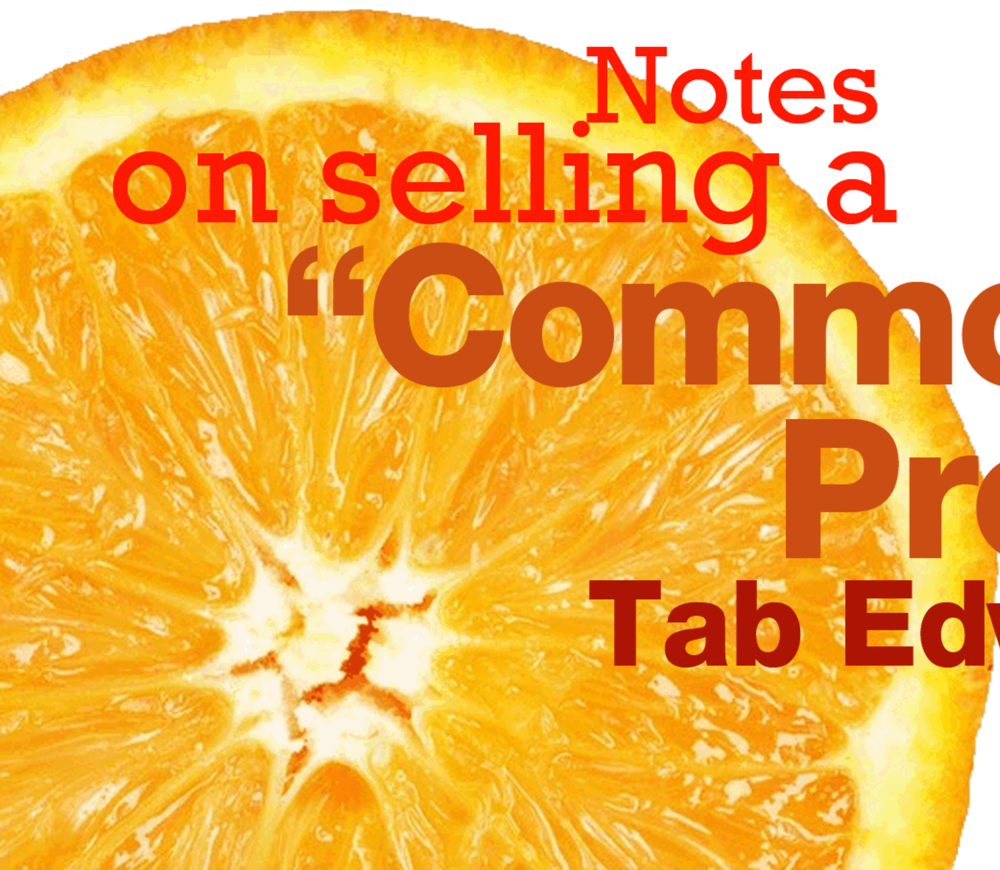

Notes on selling a "Commodity" Product

Tab Edwards

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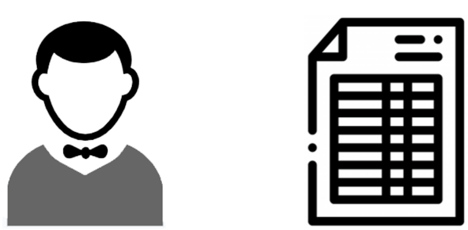
"BUT BOSS, I CAN'T sell this product to my customers anymore because our price is higher than our competitors', and to my customers, the products are all the same. They consider the products to be commodities!"

In the years that I have managed, developed, mentored, trained, supported, and hired professional salespeople—especially when the products and services sold were rather generic or, basically, considered "commodities" to many buyers—it is not uncommon for me to hear the above or other similar pleas from one of the sellers: "If we don't give the customer this discount or some other consideration, they will buy it from a competitor."

And wherever I would hear this such comments, I would ask the salesperson the following question: "So, let me get this straight: to the customers, your only value is telling them the prices of the products and giving them a discount (something, by the way, they can simply do from a website)? **If so, then what is the difference between you and a price-sheet that contains the prices of all of the products?"**

WHAT'S THE DIFFERENCE?

