



A White Paper on the Selling Value Through Gain, Magnitude and Perceived Effort

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Prepared by:
Victor Antonio, Sellinger Group

Executive Summary

Selling is based on the concept that a client will be better off afterwards if they buy a particular product or service. The 'after' has to be better than the 'before' in order for the client to make a buying decision. But how does the client make a decision to buy or not to buy? The old model was to weigh the costs and benefits and then make a buying decision; assuming buyers act as rational agents. In this paper, we introduce a new model of decision-making that looks at three (3) key components the client considers that represents the subjectivity of a client's decision-making process.

What is value? That's a good question! We often toss the word around without really giving it much thought. Value could have personal significance, "What do you value?" It could have a moral component, 'What are your values?' Or in the case of selling a product or service, "What's your value proposition?" The focus here will be on value in the transactional sense and defined as follows:

Value transaction is an exchange made between two parties where each perceives they are getting more in return for what they are giving up.

Now there's a whole lot of philosophy and mental machination in that statement which warrants a closer look to really understand its how it drives how we think about selling, how it drives how we sell and more importantly, how clients make a buying decision.

Let me describe three sales scenarios that involve a value transaction or exchange and then let's analyze them so that we can better understand the concept of value and what drives buying decisions.

Scenario #1

Let's assume I approach you with a \$20 bill and ask you, "Will you give me \$20 in exchange for this \$20?" What would you say, or think for that matter? You would probably think I'm a bit weird and see no point in the exchange since there is no advantage in transacting this seemingly meaningless deal.

Well what if I offered you \$22 in exchange for \$20; would you say yes? Maybe? Well, what if I upped my offer to \$25? Are you starting to consider it? What if I raised my offer to \$30 in exchange for \$20? I highly suspect you would take that deal! Am I right? Of course you would! A \$10 dollar profit that takes less than a 30 seconds to transact, with no effort involved, is a great bargain! Here's a summary of the four offers and your decisions:

| You | My offer | Exchange | Notes |
|------|----------|----------|--------------------------------|
| \$20 | \$20 | No | No point |
| \$20 | \$22 | Maybe | If convenient to do so |
| \$20 | \$25 | Probably | Many would take this deal |
| \$20 | \$30 | Yes | Everyone should take this deal |

Scenario #2

Now let's change this a bit. Assume that this time I approach you with a \$20 bill and ask you, "Will you write me \$20 CHECK in exchange for this \$20?" What would you say, or think for that matter? You would probably find it strange and reject my offer. But what if I offered you a \$22 in exchange for \$20 check; would you say yes? Probably not! What if I offered \$25? Are you starting to consider it? If I offered you \$30 in exchange for \$20 check you'd take that deal! Again, a \$10 dollar profit that takes little time to transact is a bargain! Here's a summary of the four offers and your decisions:

| You | My offer | Decision | Notes |
|------------|----------|----------|--|
| \$20 check | \$20 | No | Not worth it |
| \$20 check | \$22 | No | Not really motivated to take this deal |
| \$20 check | \$25 | Maybe | Some would take this deal |
| \$20 check | \$30 | Exchange | Everyone should take this deal |

Scenario #3

This time I approach you with a \$20 CHECK and ask you, "Will you give me \$20 in exchange for this \$20 check?" You'd probably reject the offer. Well what if I offered you \$22 check in exchange for \$20; would you say yes? What if I offered \$25 check for \$20? You may consider it but you now start thinking about how much time and effort you'll have to expend to go to the bank to cash and decide it's not a good deal. Finally, what if I offered you \$30 check in exchange for \$20, would you take it? At this point, it might start making sense (i.e., the gain outweighs the hassle).

| You | My offer | Decision | Notes |
|------|------------|----------|--|
| \$20 | \$20 check | No | Not worth it |
| \$20 | \$22 check | No | Not really motivated to take this deal |
| \$20 | \$25 check | Maybe | Too much of a hassle to cash at bank |
| \$20 | \$30 check | Exchange | Many would take this deal |

