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Right Pricing  
Starts with the  
Right Product  
Plan

orasi™ EXPERT SERIES

## Introduction to MarketShare

- ❖ Unique focus
  - ❖ Pricing computer software since 1987
- ❖ Practice areas
  - ❖ Value-Driven Pricing
  - ❖ Value-Based Selling
  - ❖ Discount Containment
- ❖ Results
  - ❖ Improved financial performance
  - ❖ More value from products & services
  - ❖ Increased sales effectiveness

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## Objectives of Presentation

- ❖ Describe some of the principles and processes involved in Right Pricing
- ❖ Apply principles to both traditional and emerging business models such as subscription pricing
- ❖ Enhance value of sales transactions overall using complementary services

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*Begin at End*

## Desired Result: A Sale

- ❖ Current product fits with current needs
  - ❖ Product configuration and functionality
- ❖ Future needs can be met
  - ❖ Upgrades and expansions available
- ❖ Payment is aligned with value delivered
  - ❖ Prices are acceptable
- ❖ Vendor helps customer succeed
  - ❖ Services

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*Begin at End*

## Why the Sale Happens

- ❖ Customers can get what they need
  - ❖ Product configuration
- ❖ Payments align with value delivered
  - ❖ Scaling metrics
- ❖ Customers pay the “Right Price”
  - ❖ Price levels – products and services
- ❖ Payments occur at the right time (new)
  - ❖ Subscription / term licenses

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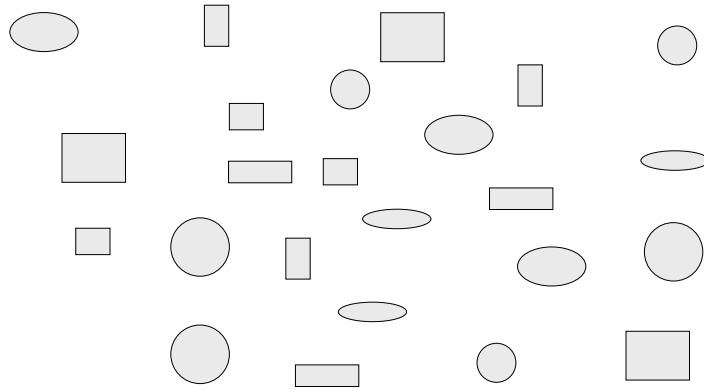
## Agenda

- ❖ Introduction
- ❖ Product Configuration
- ❖ Scaling Metrics
- ❖ Price Structure
- ❖ Price Levels
- ❖ Subscription Pricing
- ❖ Wrap-Up

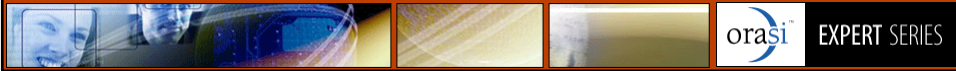
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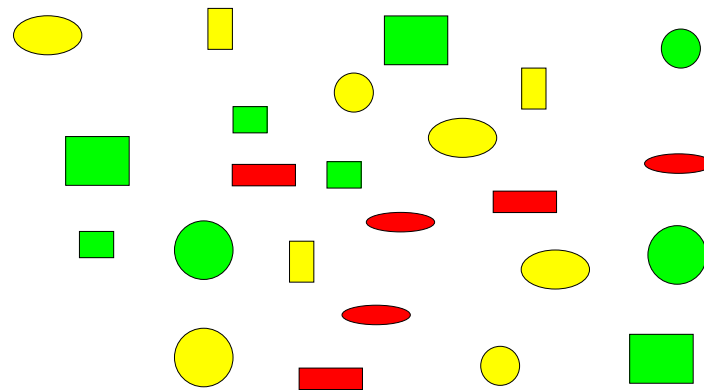
*Product Configuration*  
**First Step: List of Wants / Needs**



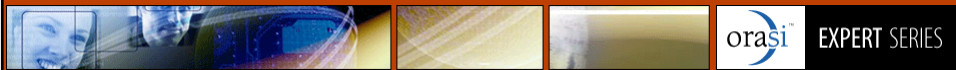
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*Product Configuration*  
**Second Step: Sorting By Use / User**

