

Valuing Your Intellectual Property  
**AeA Intellectual Property Series - Session II**

**How Do You Derive Revenue from IP?  
Value-Driven IP Pricing**

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Presented by: Jim Geisman

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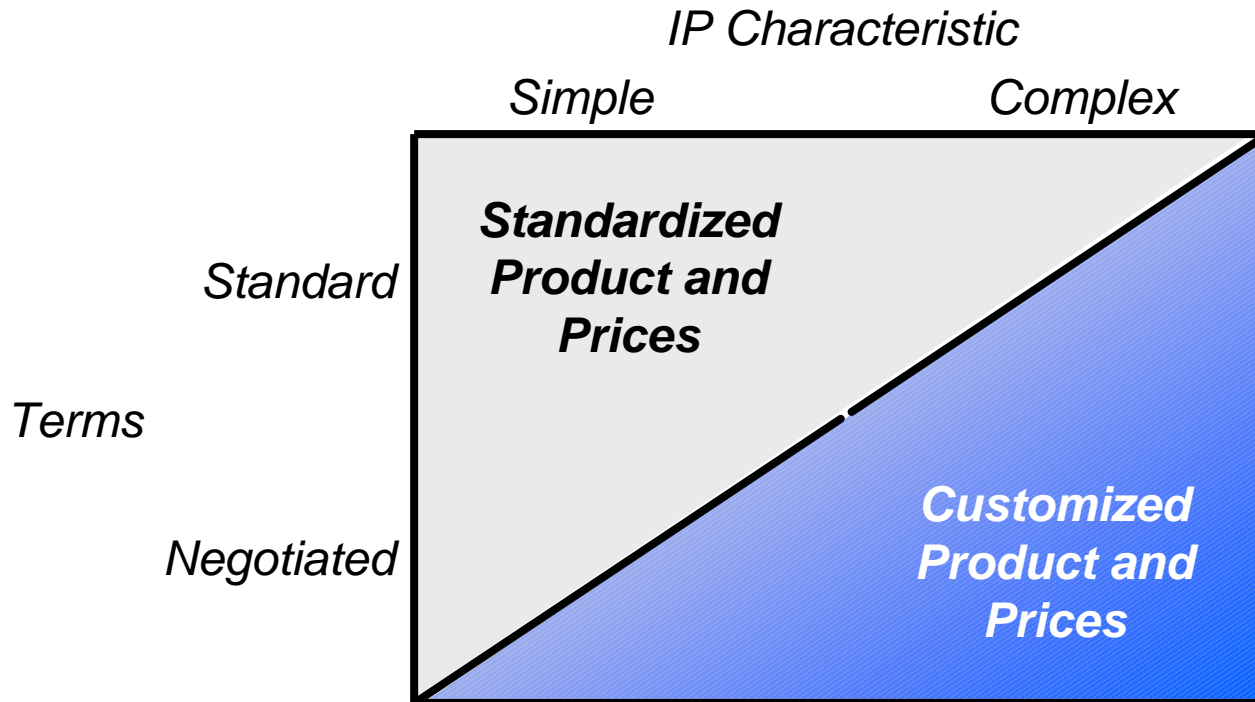
# Speaker's Background

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- Consulting practice focuses on Value Realization
  - Value-Driven Pricing
  - Discount Containment
  - Value-Based Selling
- Expertise in pricing, deal negotiations
  - Technology focused
  - Established [www.softwarepricing.com](http://www.softwarepricing.com) in 1998
- Business development consulting since 1982
  - Advisor, board member to early stage companies