The Decision-Making Algorithm (DMA)

In all three scenarios there are three variables that drives your decision-making algorithm that answers the question, 'Is it worth it?':

1. Gain (Am I coming out ahead?)
2. Magnitude (How big is the gain in this exchange?)
3. Effort (How much effort is required of me to acquire that gain)

Now it's easy to calculate the value of all three scenarios when we consider both extremes. Exchanging \$20 in cash or a check for the equivalent makes no sense. But, exchanging \$20 for \$30 in cash or a check makes good sense. Conclusion: Calculating the value at the extreme is easy but gets difficult when the answer isn't s obvious.

The DMA has no problem telling your brain what do in these situations. You can easily see if there is a Gain (or not) and calculate the magnitude (how much). You then estimate how much effort is required to acquire that gain (or not) which allows you to make a clear decision. Ambiguity is gone!

Gray Area of Value

But what about when the decisions are not so clear? What about those instances where there is some gain, but the magnitude is not as large (e.g., \$22 v. \$20 and \$25 v. \$20 check) and the effort required to acquire that gain is not so clear cut? This is what I call the Gray Area of Value.

For example, in Scenario #1, a cash exchange with a gain of \$2 may be worth it if you have \$20 dollars exactly, but may not be worth it if you have to get change.

The decision to exchange \$20 for \$25 is a no-brainer unless you don't have the change and the *perceived effort is greater than the benefit of the magnitude of the gain*. Simply stated, if you have the change or it's easily available in order to make the exchange (Effort is low) you'd do it, otherwise, you probably wouldn't.

| You | My offer | Exchange | Notes |
|------|----------|----------|--------------------------------|
| \$20 | \$20 | No | No point |
| \$20 | \$22 | Maybe | If convenient to do so |
| \$20 | \$25 | Probably | Many would take this deal |
| \$20 | \$30 | Yes | Everyone should take this deal |

In Scenario #2, very similar to Scenario #1, the effort required to write the check plays a major role in determining whether or not you'd make the exchange. If your checkbook wasn't readily available and you'd have to go retrieve from your office or car, you probably wouldn't do it. *Again, the perceived Effort far outweighs the magnitude of the gain.*

| You | My offer | Decision | Notes |
|------------|----------|----------|--|
| \$20 check | \$20 | No | Not worth it |
| \$20 check | \$22 | No | Not really motivated to take this deal |
| \$20 check | \$25 | Maybe | Some would take this deal |
| \$20 check | \$30 | Exchange | Everyone should take this deal |

In Scenario #3, where I would offer you a check in exchange for cash, the perceived effort goes up which means that even a gain magnitude of \$5 isn't enough to motivate you to make the exchange.

For some people, even a \$10 gain magnitude (\$20 cash for a \$30 check) might not be enough to overcome the perceived effort of having to drive to the bank to cash or deposit the check.

| You | My offer | Decision | Notes |
|------|------------|----------|--|
| \$20 | \$20 check | No | Not worth it |
| \$20 | \$22 check | No | Not really motivated to take this deal |
| \$20 | \$25 check | Maybe | Too much of a hassle to cash at bank |
| \$20 | \$30 check | Exchange | Many would take this deal |

Sell the Profit, Not the Product

Let's begin to tie this to back to how we sell and how our clients buy. In the three scenarios I demonstrated that there are three (3) variables that will drive a willingness to make an exchange:

1. Gain (Is there one?)
2. Magnitude (How big is the gain in this exchange?)
3. Effort (How much effort is required of you to acquire that gain?)

Let's begin with a reductionist statement; a sale is an exchange of value. Much like exchanging cash-for-cash or cash-for-check, selling is no different. You are exchanging value.

The product (or service) you offer is, at the end of the day, currency. Yes, currency! Cash or a check is currency, just in a different form. A client is willing to exchange their cash for your product because they desire a greater gain!

The product you sell benefits the client by helping them generate additional revenue that is paid to them, ultimately, in the form of cash. So when you sell a product, much like the check-cash scenarios I've described, you are exchanging money (currency).

