

Effective Product Pricing

The Key to Product Line Success

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Agenda

- Introduction
- Price Strategically
- New Product Pricing
- Ongoing Pricing
- SaaS Pricing
- Wrap-Up

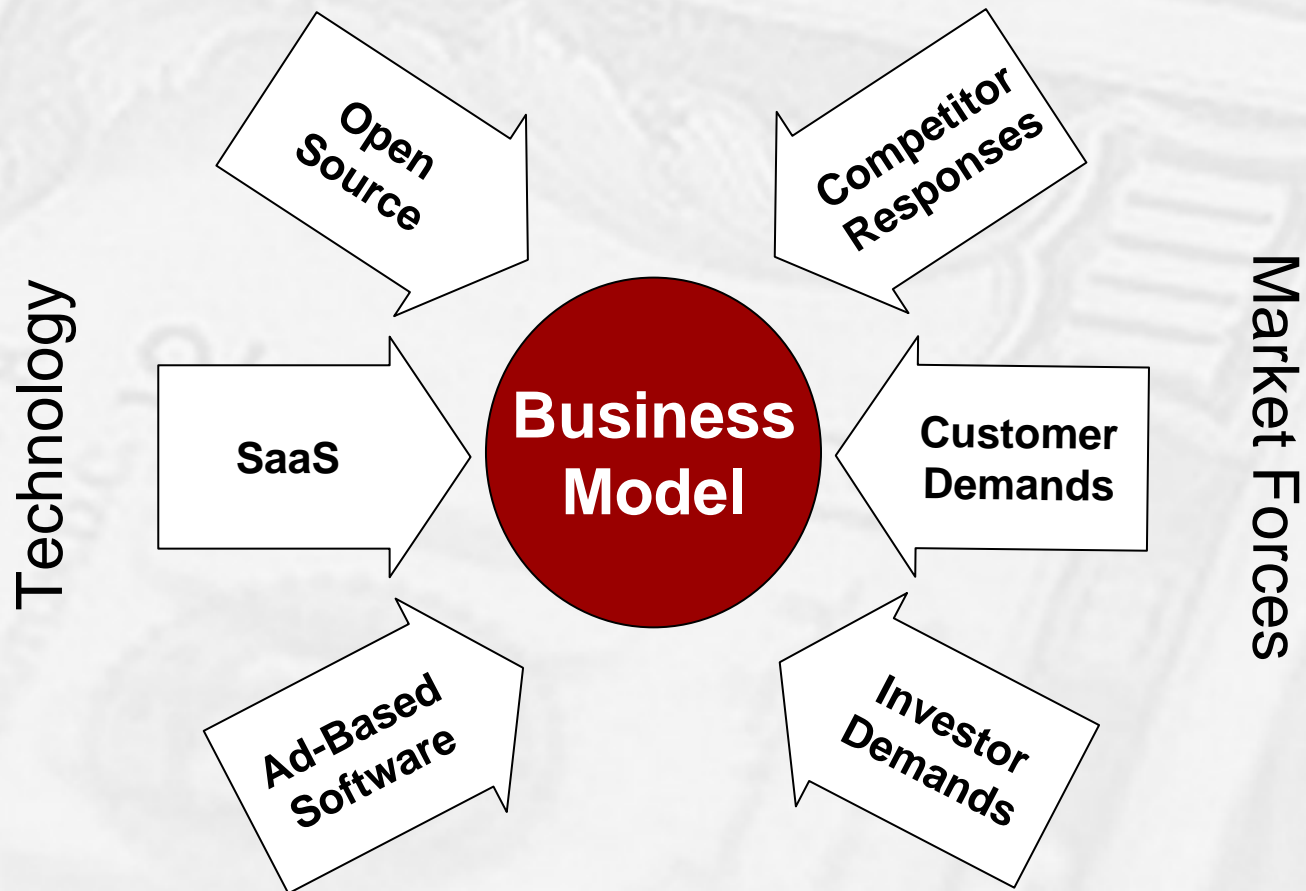
Introduction

Presenter / MarketShare

- **Principal of MarketShare, Inc.**
 - 20+ years consultant to software industry
 - Coined term “floating license” in 1987
- **MarketShare - Unique Focus**
 - Pricing computer software since 1987
 - Sponsor of www.softwarepricing.com
- **Practice areas**
 - Value-Driven Pricing
 - Value-Focused Selling
 - Discount Containment
- **Deliverables**
 - More value from products & services
 - Increased Sales effectiveness
 - Improved financial performance

