

# ***Licensing and Pricing New Segmentation Weapons?***

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# Agenda

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- Introduction
- Historical Overview
- Role of Segmentation
- License and Pricing Tools
- Conclusions

## *Introduction*

# **MarketShare**

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- **Started in 1982**
- **Unique Focus**
  - Pricing computer software since 1987
  - Sponsor of [www.softwarepricing.com](http://www.softwarepricing.com)
- **Practice areas**
  - Value - Driven Pricing
  - Value - Based Selling
  - Discount Containment
- **Results**
  - More value from products & services
  - Increased Sales effectiveness
  - Improved financial performance

## *Introduction*

# **Session Takeaways**

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- **Customer segmentation increasingly important software success driver**
- **Licensing and pricing increasingly important segmentation tools**
- **Portfolios of licensing and pricing schemes will join product portfolios...**  
    ...key opportunity and challenge

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# Thought for Today

**Sand Hill**  
-Com

**SOFTWARE PULSE**

Business Strategy for Software Executives

April 3, 2006

## **Software's Dramatic Revolution**

**New technologies, models and a thriving ecosystem will be critical to future industry success.**

**By M.R. Rangaswami, Sand Hill Group**

Let's stop talking about the maturation of the software industry.

Every time I hear the press compare software to a mature industry like autos, I cringe. Sure, there are similarities. Both have experienced consolidation and slower revenue growth rates. **But the similarities end there.**

Software is driven by innovation. New technologies, new models, new companies - all enable the software industry to reinvent itself with stunning regularity.



## *Historical Overview*

# **New Economy – Wild Ride**

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## Historical Overview

# New Economy – Role of Innovation

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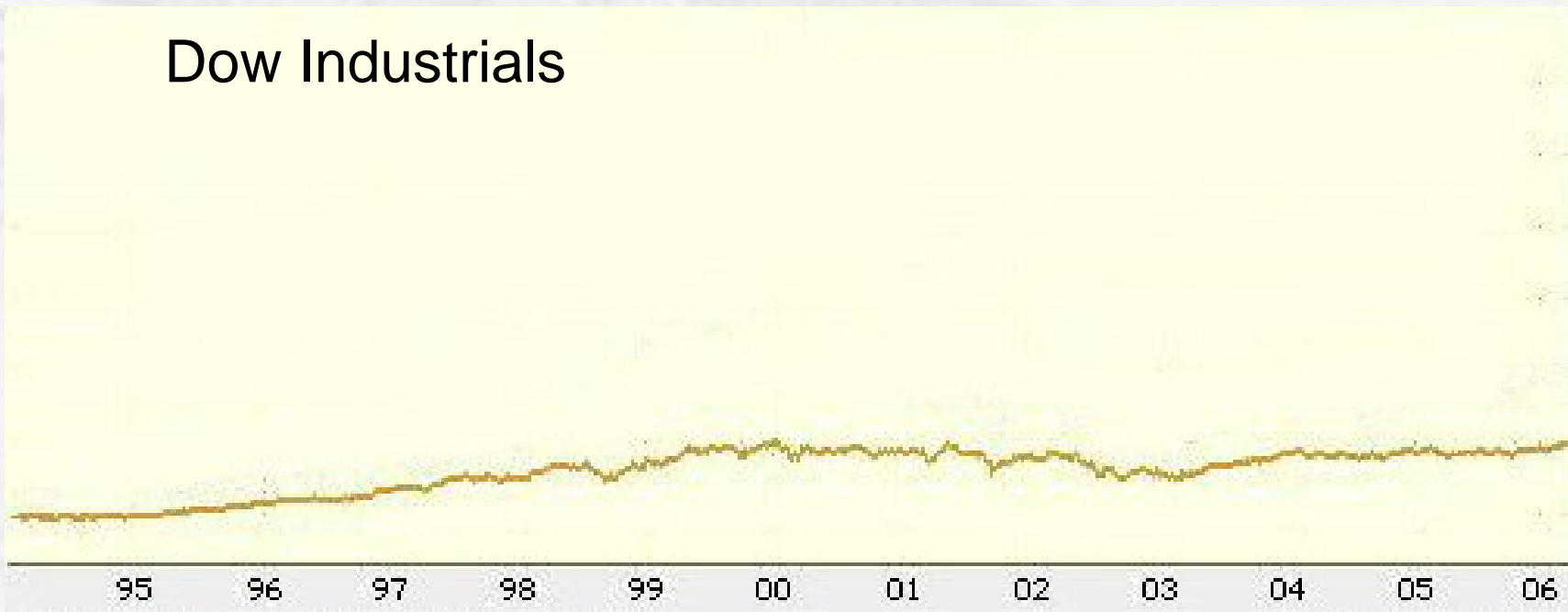


