

# Customer and Channel Strategies SOVNOP

Samuel Engel

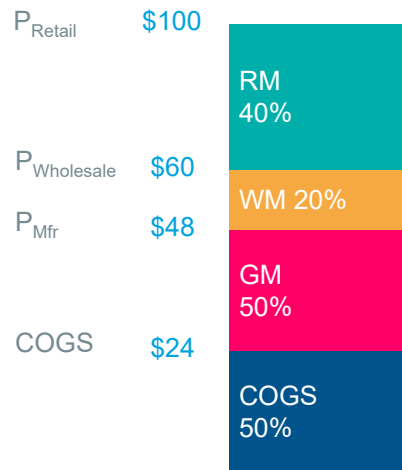
Pricing—Class 7

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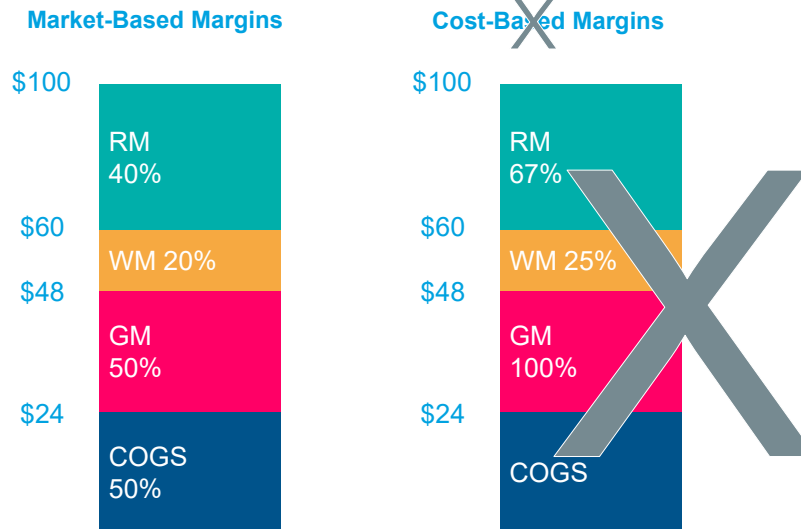
## What are Channel Margins?



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## Always use market-based margins calculate channel margins correctly

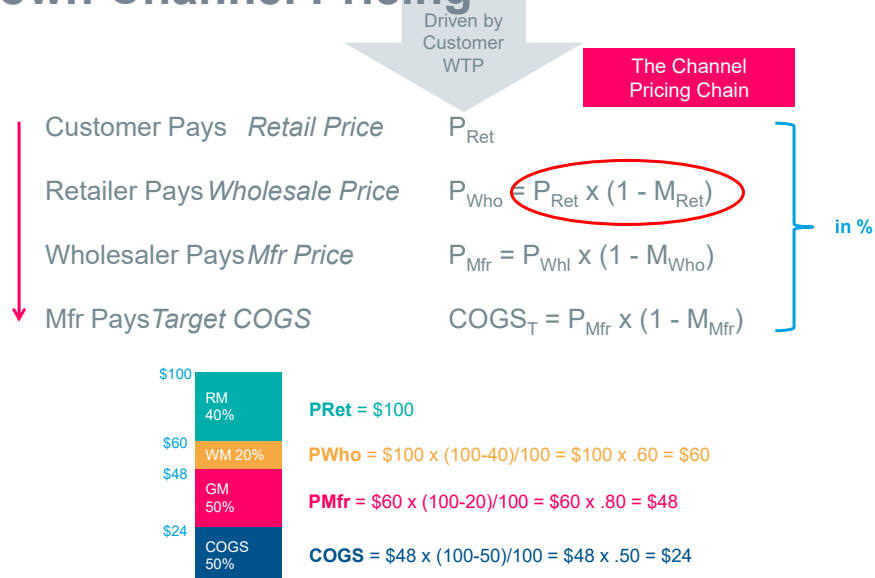


Adapted from: Gerald E. Smith

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## Top-down Channel Pricing

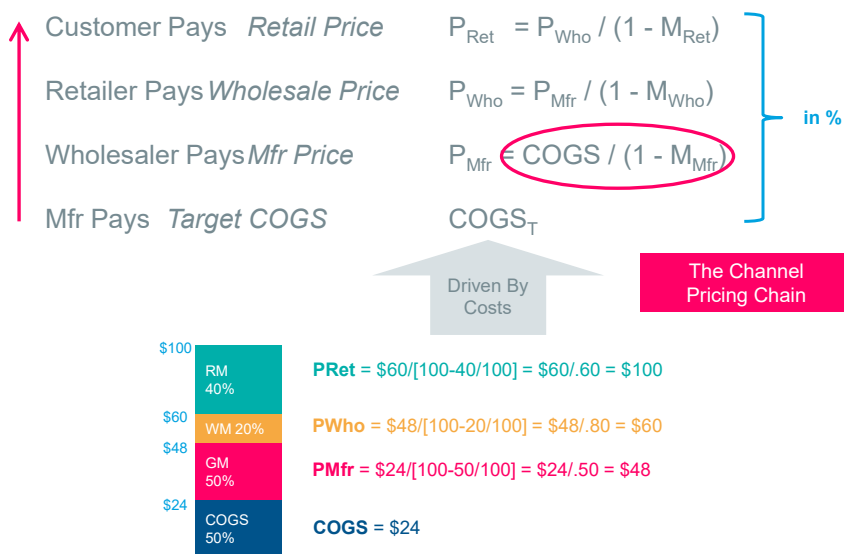


Adapted from: Gerald E. Smith

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## Bottom-Up Channel Pricing