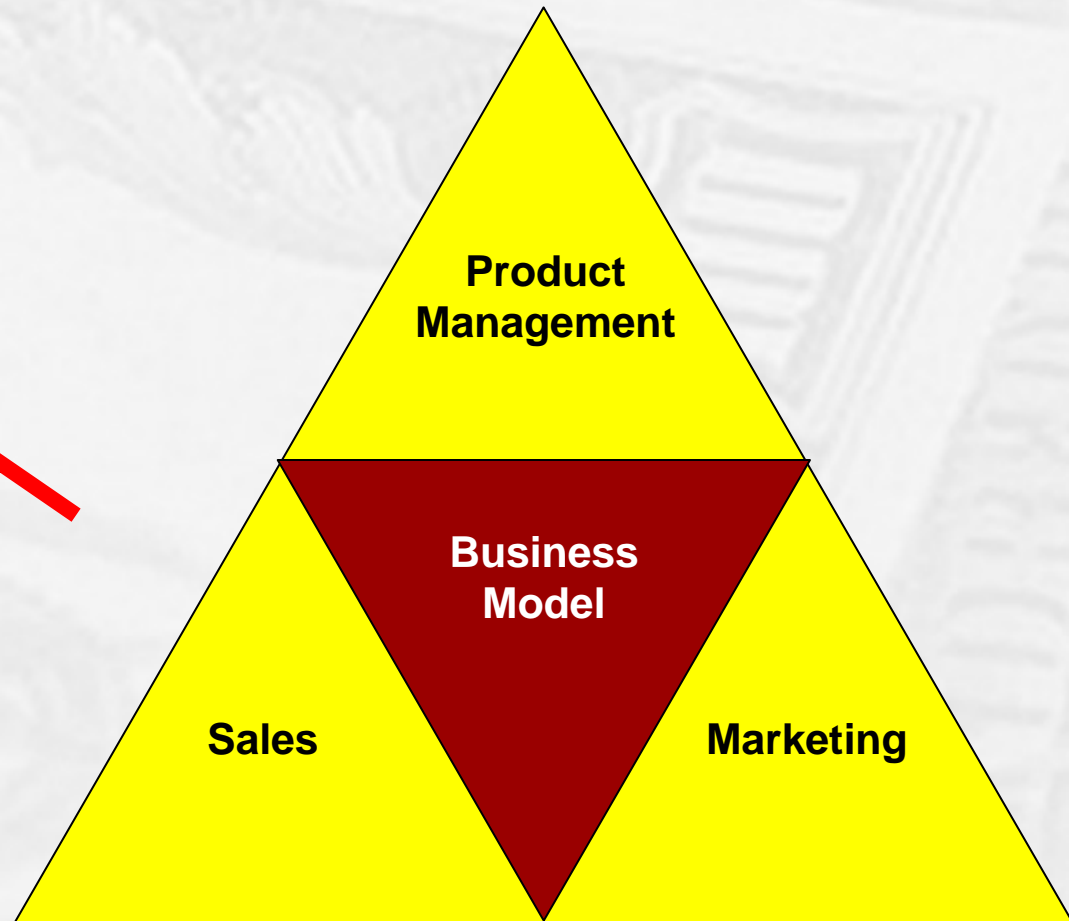
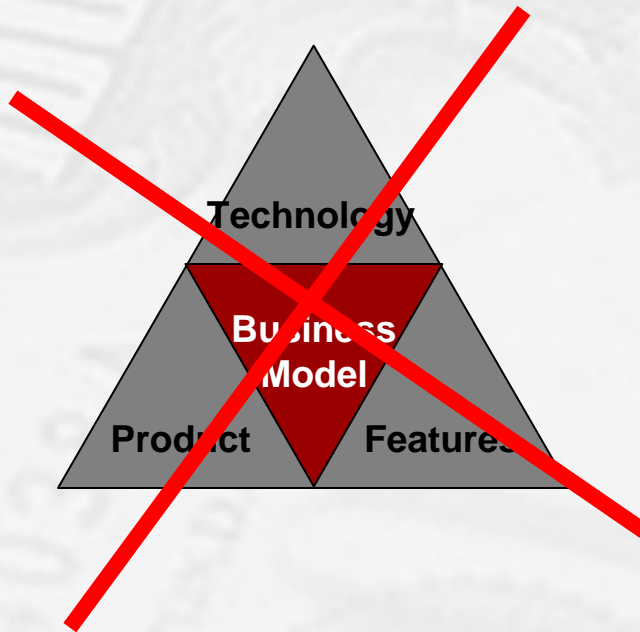
Introduction

