BMKT 114: Psychology of Selling

Unit 9 Course Materials – Operational/Financial Justification (Techniques: Pay –for-itself/R.O.I.)

The following skills are powerful when justifying a potential purchase. For the client, it is the second time he/she visits *tension.* We addressed high relationship tension at our first meeting. You were an unknown quantity, and unproven representative that hasn't proven your honesty, credibility or positive intent. Now you are asking the client to pay the price required to solve their problem. Risk is high. What if your product or service doesn't solve the problem? What if there would have been a better choice? What if it works now, but not in the future? What if the client's decision to buy is not accepted by the rest of the organization? What if it wasn't worth the price paid? What if……? What if…..? There are so many risks involved in a major purchase, that the decision to actually buy is extremely difficult. You are the *change agent.* You can either be the hero, or the villain, depending upon the ultimate outcome. With so much at stake, how do you reinforce the decision to buy is actually a good decision? I will tell you how….

Two Components to Supporting the Purchasing Decision

Operational Justification
Financial Justification

Think about where you are now with your client. He/she is thinking "Will the rewards outweigh the punishments?" ~or~ "Will the punishments outweigh the rewards?" How do they know…for sure?

Here is your ethical dilemma – if you are being honest, you can use the following techniques to justify the purchase. If you are dishonest, you can use the same, but you will not be able to sleep at night. I would expect you will be honest. We will visit ethics later on in the course.

Operational Justification
(Brian Larson)

Operational justification is the easiest to address. It means showing the prospect how your solution will do the job that the client wants done. Demonstrating that it will solve the problem….now, and in the future. That it is the best solution available.

It addresses three basic questions:

1. Will it work?
2. Is it best for the prospect's situation?
3. Will it be best in the future?

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Typically, this has already been done throughout your presentation when you have converted features into benefits.

Financial Justification

Financial justification deals with:

Value ~ Cost Effectiveness ~ Affordability

Financial Justification addresses:

1. Will it help save or earn money?
2. Is it worth the price?
3. How will we the client be able to afford it?

Let's get this straight from the beginning. The price is ALWAYS too much. Have you ever walked out of a store and said "Gee, I paid too little for that item." Too much maybe, rarely, if ever, too little. I know, I know, getting an item for 70% is a good deal. I hear this almost daily from my wife. She is a bargain hunter, and finds great deals…40% off that, 60% off something else. She processes price into what she *saves.* I process price by what she *spends.* Anyone who really knows me knows I am not cheap. But I also deal with real money, not percentages off.

Every time I think about a high initial purchase price, I remember an experience of a Kirby Vacuum presentation I was involved in many years ago. My wife and I were recently married and a sales representative from the Kirby company contacted me to see if we were interested in seeing their new product. (They had gotten my name from a drawing I entered during our local fair) We had just bought our first home, so I said sure. So, the date was set and a "master" sales representative and an "in-training" representative showed up at my door. I think the use of a newbie always helps sell, since it is human nature to want to help anyone just starting out. In any case, they bring into my home this bright, shiny and beautiful *"home environment"* tool. (see vacuum) As the demonstration began, I asked the question, "How much is it?" At first my question was ignored, and the demonstration continued without missing a beat. It was solid, well made, cleaned "body ash" better than anything out there. Each part of their demonstration more convincing than the last. But, I asked, "How much is it?" – nope, they are not going to tell me. This went on for almost an hour and a half. Finally, near the end, they said I could basically steal it for $1,800.00. For this price, my carpets would last longer, my family's health would be better, and it would last through my great, great grandchild's' lives. Not bad. And to be sure, it was an extremely well built product. The only problem was that I didn't hear a word they said. In my mind, I needed to know the price. From their perspective, they wanted to justify the price before they stated the price. For me at least, I would rather be shocked by the price first, and then let you explain why it is worth

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it. *The human mind requires the price in order to make a financial decision.* They sell a lot of vacuums using this technique to be sure,….but I wonder if any of you have felt the same way I did. Expensive, and worth it. I believe you typically get what you pay for…and that is true with the Kirby Vacuum. At least they can believe in the product they are selling. Buy the best and you won't be disappointed. But avoiding the disclosure of price isn't necessary. Think about why so many used car ads don't disclose the price. They don't because they are asking too much. But if they want to sell their car, why deal with the hundred's of people calling just to ask. Tell them, up front…then tell them why it's worth the price being asked. Explain how their investment will pay off in the long run. *Remember, the price is ALWAYS too much.*

Another thing about price. The term *price* refers to a cost. An expense. A payment for which there is no return. *Never* use the word *price.* Use *"Investment."* Investment suggests a return….a payoff over time. One should *invest* in a product – one that will provide a return back for the cost upfront. Much more persuasive than price.

