

Discount Containment: Key to Increasing Revenues and Improving Margins

Lessons from High Technology...

...with Broad Applicability

Presentation to Massachusetts CPA Society's High Tech Group

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Agenda

- Focus on Discounting
 - Role of discounting
 - Unexploited opportunity
- MarketShare / FEI Research Survey
 - Software is representative
 - Extent of tracking and control
- Role of the Finance Function
 - Track and Understand
 - Usefulness
 - Process steps

MarketShare Pricing Principles

- Focus on value-based pricing
 - How much value is created
 - How does value scale
- Maintain prices with value-driven selling
 - Arm the sales force
- Contain discounts to improve revenue and profit margin
 - Use financial information to improve understanding
 - Use information as basis for developing targeted actions

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Discounts Can Drive Success

- Tough economy overall
- Discounting mandatory
 - Attract new customers
 - Reward customer loyalty
 - Cope with reduced customer budgets
- Keys to getting maximum value from discounts
 - Information
 - Understanding
 - Focused actions

Discounts can also drive survival

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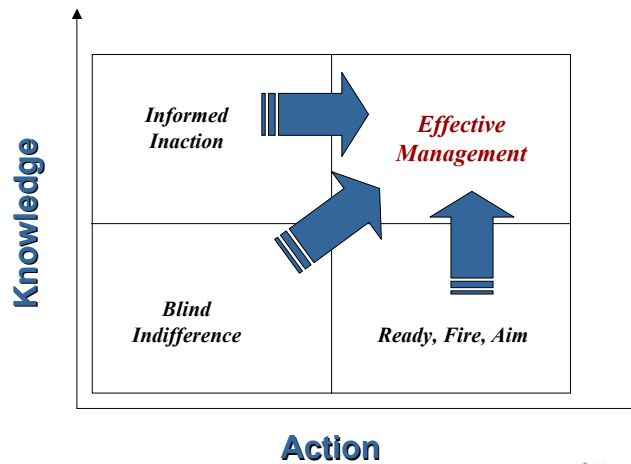
Financial Controls

Discounts
REVENUES
Cost
Cost
Cost
Cost
Cost
Investment
Investment
Investment
Investment
PROFITS

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Effective Discount Management = Knowledge + Action



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Overall ...

Discount Containment

Expenses for customer acquisition and retention that occur above the revenue line --- in the form of discounts --- must be given the same level of attention as expenses that occur below the revenue line.

Discounts can represent a wise investment or an unnecessary expense.

Tracking and understanding discounts is a necessary first step to getting the greatest economic return from discount dollars --- or letting excess discounts find their way directly to the bottom line.

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MarketShare Discounting Survey

Introduction

- Completed early 2003
- Web-based survey
 - Research arm of Financial Executives International
- 54 US-based software companies
 - 66% sales are direct to end-customers
 - 75% respondents were Director or VP / C-Level
 - 65% have sales > \$10M
- “Tracker” vs. “Non-Tracker” performance

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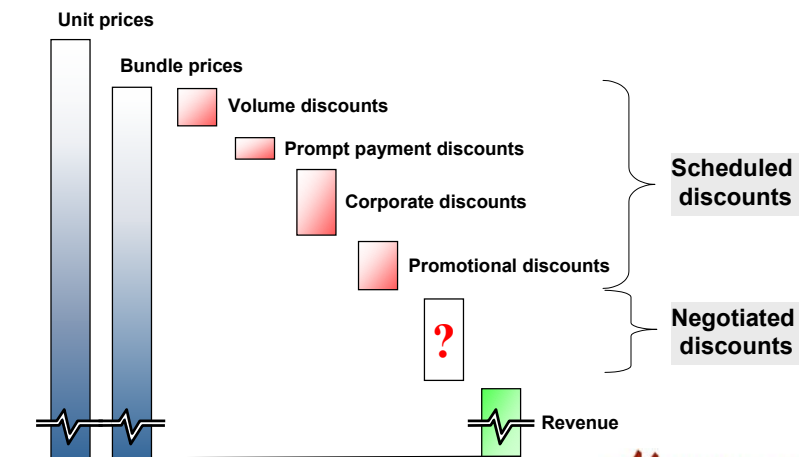
Software Industry Results... Can Apply to Other Industries

