

Right Pricing: Realizing Greater Value...

...from Software Products...

...Support Services...

...and Sales Professionals

MarketShare, Inc.

35 Main Street // Suite 8
Wayland, MA 01778
Tel: 508-647-0330
info@softwarepricing.com

Sponsor of www.softwarepricing.com



2 March 2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Agenda

- Introduction
- Hot Topics in Software Pricing
- Right Pricing Process
- Hot Topics in Detail
- Wrap Up

SOFTWARE
2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Introduction

Presenter

- **Principal of MarketShare, Inc.**
- **20+ years consultant to software industry**
- **Coined term “floating license” in 1987**
- **Created SoftwarePricing.com**



SoftwarePricing.com

© 2004 MarketShare, Inc.

Introduction

SoftwarePricing.com

- **Launched in 1998**
- **Resource for pricers and senior software executives**
- **Resource for MarketShare, Inc.**
- **Pulse of the market ...
... “Ask An Expert”**



SoftwarePricing.com

© 2004 MarketShare, Inc.

Agenda

- Introduction
- Hot Topics in Software Pricing
- Right Pricing Process
- Hot Topics in Detail
- Wrap Up

SOFTWARE
2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Hot Topics in Pricing

Recent Inquiries to “Ask An Expert”

“How do we get our sales team to focus more on value, and less on price?”

“How can we transition to subscription pricing, and should we?”

“How do we recover from excessive discounts given during the downturn?”

SOFTWARE
2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Hot Topics in Pricing

Recent Inquiries to “Ask An Expert”

- Important / tough issues
- All easier when pricing foundation is right



SoftwarePricing.com

© 2004 MarketShare, Inc.

Agenda

- Introduction
- Hot Topics in Software Pricing
- **Right Pricing Process**
- Hot Topics in Detail
- Wrap Up

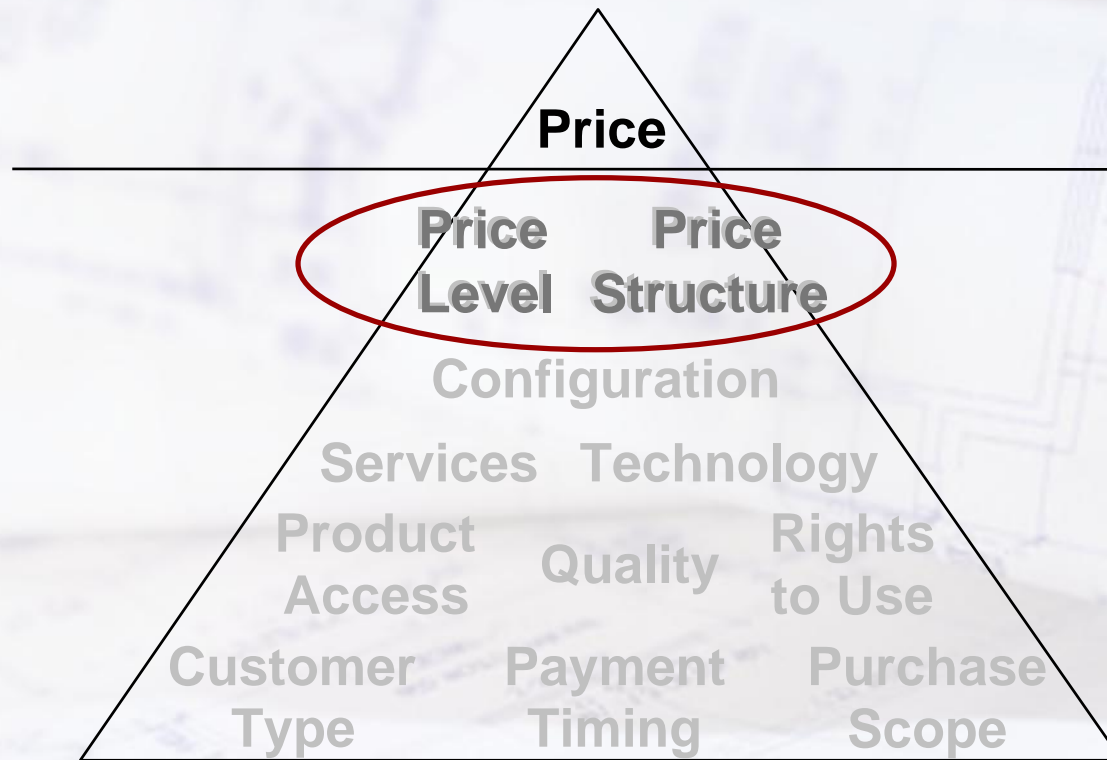
SOFTWARE
2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Keys to Right Pricing

Pricing Not Just A Number



SoftwarePricing.com

© 2004 MarketShare, Inc.