Pressure to Change



Introduction

Where Pressure Is Felt



Introduction

Pricing Can Relieve Pressure

- **Use pricing strategically**
 - Beyond price levels
- **Improve product pricing process**
 - Project timeline as guide
- **Delegate ongoing pricing decisions**
 - Focus responsibilities
- **Apply principles to SaaS delivered software**
 - Value-based pricing alternatives

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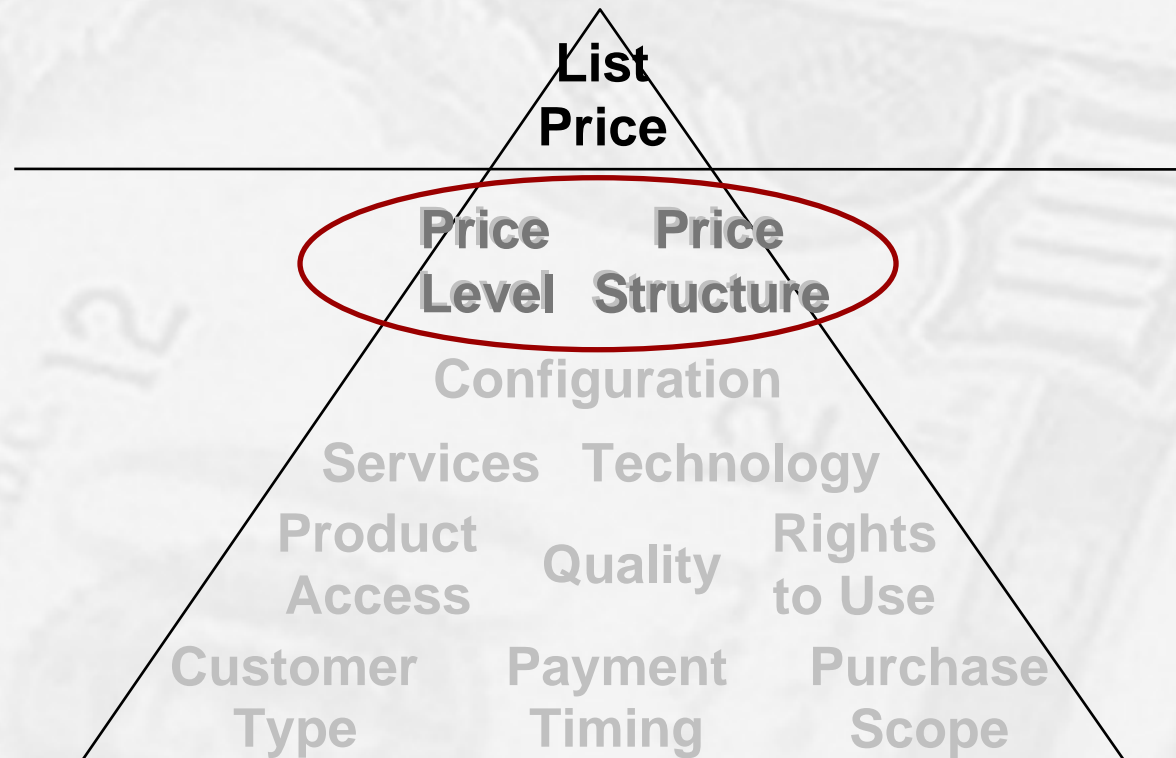
Pricing Strategically

Purpose of Pricing

- **Support company strategy**
- **Position in market / industry**
- **Influence customer behavior**
- **Grease sales skids**
- **Reinforce channel strategy**
- **Address competition**
- **Fuel financial engine**

