

# **Pricing Challenges Facing Software Product Managers**

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**Boston Product Management Association**

## **MarketShare, Inc.**

35 Main Street // Suite 8  
Wayland, MA 01778  
Tel: (508) 647-0330  
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## **Today's Presentation**

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- **Discuss survey results**
- **Address issues raised**
  - Survey
  - BPMA members
- **Broad range of topics**
  - Not in-depth
  - Too quickly?
- **Point you in the “right” direction**

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## About MarketShare

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- **Unique focus since 1987**
  - Pricing software and systems
- **Address client problems**
  - Slow sales cycles
  - Money left on table
  - Chaotic / confusing pricing
  - Entry into new markets / segments
- **Results**
  - Improve financial performance
  - Strengthen competitive position
  - Foundation for future growth

## About the Survey

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- **Not scientific**
  - BPMA + MarketShare lists
  - Not just product managers
- **Based on perceptions of respondents**
  - Not customers
- **Small number of responses**
  - Around 50
- **Consistent with expectations**

## Takeaways

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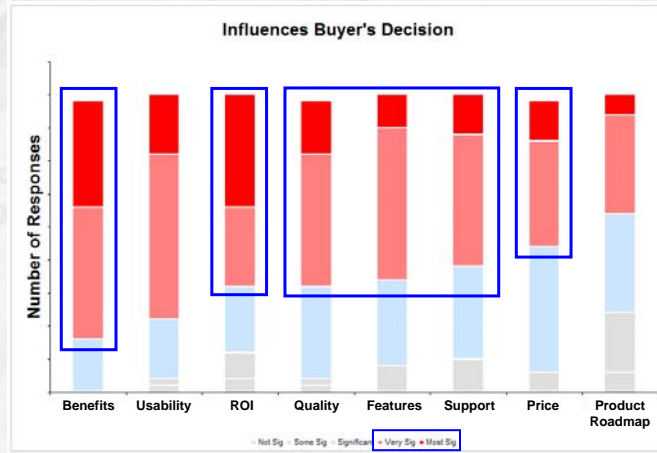
- You are not alone
- Get intimate with customer economics
- Payment streams are interchangeable

## Topics

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- What customers are looking for
- How prices are justified
- Customer economics
- Setting price levels
- License related
- Wrap up

## What Customers Are Looking For Economic Benefits Most Important

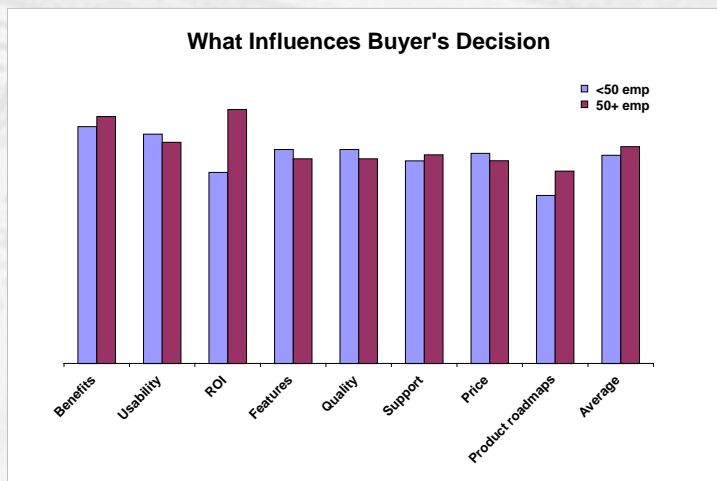


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## What Customers Are Looking For ISV's Outlook Size Independent



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## What Customers Are Looking For

