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Sell Value – Not Price

by

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Given the current “market winners” in the selling world, one would think that price is the primary reason people buy a product or service. Some evidence of this would be the phenomenal growth of such chains as Wal-Mart, Home Depot, Dollar Store, etc. To be able to sell at the lowest price, these chains are continually pushing, if not demanding, that their suppliers give them lower prices as well. Under this situation, one might conclude that selling at the lowest price is required to be successful in today’s market.

I would argue that unless you are without a doubt the lowest cost provider or producer, you cannot and should not sell merely based on price. This then raises the question of how can one expect to survive in today’s environment if an increasing number of potential market outlets for our products and services are squeezing to get the lowest price possible? The premise of my argument is that all organizations and people will buy, and continue to buy, if they believe that value has been received as a result of the transaction. What this means is that in addition to price, there are other benefits, both tangible and intangible, which must be present in order for a buyer, whether a corporation or an individual, to feel they have received value. The purchase must contain an appropriate level of total benefits to satisfy the needs that drove the purchase in the first place.

To illustrate the concept, let’s apply the concept with a simple, real life situation. Let’s look at two different types of coolers widely used in the summer. When identifying what value

is being delivered in a cooler, the obvious one is that it keeps food and drink cold when used as directed with ice or ice packs. More subtle is the unique and/or specialized value being delivered by the respective coolers beyond initial purchase price. It is this deeper value that is a key element to identify and incorporate into the selling and pricing decision.

For example, a widely available low-cost foam cooler does not cost much more than a couple of dollars, and buyers usually only expect them to last one, maybe two uses before they are ready for the trash can. A unique value is that when there is high risk of losing or damaging a cooler, a relatively low-cost cooler that is expected to be thrown away very soon will provide adequate value for the money spent. For basis of comparison, one could state that a \$2 foam cooler used once and then thrown away would result in a \$2 per use transaction fee.

Now consider a high-end Coleman cooler with metal housing at a price range of \$80-90. Who would ever buy an expensive cooler like that? This type of cooler has a much longer life expectancy. In fact, I have had one in use for over 19 years, with perhaps 45 uses total (a conservative 2.4 uses per year). This particular cooler has a per use transaction cost of approximately \$1.66, based on a purchase price of \$75 in 1985. Even at today's cost of \$90, it would match the per use transaction cost of the lower cost foam cooler at \$2. If one believes that low price is the only basis upon which buying decisions are made, it could be stated that I would not or should not ever consider using the foam cooler with its per use transaction premium of more than 30 cents.

So what does this comparison exercise tell us, since both types are widely sold today? To sell simply by price, one would first need to define low price because, as in this example, it could be initial cost or per use transaction cost. An interesting paradigm is that while the foam cooler has a lower initial cost, its per use cost ends up being higher than that of the metal-clad Coleman. To make the comparison even more interesting is the fact that the Coleman cooler with its lower transaction cost also keeps items colder for a longer period of time because of its superior insulation and construction. So, based on per use price and basic function, one could question why anyone would buy the lower-cost foam cooler. What becomes evident in this example is that there are different aspects of nonfinancial attributes that contribute to the value proposition for a particular product. Therefore, selling based on price alone would be a flawed tactic.

While this is a simple example, there is evidence throughout the country that demonstrates this concept. Brands such as Rolls Royce, Jaguar, Lincoln, Ford, and Hyundai all demonstrate the ability to satisfy a broad range of value propositions in the transportation industry. More relevant might be an example from the food industry's coffee category. Folgers, Maxwell House and Hills Brothers are working hard to maintain their sales, yet companies like Starbucks and Green Mountain Coffee are growing their sales leaps and bounds. The value being sold and delivered by Starbucks and Green Mountain Coffee, in addition to a quality coffee, is pampering in a complex and difficult world, cult membership, mental links to a scenic location (Vermont), and images of vacation and relaxing fun times. While the other national brands have a price advantage, their value is not equivalent to that of the newer premium brands in the eyes of the consumer.

While this might be a simplified example, the bigger question remains: How can I compete in today's environment? Simply stated, it means that one must look carefully at their product and service. Marketers need to assess the competitive climate in the region, country, and world to determine how it might affect the value of what they have to offer; learn to identify what the purchaser needs to see or experience that supports their sense of value while satisfying the needs that drove the purchase initially; and finally, apply what is learned when making a decision as to where products or services are to be sold, who (in the case of large organizations or commodity products) to sell to, and at what price.

The key to success is that price and value must be a conscious decision on the part of the company. Wherever the price and value position is for your product or service in the market right now, it can be changed. An example of a large company working to move its products up the price and value scale is Subaru. They are actively and carefully working to change the value proposition of the brand. The Subaru Company has accepted that they will most likely alienate some of their existing customers, in fact losing them to competitors, but still believes the changes in value proposition and price is where they want the company to be to maximize its sales and viability.

Is this concept easy to state on paper? Most certainly yes. Is this concept easy to implement? Most certainly no. It takes time and practice to develop an accurate picture of the value proposition. It is, however, a concept that can be worked on and applied over time to slowly improve the selling price and business position. While the examples I have cited are not

specifically from the food or agriculture sectors, they can be learned from. Sales, buyers, and customers share common attitudes across all aspects of business sectors. Looking to other industries to learn from their success and mistakes can shorten the learning curve and help us to improve our business practices in a shorter time period.

Smart Marketing is a monthly marketing newsletter for extension publication in local newsletters and for placement in local media. It reviews the elements critical to successful marketing in the food and agricultural industry. Articles are written by faculty members in the Department of Applied Economics and Management at Cornell University.

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