



COST BASED v/s VALUE BASED SOLUTIONS

Why shifting from Cost Based Solutions to Value Based Solutions is crucial?

For service providers, the vision at present is set on aspects and activities that drive the fulfillment of business goals when looking to modernize technology solutions. These goals must be taken ahead as strategies mandatory to achieve success and growth for the concerned business. Even though identifying business drivers gets more difficult as organizations become more complex, now the industry and the market itself define the drivers to take into account when implementing advanced technology.

While commercializing is creating opportunities for customers of information technology services, it is simultaneously creating new challenges for the service providers. Pricing strategies are one of the most important challenges and decisions for today's IT service providers. Costing strategies for IT services have usually focused on covering costs, attaining desired margins, and challenging the competition.

Cost-Based Solutions

When a company uses cost-based solutions, the organization sets up a price based on a percentage above the cost it incurs to manufacture the product or to provide the service.

The planned strategies relate to the organization's decision to fixate the price of a product on the costs of production rather than external factors such as competition or the economic environment. This is a conventional approach to pricing which may be appropriate in stable markets where competition is moderate. The cost-based pricing method is widely used by industries such as utilities, contracting, building IT solutions, engineering firms, consulting services, etc. In the case of professionals like IT consultants, engineers, etc., 'service fee ' is the pricing strategy used. This is based on the cost of time involved in providing service.

Value-Based Solutions

Value-based pricing is a strategy of setting prices primarily based on a consumer's perceived value of a service. Value pricing is customer-focused pricing, meaning companies base their pricing on how much the client believes the service is worth. Companies that offer exceptional or highly valued & unique features in services are better positioned to take advantage of the value pricing model than companies that chiefly sell commercialized services. Any company involved in value-based solutions must have a service that differentiates itself from the competition. Speaking in literal terms, the product must be customer-centric, meaning any advancement and added features should be based on the customer's needs and wants. Of course, the service must be of high excellence if the company's management is on the lookout to have a value-based pricing strategy. The company must also have open communication channels and strong relationships with its customers. In doing so, companies can obtain feedback from their customers regarding the features they're looking for as well as how much they're willing to pay.

Technology changes within service vendors have typically been driven by challenges related to infrastructure management and the assurance of service supply. However, new business drivers are now more relevant when evaluating the need for an advanced technology solution. Major factors reckoning for this price pressure comprise the increasing intricacies of CIOs and other tech buyers, startups with competitive pricing strategies, and the wide accessibility of open source software and free offers. Such price pressure, combined with internal and external imperatives to deliver volume, results in rapidly declining prices, threatening the long-term profitability of tech players

Solutions in the market must provide a full scope that helps organizations to operate efficiently without incurring great costs and efforts associated with the integration of several systems and, at the same time, that allows the timely response to the demands of a highly changing industry.

Why Value-based Solutions are Better than Cost-based Solutions?

1. Separates time from profit

Your potential profit is no longer connected directly or indirectly to the number of hours you work, but it is based on the best value services you provide. Winning such a deal requires strong technical, analytical, and communication skills.

2. Helps you develop higher quality products using the new age technologies

Taking the client's opinion will help you discover what solutions people want to find within your products and features. Through this perspective, organizations generate new concepts on how to continue advancing their solutions. Progressing your services means finding new ways to excel in what's already been built and where you can add, improving efficiency and productivity.

3. Proves real willingness to pay data

The client's willingness to pay data requires some serious sweat & effort, but it's worth the work. Again, willingness to pay is the maximum amount a customer is willing to pay for your services. It varies based on a series of factors but is one of the best means to envision overall demand at any given time. The analysis behind a value-based strategy provides real data that gets you into a profit-generating solution. Knowing what your clients are willing to pay for your service is essential in building an effective and competitive solutions strategy.

4. Improves future collaboration & engagement

Clients who know how much they'll be charged in advance while getting the outcome they have been waiting for, are more likely to communicate & engage better with you.

This improves collaboration and helps an organization in delivering the best solutions using the best suitable technologies – which helps keep the client satisfied. It also helps you excel & up-sell your other domains.

Apptread being a custom software development & cloud services company focuses on providing value-based solutions, promising excellence & the best custom future-ready solutions which will help your organization in navigating towards the future.

To see how Apptread can help you navigate your business, connect with us at solutions@apptread.com

Reference Link: <https://apptread.com/blog/why-shifting-from-cost-based-solutions-to-value-based-solutions-is-crucial/>