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FREE

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Ross Norman buys Sharps Pixley

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**John de Bruyne  
gets six of  
the best**

# How do you put a price on value?

by Patricia Mathieson

A client told me recently that he was thinking of changing his accountant. "He does a reasonable job of the routine accounts work," he said, "but he simply doesn't provide the support and advice I need. I hear nothing between one year end and the next apart from standard letters. It's like having a relationship with a computer."

This is a real dilemma for most professional and service-based firms, especially in the current climate. If they can package their work as a "product" which is likely to take a specific amount of time and resources, they can then put a price on it relatively easily. But more often, this is only a starting point. The real benefit they offer to their customers lies in giving them access to a knowledgeable individual who understands business and, specifically, their business.

But what is a reasonable fee to charge, or pay, for such a service? There is a general acceptance that lawyers charge for their time, but few other service providers are in a position to do this. It is often quite difficult for suppliers to calculate in advance how much time will be needed, while customers often perceive the idea of the day rate as an open cheque book – theirs!

In my own business, Bardwyck, we have had lengthy discussions about fees. One option is to cut fees to an absolute minimum, but we would then have to compromise on quality. Our preferred option is to link our prices to the expected outcome.

Evidence suggests that, even in product-based businesses, most people would rather pay a little more for "value", or, in other words, what they consider to be realistic value for their money.

Some years ago, I worked with the supplies division of a national charity. The division existed specifically to

supply the charity's regional branches with the equipment they needed to carry out their roles. The management team at national headquarters was concerned because some divisional managers had begun to complain about being overcharged and were threatening to buy from alternative suppliers. I was called in to investigate.

The first thing I did was to interview as many people as possible, including those regional managers who were complaining loudest and a cross-section of others. "It would be easier to forgive the high prices if the call-centre was more helpful," said one. "They seem unaware of best practice or what we need."



Robert Jay, QC:  
Lawyers have developed a highly successful business model

Further investigations revealed two things. First, the division had been set up many years before as the sole supplier to the regions and call centre staff had come to see themselves purely as order takers. Other, commercial companies had entered the market and their staff had been trained in telesales. They engaged callers in conversation and identified additional products to complement those being ordered, so not only did they successfully "upsell", but customers were pleased with the results.

Second, it turned out that the division's two primary objectives seemed to conflict with each other. In addition to supplying the regions with essential equipment, it also needed to generate income to support the parent charity. It got round this by adding a substantial percentage to the cost of the products, making them far more expensive than those of rival suppliers. This upset the regional managers, who felt they had the right to buy cheaply from "HQ". >

Our recommendations involved three simple changes whose outcomes would far outweigh the costs of implementing them. We recommended retraining the call-centre staff to be more sales- and advice-oriented, encouraging them with a combination of call monitoring, feedback, celebration and reward. More tricky was the issue of the organisation's two conflicting objectives. Our solution was to introduce two price bands, a lower one for the charity's branches and a second, higher band for commercial customers. A sales manager was also appointed to build up a commercial customer base.



Elizabeth Jones and Patricia Mathieson

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Within three months of appointment, the sales manager brought in his first £250,000 order and sales quadrupled within a year, with a corresponding rise in profits. At the same time, the grumbling from the divisions began to ebb away. It appeared that customers were now much happier because the prices were similar to those charged by the competition and, in addition, they were receiving a useful service and were still supporting their national charity.

For a service-based company, the key to success is understanding what its customers perceive as important, because that is what represents value to them. Indeed, especially at a time of fierce economic pressure, it is arguable that no business can survive for long without happy customers, so delivering the value they require is essential. This applies as much to companies selling

products as services. Whether "value" means good quality of service, technical superiority, breadth of products or a combination of two or more of these, failure to deliver it will leave customers feeling, rightly or wrongly, that they are receiving poor value for money.

The solution is to gear up the organisation as a complete system in which strong market research and external communications guide strong product or service design. Nine times out of ten, this approach leads to satisfied customers who feel that the products or services on offer represent good value. At this point, price becomes a secondary issue: provided the

benefits are demonstrably greater than the cost of the product or service, it should be possible to settle on a price that is acceptable to both customer and supplier.

In my experience, the most successful companies view the customer as the final link in a chain that embraces the initial concept, market research, product or service development, production/execution, delivery and after-sales support. In this chain, every person and activity is focused on achieving the company's goal: to be successful, and to do so by attracting and retaining a living community of happy customers. ■

