

The Math of Persuasion

By Joseph Still

All consumers of products and services are balancing three factors in their buying decisions: Value, Price, and Benefits. Knowing these components and how they relate to each other is the key to talking to your customer about your service or product.

Defining the 3 Points

To fully understand these relationships, we must first define the key words:

Value: The “value” of a good or service is the ratio of its price and benefits. Value includes the worth, importance, or usefulness of something to somebody. Put another way, the value is the reason buyers buy (or not).

Price: Price is the measure used to rank value among competing alternatives. We express price as a number because it’s easy to measure.

Benefit: The benefit is what the product or service will do for the buyer. An air conditioner keeps you cool in the summer, a good neighborhood has good schools. In these examples, “keeping you cool” in the summer and “a great education for your child” are the benefits.

The Math

The Value / Price / Benefit equation looks like this:
$$\frac{\text{Benefits}}{\text{Price}} = \text{Value}$$

When benefits are greater than price, value is greater than 1.

When benefits are less than price, value is less than 1.

Buyers buy when value is greater than 1.

Monetizing

When benefits are easily monetized and when buyers act rationally, the value quotient is pretty straightforward. However, when benefits are not easily monetized, the equation needs to be adjusted to work.

The best negotiators and sales people know how to “monetize” the benefits of products and services. When you monetize benefits, you don’t just tell people that products and services are “compelling”, “great”, or “the best”. You show them the benefits by translating them to their numeric economic value.

The Monetizing Process

The monetizing process can be summarized in simple steps.

1. Determine the competition—what are the prospect’s other options?
2. State your benefit—tell them why they should do business with you.
3. Monetize the benefit—calculate the dollar value of the benefit.
4. Express the total monetized benefit in “gross cost” terms and in “per unit” terms.
5. Show the true net cost—show the total economic benefit in a per unit basis. Differentiate the “price” versus the “cost”.

Example

Paula: This condominium is very expensive.

Sarah: So what we need to do is to look for a way to make it more affordable, correct?

Paula: Yes

Sarah: The asking price on this property is currently \$295,000. There is no other project that currently offers the amenities this project does at this price.

Sarah: As most of our clients have told us, one of the best reasons to live here is the on-site gymnasium. The next closest public gym is 12 miles away.

Gym membership here is included with your monthly HOA's. On a per foot basis, the HOA's here are the same as other similar projects in the city, so it's really like getting a gym membership free. And when you consider that most gym memberships of this type are \$50 per month, you're already ahead about \$600 per year.

Then there is the cost of the commute. We've found that on average, it costs people about \$.55 per mile to drive. So commuting from here to the next closest gym and back costs about \$13.20 per trip.

Most of our owners use the gym here 4 days a week. Commuting to go to a public gym 4 days a week would cost you about \$2,500 per year just in travel, plus the cost of gym membership or about \$3,100 per year. Since most of our owners live here about 4 years before moving to a new location, the gym membership alone is worth \$12,400 or about \$8.60 per day.

So as you can see Paula, the asking price for the condo is \$295,000, but the ownership cost is really \$282,600.

Translating to the V / B / P Equation

From this example, the Value / Benefit / Price equation looks like this:

For the gym membership alone:

$$\frac{\text{Benefits} = \text{Value}}{\text{Price}} \quad \frac{\$12,400}{0} = \text{infinite value} \quad \frac{\text{Value of gym membership}}{\text{price paid for it}}$$

For the condo purchase:

$$\frac{\text{Benefits} = \text{Value}}{\text{Price}} \quad \frac{\$295,000}{\$282,600} = 1.044 \quad \frac{\text{Asking price of condo}}{\text{Ownership cost of condo}}$$