Keys to Right Pricing **Based on Two Principles**

■ **Link Prices to Value**

- **Value to customer (common theme)**
- **Value of customer/customer class to ISV (often overlooked)**

■ **Make Value Apparent**

- **Customers and sales team**
- **Value propositions (common theme)**
- **Straightforward pricing schemes (often overlooked or under-emphasized)**



Link Prices to Value

Identify Value

■ How customers talk about their business

- Revenues, growth, profits
- Customer acquisition, retention
- People, product, production

Value Levers

■ How people use product

- Personal vs. group
- Transaction-based vs. continuously
- Occasionally vs. frequently

Scaling Metrics

■ How customers want products installed, supported

- Individually vs. workgroup
- Division, site, company-wide, corporate
- In-house vs. external support

Discounts

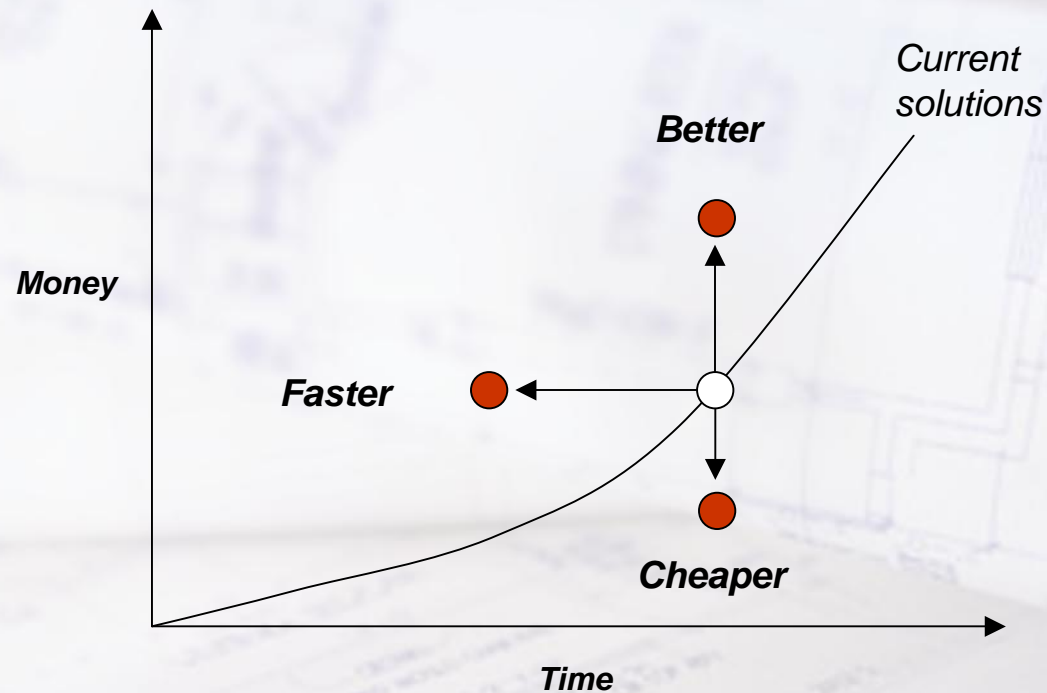


SoftwarePricing.com

© 2004 MarketShare, Inc.

Link Prices to Value

Quantify Value & Metrics



How much is B / F / C worth?



SoftwarePricing.com

© 2004 MarketShare, Inc.