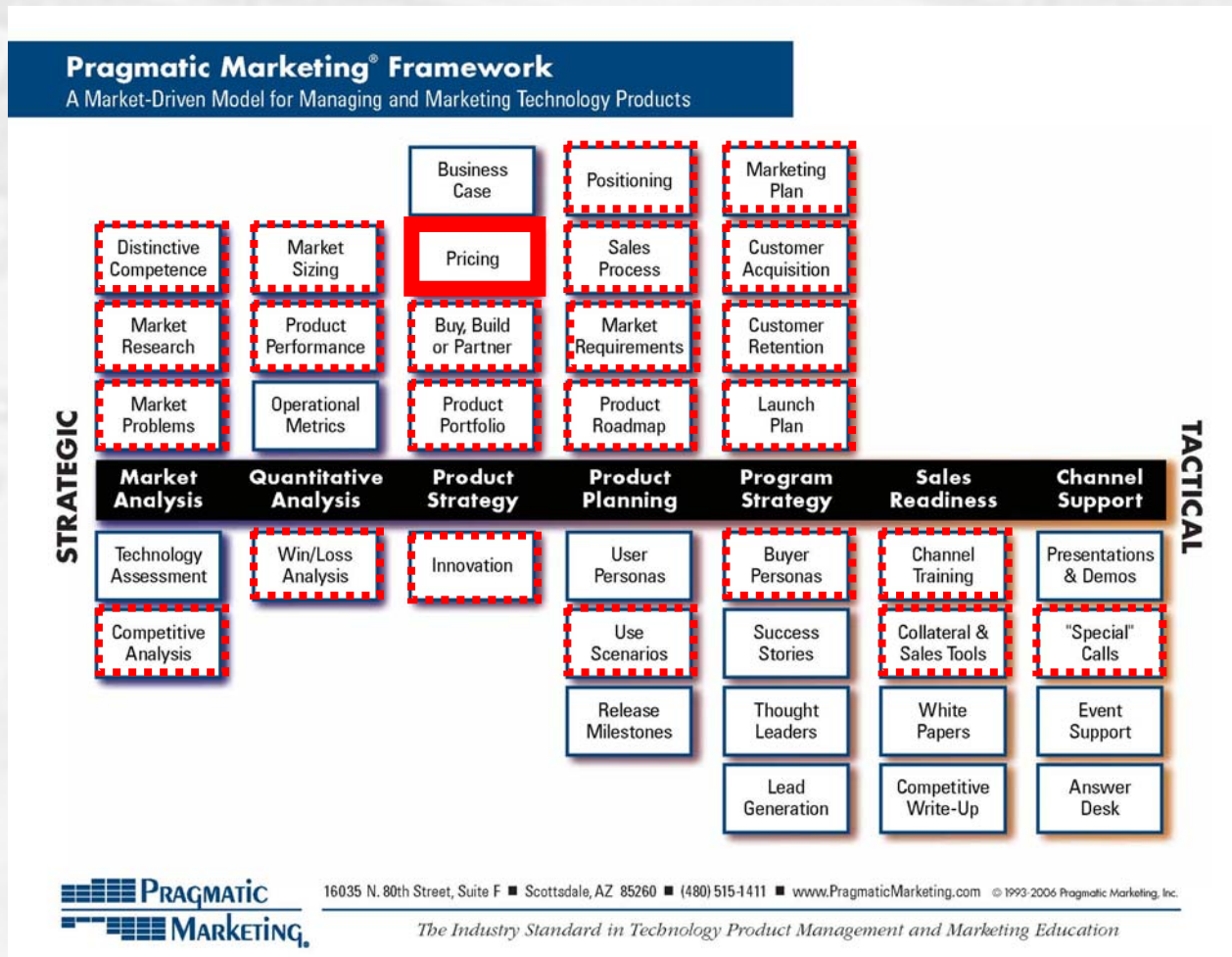
Pricing Strategically

Pricing More Than A Number



Pricing Strategically

Many Elements Influence Pricing



Pricing Strategically

Pricing Process Is Broken

- Prices developed too close to GA
 - *Price in haste, repent at leisure*
- Pricing is orphan / unwanted child
 - *Price in leisure, repent when shipped*

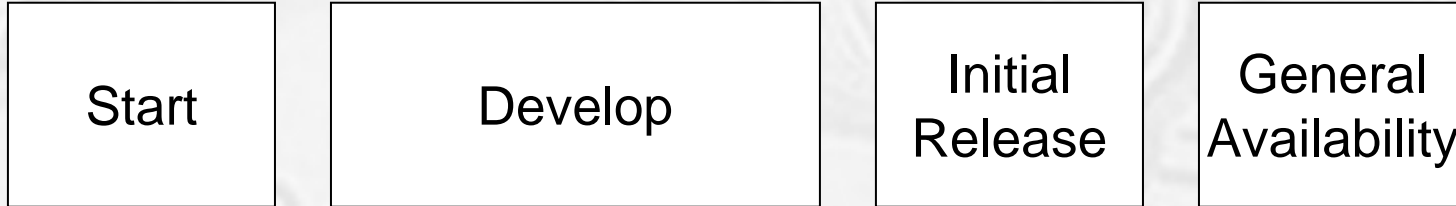
- Many moving parts
 - What to do? When?
- Pricing driven by anecdote not data
 - Not “scientific”
- PMs not well prepared to do pricing
 - Pricing is small part of big job
- Limited organizational discipline
 - Price setting
 - Price “realization”