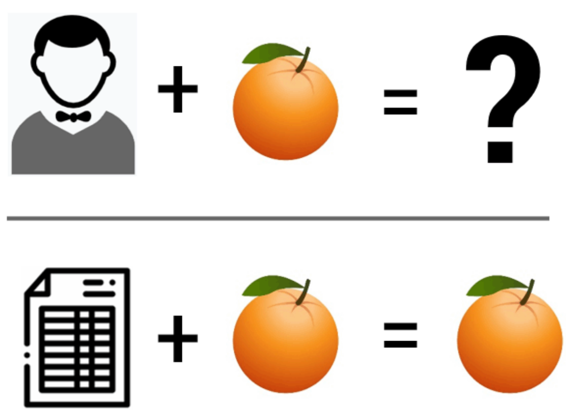


SALES PERSON PRICE SHEET

Let's face it; in a commodity sale, if the salesperson cannot articulate the difference between themselves and a price-sheet, it's a sign that the seller needs further training and development. Otherwise, why not just re-purpose the salesperson and send the customers price sheets? You'd save a lot of money. Yet, the salesperson is not totally wrong.

So, after listening to the salesperson either try to articulate the difference(s) or struggle to do so, I then ask this follow up question: "So, let's assume that your product is an orange—a true commodity product. **What additional value could you provide the customer that they could not get by purchasing their oranges online?"**

WHAT'S THE DIFFERENCE IN "VALUE"?



Now, by answering this question, the salesperson is starting to formulate an appreciation for how to begin selling a commodity product.

SELLING A COMMODITY

A **commodity** product is one that the market determines has no functional differentiation from other similar products in its category. A commodity product's price is determined as a function of its market as a whole, and if the product's manufacturer raises the price of the product above that of the other similar products in its category, the sale of that product will most certainly decrease. The reason is because buyers see commodity products as interchangeable.

Put differently, buyers of commodity products are of the opinion that, if they replace one commodity product for another, there will be little-to-no disruption or impact as a result of that purchase decision.

Such products are often described as being *fungible*, meaning that they are easily exchangeable or replaceable by other similar products. Some examples of commodity products are copper, most personal computers, generic drugs, printer paper, some medical supplies, rubber bands, milk, eggs and—yes—navel oranges. Think about it: when you go to the supermarket to purchase eggs, do you really care about what *brand* of eggs they are, or do you simply look for the ones that are inexpensive and not broken? That's the nature of a commodity product. To the buyer, they are all the same.

How do you sell a commodity product when the buyer doesn't believe your product to be any different than your competitors'?

The question is: **How do you sell a commodity product when the buyer doesn't believe your product to be any different than your competitors'?** Unfortunately for most sellers of commodity products, the answer is usually (and incorrectly) "price."

Over the years, I have worked with hundreds of sales reps who were responsible for the sale of products that would be considered commodity. And in most cases, these sellers came along at a time when companies no longer invested in extensive sales training and mentoring for new sales reps and, as a result, these sellers were mostly unskilled at navigating the competitive sales cycle. The result was that most of these sellers didn't know how to sell commodity products and resorted to reducing the product's price in an attempt to make their commodity product more attractive than their competitors'. The scary part is that the competitors reduced *their* prices, too, resulting in a price-war in which the "winning" seller ultimately "won" a deal that had no profit margin and was constantly at risk of being replaced by someone else's commodity product.

Why Customers Make Buying Decisions

As a starting point for understanding ways to effectively sell a commodity product, it is important to understand how and why buyers make purchase decisions. And more importantly, why and how *your* customer makes purchase decisions.

Several years ago my firm conducted a poll of Information Technology (IT) managers to understand why these decision-makers typically made purchase decisions. The general feedback showed the following reasons:

- Good relationship with their sales rep; they like the sales rep
- Company reputation
- Trust in the sales rep
- Comfort dealing with the sales rep and the company

- The product/service will provide some unique value
- The price is fair (but not necessarily the lowest)
- Comfort with the solution (knowledge)
- Value in doing business with the company and the person from whom they are buying

Based on this feedback—which is consistent with that of other types of buyers—it should be clear that price is usually not the main reason why buyers make purchase decisions for most types of products, services, or offerings.

Why Customers Don't Buy from You

I think it's just as important to understand why your customer is *not* buying from *you* as it is to understand why they make their purchase decisions in general. I read a research report recently that explained why customers typically don't buy from their sales reps. The two reasons that stood out were: (a) The customer doesn't understand the value of what the rep is selling; meaning, how it applies to their business-related issues; and (b) The customer doesn't trust the sales rep.