Link Prices to Value

Develop RTU Price Structure

■ **Rights to Use**

- **Basic functionality modules / building blocks**
- **Bundling**
- **Add-on progression**
- **Scaling metrics**
- **International**
- **Discount structure**

Link Prices to Value

Develop M&S Price Structure

- **Maintenance & Support**
 - Self-service support (web-based)
 - Enhancements vs. Upgrades
 - Answers via eMail vs. Telephone
 - Response time
 - Multiple POCs
 - ...
- **Basic vs. Premium?**
- **Large customer M&S as important as license fees**
 - One price may not fit all



Link Prices to Value

Quantify Product Value to Customer

- **Benefits of product use**
 - Labor, material savings
 - Faster time to market, more customers
 - Decreased downtime
 - Fewer product rejects
 - Less training
- **Costs to realize benefit**
 - Product acquisition
 - Management investment
 - Training, lost time due to conversion
 - Facility or process changes
- **Estimate Net Benefit...**



SoftwarePricing.com

© 2004 MarketShare, Inc.

Link Prices to Value

Develop Unit Price Estimates

“Best guess”



“Best guess”

+ customer research
+ market data
+ **experience**



Lose Sales

Leave Money



“Scientific price” from demand curve, 1000’s of transactions, price tests, other research



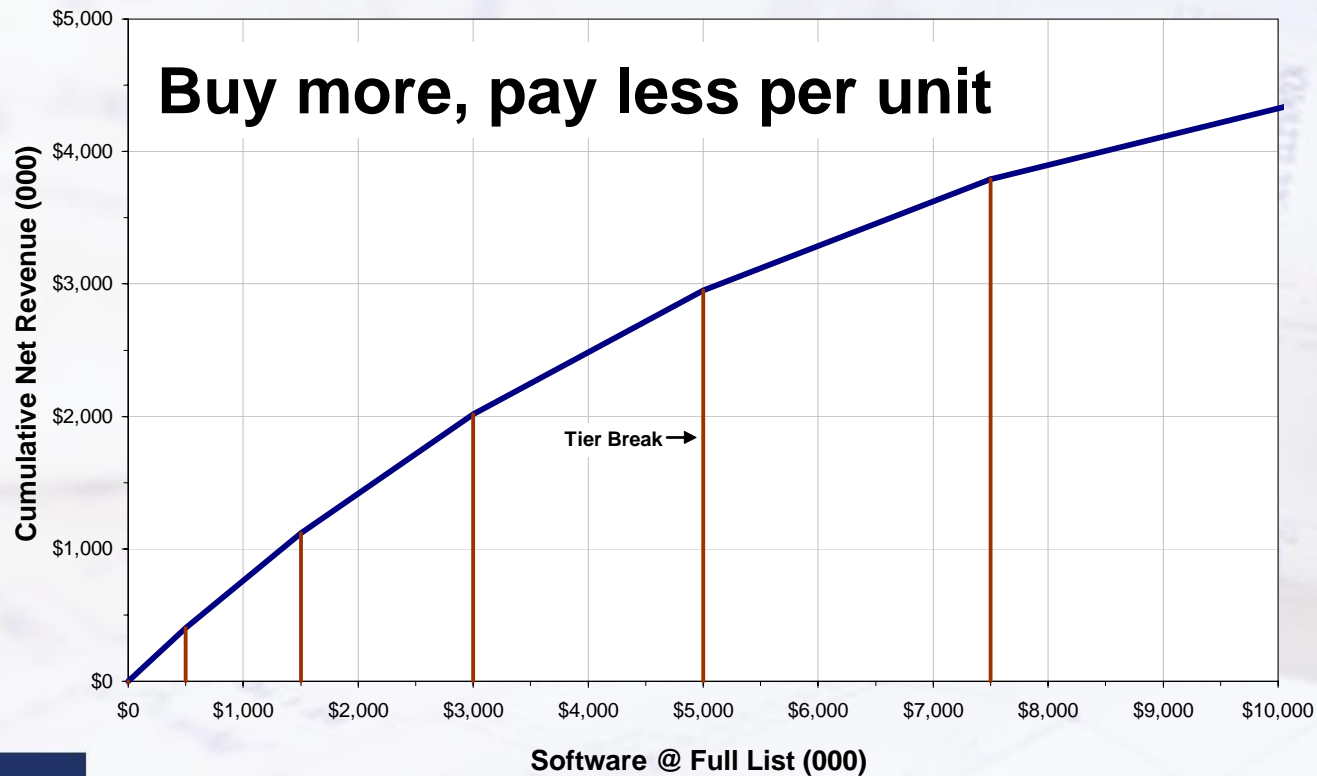
SoftwarePricing.com

© 2004 MarketShare, Inc.

