# ADDING NEW PRODUCTS AND SERVICES THAT GIVE TOGETHER FLEXIBILITY AND GROWTH

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**Abstract:** Organizations that have gone through these obstacles do some things that are distinctive. They are demanding to link the information they have to the client to strictly defined offers. They use combinations of products, services, and solutions to create price bar for their sellers to allow them to control price bargaining. They also know that there is no difference between their pricing models and price lists and their supply structure. The bidirectional architecture determines the possibilities and limits of pricing. The first reaction of many contractors, once these conclusions are reached, is that the lack of this link means that most of their proposals are underestimated by customers and a significant number of them do not have a sustainable position on the market.
Provide your sellers with the most important negotiating lessons. If the customer wants a lower price, take out features and services. When products are considered basic, add services that differentiate your products and increase the price. However, this strategy undermines us when services of great value are distributed free of charge. To gain confidence in negotiating, you can place prices on additional services to reflect their true value to the consumer. An effective strategy for market dominance is to build a dual supply that covers both high and low-end consumer needs. This type of offering develops both the revenue and the company's awareness on a global scale.
Pricing is important for business, but it is not the most important thing. Business needs growth. As sharks need to move forward to survive, businesses need to add innovative products and services, develop new markets and create new revenue and profit opportunities. A disciplined pricing strategy is very important in sales, but our efforts must be focused on innovation to increase revenue and profit. Enhanced pricing will help us to gain from the benefits our business creates, but if our products are not desirable, even the most brilliant pricing strategy will not help us.
Companies that lack the ability to innovate have serious problems. Without new channel products and services, business reduces its growth potential to just one lever - pricing. These companies set high prices in the hope that their consumers will accept high prices. There is, of course, fear that customers will escape at a direct price increase. Some companies are trying to solve this problem by increasing the price by adding processing fees and fees to services that have so far been free. This happened in banking and financial institutions, and is currently happening at forwarding companies. We know that this approach is not particularly comfortable for banks, because customers who complain about certain fees can usually agree to their removal. The business knows that in order to have an edge over competition, it has to offer innovative offers. Banks can not afford to lose current customers, so they eliminate fees.
Continuous increases in fees and prices and then contracting to remove most of them make the situation worse. Practice gives mixed signals and criticizes products that are badly placed on the market. This situation creates the prerequisite for even greater renegotiation of the price. Loyal consumers so far become either price buyers or gamblers. This is a fierce cycle that is shared by many organizations. In this article we'll show you how to break the cycle.
**Keywords:** product and service offers, confidence in the price

## THE PROBLEM OF USING PRICING FOR A GROWTH ENGINE

Excessive reliance on pricing, as a driver of growth, harms customer relationships. The banking crisis in the early eighties brought financial institutions to desperate measures to increase profits. The focus of these measures, often suggested by external consultants, was to improve the standard practices for assessing consumer solvency. But that was not an easy job. Is not it easier? There really is, the consultants agreed. Banks can simply add handling fees and penalties. The net result was predictable. For a short-term period, banks' earnings have risen, but have also led loyal customers to withdraw, and all consumers become fully priced. Customers were accustomed to changing their bank every week, looking for the best offer. At the end, all banks offered the same products, and the only difference was the price.

We see the same dynamics in aviation, a very competitive, price-driven market. Companies have learned that they can also offer low prices, but only if they add a series of fuel fees, inspections and more. For a while, airlines enjoy plenty of loyal customers who see airlines as logistics partners. The high cost of switching one company to another makes it impractical for many customers to abandon their chosen airline for another. However, as pricing becomes more transparent and customers set the burden of charges in the cost of the service, it is likely that more will be decided on a shift.

Fortunately, there is a practical solution to avoid this enchanted circle. Companies must be able to bid twice, consisting of a low-priced offer that covers only the most basic one, as well as a high-priced offer that includes all the fees. This solution prevents the alienation of loyal consumers and also gives sales representatives more opportunities to sell to gambling buyers in order to better identify their position. In most markets, there are more quality-oriented or customer-oriented customers than price-oriented. Typically, this does not seem to be the case, because suppliers do a lot of things, such as adding additional charges to the product, which distrusts consumers. When this happens, all buyers behave as price-oriented users. And why not? The business has trained consumers to behave like this.

