added services, and a premium offering includes the bells and whistles and value-added services.

This may sound simple, but it's significantly better than the message that you'll concede on pricing with the "best" offerings to win the deal. **With fenced offerings, negotiation dynamics with "squeaky-wheel" customers change dramatically. The "squeaky-wheel" still gets a lower price, but only with the no-frills products and services; whereas the premium offer comes with a higher price tag.**

Fenced offerings vary by combining an offer that includes price structure and level, terms & conditions (Ts&Cs) of the deal, and products and/or services. The differences can range from simple variations that are easy to implement, to those that are more complex. Select fenced offerings provide an adequate return for the effort required for implementation.

How it works: Three industry examples of fenced offerings.

These sales teams developed and implemented fenced offerings that helped them achieve higher margins:

1. **Earned-Discount Fence – Industrial Supplier:** An industrial supplier was faced with customers who aggressively negotiated on price with the implication they would purchase a large volume of products. The higher volume never materialized, and the customer ended up "cherry-picking" a few products with very favorable pricing and very low margins. To combat the challenge, the sales person implemented an "earned discount" fence so that customers only received a lower price if they purchased a specified, adequate volume and breadth of products. Discount levels were adjusted on a quarterly basis, based on purchases in the prior quarter. As a result, the best discounts were reserved for customers who sent the majority of their

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purchases to the sales executive.

2. **Cost-to-Serve Fence – Oil & Gas Equipment Provider:** An oil & gas equipment provider experienced large increases in engineering project hours due to customer changes. Some customers with their own team of engineers insisted on periodically reviewing and approving designs, which resulted in delays and re-works when the customer asked for changes to previously agreed-upon designs. The customer insisted on these changes, despite the fact that the company's standard design had proven itself in many applications. To address this issue, the sales executive began positioning two fenced offerings during the sales cycle: a "standard design" with a lower price point and a "customized design" priced higher. The standard design replaced customer design reviews and approvals with a set of performance specifications the sales person and his company were required to meet. Customers were able to choose whether they wanted a lower price point or more input on the design. For whichever route they took, the company was compensated for the engineering effort required.

3. **Performance-Guarantee Fence – Medical Device Manufacturer:** A medical device manufacturer experienced difficulty in receiving a premium price for its product, even though the product resulted in significantly fewer medication errors than their competitors. While the sales force highlighted the benefit, they were unable to convince customers to pay a premium price. To overcome the challenge, the company created an offering that guaranteed a reduction in medication errors, and actually put a portion of its license fee at risk, based on the actual reduction in medication errors. The hospital received a firm guarantee – with seller penalties for failing to meet the guarantee – that medication errors would drop. This offer proved to be of significant value for the hospital, as medication errors could cause serious harm to patients and were costly for the hospital in terms of extra care, lawsuits and damage to its brand. The sales executive was able to earn a premium price for the product by exceeding the targeted reduction in medication errors.

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By developing fenced options, customers aren't boxed into a corner. They're able to pick and choose the options that work best for the business. Through their choices, customers reveal what they value from your products and services through their decisions and their willingness to pay.