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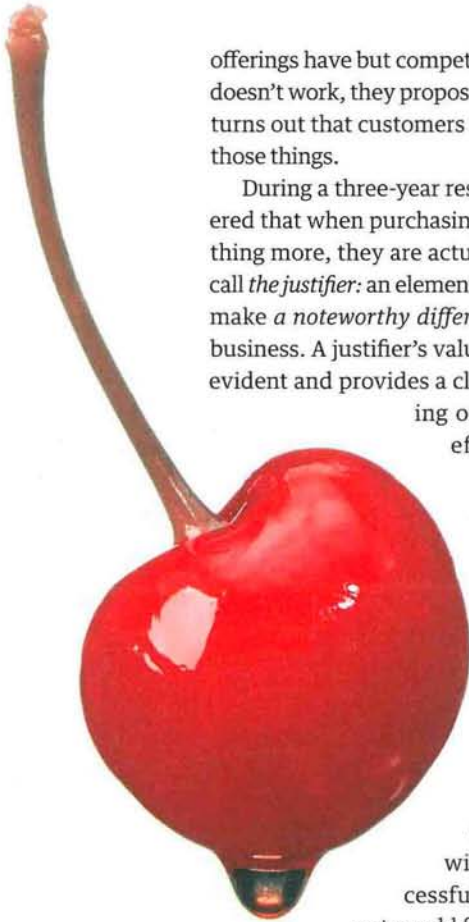
Tiebreaker Selling

How nonstrategic suppliers can help customers solve important problems

by James C. Anderson, James A. Narus, and Marc Wouters

ustomers in B2B markets are becoming increasingly sophisticated about purchasing. Recognizing that most products and services they buy are not strategic to their businesses, they begin by simply seeking suppliers that will meet their basic specifications at a competitive price. Then, after they've winnowed down the contenders, they often ask the finalists to offer "something more."

Many suppliers misunderstand this request. They'll respond with the well-worn tactic of stressing features their



offerings have but competitors' lack, and when that doesn't work, they propose price concessions. But it turns out that customers are looking for neither of those things.

During a three-year research project, we discovered that when purchasing managers ask for something more, they are actually looking for what we call *the justifier:* an element of an offering that would make *a noteworthy difference* to their company's business. A justifier's value to the customer is self-evident and provides a clear-cut reason for selecting one supplier over others, effectively breaking the tie among the final contenders. A car-leasing company, for instance, might give customers the option to cancel a certain number of contracts prematurely without penalty. A construction company might offer to assign a client a senior project manager with whom it's had a successful experience, so the client would feel assured that the work wouldn't need to be audited and would be done on time and safely. A distributor of standard technical parts might put labels with the customer's own part numbers on packaging, eliminating the hassle and cost of translating the distributor's numbers to the customer's inventory system.

The justifier, or tiebreaker, helps the purchasing manager demonstrate to senior leadership that he or she is making a contribution to the business. That is no small thing. People responsible for nonstrategic purchases have difficult, often thankless, jobs. They're under pressure to complete these transactions as quickly and efficiently as possible. Whenever anything goes wrong with what they've bought, they get blamed. But their diligence and understanding of the business typically get little recognition.

To put it simply: Helping purchasing managers break out of this rut by giving them a visible "win" is how suppliers win. They gain a larger share of customers' business—and, potentially, the ability to price their offerings at or near the upper end of each customer's acceptable range.

Why Suppliers Misunderstand Customers

Strategic purchases are those that a business has decided contribute significantly to differentiating *its* offerings. Most purchases are not strategic. Nonetheless, nonstrategic purchases can be consequential, considering the large amount spent on them. Because companies need to make so many of them, the process for nonstrategic deals tends to be relatively simple, and the criteria for evaluating each decision are cursory: that it didn't consume too many resources and that there are no complaints or problems with the item selected.

We found that suppliers of nonstrategic products and services don't fully appreciate this purchasing task. So when they try to land a deal, they make two common mistakes.

THEY FOCUS DOGGEDLY ON THEIR OFFERINGS' DISTINCTIVE FEATURES EVEN WHEN CUSTOMERS DON'T WANT OR NEED THEM. The hope is that features that go beyond the specifications will win over the customer and get him or her to pay a premium. But trying to persuade a skeptical customer that such extras will add value is no easy task, as a story we heard from the director of supply management at a U.S. teaching hospital shows. She related to us how the salesperson for a supplier that had developed an antimicrobial coating for its sutures always pitched her that premium-priced product, even though ordinary sutures are fine for most surgical applications.

