DEALING WITH PRICE OBJECTIONS AND JUSTIFYING PRICE INCREASES

Price negotiations are every salesperson's dilemma. The customer will always try and negotiate the best sales price even down to the last 0.25% discount. As part of this process the customer will usually tell the salesperson that the prices are wrong. Hearing these arguments day after day, it is hardly surprising that many salespeople, even the best, suffer from 'price fright' and begin to believe that their product would sell better, if only they gave the extra discount. Wrong!!

This material is designed to help the salesperson overcome the customers objections particularly about price. Price handling forms part of good sales skills and is covered on all good sales training courses.

The salesperson can discuss with the customer the benefits of quality and Company service. Comparisons between product and price are also ways of getting over the profits and savings available on the product.

The salesperson does not only have to defend the price but often has to face the task of justifying price rises in a logical manner. Other difficulties to be faced include the customers price claims when offering used equipment in part-exchange and making good use of the pricing powers given by the company they represent.

All these techniques are described in detail in this material and you will find a wealth of practical tips and discussion ideas to help solve these problems.

HOW TO OVERCOME PRICE OBJECTIONS BY SKILFUL QUOTING

As the salesperson representing your company do you have a 'price complex'? Are you totally familiar with the detailed costing of the products you are selling?

If not we suggest you make sure that you are fully informed about the cost to your company of materials, labour, transport, storage, overhead costs etc. If you are sure of these facts then your company's pricing policy will be better understood by you. If you have misgivings do not keep these concerns to yourself, discuss them with your management. Often a discussion will give you some additional information you might need one day to make a sale.

Remember if you are armed with all the information you need you can deal with your customers' objections to the price in a more convincing and self-assured way.

A customer is much more likely to order from the salesperson who is convincing about his/her products and prices.

Many salespeople do have a complex about price. Many buyers have told them that their price is wrong (it is the most common of all objections) the salesperson starts to believe that it is true. Yet if it were completely true, why do other customers buy? Can it be that they are fools? Highly unlikely, so there has to be more to it than simply the price as stated.

Recognising the facts about price

If the salesperson believes that the company they present seems to price the product too high so ensuring an unreasonable profit then they should bear the following points in mind:

1. Many companies have 'Good' years and 'Lean' years. To survive they must generate reserves.

2. Not only do the company owners derive benefits in the good years but also staff and customers benefit from good profits. Profits make jobs more secure and guarantee high quality products.

3. A company rarely gets into difficulties because its sales prices are too high. However many companies find themselves facing bankruptcy because their sales prices were too low.

4. As the salesperson You must ensure that you have overcome your 'price complex' so that you can 'sell' prices to your customer and be able to deal with all objections raised to the price.

RULES FOR QUOTING PRICES

1. **The price is the most natural thing in the world.**

   Quote the price calmly, clearly and distinctly, never raising or lowering your voice.

2. **Never pause before or after quoting the price.**

   Pauses are only advisable if you are selling a product which is very inexpensive and if the price is supposed to impress the customer.

3. **Memory is vitally important.**

   Make sure you memorise important sales prices and discounts, inclusive of prices, minimum quantity, surcharges and quantity graduations, so that you can answer the customer's questions at once.

4. **Remember that calculation is part of the negotiation**

   Make sure that you have all the documents ready, including current price list, discount list as well as costing data or calculations of profitability. Always remember that every negotiation needs calculation and you have nothing to hide where the price is concerned.

5. **Psychologically it is always better to quote in tens of hundreds rather than in thousands or millions.**

   If the equipment costs £3,800.00 it is better to quote 3.8K. If the quotation sounds lower, then in the eyes of the customer the salesperson looks like a 'professional' for whom such quotations are a stock-in-trade.

DISTINGUISHING BETWEEN AN EXCUSE AND AN OBJECTION.

If a customer says ‘The price is too high’, this is not necessarily an objection – it could be an excuse. Price excuses are a misrepresentation of facts. Sometimes customers use price as an excuse for any of the following reasons:

- ‘I do not wish to talk about the matter today’
- ‘I have no authority to purchase. I will have to talk to my boss about this matter.’
- ‘I am already up to my ears in debt. I cannot contemplate a purchase at the present time.’
- ‘I have already given an order to XY. I do not wish, at this moment, to tell the salesperson the truth.’
- ‘Next year I am giving the business up, but the salesperson does not need to know that today.’
- ‘The manufacturing process in the factory is being changed. The need for the product no longer exists.’

The background to the objection

The sales person can find out if there is a real objection by asking a few questions:

- ‘Mr. …….. we have known each other for many years. Is the price the only reason?’
- ‘Is it really just the price that is standing in the way of the order? Or have you another difficulty.’
- ‘Assuming the two of us can agree on the price, would there be anything stopping you from making an immediate purchase?’

If the salesperson is polite and skilful, the customer will often divulge the real objection.

- 'Yes, you know, the price plays a major part. There is also the change in consumer demand. The high and low price items are still strongly in demand as before, but your products lie in the middle range, where there has been a considerable slump in turnover.'

A further question which often sheds light on the problem is:

'Too expensive? In relation to what?'

The customer has many ways of answering.

- 'In relation to my budget.'
- 'In relation to my income.'
- 'In relation to the benefit.'
- 'In relation to the quality.'
- 'In relations to competitors' offers.'

The question 'in relation to what' or 'compared with what' will always encourage the customer to clarify their objections.

You can also test the soundness of a customer's price objection by re-iterating their statement.

EXAMPLE

An office machine salesperson is offering a photocopier. The potential buyer replies, 'The monthly rental is too high. I cannot make full use of the photocopier.'

Nine out of ten salespeople who are confronted with this objection will answer directly and without hesitation. They will produce new arguments and calculations to try and persuade the customer of the equipment's profitability so changing the customers mind.

Re-stating the objection

Psychologists counsel a different path, the technique of re-statement. What is meant by that? The salesperson does not reply to a declaration or an objection. They briefly summarise the customer's statement in order to retain their agreement. This achieves three things:

(i) The salesperson makes sure that they have properly understood the customer's declaration or question.

(ii) The customer realises that the salesperson understands them and can put themselves in this position. They feel relieved and grows more ready to discuss the issues.

(iii) The customer is encouraged to make further comments. They will set out additional explanations or objections which will be of use to the salesperson.

The simplest form of re-statement is the echo answer.

'You think the photocopier costs too much?'

Formulations like

'In other words…'
'You feel…..'
'So you take the view….'

are also suitable for reproducing the customer's opinion.

The re-statement can also be couched in other words.

'You believe that you cannot at present financially
justify the acquisition of a photocopier.'

The re-statement leads to a relaxed negotiating climate. The customer is afraid of making the wrong decision. The salesperson shows understanding. This breaks down the customer's original attitude and replaces it with a feeling of closeness. The customer's willingness to consider the salesperson's arguments grows.

If the salesperson meets objections with counter-arguments, a good many interlocutors will feel antagonised. They will find respect for their opinions and feelings lacking. They will get tense and nervous and the sales talk does not reach any conclusion. Remember the old sales adage 'Win the argument, lose the sale.'

Different forms of objection demand different arguments

If the customer sticks to the objection 'Your price is too high', that can mean different things.

Firstly it may mean that in their opinion your product is not worth the price that you are asking for it and they will therefore not receive a reasonable return on their money. Or they could be saying 'I have not got enough money to pay this price.' In this statement they are saying something completely different, i.e. the customer would be prepared to meet the price if they had the necessary funds.

Both statements are dealt with in different ways. In the first statement the salesperson must apply all the techniques possible and already mentioned in this training manual to improve the customer's opinion of the product.

In the second statement the salesperson should be able to draw up a plan of payment which may be able to help the customer's financial position.

Sometimes the customer makes the statement 'the price is too high' because they have insufficient knowledge of the product and is ill-informed of the market potential. The salesperson, with the right questions, can help the customer to see that the price is right.

Suitable example questions may be:

'Why do you think the price is too high?'

'What price had you imagined?'

'I wonder what you are thinking of when you say the price is too high. Too high compared with what?'

Before you reply to a price objection, check these points:

1. Is it an objection or an excuse?

2. Is the objection aimed at the value of the product?

3. Does the objection result from the customer's financial situation?

4. Is the customer sufficiently informed about market prices?

5. Has the customer thought deeply enough about the price question?

6. Has the customer had a better-value offer?

POINTING TO QUALITY, UTILITY AND SERVICE

The classic reaction to objections regarding a product's price consist of arguments persuading the customer of the product's quality and value. The reasons for the higher price are often not obvious and need to be explained.

The sellers of a cheque lettering machine, a device intended to prevent cheque fraud, applied this method with success:

'Here I have a watch. What do you estimate is its value?'

'You do not know because to reach the estimate you need to inspect the works. Simply by looking at the watch from the outside does not give any indication as to its value.'

'What is true for the watch is even more true for the equipment.

'Within the cheque lettering machine you will find seven segments, each of which consists of ten hard-metal dies. On top of that there is one mobile and two fixed dies: that makes 73 in total. Each character has to be cut precisely to within a hundredth of a millimetre. That demands the finest precision engineering.'

Contrasting the price with the advantages of the offer

Many salespeople work with the plus-minus method when answering price objections. The price is contrasted with the advantages of the offer:

PRICE	ADVANTAGES
£2,000	Servicing only required annually. Low electricity consumption. 24 hour service. Operation by unskilled workers.

The well known story of the potato sale shows how a seller can play up the quality and merits of a product, so that the price hardly plays a part any more:

EXAMPLE

Two farm carts are standing in a market place. Both are loaded with bags of potatoes. A customer approaches the first cart.