**INNOVATION FOR GROWTH, THE PRICE FOR PROFITS**

To break the cycle, your growth needs to be driven by innovation, and the price must be profitable. If you want to improve your pricing advantages, an element of your bid must be differentiated. If your bids are not differentiated, your products become widespread and the company at the lowest cost attracts customers. The challenge for many companies is that their main offers are for broad consumer or close to it. This is good. There are many clients who have ordinary needs. For the rest of the market, you need something to differentiate you from the competition. In addition to high-end products, much of this differentiation will come from the services offered.

The global steel industry is a good environment to see how differentiation works. Steel production, a technology developed around 1000 years before the New Age, is a pure example of a commodity for widespread consumption. Large global competitors are buying smaller plants globally to get the lowest possible price. But such abilities do not abound. The Argentinean T offers high-quality steel pipes used in offshore drilling operations worldwide, an application of great interest, taking into account the movement of the oil industry more and more in the sea.

Growth in this market makes it attractive to global giants who can offer very low prices to their customers. In contrast, "T" binds added high-quality services with its high quality steel pipes - a strategy that has proven effective in repelling global competition from this market. "T" binds modern technical support, engineering to help their customers improve their research and production activities. Their understanding of how their customers work - economically, technologically and environmentally-friendly - differentiates them from other price-oriented steel conglomerates.

The result? "T" and others have the ability to charge and protect prices from $ 2,000 per tonne, more than three times the price of global competition. Their understanding of the operations and priorities of their customers enables them to earn much more while keeping global competitors away.

**THE BASIS OF GOOD SUPPLY STRUCTURE**

To create an impacting supply, it must contain several things:

• Offers tailored to the needs of customers looking for high quality in the selected target segment
• Basic offers that are tailored to price-oriented users. Also, these offers will not allow customers to negotiate lower prices for your high-quality products.
• Achieve or defeat competition on base products.
• Building healthy barriers between offers for low and high quality products, which again prevents negotiating low prices for high quality products.
• Allow vendors to conduct direct discussions with customers to negotiate discounts during the negotiation.
• Arming vendors with defined levers to change the price by adding or removing certain product characteristics.

Let us consider the case of "I" and their "QB" financial software. "I" offers five different versions of the software that vary according to standard and optimal features and delivery mechanism (use from an external source or installed on the customer's device). The key elements of each offer give the opportunity to directly select a price-quality combination that suits the customer.

The benefit from well-defined bid levels is that it gives sellers the opportunity to control sales negotiations. Having suggestions in both the high and the low class, puts the driver seat drivers during the negotiations. If they are forced to lower the price, they can offer the customer a lower-end product. For some, the lower-end product will meet their needs and budget better, so they would buy it. On the other hand, most customers will react with outrage. They respond so, because the seller has not made their bluff and has seen their intentions - to get the high-end product offering a low price.

The reality of managing the poker game is that it's a bit more complicated than having one low-class and one high-end offer. However, you have multiple segments to serve. And every client in these segments may have unique needs. Building a system where vendors can control the game of poker and better manage pricing requires building more options for price and quality exchanges. To achieve this, it is useful to build our bids on three levels: base bids, expected bids, and value added bids. Let's look at each of them.

**BASIC OFFERS**

Baseline offers contain the minimum of attributes to make the offer eligible for the majority of customers. Anderson and Narus view this as a "naked solution" and define it as "the minimum of products and services that all users of all segments appreciate." For most companies, it is useful to tie these basic bids to the concept of the usual technology platform. A good example is the publicly available, unsupported version of L. For companies that have the resources to use the software is free. But if they want help and / or specialized applications, they need to buy them from a variety of providers like "RH".

Base offers enable companies to generate a small profit, serving the low-end market. Base offers also protect us from lowering prices by users who want a high-end product and want to negotiate a lower price. They lose this opportunity because they need the associated high-end features, capabilities and services. Base bids are also a critical tool for controlling upward competitors that typically enter the market with low-end, low-priced products.

**EXPECTED SUGGESTIONS**

Expected proposals add components to the basics to meet the needs of specific segments. Their goal is to appeal to the majority of customers in this segment. Expected proposals include components and services desired by the majority of users in a particular segment. These include what customers ask for and what most suppliers require in order for the offer to be tailored to customer needs. The included additional components and services are usually related to terms of deal, delivery, service and more.

**VALUE-ADDED SUGGESTIONS**

Although the logic of high quality and low-quality product is tempting, it is usually not enough. For most businesses, base bids turn into consumer goods. Seeing the challenges of competitive struggle, smarter companies invest in value-added products - services, consulting, and outsourcing business processes. Those who succeed create a loyal customer group, high barriers to competition, and confidence in their prices because they create added value for their customers. Some of the innovators in this area have been in it for a very long time.