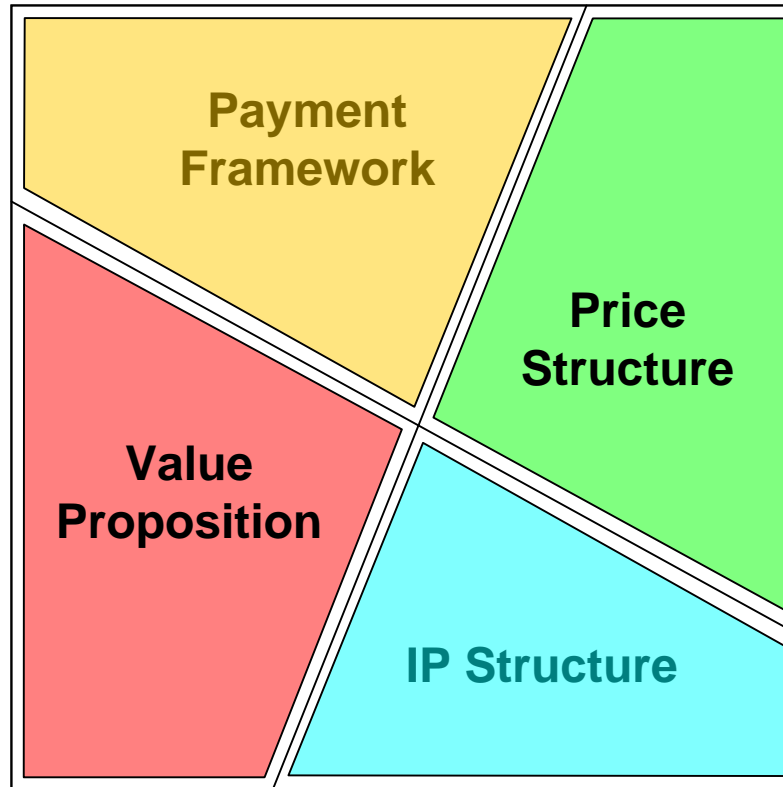
# Many Forms of IP and Terms

*Focus on Complex, Configurable IP*



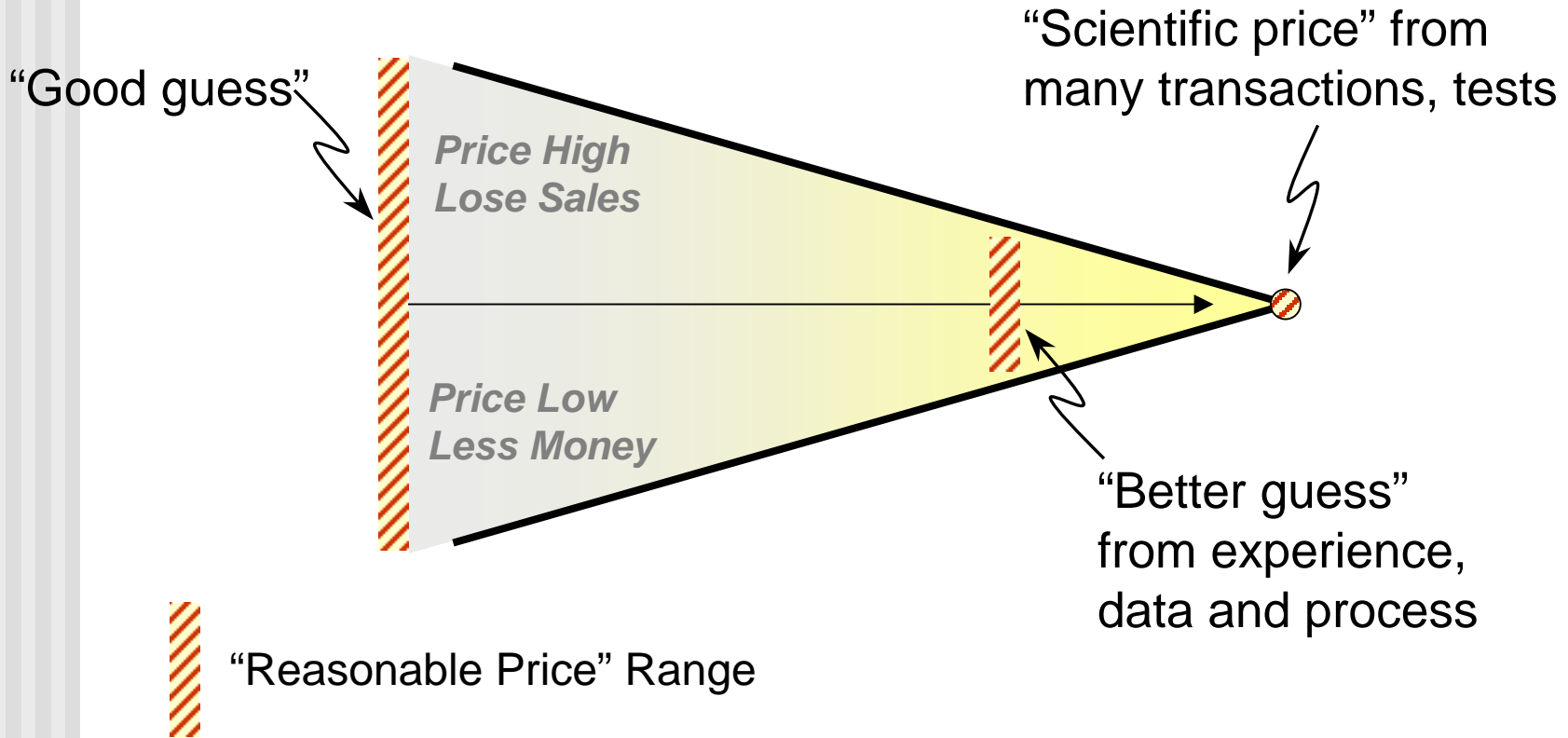
# Segment the Problem

*Think “Pricing Architecture”*



# IP Pricing Challenge

*Can't experiment – Must use Better-Than-Good Guess*

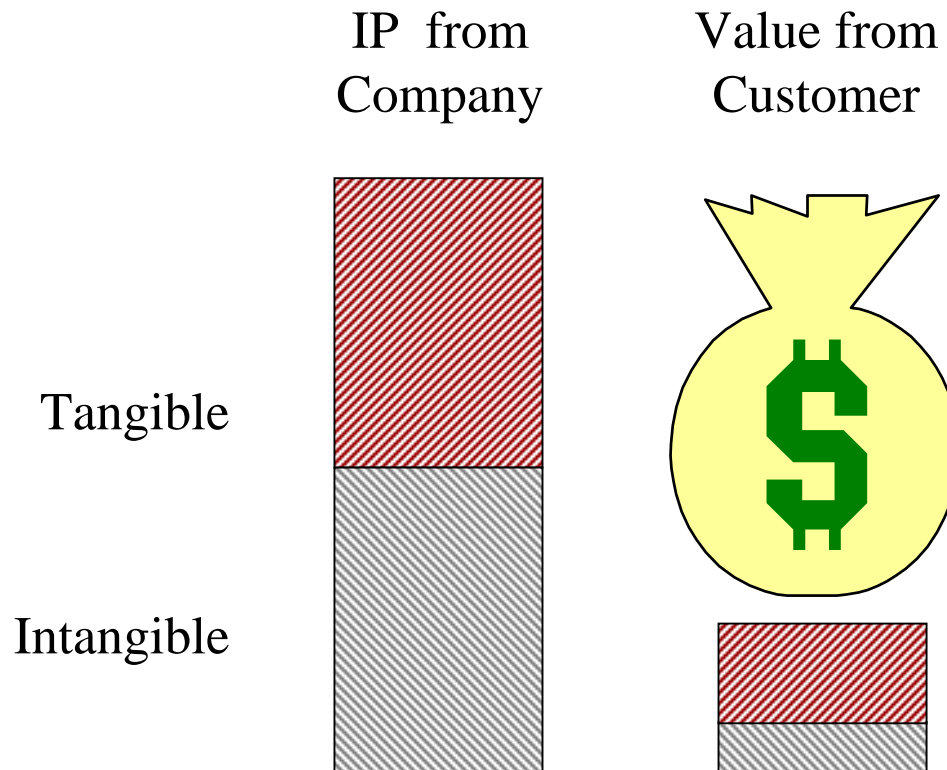


# How is Value of IP Set?

*Many ways but need “one” price*