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New Product Pricing

Pricing and Product Decisions



New Product Pricing

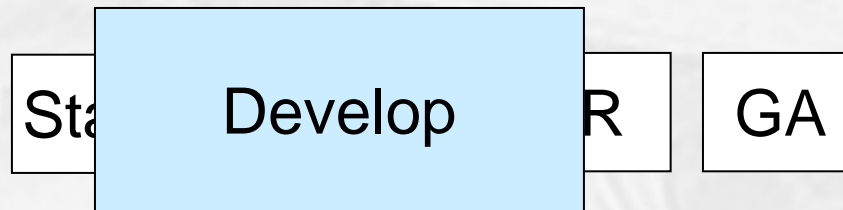
Pricing from the Start



- **How product creates economic difference for customer**
 - Nature of value, order of magnitude
- **Business case driven by transaction value (net)**
 - Transaction driven by mix of product “chunks”
- **Transaction volume**
 - Customer segment(s)?
- **Note: Your costs / ROI don't count (to customer)**

New Product Pricing

Develop Pricing in Stages



- **Configure product**
 - What “it” is (main, options, modules)
- **Choose what to control / measure (and charge for)**
 - Charge for what you control / measure
 - Determine metric
- **Determine offering structure**
 - Chunks, bundles, upgrade paths
 - Drive pricing structure
- **Starting price levels (e.g. Qty 1)**

New Product Pricing

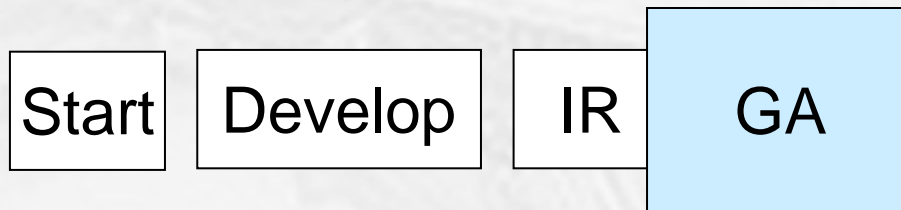
Introduce Pricing to Sales



- **Economic value to customer**
 - Base + differential value
 - Quantify value of uniqueness
- **Volume-driven (scheduled) discount schedule**
 - Rationale
 - Roll-off, maximum
- **Set deal expectations**
 - Value, mix of product “chunks”

New Product Pricing

Introduce and Monitor Pricing



- **Initial discounts**
 - One time, promotional
 - Segment focused and objectives
- **Price realization**
 - Watch scheduled vs. negotiated discounts
 - Market / customer feedback

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Ongoing Pricing

Pricing Tasks

- **Price Setting**
 - Services and product
 - Price metrics, levels
 - Scheduled discounts
- **Price Administration**
 - Price list / structure
 - Structural “integrity”
 - Price monitoring
- **Price Realization**
 - Discount approvals
 - Negotiated discounts

Ongoing Pricing

Pricing Task Ownership

- **Price Setting**
 - Services and product
 - Price metrics, levels
 - Scheduled discounts
 - **Price Administration**
 - Price list / structure
 - Structural “integrity”
 - Price monitoring
 - **Price Realization**
 - Discount approvals
 - Negotiated discounts
- Product Marketing
- Marketing & Finance
- Field Sales

Ongoing Pricing

Pricing Committee

- **Multi-disciplinary**
- **Experienced**
- **Institutional memory**
- **Promote uniformity**
- **Ensure process adherence**
- **“Approve price”**
 - *Mostly pricing process*
 - *Bring out rationale, logic*

Convert Roadblock to Resource

Ongoing Pricing

Ongoing Price Administration

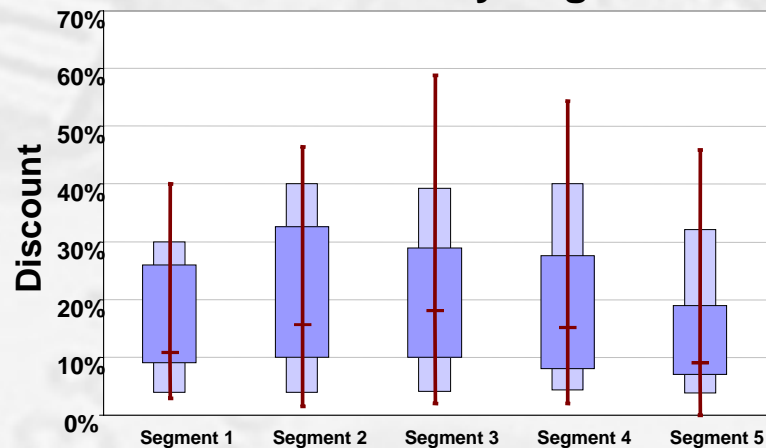
- **Price list / structure**
 - Organization and presentation
 - Publishing and updating
- **Price monitoring**
 - Closing the loop
 - Price setting vs. price realization
 - Information for price setting
- **Structural “integrity”**
 - Maintaining the “pricing vision”