Link Prices to Value

Set RTU Discount Levels

Cumulative License Revenue



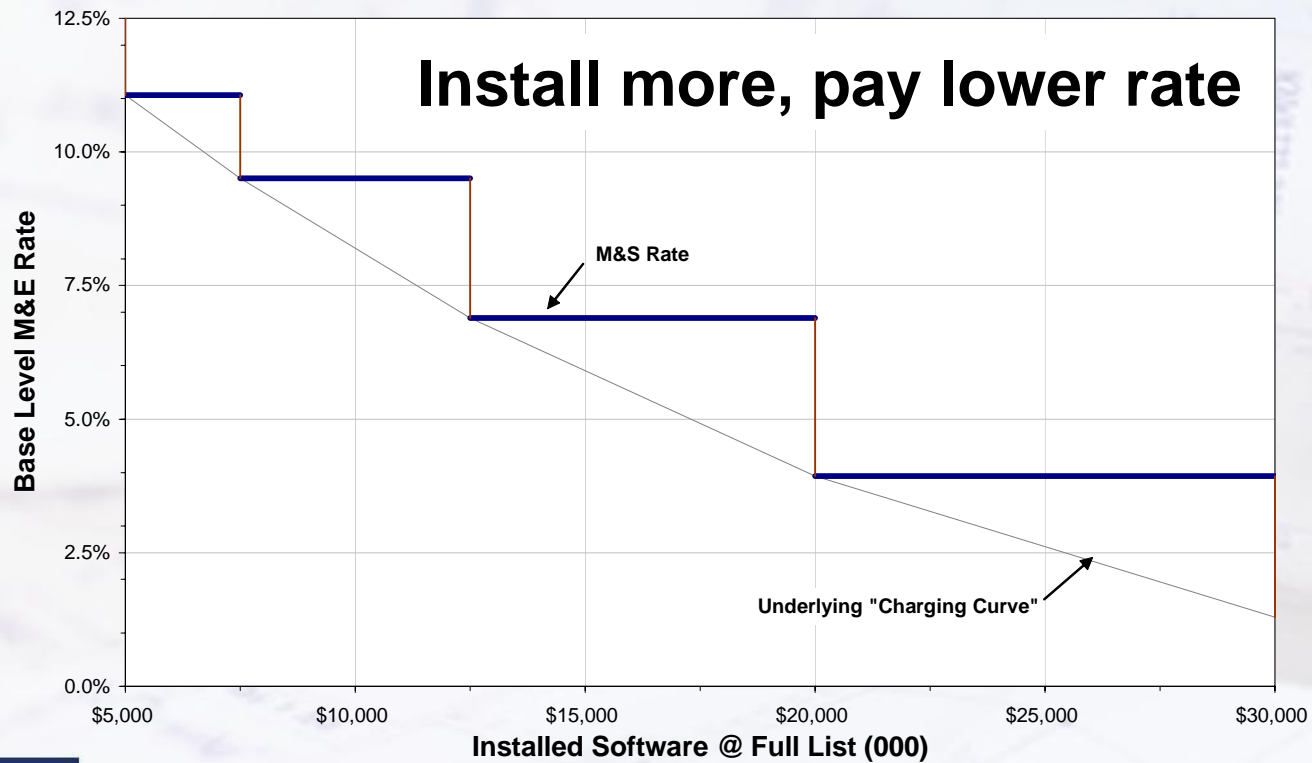
SoftwarePricing.com

© 2004 MarketShare, Inc.

Link Prices to Value

Set M&S Discount Levels

Base Level Maintenance & Support Rate



SoftwarePricing.com

© 2004 MarketShare, Inc.