Next, and this is a pet peeve of mine. *Never, never, ever* use the term *"cheap"* to refer to price. Cheap refers to quality, not price. If something is cheap, it will break, malfunction, be dangerous, or worse. Yes, people commonly use cheap to refer to price. But you are not common people. You are sales professionals who know better.

These concepts seem petty, but they project expertise. A belief in the product you are selling. Don't overlook these important concepts. Practice them. Correct others who use them incorrectly. They make the price of a product palatable. Why so important? Because the price is *always too much.*

Let's Review:

As discussed, "***operational justification"*** demonstrates how your product or service solves the client's problem. How it does so both <u>now</u> and <u>in the future</u>. How it works, how it is best for the situation, how it is clearly the best solution.

"Financial Justification" makes the investment (price) <u>worth the cost</u>. Demonstrating how the initial investment, over time can pay-for-itself, provide a return on investment (R.O.I.), or that the cost per unit is small comparative to the upfront expenditure. These techniques are powerful and highly effective when presented honestly and accurately.

This week, we will begin with the two most used techniques to justify price. The first is *Pay-for-itself;* the second is *return on investment.* It is critical that each is presented in the format required.

Pay-for-itself
(Brian Larson)

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Pay for itself is **always** presented in "*time*." For example, a product that initially costs $3,000.00, and saves the company $1,000.00 per year would pay for itself in 3 years. Assuming that this product has a life expectancy of at least this long – that is a great investment. If you could put your money in a bank and earn a 300% return in three years, it would be an excellent investment. Pointing this out to your client is a powerful sales technique.

Remember to present the information in TIME. ~ not dollars, not a percentage, TIME. And *never exaggerate*. Be conservative. If a client does the math and finds that you have rounded your answer, even a little bit, you will have lost credibility. Loss of credibility equates to a loss of trust, and likely your time, effort and certainly the sale. Explain to the prospect how you arrived at your answer, what assumptions were used to get there, etc…If you assume a certain life expectancy, rate or savings in energy, interest rates….whatever, explain.

In your assignments this week, you will have several problems that ask for you to determine the time a product would take, in savings or gain, to pay for itself. Do the math.

Return on investment
(Brian Larson)

Using the technique of *return on investment(ROI)* looks at price as an investment rather than a cost. Remember, a "cost" is an expense that doesn't provide a return. *NOT* a good way to address the price of an item. When presenting "price" as ROI, you always do so in a percentage. If the initial cost is $200.00, and it saves in energy costs $200.00 in one year, you have achieved a 100% ROI. Very convincing if the statement is true. And surprisingly, it is, frequently.

Here is the hard part. Each of these cases are story problems. Not difficult ones, but also not always clearly stated in a mathematical formula. Often, as is the case in sales, there is a lot of information presented. The challenge is to separate the relevant information into an honest mathematical formula to solve. And know this now – there is no set formula to plug numbers into. Each situation is different, the assumptions have to be made, etc…. For example. Lets say you buy a programmable thermostat that turns the heat down when you are at work, or at night asleep. You know the cost of the thermostat, and you can look up the current electrical rates to use – but will the rates change? Does that include tax? After all, sales tax varies from state to state. Are there energy credits that can be deducted from your income taxes simply by purchasing the programmable thermostat? I suspect you could come up with an exact illustration of the savings over time. But it is subject to the dynamics of the commodity of energy (Have you watched the price of gasoline change lately?), to the tax benefits, etc…

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Keep in mind that you are illustrating a likely, reasonable return. One that can be defended, with the assumptions clearly stated. Keep the unnecessary and overly complex details out of it. Your goal is to justify the price of the item, not confuse the consumer. If you get into a lot of tax credits they can apply for, the purchase represents extra work, added costs for their accountant, record keeping, etc….not a simple cost effective purchase. Remember the K.I.S.S. principle. (**K**eep **I**t **S**imple **S**tupid)

Ok, lets try a few. The answers will appear in next week's *course materials* and *notes*. Do your best and remember:

Pay for itself *MUST* be presented in time.
"The product will pay for itself in ____years and ___ months."

Return on Investment (ROI) *MUST* be presented as a percentage returned. (Like an investment)
"The product after 5 years would provide a _______% return on investment."

Price Vs Cost

This technique is best used when the price is high upfront, and over the long run, actually less. For example, if you were considering purchasing a new car, and the choices involved two vehicles, one $5,000.00 higher in cost than the other ~ which would be the better buy?

The answer depends upon a number of factors. How long will the owner keep it before trading it in? What are the reliability expectations? Will the warranty cover tune ups? What is the historic trade-in value?

If, for example, car one had an initial cost $5,000.00 higher, yet the trade-in value was 60% rather than 45% after five years – maybe the cost *in the long run* – is significantly lower. Illustrating these considerations help buyers justify paying more for an item upfront.