## *Historical Overview*

# **Old Economy – Old Tools**

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### Dow Industrials



## Historical Overview

# Old Tools for New Economy?



# Agenda

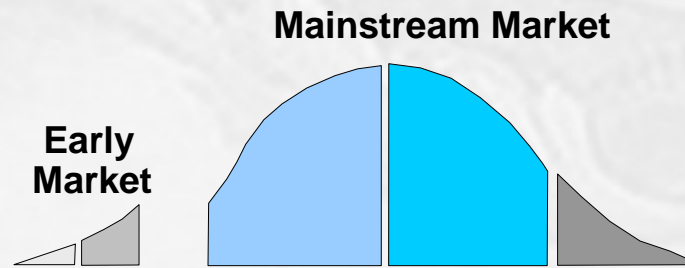
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## Role of Segmentation

# Two Models – Same Conclusion

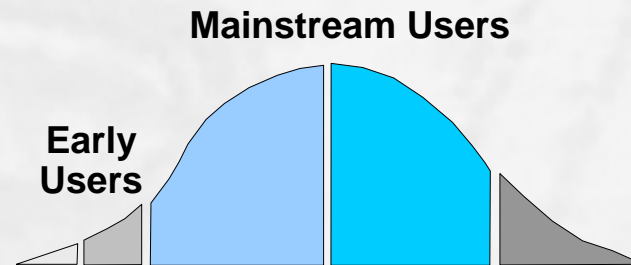
Chasm Model



Importance of Segmentation



PLC Model



## *Role of Segmentation*

# Compete via Segmentation

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Technology

Feature Sets

Customer Set

Business Need

Business Solution

- Ubiquitous technology
- Unique mix of similar features
- Pricing metrics
- Product line breadth / depth
- Products and services

# Agenda

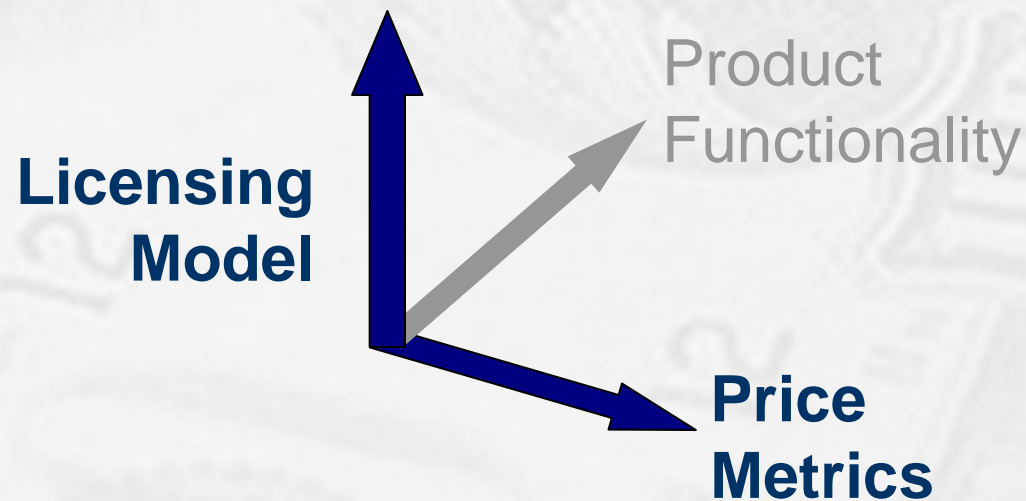
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## *Licensing and Pricing Tools*

