Hahn.
The Business of Service

New Hahn Website
Well the obvious news is our new website at www.hahnconsulting.com. Check it out. The content is still a little sparse, but we are adding to it very quickly. Thanks to Cherokee Designs for the wonderful graphics and all the other things that they did. If you need a website and want someone easy to work with and talented go to their website at cherokeedesigns.com.

April Free Webinar
Our next free webinar is April 27 at 11am Pacific time for 30 minutes. Ken Woonton and I will be discussing Driving (Profitable) Service and Support Revenues. We have tons of experience to share and will disclose some of the small things that can make a huge difference. Tune in for a lively discussion. Go here to register:
https://attendee.gotowebinar.com/register/5121897170422272769

New Remote Workshop Coming Soon on Driving Revenues
We will be announcing a new remote workshop soon for Driving Service & Support Revenues. It will be one hour workshop, a little like webinars, spread among attendees for six weeks. They will be recorded, so if you miss one, you can still get it. It is almost ready, but we have a few small things to finish up before we announce. So watch for it on our new website and you will also receive an email with the announcement.

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Growing Service Revenue through Smart Pricing Strategies
by Jeff Ribera

How many times have you heard the sales team say," if you just reduce the service price we could sell more contracts and increase revenue". Market testing will consistently prove this premise to be false – as my teams have done for more than 20 years. Al Hahn has consistently demonstrated that "service pricing for capital equipment or software is price inelastic". This means a reduction in price does not translate to an increase in volume, and only results in lost profit. Conversely, every dollar you add to your final price is 100% margin, because there are no incremental costs.

As service marketers, is there a way to use pricing to drive significant revenue? Absolutely! Many companies drive revenue through annual small (2-3%) price increases, and this is an excellent strategy to counter inflationary cost increases. For example, if you have $20M in annual service revenue, a 2% price increase equates to $400k in revenue. And because there is no cost of service associated with it –it will drop straight to your bottom line at 100% gross margin. In addition, there are other simple but smart approaches to use pricing as a tool for revenue growth:

Equipment Upgrades:

When a product is upgraded from a Model 1 to a Model 1a, we should see that as an opportunity to increase service revenue. Service professionals often try to analyze (and over-analyze) the net +/- impact on cost of service of this or that hardware or software change. We trust what the engineering team often tells us – that this new product is more

Jeff Ribera has 25 years of experience in services marketing leadership. His marketing strategies have resulted in double digit revenue growth while working for companies in high tech industries including semiconductor, test and measurement, and medical. His expertise includes market research, service offering development and commercialization, packaging, and positioning of services. However, his personal favorite is service pricing. Jeff has consistently proved internal naysayers wrong by implementing pricing strategies that improve both customer value and service margins – which sales teams often believe work in opposite directions.

reliable. In the trenches, we find that the complexity and support challenges are usually understated. And this cost based approach limits your opportunity – and as marketing professionals, we need to focus on value. Customers generally invest in upgrades to reap the benefits of that system's improved performance or functionality. This is when they are most receptive to paying more to protect this new investment. Our pricing should not be based on the cost of service, but on value to the customer. Therefore, upgrades should come with price increases.

Billable Spare Parts pricing:

A buyer has more challenges in scrutinizing repair parts pricing versus hourly labor because a particular part may only fail once every 5 years, and the next part to fail is often totally different (no comparison). Be aggressive on annual price increases for parts to cover your growing inventory obsolescence costs. Also, if you review your parts prices regularly, you don't necessarily want to reduce price when your costs go down. It is recommended to keep the price the same or at least reduce it by less than your cost reductions. Once again, your margins will improve.

Service Pricing on Next Generation Products

One of the best opportunities for driving revenue and margin is to increase service prices when the next generation of hardware or software is introduced. Internally, you will get pressure that this "new generation" of products should have lower service prices. Please avoid that strategy. As with upgrades, more functionality in next generation products enhance customer value and often increases support complexity. With that added value should come a higher service price point.

Additional pricing tips for service contracts:

Help your management team understand the true "evil" of discounting service with the product sale. Find real life examples of old product quotes with "bundled" service discounts. Then track the financial impact so everyone understands that a 20% discount can take 5+ years to recover because the buyer expects that same reduction every year. Therefore, a $5k discount really means $25k (5 years) in losses.

It is recommended that most of your products have a single contract price for all configurations and avoid the temptation to price out each purchase option in the system configuration. Technical folks typically want to take that approach but this complexity will cause errors and customers will often pick them apart. The key is to price your contract as if the product is fully configured so your margins are protected. And on those rare situations where you have to provide a discount for a very lessor configuration (I hate discounts!), you will have some room to do so.