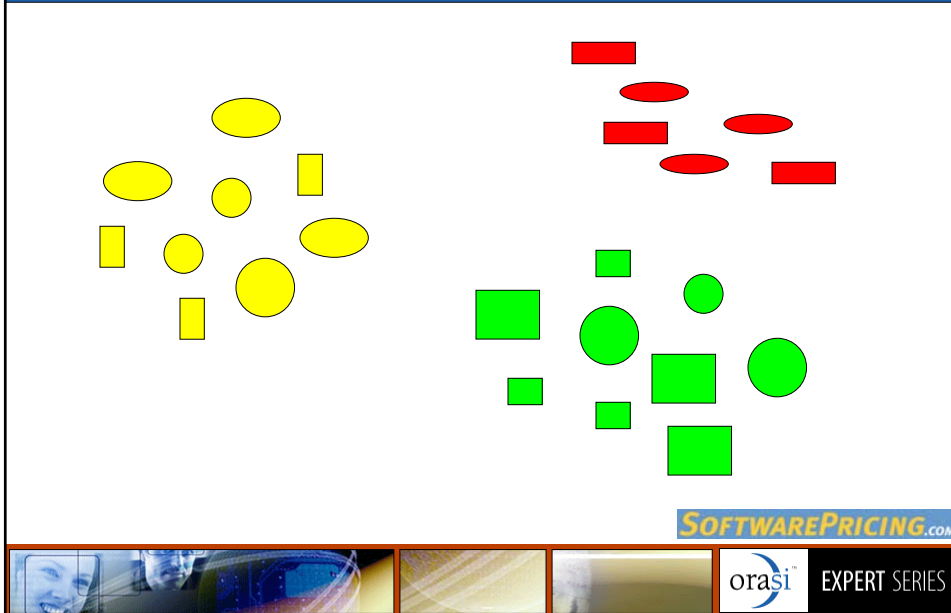


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## Product Configuration

### Aggregating By Features / Product Line



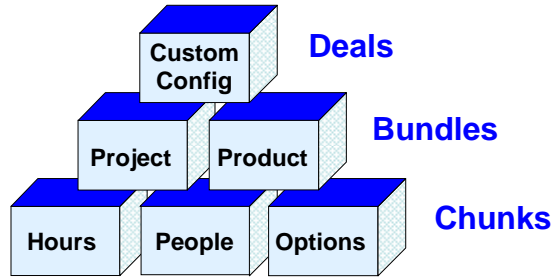
## Product Configuration

### Align Modules With Customer Value

- ❖ Bite-sized products
  - ❖ “Monolithic” products lead to heavy discounts
- ❖ Keep option open to do modular pricing
  - ❖ Modular pricing can define new "products"
- ❖ Product modules used by sales to...
  - ❖ Discuss value (what customer is trying to do)
  - ❖ Improve fit within given budget (find more areas of compromise)
  - ❖ Clarify payment and cashflow (staging delivery, acceptance)



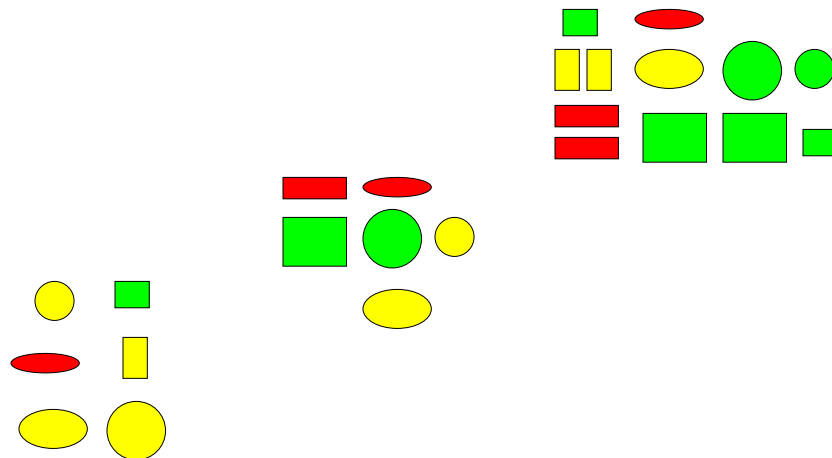
*Product Configuration*  
**Modules offer Licensing Flexibility**



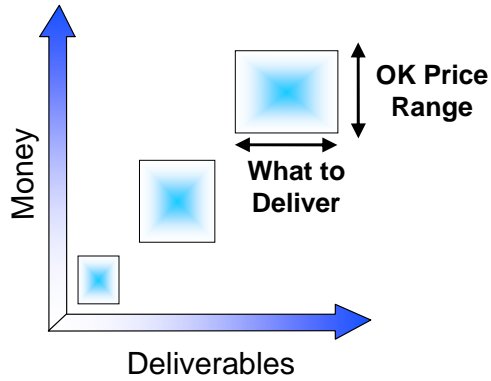
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*Product Configuration*  
**Modules Create Scalable Value**



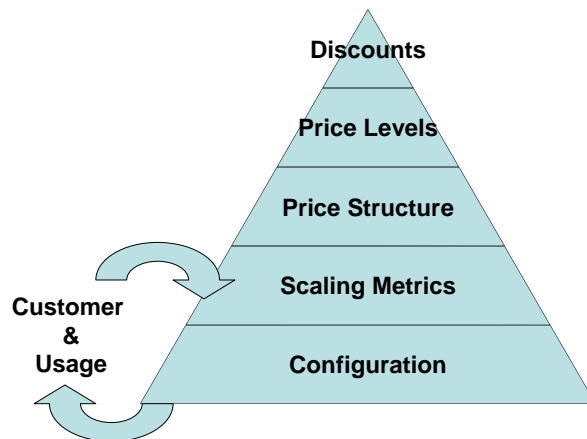
## Product Configuration Make Service Deliverables Modular



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## Product Configuration Product Configuration is the Foundation



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- ❖ Introduction
- ❖ Product Configuration
- ❖ **Scaling Metrics**
- ❖ Price Structure
- ❖ Price Levels
- ❖ Subscription Pricing
- ❖ Wrap-Up

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## Scaling Metrics

### Find What Customers Value

- ❖ How customers talk about their business
  - ❖ Revenues, growth, profits
  - ❖ Customer acquisition, retention
  - ❖ People, product, production
- ❖ How people use products
  - ❖ Personal vs. group use
  - ❖ Transaction vs. continuous use
  - ❖ Sporadic vs. frequent use
- ❖ How products should be installed, supported
  - ❖ Individually vs. workgroup
  - ❖ Location vs. organization
  - ❖ In-house vs. external support

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## Scaling Metrics

### Start With Customer View

- ❖ How customers talk about their business
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**Value Levers**

**Scaling Metrics**

**Bundles, Services**

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## Scaling Metrics

### Value Must Scale

- ❖ Product deliverable must scale
  - ❖ Configuration / bundles
- ❖ Scaling metric
  - ❖ What you count
  - ❖ What you charge for
- ❖ Choose metrics carefully
  - ❖ Focus on significant metrics
  - ❖ No more than two or three?