# **Emerging Dimensions of Competition**

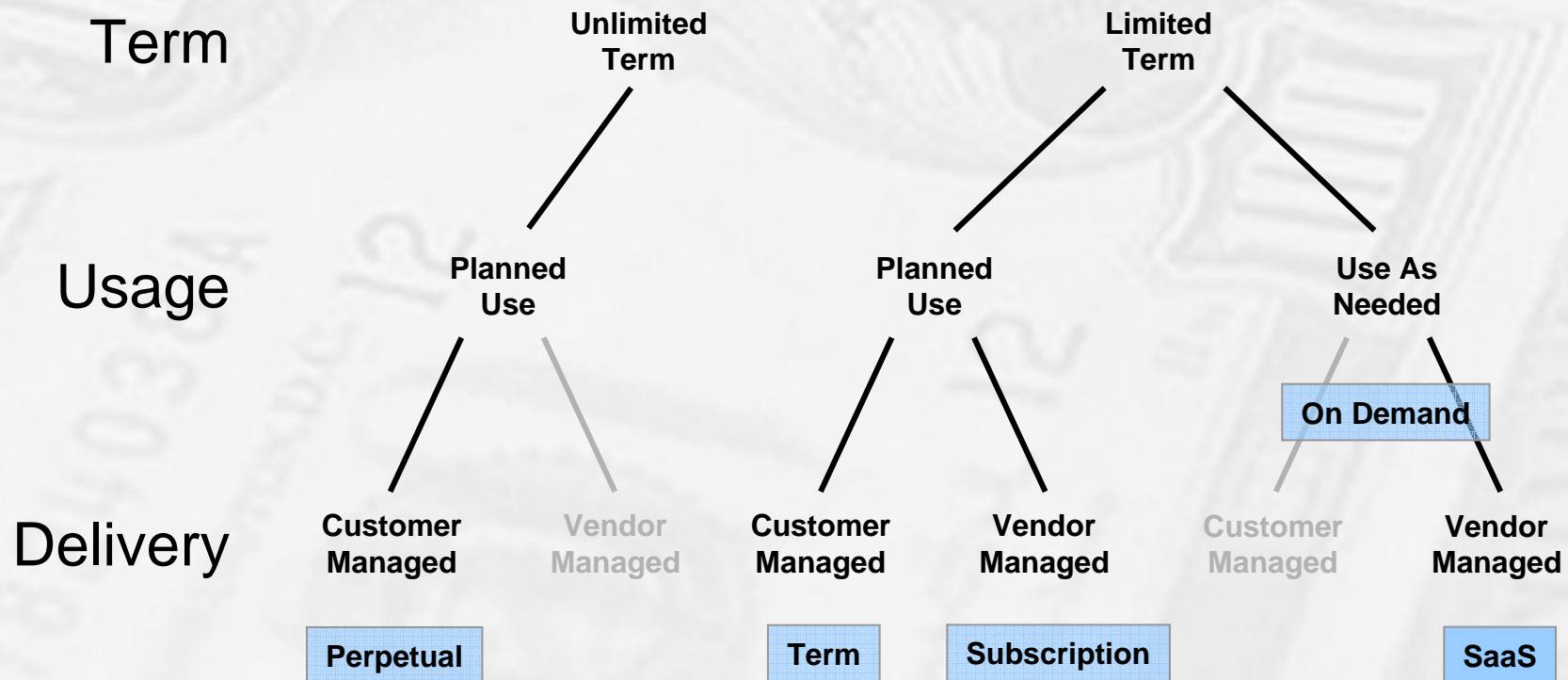
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***More choices of licensing and pricing...  
... better aligned with value delivery***