**CRITICAL ROLE OF SERVICES AND SOLUTIONS**

Let's look at how I structure services as part of its pricing strategy.

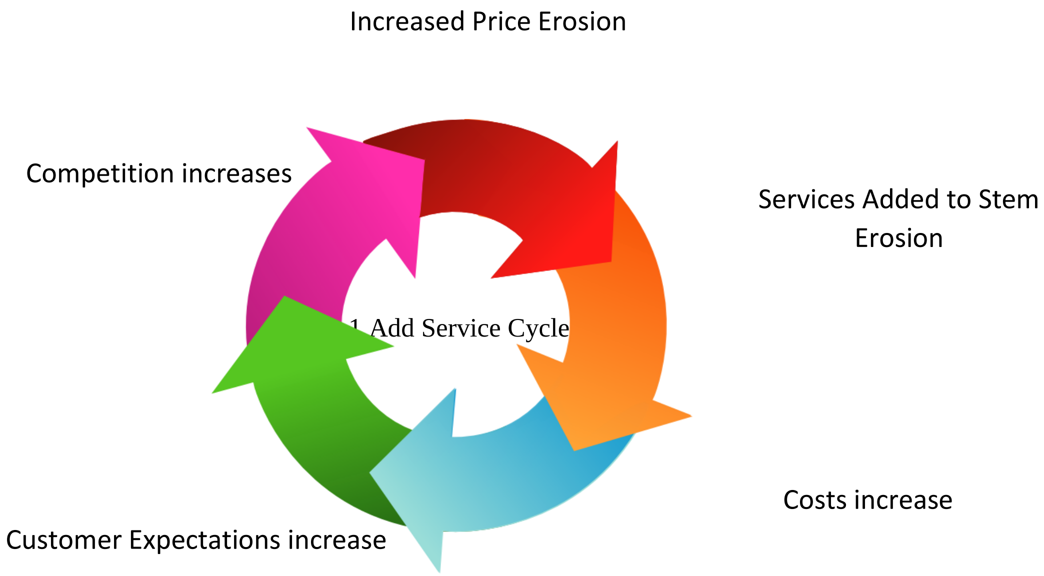
Adding services gives "I" additional levers for managing bargaining. In addition to high and low value software, the I sales team can add or remove services to meet the needs of a particular customer for product and price at the time of sale.

The results indicate that there is a potential for big profits for those companies that are able to implement a multi-level supply strategy that includes products, services and software, or a data analysis tool.

Under the leadership of LG, IBM is on its way and transforms itself from a hardware-oriented organization to one that offers services and solutions from which hardware is just a piece. "IBM" notices that its PCs are becoming consumer products, focusing on software and services, and combining them. Once they build their software business, they start to buy fewer companies and integrate them into oneself. In this way, they accelerate their growth, taking advantage of their strong sales position.

Companies that do not take into account the importance of software and services often find themselves in a circle of despair. Due to the accustomed to their basic offers, the price tension is rising. By trying to prevent price erosion, they add services, but they are usually given away. As shown in Figure 1, spending rises as profits fall.

We see many companies going through this cycle. Managers despair because on the way customers are starting to expect free services in addition to products that are no longer an innovation. This is true to the greatest extent when competitors begin to catch up with us, first with improvements to their products and subsequently with added services. Obviously, you need to be paid for the high quality services you offer when you start offering them. The challenge is that some basic services are always needed. Let's see how to solve these problems.




**DEVELOPMENT OF SERVICES AND SOLUTIONS TO CREATE PRICE ADVANTAGES**

An easy way to get started is by putting our services in one of two categories. The first category includes services such as maintenance, post-sale relationship and helping to organize deliveries. These types of services are typically not counted as special by users and they are unwilling to pay for them. The reason sellers point out when asked why they offer them for free is that they are required to include these services to make sure the product's performance is not affected. But customers pay a part of them anyway, it will be a good idea for these services to be a separate part of the sale and separate in the price catalogs.

If you hear "We need to include these services," ask yourself two basic questions. First, "What level are our services?", Second, "What is the financial effect for customers at different levels of our services?". The answers to these questions make two things. They are forcing us to build a boundary between expected services and value added. In this way, we can distinguish between customers looking for high and low-value products.