THEY OFFER PRICE CONCESSIONS THAT CUSTOMERS DON'T WANT. During initial requests for quotes for nonstrategic offerings, purchasing managers vet potential suppliers on basic requirements and price. As long as suppliers meet the former and their price quotes fall within a reasonable range—plus or minus 3% to 5% of the other finalists' prices is common—the purchasers let them stay in the competition and then ask them what else they can offer. Many suppliers' reflex reaction is to lower the price.

But this move can actually create more work for purchasing managers. They often have to go back to the other finalists and offer them a chance to cut their prices too, to get the prices back within an acceptable range of one another. And after happily taking any price reductions, the purchasing manager again raises the request for "something more," which isn't surprising. If the only goal was to obtain the lowest possible price, why would the business need the purchasing manager? Reverse electronic auctions could perform the job.

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Idea in Brief

THE PROBLEM
In B2B markets, suppliers of nonstrategic products and services assume they have only two options for landing sales: stressing features their offerings have but competitors' lack and competing on price.

THE RESEARCH
A study of 46 companies found that this approach is ineffective, because customers often don't care much about the features touted and aren't seeking price concessions. Once they have narrowed the competition down to finalists that meet basic specifications and are within an acceptable price range, customers instead are looking for "something more."

THE SOLUTION
Taking the time to understand the customer's business and priorities in order to identify the tiebreaking justifier—a noteworthy extra whose value is self-evident and will enhance the standing of purchasing managers in their organizations—will seal the deal more effectively.

We discovered that even when the other finalist suppliers won't reduce their prices, purchasing managers frequently are still reluctant to choose the lowest bid, fearing that it's too good to be true. An executive in the construction industry told us that he worries such suppliers are trying to buy the business or do not fully understand their cost structures. In either case, they may do one of two things if they win the deal: try to recoup the concession further down the road by charging stiff penalties for any changes, or cut corners and compromise on quality.

Why do suppliers fall back on these ineffective practices rather than proposing justifiers? Many myopically conclude that since their basic offerings are more or less the same as those of competitors, it doesn't pay to invest resources in selling them, and it's better to focus on managing costs. That mentality leads suppliers to pressure their salespeople to get what business they can without delay, causing them to cut short the time they spend with most customers. As a result, salespeople sometimes ignore direct customer requests that can easily lead to justifiers.

At times the purchasing manager will prefer to do business with one of the finalists and, rather than sharing a concern with all of them, will relate it just to that one firm. If the salesperson takes the time to listen and devise a solution, the purchasing manager has his or her justifier and can then make the deal and move on to other business.

This was the situation with the food safety division of a leading pest-prevention company, which equipped its technicians with PC tablets that helped them follow service protocols and generate invoices. The company was looking to replace the devices, which were on several different leases. A thorny issue was that during the transition period, as old leases were phased out and a new one went into effect, the division would have to make double lease payments, which would adversely affect its bottom line for three months and, as a result, operations managers' bonuses.

The purchasing manager was leaning toward one of the equipment leasing companies on his shortlist, which had an especially good business relationship with the equipment provider. So he asked its sales rep: "What can we do to get rid of this overlap and the double lease payments?" The supplier offered to defer payment on the new leases for the replacement tablets for three months by consolidating the 36 monthly payments into 33. While the company would actually pay the same total amount for the tablets, it wouldn't get hit with two sets of bills at once, and the operations managers would get their bonuses. The purchasing manager told us that if this leasing company had not offered such a solution, he would have taken a harder look at the other finalists.

How to Discover Justifiers

We studied 46 companies located in the United States and Europe, which operated in a variety of industries, including beverages, construction materials, facilities maintenance, health care, logistics and transportation, power generation, and staffing services. To get the customer perspective, we interviewed the top executives, supply chain directors, and purchasing managers at 31 companies, and to get the supplier perspective, the top managers, salespeople, and marketing and business-development executives at 15 companies.

From this research we learned that exceptional suppliers—or tiebreaking sellers—invest resources in a process for finding, vetting, and developing justifiers. They investigate three potential sources of ideas for justifiers:

HOW CUSTOMERS ACTUALLY USE THE OFFERING. Tiebreaking sellers coach their salespeople to explore this topic with customers and engage them in a conversation about their concerns. Consider Gerdau

Long Steel North America, a leading supplier of rebar, the steel rods used to reinforce concrete. Rebar might seem like the ultimate commodity product—one that's difficult to differentiate and can be sold only on the basis of price. But Gerdau has found that this is not the case.

Rebar is cut into 60-foot lengths, put into bundles of one to five tons, and strapped together at four or five different points. If the rebar rods lie flat when the bundles are opened, it's easier to feed them into a shearer or bender, where they're cut to specified lengths and fabricated into concrete reinforcements. But often the rods arrive intertwined, so a worker has to shake each one to get it to lie flat, which slows processing and adds to customers' costs.

