Chapter 2

What are the Unique Selling Points (USPs) that may help close the gap of vertically differentiated products shown in Figure 1 X1 ?

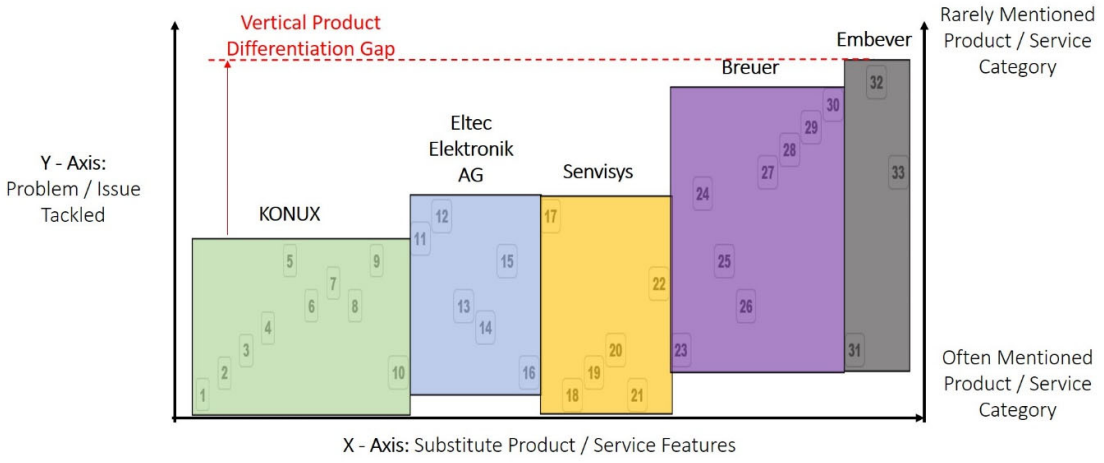

Figure 1 X1

- Offering management services for assets that are monitored
- Provide consulting services
- Instead of adapting clients to Konux's platform, integrate platform systems into the clients' existing IT infrastructure
- Offer products or services that serve as an infrastructure for future product / process innovation projects. Infrastructure:
    - Digital twins
    - Simulation technologies
    - Prototyping and testing

Determining Pricing strategy for the Unique Selling Points

Offering any one of the additional services with Konux's existing products will inevitable increase costs. Thus, these costs can be addressed by implementing a new pricing strategy specifically for these product / service. To determine the pricing strategy to be adopted, the potential cost drivers of each USP, the estimated costs of implementing and the WTP each shall be determined. As an example to aid this the discussion hypothetical figures for the Estimated

Costs (shown as arbitrary units, not monetary values to represent magnitude) and WTP columns.

No.	USP	Potential Cost Driver	Estimated Costs	Willingness To Pay (WTP)
1	• Offering management services for assets that are monitored	Management Staff Compensation	10	30
2	• Provide consulting services	Consulting staff Compensation	10	100
3	• Instead of adapting clients to Konux's platform, integrate platform systems into the clients' existing IT infrastructure	• IT software • IT staff compensation	30	150
4	• Offer products or services that serve as an infrastructure for future product / process innovation projects. Infrastructure:	• Product Development Costs • Educating sales force	200	80

Figure 2 Table X1

Now, the values can be plotted for estimated costs, price (priced at WTP) and the recommended Pricing Strategy selected based on the scenarios as shown in Figure 2 X2.