### Recap of Key Findings

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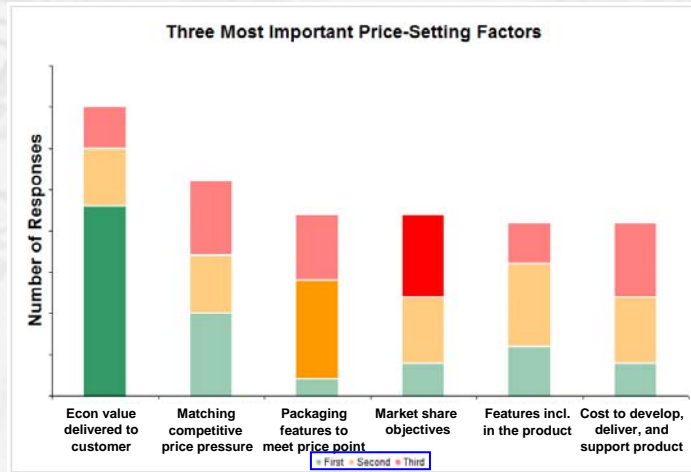
- Economic benefits most important
- Usability important
  - Stands in way of realizing benefit
- Quality, Support and Features very important
  - Maybe price too

## Topics

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- What customers are looking for
- **How prices are justified**
- Customer economics
- Setting price levels
- License related
- Wrap up

## How Prices Are Set Economic Value Leading Factor

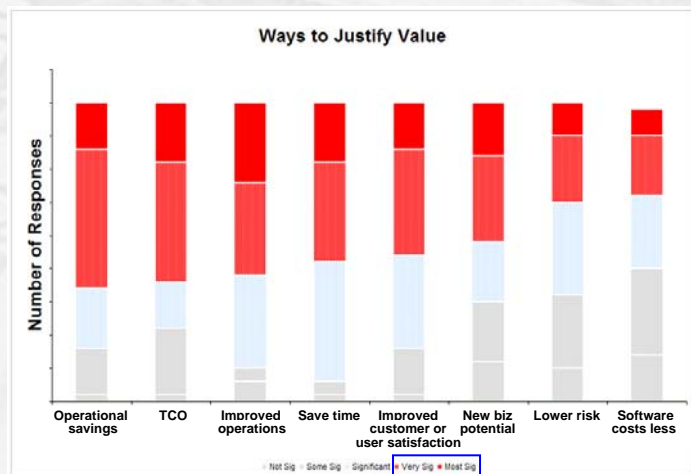


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## How Prices Are Set Aspects of Economic Value



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## How Prices Are Set

# Recap of Key Findings

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- Price setting factors
  - Economic benefits most important
  - Features secondary
    - Tied with packaging
  - Market share objectives #3?
    - Beat competition vs. get sale
- Price justification
  - TCO and savings primary justification
    - Just words?
  - Other items secondary
    - Risk mitigation
    - Revenue impact

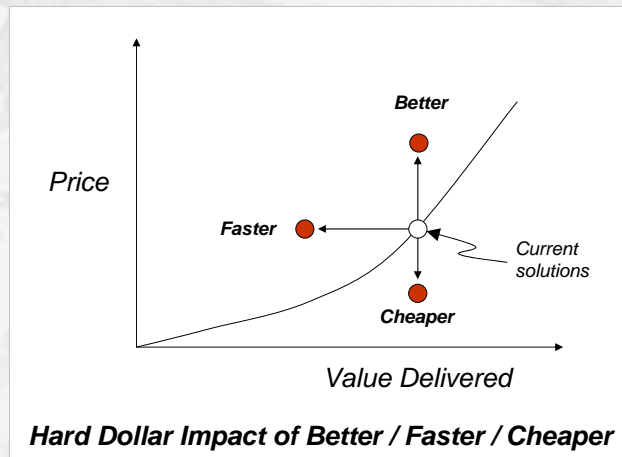
## Topics

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- What customers are looking for
- How prices are justified
- **Customer economics**
- Setting price levels
- License related
- Wrap up

## Customer Economics

# Monetize Value Delivered



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## Customer Economics

# Engage Customer

- **Customer view of their business**
  - Revenues, growth, profits
  - Customer acquisition, retention
  - People, product, production
- **Problems that need to be solved**
  - Means, methods, processes
  - Where product fits
  - Different segments
- **How product will be used**
  - Personal vs. group use
  - Transaction vs. continuous use
  - Sporadic use vs. frequent use

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## *Customer Economics*

# Key Questions

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- **Design**
  - What problem are you trying to solve?
  - Who has the problem?
  - Is the problem growing or shrinking?
- **Pricing**
  - Who will pay to solve the problem?
  - How much will they pay?
  - How much will go into the bank?