Make Value Apparent

Simple & Clear is Starting Point

- **Keep things simple**
 - Product architecture
 - Price list(s)
 - Discounts
- **Make things clear**
 - Value logic
 - Value proposition
 - ROI calculator

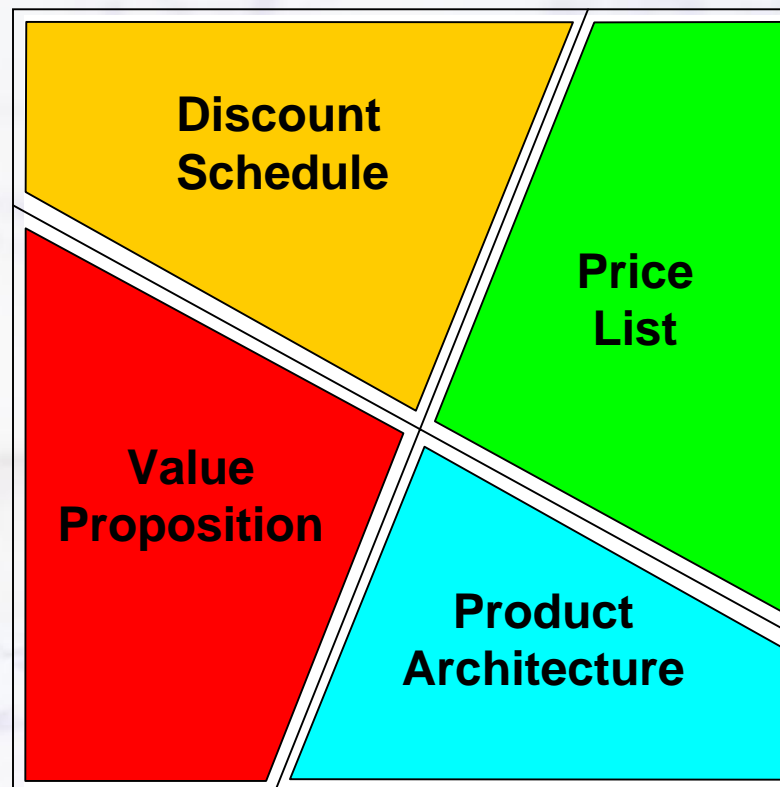


SoftwarePricing.com

© 2004 MarketShare, Inc.

Make Value Apparent **Integrate the Pieces**

Rights to Use and Maintenance & Support



SoftwarePricing.com

© 2004 MarketShare, Inc.

Make Value Apparent

Emphasize Value at Deal Level

- **Perception and Process are related**
 - Configuring a transaction
 - During negotiations
- **Configuring a transaction**
 - Constructing initial quote
 - Sizing / scaling the deal
- **During negotiations**
 - Giveaways - value given
 - Takeaways - value withheld



SoftwarePricing.com

© 2004 MarketShare, Inc.

Agenda

- Introduction
- Hot Topics in Software Pricing
- Right Pricing Process
- **Hot Topics in Detail**
- Wrap Up

SOFTWARE
2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Hot Topics in Pricing

#1 - Focus Sales Team on Value

- **Right Pricing groundwork**
 - Price and discount structure
 - Scaling metrics
 - Price levels
- **Additional steps needed**
 - Communicate value logic
 - Craft value propositions
 - Monitor progress



Focus Sales Team on Value **Communicate and Monitor**

- **Communicate value logic**
 - Audience- and product-specific
 - Focus on end results -- not product means
- **Craft value propositions**
 - Strategic messages
 - High level and tactical ROI tools
 - Details as required
- **Monitor progress**
 - Customer reactions, behaviors
 - Sales reactions, behaviors



Hot Topics in Pricing

#2 - Subscription Pricing

- **Strategic -- not tactical -- assessment**
 - Why offer subscription?
 - Does it fit business model?
 - What is offer?
 - Which customers get offer?
 - Which will buy?
 - How will sales cycle change?
 - How to deal with new revenue mix?
- **No-go / Go deeper**

Subscription Pricing

More Depth

- **Balance two viewpoints**
 - Customer vs. ISV
- **Customer**
 - Alternatives
 - Decision points
 - Likelihood of moving ahead
- **ISV**
 - Expected cashflow from renewals
 - Buying patterns, duration
 - Make-it-work assumptions