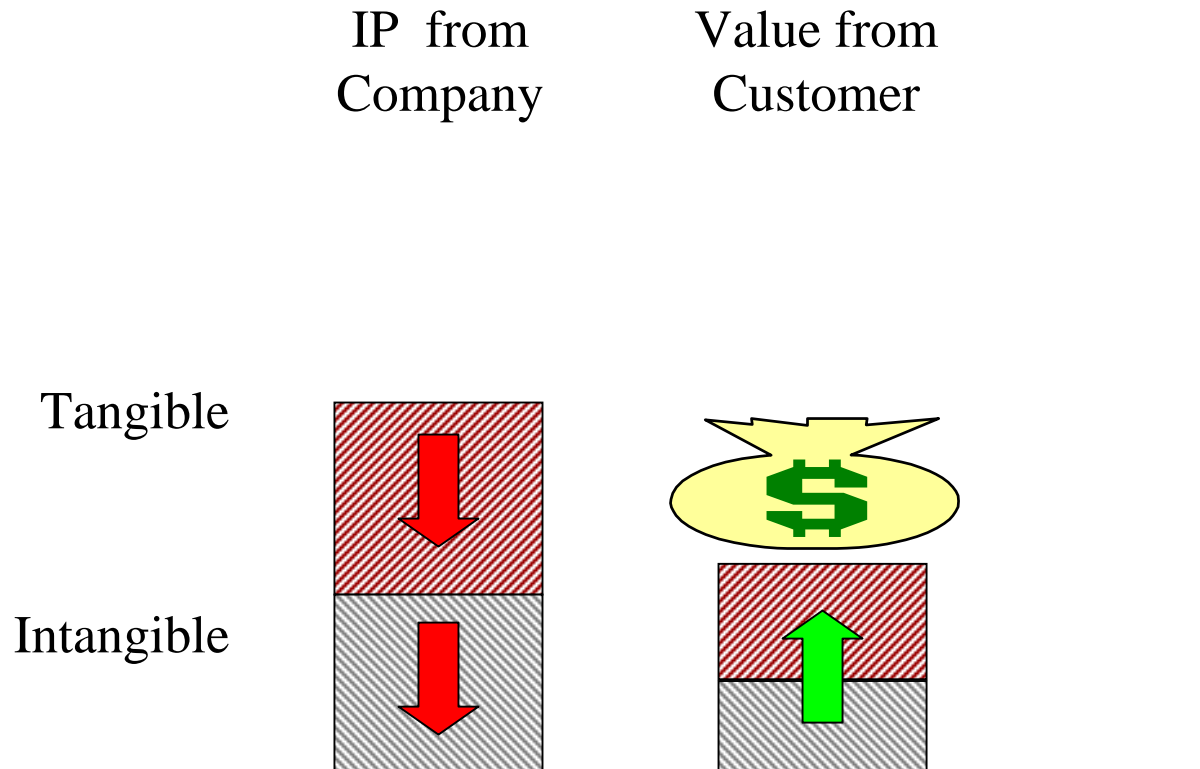
- Depends on perspective: Yours and Theirs
- Also depends on ...
  - Product type: Tangible vs. intangible
  - Benefit: Immediate vs. deferred
  - Measures: Economic vs. non-economic
  - Advantage: Operating vs. strategic
  - Perception: Real vs. imagined
  - Usage: Personal and Group
- Value reflected in price ...
  - Perceived as fair
  - Easy to understand / use
  - Reasonable

