



Part of the *Action Selling* Series
By Duane Sparks



Price Competition Study

Escaping the Price Trap!

- Why Price Pressure Is Growing
- What Determines Customer's Buying Decisions
- Create A Lasting Competitive Advantage

Action Selling™

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Price Competition Study

Escaping the Price Trap!

The Sales Board's Price Competition Study was undertaken in an effort to provide hard data to aid in the understanding of a dilemma facing U.S. sales organizations in companies of all sizes and across all industrial categories.

The challenge is price competition. In today's global economy, salespeople are under pressure like never before to match or beat lower prices from competitors, domestic and foreign. When they do, their sales margins shrink, resulting in lower profits for their companies and lower commission-based earnings for themselves.

To make matters worse, every time salespeople cave into pressure to discount their prices to match a competitor's offer, they teach their customers to ask for more discounts next time. This creates a vicious cycle in which price haggling becomes the focus of sales conversations, with value propositions having no place.

As the creator of **Action Selling**, a proven, research-based system for managing and conducting the sales process, The Sales Board has seen this vicious cycle at work in numerous client organizations.

The purpose of our Price Competition Study was to quantify the problem on a national level and to provide statistically valid data that would shed light on a number of questions vital to the future of companies and salespeople across the industrial spectrum.

Among those questions:

1. Is price competition, indeed, a worsening problem for many or most U.S. companies?
2. Is it pushing companies and salespeople into a discounting cycle that threatens margins and amounts to a self-defeating race to the bargain basement?
3. What factors are contributing to the problem?
4. What strategies, if any, appear to be effective at combating the dilemma and allowing salespeople to protect their margins?

That last question is crucial not only to the health of U.S. organizations but also to the very future of the sales profession. Because if the sales process degenerates into a game that involves little more than matching competitors' lower prices, why should companies continue to employ salespeople?

Across the board, products and services are becoming increasingly commoditized, making them harder to differentiate on a classic features-and-benefits basis. Value-added strategies such as extended warranties and "partnership" programs also are being copied and commoditized. If sales professionals cannot find a way to differentiate their offerings and add value that justifies higher prices in customers' minds, they are merely additional overhead. They have no business—and no future—on corporate payrolls.



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The overriding purpose of this study, therefore, was to identify factors that allow companies and, especially, salespeople to protect their margins by “selling their price.”

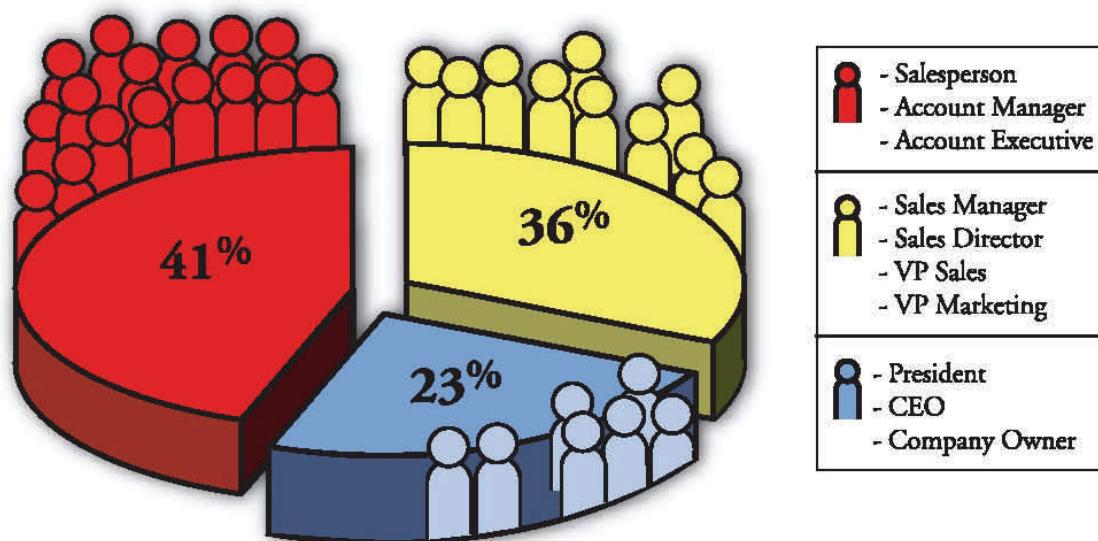
The study’s key finding is that the No. 1 factor enabling companies to compete on a basis other than price is the behavior and practices of individual salespeople. In other words, to escape the race to the bargain basement, the answer does not lie in what you sell but in how you sell.