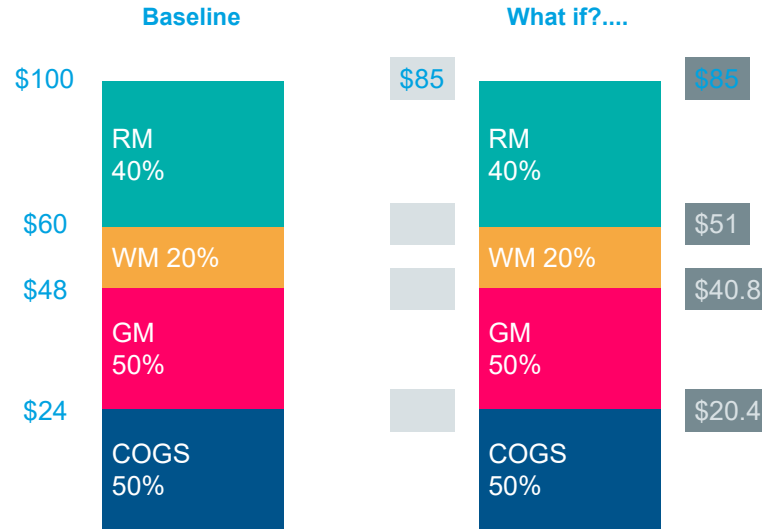


Adapted from: Gerald E. Smith

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## Channel Margins: *What if Customer WTP Is Lower?*

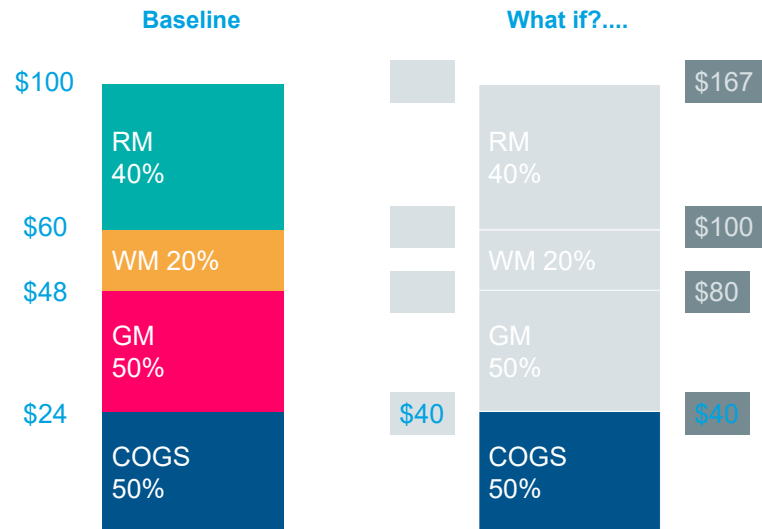


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## Channel Margins: *What if Engineering Blows COGS?*

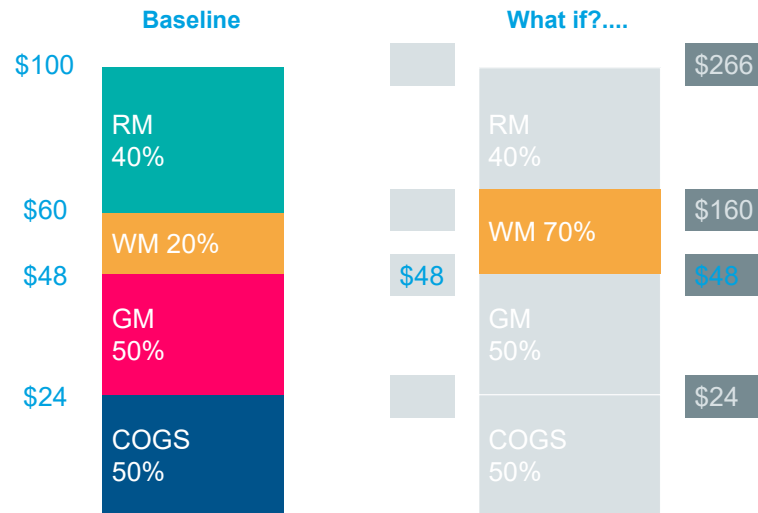


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## Channel Margins: *What if Wholesaler Demands More Margin?*