## Licensing and Pricing Tools

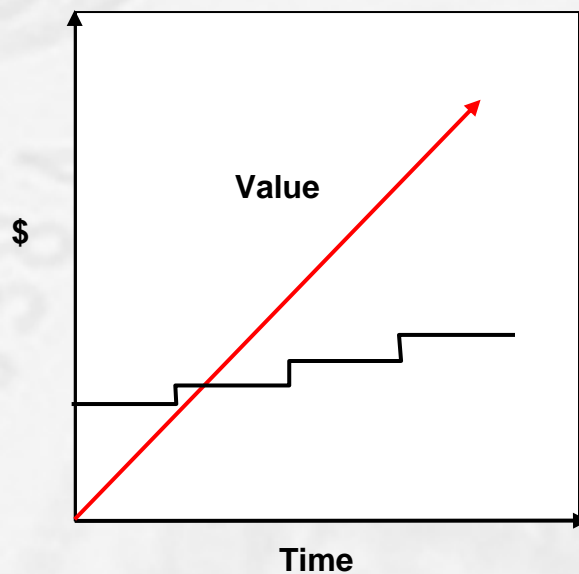
# More Licensing Model Choices



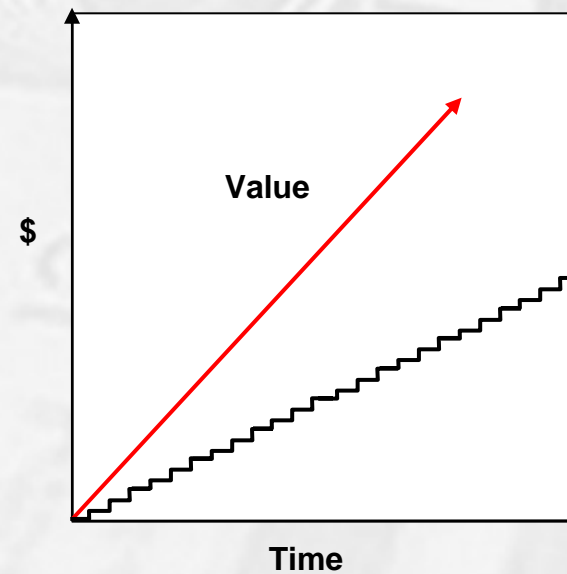
## Licensing and Pricing Tools

# Align License Model with Value Delivery

### Perpetual License Payments

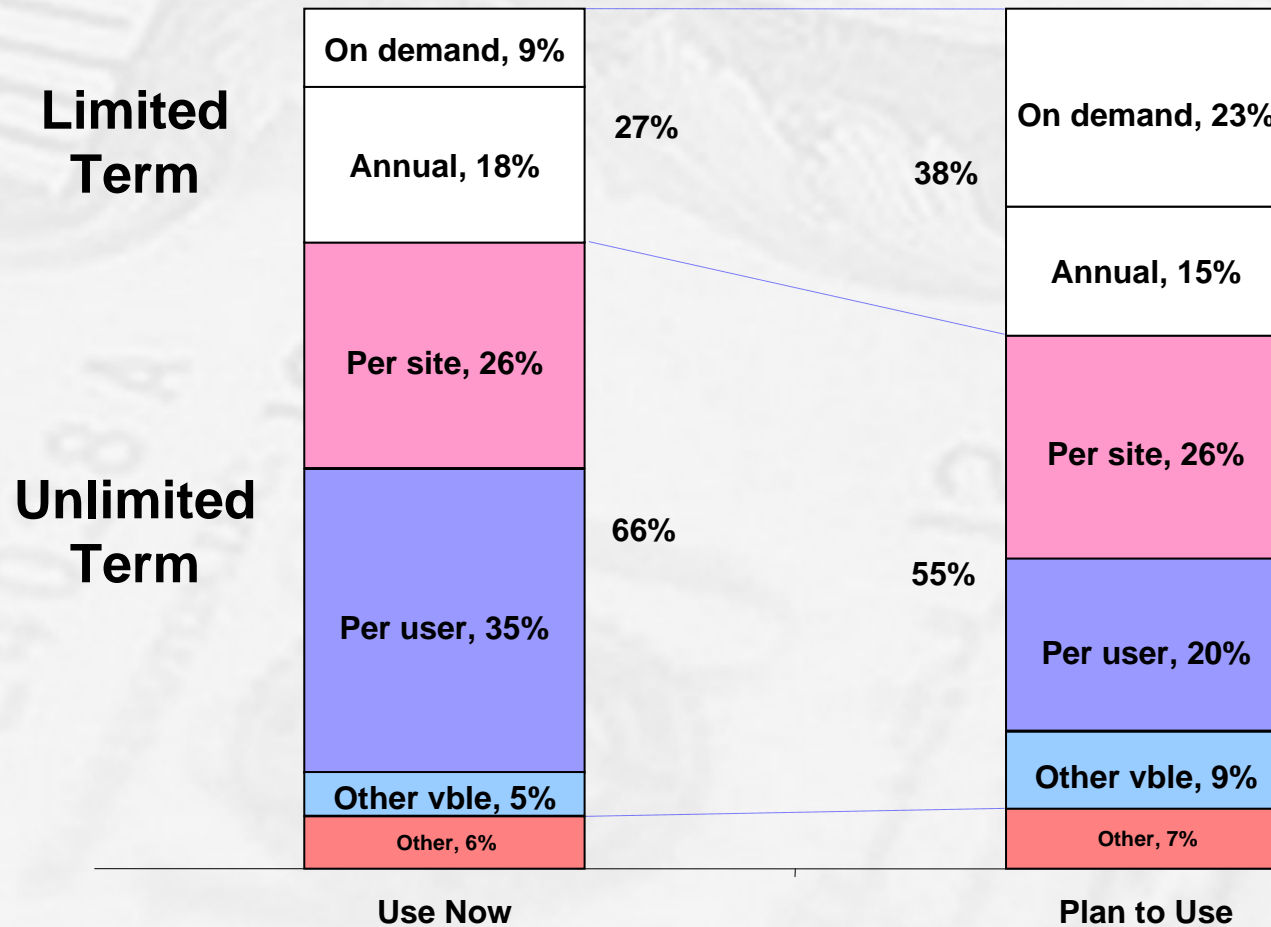


### Term License Payments



## Licensing and Pricing Tools

# Customer Demand Is Shifting



Source: AMR Research survey of 242 IT executives, January 2005

## *Licensing and Pricing Tools*

# **Customer Segments Emerging**

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- **Old segmentation based on value**
  - Vendor reputation
  - Features
  - Price
- **New segmentation emerging**
  - Same plus new values
- **Business “features” driving new value**
  - Start-up time
  - Up front costs
  - Scalability increments
  - IT resources required
  - Data security
  - Cost recovery
- **License and pricing model delivers new value**