'What do potatoes cost today?' she asks the farmer's wife who is the seller.

'*Two pounds and fifty pence a bag'* she replies.'

'That's expensive' the customer protests.

'Potatoes have got more expensive' the farmer's wife answers tersely.

The housewife goes up to the second cart and asks the same question. This farmer's wife knows the value of her potatoes. Instead of giving the woman an indifferent answer she says:

'These are especially good potatoes, madam. You will not find better anywhere else. We only ever grow varieties with small eyes so there is hardly any waste when you are peeling them. We also sort them to take out the little ones. This means you only get nice big potatoes from us. Finally we wash our potatoes so that you can put a bag like this in your kitchen without getting the floor dirty and you are not paying for mud.'

For all this I only charge three pounds a bag. Would you like me to have the potatoes put in your car or will you take them straight away?'

The story goes on to say that the second farmer's wife sold two bags at the higher price than her competitor, although the customer did not want to buy because the latter's price appeared too high.

The price/value relationship

In a carpet shop a prospective customer declares, *'I am not spending £600 on a carpet. That is far too expensive.'*

The well trained carpet salesperson replies '*if you are only looking at the price you would be better with this carpet, which is richly coloured and comes from Central Asia. You will pay £400. That is the lowest price for a oriental carpet.'*

The salesperson continues, *'but if you are not only looking at the price, if you want to buy a carpet which is not cheap but has a very favourable price/value relationship you would be better to take this carpet for £600. For this item of quality you will have to spend three or four hundred pounds more in a few years time.'*

According to the carpet salesperson most customers take the 'good-value' rather than the 'cheap' carpet.

If you have comparable products in your sales programme, always distinguish between 'cheap' and 'good value'. Customers prefer to 'buy' a good value item rather than a low price item.

Analysing the importance of price

If a customer objects to the price, you can also work with the following method:

Salesperson: *'Is this important to you?'*

Customer: *'Of course.'*

Salesperson: *'Is the application important to you?'*

Customer: *'Of course.'*

Salesperson: *'Since both the price and application are important to you, I suggest that first of all we should discuss again the applications of the product. Only when it is clear what you are getting can we check the price that will be appropriate.'*

This method has the following advantages:

1. The customer has declared that the application is important and will pay special attention to the salespersons following remarks.

2. Since there is a clear connection with the products usefulness, its application and the price it will be easy to convert every advantage of the offer into cash terms. This way the customer will largely convince themselves that the price is open to discussion.

Service as a price discussion

Having discussed the products usefulness and quality, the next reference must be in respect of service.

A gas heating salesperson has a particularly attractive offer, but their company's service organisation shows weaknesses. A salesperson from a competitor will exploit this disadvantage, since they know that the customer service engineer from the company with the cheaper product will have to travel a great distance to support the prospective customer.

Salesperson: *'If I were installing a gas heating system, I would not rely on the cheapest supplier. Gas heating needs regular servicing and as the customer I am sure you would not wish to pay high travelling expenses for a service engineer. If a* *fault, such as a leak, does arise then a specialist engineer has to be called immediately and must be able to respond quickly.'*

Customer: *'Should this happen with a new system?'*

Salesperson: '*A good and efficient customer service ensures that the product remains in good working order.'*

Sometimes a slogan or quotation also helps to make certain of the sale for

example the well-known American businessman John Ruskin, who wrote over a hundred years ago:

> *'There is hardly anything in the world which someone could not make*
> *a little more poorly and sell a little more cheaply, and anyone who ever*
> *looks at the price will deservingly fall prey to such machinations.'*

Visualising advantages

The salespersons reasoning will gain in persuasiveness if it is possible to visualise the product and service advantages.

Which might lead to:

Innovative
24 hour delivery service
Low electrical consumption
Protective casing
Screw-driver guidance
Impact strength
Direct consultation with applications engineers
Resistance to rot

Checklist of advantages of the offer

To enhance the salesperson' ability to refute price objections every salesperson should put together a list which helps to answer the question: *'What are the advantages of my product which make me, with my offer, superior to that of the competition?'*

Example checklist*:*

SUPERIORITY OF PRODUCT

- **Versatility**

  Multiple possible uses? Multiple users? Combinable with other products?

- **Efficiency**

  Time saved? Work saved? Money saved?

- **Storage**

  Problem free? Space saving? Storage costs? Supervision required?

- **Internal Transport**

  Without incident? Time saving? Requiring little physical work? With available tools?

- **Appearance**

  Aesthetic? Clean in application? Design?

- **Construction**

Problem free? Forward-looking?

- **Mobility**

  Easy to move? Experience of installer? Container or device available?

- **Packaging**

  Easy to open? Space-saving? Reusable? Labelling? Advantage of materials? Packaging costs?

- **Durability**

  Resistant to wear and tear? Does not age quickly? Easy to repair?

- **Adaptability**

  Special accessories? Unusual possible applications? Adaptable to different forms of energy?

- **Delivery**

  Speed? Frequency? Convenience?

- **Stock-keeping**

  Supervision? Optimisation? Stock turnover? Costs?

- **Credit**

  Size? Duration? Interest? Repayment?

- **Training**

Introductory training? Continuing training? Sales conferences?

- **Merchandising**

  Sales aids? Demonstrations? Campaigns? Yearly planning?

- **Installation**

  ‘Initial care’? Initial and further training of staff?

- **Advertising**

  Initial advertising? Joint advertising? Shelf monies? Display allowances?

- **Financing**

  Financial aids? Conditions? Support with low interest public loans?

- **Servicing**

  Servicing contracts? Training of staff? Costs of servicing?

- **Guarantee**

  Extent? Duration?

- **Firm**

  Established firm with experience?

- **Position within the Trade**

  'Leading products? Imitated by the competition? Managers in the trade association? Market leadership?

- **Reputation**

  Prestigious customers? Government orders? Defence contractor? Foreign orders?

- **Local image**

  Responsibility towards the community (local government, schools, nursery schools, hospitals, churches).

- **Location**

  In the vicinity? Convenient for transport? Raw materials base?

- **Industrial Relations**

  No strikes? Qualified staff? Low staff turnover? Many permanent employees?

- **Size**

  Big enough to deliver everything? Small enough to look after customers?

- **Sources of supply**

  Own raw materials? Offsetting transactions?

- **Financial situation**

  Profit? Profit contribution? Dividends? Cash flow? Growth in turnover?

- **Business policy**

  Ethical principles? Obliging? Consistent? Understanding of the environment?

USING POSSIBLE SAVINGS AND PROFITS AS AN ARGUMENT

When industrial buyers or consumers object to the price, it is often more effective for the salesperson to point to possible savings than to use application or quality as debating points.

EXAMPLE

A building materials salesperson wants to sell a client a masonry brick 30% more expensive than a conventional block.

Client: - '*Mr. X I am only interested in the cheapest blocks'.*

Salesperson: - '*I would say the same in your shoes. The cheapest masonry which costs least in the long run. Is that correct?'*

Client: - '*Yes, that is right'*

Salesperson: - *This brick has a 30% better thermal insulating capacity than the block you call the cheapest.'*

Client: - *'That does not interest me. The price is what is important.'*

Salesperson: - *'That is correct. The price you are going to pay is important. Thanks to our heat and cold insulating brick you will save heating oil.'*

Client - ???

Salesperson: - *Because this clay brick hardly lets the heat out, does not let the cold in and stores absorbed heat, we achieve a 30% better thermal insulation. Even if you only save £150 on heating oil per year, the brick is still attractive to you.'*

Client: - *'Then where on your reckoning do I get the extra £1000 to pay for your wonderful bricks.'*

Salesperson: - '*We have estimated £150 as the minimum saving. With an extra investment of £1000 that would correspond to an annual return of 15%. If you borrow the £1000 from the bank, you will pay 7% interest today. 15% credit interest as against 7% debt interest corresponds to a yield of 8% net, surely you do not want to let this deal slip by you.'*

Salesperson: - '*As soon as you have paid back the short-term loan of £1000 you will enjoy a rising rate of return because heating oil is getting more and more expensive.'*

Client: - 'True, energy has been saved. When can you deliver?'

O.K. the customer has not read the script so it is not quite as easy as this, however, the principle is sound and it is strengthened as follows:

The salesperson will have written the calculations down for it is important for the client to have something to refer to.

£1000 = 30% better thermal insulation

Heating costs saved	£150 = 15% return (gross)
	£70 = 7% debt interest
	£80 = 8% net return

This example conversation shows how important it is to present the price in the right way. It is not the immediate price to be paid that is the important factor, but the advantages and savings which will arise tomorrow and the day after.

When discussing price with a customer always remember to set out the advantages available for larger quantities.

If a purchaser want to buy 10 filter tubes and is put off by the price, quote price reductions for 20, 50 or 100 items. Do not assume that the customer will identify for themselves the possible savings that the bulk price offers. Always give a purchaser the exact calculation, i.e. "The recycled paper envelope costs £30 per 1000. The price is reduced by 5% for an order of 50,000 items, by 10% for 100,000 items and by 20% for 200,000. If you place an order of 200,000 items – that is the equivalent of six months' requirements – you will only pay £24 per 1000 instead of £30."

The additional price/benefit calculation

One of the most effective methods of explaining prices is the additional price/benefit calculation. Here, elements of the offer which can be converted into benefits are sought for the required additional prices.

EXAMPLE

A Swiss firm makes lathes which have, instead of the usual grey iron base, a concrete base on which the rotating parts (tools, work piece etc.) rest.