*You're not selling a product.
You're selling a gain (profit).*

When we sell a product, we typically focus on the features, benefits and advantages of the product. We take for granted that we we're really selling is a Gain. And, at the same time, we give little or no attention to the Magnitude of that gain and the perceived Effort, by the client, to acquire that gain. In other words, we tell the client that our product will benefit them (gain), but we fail to show them buy how much (magnitude) and what is required (effort).

The client doesn't care about features, benefits, advantages as much as they care about how buying from you (exchanging value) will help them increase their profit (gain), by how much (magnitude) and what will be required (effort).

In Scenario #1, the gain, magnitude and the perceived effort required were pretty straightforward at the extremes. Yet, we went into a gray area when the perceived effort required to attain the gain of \$2 or \$5 was in question (e.g., You didn't have the exact change and had to go and find a place to break a \$100 bill).

| You | My offer | Exchange | Notes |
|------|----------|----------|--------------------------------|
| \$20 | \$20 | No | No point |
| \$20 | \$22 | Maybe | If convenient to do so |
| \$20 | \$25 | Probably | Many would take this deal |
| \$20 | \$30 | Yes | Everyone should take this deal |

From this example we can formulate the following sales axiom:

Axiom #1: If the gain and magnitude is apparent and the effort to acquire the same is minimal, the client will always say yes.

In a perfect sales world, Axiom #1 is a foregone conclusion when it comes to the client making a buying decision. If the gain

magnitude¹ is apparent and the client knows (or sees) that the effort required is minimal, the Decision-Making Algorithm (DMA) doesn't have to work overtime on arriving at an easy answer; buy now!

The problem? Selling a product in today's hyper-competitive, commodity-driven world, things aren't so apparent to a client. If it were, why would we need salespeople? The product would sell itself!

Perceived Effort vs. Gain Magnitude

So when the gain magnitude is apparent and attractive and the efforts to acquire it are low, then the decision to go forward is easy.

But what happens when there is a gain and it has a magnitude worth considering but the effort to acquire it is perceived to be high?

Let's go back to Scenario #2 below where I offered you cash in exchange for a check.

| You | My offer | Decision | Notes |
|------------|----------|----------|--|
| \$20 check | \$20 | No | Not worth it |
| \$20 check | \$22 | No | Not really motivated to take this deal |
| \$20 check | \$25 | Maybe | Some would take this deal |
| \$20 check | \$30 | Exchange | Everyone should take this deal |

In the instant above where I offered you \$25 in cash for a \$20 check, you will most likely make the exchange if the effort is low. For instance, if you're sitting at your desk when I make the offer, you could simply open up your center drawer, pull out your checkbook and write me the check. The transaction would take about one minute.

Now what if you were in a conference room or cafeteria when I made the offer, would you take it? That depends! Now you'd have to do some mental calculations before you would say yes or no. You'd start thinking about how long it would take you to walk back to your office to get your checkbook and then write out the check. You mentally estimate that by the time you walk to your office and back and

¹ Gain Magnitude: When a transaction has a gain and a magnitude.

then write the check, it could take 10 minutes easy. So what happens? *Your mental calculations perceives high effort for minimal gain magnitude and you'd probably pass on the deal.*

Your DMA weighed the benefit of the gain magnitude against the *perceived effort* and render a decision. But did your DMA make right decision? Let's take a closer look by calculating actual figures.

In Scenario #2, we had two gray areas when it came to making a clear-cut decision. How can we move the decision from gray to black or white? Begin by calculating the rates per each of the two transactions.

For example, I offered you \$22 in cash for a \$20 check. If you were in your office, and it took one (1) minute to write the check and complete the transaction, the hourly rate (gain) is as follows:

| Gain | Time to write the check | Minute Rate | Hourly Rate |
|------|-------------------------|-------------|-------------|
| \$2 | In Office = 1 minute | \$2/minute | \$120/hour |
| \$5 | In Office = 1 minute | \$5/minute | \$300/hour |

A gain of two dollars in one minute equals an hourly rate of \$120/hour (\$2/1 minute X 60min/1 hour). If the gain is \$5, that's the equivalent of \$300/hour. In this context, would you now say that the decision is pretty clear-cut in both cases (i.e., the \$2 and \$5 gain)? Absolutely!