Gerdau learned of this issue in a quarterly business review with one of its large customers. Many customers rate their suppliers and share the ratings with them at such reviews. At Gerdau the salesperson and regional sales manager usually conduct this meeting with the customer, but depending on the agenda, Gerdau senior management or experts in domains like metallurgy, logistics, and operations also may participate.

Gerdau's salespeople have been taught to use the reviews to start a dialogue: Which ratings would the customer most want Gerdau to improve? What exactly is meant by particular ratings such as "ease of doing business"? How could Gerdau raise its ratings?

The sales personnel also make it a point to ask an open-ended question at the end of each review: "How can we be a better supplier to you?" That encourages the customer's managers to respond in an expansive fashion and bring up something they might otherwise neglect. It was this question, in fact, that prompted the large customer to mention rebar intertwining.

That concern was relayed to senior sales management at Gerdau's monthly sales meetings, where potential fixes for one-off issues are discussed and implemented. It was then taken up at Gerdau's monthly improvement meeting, where senior management and domain experts examine more-complex issues and investigate new ways to deliver value to customers. Soon Gerdau figured out the cause of the intertwining: After a rod was cut to length, it would fall two to four feet, which imparted mechanical energy to it and created a whipsaw effect. The company then revamped its production process to prevent this from happening.

The lie-flat rods lower the cost of fabricating and placing rebar by around 25%, Gerdau determined. The competitive advantage is intuitive to customers, but by sharing these savings estimates Gerdau enables purchasing managers to better show their senior managers that they are helping reduce costs.

Randstad, a provider of temporary staffing and other HR services, takes a different approach to exploring how customers use its offerings. In addition to having its account managers probe customers' purchasing and human resources departments, Randstad sends its process managers, who are experts in staffing practices and industry and regional trends, to talk with operations managers at customers' sites. The process managers use a questionnaire that starts broadly with queries about what kind of lead times and flexibility the customer's customers expect. Next, it zooms in on the customer's own operations and delves into details such as which activities require flexible staffing and what skills are needed to perform those activities. That helps the process managers identify a likely justifier for each customer, like assistance in determining how workers could be shared across departments.

OPPORTUNITIES TO INTEGRATE OFFERINGS WITH THOSE OF OTHER COMPANIES. Suppliers should explore how their products and services relate to other purchases the customer is making and how they might be combined to provide added value. This was an approach taken by a supplier of GPS devices to the pest-prevention outfit mentioned earlier. The GPS company often found itself in deals that involved purchases from complementary suppliers and took the initiative in reaching out to them.

It won the pest-prevention firm's business by proposing that it integrate its data on driver behavior (for example, on accelerating or braking too fast and excessive idling) with the data of the companies that maintained the pest-prevention firm's fleet and supplied the payment cards the drivers used to buy fuel. The resulting reports allowed the pest-prevention firm to better manage its vehicle maintenance costs and

PHOTOGRAPHY: ISTOCK

Value Selling vs. Tiebreaker Selling

With value selling, suppliers build a case to prove that their offerings provide greater worth to customers than competitors' do. But when purchases aren't strategic, that approach is ineffective, and suppliers need something extra whose value is self-evident to win the sale.

	VALUE SELLING	TIEBREAKER SELLING
SUPPLIER'S CORE OFFERING	**HIGHLY DIFFERENTIATED** The product or service has unique features that customers appreciate	**UNDIFFERENTIATED** The customers want only their basic specs met at a competitive price
CUSTOMER'S VIEW OF THE PURCHASE	**STRATEGIC** The purchase significantly contributes to differentiating the customer's offerings	**NOT STRATEGIC** The purchase is not critical to differentiating the customer's offerings
CUSTOMER'S WILLINGNESS TO EXTENSIVELY EVALUATE THE OFFERING'S VALUE	**HIGH**	**LOW**
DEAL WINNER	**QUANTIFIED VALUE OF OFFERING** The offering provides quantifiably higher value than that of competing offerings, which more than compensates for its higher price	**A "JUSTIFIER"** The supplier offers an extra that the customer finds valuable without analysis and that shows the purchasing manager's contribution to the business
SUPPLIER'S GOAL	**A SIGNIFICANT PRICE PREMIUM** (>5%)	**A SLIGHT PRICE PREMIUM** (3%–5%)

to determine when fuel purchased on its cards was being pumped into unauthorized vehicles.

THE CUSTOMERS' BUSINESS PRIORITIES. The top yearly goals of a customer's senior management can be a great source of ideas for justifiers. By visiting a customer's website or perusing its annual report, a supplier can learn about initiatives aimed at improving safety in specific areas, reducing waste, and the like. Yet purchasing managers told us that salespeople rarely conduct such rudimentary background research or put in the time to learn about their customers' objectives.