Study Overview

The Sales Board’s Price Competition Study was designed both to gauge the current situation in the United States and to provide baseline data for future research. Data was gathered with a Web-based survey. The 722 respondents represented a broad cross-section of U.S. industries, company sizes, and geographic locations.

Four out of 10 respondents were active salespeople, with direct knowledge of how price competition operates at the client level. More than a third were sales managers (including sales and marketing vice presidents), with a higher-level view of the situation in the field. The remaining quarter of respondents were top executives—presidents, CEOs, or company owners—who see price competition from a strategic position and feel its impact on their bottom lines.

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Why Price Pressure is Growing

The study leaves no room for doubt that price competition is growing more intense across all industrial categories. Companies and salespeople alike are feeling the squeeze.

- 89% of respondents say that price competition is a “growing issue” in their industries.
- 51% report that their sales margins are shrinking – even when sales volume is rising.
- 58% say their personal income is being impacted as a result of price competition.

Why are the price wars getting rougher? Asked to name factors that play a significant role in their own industries, respondents pointed to a number of causes.

What is causing increased price pressure in your industry?

More competitors are taking a low-price strategy



Products appear to be identical (commodities) to the customer



Salespeople are less able to differentiate themselves from the competition



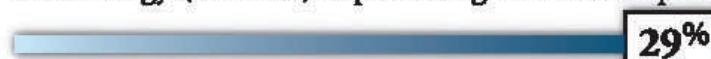
Services appear identical to the customer



Buyers are more informed today than in the past



Technology (Internet) is providing low-cost acquisition options



Consolidation: fewer but stronger competitors



Companies have reduced costs by offshore manufacturing, etc





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While “competitors taking a low-price strategy” is No. 1 on that list, however, it is difficult to find the mysterious competitors who are deliberately leading the race to the bargain basement. Asked to describe how their companies position themselves in the marketplace, only 1% of respondents said their strategy is to be the industry price leader.

Companies That Claim to be Price Leaders (by respondent category):

• President, CEO, Company Owner	0%
• Sales Manager, Sales Director, VP Sales, VP Marketing	3%
• Salesperson, Account Manager, Account Executive	1%
• All Respondents Combined	1%

It makes sense that only one company in any industry can be the low-price leader. Indeed, that's why price competition ultimately is so destructive to so many. But if only 1% of companies are intentionally pursuing a lowest-price business strategy, why do 56% of respondents conclude that “more competitors” are doing so? Evidently, most of those price-cutting competitors must be the respondents themselves.

In fact, more than half of the salespeople in this study say that they offer discounts to match competitors' prices at least 70% of the time. This suggests that while 99% of companies are at least trying to compete on value rather than price, most salespeople are helping to build the very trap that ensnares them. They teach customers that discounting is normal and expected—and that price haggling is what the buying/selling process is all about.

Do salespeople actually compete on price simply because they don't know what else to do? Two findings from our study suggest this may be true:

- *Only 16% of salespeople always follow a consistent selling procedure.*
- *Only 24% of salespeople Ask for Commitment in at least nine out of 10 sales calls.*

Why Customers Buy

Poor sales skills appear to be largely responsible for the rash of discounting among salespeople who are supposed to be competing on the basis of value, not price. This is especially tragic since respondents agree that the No. 1 reason why customers actually choose to buy from them instead of their competitors is not because of price but because of a high-quality relationship with a salesperson.