The second category of services are high added value services and are typically components of solutions for specific business needs. Companies like "D" and "J H", which sell checks to banks and private customers, have built an interesting way to move their profits, even though sales in their core business are falling. They offer external order management. Each of these companies offers a dedicated phone number to help new customers select and order their checks and some additional accessories to them.

Most banks report the process of opening a new account as one of the most important interactions they have with their clients. Since when a new account is opened, the customer is physically in the bank's branch, banks want their agents to make the most of their time. Banks train their employees on how to collect customer information and how to sell related products such as a credit line or car insurance. Convincing customers to purchase more expensive check designs is also a source of revenue. But since the sale of checks will take away from the time the client can offer more profitable products, the banks are happy about the ability of the specialist to print checks to take care of this activity. Typically, there is strong pressure on underlying products (the most common checks), so performing sales activities provides a good opportunity to grow the profits of check providers.

Combining two types of services - products and financial services can lead to strong customer solutions.

**WHY GOOD FENCES MAKE GOOD NEIGHBORS**

When we talk to product managers about the importance of low-quality floating products and value-added services, they give us two very real concerns. The first is the fear that if they present low value products, these products will channel the demand for their high value products. The second is that they will not be able to control access to services. If either happens, this would lead to chaos in their financial statements. The key to solving these two problems is to create a series of barriers that prevent these scenarios from happening.

One of the main reasons for having a logical and disciplined supply structure is to prevent customers from obtaining high value services at an overpriced cost. The main elements of the supply structure must enable us to build such barriers to succeed in implementing this approach. The barrier enables us to protect our prices by forcing our customers to make price-quality discounts.

Creating good barriers is another neglected area in which managers can create value for their organizations. The key is to choose a criterion that can withstand all sorts of attacks by gambling clients, and one that will be supported by senior management. Common examples of strong barriers include distinct differences in product quality, sales channels, service and support, logistics and branding. Information service providers use timeliness of access, depth of information, analysis capability, data catalog, and format. Good news is that the rules for creating barriers are very simple.

• Barriers should be based on a clear and objective criterion.
• Criteria should make sense to both customers and the sales team.

If we stick to these two simple rules, we can pass the most important test, namely to explain to a client how another customer has received a lower price. Price confidentiality enables sales professionals to justify the price difference without the tensions that many sellers go through when asked why another customer has received a lower price.

Can our customer see the logic in our offers? If he can not, then we break his trust in us. We also encourage them to play poker with our sellers and push them for a lower price. If customers do not see the logic and integrity of the price and quality bids we offer them, our business moves well below the potential they have. Think about it. Whatever criterion we choose to look at - our score, the duration of customer retention, the lifetime of the client, the average size of the orders - each one would suffer from weak barriers.

"D Co" is a company that has gone through this process. It controls 40 percent of the global silicon market, but in recent years has been fiercely attacked by low-priced competitors. Instead of lowering their prices, "D Co" creates low-value "X" products. To avoid the cannibalism of their premium offers, "D" creates a series of healthy barriers.

Figure 2 shows a comparison of these two proposals. The cheaper product has fewer variants and significantly fewer services to accommodate the lower cost. It also forces customers to choose between price and quality to get a lower price. The result of this decision is impressive. The company lost $ 28 million in the year before the release of X and earned more than $ 500 million in its first year of release.

| **D C** | **X** |
|---|---|
| 7000 products | 350 products |
| Discounts | 20% Discount Price |
| Fast delivery | 7-20 days delivery |
| Complete maintenance | Without maintenance |
| Custom delivery dimensions | Full truck or pallet |
| Accepts all currencies | Limited to 6 currencies |

Fig. 2 Use barriers to control low and high bids

**THE LAST RULE: GROUPING**

The central purpose of this rule was to see the benefit of tightening the supply structure to enable our sellers to deal with the bargaining. You started developing floating low value deals. You have identified your underlying, expected and value-added proposals. You have defined your services with high, medium and low value and are determined to get a fair price for them.

There are two more challenges to be addressed. The first is the realization that most companies offer bids on different segments, and the segments themselves evaluate these bids in a different way. The second challenge is the realization that within the segment, different users evaluate the same bids differently. Without a well thought out plan to control these two realities, the company's prices will start to move downwards to meet the needs of cost-sensitive consumers. Accepting this price downward move is a sure way to cover the entire market, but it is certainly not the most profitable approach because it misses the possibility of selling higher prices to customers who value our product at this higher price.