If a cell phone costs $100.00 more than one offered by a competing company, but the service charges were less each month – which is a better deal?

If a computer printer comes free with a computer purchase, but the ink cartridges cost twice as much as a printer costing $199.00 extra – how about now?

I think you get the idea. You likely have experienced "*the great deal*" only to find out later, it wasn't so great.

Cost per Unit

This technique takes the difference between the higher priced item and the lower priced item, and *breaks it down to the ridiculous.* I call this, selling bread by the slice, rather than the loaf. It makes the difference in cost seem insignificant.

Here is the idea.

If an 42" LCD flat panel monitor costs $100.00 more than a 55" monitor – and the expected life span of the product is ten years, that's:

Only $10.00 more per year
Only $ .83 per month
Only $ .20 week
Less than $ .03 cents per day.

Three cents per day? Why not buy the higher priced monitor. Besides, it has more screen area – what a deal!

It's a simple and effective technique for justifying a higher priced item by breaking the price down to the point that is seems insignificant. And maybe it is worth it, but you will still be getting $100.00 more for the sale.

Look at car ads in the paper. In the old days, the total price of the vehicle was advertised. But if you have noticed, cars are very expensive in today's marketplace. So how are they responding? With monthly payments advertised instead of the total price. I have even seen monthly payments being broken down into weekly equivalents, just to make it look SO affordable. It is a devastating technique.

Life insurance is sold as costing less than a cup of coffee per day. Now that isn't bad – your family is worth it. But take a moment to take the price of a cup of coffee, and multiply it by 365 days in a year. Multiply that by your average life span until it would likely pay out. Add the loss of interest income you won't receive if it was in an investment, and that is a lot of money.

Let's look at these concepts another way. (Credit Daniel Sitter)

PRICE

For as long as there have been documented records, there have been merchants, or as we are called in modern vernacular, salespeople. People want things. People need things. Considering that there will always be a public demand for something, there will always be a need for salespeople! It has been said that "Nothing happens until someone sells something." This is absolutely true. The sales function drives every other aspect of a modern company. Sales must come first, for without sales, there is no need for marketing, accounting, manufacturing, human resources, etc…

Ask almost any average salesperson what his greatest problem or objection is and more than likely you will hear the word price. "My prices are higher than my competitors" or "Our prices are too high" are often the mantra or excuse for lackluster sales figures. Ask a superior salesperson however, and I suspect that you will find, in reality, she has learned that price is

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seldom the real issue. Let's consider the acronym P.R.I.C.E. for a moment: **P**erceived **R**eality **I**nvestment **C**ost **E**xpectation.

Perceived: Sales are most often a process involving perception, or perceived value. Our job as professional salespeople is to sell the value of our goods and services. Once the customer sees that the value of the product or service offers more to him than the selling price asked, the sale is made and the issue of pricing actually never became an issue at all.

Reality: Let's face it, so often sales people use the price excuse for the reason why a sale was not made. Assuming that you are dealing with a qualified prospect, and you are wasting your time if you are not, the reality is that your prospect needs to learn exactly how your product or service fills his need, closes the void and meets his requirements in a timely manner. That is plain reality.

Investment: The customer must be shown that by purchasing from you, she is making a wise investment and not simply incurring an additional expense. Buyers are not interested in driving their costs higher by spending more money. They are interested in solving their problems. They desire to make cost-effective decisions based upon perception and education.

Cost: As a professional salesperson, interested in meeting and exceeding the expectations of your prospects and customers, you must always be aware that price is simply not equal to cost. Remember the old axiom… "Beware the cost of the lowest price." Cost of ownership, payback time and solving problems are the true issues a professional buyer is really looking for.

Expectation: Today's customer assumes quality. They assume service and delivery. Your buyer expects that the products and services that you propose are actually presented with her best interests in mind and that they will meet her needs. That is the starting point. Do not be fooled when a buyer asks you about pricing. If they can maximize their value and get it at a lower price, they will attempt to get it, but they will buy at your set price point if expected value is there.

To simplify things further, remember that the customer actually makes the purchase decision only once. The money allocated to acquire your product or service is typically spent one time for each purchasing decision. For each purchase, the company must then deal with the reality of that decision. The item purchased is then placed into service within the structure of the buyers' company. After this point, various employees and internal departments such as engineering or maintenance, must deal with that particular purchasing decision. There will often be ramifications from each purchasing decision within other departments within the company. The true cost of each purchasing decision will show itself over time. Cost issues continue to present themselves over the useful life of the product or service purchased, long after the purchase was actually made.

Cost and price are two very different concerns indeed. Do not get caught in the trap of thinking otherwise. Superior salespeople have learned that hard lesson at some point earlier in their careers. Do what all superior salespeople do; shorten your learning curve by acting on this new information. Move your career into high gear by accelerating your learning of these superior principles.

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