Marketing and Finance Share Responsibility

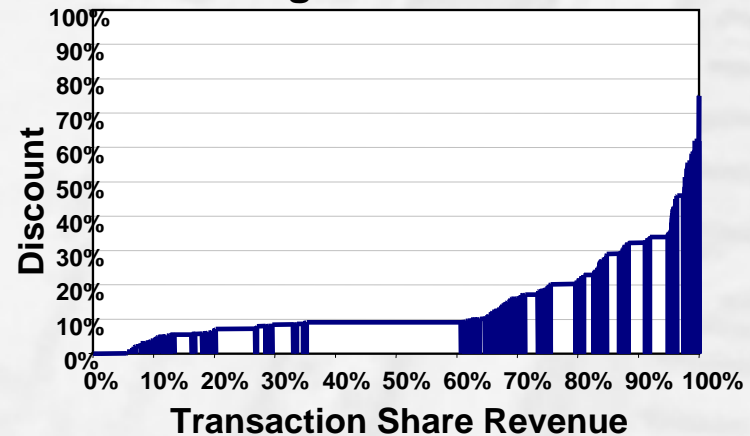
Ongoing Pricing

Know Where Discounts Go

Discounts by Segment



In-Segment Discounts



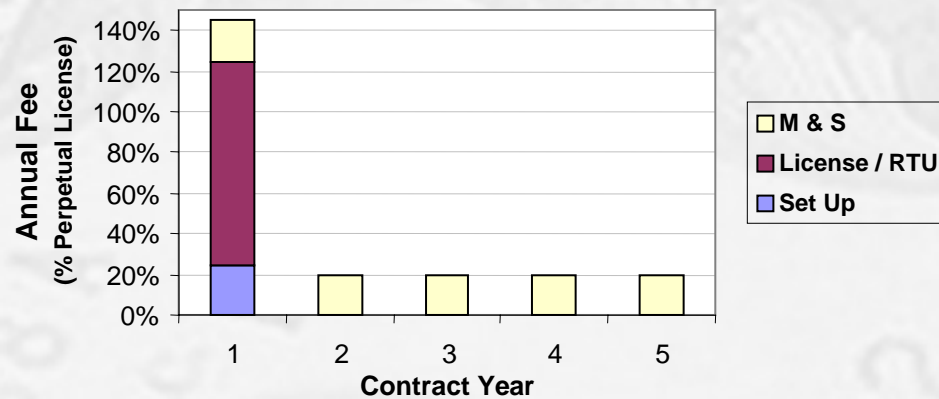
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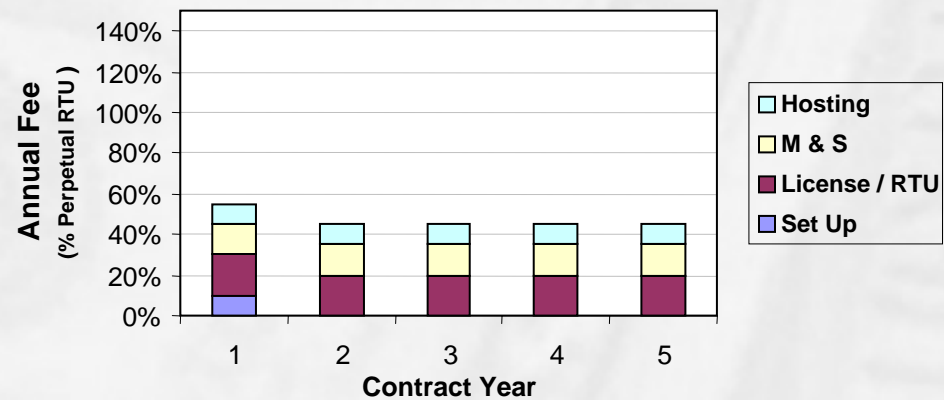
SaaS Pricing

Attractive Cashflow

Traditional Pricing Model



SaaS Pricing Model



SaaS Pricing

Key Considerations

- **Support business model**
 - Investment
 - Cashflow
 - Revenue ramp
- **Existing vs. start-up companies**
 - Different considerations
- **Revenue ramp**
 - Predictability
 - Amount, timing, growth
- **Cost to serve**
 - Start-up
 - Ongoing
 - Incremental