This means that the processing of the work pieces is subject to less vibration. The sales engineer's presentation runs as follows:

THE SPOKEN WORD

Mr. X the between-grind life of the tools is plus 30% which is equivalent to a reduction in costs of £2,470 per annum.

The subsequent process of grinding can be reduced by about 40% which is equivalent to annual cost saving of £10,680.

You will be further interested to know that we need 0.2 minutes less time per part to be turned. At …. that is at least £9,600 a year.

Consequently we arrive at a saving of £22,750 annually. The required price of £35,000 will be completely amortised in about eighteen months.

When you can reckon on a return of 60% that is certainly a good investment.

Additional profit through reduced wages costs

EXAMPLE:

Salesperson: *'Is it true that your application of varnish is costed in the following manner 25% for materials and 75% for wages?'*

Prospect: *'Something like that.'*

Salesperson: - *'Very good varnish costs 50% more for the materials, making materials 38% of the cost. However, because the good varnish is easier to work with, you will need less time to carry out the process of varnishing thus saving approximately one third of the wages making your labour cost share of 25%. The difference is your saving and your additional profit of 12%.*

Customer: *'That is interesting.'*

Better margins through high price articles

If retailers and wholesalers express doubts about a sales price, it is advisable to refer to the opportunities available for turnover and profits.

EXAMPLE:

A retailer of a mens clothes shop expresses concern that the sweaters the salesperson is selling are priced too high. The sweaters are strongly supported by advertising with a unit price of about £250.

The salesperson responds: *'Would you rather sell a sweater for £20 or one for £60. For both of them you receive a discount of about 40%, would you rather earn £24 than £8 on each item sold? My company believes that it is easier to sell the £60 range sweater, which is heavily advertised, than to persuade a customer to buy the £20 sweater of the lesser known brand.'*

If a retailer raises the objections: *'There is too little profit margin on that item!'* the salesperson can always refer them to their graduated bulk discounts. '*These High Sound cassettes cost £20. The basic discount comes to 20%. This figure increases to 25% on 20 cassettes, 30% on 50 cassettes, 35% on 100 cassettes and 40% on 200 cassettes. If you buy 200 cassettes you will realise a gross profit of £8 per cassette instead of the £4 per cassette if you order in smaller quantities.'*

A publishing salesperson counters discount objection with the statement '*You decide on the discount!'* If a bookseller takes exception to the basic discount, they can counter the statement by saying *'If you take 20 copies the discount rises to 50%. At a book price of £186 you will retain £93 gross. For 50 copies that is almost £5,000.*

The following example shows that discussion about terms often obtains additional orders:

Customer: *'What is the price?'*

Chemical salesperson: *'You can decide the price. How great is your annual volume?'*

Customer: '2,000 kilos'

Salesperson: '*For 2000 kilos the price is £2.80 per kilo. If you buy 1000 kilos the price will rise by 10%*

Examples of ways the salesperson can reply to objections raised by retailers and wholesalers that the margin of profit is too narrow:

1. Refer to the higher turnover rate. '*A 5% higher discount is of little use if the item for sale is only sold twice a year. The product now on offer will be turned over six times in a year.'*

2. Emphasise the market position of the article. '*XY is a key brand. By stocking it you enhance the choice of goods in your shop and customers will come to you because of the wide choice you offer. this product will also enhance the sale of other items in the shop.'*

Price consultations

Price consultation is a method used by the salesperson when dealing with large retailers who raise objections to price.

The salesperson selling branded articles must have a command of costing techniques if they are to succeed in this market place.

Example 1

Shown below are two real-life examples which show how the rate of return can be improved by altering prices and sales proportions:

	Turnover	**Types of Turnover**	**Margin**	***Total Margin**
Before	30%	Shelf turnover	25%	
				8.9%
	70%	Campaign turnover	2%	
Now	50%	Shelf turnover	18%	
		11.5%		
	50%	Campaign turnover	5%	
Improvement	Constant	Altered relation	Shelf – 7%	+2.6%
	3,500,000.00		Campaign +3%	

This customer raised the share of shelf turnover from 30% to 50% and lowered the share of campaign (promotional) turnover from 70% to 50% (7% of the margin) and raised the campaign prices (3% of the margin). They thus attained a 2.6% higher total margin. With total turnover remaining unchanged at 3.5 million their profit contribution increased by £91,000. (2.6% of 3.5 million).

Example 2

	Share	**Sales Price**	**Margin**	**Turnover**	**Total Turnover**	**Gross Benefits**	**Total gross benefits**
Shelf	10%	1.29	44.8%	15,500		6,950	
(Before)							34,850
Campaign	90%	-0.89	20%	139,500	155,000	27,900	
Shelf	30%	1.19	41%	46,500		19,000	
(Now)							49,400
Campaign	70%	-0.99	28%	108,500		30,400	

This customer too raised the share of shelf sales and lowered the share of campaigns. Lowered the shelf price and raised the campaign price. The total turnover did not change, but the total benefit rose by £14,550.

(*) The total margin is calculated by multiplying the margin by the share of turnover. 3 x 25 = 75 +7 x 2 = 89/100; 5 x 18 = 90 +5 x 5 = 115/100.

WARNING ABOUT RISKS AND DANGERS OF LOSS

If industrial buyers and private consumers query the sales price it is possible to raise doubts as to whether the cheaper offer is really favourable.

In his book The Psychology and Technique of Sales Talk, Dr. Wage has published an example of how an installation salesperson eliminates objections by placing doubts in the customer's mind.

Customer: *'The Italians are offering to supply me with a filter installation for £80,000 while your company is asking £130,000.*

Salesperson: *'Are you not a little concerned that the price is so low.'*

Customer: *'No, as I said before, there is a competing offer on the table which costs £20,000 less for the whole project. You will have to explain to your company that unless you are prepared to come down by at least £20,000, it is unlikely that you will succeed with this order.'*

Salesperson: *'If that is your last word on the matter and you really do insist that I tell the company that to have any chance in succeeding with this order we must lower our price by £20,000 then of course I will do that. However, I am concerned at the reaction I will receive.'*

Customer: *'???*

Salesperson: '*I am sure you know, as well as I do that installations can be manufactured cheaper. That does not mean you infringe the technical standards. All you need to do is have a little less solidity in the bolts, a little less security in the nuts and no customer, no technician, no purchaser will detect these changes. All that would happen is the project would go back to the project department again and again to see where economies could be made without any immediate harm to the customer.*

If I did suggest to the company that the price would be reduced by £20,000, I would hope that they would not agree to this. My reasoning is that the projects safety is contained within the £20,000. Which is basically insignificant as far as the whole project is concerned.

The salesperson knew that they could not afford any more price concessions, and that the answer from their Head Office would be negative. They therefore appealed to the customer's need for safety.

<u>The risk argument</u>

Insurance sales people in particular often use risks and dangers of loss as a discussion point:

Example 1

Client: *'I do not need personal liability insurance: I do not take any risks.'*

Salesperson: *'Of course not, you are a responsible adult but you are liable for any damage you cause by negligence on your part. Every one of us at sometime has a moment of carelessness and Private Liability Insurance will protect you from any claims that may be made against you.'*

'*As a parent you can also be made liable for damage caused by your children. A simple accident of kicking a ball through a neighbours window can prove an expensive item. The Private Liability Insurance cover we offer will not only protect you but also the accidental damage for which your children may be held responsible.'*

Example 2

Client: *'I do not need any supplementary health insurance. I am young and healthy.'*

Salesperson: *'It is precisely because you are young that you should take out private supplementary insurance. I accept that the risk that you will have to be treated in hospital for any illness is not very great at the present time. However, you will still be paying the same premium for a lower age of entry when you are 40, 50 or 60 when the danger of ill health is greater.*

'Even when you are healthy you can still land up in hospital. Accidents do happen very quickly and nobody's safe from a sudden attack of appendicitis. It is only when people have to spend quite a long time in hospital do they appreciate the benefits of private health insurance. However, after a stay in hospital it is often too late to take out insurance. The Insurance Company will often turn down a proposal because of the higher risk.'

MINIMISING AND TRIVIALISING THE SALES PRICE

One method of successfully asserting yourself in price talks is to minimise, divide or trivialise the sales price.

Example:

An office salesperson has in their range an adding machine costing £700. If a prospective customer takes exception to the price the salespersons says:

'I have already explained to you that you can save money purchasing this machine. However, I have failed to relate the purchase price to the savings you can achieve. You have already told me you suffer considerable losses every day from incorrect additions etc.

Let's assume you replace the machine every 5 years by trading in the old machine for a new one and making up the difference in cash.

The machine costs £700 and after five years we would still accept in part exchange and make an allowance of £100. Therefore the cost over 5 years would be £600 or £120 per annum. If we divide this sum by 240 the approximate number of working days per year, we arrive at 50p per day. Your present system must be costing you a lot more than 50p per day.

The presentation of product costs – per day, per working hour, per ton per mile.

Calculate for the customer or prospective customer how much your product costs per day per working hour, per hundred miles of driving or per employee.

Divide the price into different parts and convert the parts into some unit familiar to the customer. Minimise the purchase price optically. Distribute the invoice amount or the premium over 12 months, 52 weeks or 365 days.

