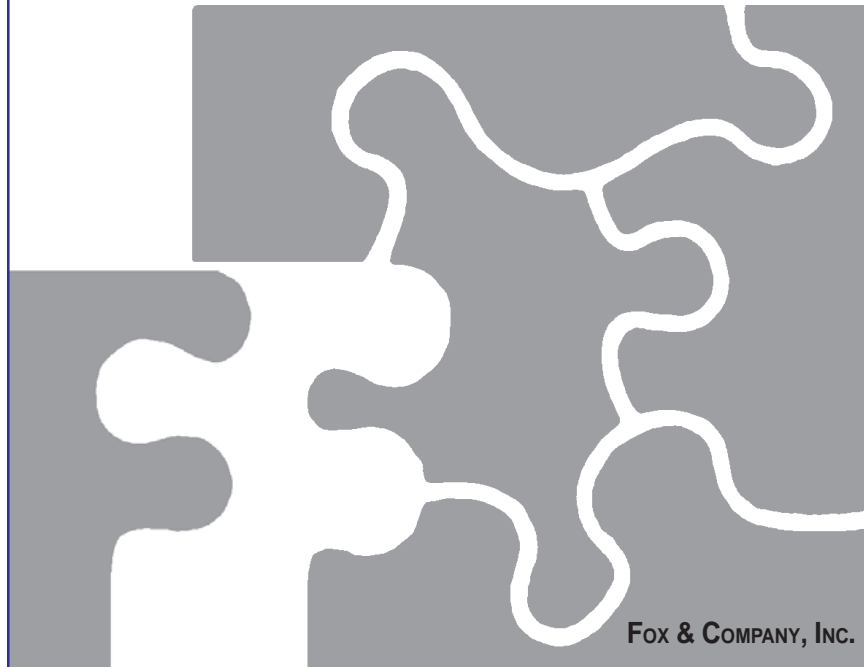


An Introduction to Dollarization



Fox & COMPANY, INC.

“I do not prize the word cheap. It is not a badge of honor... it is a symbol of despair. Cheap prices make for cheap goods; cheap goods make for cheap men; and cheap men make for a cheap country!”

~ President William McKinley

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~ *Prologue* ~

- Your product helps improve your customer's manufacturing process. The customer saves 15 seconds of production time per unit produced, eliminates 1 barrel of hazardous waste removal per month, and reduces in-house rejects by 2 per 10,000. What is the true net cost of your product (not the price) to the customer? Can your salesforce make this calculation in the field?
- One unit of your product accomplishes the same as two units of your competitor's product. In addition, you are able to do some value-added processing steps to the product that your customer now does in-house. Finally, the customer is able to reduce his inventory of your product by \$100,000. What is the total value you bring to this customer? How is that value reflected when you handle the "Your price is too high" objection?

➤ Your company is introducing a new product that reduces by half the time nurses and physicians must spend setting-up for certain procedures. Your product manager prices the product to achieve a 40% gross margin, which is above your company average. You ask why the price isn't even higher given the product's benefits. He replies that the hospital market is extremely competitive, the cost to manufacture is low and that the salesforce would revolt at such a high price. How can you be sure you're not leaving money on the table and how would you reorient the product manager and the salesforce?

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What is Dollarization?

People buy for one of two reasons: to feel good or to solve a problem.

“Feel good” is measured in intangible values, such as the stylish fit of a sweater, the taste of a fine wine or the tight cornering of a new sports car.

The solution to a problem represents either the avoidance of loss (e.g., reduced warranty costs) or the chance for gain (e.g., improved sales).

Both the avoidance of loss and the chance for gain can be measured in dollars and cents, or “Dollarized.”

Dollarizing is the act of assessing the differences between competitive products and calculating the financial impact those differences have on your customer.

The more pedestrian definition is: *figuring out what your product is really worth -- in dollars and cents -- to your customer.*

Dollarization removes much of the subjectivity involved in selecting a product and allows the customer to assess the true economic impact of a purchase decision.

In business-to-business selling, most buying decisions are based on the need to solve a problem, and therefore, can be dollarized. *In fact, every product point-of-difference, and every product benefit, can always be dollarized... without exception.*

People buy holes, not drills. The speed at which the holes are drilled; the accuracy of the holes; or the drill's ability to drill more holes are benefits that can be dollarized. The dollarized benefits are used to calculate the true price of the drill.