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## Scaling Metrics

### What “Counts” is Usage Tied to Value

- ❖ Align with customer’s revenue model
  - ❖ People ↔ Per user/seat
  - ❖ Deployment ↔ Per copy/CPU
  - ❖ Web access ↔ Per session
- ❖ Misaligned metrics create problems
  - ❖ MIPS / Tiered pricing
  - ❖ Megahertz (mega-hurts)
- ❖ Must instrument the application
  - ❖ Can’t charge for things you can’t count
  - ❖ License servers, keys are features, too

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## Scaling Metrics

### Common Metrics

- ❖ “Client”
  - ❖ Person, device, connection
  - ❖ Copy (only one copy per user?)
- ❖ “Processor”
  - ❖ Box vs. CPU in box vs. Core in CPU
- ❖ Tiered pricing
  - ❖ By hardware characteristic
- ❖ Use / transaction / record
- ❖ Location or entity

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## Quick Q & A Break

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## Price Structure

### Use Judgment – Align with Value

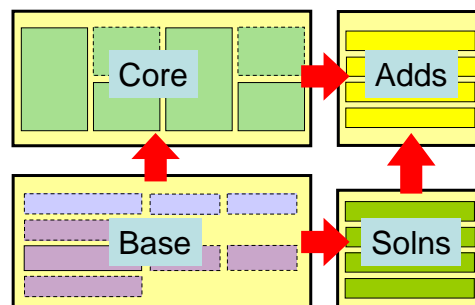
- ❖ Tie price structure to customer
  - ❖ Use and context
  - ❖ Purchase patterns
  - ❖ Perception of value
- ❖ Build on structure of deliverables
  - ❖ Configuration / bundles
  - ❖ Scaling metrics
- ❖ Balance flexibility with simplicity
  - ❖ Base vs. Add-ons
  - ❖ Standard vs. Custom

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## Price Structure

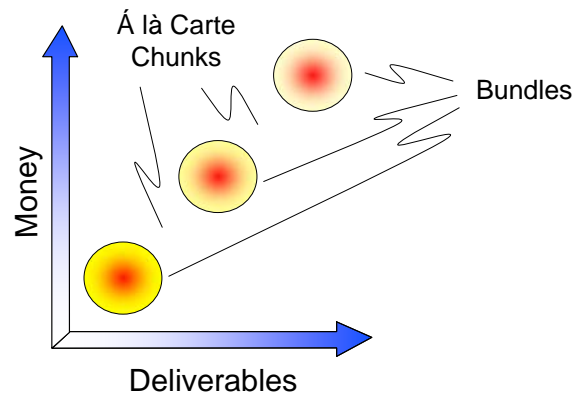
### Make Value Easy to Understand



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## Price Structure Make Value Scalable

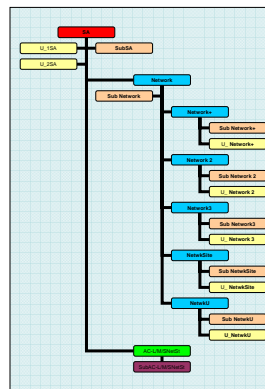


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## Price Structure Make Deals Easy to Configure

- ❖ Product complexity
  - ❖ License types
  - ❖ Bundles
  - ❖ Add-on / Delete options
- ❖ Complexity = delayed sale
  - ❖ 80 products / 500 SKUs
  - ❖ 140 products / 4000+ SKUs
- ❖ Consider other impact
  - ❖ Channels
  - ❖ International
  - ❖ Logistics, fulfillment



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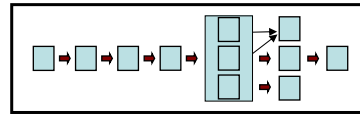
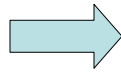
## Price Structure Make Price Lists Easy to Maintain

