



The Art of Product Bundling

Turning customers' heads with hard-to-resist 'package deals'

By Seiche Sanders, Email the SM editors

You're going through the McDonald's drive-through at lunch: how often do you order an "extra value meal" instead of an "a la carte" burger, fries and drink? Nine times out of 10?

Many fast-food chains have perfected one of the most recognized examples of product bundling. When you order the No. 4, you know you'll get a neatly packaged meal at a slightly discounted price. The restaurant moves more product and brings in more money; the customer goes away feeling like he or she got a real deal.

Bundling Is Better for Business

Jan/san distributors merchandise and market "package deals," too. Selling a group of complementary products together offers clear advantages over selling individual products. For one thing, system selling, or bundling, allows distributors to assume the role of "consultant," because they are recommending product choices that save money and increase productivity. This strategy tends to eliminate customer "price shopping." Margins on bundled products tend to be more lucrative compared to item-by-item sales. "There's always more money and customer loyalty in selling programs and systems," says Dave Kahle, president of DaCo Corp., a sales consulting firm in Grand Rapids, Mich. One of the reasons, he says, is the sheer dollar volume associated with selling a system over a product.

"Let's say you're selling floor wax for \$30 a gallon," Kahle says. "You go in and try to get the wax business, but if you sold the 'system' — the stripper, the equipment, the wax, etc. — then that could be several thousand dollars. The dollar volume [associated with] the decision is what sets the system apart from the individual products."

Bundling can also be used as a "carrot" to motivate customers to spend more of their jan/san-supply dollars with one distributor. Says Kahle: "You're selling a polishing or buffing machine and you say 'As long as you buy these machines from me, you'll be able to purchase the wax at a substantial discount.' Now, if they purchase anyone else's machine, they've lost your discount on wax. The price of one item is dependent on the purchasing of another."

And once you're one of that customer's key suppliers, it's easier to maintain that relationship.

Adds Lisa Burchard, president of Advance Office & Janitorial Supplies, Las Vegas: "There is less of a chance of your competitor coming in and taking the customer from you, because you're providing a lot of these items."

How It's Done

In marketing circles, bundling is commonly defined as a selling strategy where two or more products are sold at one price, often at a discount to the customer. Any time you eliminate pricing by line item, people can't shop your price as easily. Bundles also give you more latitude when it comes to pricing.

There are a number of ways to bundle products. The most common are: by product category, by customer or by application.

For example, Barbara Casse-Bender is one distributor who structures bundles based on complementary products — if a customer needs one thing, then they'll likely also need related products. Casse-Bender,

president of BCB Janitorial, Hackensack, N.J., routinely brainstorms complementary product groups with other members of her firm.

The product groupings are then entered into a computer program. Each time a salesperson enters an order, the program generates a series of tie-in products. If a customer orders glass cleaner, a screen pops up with the question: “Do you want to include options or accessories?” If the salesperson hits “yes,” the program adds the complementary products to the order.

“When you sell a carpet extractor and put the order into the system, a list of stuff pops up in front of you that you might as well mention,” says Casse-Bender.

“Seventy percent of the time, they do buy the whole bundle,” she says. “If they come in for, say, a bag of ice melt, they end up taking the whole bundle. If we didn’t mention it, they’d walk away with the ice melt and that’s it. Sometimes you’re doubling your sale.”

Typecasting

Lisa Burchard’s company focuses on a different bundling technique: grouping products by customer type. Her customer base is almost exclusively small- to medium-sized offices. Her company breaks down that category into office type, then selects product bundles that appeal directly to the customers’ needs.

“If we’re calling on a medical office, we will put together three or four pages of items that we think they would be interested in buying, to go along with the catalogs we already have,” Burchard says.

Burchard tries to highlight items that extend beyond the customer’s traditional supply needs — items such as hand sanitizers, pens and pencils, trash can liners, file cabinets, and even some specialty medical supplies.

Often, when distributors ask customers if they need anything else, the question elicits a blank stare. So by knowing the business well enough to make informed suggestions, distributors help customers get their arms around their needs.

Education Sells Systems

“Seminar selling” has augmented traditional methods of reaching customers, says Joseph Manfredo Jr., vice president of sales for All Clean, Lawrenceville, N.J. His company sponsors seminars specifically geared to school custodians, or hosts seminars on restroom care or floor care. These on-site seminars are effective venues for promoting and selling product bundles.