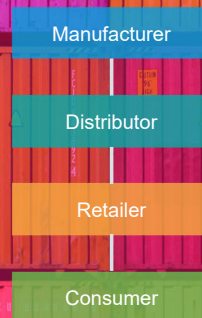


Adapted from: Gerald E. Smith

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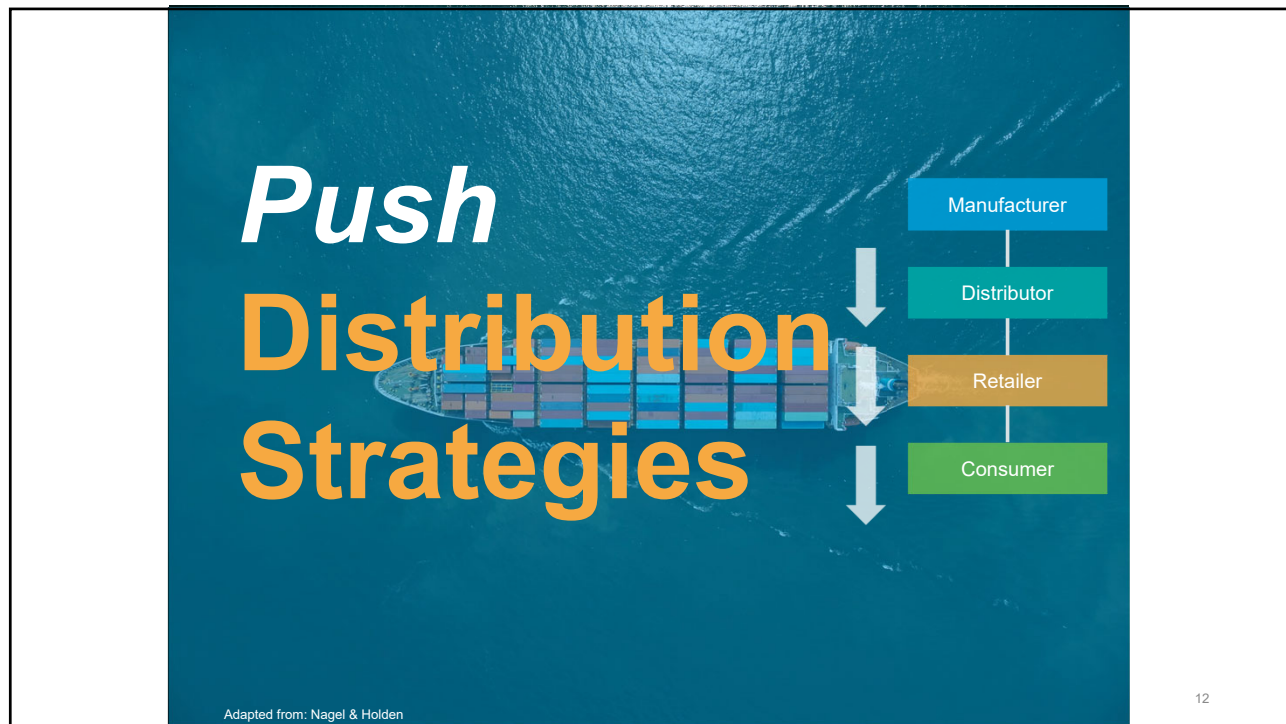
## *Pull* Distribution Strategies