The approach to solving this problem is to use clustering. The logic of grouping is simple. The idea is to pack two or more products, services or attributes to create a product with a fixed price and variable value in the package. This is done in order to:

• Makes customers buy more than they would normally be, by encouraging financially - a group price that is lower than the sum of the prices of each component in the group. It is crucial here to make the group cost savings attractive enough so that customers prefer the bundle purchase.
• We create the opportunity to gain more from the value given when we have customers who value differently the individual components in a potential bundle purchase.

Pricing aimed at covering the whole market often means setting our prices so low that even customers who value our products at least buy them. This is the approach of the smallest common denominator. Grouping allows us to earn more than any element in the package than if we sell them at a price that covers the entire market. This allows us to serve our cost-oriented customers, but at the same time we earn revenue from customers who value our products higher. Let's see how this works.

Imagine that you are a product manager of a software company that provides solutions for tracking the use of a product by customers, as well as forecasting future customer behavior. You are currently focusing on two markets. The first is urban rail and bus transport. The second is casinos. You interviewed a certain group of clients and received some good information.

Casinos appreciate the possibility of tracking consumer habits for people who are betting a lot to be able to offer them additional services in real time while still in the casino. The goal, of course, is to motivate customers who spend a lot to keep betting. Casinos appreciate the ability to predict the behavior of customers who are betting a lot to build a stronger relationship with them.

On the other hand, rail transport companies are trying to attract more customers to the use of trains. In view of this, these companies are more appreciative of the ability to monitor their potential users in order to coordinate simple promotional campaigns. They average the trend analysis on average, but only for some simple promotional campaigns they run on local hotels.

**BOLTS AND NUTS OF THE GROUPING**

Considering the critical role of grouping for the financial health of our organization, we need to spend more time setting the foundations for our goals. A credible group set is the result of the following simple processes.
• Start by exploring market segments.
• Create appropriate packages of products and / or services for high and low value segments that are tailored to user behavior.
• Put higher prices on the individual components than the prices in the package. Without higher prices for individual components, there is no good reason to purchase the package. The discount may not be great, something like 10 to 15 percent may be effective enough.

**DO NOT DESTROY THE PACKAGE!**

Grouping of products and services is working. It simplifies the purchase and leads customers to buy more products or services. The package price, of course, should be lower than the sum of the components' prices. Once the cost of any of the individual components has gone down to a certain level, the logic of the packet has been destroyed, as well as any motif for buying the package. Individual prices should often be rationalized against the prices of all packages in which they are present. Rationalization should be done even with short-term or end-of-month promotions. This preserves the integrity of the package.

This is the relationship most managers miss. If you put lower pricing on individual components, your customers will be able to break the package by purchasing individual components for a lower total cost. In addition to allowing the prices of the individual components of the package to be too low, there are two other ways in which managers typically disrupt the package.

First, they force customers to buy things they do not appreciate. This is a serious point of disagreement for some entrepreneurial software customers. Many customers are improving in this area by using older and more stable versions of the software and relying on trained professionals. However, they are forced to buy support packages that are aimed at upgrades and problem solving of newer versions of the software. Instead of offering customer support packages that have decided to move more slowly, software vendors are trying to force customers to upgrade their system or abandon their maintenance contracts.

More and more such customers do just that, refuse their maintenance contracts, and turn to another support organization that will meet their needs. Considering that more than 80 percent of software companies' revenue comes from maintenance, training, and consulting, such clustering definitely seems unreasonable for software vendors.

Another way to undermine our bids is to allow customers to break the bundle during price negotiations.

What they need to do is to show a percentage discount for the entire order and not allow customers to make lower-priced orders. Discounts must be deserved and made after the order volume reaches the minimum required. Yes, this requires courage to sell to be fulfilled!

**CONCLUSION**

Your product and service offerings are the least used asset for building confidence in the price. If proposals are left to develop indiscriminately, key proposals lose their meaning. They also lose their unique advantages. The confusion rises, your prices suffer, and finances focused on development and innovation are diminishing.

Organizations that have gone through these obstacles do some things that are distinctive. They are demanding to tie the information they have to the client to strictly defined offers. They use combinations of products, services, and solutions to create price bar for their sellers to allow them to control price bargaining. They also know that there is no difference between their pricing models and price lists and their supply structure. The bidirectional architecture determines the possibilities and limits of pricing. The first reaction of many contractors, once these conclusions are reached, is that the lack of this link means that most of their proposals are underestimated by customers and a significant number of them do not have a sustainable position on the market.

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