## *Customer Economics*

# Benefits and Costs

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- **Benefits of product use**
  - Faster time to market
  - Increase number of customers
  - Decreased downtime
  - Labor, material savings
  - Fewer product rejects
  - Less training
- **Costs of realizing benefit**
  - Management time
  - Conversion time, costs
    - Data issues
    - Training
    - Lost time
  - Product acquisition
    - One-time vs. ongoing

## Customer Economics

# Economic Impact – High Level

Supply Chain Execution solutions from <co. name> boost efficiency, cut costs, and delivers extremely rapid return on investment. Using the our products, specific savings and benefits include:

- \* Reduced labor costs for data entry.
- \* Reduced material handling costs and increased productivity.
- \* Increased inventory accuracy.
- \* Reduced standing inventory.
- \* Elimination of product loss from expiration.
- \* Real-time ERP integration.
- \* Improved customer service.

Additional benefits include extensive lot tracking, reduced training time for new employees, and the ability to optimize warehouse space.

## Customer Economics

# Economic Impact - Quantified

Engine Manufacturer saves nearly \$3 million in test cells  
Industrial Component Manufacturer produces \$1,000,000 net benefit  
Major Engine Manufacturer increases uptime saving \$12 million  
Bearing Manufacturer saves \$335,000 in parts spending  
Foundry Operation sees 50% decrease in downtime  
Component manufacturer reduces machine downtime by 50% saving over \$160,000 In first year  
25% increase in Overall Equipment Effectiveness delivers consumer durables on-time  
Major Remanufacturing Business saves over \$1.5 million annually  
Manufacturer saves over \$1 million a year  
Engine manufacturer saves \$126,720  
Electrical distribution operation saves \$92,265  
Manufacturer of household durables doubles output

## Customer Economics Economic Impact - Timeframe

- **More development output**
    - 1-2% more output
      - Typical project 12 FTEs @ \$100K/developer x 18 mos
      - \$12-24K/year
  - **Shorter time-to-benefit**
    - Shave 2-4 weeks off 18 month project
      - Typical project (above) \$1.8M
      - \$30-65K/year
    - 3-5% more revenues or cost savings
      - ROI of 2X in 3-5 years
      - \$25-40K/year (=3-5% x \$3.6M/4 yrs.)
  - **Start further down "learning curve"**
    - More mature code
    - 5-10% less debugging effort
      - Debugging = 5% project costs = \$90K (\$60K/year)
      - \$3-6K/year
- 
- **\$70 – 135K Annual benefits**
    - \$55 – 105K Shorter time-to-benefit
    - \$12 – 24K Development output
    - \$3 – 6K Debugging
  - **\$75K One-time costs**
    - Technology insertion

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## Customer Economics Economic Impact - Calculator

**INPUT**

**STEP 1: Workplace and email environment**

Number of employees with email

Number of workdays per year per employee

Average hourly salary per employee  United States - Dollar

**STEP 2: eMail usage**

Ave. number of spam emails per day per employee

Number of seconds wasted with each spam message

**STEP 3: Calculate the cost of spam**

**RESULTS**

Total Corporate Cost of Spam		Cost of Spam for Each Employee	
LOST SALARY	Yearly <input type="text" value="\$680.56 USD"/>	LOST SALARY	Yearly <input type="text" value="\$173.61 USD"/>
	Daily <input type="text" value="\$43.40 USD"/>		Daily <input type="text" value="\$0.87 USD"/>
LOST PRODUCTIVITY	Yearly <input type="text" value="26.40 Days"/>	LOST PRODUCTIVITY	Yearly <input type="text" value="12.67 Hours per Employee"/>

**Your ROI with Praetor**

Your  license pays for itself in 38 days or less

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## Topics

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- What customers are looking for
- How prices are justified
- Customer economics
- **Setting price levels**
- License related
- Wrap up

## *Customer Economics* Key Questions

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- **Design**
  - What problem are you trying to solve?
  - Who has the problem?
  - Is the problem growing or shrinking?
- **Pricing**
  - Who will pay to solve the problem?
  - How much will they pay?
  - How much will go into the bank?

