

ARE YOU MAKING ENOUGH MONEY FROM YOUR CUSTOMERS?

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The probable answer to that question is no; many companies faced with rising input costs and increased competition are fearful of the consequences of raising their prices and yet you don't need a Ph.D in pricing to realise that if input prices continue to rise and output prices remain static it is only a matter of time before the grim reaper appears.

There are however other companies within our customer base who would answer a guarded 'yes' to the question; guarded in that they recognise the pressure upon margins and see the longer term view increasingly difficult but confident that with the changes to old established practises that they are taking, they at least keep pace with their profit and cash forecasts.

In working to find ways of making major customers more profitable we have just finished a comparison between those that are making money from their customers and those who are not. We excluded obvious differences such as vastly different markets or vastly different company sizes, and we focused only upon our UK customer base.

For the purpose of this article, we selected four companies all involved in highly competitive industrial markets (Tier 1 and Tier 2 suppliers to the automotive industry for instance) and companies of between £8m to £12m turnover.

All of these four companies had both external and internal sales forces and all were strategically involved in both maintaining business and looking for new business. The ratios of 'maintain' and 'develop' activities were widely different between the four sample companies.

Two of the companies were clearly 'bucking' the trend of depressed margins and depressed profits; they had the confidence to expand and to invest in all aspects of business improvement.

The two other companies to differing degrees were clearly not performing as well; they were into heavy cost cutting, battening down the hatches and opting for a 'survival' strategy.

So what were the differences?

The first clear and very obvious difference between the 'expanders' and the 'survivors' was the positive and very proactive attitude towards pricing. The 'expanders' forcibly discarding the 'cost plus' mentality, bringing all forms of discounting under control and, above all, setting up broad based bid teams actively involved in reversing the practise of 'all inclusive' packages. Faced with 'annual cost down' demands, the 'expanders' are masters in utilising investment merit and other 'value' models.

The second difference was the investment in building 'negotiation muscle' by training and mentoring activity. This was illustrated especially by the determination of the negotiation teams not to allow their negotiation positions to be compromised by traditional 'price sensitive' sales people.

The third and possibly the most notable difference was the attitude of the 'expanders' toward sales force productivity. The traditional 'relationship' driven sales people were replaced by highly commercial and intelligent 'transaction' oriented sales people - focused upon business development and directed towards key 'task targets'.

The final difference was the refusal to accept 'contract scopes' as the limit to business opportunities. Recognising that there was almost always more opportunity for profitable business as 'add ons' and 'mission creep' was a fundamental belief. Indeed it is a frequent practise of the 'expanders' to exclude items demonstrating any degree of 'price freedom' from main contracts but tying the supply line to the main contract.

Apart from failing to embrace any of the activities of the 'expanders' the 'survivors' exacerbated their already tenuous situations by persistent heavy discounting and investment in all inclusive 'macro' differentiation packages.

If we are to conclude from the four companies that we talked to that there are some very specific activities that we should be considering in order to make major accounts more profitable what would they be?

- ?? Move away from cost plus pricing; cost plus may produce prices below which you would not go but it cannot produce the maximum price that the customer will pay.
- ?? Make a determined effort to price according to value and frequently use 'investment merit' as a positive means of illustrating cost in use.
- ?? Establish 'bid teams'. All disciplines have a major contribution to make to effective market related pricing and it is surprising how often your own procurement team can produce business winning prices.
- ?? Stop discounting – just stop it!!!
- ?? Stop all inclusive packaging. All of the inelastic parts of your package are chargeable profit opportunities. Delivery, certificates, samples, marketing support, training, packaging. Often in our workshops the list of 'freebies' given away totals twenty or thirty items!
- ?? Stop pretending that you know how to negotiate; at a recent M.Sc. course at Warwick University not one of the delegates had undertaken any negotiation training. If you have not had any specific commercial negotiation training then you are almost certainly ending up with much worse deals than were possible.
- ?? Get rid of price sensitive, relationship driven sales people.
- ?? Managing sales forces by numbers is possibly the most futile management exercise that you can undertake. Any sales person can do ten calls a day or make fifty quotations a week but can they sell??
- ?? Build 'micro' differentiation packages with your customers and enjoy the higher resultant prices
- ?? Outside every contract there are many more items, often of a more specialist nature

It really is not all bad news; but there is a very urgent need to change many past practises not least in negotiation. If you have got a bad deal with a customer and you're not making the money you should be doing then you have only one person to blame – and it is not the competition!

For further information on custom designed programmes led by Patrick Harlington for your company please contact Debbie Jackson, Global Strategic Promotions on 01634 314176 or email debbie@gs promotions.com or visit www.ansabd.co.uk.