Adapted from: Nagel & Holden

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## Demand-Side Drivers

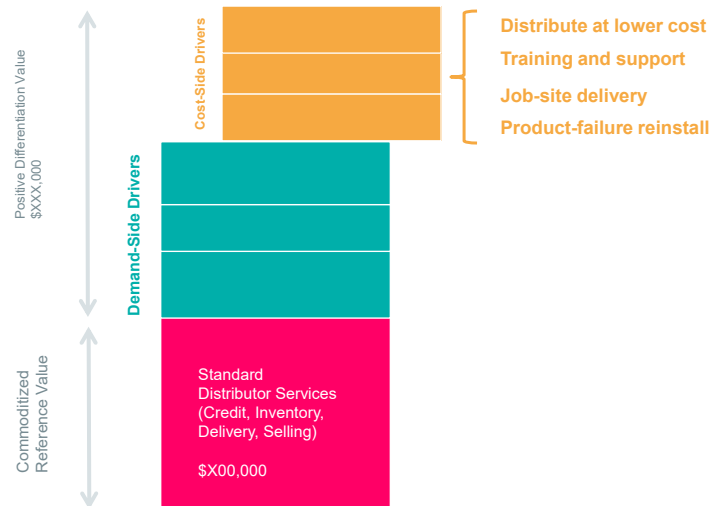


Adapted from: Gerald Smith

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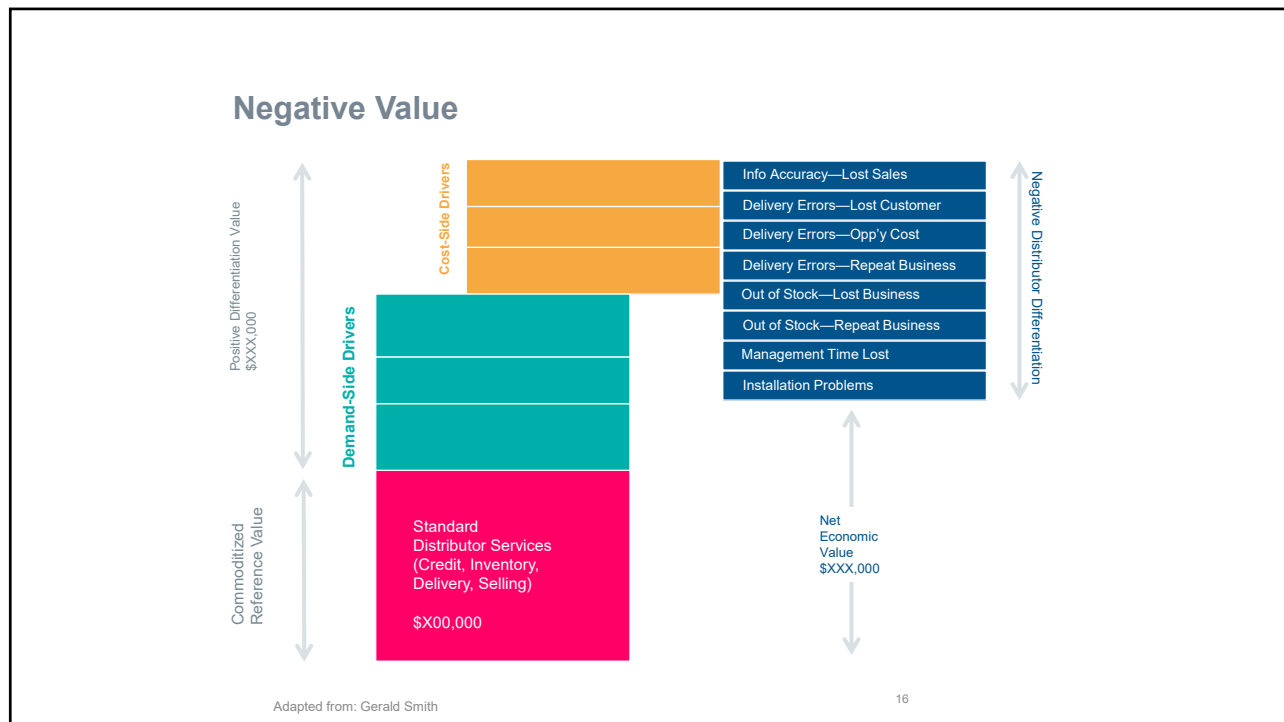
## Cost-Side Drivers