Putting all of this into context, you will begin to see that value, sales credibility, and being consultative in your sales approach are among most important determinants of who the buyer buys from. This should also give you an indication of why I believe sales reps are not being productive by using customer sales meetings as an opportunity to present product features, prices, and spec-comparisons to any customer, even those who care about such things.

THE NATURE OF OBJECTIONS

"Price" is an Objection

An objection is the buyer's way of telling the seller that something about the seller's proposal is giving them pause and, until the issue is resolved to the buyer's satisfaction, the buyer will not go forward with the process. Buyers raise objections for many different reasons, including (but not limited to):

An objection is the buyer's way of telling the seller that something about the seller's proposal is giving the customer pause

- The seller has not effectively demonstrated the value of the product, service, solution, or proposal to the buyer so the buyer doesn't see the value
- The buyer doesn't trust the seller
- The buyer really does not want to do the deal but the seller is unaware of that fact
- The buyer is skeptical and is not totally comfortable with the proposal
- A competitor's proposal is more attractive to the customer

Whatever the reason for the objection, the fact remains: the buyer has placed a barrier between you and your desired sales outcome (the deal), and until the barrier / objection has been satisfactorily overcome, you will be unable to move the sales process forward to close the deal.

Given this reality, it stands to reason that the first thing a seller must do when a buyer raises an objection is to understand the cause of the objection or concern and to uncover the "real" issue(s) that underlie the concern. It will be very difficult to close a deal until the "real" issues are addressed to the buyer's satisfaction.

A Tale of Two Oranges

Buyers are willing to pay a premium if the seller shows him or herself to be a valuable or indispensable asset to them.

Imagine there are two orange sellers—Seller A and Seller B—going head-to-head in a competitive opportunity to sell an orange to a prospective buyer. Both sellers are selling navel oranges that were grown in the same Florida orange grove, and the price of each of the oranges is $0.25 cents; the oranges are fundamentally the same.

After a short sales cycle, the buyer purchased the orange from Seller A. So, if the prices were the same and the oranges were basically the same (a commodity), why did the buyer purchase the orange from Seller A?

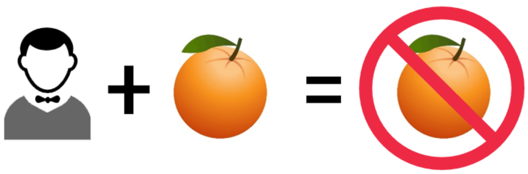
The answer to that burning question will describe the value that the buyer perceived in Seller A. And whatever the answer, the seller of that commodity product would serve her or himself well by learning from that sales situation and adopting the best-practices learned, assuming everything done was legal and ethical.

Value + Commodity = Non-Commodity

In my years of selling, coaching, training, and developing sales teams—especially those that sell "commodity" products—I have gained insight into the sales differentiators in a competitive commodity sale. This insight is also valuable when selling non-commodity offerings. Based on my experience, the sales differentiators in a commodity sale include the following efforts:

- **Learn.** Ask high-gain questions, listen, and uncover the true issues that are driving the buyer's purchase decision and decision-making.
- **Make yourself needed.** Buyers are willing to pay a premium if the seller shows him or herself to be a valuable or *indispensable* asset to them. This is done by understanding what is most important to the buyer, what objectives the buyer must achieve in order to have a "successful" year, and basically the things that the buyer confirms are their top priorities, whether business or personal. Once these things value-drivers are understood, the seller must find a way to make him or herself valuable to the buyer by helping the buyer achieve these outcomes.
- **Focus.** Focus on helping the buyer do his or her job successfully, and make it known and understood (by your actions) that your primary interest is using your influence and the resources available through your organization to help the buyer achieve his or her most important objectives.
- **Be of Value.** The key to delivering value to a buyer is first understanding what "value" is to that buyer; in the end, value is in the opinion of the buyer. At the onset of the sales engagement, work to help the buyer sell the offering internally within his or her organization, and help justify it financially, functionally, and rationally; how it will help lead to the accomplishment of a goal or the achievement of an objective.
- **Don't cave on price.** Understand and acknowledge that, in a commodity market, buyers like to conduct "like-for-like" comparisons. And since the products are functionally equivalent, the only differentiators they have available to create a

distinction—in their opinion—are the respective prices of the products. It is your job as a seller to make them understand that the value of you + your commodity product is greater than the competitor's commodity product.