EXAMPLE 1

Insurance salesperson: - '*If you take out a life assurance policy for £100,000 the yearly premium will be £2,746. That sounds high. However, this premium means no more and no less than setting aside £8 every day to make provision for your family of four and to secure your personal standard of living in later years.'*

Tool salesperson: - *'Our experience shows that this tool lasts for at least five years. Over the tools working life of five years the tool will cost £120 per annum i. e. only £10 per month.*

Select the price per smallest unit i.e.per gram, per packet, per item. Thus *'A single ton kilometre will only cost you 33p using this transport system' or 'A bubble bath will not even cost you 15p if you buy this family-size package.'*

Door to door salespeople like to work with this technique in order to demonstrate to their customers how little the product actually costs. A vacuum cleaner representative in New York has developed what he calls the 'Fifth Avenue bus' technique. He calculates for the housewife that a vacuum cleaner costs less per week than a ride into the centre of Manhattan.

A travelling bookseller relates the price of an encyclopaedia to that of a litre of milk.

Salesperson: - '*If your Doctor tells you that your son needs an extra litre of milk every day for his proper physical development you will certainly do everything to ensure that money is available. I am not asking for any more. Your son needs these books for his mental development and the encyclopaedia will cost no more than the cost of a litre of milk a day. Surely his mental development means as much to you as his physical development.*

If the price of a product is higher than that of a competing manufacturer, then you can trivialise the additional price instead of the whole price.

The differential value

You are an Estate Agent. A client is looking for a house. The client is willing to spend £400,000. The house that you would like to sell costs £450,000.

Your task is, after all, not to sell the client a house for £450,000. You only have to sell the additional £50,000. The client is already offering you £400,000. That price is already sold.

The way to look at this applies to every deal in which the client offers a certain amount (X) which they are willing to spend but which is below the requested (X+Y) that you have to sell. You therefore only have to sell Y for X is already sold.

Selling Y = £50,000, in this case, enables you the Estate Agent to sell ALL of the advantages for just £50,000. This can seem like very good value.

It will be to the salesperson's advantage if they keep this formula constantly in mind. Ask the client what they wish to spend and then concentrate on the difference between the offer and the price. This technique is called "Sell the difference" and it is very powerful.

The psychology of this technique is sound as the buyer has already mentally invested £400,000 and only has to be 'sold the difference'. The salesperson's presentation has improved as well, remember that:

1. A fairly small demand is easier to sell than a big one. You possess more self confidence and persuasive power.

2. Your discussion is stronger. You do not waste your discussion time on X. That is already sold but instead concentrate on proving that it makes sense for the client to spend the extra sum 'Y'. The deal stands or falls on this point.

3. The value Y can be divided up in proportion to the total value of the house and split into little sums i.e. If the purchaser has to pay the extra £50,000 for the house they want then on the basis that they will live in it for 20 years, that is a cost of £7 per day.

Minimising the price with altered modes and terms of payment

One way of invalidating an objection to the product price is by offering the prospective client favourable terms of payment. Property dealers report that many clients are not too interested in the total price of the property but rather they wish to know how much will be needed as a deposit and how big the monthly repayments will be.

Explain to a client all the methods of financial assistance that your company can offer.

- Payment by instalments
- Extension of a loan
- Cash discounts
- Part-exchange etc.

Capital goods sales people can also minimise their sales prices by offering a contract of hire or leasing instead of a sales contract. It makes considerable difference to a company's cash flow as to whether the company hires a photocopier for £600 a month or buys it outright for £4,800. The salesperson can also give the buyer a chance to minimise the total price by supplementing the main offer with an additional offer that the client can more easily turn down.

Express yourself clearly so that the client has no false expectations as to what is available.

EXAMPLE:

Car salesperson: '*The car costs £36,800 ex works. Together with aluminium rims which cost £1600 making a total of £38,400.*

Client: *'Forget about the aluminium rims, they are not worth the expense, then I can purchase the car for almost £2000 less.'*

MAKING PRODUCT AND PRICE COMPARISONS

A prospective client often rejects a product simply because they have not compared it carefully with other products of the same price range.

A father buying a bicycle for his son may feel that the price is high until the salesperson asks him how much he paid for the golf club in his car. The question then arises as to which item is more complicated and therefore more expensive to make; a golf club or the bicycle.

If a salesperson has the impression that a client is objecting to the price of their product on the basis of an exact price comparison, it will be necessary to ascertain the precise difference and then explain why the product on offer is superior to that of the competitor. By emphasising the exclusive advantages of the more expensive product it is possible to play down the price differential.

EXAMPLE:

A prospective client for the purchase of a filing cabinet will say to the salesperson of a less well known brand that it is possible to obtain the cabinet of a different make for £100 less.

The salesperson replies that the price difference of £100 is because the more expensive item has additional benefits.

'Firstly the more expensive cabinet is 8 cm deeper which means that 12% more material can be accommodated in it.

Secondly, the draws run on ball-bearing rollers which are superior to the friction rollers of the other make.

Thirdly, the trays in the drawers are much easier to move. They run more smoothly.

The quality of work is so much higher and it is for these reasons that the product which is superior in design and efficiency is more expensive.'

The exclusivity of the high price article

A salesperson who is offering a set of aluminium cooking pans at a total price of £250 plays down the high price with the help of a comparison.

EXAMPLE:

'How often do you use your piano? It must surely have cost around £5,000. You play every day? Good! Most people rarely play their piano, but when they do play, it gives them pleasure and they find that the expense has been worthwhile. But now to the set of aluminium cooking pans.

You will certainly use them much more often and for much longer than your piano, yet they will only cost you a fraction of what you paid for the piano. What is more, you absolutely do need saucepans – the only question is which are the best. Proper cooking is the basis of your family's health. I have already worked out that these pans cost less than other pans because they have a longer useful life.'

Sometimes a customer in a retail shop will respond:

'I have seen exactly the same thing for sale cheaper at XYZ.'

When this happens there is little point in the salesperson disputing the truthfulness of the statement. There is little to be gained by contradicting the statement. It is better to encourage the customer to give more details about the product seen so that the salesperson can check out the facts of the statement made.

Sometimes the customer is right in saying that XYZ is cheaper. In that case the salesperson has the choice between two alternatives: they can admit the item is somewhat more expensive but that other items for sales could be less expensive. It is possible to explain that the pricing of new goods works differently at each company. Alternatively the company offering the more expensive item could be giving the customer other advantages which makes up for the price difference.

Bigger stockholding and better terms of exchange

To illustrate this point the following example is given:

EXAMPLE:

A man went into a Paris store to buy a pair of shoes. He managed to find the shoes he wanted and these would have cost F650. However, he could not get the right size. He then went to another shop and found the same shoes but the price was F680. He asked the sales assistant why it was that the shoe cost F30 more.

The assistant replied:

'In the first place you really do get the shoe from us albeit at an extra cost of F30.'

This F30 extra means that we are able to carry a much bigger stock and is the reason why we tend to have the items that you as a customer wish to buy. The F30 is also used when at the end of the season we are carrying a larger amount of out of date stock which has to be reduced in the sale. Therefore, the reason for the higher price is that it costs money to be well stocked.'

'As a store we also have very generous terms of exchange and return. If the goods you buy from us do not completely satisfy you in every way, you can exchange them without any trouble. That genuinely means we take them back without hesitation. For these extra advantages the customer pays the slightly higher price of F30. But above all you should not forget the most important thing – we have the shoe in your size.'

Analysing cheaper rival offers

A salesperson for producer goods is often confronted with the objection 'I can get the same product and the same quality cheaper at another price.' The salesperson reacts in the following way: they ask the customer doubtfully, 'Really the same quality? With the same range of application? At the same prices, bulk discounts and cash discounts? If the customer says yes to this question the salesperson continues 'We have, as you know, a big market share. I think that proves our prices are reasonable.'

If somebody is offering the same product at lower prices, there must be a difference somewhere. There are no reduced prices without reduced performance. If a customer confronts you with a cheaper competing offer you can ask a range of questions which should make the customer link. Insert a fairly long pause after each question so the customer has time to think about the questions you are asking:

- 'Is the other supplier's customer service as extensive as ours?'
- 'Is the scope of their guarantees narrower?'
- 'Have you already compared the servicing and maintenance costs?'
- 'Does the other supplier submit to official safety tests?

- ‘Stress capacity is very important. Does the other product stand up to your production conditions?’

- ‘Is the continuity of maximum performance assured?’

These questions almost always make the customer thoughtful and gives the salesperson an opportunity to put forward other points for consideration.

The offer comparison sheet as an aid to discussion

The offer comparison sheet, which as a rule is for internal use first of all, is employed mainly in the capital goods industry for comparing prices with those of competitors. The law prohibits free canvassing with it unless the customer demands a comparison. Then the salesperson is allowed to act. Even if the request is not openly voiced by the other person, skilful salespeople know how to bring the customer to the point when they ask for a comparison. Now the opportunity arises to put your cards on the table, and from time to time a customer will even hand over competing offers!

In some industries it is usual for the customer to ask for the comparison straight away.

EXAMPLE:

The example which follows is concerned with the sale of tractors to farmers. The salesperson can see from the form which elements of the offer gave an advantage. These are the free delivery service, 7 horsepower engine, the low consumption of 3.2 litres per working hour, the ability to attach eleven cultivating tools, the long servicing intervals, the customer service, the electric starter and the automatic coupling. The salesperson can calculate how much higher the other suppliers need to go to offer the same benefits.