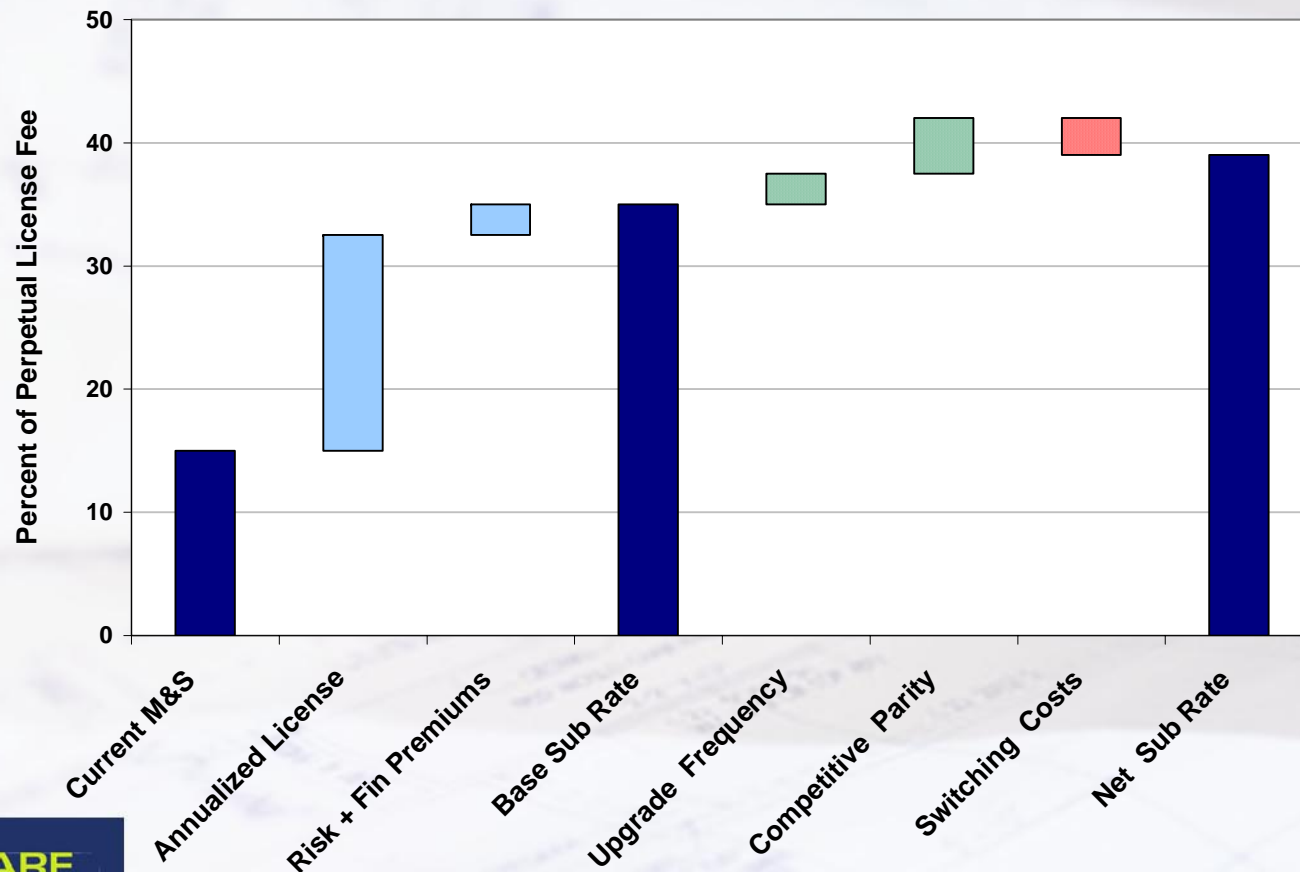
Subscription Pricing

Get the Pricing Right

- **Right Pricing groundwork**
 - Pricing, packaging, discounting
 - Value support for selling
- **Start with a few assumptions**
 - Basic choices, timing, renewals
 - Price relative to perpetual
 - Revenue neutrality
 - Finance and risk premiums
- **Adjustments**
 - Upgrade / update frequency
 - Competitive position
 - Switching costs



Subscription Pricing Get the Pricing Right



SoftwarePricing.com

© 2004 MarketShare, Inc.