SaaS Pricing

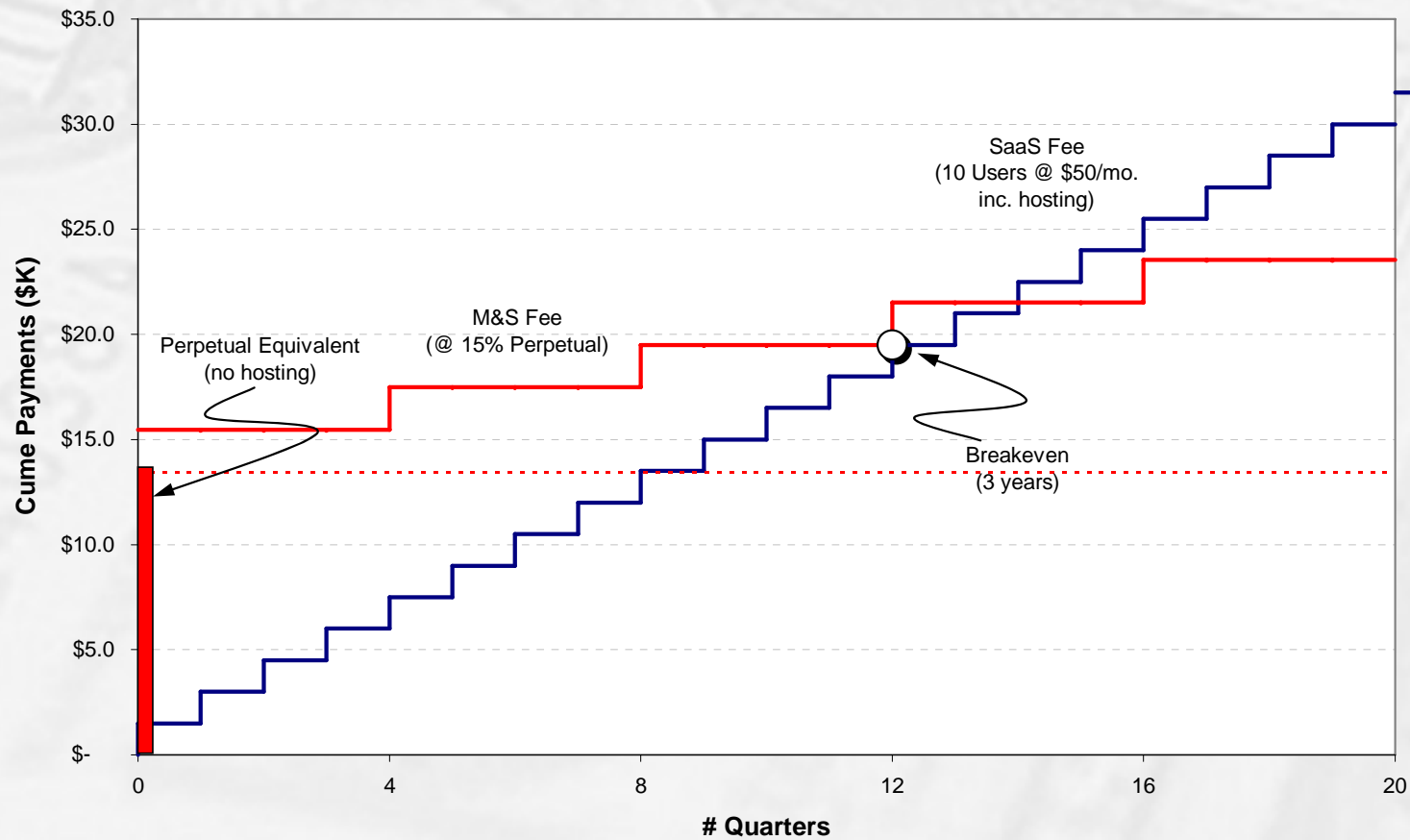
Start With Customers

- Different type of customers
 - Different segments
 - Manageable value offerings
- Customer expectations
 - Perceived risk
- Core economic value
 - Value and risk elements
- Application “stickiness”
 - Implanted applications
 - Time sensitive
 - Inside information
 - Convenient
 - Good enough
- Competition