Elements of the Offer **Supplier**

	Brown	**Green**	**Jones**	**Smith**
List price	7,500	6,150	5,400	8,200
Discounts	---	---	---	5%
Other allowances (terms of payment)	14 day	14 day 2%	--- 2%	30 day 3%
Terms of delivery	Free	Ex works	Ex works	Ex works
Delivery period	2 months	Stock	Stock	2 weeks
Horsepower Performance	7	6	5.5	8
Consumption/hour	3.2	3.8	4.5	3.7
Possible add on implements	11	8	7	9
Servicing Intervals	2000 hrs	1000	600	1500
Guarantee period	6 mths	6 mths	6 mths	12 mths
Nearest service site	5 mls	20 mls	12 mls	50 mls
Starter	Electric	Elec	Elec	Elec
Coupling of the worktools	Auto	Manual	Manual	Auto
Pricing of the basic working tools				
- Plough	1,200	1,400	1,400	1,100
- Rotary hoe	1,100	900	1,200	1,000
- Trailer	1,000	900	900	1,000
- Cutter bar	700	1,000	900	1,000
Total gross price less discounts	11,500	10,500	9,800	11,875
Total net price less cash discounts	11,270	10,143	9,800	11,519

APPEALING TO PRESTIGE, FAIRNESS AND COMMON SENSE

People who buy a product for its prestige value generally know the price and do not object to it. The American banker J.P. Morgan is once said to have replied to a young man who asked the cost of a yacht. '*Young man if you have to ask the price of a yacht, you certainly cannot afford one.'*

The customer who asks for Royal Worcester china in a good store knows as a rule how much it is likely to cost. There are products however which possess no definite prestige value and it also sometimes happens that prospective customers are not wholly aware how well known a product is. The salesperson in this case has to find a tactful way of informing the customer about the situation without causing any offence.

The problem of ensuring that the customer understands the prestige value of a product is a difficult one and the salesperson must ensure that it is carefully dealt with so that a potential customer is not lost. The salesperson must ensure that the customer is not made to feel inadequate either in knowledge of the product or of its affordability.

EXAMPLE:

A textile salesperson responds as follows when reacting to an objection that a certain dress is too expensive in relation to its quality.

'If you buy a dress from us, you are not only buying the material and needlework you are also buying yourself the assurance that you will be tastefully dressed and no other person in this town will have the same dress or even one in similar colour and style. You cannot only measure the price of a highly fashionable dress by the material and workmanship. If a garment did not suit you any price would be too high. But if you look and feel elegant in the garment then it underlines your personality and the price is immaterial.

It is also useful to appeal to the social standing affluence, discrimination, taste and good name of the customer. This appeal will not just help you to overcome price resistance, it will often even stop objections from arising. If you are a car salesperson, you could say for example *'It is fun to talk about cars with someone who can afford the best.'* You can declare to a delicatessen owner, *'You are the leading store in town and have an excellent financially strong clientele. The new tinned shrimps are just the right thing for them.'*

Lasting satisfaction from quality buying

To prevent price resistance from surfacing in the first place, a well known sales trainer recommends the following method when you visit the customer, look around you for some high quality object: a piece of furniture, a machine, an element of décor. Maybe the customer drives a very expensive car; maybe they are wearing an excellent made to measure suit. When you have found a quality object, praise it: *'I see you have a first class lathe there. The best there is at present. Are you pleased with it?'* If the customer answers yes to the question, which they usually will, you have already half solved your price problem.

The customer has now been made aware that a quality purchase will give lasting satisfaction. Without being conscious of it the customer comes to the conclusion that to be completely happy with a product attention must be paid to quality.

The question to the customer as to whether the previous quality purchase gave satisfaction can be followed up with a second question: *'So it was worth investing the few extra pounds?'* When you later quote your high price, having proved in detail the quality of the product the customer will already be attuned to the price level. The high price will not come as a surprise. If the customer does have reservations about spending as much, then remind them of their happy experience with the previous quality purchase.

If the customer says *'The product is too expensive',* a reference to the products success can also be helpful. A salesperson selling lawn mowers to house owners replies as follows to a price objection *'If this lawn mower was really too expensive, then how is it possible for the company to sell 30,000 in a year? If the lawn mower was overpriced it would not be possible for the company to increase its order book – which it is doing – every year.'*

Fairness in business dealings

When confronted with price objections, you can also appeal to the customer's sense of trust and fairness.

EXAMPLE 1

Haulage salesperson: *'Mr. X. I admit that we are 8% more expensive. Efficiency in haulage is not automatic. It is the work of people. Efficiency in haulage is therefore first and foremost trust in the people from the haulage firm. Mr. X you have known me and my firm for five years. Have we not proved ourselves worthy of your trust?'*

EXAMPLE 2

Machine salesperson: - '*Mr. Y you are asking for 5% off the appliance price of £1,250. I have here ten crossed cheques from industrial companies, banks and commercial enterprises, all reputable companies, all of whom have paid £1,250 for the appliance. It would not be fair to my other 300 customers if I made an exception. I am sure you would feel the same when dealing with your customers.'*

EXAMPLE 3

A salesperson of steel cabinets argues as follows:

'Mr. Z I am very interested in the order you have in mind for over 50 multipurpose storage cabinets at a unit price of £198. With an order of that size you will be entitled to a bulk discount of 5%. However you are insisting on a further 5% and that demand will get me into terrible trouble. The unit price of £198 minus 10% would not be a loss maker to my company but the extra 5% would cause us problems. As in your company, so also in mine, the prices have been estimated and the profits budgeted. The competition in the market place ensures that profits are not too high. It must be the same for your company. All the company's policies including investment and product development rest on profit planning. If profits are not met then planning has no place.

'You have my word that in the last eighteen months I have concluded all my sales on the basis of the bulk price graduation, that means that my hands are tied not only by my firms estimates, but also by fairness towards all the other customers I deal with. If I were to allow another customer 5% extra how would you feel when I had only allowed the 5% on your order.'

Sometimes you can also dissuade a prospective customer from their price demands by appealing to their common sense; by working out what effect the requested correction of prices will have on profit contributions, and by explaining quite clearly to them that deals without profit hold no interest either for you or for them. *'You are asking for a reduction of 3% off a product with a profit share of 10%. The reduction means profits will be diminished by 30%! 3% is small but 30% is too much.'*

JUSTIFYING PRICE INCREASES LOGICALLY AND CONVINCINGLY

A special situation arises for the salesperson when a customer will not accept a price increase ordered by the management.

How does the salesperson react when the customer declares *'I am not going to pay your new sales price.'*

1. Create alternative offers. Offer the expensive machine tool without any accessories, the expensive home textiles in a more inexpensive quality, the expensive newspaper advertisement without a colour surcharge.

2. Suggest bigger orders if you are working with bulk prices. A stationery representative was in danger of making a long-standing publishing company angry with a 10% increase in envelope prices. They agreed on a 100% bigger ordering quantity and kept the rate of increase down to 6% with the help of the new bulk price. If the customer themselves cannot accept larger quantities, it may be possible to pool orders from different departments, subsidiaries, companies in a group or neighbouring firms into a single order.

3. Combine price increases with suggestions on how to save costs. It is possible to carry higher sales prices through more easily if, in the same breath, it is possible to show the customer opportunities to reduce freight charges, packaging material, container fees, installation or maintenance costs.

4. The reasons for price rises must always be credible. A metal goods salesperson who justified price rises with the tripling of the copper price used to place in front of the customer newspaper cuttings bearing the quotations for copper on the New York commodity exchange.

Parallels to the customer's situation

A stationery salesperson may use the following discussion point when a customer complains about a price rise:

EXAMPLE

'The price increase is regrettable Mr. A and I understand why you are not happy but unfortunately it could not be avoided. Basically it is an adjustment to the development of costs. It was forced on us from our suppliers. May I give you a few examples?'

The salesperson now enumerates some recent examples of increased costs. The question can then be put to the customer *'Has your company been forced recently to increase prices, or if this is not the case, is a price increase planned in the foreseeable future?'*

If the customer answers 'yes' it would be difficult for them to complain about the increase in the price of the salespersons products. If they answer 'no' then the salesperson, full of admiration for the customers exceptionally skilful control of costs, can ask how it was possible to avoid putting up prices. The customer will now have an opportunity to congratulate themselves and will certainly warm to an attentive admirer.

Many purchasers nowadays will no longer accept a generalised justification for price rises. Many ask to examine the pricing documents and want to know how the various costs have been developed. How have expenditure on staff, materials, energy and freight been developed. What proportion of the sales price is made up by the more important types of costs, and what will be the effect of increasing costs. These are questions that executives like to have answered.

Employing costing tables

A salesperson may use the following table to help them explain a price increase:

Salesperson's price demand (example)

1. Cost key for product XYZ	price	Component increase	Total price
1.1 Wage share	50%	7.0%	3.5%
1.2 Material share	35%		

Share		***Price change***		
Steel	35%	+ 8%	=	+2.8%
Casting	30%	+ 7.5%	=	+2.1%
Light metals	20%	- 2%	=	-0.4%
Synthetics	10%	+ 5%	=	+0.5%
Miscellaneous	5%	+ 5%	=	+0.3%

		5.3%	1.9%	
1.3	**Overheads** (incl. energy)	15%		
	Fixed	---		
	Chargeable overheads	15%	6.0%	0.9%
	Total price increase demand			6.3%

If the salesperson decided to work with a table as shown in the example then the following must be kept in mind:

1. The cost shares and rates of increase have to be watertight. Do not present a naïve estimate which a purchaser will see through.

2. Explain the increase price in the different costs in detail to the customer. Be prepared for well constructed questions and objections. An example *'why has overhead expenditure increased by 6% when the oil prices contained have been reduced by 9%'* OR *'why have staff expenditure costs gone up by 7% when the last pay agreement in your industry only provided for a 4.2% rise?'* If you do not have the answers then all the hard work in discussing the various points with your customer will be wasted.