Adapted from: Gerald Smith

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# Four Types of Buyers

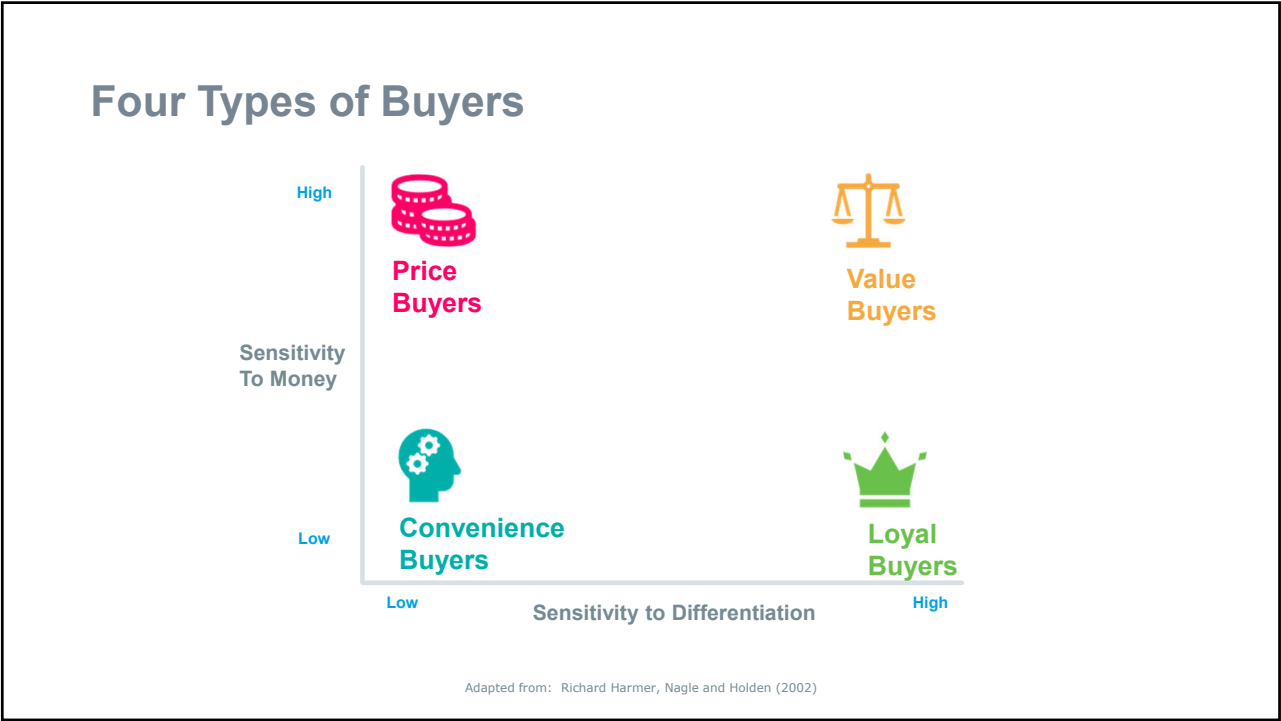
## Tactics to Sell on Value



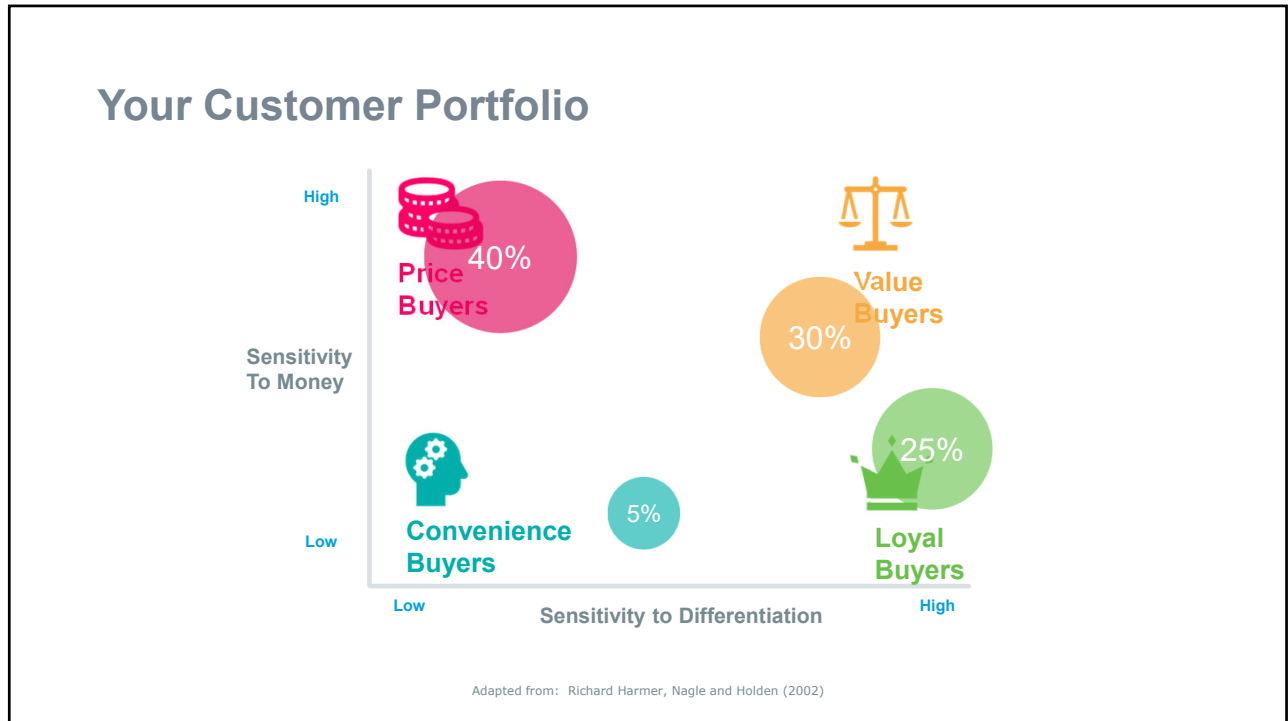
Image: Wikimedia Commons

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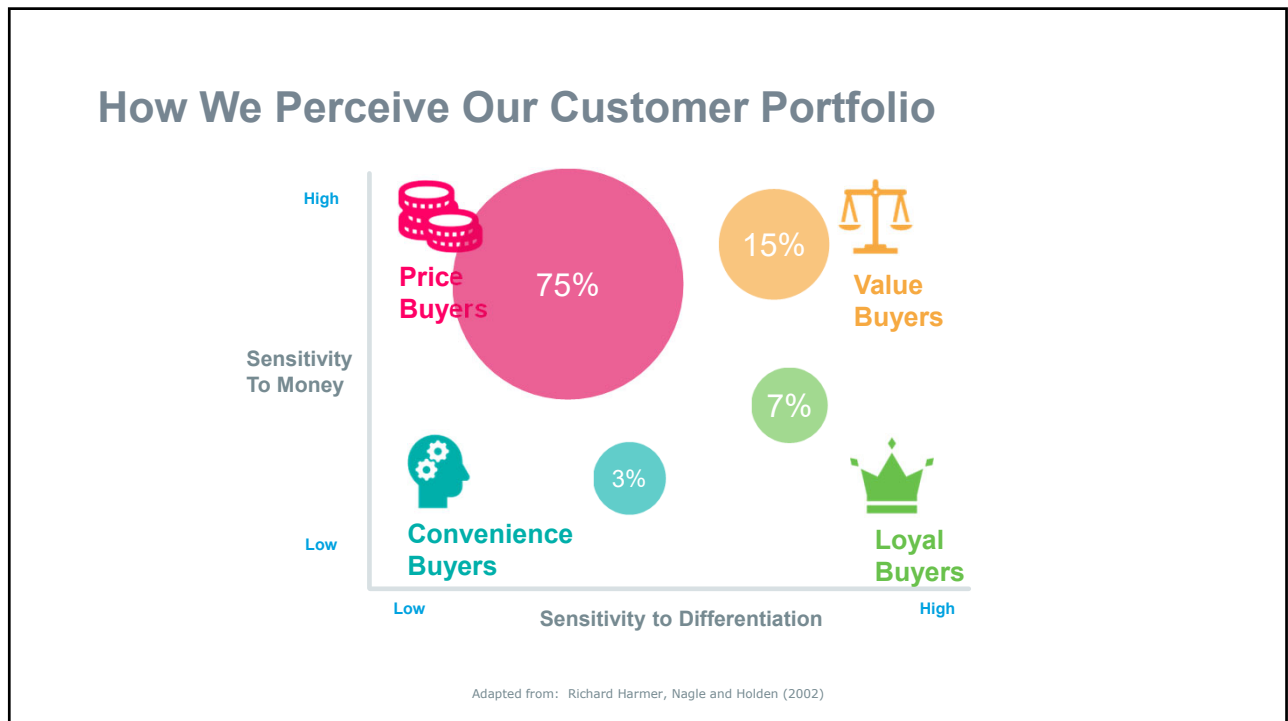
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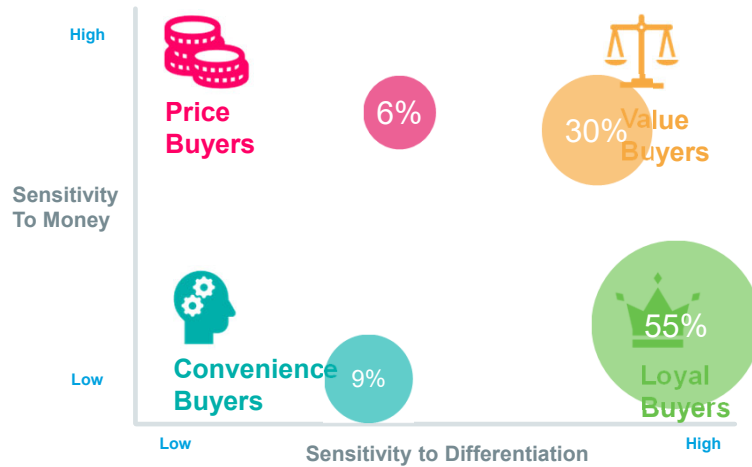