## Setting Price Levels

# Start with Customer Understanding

- What they pay attention to...
  - What they pay for (packaging)
  - How the payment scales (metric)
  - When they pay (timing)
  - Price levels
- Hard-dollar economics (revenue / cost)
- Usage and purchasing scenarios
  - Up-front vs. over time
  - Packaging / configuration
  - Upsell path
- Primary configuration
  - Justifiable share of value
  - Adjust as needed
  - Get this price right
    - All other prices are relative

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## Usage and Purchasing

# Choosing Metric Is Key

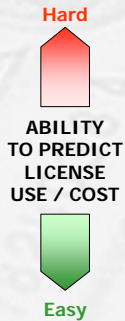
- Find candidates
  - Should align with primary value driver
  - Surrogates maybe acceptable
- Narrow choices
  - Simple, easy to understand
  - Perceived as fair, unambiguous
  - Can be monitored at least
- Pick two user scenarios
  - Different quantity of “value”
  - Same in all other respects
- Test that metric scales with value

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## Metric Is Key Decision Make Metric Predictable



User-Based	Usage-Based	Time-Based	Location-Based
Sessions	# Records Viewed	Day Pass Licenses	Project Team
Concurrent User/Client	# Records Created	Monthly Licenses	Workgroup
Named User	# of Transactions	Short-Term License	Department
CPU locked	# Active Processes	Multi - Year Renewable	Site
Seat-based	# Projects Stored	Perpetual	Enterprise

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## Metric Is Key Decision Align Metric With Value Driver

per loan	+++	per ad	+++	+++
per patient	+++	per bill	+++	+++
per user	++	per claim	+++	+++
per user	++	per customer	+++	+++
per user	+++	per employee	+++	+++
per property	+++	per employee	+++	+++
Per user	+	Per gallon of fuel	+++	+++
per student	+++	per loan	+++	+++
per user	++	per patient	+++	+++
per customer	+++	per patient	+++	+++
per user	+++	per patient	+++	+++
per user	+++	per property	+++	+++
per patient	+++	per property	+++	+++
per employee	+++	per reservation	+++	+++
per user	+	per shareholder	+++	+++
per user	++	per student	+++	+++
per claim	+++	per member	++	++
per bill	+++	per user	+++	+++
Per gallon of fuel	+++	per user	+++	+++
per patient	+++	per user	+++	+++
per shareholder	+++	per user	+++	+++
per user	+++	per user	+++	+++
per employee	+++	per user	++	++
per user	+++	per user	++	++
per ad	+++	per user	++	++
per property	+++	per user	++	++
per user	+	per user	+	+
per reservation	+++	per user	+	+
per employee	+++	Per user	+	+
per member	++	per user	+	+
per user	+	per user	+	+
per user	+	per user	+	+
per user	+	per user	+	+

- Vertical markets
- Aligned with customer's business

- Horizontal and vertical markets
- Sometimes aligned

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## Setting Price Levels Economic Value Pricing

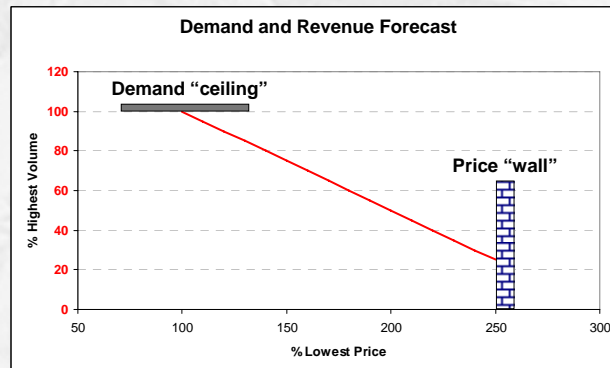
		<i>Notes</i>
1-year net value	<b>\$200K</b>	
Fast payback period	<b>\$100K</b>	Six month return
Target return	<b>10X</b>	Allow for mis-estimate
Value-driven price	<b>\$10K</b>	PV of product features
.....		
Lifetime net value	<b>\$450K</b>	Present value
Target return	<b>10X</b>	Allow for mis-estimate
Value-driven price	<b>\$45K</b>	PV of product features
Annual price	<b>\$15.0K</b>	\$45K / 3 yrs.
Price for faster payback	<b>\$7.5K</b>	More sales?