## *Licensing and Pricing Tools*

# **Vendors Face Choices**

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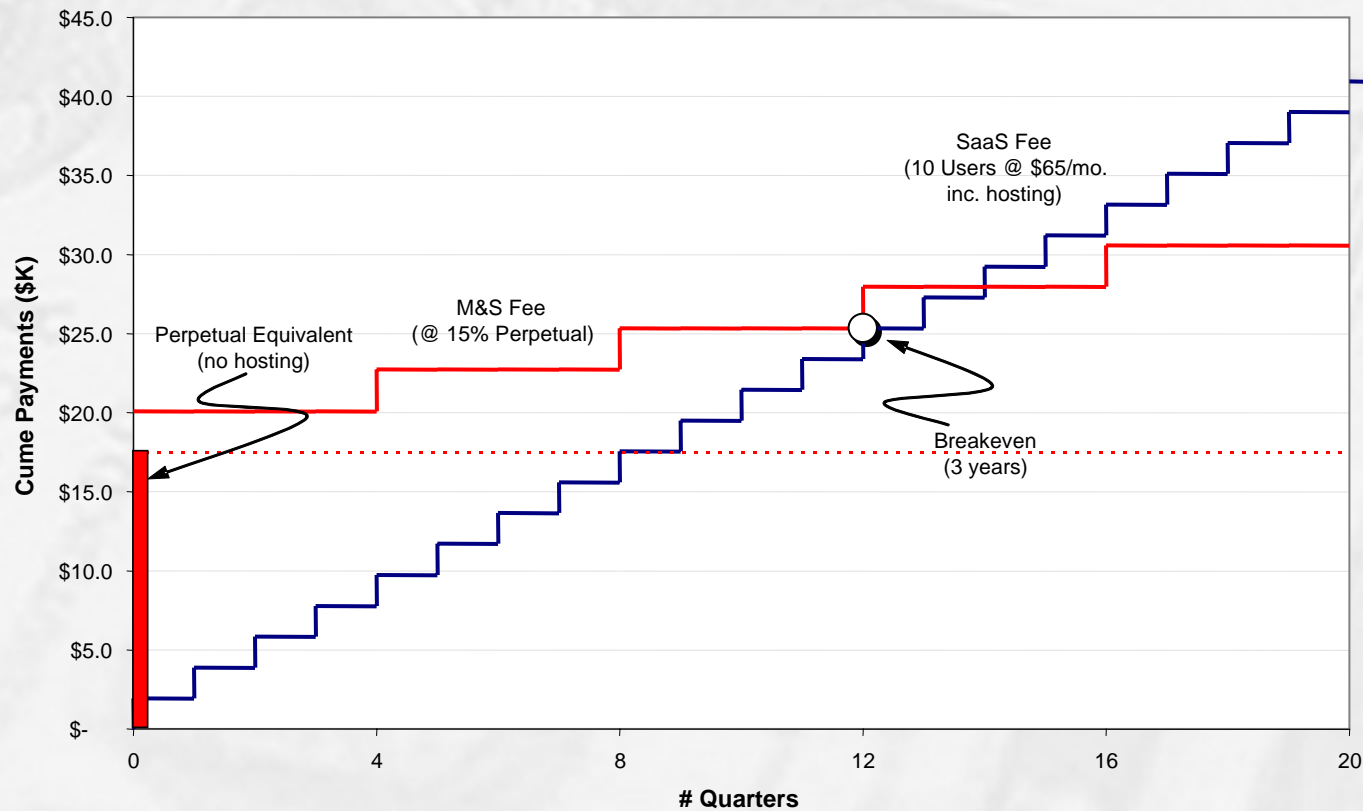
- **How to respond to competitive pressures**
  - Threat from start-ups
  - Threat from established companies
- **Which licensing models to offer**
- **Which customers to target**
- **When to offer**
- **How to make offer – primary vs. fallback**
- **Transitions**

*... Similar to decisions about products and markets*

# Licensing and Pricing Tools

## Still Need to Get Pricing Right

### Perpetual Equivalent of SaaS Fee



Is a \$25K SaaS fee equivalent to a \$17.5 K perpetual license?

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## *Conclusions*

# Segmentation Essential

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- History is rhyming
- Depends on product category
- Different customer sensitivities
  - Packaging business “features”
- Licensing methods change competition
  - One method does NOT fit all

## *Conclusions*

# Choose Models Carefully

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- **Affects growth, competitive position**
  - Cashflow, customer acquisition / retention
- **May need two or three**
  - Lead with one per customer type
- **Critical but not life threatening decision**
  - Customer momentum building
- **Don't delay too long**

## *Conclusions*

# **Session Takeaways**

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- **Customer segmentation increasingly important software success driver**
  - Must focus on customer's business
  - Technology is table stakes
- **Licensing and pricing increasingly important segmentation tools**
  - How value derived by various customers
  - How customers want to pay
- **Portfolios of licensing and pricing schemes will join product portfolios**
  - Must do ... Make right choice
  - Not whether... but when?

# Thanks

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