# Price Paid Fills the Value Gap



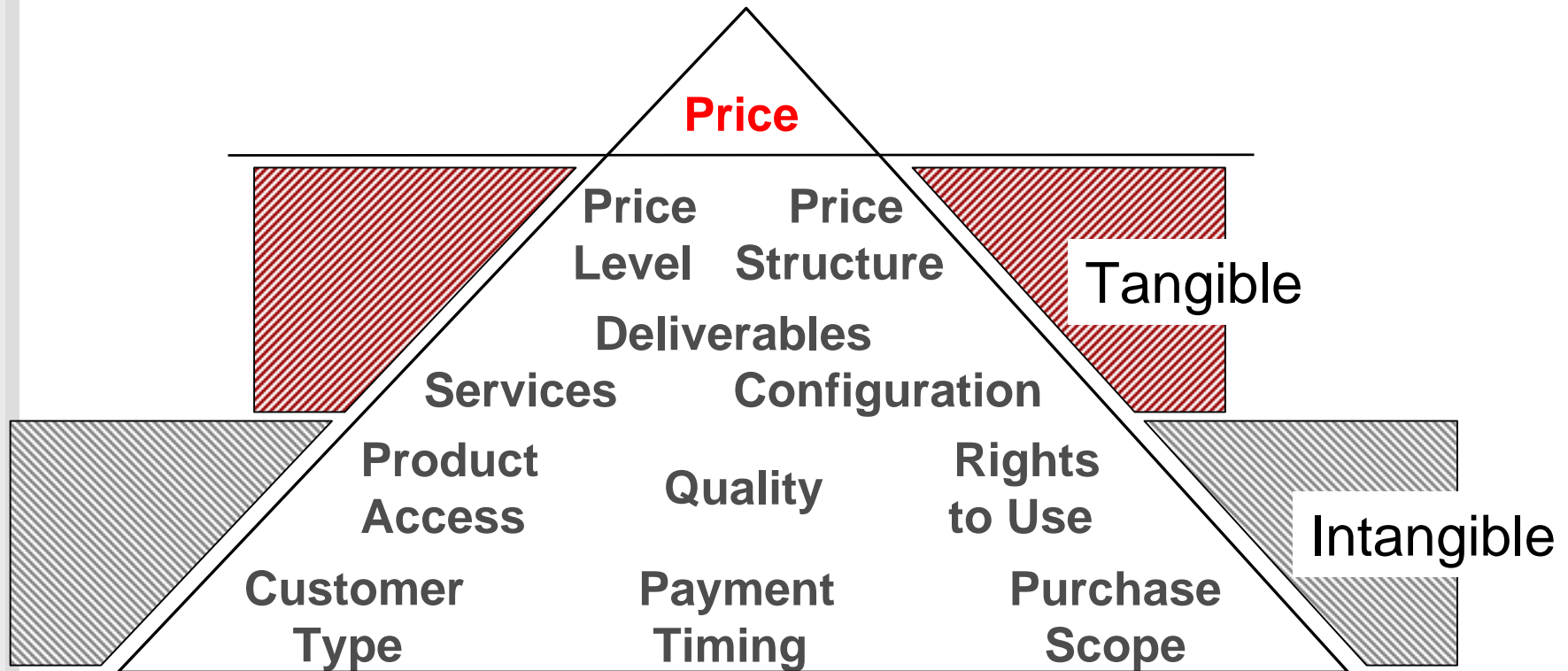
# Customer Perception of Value Gap

*Result: Price Negotiation*



# Capture All Value in Your Price

*Understand value of all deliverables*



# Price Structure

*First step -- relatively easy*

- Tie to end-use customer
  - Use and context
  - Purchase patterns
  - Perception of value...
- Related “product” delivery
  - Configuration / bundles
  - Unit scale factors (“scaling metrics”)
  - Timing
- “Product” and “Service” Mix
  - Standard vs. Custom
  - Base vs. add-ons
  - Enhancements

# Finding the Right Price

*Where experience, science and art intersect*

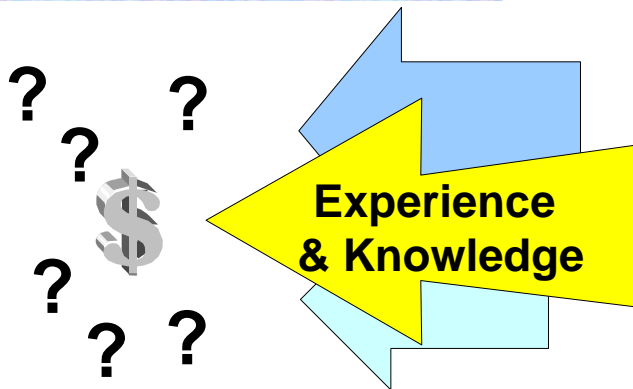
- Business model drives pricing
    - Revenues, resources
  - Plan for the future
  - Triangulate in on right price
- #1 -- Value to customer
- Depends on perceived alternatives and substitutes
- #2 – Financial needs / plans
- Internal costs and profitability - don't matter to customer
- #3 -- Competitive prices
- Different motives, resources