\$2995

Using Main Values	100%	15%	10%	5%	0%	5%	10%	15%	20%	25%	30%
UVE-FRANZISIN - ACTIVITY FT3R 5k of 5mg	2100	2085	2100	2070	2100	2090	2080	2070	2060	2050	2040
R_1200	2100	2085	2100	2070	2100	2090	2080	2070	2060	2050	2040
U_1200	0	0	0	0	0	0	0	0	0	0	0
U_1200A	0	0	0	0	0	0	0	0	0	0	0
U_1200B	0	0	0	0	0	0	0	0	0	0	0
U_1200C	0	0	0	0	0	0	0	0	0	0	0
U_1200D	0	0	0	0	0	0	0	0	0	0	0
U_1200E	0	0	0	0	0	0	0	0	0	0	0
U_1200F	0	0	0	0	0	0	0	0	0	0	0
U_1200G	0	0	0	0	0	0	0	0	0	0	0
U_1200H	0	0	0	0	0	0	0	0	0	0	0
U_1200I	0	0	0	0	0	0	0	0	0	0	0
U_1200J	0	0	0	0	0	0	0	0	0	0	0
U_1200K	0	0	0	0	0	0	0	0	0	0	0
U_1200L	0	0	0	0	0	0	0	0	0	0	0
U_1200M	0	0	0	0	0	0	0	0	0	0	0
U_1200N	0	0	0	0	0	0	0	0	0	0	0
U_1200O	0	0	0	0	0	0	0	0	0	0	0
U_1200P	0	0	0	0	0	0	0	0	0	0	0
U_1200Q	0	0	0	0	0	0	0	0	0	0	0
U_1200R	0	0	0	0	0	0	0	0	0	0	0
U_1200S	0	0	0	0	0	0	0	0	0	0	0
U_1200T	0	0	0	0	0	0	0	0	0	0	0
U_1200U	0	0	0	0	0	0	0	0	0	0	0
U_1200V	0	0	0	0	0	0	0	0	0	0	0
U_1200W	0	0	0	0	0	0	0	0	0	0	0
U_1200X	0	0	0	0	0	0	0	0	0	0	0
U_1200Y	0	0	0	0	0	0	0	0	0	0	0
U_1200Z	0	0	0	0	0	0	0	0	0	0	0
U_1200AA	0	0	0	0	0	0	0	0	0	0	0
U_1200AB	0	0	0	0	0	0	0	0	0	0	0
U_1200AC	0	0	0	0	0	0	0	0	0	0	0
U_1200AD	0	0	0	0	0	0	0	0	0	0	0
U_1200AE	0	0	0	0	0	0	0	0	0	0	0
U_1200AF	0	0	0	0	0	0	0	0	0	0	0
U_1200AG	0	0	0	0	0	0	0	0	0	0	0
U_1200AH	0	0	0	0	0	0	0	0	0	0	0
U_1200AI	0	0	0	0	0	0	0	0	0	0	0
U_1200AJ	0	0	0	0	0	0	0	0	0	0	0
U_1200AK	0	0	0	0	0	0	0	0	0	0	0
U_1200AL	0	0	0	0	0	0	0	0	0	0	0
U_1200AM	0	0	0	0	0	0	0	0	0	0	0
U_1200AN	0	0	0	0	0	0	0	0	0	0	0
U_1200AO	0	0	0	0	0	0	0	0	0	0	0
U_1200AP	0	0	0	0	0	0	0	0	0	0	0
U_1200AQ	0	0	0	0	0	0	0	0	0	0	0
U_1200AR	0	0	0	0	0	0	0	0	0	0	0
U_1200AS	0	0	0	0	0	0	0	0	0	0	0
U_1200AT	0	0	0	0	0	0	0	0	0	0	0
U_1200AU	0	0	0	0	0	0	0	0	0	0	0
U_1200AV	0	0	0	0	0	0	0	0	0	0	0
U_1200AW	0	0	0	0	0	0	0	0	0	0	0
U_1200AX	0	0	0	0	0	0	0	0	0	0	0
U_1200AY	0	0	0	0	0	0	0	0	0	0	0
U_1200AZ	0	0	0	0	0	0	0	0	0	0	0
U_1200BA	0	0	0	0	0	0	0	0	0	0	0
U_1200BB	0	0	0	0	0	0	0	0	0	0	0
U_1200BC	0	0	0	0	0	0	0	0	0	0	0
U_1200BD	0	0	0	0	0	0	0	0	0	0	0
U_1200BE	0	0	0	0	0	0	0	0	0	0	0
U_1200BF	0	0	0	0	0	0	0	0	0	0	0
U_1200BG	0	0	0	0	0	0	0	0	0	0	0
U_1200BH	0	0	0	0	0	0	0	0	0	0	0
U_1200BI	0	0	0	0	0	0	0	0	0	0	0
U_1200BJ	0	0	0	0	0	0	0	0	0	0	0
U_1200BK	0	0	0	0	0	0	0	0	0	0	0
U_1200BL	0	0	0	0	0	0	0	0	0	0	0
U_1200BM	0	0	0	0	0	0	0	0	0	0	0
U_1200BN	0	0	0	0	0	0	0	0	0	0	0
U_1200BO	0	0	0	0	0	0	0	0	0	0	0
U_1200BP	0	0	0	0	0	0	0	0	0	0	0
U_1200BQ	0	0	0	0	0	0	0	0	0	0	0
U_1200BR	0	0	0	0	0	0	0	0	0	0	0
U_1200BS	0	0	0	0	0	0	0	0	0	0	0
U_1200BT	0	0	0	0	0	0	0	0	0	0	0
U_1200BU	0	0	0	0	0	0	0	0	0	0	0
U_1200BV	0	0	0	0	0	0	0	0	0	0	0
U_1200BW	0	0	0	0	0	0	0	0	0	0	0
U_1200BX	0	0	0	0	0	0	0	0	0	0	0
U_1200BY	0	0	0	0	0	0	0	0	0	0	0
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U_1200CA	0	0	0	0	0	0	0	0	0	0	0
U_1200CB	0	0	0	0	0	0	0	0	0	0	0
U_1200CC	0	0	0	0	0	0	0	0	0	0	0
U_1200CD	0	0	0	0	0	0	0	0	0	0	0
U_1200CE	0	0	0	0	0	0	0	0	0	0	0
U_1200CF	0	0	0	0	0	0	0	0	0	0	0
U_1200CG	0	0	0	0	0	0	0	0	0	0	0
U_1200CH	0	0	0	0	0	0	0	0	0	0	0
U_1200CI	0	0	0	0	0	0	0	0	0	0	0
U_1200CJ	0	0	0	0	0	0	0	0	0	0	0
U_1200CK	0	0	0	0	0	0	0	0	0	0	0
U_1200CL	0	0	0	0	0	0	0	0	0	0	0
U_1200CM	0	0	0	0	0	0	0	0	0	0	0
U_1200CN	0	0	0	0	0	0	0	0	0	0	0
U_1200CO	0	0	0	0	0	0	0	0	0	0	0
U_1200CP	0	0	0	0	0	0	0	0	0	0	0
U_1200CQ	0	0	0	0	0	0	0	0	0	0	0
U_1200CR	0	0	0	0	0	0	0	0	0	0	0
U_1200CS	0	0	0	0	0	0	0	0	0	0	0
U_1200CT	0	0	0	0	0	0	0	0	0	0	0
U_1200CU	0	0	0	0	0	0	0	0	0	0	0
U_1200CV	0	0	0	0	0	0	0	0	0	0	0
U_1200CW	0	0	0	0	0	0	0	0	0	0	0
U_1200CX	0	0	0	0	0	0	0	0	0	0	0
U_1200CY	0	0	0	0	0	0	0	0	0	0	0
U_1200CZ	0	0	0	0	0	0	0	0	0	0	0
U_1200DA	0	0	0	0	0	0	0	0	0	0	0
U_1200DB	0	0	0	0	0	0	0	0	0	0	0
U_1200DC	0	0	0	0	0	0	0	0	0	0	0
U_1200DD	0	0	0	0	0	0	0	0	0	0	0
U_1200DE	0	0	0	0	0	0	0	0	0	0	0
U_1200DF	0	0	0	0	0	0	0	0	0	0	0
U_1200DG	0	0	0	0	0	0	0	0	0	0	0
U_1200DH	0	0	0	0	0	0	0	0	0	0	0
U_1200DI	0	0	0	0	0	0	0	0	0	0	0
U_1200DJ	0	0	0	0	0	0	0	0	0	0	0
U_1200DK	0	0	0	0	0	0	0	0	0	0	0
U_1200DL	0	0	0	0	0	0	0	0	0	0	0
U_1200DM	0	0	0	0	0	0	0	0	0	0	0
U_1200DN	0	0	0	0	0	0	0	0	0	0	0
U_1200DO	0	0	0	0	0	0	0	0	0	0	0
U_1200DP	0	0	0	0	0	0	0	0	0	0	0
U_1200DQ	0	0	0	0	0	0	0	0	0	0	0
U_1200DR	0	0									