- Low cost of goods / intangibles (software, pharma)
 - Customers know -- so do sales people
 - Always room for more discounts and concessions
- Low margins / High pressure (electronic parts)
 - Every fraction of a point counts
- Low growth in revenues or customers / accounts (auto parts)
 - Competitive pressures

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MarketShare Discounting Survey Focus on Two Types of Discounts

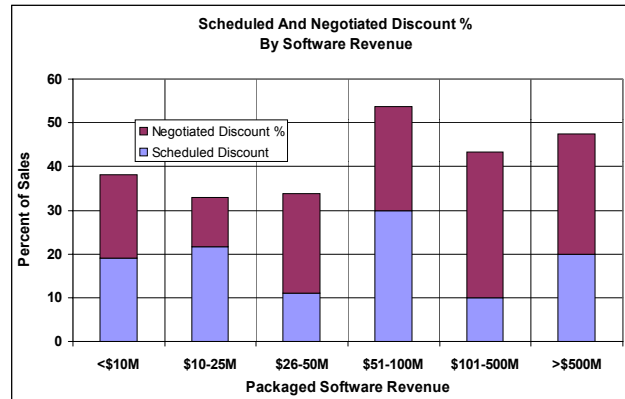


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Software Industry Findings Scheduled & Negotiated Discounts

Discounts range from 30 – 50%

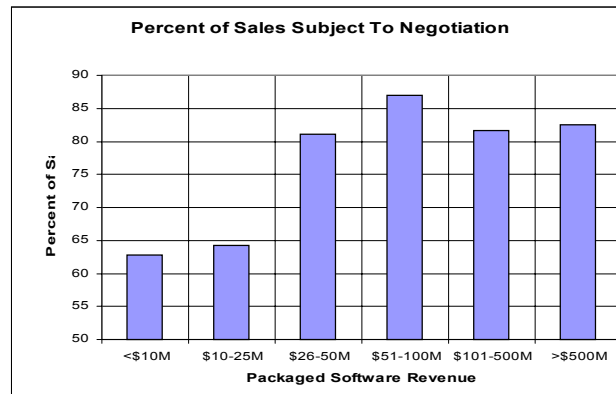


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Software Industry Findings Sales Subject to Negotiation