Manfredo says seminars have other benefits over sales calls — they get the salesperson in front of more key decision-makers. “If you go to their facility, you’re limited to [meeting with] a few people. If you have a seminar during the daytime, they can send five or six people, and they’ll allow it because it’s training.”

Deals and Discounts

Cost-conscious customers appreciate the effect bundled products can have on their bottom line.

In BCB’s case, that discount isn’t huge — 3 percent of the total order — but it is a proven incentive for price-sensitive customers.

“It’s not a lot, but most people would have paid 3 percent more just for the fact you reminded them that they need [the other items],” Casse-Bender says.

Manfredo offers customers a discount for purchasing a cleaning system. Following a seminar on a specific cleaning procedure that requires an array of products, All Clean’s sales staff informs customers that if they purchase the entire package, they’ll save a certain number of dollars. If they buy half the package, they receive a certain discount, but if they buy the products individually, they pay full price.

Burchard believes that this type of product bundling can have a significant effect on a distributor's sales and profitability.

For instance, if you have 100 accounts that are currently placing orders in the \$150 range, and you're making 35 percent gross profit, that's pretty good, she says. But if you increase that order size to \$200 or \$250, you can afford a bit less margin and the accounts will still be highly profitable.

Put It On Paper

What are some of the considerations that go into developing a product bundling strategy? First, look at unique ways to bundle complementary products. Then, identify customers that would be good candidates, determine product configurations and set a pricing strategy. Also, think about how to advertise the bundling program. Get your sales staff involved in the brainstorming early on.

Once distributors devise a pricing strategy, they should test it on a sample group to determine whether it has appeal for a wide range of customers.

Kahle says there is one method of bundling that every distributor should consider.

"There's a way to use bundling that's far more significant than adding a couple of products together," he says. It involves targeting accounts that purchase a substantial amount of product.

"You offer them an annual contract and the contract says 'We will rebate you for every dollar of increased business you do this year versus last year.' So, let's say you have an account that did \$100,000. You say 'We'll rebate you 2 or 3 percent for every dollar over and above \$100,000'...you have, in effect, bundled everything together. Say they do \$120,000 with you this year, then you pay them the rebate on the \$20,000."

"If they choose to stop buying anything from you, it affects the whole rebate," he says.

Kahle says that many other industries base their business strategy on contractual supply agreements. Jan/san, he says, will eventually follow suit.

"Certainly, there's a greater emphasis on systems than there was five years ago," says Kahle. But, he believes jan/san has a long way to go. "As industries evolve, they evolve along predictable paths. Somewhere here in the next couple years we'll see jan/san distributors start selling contracts as well as systems and products," he says.

Kahle recalls a swimming-pool supply distributor who bundled products particularly well. "Instead of selling this product and that and competing on products, [the company] chose to sell an overall program with a contract," he says. "The retailer signed a contract for a range of services and products, and that effectively took the issue of money off the table."

Similarly, the hospital-supply industry is 10 years ahead of the jan/san industry in terms of their reliance on supply contracts, according to Kahle.

It's one thing to have a sales staff that thinks of product bundling instinctively, but it's even more important to create a corporate mindset regarding the best way to move product and boost margins.

"If you're thinking about selling wax, your mind is focused on that, and the thought of selling a contract for that doesn't work its way into your thinking," Kahle says. That's why these initiatives must be rooted at the top of an organization, he explains.

"It's not unusual for a salesperson who is in this mindset to do five or six times the volume that the traditional product salesperson will do," he adds.

Similarly, contracts are inherent money-makers — customers under contractual obligation will often commit to 50 to 75 percent more product than they would have purchased, he says.

A Learned Behavior

Salespeople must understand how products complement one another in order to sell product bundles — and that takes time. It's critical that they learn customers' needs, and understand how certain product lines address these needs.

Burchard, whose company carries 30,000 janitorial, office supply and furniture products, knows this full well.

“It's not easy for the new guy to remember everything, or to talk about and train him to do a thorough needs determination when he's sitting in front of a customer. I think it just comes down to good old-fashioned experience,” she says.

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