What if you were NOT in your office but in the cafeteria instead where it took 10 minutes to get back to your office? What would those calculations look like?

| Gain | Time to write the check | Minute Rate | Hourly Rate |
|------|--------------------------|---------------|-------------|
| \$2 | In Cafeteria = 10 minute | \$0.20/minute | \$12/hour |
| \$5 | In Cafeteria = 10 minute | \$0.50/minute | \$30/hour |

Based on these calculations, the decision to walk from the cafeteria and back, and complete the transaction (10 minutes) may not be worth your time. It may be in the case of the \$5 gain where the transaction equates to a \$30 per hour rate as opposed to the \$2 gain, which translates to only a \$12 per hour gain.

Conclusions: In the 'Office' example, what I've done is quantified gain magnitude so that it obviously outweighs the perceived Effort. In the 'Cafeteria' example, the gain magnitude may not be enough to overcome the perceived Effort required to acquire it.

Axiom #2: If the Gain Magnitude is perceived as minimal (or insufficient) and the perceived Effort to acquire that gain is high, the client will more than likely stick to the status quo.

Perceived vs. Real Effort

In Scenario #3, I offered you a check in exchange for cash. And because cashing that check will require time, immediately the perceived effort is high which means that even a gain magnitude of \$5 (my \$25 check for your \$20 in cash) may not be enough to motivate you to make the exchange. For some people, even a \$10 gain magnitude (\$20 cash for a \$30 check) might not be enough to overcome the perceived effort of having to drive to the bank to cash or deposit the check.

| You | My offer | Decision | Notes |
|------|------------|----------|--|
| \$20 | \$20 check | No | Not worth it |
| \$20 | \$22 check | No | Not really motivated to take this deal |
| \$20 | \$25 check | Maybe | Too much of a hassle to cash at bank |
| \$20 | \$30 check | Exchange | Many would take this deal |

The only way that you would consider either of the two possible transactions (\$25 or \$30 check for \$20 cash) would required me to find a way to either lower or reduced the perceived effort or increase the gain magnitude. Again, the DMA is weighing gain

magnitude (how much?) on one side and effort (what's it going to take?) on the other.

Since I can't change the gain magnitude, is it possible to change your (the client's) perception of the effort required? The answer is yes!

Let's say that in your mind when I offer you \$25 or \$30 check in exchange for \$20, you immediately calculate the gain magnitude and then proceed to estimate the perceived Effort of cashing or depositing that check. Your brain retrieves from memory how much time it took you deposit a check the last time you went to the bank. Your DMA estimates that it will take 15 additional minutes in your commute on your way home to cash that check.

Let's conclude that you based on this quick time estimation, your brain rejects both offers (i.e., the perceived effort outweighs the gain magnitude). But did you (your DMA) arrive at the right conclusion? Let's run the numbers:

| Gain | Time to go to the bank | Minute Rate | Hourly Rate |
|------|------------------------|---------------|-------------|
| \$5 | 15 minutes | \$0.33/minute | ~\$20/hour |
| \$10 | 15 minutes | \$0.66/minute | ~\$40/hour |

So your DMA told you it wasn't a good exchange, but clearly, based on the hourly rates calculated above, one could argue that although a \$5 gain magnitude (\$20/hour) might not be enough to make the exchange, a gain magnitude of \$10 which represents almost \$40/hour is almost certainly worth the exchange. Which leads to the 3rd Axiom:

Axiom #3: If the Perceived Effort to acquire the Gain Magnitude is uncertain or inconvenient, the client will hesitate (or reject) making a decision.