When you acknowledge up-front that the prospective buyer will ultimately try to beat-you-down on price, you can prepare for that eventuality far enough in advance so that, when the buyer does ask you to lower your price, you can be prepared with non-price-reducing alternatives.

When you think about it, do buyers really want a lower price from the seller? No! Asking for a lower price is a symptom of something bigger that the buyer wants.

So why do buyers of commodity products always ask for a lower price? **Answer:** To buy the product cheaper. Why do buyers want to buy things cheaper? **Answer:** to reduce costs and expenses. And why do buyers want to reduce costs and expenses? **Answer:** To improve profit margins! So, as a seller—since you know this to be the case—why do you focus on lowering your price instead of figuring out ways you can help the buyer improve their profits? The best sellers will re-focus the buyer on ways they can help the buyer improve profits as opposed to playing the price-reduction game. The lesser sellers, however, will simply rush back to the office to get approval on lowering their price.

- **Establish Credibility.** Establish yourself as an expert whose knowledge, insight, and experience the buyer can benefit from, especially with regard to avoiding costly mistakes related to the purchase decision.

- **Sell outside of the product.** Ask yourself: If the products of Sellers A and B are both the same, then what other things do the sellers have at their disposal that they can include in the sales engagement (other than price) to differentiate Seller A (not her *product*) from Seller B (not his *product*)?

Selling a commodity product can be challenging for experienced sellers, sellers who have not engaged in many such competitive selling situations in the past, and especially for sellers who have never been adequately trained on how to win such deals while maintaining sales margins.

Try to change the nature of the game with a bold—albeit non-compliant—response

I acknowledge that sometimes it is hard to navigate around presenting the buyer with a proposal solely based on the product specs and price, such as a strict RFP response for example. However, the seller must ask him or herself if it's worth their time to respond with a low-price-only proposal or if it's worth it to try to **change the nature of the game** with a bold—albeit non-compliant—response. What can be the harm? If you respond with a low-ball price, the buyer will play one seller against the other to get the absolute lowest price a seller is fearful enough to give. And in this case, you wouldn't *want* the deal because you won't make any margin on it. So the risk of responding with a different, bold, non-compliant bid should be considered no-risk to you, because if the buyer disqualifies you from the running because you stepped outside the bounds of the RFP or guidelines, then so what? You weren't going to respond to the bid as-is anyway.

When faced with a competitive commodity sales situation, my recommendation is to not yield to the conventional rules of playing the low-price game, but instead, be bold, be creative and make the other competitors play on your terms. If you are successful in accomplishing this maneuver, then the competitors will be playing by *your* rules, and, as I always say, s/he who makes the rules usually wins.

Adopt a More Consultative Approach

In the previously-discussed commodity sale example between Sellers A and B, imagine that the prospect asked Seller A to sell him the orange for $0.20 cents instead of the normal price of $0.25. After the seller empathized with the prospect, the conversation might go something like this:

Seller A: Why do you want a lower price?

Prospect: I want to save some money.

Seller A: What are you saving up for?

Prospect: I want to buy an orange-juicer that costs $13.50, but I'm on a tight budget. So if I can save $0.05 cents per day on my snack budget for one year, I will be able to afford the juicer.

Seller A: So, your real interest is being able to buy the juicer, not necessarily buying my orange for $0.20 cents, is that correct?

Prospect: Yes, that's correct.

Seller A: Then let's focus on ways that we can work together to get you that juicer. If you commit to purchase your year's worth of oranges from me today, I can structure a volume discount coupled with a financing plan that will save you—over the next 12-months—approximately $14 on the deal. Plus, I will provide you with a guaranteed-saving check—today—for that full amount so that you can go out and purchase your juicer immediately.

In this scenario, the seller immediately got to the core of the reason why the prospect wanted a lower price: *to buy a juicer*. Knowing that fact, the seller acted **consultatively** and figured out a way to help the prospect accomplish his real objective of buying a juicer—and being truly consultative and valuable—as opposed to succumbing to the prospect's first request of buying one orange for $0.05 cents cheaper.