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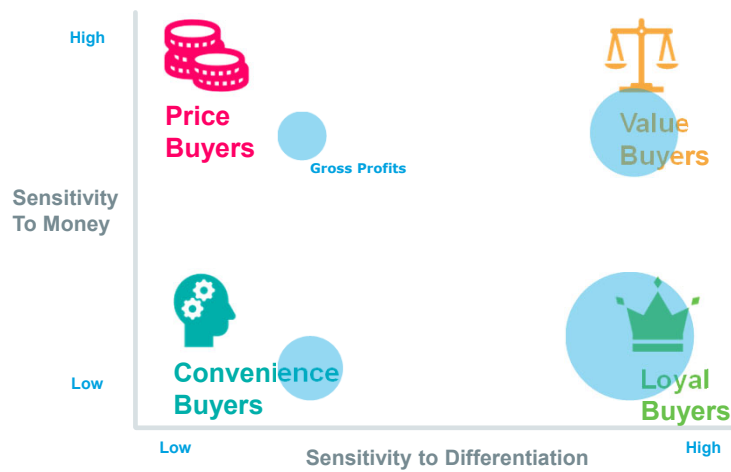
## A Healthier Portfolio of Customers



Adapted from: Richard Harmer, Nagle and Holden (2002)

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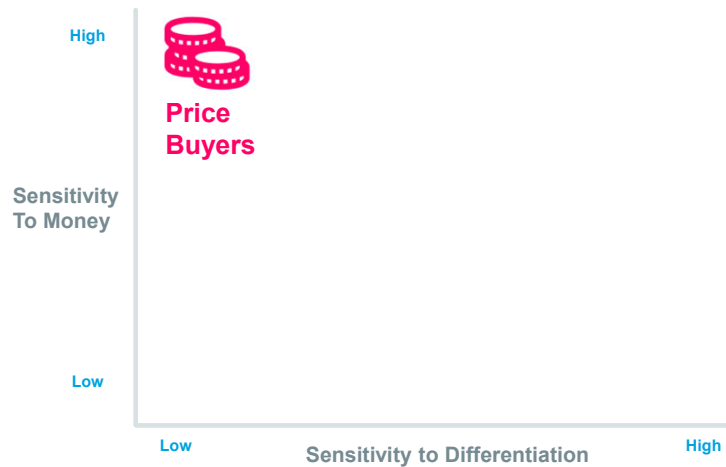
## Profit Contribution in the Portfolio



Adapted from: Richard Harmer, Nagle and Holden (2002)

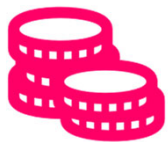
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## Understanding Price Buyers



Adapted from: Richard Harmer, Nagle and Holden (2002)

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### Price Buyers

**Buying Attitude**

Best price

**Value Driver**

Value of the deal

**Profile**

- High knowledge
- High price sensitivity
- Risk seeking
- Sophisticated buying
- Expert negotiation skills

**I Like**

- Sealed bid
- Reverse auctions
- Highly specified RFPs
- Staged procurement
- Relentless price negotiation

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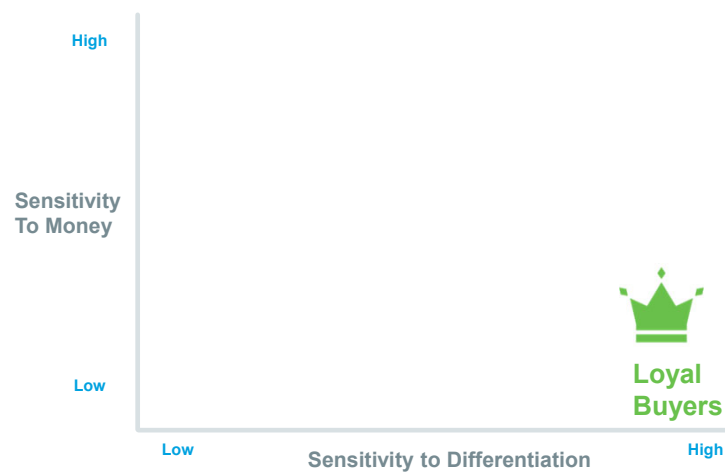
## Price Buyer Customer Management Strategies

