

# How To Handle High Prices

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Just about everything has a tendency to follow the path of least resistance. Electricity flows through conductive materials, water runs downhill, and salespeople often rely too heavily on price to close the sale. Competitive pricing in today's retail environment is vital, but salespeople who consistently opt for the path of least resistance (by selling on price) tend, like water, to flow downhill.

Consumers are invariably willing to spend more if a salesperson can provide them with a compelling reason why. How else can you account for the record sales of high end automobiles and swiss watches? And yet, in the music industry, the constant call is for "a cheaper model."

The experience of Stihl, a world renowned German chain saw manufacturer, offers some insights into how manufacturers and retailers can work together to tap the market for high end, quality products.

With the rapid appreciation of the German mark against the dollar, Stihl has been forced to raise prices in the U.S. over 40% in the last two years. Despite the dubious honor of selling the world's most expensive chain saw, the company has increased its share of market each year and now has a 22% share.

Stihl's strategy for success provides a perfect blueprint for music manufacturers and retailers. The company limits its distribution to a handful of leading dealers per market, thereby enabling each dealer to earn respectable gross margins. In return however, dealers are required to carry a large and representative stock. To help retailers better present the benefits of the product, the company regularly brings salespeople to its factory in Stuttgart so they can obtain a first hand understanding of the product's features and benefits. Equipped with a large inventory, thorough product knowledge, and a strong profit incentive, Stihl dealers seem to have little problem in holding their own against low price competitors.

Stihl's ability to prevail inspite of high prices powerfully illustrates the importance of proper sales training, retail profitability, and a cooperative manufacturer/retailer relationship. Any music manufacturer interested in selling a premium product could profit by embracing Stihl's basic distribution policies. Retailers should take note as well.

The three important principles in the distribution equation are training, territory, and a commitment. Trained sales people who understand their products sell value instead of price. As a result, they also make their customers happier and earn better commissions. Sales training is a responsibility that should be shared by manufacturers, sales reps, and retailers. For retailers, that means encouraging sales people to read industry publications and participation at various industry seminars and the growing number of manufacturer run training programs.

For manufacturers, sales training should receive more than passing support. It is not entirely coincidental that some of the music industry's most successful companies are those that have *consistently* invested in dealer training programs. Similarly, the industry's premier reps are distinguished by their ability to show retailers how best to sell products.

The marketing director at Stihl states, "Without full dealer support, we would be nowhere." Every music manufacturer pays lip service to dealer loyalty, but only a handful back up their words with meaningful action: like limiting the number of outlets to ensure profitability. The only loyal dealers are profitable dealers and the only profitable dealers are those who earn good gross margins. Manufacturers would benefit by attempting to work with a smaller group of committed dealers rather than grabbing for short term sales by offering products to every storefront in a market.

Similarly, retailers would do well to try and cultivate good working relationships with a core group of key manufacturers rather than trying to make every supplier happy. Concentrating on key lines makes inventory management and sales training easier. (It's easier to master a smaller number of product models.)

Low priced entry level products have been a boon to the music industry by attracting new customers and stimulating a renewed interest in music. But, the industry cannot afford to loose sight of the tremendous market for up-scale products. This is one area where manufacturers and retailers should cooperate more effectively for mutual benefit.

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