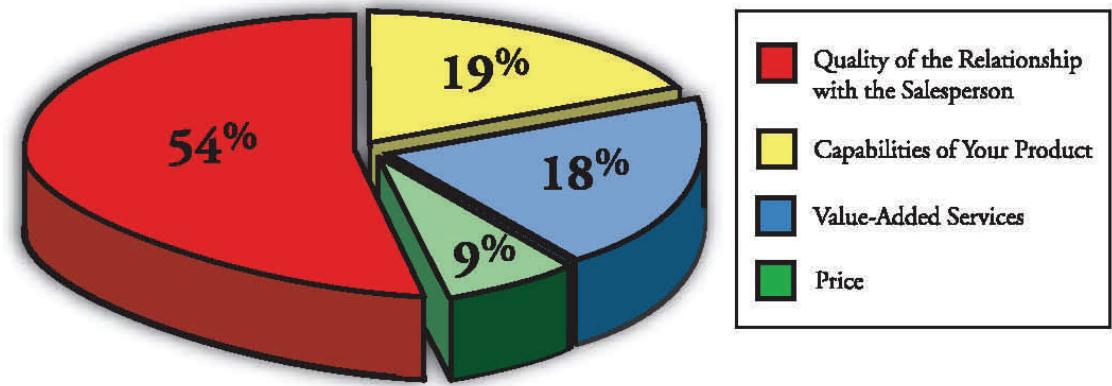


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In fact, the customer's relationship with a salesperson was cited six times more often than price as the major factor determining customers' buying decisions. That relationship was cited more than twice as often as special or unusual product features. And even though 56% of respondents say their companies offer value-added enticements such as "partnership" programs, these, too, ranked far below the salesperson relationship as a reason why customers buy.

When you win a sale, what is the most common reason why the customer buys?



This strongly suggests that it isn't what you sell but how you sell that determines whether the customer will buy from you rather than from one of your competitors. And will you win not just the sale but your price as well? One final piece of evidence says that this also depends not on product features or value-add strategies but on selling skills. The finding is a simple one, but its implications are enormous.

It is this:

- 86% of respondents agree that top-performing salespeople generate higher margins than average ones.

In other words, even when they sell the same products with the same value-adding services, top salespeople are less likely to resort to discounting and more likely to win their price. This can only be because of a difference in how they sell.



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The Price Wars

Based on the findings above and others generated by The Sales Board's Price Competition Study, the situation can be summarized like this:

Where is the Pain?

Sales up, but margins shrinking: 80% of respondents report that sales volume is increasing. But more than half (51%) say their margins are eroding. Even among those with growing sales, 40% are increasing at the expense of margins.

The price wars are getting worse: 89% say that price competition is a growing issue.

My wallet is shrinking! Three out of five say their personal income is being impacted by price competition.

What Sales Managers Know is Broken But Can't Fix

Failure to differentiate is the No. 1 problem: Sales directors and VPs identified the inability to find a differentiated sales position as the leading reason why their salespeople resort to discounting to match competitors' prices.

"We're not the only ones trying to differentiate": 56% say their companies use "partnering" or other value-added strategies to try to differentiate themselves.

Fewer than one in five salespeople deal effectively with price objections: Only 19% of sales directors and sales professionals rate themselves as "effective" at handling a price objection. (C-level respondents think their sales forces are far better than that.)

What the C-Level Doesn't Know

They think they're competing on value: Less than 1% of C-level execs said their business strategy is to be the industry price leader. That means 99% are trying to compete, somehow, on the basis of value.

But discounting rules: More than half of all salespeople say they give discounts to match competitors' prices at least 70% of the time. That means the value-strategy message isn't getting through, the tactics don't work, or the salespeople aren't equipped to carry them out.

Salespeople unaware of competition's strategies: When asked about partnering strategies and other tactics their major competitors use to justify higher prices, 43% of sales professionals answered, "I don't know."



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No Sales Process Exists. The C-level thinks salespeople are following a consistent selling procedure 50% more often than sales management actually observes.

But There is Hope

Some salespeople DO drive higher margins: 86% of all respondents agree that top-performing salespeople generate higher margins. (So there must be ways out of the price trap!)

Quality sales relationships win business: Respondents in every category agreed that when customers do buy from them instead of their competitors, the No. 1 reason is because of a relationship with a salesperson - not product features, not company reputation, and not price.

Escaping the Price Trap

Every company faces a fundamental choice. Either it must build a business strategy on being the low-cost provider in its industry, or it must find a way to compete on some basis other than price. Since 99% of respondent companies are not low-price leaders and 89% experience growing price pressure, most companies are caught in the price trap.