 <b>Price Buyers</b>	Strategy	<ul style="list-style-type: none"> <li>No Frills</li> </ul>
	Account Management Tactics	<ul style="list-style-type: none"> <li>Evaluate orders opportunistically</li> <li>Know cost to serve customer</li> <li>Establish a "walk away price"</li> <li>Positive contribution each order</li> <li>Basic product, no service</li> <li>Some options available a la carte, many unavailable</li> <li>Low-cost transactions methods</li> <li>No long term contracts</li> <li>Aggressive negotiation strategy</li> </ul>

Adapted from: Richard Harmer, Nagle and Holden (2002)

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## Understanding Loyal Buyers




Adapted from: Richard Harmer, Nagle and Holden (2002)

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 <b>Loyal Buyers</b>	<b>Buying Attitude</b>	Best solution
	<b>Value Driver</b>	Value of the relationship
	<b>Profile</b>	<ul style="list-style-type: none"> <li>▪ Low price sensitivity</li> <li>▪ Risk averse</li> <li>▪ High brand loyalty</li> <li>▪ High perceived switching costs</li> </ul>
	<b>I Like</b>	<ul style="list-style-type: none"> <li>▪ Established, tested, reliability</li> <li>▪ Customer intimate relationships</li> <li>▪ Priority attention and response</li> <li>▪ Maximum support</li> <li>▪ Seamless integration</li> <li>▪ Assurances, security, safety</li> <li>▪ Bundled relationship contracts</li> </ul>

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<b>Loyal Buyer</b> <b>Customer Management Strategies</b>		
 <b>Loyal Buyers</b>	<b>Strategy</b>	<ul style="list-style-type: none"> <li>▪ Total Solution</li> </ul>
	<b>Account Management Tactics</b>	<ul style="list-style-type: none"> <li>▪ Value Assurance Strategies</li> <li>▪ Value Framing Strategies</li> <li>▪ Emphasize intangible benefits</li> <li>▪ Bundled solutions and packages</li> <li>▪ Complete product/service menu</li> <li>▪ Account loyalty incentives</li> <li>▪ Responsive, priority service</li> <li>▪ Warranties, contracts, security</li> </ul>

Adapted from: Richard Harmer, Nagle and Holden (2002)

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## Understanding Value Buyers



Adapted from: Richard Harmer, Nagle and Holden (2002)

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### Value Buyers

#### Buying Attitude

Best value for price

#### Value Driver

Economic value

#### Profile

- High knowledge
- High price sensitivity
- Risk seeking
- Low perceived switching costs

#### I Like

- Pay for proven value
- Quality, quantity, total bundle
- Cutting-edge innovation
- Rare, unique differential value
- Early access, exclusivity
- Negotiated pricing

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## Value Buyer Customer Management Strategies

 <b>Value Buyers</b>	Strategy	Value Consulting
	Account Management Tactics	<ul style="list-style-type: none"> <li>Establish total economic value</li> <li>Economic value models</li> <li>Value consulting -- tradeup, tradedown, tailor configuration</li> <li>Manage to a price/value menu</li> <li>Innovator/Lead buyer programs</li> <li>Alpha/Beta test relationships</li> <li>Unbundled pricing</li> </ul>

Adapted from: Richard Harmer, Nagle and Holden (2002)

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## Understanding Convenience Buyers




Adapted from: Richard Harmer, Nagle and Holden (2002)

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 <b>Con- venience Buyers</b>	<b>Buying Attitude</b>	Minimize effort
	<b>Value Driver</b>	Cost of search
	<b>Profile</b>	<ul style="list-style-type: none"> <li>▪ Low knowledge</li> <li>▪ Low price sensitivity</li> </ul>
	<b>I Like</b>	<ul style="list-style-type: none"> <li>▪ Easy access (for premium price)</li> <li>▪ No strong preferences re product specifications</li> <li>▪ Buy based on availability</li> <li>▪ Habits and patterns</li> </ul>

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<b>Convenience Buyer</b> <b>Customer Management Strategies</b>		
 <b>Convenience Buyers</b>	<b>Strategy</b>	<ul style="list-style-type: none"> <li>▪ <b>Reminder Marketing</b></li> </ul>
	<b>Account Management Tactics</b>	<ul style="list-style-type: none"> <li>▪ Convenient locations</li> <li>▪ Email reminders</li> <li>▪ Strategically timed direct marketing offers</li> <li>▪ Premium prices</li> <li>▪ Standardized, off-the-shelf products</li> <li>▪ Regularly timed contacts</li> <li>▪ Patterned transactions (recency, frequency, monetary)</li> </ul>

Adapted from: Richard Harmer, Nagle and Holden (2002)

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## Strategic Sourcing: What You're Up Against