Hot Topics in Pricing

#3 - Achieve Discount Discipline

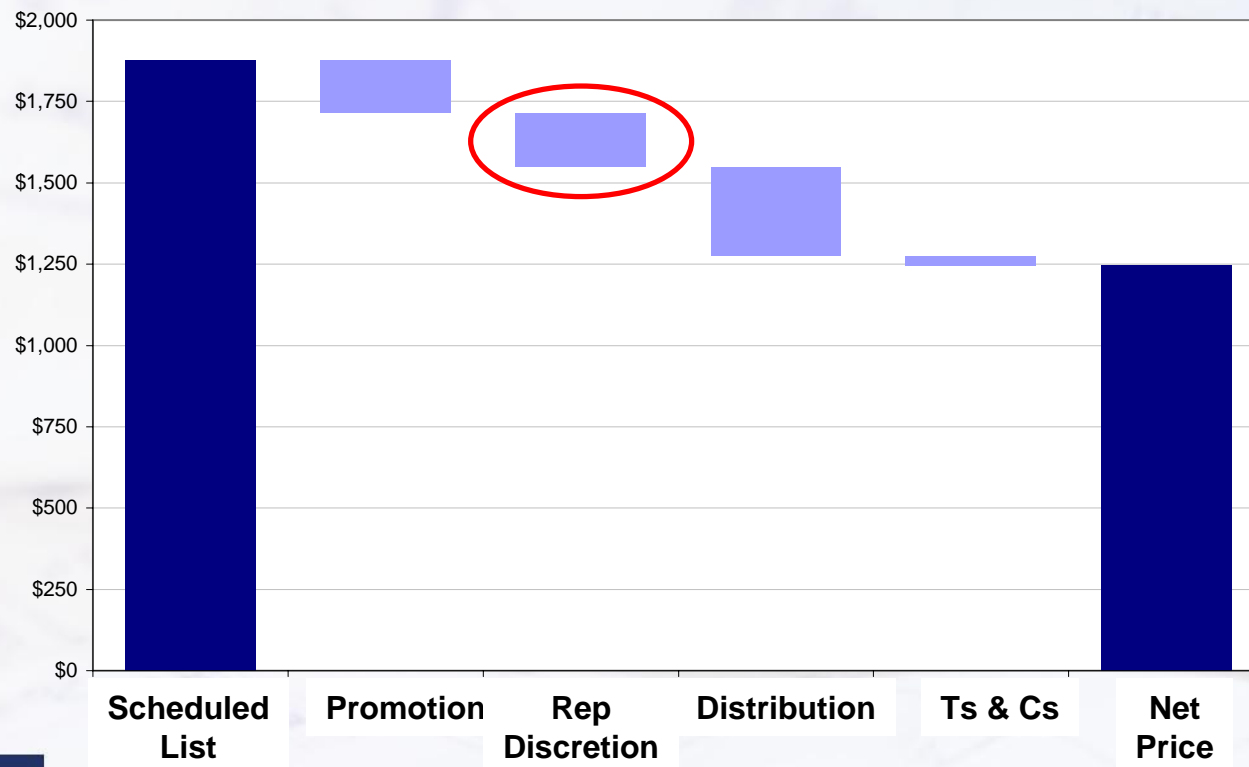
- **Right Pricing is done**
 - Value established
 - Value apparent
- **Additional steps needed**
 - Discounting objectives
 - Investment in customer
 - Pay for performance
 - Quantify the problem
 - Locate hot spots
 - Selectively apply fix
 - Monitor (and reward?)



