

B2B NEGOTIATIONS

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B2B is pretty unique to the extent that pricing negotiations are key to most pricing outcomes. Consumer products (with the exception of cars) very rarely have negotiated prices.

1. PRICE WATERFALL ANALYSIS

Firms must understand how sensible the prices are that your current negotiation process is leading to.

1.1. Action plan.

- Plot the price paid against the number of units bought by the customer. Often it becomes evident that your best (high-volume) customers are paying more per unit than your less profitable customers. This is not a recipe for happy and long-term relationships.
- One often-recommended solution is to construct a ‘price waterfall’ chart. This allows you to work out the true net price for each customer.
 - Start with ‘Transaction price’
 - Net Rebate
 - Net Allowance
 - Net Discount
 - Calculate final ‘Pocket Price’

2. NEGOTIATION

Price often looms larger in sales reps minds than in repeat buyers minds. You do not know if the price is too high until you lose the sale

- Establish economic value before discussing price
- Be the first person to bring up price: If you dont talk price, your customer will.
 - 94% of sales reps do not talk price until their customer does
 - 1/3 will not say price ever, will only write it down or point

2.0.1. *Implement Pricing Policy via a Price Menu.*

- Establish consistent, transparent criteria for discounting - Fixed prices, Flexible offers
- Never give ad-hoc discounts to repeat customers
- Reward loyalty and trial, not sheer volume

Study of 64 firms who dropped vendors

- Price was reason vendor was dropped 8.1% of the time
- 70.2% delivery problem
- 9.4% quality problem
- 6.2% service problem

2.1. **Say: Our price is X.** Be firm. Do not be descriptive. Ban Phrases like:

- Regular, normal, list, book, lowest, best, reduced, basic, usual price
- The best I can do
- We can work a little on this price
- Our price is lower than anyone else
- Our price is less than a bag of chips per widget
- How does \$100 sound to you? Am I in the ballpark?
- Tell me where I need to be. What do I have to do to get your business?

2.2. **A Final Story.** Two village idiots wanted to invest \$100 they won in the lottery. They went to a pumpkin farmer they knew and bought 100 pumpkins at \$1.00 each. After finding a good place to park and sell the pumpkins from their truck's flatbed, they started selling them at \$1.00 each. When they sold that load they went back to the farmer for more. After selling several truck loads they counted their money and realized they still had only \$100. After counting it several more times to be sure, Charley said to Bobby, "This is getting us nowhere! We sold all our pumpkins, but we still only have \$100. Something's wrong but I surely can't figure it out." Bobby said to Charley, "You idiot, I was gonna let you figure it out, but you're just too dumb since you didn't even finish the third grade. It's as plain as the nose on your ugly face that the only way we can make money is to get a bigger truck!"

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