## Price Structure

### Shift Complexity from Sales to Order Entry



- Easy to configure products
- Rapid quoting
- Automatic SKU generation

- Back-end systems
- Fulfillment
- Invoicing

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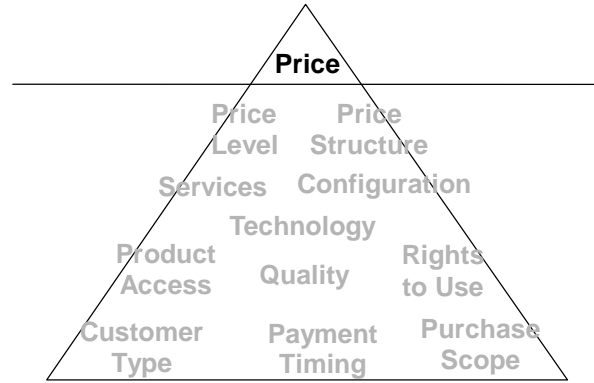
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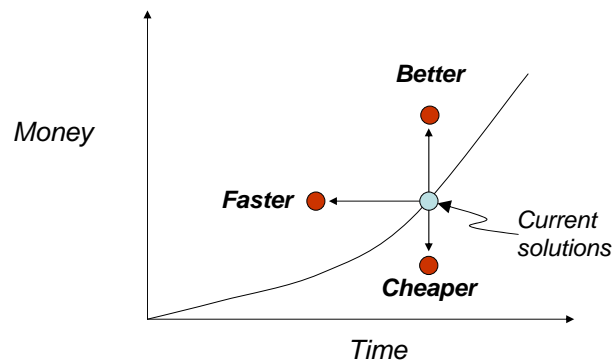
*Price Levels*  
**Price Captures Value**



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*Price Levels*  
**Monetize Value to Customer**



*Hard Dollar Impact of Better / Faster / Cheaper*

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*Monetize Value to Customer*  
**Attach Dollar Amount to Value**

- ❖ Source of value in product use
  - ❖ Revenue increases?
    - ❖ Faster time to market, more customers
  - ❖ Cost savings?
    - ❖ Labor, material savings, less downtime
  - ❖ Cost avoidance?
    - ❖ Less training, fewer errors
- ❖ Associated costs to realize value
  - ❖ Product acquisition
  - ❖ Management and staff time
  - ❖ Cost of conversions, process changes
- ❖ Estimate net value

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*Monetize Value to Customer*  
**Attach Dollars to Value**

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**Value is in the eye of the beholder**

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## *Monetize Value to Customer*

### **Value-Driven Pricing Adjustments**

- ❖ Key question: How much should customer pay for net value?
  - ❖ As a percentage
  - ❖ An amount
- ❖ Key issue: Customer knowledge
  - ❖ Who is “customer”, what segments
  - ❖ How they decide / buy
  - ❖ Know risks they will bear
- ❖ Keep payback period short
  - ❖ Decrease risk and financial exposure

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## *Price Levels*

### **Customer Value Not Only Price Input**

- ❖ #1 -- Value to customer
  - ❖ Depends on alternatives and substitutes
- ❖ #2 -- Competitive prices
  - ❖ Different competitors' motives, resources
  - ❖ Provides context
- ❖ #3 -- Internal costs / cost structure
  - ❖ Affects profitability
  - ❖ Doesn't matter to customer

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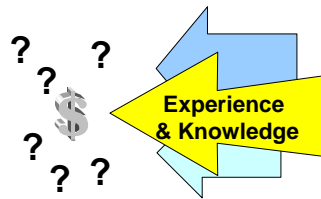