3. Keep an example document in a safe place – the purchasing manager will be doing the same thing. If you present a new document six or twelve months later, they will be able to find the old one and make comparisons.

<u>Price reductions as well as price increases need to be justified</u>

The Business Manager of an electronic data processing manufacturer makes the internal announcement: '*From 1st August the sales price of the display units will be reduced by 12%'.* Is that good news for the sales force?

Of course every customer likes to accept a price reduction. But as a rule action starts with the buyer. They try to get the best price from the seller and is proud of getting a few extra percentage points reduction.

A voluntary price reduction on the other hand – an action of the seller – is often mistrusted. People attach a deeper meaning to it – true to the old saying ‘be careful when somebody gives you a gift’. You may need to have to deal with the following assumptions from your clients if your Company reduces its prices:

1. The **‘discontinued line’** assumption. The customer believes the product will soon be replaced by a new and better one, and the stock is now going to be sold at a ‘knock down price’.

Demonstrate to the customer the high technical standard of the product, making comparisons with competitor products. Justify the price reduction – new costing saving technological developments, with trends on the primary commodity market or with the growing output of production.

2. The **‘reject’ assumption’.** The customer thinks second rate, faulty goods are being sold to them.

Inform the customer about the extent of quality control in manufacture. Present inspection certificates, quote concrete reject figures. Tell the customer that faulty products are disposed of in many different ways. They do not find their own way onto the market.

3. The **‘financial trouble’** assumption. The customer gets hold of the idea *that your company is in financial trouble which is supposed to be remedied by quick sales at cheap prices.*

Give the customer some financial indicators and data which instil confidence (own capital in relation to borrowed capital, manner of payment, reputable suppliers, banks where accounts are held etc.) make clear how much money your company invests in marketing and sales activities to expand turnover. Give the customer long term repeat purchase and spare part guarantees.

4. The **‘further reductions will follow’** assumption. The customer thinks that the price latitude of your product has not yet been full tested and that prices will continue to fall because of growing numbers of pieces, technological developments and intensified competitive pressure.

Give the customer information that prices go up as well as down. Try and give examples of this information. Make the point that sales prices could conceivably be higher in six or twelve months time.

5. The **'deteriorating quality'** assumption. The customer fears your company will reduce the quality of individual product components to gain competitive advantages.

Make it clear, for instance, that the design actually was changed to make production more cost effective. The increased use of integral parts and electronic components are examples. Explain that your company is passing on the advantages of rationalisation and not the disadvantages of poor quality to the customer.

FENDING OFF PRICE DEMANDS WHEN ACCEPTING USED PLANT AND EQUIPMENT IN PART-EXCHANGE

For many products, such as cars, machines, office machines and computers, the salesperson will often be dealing with a customer who wants to trade-in a used product. The salesperson is therefore dealing with two markets – the one for new and the one for old installations. Knowledge of how much a 'trade-in' is worth is very important and how it affects the price of the new product.

Customers will often estimate the market value of the trade-in product higher than it really is. Such objections as *'I will only buy the new machine if you give me £400 for the old one'* is a standard comment. The salesperson has not only to sell their new product but in addition has to keep down the price allowance for the 'trade-in' product. Since many sales come under threat on this point, outline below are some methods to counteract these customer comments, which have proved useful.

1. Do not undertake a valuation of the used article until the value of the new one has been properly emphasised. A prospective customer for cars, for example, should be led to desire the new car before the value of the old one is discussed. If the salesperson has exceeded in kindling a strong desire to buy, then it will no longer be the price of the new care that is discussed, but rather the disputed differential amount.

EXAMPLE

'Mr. C. this care is the right one for you. The specification you require is right. The engine performance, the space requirement, the size of the boot. When you consider you will be driving the car for at least five years, then the £600 extra that you are seeking for your old car, and which I cannot meet, really does not add up to very much'.

The salesperson is using a variation on the minimisation and trivialisation method already discussed.

Appraisal of office and 'official' price lists

2. The value of the used article should always be appraised by a third party and not by the salesperson alone. A valuator, an appraisal officer or the salesperson's manager should be called in. This gives the offer an 'official' appearance. Should the customer be disappointed at the low price their irritation will not be immediately directed at the salesperson who is doing the negotiating.

3. The customer is always concerned that the price for the trade-in product will have been worked out on a 'rough and ready' basis. Therefore 'official' lists or prices for used articles can be most useful. The salesperson can draw up a list.

When selling cars, the salesperson can for instance look up the price of the cars offered for sale in the daily paper and show the customer what is being asked for similar vehicles. It is useful to have available an up-to-date report on the used car market. It is useful to show the customer a copy of a contract of sale for the used car of the same make, model and mileage. A customer can be shown cars, with price tags, of similar quality in the used car department of the company. Costs for doing up the trade-in car for sale can also be mentioned. The salesperson can also refer to the sales costs which are just as high for used cars as for new cars.

Fixing the price of used cars

How should the salesperson respond when a customer states that another dealer has offered more for the used car. Here it is possible to advise the customer that many dealers receive higher discounts from their manufacturers. At the same time the salesperson should constantly emphasise the exclusive advantages and better quality of the cars offered for sale by the company. This should make the point to the customer that they will be giving up all these advantages if they buy a new car of a different make just for the sake of a somewhat higher price on the trade-in vehicle.

Car salespeople in general try to lead the customer to commit themselves to a particular price for the used car before making an offer themselves. Sometimes the customer is quite sensible and quotes a sum within the bounds of the possible. When this happens the salesperson can say for example *'All right then, if I credit you with £2,000 for your old car, will you decide to buy a new one? Yes, good, lets just get that down in writing and I will ask my Manager for their comments'.*

IF YOU MAKE PRICE CONCESSIONS

There are prospective customers and customers who stick to their objection that *'Your prices are too high.'*

If you as the salesperson have no influence over the price then there is no way that you will be able to accommodate the customer. But there are some salespeople who are authorised to make price concessions under certain circumstances and for competitive reasons. In this chapter some of the techniques and reasons for doing this are discussed.

There are some industries with considerable price flexibility, where every salesperson tries to obtain every order that they can get and every prospective customer haggles over a reduction in the price. When this happens everything depends on negotiating skills. To be successful in such negotiations the salesperson must learn never to give a clue to the customer as to how far they can go, but rather to find out as quickly as possible what limit the customer has set themselves.

The salesperson must be able to judge what the market situation is like and must never let the customer know how important it is to get the order. Above all the salesperson must learn how to make a determined impression when quoting the price for even the slightest trace of weakness or uncertainty will inevitably make the customer request a lower price. It is important to learn how to make it clear to the prospective customer that any price concession you might make is your irrevocable final word because otherwise there is the danger of the customer trying to negotiate a further reduction.

Business effects of price concessions

If the salesperson has authority from the sales management to accommodate the customer in certain situations, it is necessary to check what the concessions are costing the company. Concessions are easily made but it is important to be aware of the costs that will fall upon the salesperson's company.

Questions that need to be considered are:

What is the effect of a price correction on the profit contribution?

What is the cost of a special manufacture or a service performance which the customer insists on without wanting to pay for it?

What difference will an increased resale discount or cash discount make to the accounts?

Price concessions often have far reaching business effects, greater than is generally assumed. Let us assume that a company's gross profit margin is 40%. As the following table shows, a price reduction of 15% necessitates a 36% rise in turnover in terms of value if the same gross profit is to be realised. Sales have to go up by 60% in terms of quantity.

Method of calculation: an item sells for £100 and normally 10 pieces are sold. The result is a gross turnover of £1000. The costs amount to £60 and the gross profit £40 per piece that is £400 for 10 pieces. If the unit price is reduced to £85 the new gross profit amounts to £25 per piece. If we divide the original total gross profit of £400 by £25 it means that 16 pieces will have to be sold in order to keep the gross profit at £400. 16 pieces at £85 each amount to a turnover of £1,360. An increase of 60% in terms of quantity and 36% in terms of value is therefore necessary.

Assuming a gross profit of 40%

Price Reduction In %	Sales price per piece	Gross profit in £ per piece	Gross profit in %	Turnover necessary to achieve £ 400 gross	Necessary increase in total turnover %	Necessary number of pieces sold to achieve £ 400 gross profit	Necessary increase in sales in %
	£	**£**		**£**			
0	100	40	40	1000	0	10.0	0
5	95	35	37	1080	8	11.4	14
10	90	30	33	1200	20	13.3	33
15	85	25	29	1360	36	16.0	60
20	80	20	25	1600	60	20.0	100
25	75	15	20	2000	100	26.7	167
30	70	10	14	2800	180	40.0	300

A lot of money is given away on customer discounts

Customers often declare 'I do not agree to your conditions of 10 days 2% 30 days net. 3% cash discount within 10 days is the least I expect.'

Many salespeople give in too quickly to such demands. The difference between 2% and 3% cash discount does not seem great, but really it is enormous. Just as interest rates always relate to the whole year, so a cash discount also has to be converted to a yearly basis.