Achieve Discount Discipline

Problem in Context

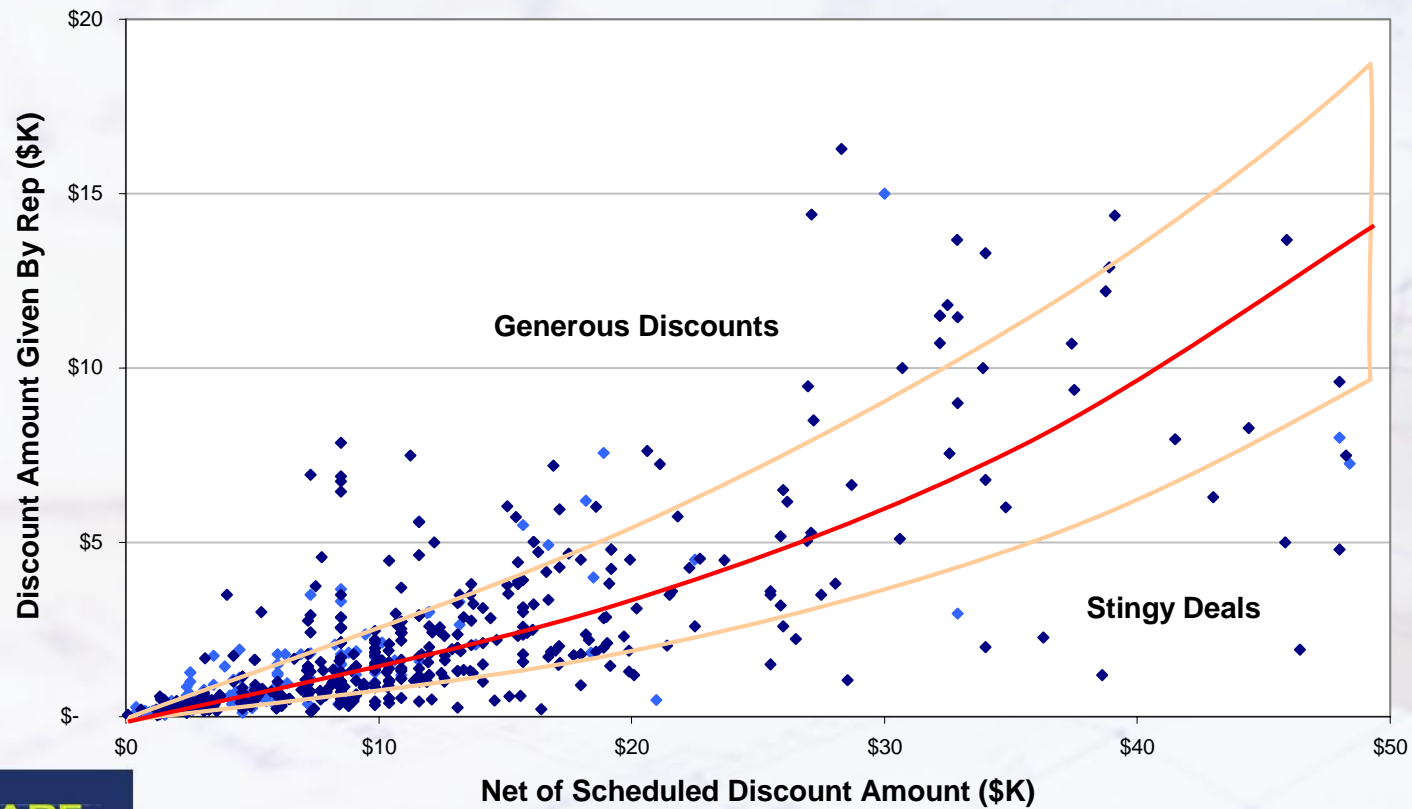
Pocket Price Waterfall



Achieve Discount Discipline

Selectively Apply Fix

2002 - 2003 Deals



SoftwarePricing.com

© 2004 MarketShare, Inc.

Agenda

- Introduction
- Hot Topics in Software Pricing
- Right Pricing Process
- Hot Topics in Detail
- Wrap Up

SOFTWARE
2004

SoftwarePricing.com

© 2004 MarketShare, Inc.

Conference Themes

- **Vendor trust is key**
 - Trust = Alignment
- **Customer has needs**
 - Relieve pain < 12 months to succeed
- **Customer wants choice**
 - Burger King -- not Model T
- **Customers want solutions**
 - Shift from product-only to more-than-product
- **Vendor focus must change**
 - Profit / margin focus



Realizing Value **Guiding Principles**

- **Align prices with value delivered**
- **Make value communication clear**
- **Bundle products & services to address differing customer needs**
- **Keep pricing simple and straightforward**
- **Reward large purchasers and loyal customers**
- **Maintain discount discipline**
- **Make discounts explicit when practical**