# Competition, Costs and Price Level

*Must fit with business model*

**"Them" and comparables**  
**Customer's build vs. buy**  
**Substitute product**

**Lowest Ceiling: Perceived Value**



**Highest Floor: Your finances**

**Estimates, volume dependent**  
**Timeframe**  
**What's included**

**Adjust price level based on ...**

*Unit volume and deal size*

*Product category, maturity*

*Customer promotion*

*Sales channel*

*Industry / Market*

*Your strategy*

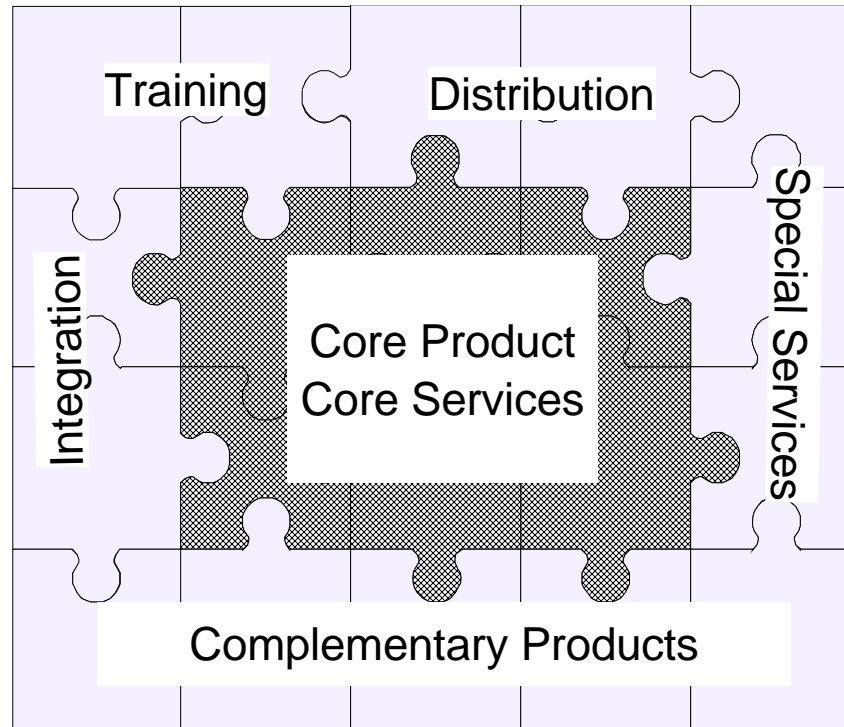
# Finding “The Number”

## *Fitting revenues with costs*

- Estimate number of sales transactions
  - Net price
  - Gross margin
- Estimate associated costs
  - R&D, promo, sales, contribution to overhead
  - Allow for profit and downstream investments
- Calculate unit volume required
  - Realistic? How achieved?
  - First time customers vs. switchers
- Make numbers consistent
- Do sanity check...
- Test (and adjust) price levels
- Make sure revenues > costs