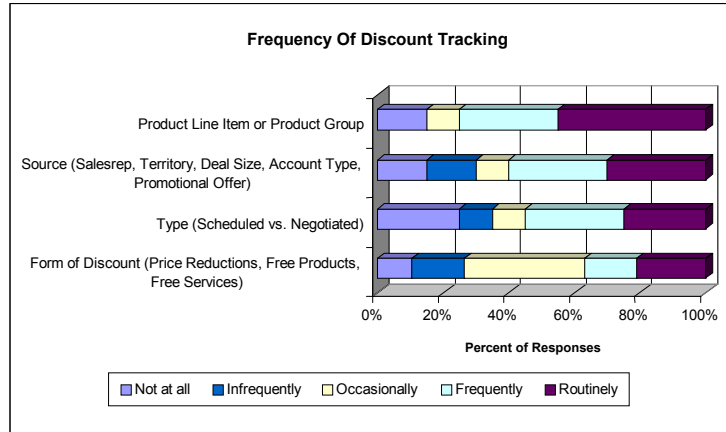
60 – 85% of transactions are negotiated



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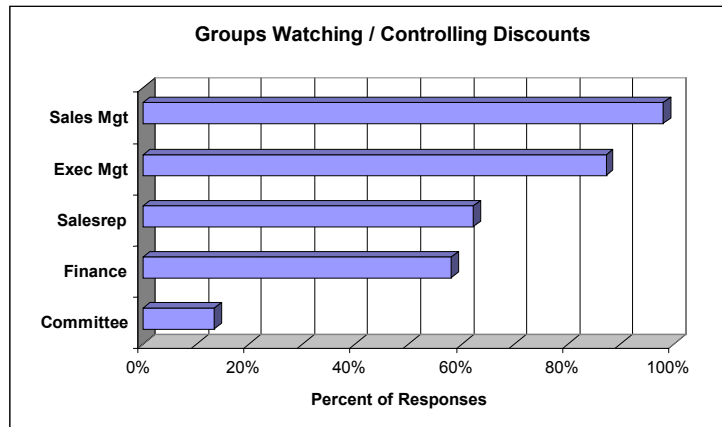
Software Industry Findings Discount Tracking – What Tracked



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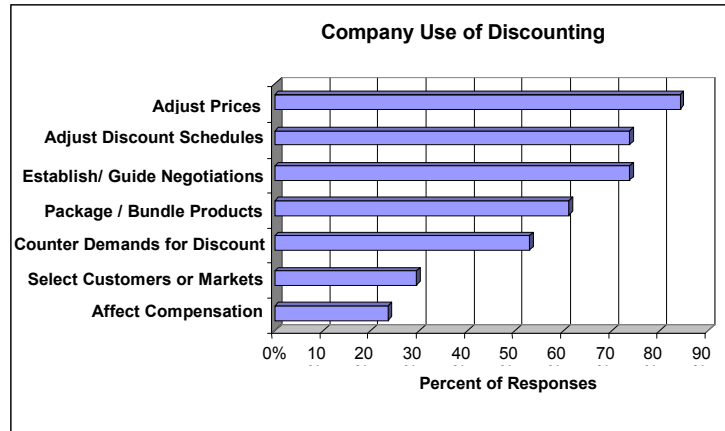
Software Industry Findings Discount Tracking - Who Watches



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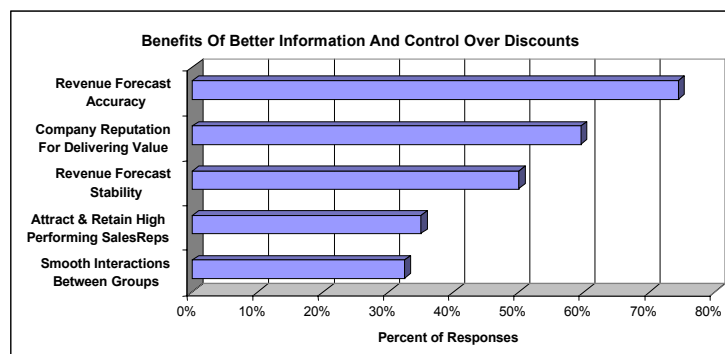
Software Industry Findings Discount Tracking – How Used



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Software Industry Findings Discount Control - Expected Benefits

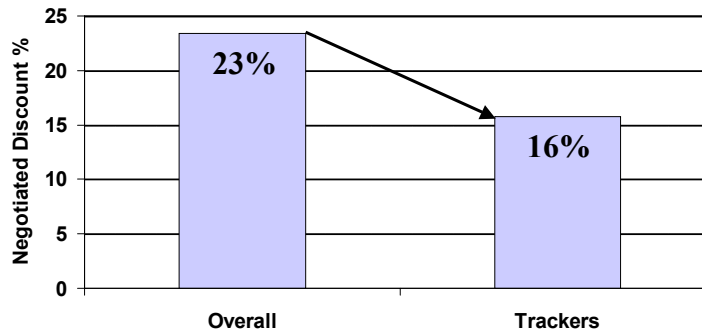


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Software Industry Findings Discount Control – Actual Results