The formula is:

$$\text{Yearly Interest} = \frac{\text{Cash discount \% x 365 days}}{\text{payment period net – cash discount days}}$$

EXAMPLE 1

Condition of 30 days net or for 10 days earlier payment a 2% cash discount is given. For 20 days 2% is therefore refunded.

$$\text{Yearly interest} = \frac{2 \times 365}{30 - 10} = \frac{730}{20} = 36\%$$

EXAMPLE 2

Condition of 30 days net with 3% cash discount for early settlement. For 20 days 3% is therefore refunded.

$$\text{Yearly interest} = \frac{3 \times 365}{30 - 10} = \frac{1095}{20} = 55\%$$

On the assumption that your firm's current account is in debt. Fixing a forward value date for the bill therefore means increasing the debtor interest due, since the sum is not available in the account. A bill with a fixed value date of £20,000 causes the following costs at an overdraft loan interest rate of 12%

$$\text{Costs of fixing value date} = \text{amount of account} \times \text{interest rate} \times \frac{\text{Interest days}}{365}$$

60 days value date:

$$\text{Cost of fixing value date} = £20{,}000 \times 0.12 \times \frac{60}{365} = £394.52$$

90 days value date:

$$\text{Cost of fixing value date} = £20{,}000 \times 0.12 \times \frac{90}{365} = £591.78$$

120 days value date:

$$\text{Cost of fixing value date} = £20{,}000 \times 0.12 \times \frac{120}{365} = £789.04$$

An alternative to fixing a value date is the granting of discount deductions. Instead of a payment period of 60 days an offer is made to the customer of a 2% cash discount payment within 14 days. The calculation will look like this.

First of all, the cash discounts granted cost £20,000 x 0.2% = £400. In addition no money is being paid for 14 days, so that additional value date fixing costs accrue.

$$\left(£20{,}000 \times 0.12 \times \frac{14}{365} = £92.05\right)$$

Cash discount and value date fixing costs now amount to £492.05 against the value date fixing costs of £394.52 for 60 days. Therefore costs have risen by a further £100!

From this example it can be seen that a lot of money can be given away when a cash discount is granted!

Lets examine the customary combination of cash discount and value date, fixing payment within 14 days with 2% discount, or within 30 days net. What does this mean to the customer?

The bill of £20,000 is paid within 14 days and the customer can deduct £400 cash discount. If the customer borrows money as well to pay the bill they will have to pay bank interest for 14 days i.e.

$$\left(\frac{£20,000 \times 0.12 \times 14}{365} = £91.05\right)$$

which they would have saved if they had paid after 30 days. The customer therefore earns over £300 on their £20,000 bill with a cash discount payment. This is precisely the amount the company will lose if the customer pays within the discount period.

Looking at it in a different way will show that the credit granted is so expensive that no customer (unless they are suffering a liquidity problem) will take advantage of it. What is shows is that your company is demanding a full £307.95 for allowing 14 days more to pay the bill of £20,000.

It is possible to still tempt the customer to pay a cash discount under terms more favourable to the company. Since cash discount rates of between 2% and 3% have become usual, it is possible to alter the payment periods. In the previous example (30 days net/14 days with 2% cash discount) it cost the company approximately £300 extra when allowing a cash discount on a bill of £20,000. The company may decide that in future £200 will suffice as a stimulus to pay within 14 days. The following possibilities present themselves:

1. Reduce the discount deduction from 2% to 1.5%. A discount deduction of £300 will then stand against the interest cost of £92.05. Disadvantage: 1.5% cash discount looks very low.

2. Cut the discount period from 14 days to '0'. The customer will deduct £400 cash discount as before but because of the immediate payment their interest costs

(Bank interest = $\frac{£20,000 \times 0.12 \times 14}{365}$ will double to £197.26)

Paying a cash discount will mean that the customer will save only £200 instead of £300 as before.

The difference can be quite considerable. Anyone granting a 3% discount in 10 days will be paying an interest rate of, believe it or not, 54%. When you consider the money can be borrowed from banks for about 10% it becomes clear that the customer is doing well while the salesperson who casually increases cash discount values are giving their firm a severe burden.

<u>Price concessions in return for improving the order or slimming down the offer</u>

If a salesperson has to make concessions it is better, as a rule, to offer production performance instead of granting cash reductions.

EXAMPLE

When a fork lift truck is being sold a 2% reduction off £30,000 is £600 in hard cash. An accessory part which the customer needs anyway, with a sales value of £600 is likewise worth a full £600 to the buyer. However, it only costs the firm say £360 at a margin of 40%.

The salesperson should in principle avoid open ended price concessions and should only accommodate the customer if the customer makes concessions too. It is a golden rule of negotiation that you should never give anything without receiving something in return. Preferably the something you receive should be of greater value to you than the concession that you make. In any event to concede without something in return, even of lesser value simply sends the wrong signals to the buyer who will be prompted to ask for further concessions.

The following two lists gives achievable customer's concessions. This first list has been compiled by salespeople selling lifts and escalators. How many would apply in your business.

We suggest that you use a pencil to make your comments in the space alongside. Think of extra points for your own company. The more points you have available, with which to negotiate, the less likely you are to be forced to concede more than you might decide was prudent.

1. Raise the value of the order

- Costlier fittings (high grade steel)
- Stronger drive
- Additional service contract
- Additional project

2. Improve the order directly

- Free power for installation
- Free provision of a crane
- Lockable storeroom on site
- Installation without night or holiday work
- Provision of temporary assembly worker
- Use of builder's hut
- Installation at time more convenient to the supplier

3. Slim down the offer

- Simpler technology
- Cabins undercoated only
- Reduce guarantee period
- No planning assistance
- No official (government) acceptance test

A record salesperson who sells to wholesalers and retailers has compiled the following list.

1. Increase the value of the order

- Annual statement of accounts with increase quotas of 10, 20 and more percent of the previous year's turnover.
- Avoidance of purchases from other suppliers

2. Improve the order indirectly

- Provision of permanent display site or a permanent window space for display purposes.
- Customer placing own orders (not without danger)
- Visit only every fortnight
- Preferential positioning of the supply of own records
- Participation in sales campaigns
- Participation in poster campaigns
- Sale in marketable (or current) packaging units

1. Slim down the offer

- Display by the customer instead of by own display service or the salesperson.
- Sales processing by telephone

Contractual mix – no give without take

A contractual mix checklist, for use in price talks with wholesale and industrial managers, has been published by Frank J. Walther in his book "Assert Yourself in Price Talks".

PERFORMANCE **REWARD**

Goods + packaging with/without re-use value. Price per unit with packaging

+ transport

+ by road according to customer's

wishes	% cash discount
+ by rail	% discount
+ by ship	% bonuses
+ insurance	% bill charges
+ storage	+ follow up order(s)

+ storage (consignment)
+ continuity of delivery
+ guarantee of quality
+ preferential treatment for new developments and in price terms
+ development aid
+ information
+ assistance with advertising (back-selling)
+ free samples
+ individual service
+ name printing
+ servicing of machine
+ credit/payment period
+ official minder
+ complementary products

Lets assume that you are offering a control unit at the price of £847,000. The customer takes exception to the total price. The salesperson places a breakdown price before the customer:

'Let's us see where we can make reductions. How important is the metallic paintwork? With the standard finish you save £32,480. The metallic finish is a luxury. Many customers are still happy with the standard finish after 15 years and this under much more difficult working conditions than you have in your premises.

Standard extras

Standard control unit	£401,040
Rubber wheels	£ 2,120
Voltage regulator	£ 18,600

Change over desk	£ 6,160
Display unit	£127,000
Variable converter unit	£ 37,000
	£591,920

Accessories

Collector unit	£ 2,200
Electronic computer	£ 8,080
Automatic balance unit	£58,000
	£ 68,280

Customer's wishes

'Quadratic' array	£41,400
Metallic paintwork	£32,480
Design alterations	£30,000
	£103,880
Construction on site	£ 83,720
	£ 83,720
	£847,800

It is possible to start at another point. 'The installation costs add up to £83,720. Ask the customer how much assistance he can give. If it is possible for the customer to provide some help it will be possible to reduce this item by about £30,000. The installation company's workers are bound to be more expensive when you have to consider travelling expenses, board and lodging etc.'

Rising cost considerations curve in the car trade

A car dealer has drawn up the following rising cost conditions curve:

4. Mediation, discount, reduction, higher exchange price for used car

3. Accessories with installation at works/workshop

2. First aid kit, warning lamp, warning triangle, foot mats

1. Ice scraper, duster, key wallet, logbook

The dealer's advice to the sales staff:

'Before you grant group 4 concessions try and switch to groups 1 to 3!' If you do bargain with the customer over the price and, on the basis that you have been authorised to make certain concessions, you should always observe the following rules:

- Set the lower limit of the concession area before the negotiation – business without profit is worthless.

- Start with maximum demands – then there is room to negotiate.

- No concession without something in return from the prospective customer.

- Make the customer fight hard for every concession – nobody values anything that is easily gained.

- When negotiating conceal anxiety, indignation and pleasure. Be neutral.

- Never be afraid to retract promises you as the salesperson have made if the customer achieves advantages in other fields.

- Do not panic if the customer comes up with new demands when the order is ready to sign – the order which has been negotiated so hard is probably not in serious danger any more.

Immediate placing of orders using the outstretched hand technique

Once in a while the salesperson will have to accept a one sided price concession. The concession should only be made on the basis that the order is placed immediately. It is recommended that the salesperson uses the outstretched hand technique.

EXAMPLE

Salesperson *'If I could give the 5% additional discount you are asking for, would I get the order?'*

Customer '*Yes'*

Salesperson (holds his hand outstretched for the handshake and says) *'All right, 5% extra.'*

Customer (attracted by the hand, holds out his own for the dealing handshake) '*OK – it is a deal.'*

The example smacks of horse dealing – but salespeople should not simply reject a tried and tested method just because we do not like the trade it originated from.

Holding out your hand to the customer as a sign of your readiness to settle the deal at once is by no means restricted in usefulness to a few trades. In fact body language of all kinds will add to the power of the spoken word. Sometimes it will pay the salesperson to start packing his briefcase, as though the interview had ended if a buyer starts making unreasonable demands.