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Dollarization in Action

The weekend arrives and you're shopping for paint to freshen-up the outside of your house. You arrive at the local paint store to find many choices. You narrow it down to two: Product X costs \$12 a gallon; Product Y costs \$20 a gallon. Which paint should you buy?

The salesperson greets you. She watches you deliberate, then says, "I strongly recommend product Y. Its price may be higher, but it will last 4 years, while the other paint will last only two. That means that over four years, you'd have to buy product X twice, for a total of \$24 a gallon, vs. just \$20 a gallon for product Y. In reality, product Y costs less!"

You reply, "That's very interesting, but I'm preparing to sell my home, so I don't care about how long this paint will last. I think I'll go with Product X for \$12."

The salesperson listens and responds, "I understand, but I think Product Y is still your best choice. You see, Product

Y contains 50% more pigment, which results in better coverage than product X. This means you will only need to apply one coat to your house. Product X will require at least two coats. This will cut your labor costs in half. Plus, you are guaranteed that your house will look freshly painted, which will improve your success in selling your home. Wouldn't you agree that \$8 is a great investment to sell your house at the price you want?"

Finally, you decide. The \$20 paint is actually less expensive than the \$12 paint.

The logic in this example seems obvious, yet every day, sellers and marketers lose sales because they allow customers to believe that their higher-priced products truly cost more than their competition. As with house paint, the meaningful way to compare the cost of two products is by evaluating the *total cost* of using each. In order to allow customers to understand the true net cost of your product, you must *dollarize the product's true value*.

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Why You Should Dollarize

Price is the universal measure customers use to compare two products. However, if the customer's true goal is to reduce total costs, then focusing only on price is myopic. In fact, a customer that is able to measure a product's cost only by its price is likely *adding* cost to his company.

Occasionally, a customer intuitively dollarizes the product's true value and correctly selects the option that yields the lowest total cost. But more often, the seller, despite having the best solution, is reduced to fighting a price battle, because he does not know precisely what his benefit means to the customer, or does not know how to translate his benefit into dollars and cents, or does not know how to educate the customer to the economic value of his benefit.

A seller who can clearly articulate how his product specifically impacts the financial well-being of his customer's business will nearly always prevail over the seller who relies on his customer to interpret the value of his offering.

When you need to dollarize:

- Your customer demands you meet a competitor's lower price, even though you know that your product is superior.
- Your salesforce does not aggressively represent you in the marketplace because they do not truly believe your product deserves its price premium.
- Your customers like your product, but are reluctant to pay a higher price for it because they cannot justify the additional cost to their colleagues.
- Your product can deliver an enormous benefit to a customer, but the customer doesn't have enough budgeted funds to make the purchase.
- Your customer agrees that your product delivers a substantial benefit, but delays implementing your recommended solution because of other priorities.
- When introducing a new product, your marketing people establish its price by adding a mark-up to the expected cost, rather than by assessing its value to your customers.

- Your advertising and marketing literature makes non-specific claims such as, “lasts longer,” “faster,” “superior technology,” “more durable,” “best quality” and so on.
- It is unclear which customer segments offer the best growth and profit potential for your new product.
- You are deciding which positioning for your new product will optimize profits (e.g., is your new product to be a Rolex or a Timex?).

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Dollarization Case Histories

The following case histories describe actual examples of how companies have used dollarization to effectively sell the value of their products.

Which Bearing Costs More?

Bearing A
Price = \$15.00

Bearing B
Price = \$22.00

Company B had a difficult time overcoming the price objection when selling its bearings until it dollarized the value delivered by Bearing B. Bearing B eliminated warranty claims that resulted when Bearing A was used. The warranty cost reduction amounted to a per bearing savings of \$50. Company B demonstrated to its customer that Bearing A actually was costing \$65 (\$15 + \$50 warranty costs), whereas the total cost of Bearing B was just \$22.

Which Gasket Costs More?

Gasket A

Price = \$1.00

Gasket B

Price = \$1.10

Despite its lower *price*, gasket A actually costs more. Gasket B provided better sealing performance, resulting in a customer saving more than \$0.75 per gasket in reduced fluid loss. Gasket B actually costs only \$0.35 (\$1.10 – \$0.75).

Which Toner Cartridge Costs More?