Trackers have lower negotiated discount levels



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Discount Containment

- Key to containing discounts
 - Track ...
... Control
- Significant opportunity in “best of times”
 - Companies don’t know extent of discounts
 - Some know where it’s going
 - Few have appropriate controls & remedial efforts
- Particularly relevant today
 - Counteract “buyer’s-market” mentality
 - Potential near-term gains in revenue & profit

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Discount Containment

Key Steps

- Discovery
 - Sample to develop hypotheses
 - Identify anomalies and exceptions
 - Follow 80:20 Rule
- Analysis and Understanding
 - Dig into exceptions
 - Identify root causes
 - Identity where actions can have impact
- Develop Informed Action Plan
 - Start with what *can* be done
 - Identify success metrics
 - Garner cross-department involvement

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Focus on “Discount Dollars”...

Where are they spent / invested

Use invoice information to look at ...

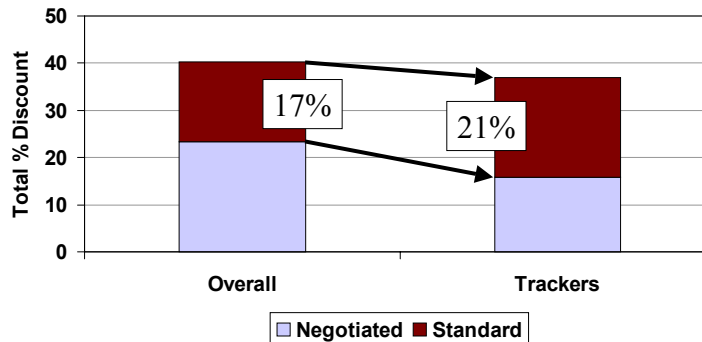
- Discount policies
- Specific deals & size
- End-of-quarter “push”
- Customer segments
- Individual sales reps

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Places to look ... Discount Policies

Make some negotiated discounts standard



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Places to look ... Specific Deals and Size

- Questions
 - Are non-strategic customers getting big-deal deals
 - Should small customer discounts be invested in larger accounts ... or vice versa
- Action plan
 - Quantify
 - Analyze variance
 - Discount ROI
- Consider
 - Guidelines based on deal size
 - “Promotional” discount dollars
 - Size-based feedback

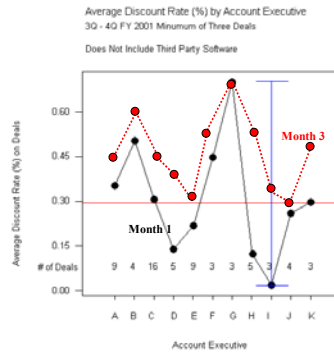


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Places to look ...
End-of-Quarter “Push”

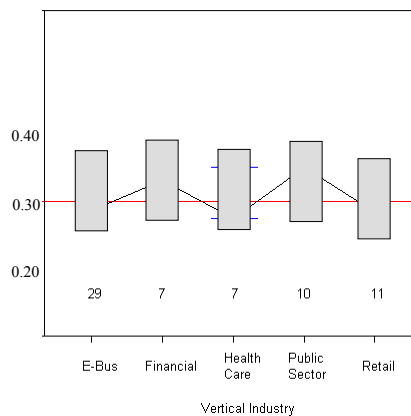
- Questions
 - Does the end of quarter leave everyone wrung out?
 - Do sales reps have their quarter locked up early in Month 3?
- Action plan
 - Analyze time variance
 - Look for patterns
- Consider
 - Tighten approvals
 - Anticipate then proactively respond
 - Staggered quotas



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Places to look ...
Customer Segments