CORRECTLY REALISING YOUR AUTHORITY OVER PRICES

If a salesperson you are equipped with powers over prices by your sales or business management, that is to say, you can undertake price increases and reductions independently within a certain framework, then you have to act with the right strategy and tactics.

The profit contribution formula as an aid to discussion

If an important customer asks for more favourable prices or better terms, the salesperson cannot simply answer ‘no’ to the customer. It is necessary for counter proposals to be placed on the table. One method that can be used to work out fresh offers is contribution costing.

This costing technique divides the costs of an enterprise into fixed and variable costs. Fixed costs are independent of production and orders e. g. administration, premises, storage and depreciation costs. These costs arise whether or not products are being manufactured or sold.

Variable costs, on the other hand, are dependent on capacity utilisation and only accrue when the business is in production. These costs are essentially material and wage costs i.e.

Sales turnover

- variable costs

= profit contribution

The difference between the sales turnover of an order and the pro rata variable costs is the amount which that order will provide to cover the fixed costs.

How can the profit contribution formula be employed in practice?

Assume that you sell electric coffee machines, and a wholesaler is interested in buying 800 appliance. The written offer is £35 per machine.

The material costs for one appliance amounts to £8 the pro rata wage costs £13. Therefore the profit contribution comes to £14. If the order were placed it would realise a total profit contribution of £11,200 (800 pieces x £14).

When visiting the customers premises you may be confronted with either of two situations:

Situation 1

The customer wants to bring down the price. The wholesaler is asking for a price of £31.50 per appliance. It is necessary to use the following formula to prepare your counter strategy:

New offer quantity = Qo x (Po – C)

Po x (1- P%) – C

100

The abbreviations mean: Qo = Quantity offered

Po = Price offered

C = Variable costs per appliance

P% = Price reduction demanded, (percentage)

The formula determines the new quantity to offer, which, with the requested price reduction of 10% will provide the same profit contribution as the original offer. You insert the figures:

New offer quantity = 800 x (35 – 21) = 800 x 14 = 1067 pieces

35 x (1 – 10 – 21) 35 x 0.9 – 21

100

With a price reduction of £3.50 or 10% the profit contribution is reduced from £14 to £10.50. With 1067 pieces x £10.50 you realise the original profit contribution of £11,200.

Therefore the counter strategy must be: *'I can allow you this price if you accept at least 1,100 appliances instead of 800.*

Situation 2

The customer wants to force down the quantity. The wholesaler only made enquiries about a quantity of 800 pieces in order to find out the salesperson's lowest price. The wholesaler's actual requirement is 640 piece. That is 20% below the quantity first mentioned.

The salesperson needs to use the following formula to prepare a counter strategy:

$$\text{New offer price} = \frac{Po - (C \times Q\%)}{1 - \frac{Q\%}{100}}$$

The letters mean: Po = Price offered
C = Variable costs per appliance
Q% = Quantity reduction demanded (in percent)

The formula shows what price is required if you are to achieve the same profit contribution in spite of the smaller quantity.

$$\text{New offer price} = \frac{35 - 21 \times \frac{20}{100}}{1 - \frac{20}{100}} = \frac{35 - 21 \times 0.2}{0.8} = £38.50$$

With a price of £38.50 your profit contribution rises from £14 to £17.50. With 640 appliances sold, the profit contribution will thus work out at 640 x £17.50 = £11,200.

The counter strategy is clear: If the salesperson is going to accept an order for 640 appliances, then the customer must agree on a unit price of £48.50.

Suitability of products for price reductions and price increases

Price increases or reductions are above all else about giving the company higher profit contributions. In order to assess price policy decisions rationally the salesperson needs to know the connection between price changes, turnover and profit contribution.

As a simple rule regard the gross profit, which is calculated as follows, as the profit contribution:

Net turnover of a product
- variable costs

= gross profit/profit contribution

From this data you can then ascertain the profit contribution margin in %.

$$\text{Profit contribution margin} = \frac{\text{Profit contribution}}{\text{Turnover}} \times 100$$

If price changes are being made, quantity can be used to help determine what changes in turnover are needed to be achieved in order to keep the profit contribution at least constant:

Profit contribution neutral : change in turnover

$$= \frac{\text{profit contribution margin in \%}}{\text{profit contribution margin in \%} \; +/- \; \text{price change in \%}} - 1$$

EXAMPLE

A salesperson has been selling 100 units of a product every month at £50 per piece. The variable costs per piece amount to £40 and the profit contribution is correspondingly £10 per piece. To calculate the profit contribution margin use the following formula:

$$\frac{10 \times 100}{50} = 20\%$$

With sales of 100 pieces the monthly turnover amounts to £5,000 and the monthly gross profit is £1,000. The company are planning to increase the price of the product by 5% to £52.50. It is now possible to determine the profit-contribution-neutral change in turnover according to the following formula:

$$\frac{20\%}{20\% + 5\%}$$

The unit turnover can accordingly fall by up to 20% to as little as 80 pieces per month, without losing a single pound of the gross profit. To check you can calculate the new gross profit:

80 pieces x £12.50 per piece profit contribution = £1,000 gross profit.

The formula shown therefore makes it possible to determine the 'turnover break-even' for any conceivable price changes and profit contribution margins.

With a profit contribution margin of:

Price Increases	**20%**	**30%**	**45%**	**50%**	**60%**	**70%**	**80%**
	The decline in turnover can amount at the most to:						
+ 5%	-20%	-14%	-10%	-9%	-8%	-7%	-6%
+10%	-33%	-25%	-18%	-17%	-14%	-13%	-11%
+15%	-43%	-33%	-25%	-23%	-20%	-18%	-16%
+20%	-50%	-40%	-31%	-29%	-25%	-22%	-20%

If a product realises, for example, a profit contribution margin of 45% and a price increase of 15% is planned then the read-off value of –25% can be taken from the matrix. The turnover break-even of –25% means that the price increase will only become unprofitable if the turnover drops by more than 25%.

On the whole the matrix makes it clear that products with small profit contribution margins are more suitable for price increases. As the profit contribution rises, so the turnover break-even steadily declines!

Exactly the opposite is the case with price reductions, for which the following matrix is valid.

With a profit contribution margin of:

Price reduction	**20%**	**30%**	**45%**	**50%**	**60%**	**70%**	**80%**
- 5%	+ 33%	+20%	+13%	+11%	+9%	+8%	+ 7%
-10%	+100%	+50%	+29%	+25%	+20%	+17%	+14%
-15%	+300%	+100%	+50%	+43%	+33%	+27%	+23%
-20%	___	+200%	+80%	+67%	+50%	+40%	+33%

This example shows the increases in turnover which are necessary at least to make up for the loss of gross profit caused by the price reduction. Only when the turnover climbs above the break-even value in the matrix will the company draw higher profits from the price reduction! It becomes clear that products with high profit contribution margins are mainly the right candidates for price reductions.

If profit contribution margins are narrow, almost utopian increases in turnover are required at least to maintain the gross profit. Thus for a product with a 20% margin it would be necessary to quadruple turnover (+300%) to make up for a 15% reduction in prices! Very few firms will actually succeed in doing this.

Example

Assuming the range consists of five products (A – E) and six accessories the profit contribution margins of the eleven total products are very different:

Range of products and accessories with profit contribution margins:

Product A: 3%	Accessory 1: 80%
Product B: 50%	Accessory 2: 60%
Product C: 15%	Accessory 3: 55%
Product D: 20%	Accessory 4: 35%
Product E: 70%	Accessory 5: 5%
	Accessory 6: 90%

It will be necessary to calculate the turnover break-even for each of these products and accessories if prices are increased by 5%.

It is necessary to compare all products for the price increases in the following table:

Product or accessory	Profit Contribution margin in %	Planned increase in %	Turnover break-even in %	Price policy recommendation
Product A	3%	5%	-63%	Price increase above 5%
Accessory 5	5%	5%	-50%	Price increase above 5%
Product C	15%	5%	-25%	Price increase above 5%
Product D	20%	5%	-20%	Obtain further information
Accessory 4	35%	5%	-13%	Obtain further information
Product B	50%	5%	- 9%	Critical area, no price inc.
Accessory 3	55%	5%	- 8%	Critical area, no price inc.
Accessory 2	60%	5%	- 7%	Critical area, no price inc.
Product E	60%	5%	- 7%	Critical area, no price inc.
Accessory 1	80%	5%	- 6%	Critical area, no price inc.
Accessory 6	90%	5%	- 5%	Critical area, no price inc.

Product A, right at the top for price increases, delivers a wafer thin margin of 3%. The turnover break-even of – 63% turns out to be correspondingly high. That means that if Product A which yields a profit contribution margin of 3%, has its price raised by 5%, the turnover can fall by 63% without the gross profit getting any smaller. It is therefore possible to raise the price by considerably more than 5% without hesitation. The same is also true for accessory 5 and product C.

Product D and accessory 4 fall into a sensitive area with turnover break-even value of – 20% and – 13% respectively: turnover could easily fall by these percentages or even further. It is therefore necessary to obtain more detailed information from the field staff on the price sensitivity of these products.

The company should refrain from increasing the prices of all the products and accessories with a turnover break-even of –m 9% or less, since these losses of turnover would in all probability occur. The turnover of Product E, which is estimated to have a 60% profit contribution margin, must only decrease by 7% if the price is increased by 5%. If the turnover goes down more than 7% the profit contribution will drop.

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