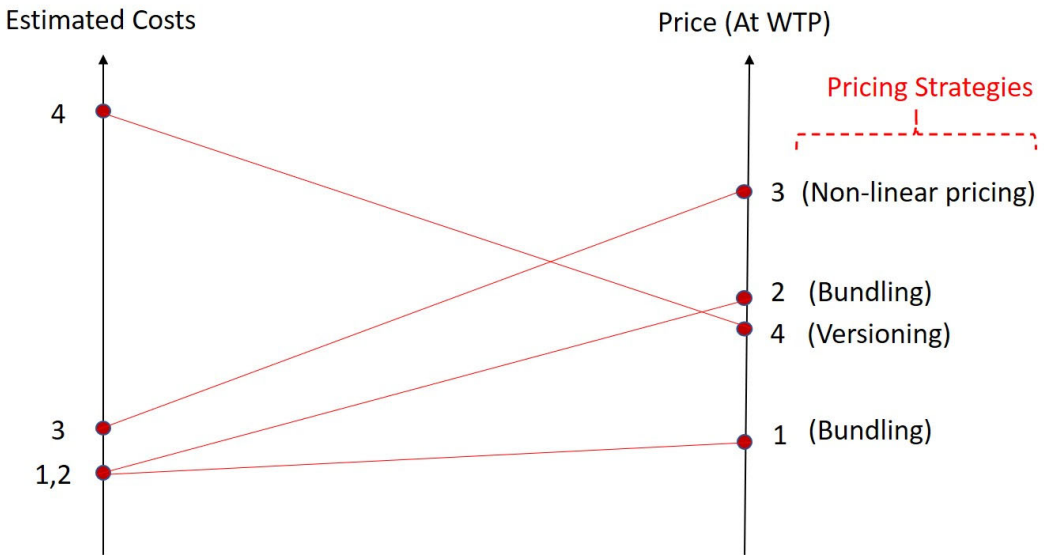

Figure 3 X2

Discussion on Pricing Strategies

Non-Linear Pricing

Assuming Konux's in-house IT team is mobilized for 3, and cross platform integration software that Konux already has an annual subscription is used, a two-part tariff in non-linear pricing can be used. An example of successful implementation of this pricing strategy is Telco companies that charge a fixed price for the first x minutes and y % cheaper rates for subsequent usage.

Bundling

The assumption made here is that Konux's in-house experts are assigned for both 1 and 2. Thus, the costs are assumed to be relatively similar. In this situation, either 1 or 2 can be bundled with Konux's existing product base because it comes down to the individual client's

preference for wanting either 1 oe 2. It is worth noting that awarding a contract to Breuer by DB may indicate DB's need for such services offered by Breuer that aren't offered by Konux as shown in Figure 1*(previous chapter)*

Versioning

The version pricing strategy involves developing software that are downgraded versions for the price sensitive clients that have a low WTP. This strategy has been employed by software providers such as Microsoft through their Microsoft Office for students package to gain mass user adoption and achieve a critical mass of users. However, in Konux's circumstance, this pricing strategy can be implemented to increase switching costs. The assumption made is that the development of the products and services in 4 will be cost intensive. However, as seen in Table X1, if the WTP for these products and services is low, they can still be offered at a discount, even at a loss to increase the dependance of an existing client on Konux's products and services. Implementing this strategy in this way reduces the bargaining power of a client whose revenues make up a big chunk of Konux's total revenues. Caution must be exercised that if these products are indeed provided to the client at a cost, it shall not exceed the profits obtained form that client.

Elaboration of Increasing Switching Costs to keep existing clients through versioning

Equation X1 below describes when an existing client will switch to a new partner.

$$Cc \leq \Delta u + G$$

Cc	Existing clients' switching costs
Δu	Utility increase for switching
G	Switching "goody" received from new partner for switching

Thus, the objective is to increase Cc. The versioning pricing strategy can be used to achieve this this objective by ensuring that the software versions are all complimentary products and services to Konux's existing products and services.

A complimentary product is defined as a product that will increase the base product. The added software infrastructure will enable xlients to create digital twins using data from onux's sensors. Additionally, the analytics and predictive analytics from Konux's Aritifical

Intelligence technology, simulations can be run. Additionally, this infrastructure would also allow for quick prototyping. This infrastructure enables clients to run proof-of-concept and product or process innovation studies.

Further increasing switching costs for existing Clients

All interfaces can be designed with specific designs. However, caution must be exercised so as not to alienate the users of the products with a very unfamiliar and non-intuitive design. The user experience (UX) and user interface (UI) must resemble existing interfaces that users are familiar with but at the same time have specific functions or flow of steps that are unique and hence not available elsewhere in the marketplace. An example of the successful implementation of this strategy is seen with Apple's approach to UX and UI. While the UX and UI are intuitive and familiar, there are specific functions or flow of steps to perform in carrying out certain tasks in Apple's Operating System (OS) that are not found in Windows, Android or Linux Oss. Thus, existing Apple product users who have grown familiar with the OS who are more reluctant to learn how to operate non-Apple based Oss would naturally have a higher switching cost of learning how use different Oss. This same strategy can be employed by Konux.

Offering "Goodies" to Attract Clients to Switch Over to Konux

Adapting Equation X1 to form Equation X2:

$$Cs \leq \Delta p - G$$

Cs Potential clients' switching cost

Δu Potential increase from acquiring client

G Switching "goody" offered to entice potential client to switch over to Konux

If the cost of versioning in 4 is lower than the potential profit increase from acquiring the potential client, 4 can be offered as a "Goody"