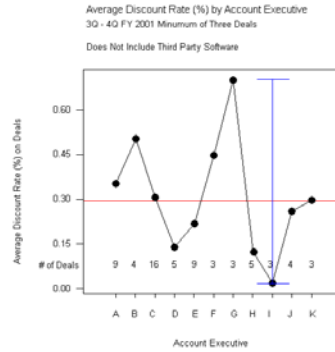
- Questions
 - Are deals for needy segments going to the greedy?
 - Do customers get a free ride?
- Action plan
 - Quantify
 - Analyze variance
 - Discount ROI
- Consider
 - Segment-based guidelines
 - Segment-specific “discount dollars”
 - Segment-based feedback



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Places to look ... Individual Sales Reps

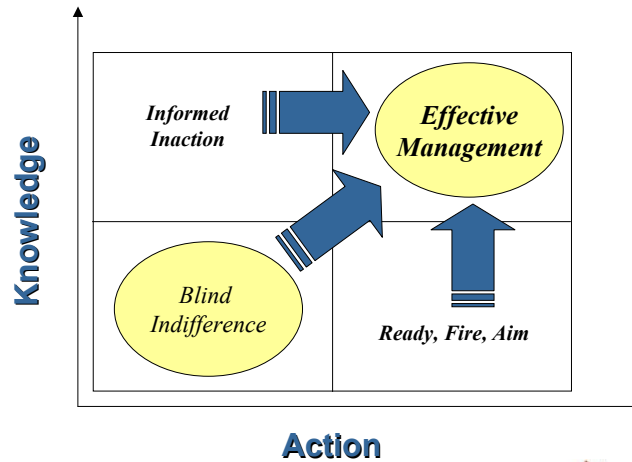
- Questions
 - Are reps good at negotiating?
 - Do they know how good (or not) they are?
- Action plan
 - Analyze variance
 - Communicate performance
 - Focused remediation
- Consider
 - “Where you stand” feedback
 - Selected negotiation training



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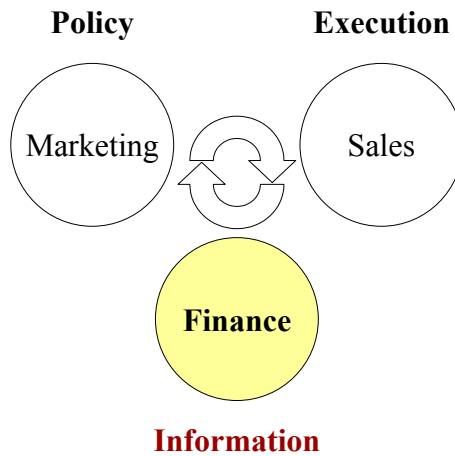
Use Knowledge and Action For Effective Discount Management



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Discount Containment **Finance Plays Key Role**



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Next Steps - Making Things Happen

- Gather basic data
 - Use small but representative sample
 - Assess magnitude and opportunity for improvement
- Decision on moving forward
- Find an Ally
 - May be in marketing or sales
 - Might be the CEO?
- Split up the work
 - Joint effort but...
 - ... Finance does data analysis
 - ... Ally does interpretation
- Develop near-term action plan
 - Pilot program... Quick success is important
 - Keep an eye on the future

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About Marketshare

MarketShare, Inc. is a management consultancy that, since its founding in 1982, has specialized in the technology industry, particularly computer software. The company's focus is on pricing - helping clients generate increased revenue, profit, and cash flow from the products & services they sell and the professionals who sell them.

MarketShare consulting services are provided in three related practice areas: Value-Based Pricing, Discount Containment, and Value-Driven Selling, as described below.

- **Value-Based Pricing** - Development of pricing strategies and tactics.
- **Discount Containment** - Identify discount "leaks" their cause, and remedy.
- **Value-Driven Selling** - Development of analytical tools that help sales professionals quantify and communicate product value.

MarketShare clients tend to be mid- to large-sized established companies, though smaller, emerging companies are represented within the client mix. MarketShare has served more than 200 clients from Canada, Europe, Japan and the US. The company is headquartered in Wayland, Massachusetts, a suburb of Boston.

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