In this case, your DMA focused on the only Gain Magnitude but didn't think in terms of the hourly value of that exchange. Isn't that what some of clients do? Don't our clients often over-estimate how long it's going to take to make a changeover without really calculating the true value in the exchange?

Quantifying and Reducing the Perceived Effort

My objective in using an hourly rate, and not the Gain Magnitude, was to shift your calculation of the Perceived Effort. Our job as salespeople is to shift or reframe the argument in such a way that the client sees the link between Gain Magnitude and Perceived Effort.

Again, when you cannot increase the Gain Magnitude when talking to a client, then the next best thing is to lower the perceived effort the client believes is required.

For example, what if I told you that you could deposit my \$25 check at any bank, including the one across the street from your office. And, that the deposit only requires you to fill out a simple deposit slip with your account number and dropping it in the deposit box; no waiting. I then convince you with this new information that the total time for the transaction would only take 5 minutes (i.e., instead of 15 minutes added to your commute). Let's run the numbers and see if my shift or reframing has worked.

| Gain | Time to go to the bank | Minute Rate | Hourly Rate |
|------|------------------------|-------------|-------------|
| \$5 | 5 minutes | \$1/minute | \$60/hour |
| \$10 | 5 minutes | \$2/minute | \$120/hour |

You can now see that a \$5 gain went from an hourly rate of \$20 to \$60 and a \$10 gain went from an hourly rate of \$40 to \$120 an hour. Presented in this manner, you or your client's DMA would say, "Yes, go ahead and make the exchange." Why? Because I was able to lower the perceived effort which in turn increased the hourly rate making the Gain-Magnitude attractive. This leads us to our 4th Axiom:

Axiom #4: If the perceived Effort is reduced to a level that acquiring the Gain Magnitude makes sense, the client will make a buy decision.

This simple example shows that a client who is looking to buy your product (i.e., exchange your product for their money) will first look at the Gain Magnitude (how much?) and then immediately weigh the Perceived Effort trade-

off (what's it going to cost or take?) to acquire that gain.

Selling Value = Gain + Perceived Effort

In selling, our job is to quantify what our client will "gain" by buying our product. How much better off will they be if they do so? This has to be a number, not an anecdotal estimate.

This number can be based on your review of the client's process and activities or it can be based on experience with other clients in a similar situation or market niche. The number has to be credible, based on real-world data, information and applicable to the client's existing process.

Quantifying the Gain Magnitude is not an easy task, which is why most salespeople don't do it. Yet, it is the one thing that will protect or insulate the salesperson from a client who is bent on getting lower prices.

When you know the Gain Magnitude (how much more money the client will make using your product), you will be able to defend against requests for price discounts or service concessions (e.g., free training). This is what stops you and your product from becoming a commodity. When you sell on the valued delivered (Gain Magnitude), you don't have to discount your product.

But what if the gain magnitude isn't as substantial as you'd like it to be? What if the gain magnitude, like the cash-for-check example is a small amount? *Then what you need to do is to focus on the other variable in the equation; Perceived Effort.* If you can lower the perceived effort in implementing or changing to your solution, then the client will see the value. As I showed in the previous example when I offered you a more efficient alternative to depositing the check. Instead of taking 15 minutes on the way home, it could be deposited across the street in 5 minutes. By lowering the perceived effort, I increase the client's willingness to acquire the gain magnitude.

Summary:

Selling in today's market requires the talent of quantifying the gain magnitude (how much more will I get if I change to your solution?) so that it becomes obvious that the client should buy. If the gain magnitude is not "big enough"

(i.e., It is Low), then the only other alternative is to lower the perceived effort (i.e., from High to Low) for the client so they will.

| | Client Will Buy | Client Won't Buy |
|------------------|-----------------|------------------|
| Gain Magnitude | High | Low |
| Perceived Effort | Low | High |

About Victor Antonio: Author, trainer and speaker Victor Antonio earned a B.S. Electrical Engineering, an MBA and built a 20 year career as a top sales executive. You can find out more at www.SellingerGroup.com.