# IP Value Depends on Completeness

*Focus on "Whole Product" not "My IP"*

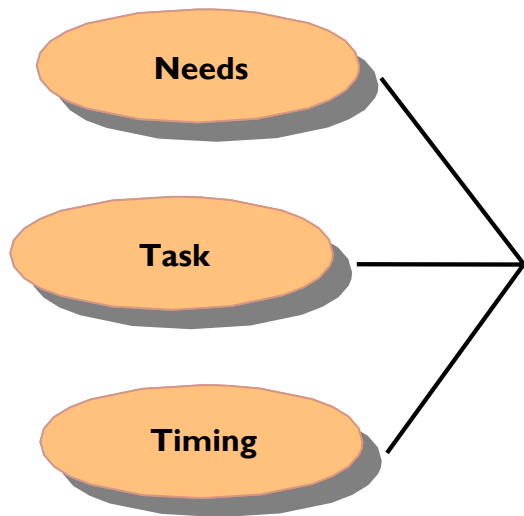


Source: Geoffrey Moore, *Crossing the Chasm*

# Most Deals Are Not Just Based on Product

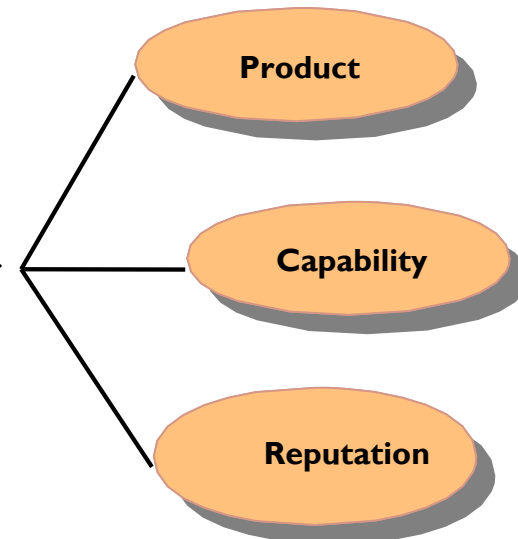
*Price is down the list*

**Customer**



*Money, etc.*

**Company**



*Product, etc.*

# Finding What Customers Value

- How do end-use customers talk about their business?
  - Revenues, growth, profits
  - Customer acquisition, retention
  - People, product, production
- How will IP be used?
  - Personal vs. group use
  - Transaction vs. continuous use
  - Sporadic use vs. frequent use
- How do end-use and your customer want IP installed, supported ?
  - Individuals vs. group
  - Division, site, company-wide, corporate
  - In-house vs. external support

**Value Levers**

**Scaling Metrics**

**Bundles**

# Attach Dollars to Value

*Be realistic!*

- Benefits of product use
  - Labor, material savings
  - Faster time to market, more customers
  - Reliability
  - Product quality
  - More useful, attractive
- Costs to realize benefit
  - IP acquisition
  - Management investment
  - Training, lost time due to integration
  - Facility or process changes
- Estimate Net Benefit...

# Setting a Value-Driven Price

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- Key issue: Customer knowledge
  - Who is “customer”, segments
  - How do they decide / buy
  - What risks do they want to bear / share
- Key question: What is this value worth to the customer
  - As a percentage
  - An amount
  - How does this scale?
- Keep payback period short
  - Time before cash outlay is recovered
  - Measure of risk and financial exposure

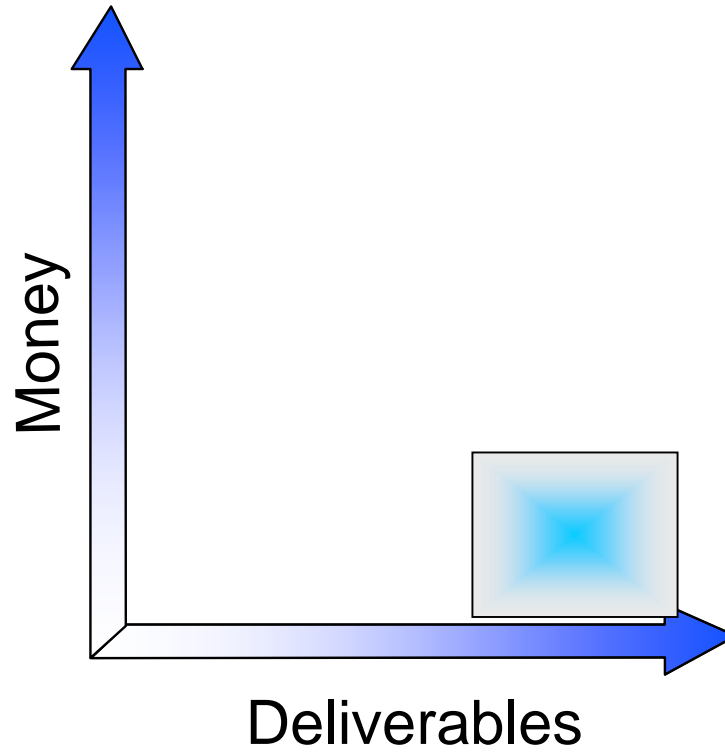
# Pricing Negotiations

*IP or otherwise*

- Triangulate in on “fair price”
  - Must be viewed as fair (or equally uncomfortable) by both
- Avoid “positional” negotiations
  - Try and solve a business problem
  - Decrease levels of heat and testosterone
  - Use comparables, logic, industry practices
- Negotiation process also important
  - “Is this someone I want to do business with?”
  - “Did they hear what I said?”
  - “Will we be able to work together under pressure?”
  - “Is this the way we want our differences settled?”
  - “Looking back, can we both be happy with the deal and results?”

