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So what's your difference?

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A recent McKinsey survey rates pricing pressure as the number one concern of global business executives. In this age of hostile competition, customers have abundant choices so they have great power. You have to do something really special to get their attention – and their cash.

Everywhere you look, companies are taking a pounding in the marketplace. In many sectors, there's huge over-capacity – too much stuff chasing too few customers. At the same time, customers now see quality as a given, not as something that justifies a premium price; they have learned that if they hunt around and haggle, someone will give them what they want at the price they want to pay.

As prices dive, so do margins and profits. So dealing with this challenge is a matter of utmost urgency.

Faced with buyers who demand a discount, the instinctive reaction of many firms is to give in. But this merely reinforces the customer's belief that better prices are there for the asking, and they take that bad habit with them wherever they shop.

The internet makes things worse. It has shifted knowledge power from sellers to buyers, and bargaining power with it. In the past, customers were relatively ignorant – and thus vulnerable – while vendors were experts and could call the shots. But no longer.

Today, customers can use powerful search technology to check what's available and compare prices. Some firms have even set up "advocacy" websites so they can appear to be the shopper's friend, and make buying decisions easier.

In effect, business is training customers to think that the first price is the wrong price, and just the opening gambit in a negotiation that no company can win. So dealing with them means you have to "un-train" and re-train them.

They need to be made aware that price is just one factor in a complex bundle of what makes "value". And they need to understand why some goods and services logically cost more than others.

A Montblanc pen, an IWC watch, a turbocharged Porsche Cayenne, a room in a One & Only resort or an organic banana from Woolworths is not just another everyday offering. You cannot enjoy a British Airways experience at a Ryanair price. Eating at Yum is not the same as ordering a take-away from the local fast food joint.

The problem is that customers either can't or don't see the difference, and don't see any reason to pay for it. They settle for second best because it gives them roughly what they want.

The situation is bound to get worse. Information about pretty well everything is now widely and easily available. Quality standards are rising all around. Great design is fast becoming “a ticket to the game”, and not a special advantage. It’s easy to knock off someone else’s offering – and this is a growing trend.

So how should you respond? Here are some guidelines that might – and I stress, *might*, make the difference and enable you to get the prices you need:

1. Establish a target price for your offering. Be clear who you’re competing with, and on what basis.
2. Be as sure as you can that there’s real value for money in what you sell. Don’t kid yourself. If you pump up your prices unreasonably, you’ll be found out fast.
3. Get the costs out of your business system. You can’t afford people, copiers, cars, ad campaigns – or anything else – that does not add value and make your price “right”.
4. Be very, very skeptical about the value of “brands”. Do not be suckered into thinking that you can defend yourself with a new logo, a fine promotional effort, or glitzy packaging. Imagery is important, but customers want substance.
5. Craft your value proposition carefully, and explain it well. Many companies have no idea what their “difference” is. They love their own promises, but customers couldn’t care less.
6. Attack the market with “a flurry of blows” – price is just one aspect of the value you promise. Also think elements like quality, access, standards, the “system” your product or service is part of, support, quality, the buying/owning experience, and so on.
7. Explain your price. Don’t assume customers will work out why it makes sense.

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