## Price Levels

# Value vs. Costs and Competition

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

**Lowest Ceiling: Perceived Value**



**Highest Floor: Your costs**

*Estimates, volume dependent  
Timeframe  
What's included*

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

*Unit volume and deal size  
Product category, maturity  
Promotion  
Sales channel  
Customer characteristics  
Your company*

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## Price Levels

# Finding "The Number" – Process

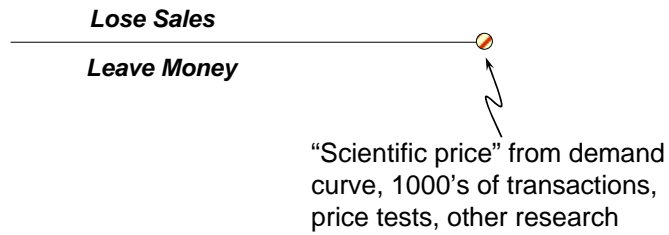
- ❖ Estimate number of sales transactions
  - ❖ Net price to make revenues
  - ❖ Gross margin to cover overhead and profit
- ❖ Estimate associated costs
  - ❖ R&D, promo, sales, profit and future investments
- ❖ Do sanity check
  - ❖ Realistic? How achieved?
  - ❖ First time customers vs. switchers
- ❖ Make numbers consistent, revenues > costs
  - ❖ Iterate to find correct price

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*Price Levels*

**Finding Right Price Level Still not Science**

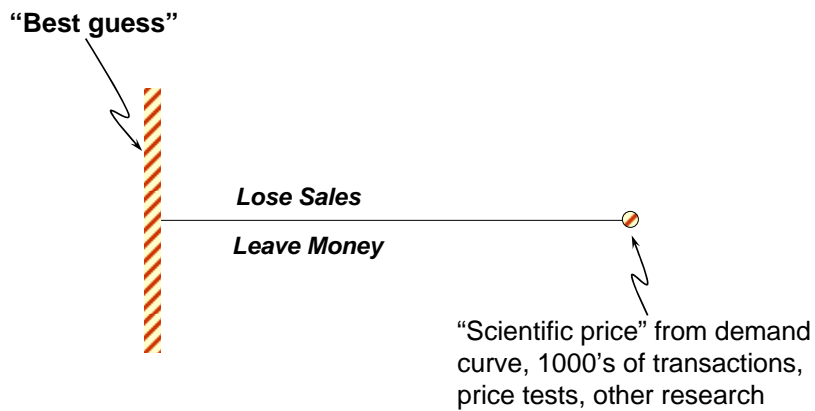


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*Price Levels*

**Finding Right Price Level Still not Science**

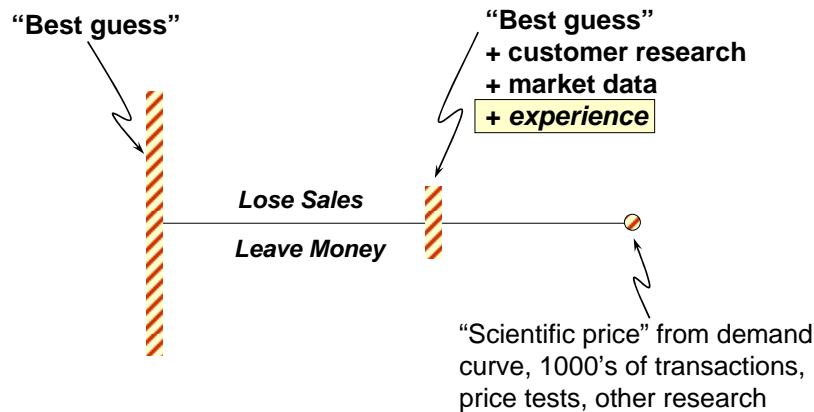


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## Price Levels

### Finding Right Price Level Still not Science



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## Price Levels

### Pay Attention to Detail

- ❖ Get “starting price” right
  - ❖ Often “Quantity One” Price (QOP)
  - ❖ Starting point for discount schedule
  - ❖ High water mark for all pricing analysis
- ❖ Construct appropriate bundles
  - ❖ Solutions focused - related apps and modules
  - ❖ Functionality focused - related modules
- ❖ Make sure price scales smoothly with value
- ❖ Ensure pricing strategy fits business model
  - ❖ Revenues, resources

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## Quick Q & A Break

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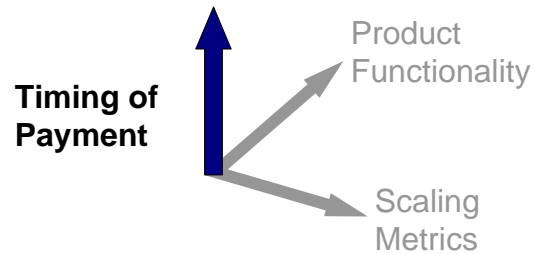
## Agenda

- ❖ Introduction
- ❖ Product Configuration
- ❖ Scaling Metrics
- ❖ Price Structure
- ❖ Price Levels
- ❖ Subscription Pricing
- ❖ Wrap-Up

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## Subscription Pricing New Dimension of Competition



***New rules of the game***

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## Subscription Pricing New Rules, Different Names

- ❖ New license model
  - ❖ Game played by newcomers only?
  - ❖ Way to expand and capture new territory?
  - ❖ Threaten competitor?
- ❖ Different names, same purpose ...
  - ❖ Subscription
  - ❖ SaaS
  - ❖ On demand
  - ❖ Term

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## *Subscription Pricing* **Resonates With Customers**

- ❖ Right sized solution
  - ❖ Related to how software is used
- ❖ Price paid for value delivered
  - ❖ Aligned with what value is extracted
- ❖ Payments in line with value received
  - ❖ Customers pay for value as delivered...  
... not value as promised

