

# Sticker shock

Help your customers cope if you have to raise prices

## Question:

**Rising labor and raw materials costs are forcing our company to increase prices. However, I'm afraid we will lose customers to our competition. How can I minimize this risk?**

## Response:

Unfortunately, your concern is justified. A price increase is the perfect excuse for customers to reevaluate their purchasing options. Since most procurement specialists are evaluated on two primary goals, reducing costs and increasing margins, increasing prices without a strong business case is a mistake.

Successful procurement managers have confessed they have a canned response when they hear about a price increase. They say, "Your timing is so uncanny because I had you on my list to call. I need to talk with you about how we can reduce our costs. We are experiencing incredible competitive pressures and need to reduce our prices. What can you do for me?"

In other words, he's telling you, "Not only am I not accepting your price increase, but I'm in the market for a better deal." Depending upon your tenure as a sales pro-

fessional, the customer's reaction might make you laugh or cry. Either way, you have to be prepared to play it out with a straight face.

On the surface, you might think that this response is underhanded or even slimy. But in fact, it's simply good strategy. Not only does it cut to the chase so you know where you stand, but it creates a sense of urgency. It also results in shifting the responsibility of developing viable solutions to the salesperson.

Buyers are not all-knowing. They can't be. Their breath of responsibility is too immense for them to be current on all of their assigned product lines.

A global procurement manager based in New England pleaded guilty to me during a recent interview when he admitted, "Buyers are busy people, and we're lazy. We don't have time to do in-depth product research for every product (when there is a price increase).

Salespeople are the true experts (or should be). If they can't communicate why they are better or different than their competition, and why their product is the right choice for us, they don't deserve my business. I am always impressed with the sales professional who asks if he can walk our manufacturing floor to learn how his product is utilized in our process. This tells me

he is interested in learning about our business and is looking for ways to help us be more efficient and productive."

You might have a great relationship with your customer, and he or she might even prefer your product. But that's not enough. At the end of the day, they must be able to justify to their company why your product makes the best business sense.

By following these five steps, you will minimize the risk of losing customers during a price increase:

### **1) Learn why your customer is buying your product.**

Could a lower-priced product do the trick? For example, Joe, an account manager selling to manufacturing companies, learned that his customer changed their manufacturing process three years ago. This eliminated the need for them to buy his special high-grade formula. Personnel changes on the customer's side and territory changes within his company resulted in this knowledge falling through the cracks. By switching formulas, Joe reduced his customer's costs by 17 percent and increased his annual tonnage by 10 percent, a win/win outcome for both parties.

## **New condos to be built on Milwaukee's west side**

CityMark Development broke ground recently on the new Honey Creek Condominiums at North 73rd and West Stevenson streets in Milwaukee.

The project is located two blocks south of Bluemound Road on the former site of the Korean Church of Milwaukee. The development will

feature 32 condo units that will be priced at \$204,000 to \$255,000 each.

Milwaukee Ald. Michael Murphy said the more affordable new condos are needed in the market. "I'm very excited about this development, and it shows that Milwaukee continues to be a strong draw for new housing development," Murphy said.

**2) Calculate the percentage your product represents in costs to your customer's total end product costs.**

For example, if your product represents less than 1 percent of your customer's total costs, even a 10 percent price increase is insignificant. On the other hand, if your product represents 15 percent of the product's total cost, a price increase could mean a loss of their market positioning. A threat of this magnitude will get a lot of attention from people at the top, including the CFO, VP of marketing and sales, VP of operations, etc.

**3) Tour your customer's manufacturing facility.**

Find out exactly how your product is used and why. Identify ways to improve how they are using your product, or if other lower cost options are feasible.

**4) Find out if there are other products they are buying from other vendors that match your company's capabilities.**

For example, if the customer has a \$400 million spend for your product category, could they redirect 1 percent to your company? A seemingly small shift in volume for your customer could mean a significant bottom line increase for your business.

**5) When all else fails, can you offer different inventory terms to help offset the cost increase?**

For example, have you considered consignment inventory in which the customer pays you weekly based upon their consump-

tion? How about just-in-time inventory? What about extended payment terms? Can you bundle a package, meaning you offer one free with the purchase of 10. Even if these options are not possible, be prepared to answer the customer when they ask if you can.

You never want to enter a price increase discussion with a customer by saying, "This is the way it is – take it or leave it." Arrogance leads to an "I'll show you," response. Rather, do your homework and come to the meeting prepared with at least two or three options for him or her to review. At the very least, your discussion will be focused on options, rather than exit plans.

Keep in mind that sustaining healthy business growth goes beyond developing good relationships and selling high-quality products. Today, you must come to the table with recommendations for improving your customer's business.

Whether it's offering ideas to streamline processes, reduce manufacturing costs or improve procurement decisions, customers respect the salesperson who leverages their knowledge and expertise to help them gain strategic advantage.

A price increase can help you learn more about your customer's business practices and processes. Use this opportunity wisely.



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