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Price is the Key to Profit, People are the Key to Price

In many B2B and B2B2C markets there is talk about commoditisation, the pressures of change and the inevitable pressure on costs and prices. How can marketers overcome these pressures?

Anyone taking a marketing course or studying for a marketing qualification very quickly learns about the 4 P's – or is it 7 P's these days? However many P's there are in your marketing mix, you cannot escape the fact that only one of these P's enables you to capture value for your business or your company – that P is PRICE. All the other P's in the marketing mix cost you money. Price is the value-creating part of the revenue equation, from which costs are subtracted in order to make a profit. As revenue is the single largest number in the equation, it does not take a genius to figure out that anything a marketer or seller can do to raise price has a greater impact on the bottom line than anything a bean-counter can do to cut costs.

If this is so obvious, why is that most companies and many senior executives focus more on cost than price? One answer is that they have a constant stream of data and analysis about costs – the accounts have this data coming out of every orifice, production measures and tracks and benchmarks all sorts of data. Marketers and sellers tend to have numbers about sales volumes, maybe something on prices. But generally speakers the commercial side of the organisation is not as good at producing good data as finance and manufacturing. So the focus of management tends to be more on costs.

MarketAbility has been involved recently with several clients where we have established stronger sets of data designed to measure marketing effectiveness. These data are built around customer value and needs-based segments; they focus on pricing, value creation, value capture and margins. The data has caught the attention of management, has improved strategic goal achievement and has helped the commercial organisation to argue for and justify resources and to demonstrate the power of good value-based pricing, built on sound marketing and customer value management principles.

Getting the price right is one thing. Getting the price to stick at the customer is highly dependent upon the skills and competences of the individuals involved in the sales process. The seller must have well-honed interpersonal skills to be able to deal effectively with a multitude of personalities at the customer. The seller must also be a very good negotiator in order to communicate and convince the customer of the value being delivered by her/his company to the customer, to quantify that value to the customer and to reflect that in the actual price achieved. Not just anyone can do a good job in the sales role. In fact, from one customer value segment to another, the personal skills of the seller needed to be successful in the segment may also be different. Innovators might prefer to deal with a technically competent seller, market developers may prefer to deal with a seller better versed in new business development and in any segment driven strongly by price, the seller must be a highly skilled negotiator.

It is perhaps surprising, then, that we still find large numbers of sales people with a technical background, some of whom may even have had no training or development of their commercial, interpersonal or negotiating skills. It is never too late to wake up and do something about it.

Practical Marketing for Value Growth

WE DO while others only talk

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About the Author

Phil Allen runs the Marketing Excellence Practice, MarketAbility, serving a broad base of clients in chemicals, plastics, energy and other industrial and B2B sectors covering all aspects of improving business profitability through applied practical marketing excellence, customer value management and key account management. He counts more than 30 years of practical experience in marketing and sales.

MarketAbility operates both at global and local levels around the world.

In a recent profile of MarketAbility on EuroNews, Juan Senor, International Business Writer, praised MarketAbility for its unique and practical approach to business value creation.

Phil is the founder of the Customer Value Management Circle of Excellence (www.customer-value.org), a learning and sharing organisation for all involved and/or interested in managing customer value and building customer loyalty.

He is co-author, with J. Nicholas de Bonis and Eric Balinski, of the book "Value-Based Marketing for Bottom-Line Success", to be published by McGraw Hill in December 2002. Visit <http://www.pentadigm.com>

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Find out more about MarketAbility at: www.marketability.org

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