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## *Subscription Pricing* **Affects All Companies**

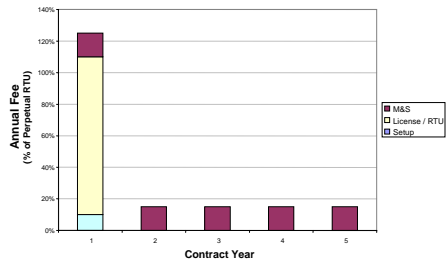
- ❖ New companies
  - ❖ Gain early traction
  - ❖ Innovative total solution
  - ❖ Salesforce.com, RightNow as example
- ❖ Established companies
  - ❖ Challengers – new growth paths
    - ❖ New market segments
    - ❖ Stealing customers from competitors
  - ❖ Defenders – protecting their turf
    - ❖ Subscription model onslaught
    - ❖ Existing and new competitors

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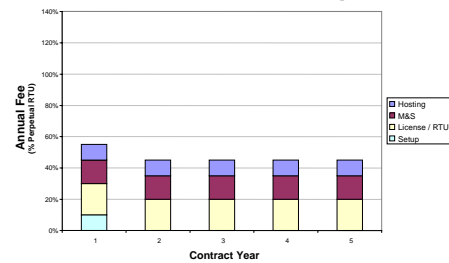


## Subscription Pricing Cashflow Impact

### Perpetual Pricing



### Subscription Pricing



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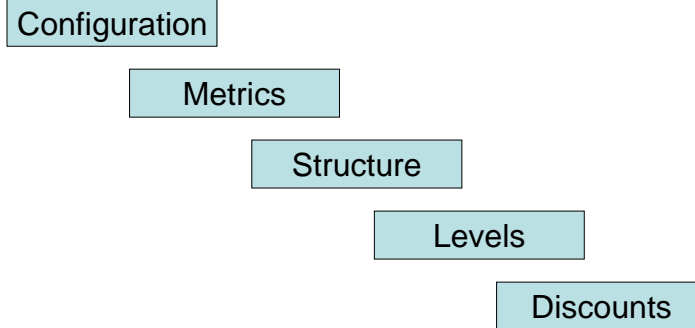
## Subscription Pricing Deciding to Offer Subscriptions

- ❖ Cashflow
  - ❖ Amount, timing, growth
  - ❖ Predictability
- ❖ Cost to serve
  - ❖ Start-up
  - ❖ Ongoing
  - ❖ Incremental
- ❖ Other considerations
  - ❖ Existing vs. start-up companies

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## Subscription Pricing Same Price Setting Process



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## Process for Setting Prices Configuration

- ❖ Similar to perpetual
- ❖ Different users
  - ❖ Less sophisticated users?
  - ❖ Change entry-level configuration?
- ❖ Different standard product?
  - ❖ Different upgrade path?
- ❖ Different deliverables
  - ❖ Bundled maintenance and support
  - ❖ Usage term is part of configuration
  - ❖ SLA / reliability level?

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## *Process for Setting Prices*

### **Metrics**

- ❖ Limited number of metrics
  - ❖ Time and user-based metrics
  - ❖ “Traditional” HW metrics not used
- ❖ Transactions scale
  - ❖ By user
  - ❖ By length of time
  - ❖ By module accessed

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## *Process for Setting Prices*

### **Structure**

- ❖ Simple price structure
  - ❖ One size fits all approach
- ❖ Simple product structure
  - ❖ Fewer deliverable permutations
  - ❖ Appeals to different customers
- ❖ Simplifies logistic burden
  - ❖ Fulfillment easier
  - ❖ Provisioning harder?

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## *Process for Setting Prices*

### **Price Levels**

- ❖ Perpetual pricing basics must be solid
  - ❖ Pricing, packaging, discounting
- ❖ Find price relative to perpetual
  - ❖ Start with a few assumptions
  - ❖ Basic options, renewals, duration
  - ❖ Revenue neutrality
- ❖ Make adjustments
  - ❖ Competitive position
  - ❖ Finance and risk
  - ❖ Upgrade / update frequency

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## *Price Levels*

### **Adjustments – Other Considerations**

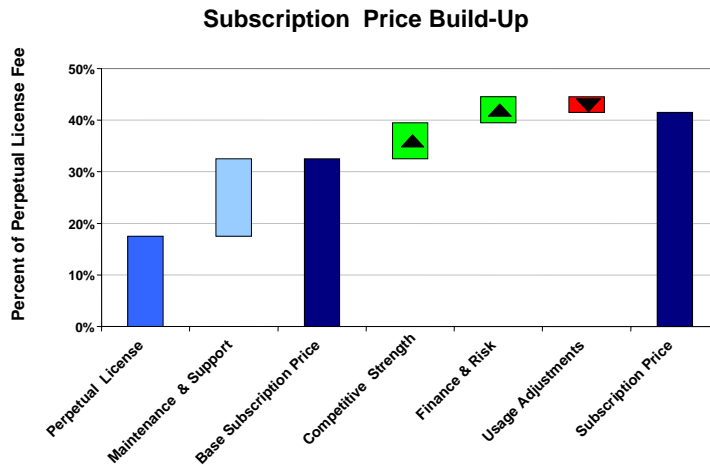
- ❖ Different type of customers
  - ❖ Price vs. cashflow sensitive
  - ❖ Convenience-sensitive
  - ❖ Tire kickers and uncommitted
- ❖ Application “stickiness”
  - ❖ Convenient
  - ❖ Good enough
  - ❖ Incumbent advantage
  - ❖ Implanted applications