To justify a higher price in the customer's mind, salespeople must differentiate themselves or their wares somehow. Few are in a position to do this based on special product features or even value-added strategies—because competitors can quickly copy both. Products and partnering-type strategies alike have been commoditized in most industries. Regardless of what salespeople have to sell, chances are their competitors offer something very similar if not identical.

The one thing competitors cannot match quickly or easily is a high-quality relationship between an individual salesperson and a customer. Fortunately, as this study shows, that is the No. 1 reason why customers in fact choose to buy from one company instead of another.

Therefore, the way to create a lasting competitive advantage that allows an organization to protect its margins and escape the price-cutting trap is to teach salespeople how to build those quality relationships with customers—consistently and dependably. Top performers are able to generate higher margins precisely because they know how to develop such relationships. That is to say, top performers do not win their price because they are better hagglers or negotiators. They win their price because they interact with customers in a manner that draws the focus away from price negotiation altogether.

Top performers create value propositions in which the key-differentiating factor is not so much the product or service as the salespeople themselves. The thing their customers actually buy, and for which they are willing to pay a premium, is not a commodity product or service but a unique combination of factors in which the main “feature” is the salesperson.



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If average salespeople can learn to do the things top performers do to build those kinds of relationships and thereby generate higher margins, the sales force becomes an enormously valuable asset. It can be the engine that pulls a company out of the price trap.

This learning obviously cannot happen on a hit-or-miss basis, and it cannot rely on attempts to alter innate personality traits that are highly resistant to change. Instead, salespeople must learn some systematic process that can be relied upon to build high-quality customer relationships—a process that can be followed, practiced, and refined, step by step, in every sales call. A sales system designed to do exactly that is called **Action Selling**.

ABOUT THE SALES BOARD

The Sales Board, Inc. was founded in 1990 by Duane Sparks, author of the **Action Selling** system, to provide research and sales-training technology to businesses of all sizes across all industrial categories. **Action Selling** workshops, self-study programs, and certification programs are in use in more than 50 countries, and have been translated into Spanish, Portuguese, and French.

More than 400,000 salespeople have gained certification in the **Action Selling** system. Certified students increase their sales performance at twice the rate of uncertified students (15.8% vs. 7.6%). At the same time, they perform a feat that 62% of companies fail at: They increase their selling margins.

The Sales Board's clients include such prestigious names as CitiGroup, AFLAC, CARQUEST, Cummins Diesel, Patterson Dental, IDEXX, Featherlite, and Scientific Learning.

Newsletter

Sparks is the author of the free, monthly online sales skills newsletter eCoach, which provides regular tips and advice based on the principles of **Action Selling**.

To subscribe to the eCoach Sales Skills Newsletter or for more information regarding **Action Selling**, contact The Sales Board, Inc. at 1-800-232-3485 or visit <http://www.actionselling.com>.

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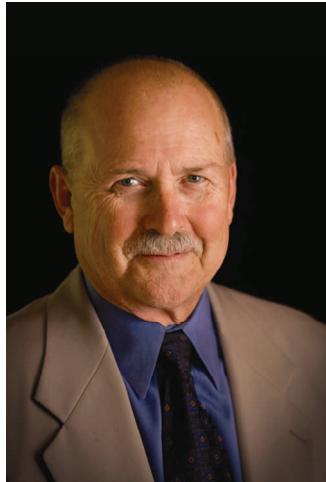
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ABOUT THE AUTHOR



Duane Sparks is chairman and founder of The Sales Board, a Minneapolis-based strategic sales training company that has trained and certified more than 400,000 salespeople in more than 3,500 groups in the system and skills of Action Selling™. Sparks has guided companies through every phase of business development, from start-up, turnaround, survival and rapid growth. He has also written five sales books, personally facilitated more than 300 Action Selling™ training sessions and continues to engage in the business and art of the strategic sales process.

Duane Sparks is the author of Five Sales Books:



Action Selling: How To Sell Like A Professional, Even If You Think You Are One

Selling Your Price: How To Escape The Race To The Bargain Basement

Questions: The Answer To Sales

Masters of Loyalty: How To Turn Your Sales Force Into A Loyalty Force

Sales Strategy From The Inside Out: How Complex Selling Really Works

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