SaaS Pricing

Competitive Sanity Test

Perpetual Equivalent of SaaS Fee



SaaS Pricing

Price Levels

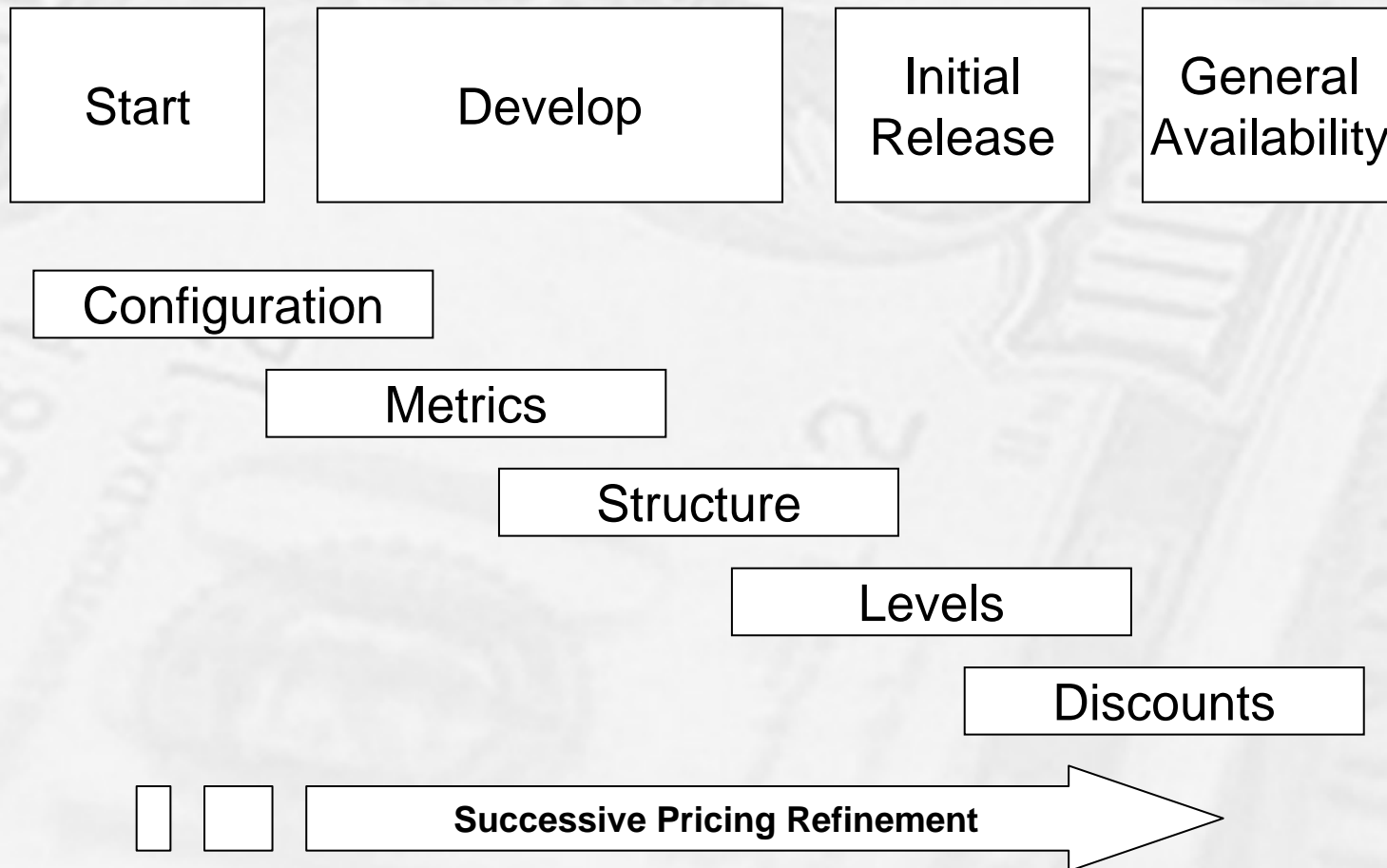
- **Pricing basics must be solid**
 - Pricing, packaging, discounting
 - Value support for selling
- **Start with a few assumptions**
 - Basic choices, timing, renewals
 - Price relative to perpetual
 - Finance and risk premiums
- **Adjustments**
 - Upgrade / update frequency
 - Competitive position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

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Wrap Up

Right Pricing Sequence



Wrap Up

Focus on Process

- **Improve inputs to pricing process**
 - Competition
 - Prices realized
- **Summarize and capture logic**
 - Pricing proposals
 - Policy decisions
- **Make pricing and packaging policies uniform**
 - Apply across products in a product line
 - Apply across all product if possible
 - Make deviations a business decision

Wrap Up

Assign Responsibilities

- **Price Setting**
 - Services and product
 - Price metrics, levels
 - Scheduled discounts
 - **Price Administration**
 - Price list / structure
 - Structural “integrity”
 - Price monitoring
 - **Price Realization**
 - Discount approvals
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- Product Marketing
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Wrap Up

SaaS Pricing

- **Customer value is driver**
 - Competition is modifier
 - Separate out value elements
- **Support business model**
 - Lifetime customer value
 - Growth, penetration
- **Apply good pricing practice**
 - Value step approach
 - Perpetual equivalence
- **SaaS not for everyone**

Thanks!

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