Cartridge A

Price = \$70

Cartridge B

Price = \$100

The developer of an innovative laser printer toner cartridge was building its marketing plan to sell against the market leader. Their studies showed that their cartridge printed more than twice as many pages as the market leader's cartridge. When calculating the relative cost per printed page, Company B realized that the savings they provided (even at a higher price) were greater than the cost of the paper consumed. They subsequently built their marketing message around the notion "It's like getting you're paper for free."

Which Centrifuge Costs More?

Centrifuge A

Price = \$100,000

Centrifuge B

Price = \$1,000,000

A pharmaceutical customer was having trouble justifying its desire to purchase Centrifuge B. The customer's management saw the hefty price premium and denied the request for capital expenditure. Company B then got involved and helped the customer dollarize the value of Centrifuge B. The centrifuge improved the customer's production yields on a key drug, which generated annual savings of \$2 million over the results achieved with Centrifuge A. They then showed that these savings translated to a payback period of just 6 months. The capital expense was approved soon thereafter.

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How To Dollarize

Often, the routes to dollarizing business solutions are readily apparent. *For example, the reduced warranty costs achieved by using a more reliable part, or the improved gas mileage that results from a more efficient fuel injector.*

But frequently, business-to-business sellers have a difficult time placing a precise value on the benefits they provide.

Some benefits are simply more difficult to measure accurately because of limitations in current accounting systems. *For example, if a gear design reduces the risk of catastrophic failure in a steel mill, there is certainly a value to that. But because catastrophic failure is a relatively rare and uncertain occurrence, it is difficult to measure the direct costs that would result (although this is what insurance companies do every day).*

Other business benefits go un-dollarized only because most salespeople have not developed the discipline of determining, with precision, how the solutions they offer truly impact their customers' business performance.

There are various techniques a seller can use to calculate the value his product delivers to a customer, *including the important step of getting the customer to understand and accept the concept of dollarizing*. Some dollarization situations are more complex than others, but the basic steps are the same:

1. Determine whom or what are you selling against.

State the other options your customer will be considering. This could include an existing methodology, a competitor, or even an in-house option.

Example: Entrenched gasket supplier.

2. State the Benefit

State why your customer should buy your product.

Example: Our gaskets are more reliable.

3. Quantify the Benefit

Restate the benefit in numerical terms.

Example: "More reliable" gaskets means our customer faces 8 fewer warranty claims per thousand products sold.

4. Dollarize the Benefit

Calculate the dollar value of the benefit.

Example:

$$\begin{array}{rcccccc}
 \text{Warranty Claims} & & \text{Cost per} & & \text{Warranty} & & \\
 \text{Avoided} & \times & \text{Claim} & = & \text{Cost Saved} & & \\
 \hline
 8 & \times & \$25 & = & \$200 & &
 \end{array}$$

5. Express the Total Dollarized Benefit in "Per Unit" Terms

Calculate the exact economic benefit the customer realizes for each unit purchased.

Example:

$$\begin{array}{rcccccc}
 \text{Total} & \div & \text{Number of} & = & \text{Savings} & & \\
 \text{Savings} & & \text{Units Purchased} & & \text{per Unit} & & \\
 \hline
 \$200 & \div & \$1,000 & = & \$0.20 & &
 \end{array}$$

- 6. Demonstrate the True Net Cost of Your Product**
Show how the total economic benefit derived from each product reveals the true net cost (or, true price) of your product.

Example:

$$\begin{array}{rcccccc} \textit{Your} & - & \textit{Savings} & = & \textit{Your True} & \\ \textit{Price} & & \textit{per Unit} & & \textit{Price} & \\ \hline \$1.00 & - & \$0.20 & = & \$0.80 & \end{array}$$

In effect, because of the savings your product provides, the true net cost per unit of your product is only \$0.80. This is the number the customer should use when comparing competitors' prices.

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Real-Life Dollarization

Dollarization has been successfully used to dollarize products ranging from a \$1 million pharmaceutical centrifuge to a 2¢ o-ring. It has also been used to fend-off low-price competitors, to sharpen advertising claims, to set pricing and to segment customers. Whether you sell medical devices to hospitals, capital equipment to heavy industry, or pesticides to farmers, you will improve your sales, margins and marketing effectiveness by dollarizing your product's actual value.



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