### Traditional Procurement

Service to loudest department

Reporting through Accounting only

Focus on control and paper trail

Uncoordinated supply base

Focus on up-front purchase cost

Negotiated based on existing contract costs

Limited supplier evaluations

### Strategic Sourcing

Procurement KPIs and partnership with user departments

Strategic analysis of spend by multiple measures

Focus on strategic objectives

Preferred suppliers and strategic alternative

Focus on value over product lifecycle

Negotiations based on benchmarks

Performance monitoring of suppliers

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## Implementing Price Increases

### Don't

- Go into negotiations blind
- Exempt high-volume customers from increases
- Discount current volume for incremental sales
- Grant salespeople unstructured latitude to discount

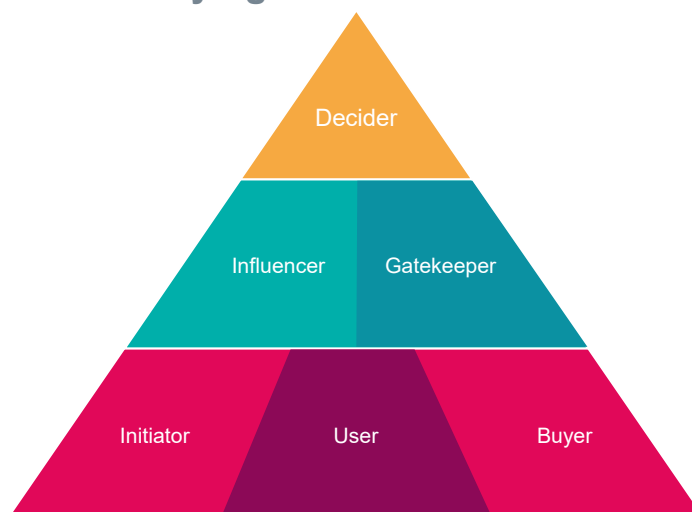
### Do

- Know what your product is worth to your customers
- Pay only for incremental volume, preferably *after* the incremental purchase
- Manage to a clear price/value menu

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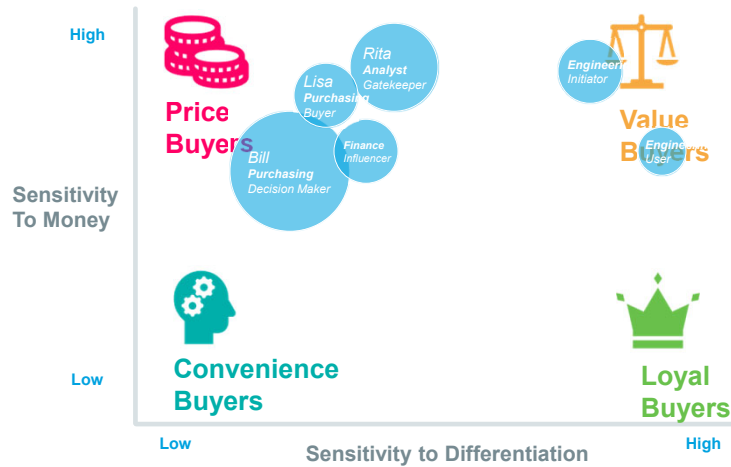
## Understand The Buying Center



Source: Bonoma (1982).

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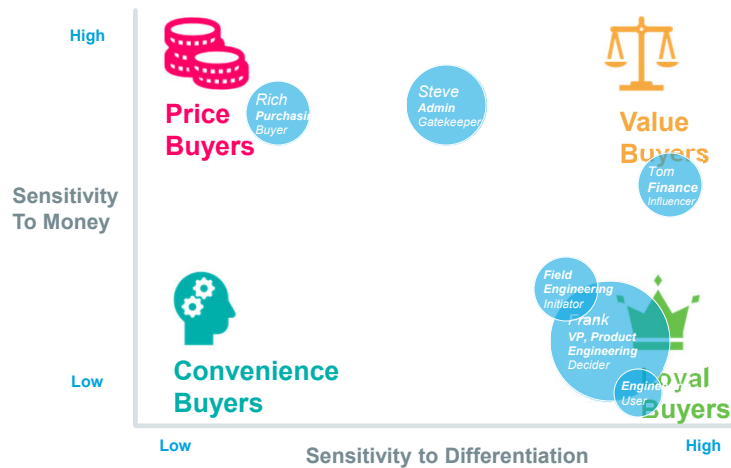
## Customer Buying Center Example 1



Adapted from: Richard Harmer, Nagle and Holden (2002)

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## Customer Buying Center Example 2



Adapted from: Richard Harmer, Nagle and Holden (2002)

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## The Buying Center Matrix

Role	Name	Wants / Key Attributes
Initiator		
Gatekeeper		
Users		
Technical Influencer		
Financial Influencer		
Decider		
Champion		
Coach		

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## Value Negotiation Tools

1. Estimate/Validate Economic Value
2. Align Price with Value
3. Diagnose Price Sensitivity
4. Determine Value Communication Strategy
5. Define Pricing Strategy
6. Assess Value Capture
7. Design Price/Value Menu
8. Understand the Buying Center

Adapted from: Dr. Gerald E. Smith

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**Sell  
On  
Value  
Not  
On  
Price**

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