THE WHYs AND WHATs

The "Whys" and "Whats" is an approach to preparing for and navigating the commodity sale. It's an approach I developed that helps sales professionals effectively prepare for the "commodity product" objection lobbed by buyers.

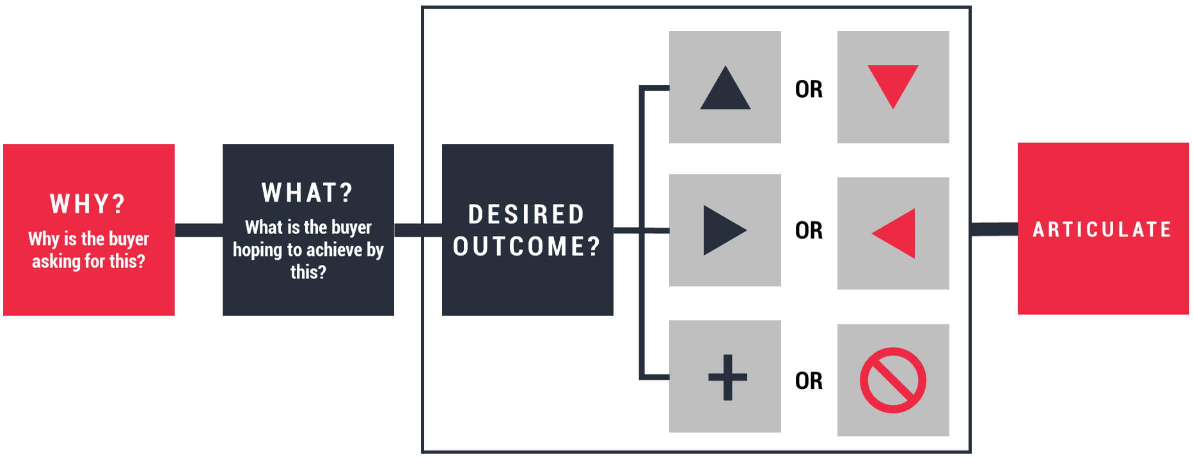
The approach is simple: list all of the potential reasons why a buyer—who considers your offering to be a commodity—would raise that objection in hopes of securing a lower price, better terms, or other considerations from you. After listing the reasons, articulate likely answers for both "why" and "what" as outlined below.

- **Why?** Why would the buyer want this consideration?
- **What?** What is the buyer ultimately hoping to accomplish or achieve based on this or their reason "why"?

- **Desired Outcome:** Is this answer an end-goal or objective (ultimate desired outcome) that will increase something, decrease something, improve something, reduce something, gain something, or eliminate something—IDIRGE? If not, get to "yes."
- **Articulate and Quantify the IDIRGE.** If you are able to articulate and quantify the end goal or objective—with confirmation from the buyer that it is correct—then your odds of success increase significantly.

SUMMARY: THE 'COMMODITY" LESSON OF THE NAVEL ORANGE

When buyers ask sellers for a lower price on their product, service, or solution, obtaining a lower price is not the ultimate objective. Buyers raise the "commodity" objection for many reasons, including, for instance, personal reasons like earning a job promotion, a reward., or wanting to supoport their friend who is your competitor.



Common Reasons Why Buyers Raise the "Commodity Objection"

- Save money
- Reduce expenses
- Achieve a work-related objective
- An excuse to politely stop buying from you and buy from someone else. What is the other seller offering that is more compelling or valuable?
- To harm or punish the seller or seller's firm
- To demonstrate and exert power over the seller
- To practice and/or execute negotiation skills
- To gain or maintain leverage by having at least two sellers
- Personal reasons

Reducing costs and expenses contribute to an improvement in profitability, which, I will argue, is the ultimate objective of all for-profit companies as well as most going concerns (aka delivering stakeholder value). Companies can't spend a lower price or even cost savings, for that matter. Companies can, however, spend profits. The orange also teaches us that people make purchase decisions for many reasons, and "price" is not necessarily the most important. In a commodity sale where the products and prices are all fundamentally the same, the seller must determine those non-product variables that would make the buyer choose one commodity product (or seller) over another, and then must work to position him or herself accordingly to maximize the chances of the buyer selecting them (not necessarily the commodity *product)* for the sale.