That's an oversight, because a little exploration can go a long way. A packaging company that sells to Bayer CropScience, a provider of seeds, crop protection, and nonagricultural pest control, asked two questions at the end of the Bayer purchasing manager's quarterly review of its performance: "What's important to you?" and "What do your customers need?" The aim of the first was to identify the corporate objectives that mattered most to the purchasing manager. The aim of the second was to understand the goals that Bayer was trying to help its customers achieve. The packaging company learned that Bayer had made lowering all inventory- and logistics-related costs a priority and that a number of its customers were trying to make progress on sustainability. So when the purchasing manager asked for "something more," the vendor came back with an offer to share its design and engineering capabilities to help Bayer revamp its packaging—something Bayer lacked the expertise to do on its own.

The new packaging was lighter and required less secondary packaging, which aligned Bayer with its customers' sustainability initiatives. It also let Bayer put more products on a pallet, allowing it to fit more products in each truck and stack them higher in warehouses. It provided a win for the purchasing manager, who was being evaluated on the logistics savings he could help generate.

Creating New Businesses

Sometimes the search for a justifier can lead to a new source of revenue and profit. A service that North Carolina–based TLC Van/Pickup Upfitters offers illustrates how.

The company designs and installs shelving, equipment racks, and other functional items in commercial vans. Most of its competitors consider their job done once they have completed an installation. Not TLC. After an installation, it will inspect customers' vans twice a year at their locations at no charge. If the customer desires, TLC will then do whatever maintenance is needed—tighten loose bolts, fix shelving that is coming off the walls, repair drawers that aren't working—at a reasonable price.

This can save customers lots of money: If not addressed early on, a minor problem that TLC would charge $30 to fix can become a $1,000 repair and take a van out of service. In addition to saving fleet managers time and hassle, TLC provides them with a win: It gives them concrete examples of the cost savings that timely repairs deliver, which the fleet managers can pass along to their senior managers.

TLC spotted this justifier a few years ago, when it helped a large customer solve a problem with ladder racks. It learned that many technicians driving the vans didn't believe it was their responsibility to maintain the fittings and often didn't tell fleet managers about emerging maintenance issues.

Performing the inspections has allowed TLC to position itself as a preferred supplier and earn more of its customers' business. And the preventive maintenance service has become an integral part of the company's offerings: Three years after it was launched, it accounted for 15% of TLC's revenues.

Identifying Fresh Justifiers

By their nature, successful justifiers have a limited life span. Customers' priorities and concerns change, and competitors catch on and match your moves. This means that a supplier has to be on the continual lookout for fresh justifiers.

The exemplary suppliers we studied approach that task with a structured process. Take UPS. Understanding the ongoing need to find segment-specific justifiers, the logistics and transportation-services firm has reorganized its marketing and selling efforts around targeted industry segments such as health care, retail, and professional services, as well as U.S. regions with strong growth potential. Each segment and region has its own marketing and sales managers who reside in the field.

In the past, ideas for new services and justifiers came mainly from UPS's new-product development unit in Atlanta and often took a long time to implement. Today, UPS encourages its segment and regional marketing and sales managers to offer ideas at periodic meetings. In addition to an annual meeting in Atlanta, which they all attend, UPS holds two monthly teleconferences, one at the regional level and a second at the national level. Both conference calls have lots of structured brainstorming. The calls begin with postmortems of recent deals that UPS either won or lost. Participants then bring up new business challenges customers face and explore gaps between UPS's current offerings and emerging customer requirements, as well as any competitor efforts to address the gaps. The meetings conclude by proposing new services and justifiers that might effectively and profitably plug the gaps.

One new justifier that emerged from the meetings was Customized Express Envelopes. During a regional conference call, a marketing manager noted that while a key requirement of professional services is brand building, few small and midsize firms have enough resources to do it. He then made a breakthrough observation: Those firms used a lot of overnight express envelopes, and those envelopes were largely blank. He proposed that UPS print the customer's logo or advertisement on them. During that call and the subsequent national one, participants fine-tuned the idea and examined its costs. Several account representatives then pitched it to customers informally and found that it resonated. After a pilot test yielded a reasonable increase in sales and profits, UPS introduced Customized Express Envelopes. UPS managers report that the envelopes have enabled them to win significant new business in the small to midsize company segment.

MOST SUPPLIERS of nonstrategic products and services think they have few options other than selling on price or pushing distinctive features that don't really matter to customers. In the vast majority of cases, these suppliers are wasting their time and resources. The justifier approach is an attractive alternative.

But like any major change, it won't come easily. It requires investments in new structures and processes. And more often than not, it means suppliers will have to change the established mind-set of their executives and salespeople. But the successes with the approach that we discovered demonstrate that with enough determination, even a supplier of a nonstrategic offering can persuade its customers' purchasing managers and leadership that it is something special. ▽

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