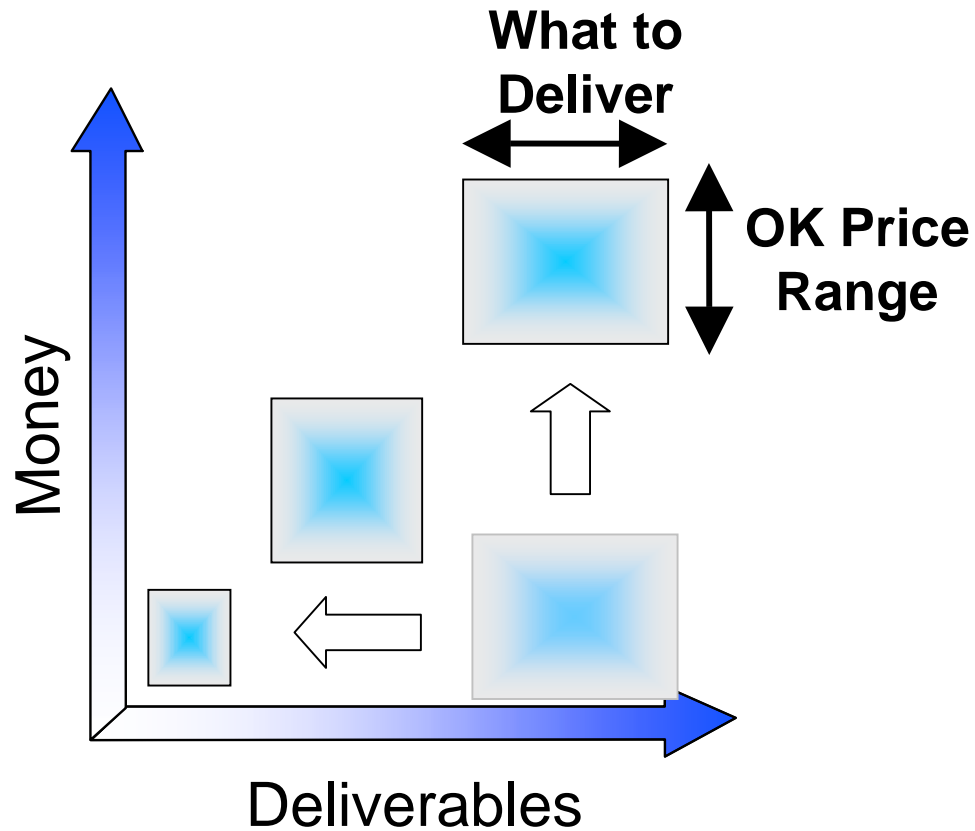
# Initial Customer Demand

*A lot for a little money*



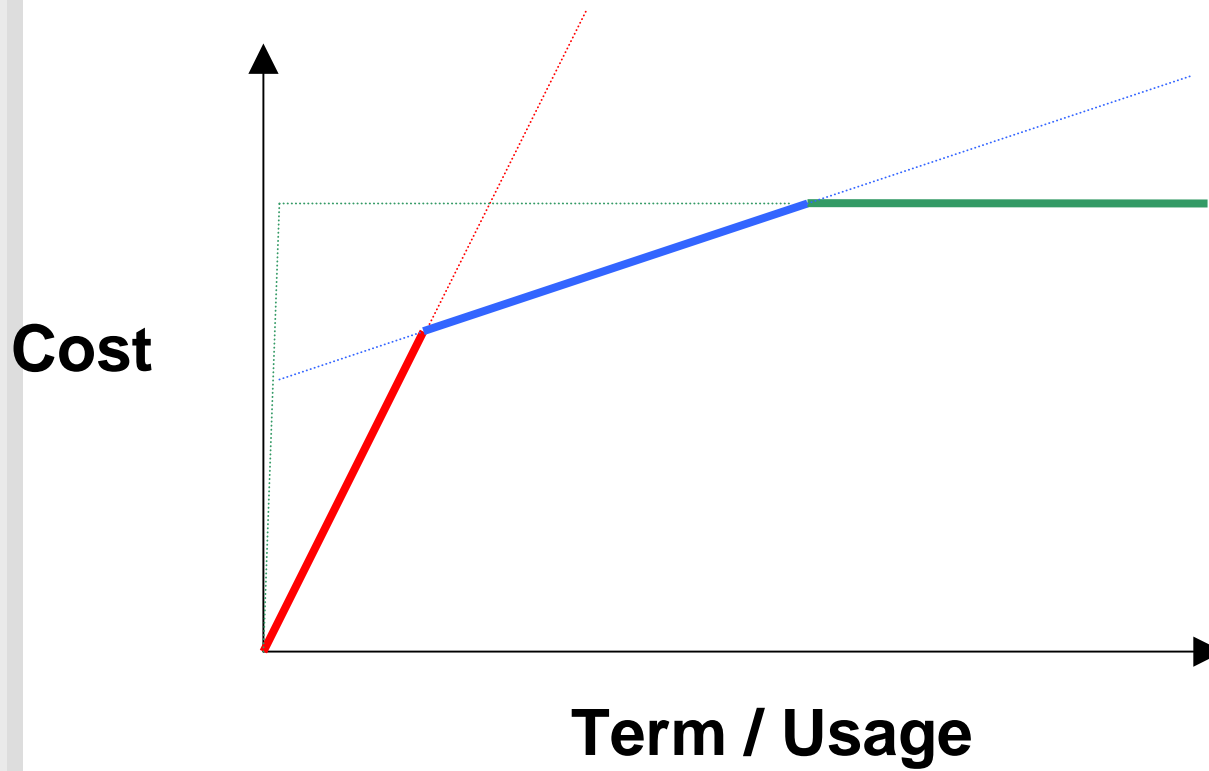
# Alternative: Structure by Price Point

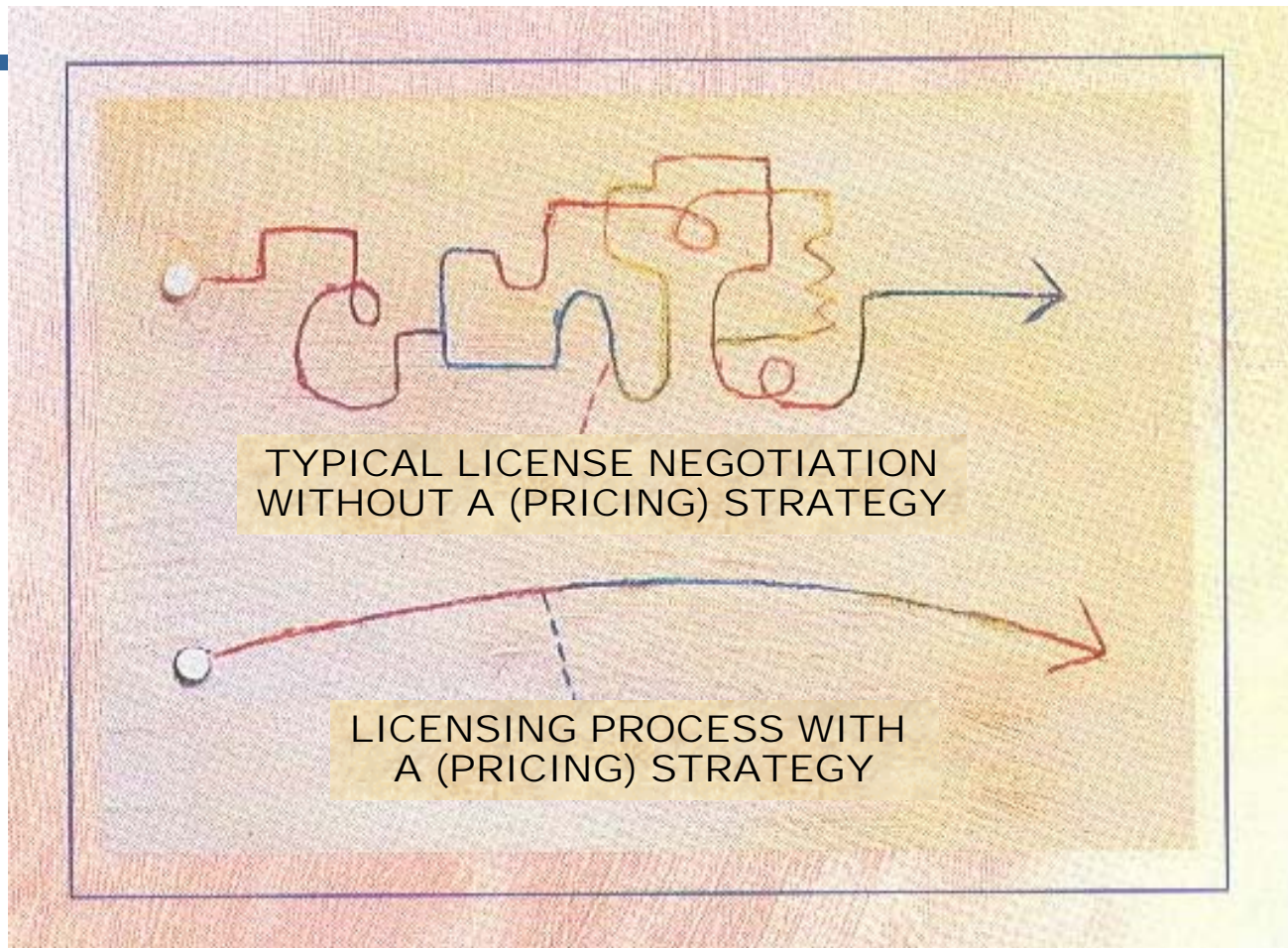
*Different deliverables at different price points*



# Structure Payment Properly

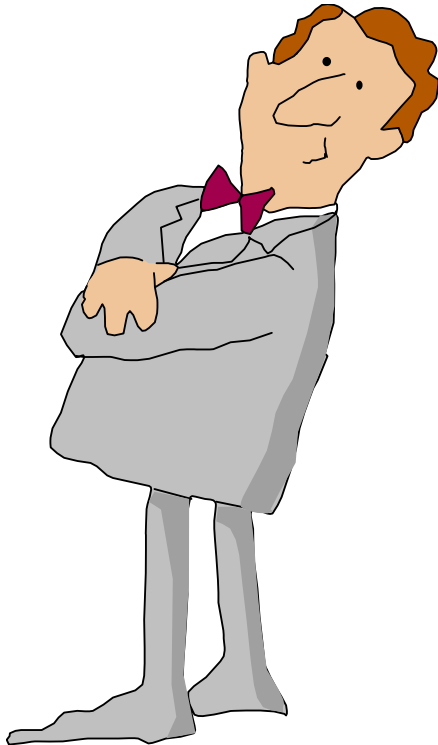
*Up-Front vs. Ongoing*





# Thanks!

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