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## Price Levels

Base + Adjustments = Subscription Price

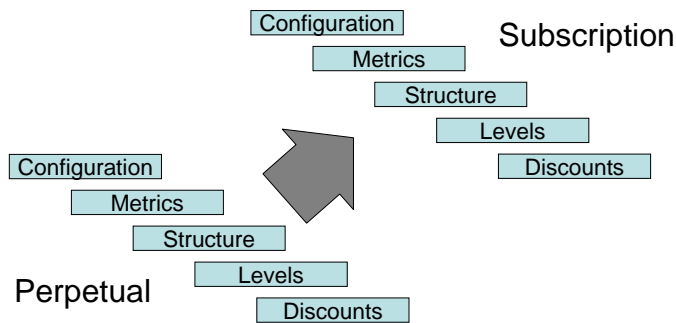


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## Subscription Price

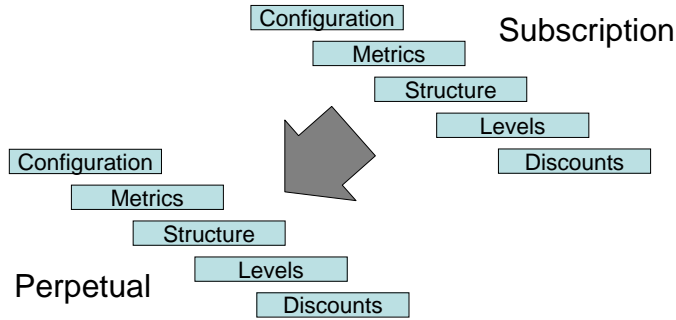
Perpetual Drives Subscription



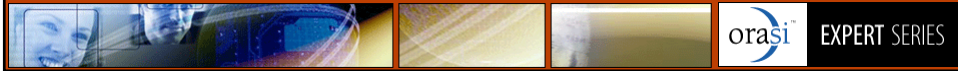
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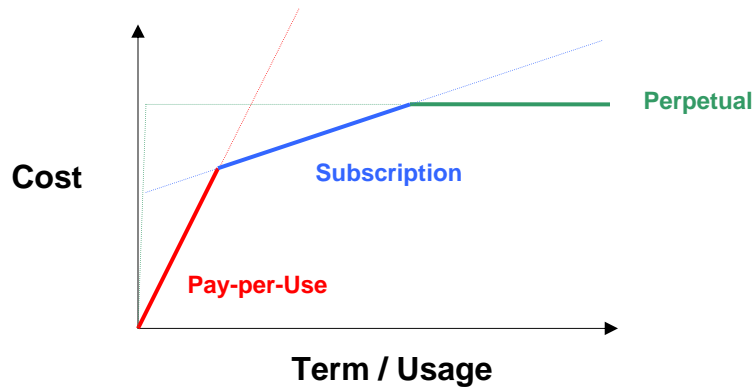
## Subscription Price Perpetual Can Follow Subscription



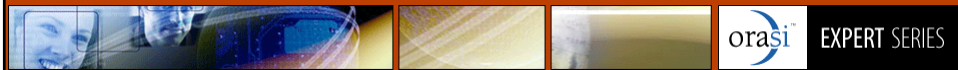
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## Subscription Price Future Issue: Conversions to / from Any Model?



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## Agenda

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- ❖ Price Levels
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- ❖ Wrap-Up

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## Wrap-Up

### Objectives of Presentation

*Describe some of the principles and processes involved in Right Pricing*

- ❖ Five step process
  - ❖ Product Configuration
  - ❖ Scaling Metrics
  - ❖ Price Structure
  - ❖ Price Levels
  - ❖ (Discounts)

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*Wrap-Up*

## Objectives of Presentation

*Apply principles to both traditional and emerging business models such as subscription pricing*

- ❖ Decide if subscription model needed
- ❖ Use Right Pricing principles
- ❖ New companies set new prices
- ❖ Existing companies
  - ❖ Subscription prices relate to perpetual
  - ❖ Must transition existing customers

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*Wrap-Up*

## Objectives of Presentation

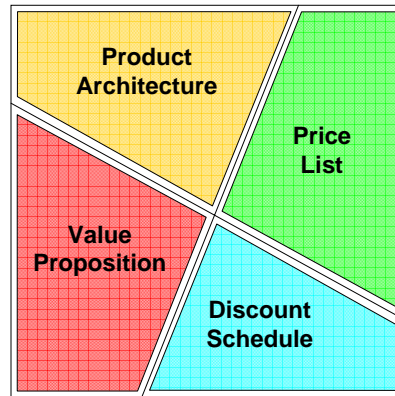
*Enhance value of sales transactions overall using complementary services*

- ❖ Treat as packaged product
- ❖ Modular, scalable
- ❖ Determine deliverables and price points in advance

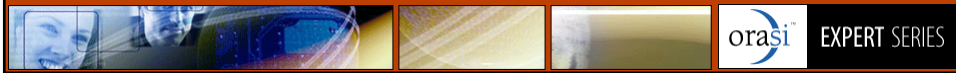
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## Wrap-Up Product Architecture Key to Pricing Success



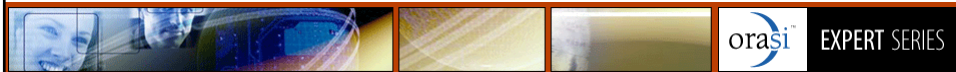
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*OK. Pricing **is** rocket science.  
But it's not **THAT** hard.*



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## Thanks and Q & A

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