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## Setting Price Levels Estimate Demand and Revenue

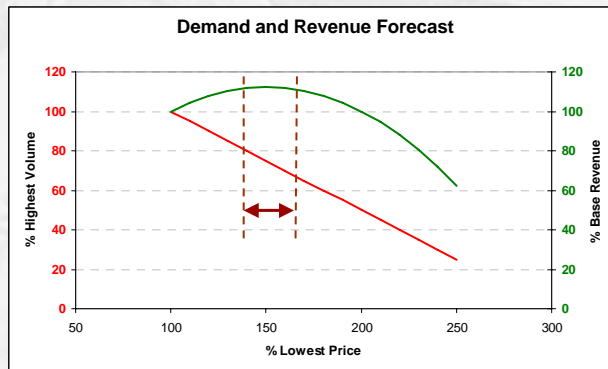


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## Setting Price Levels Estimate Demand and Revenue

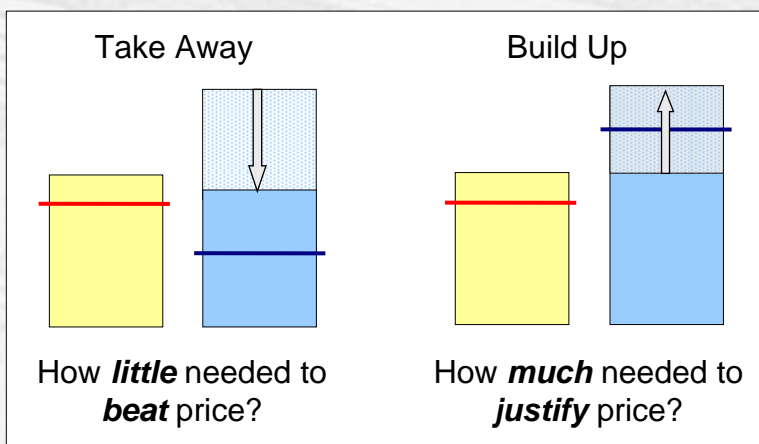


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## Setting Price Levels Meet Price Using Packaging

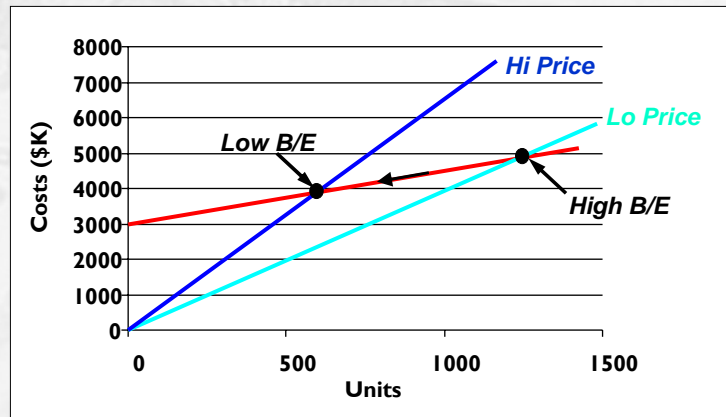


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## Setting Price Levels Volume vs. Financial Exposure



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## Topics

- What customers are looking for
- How prices are justified
- Customer economics
- Setting price levels
- License related
- Wrap up

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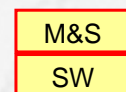
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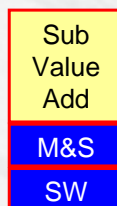
## License Related Parse the Issue

- Application
  - License term
  - License payment
  - License metric
- Access and availability
- Deployment

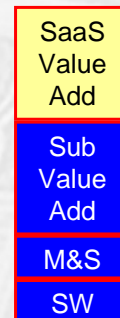
## License Related “License” Value Add



Perpetual

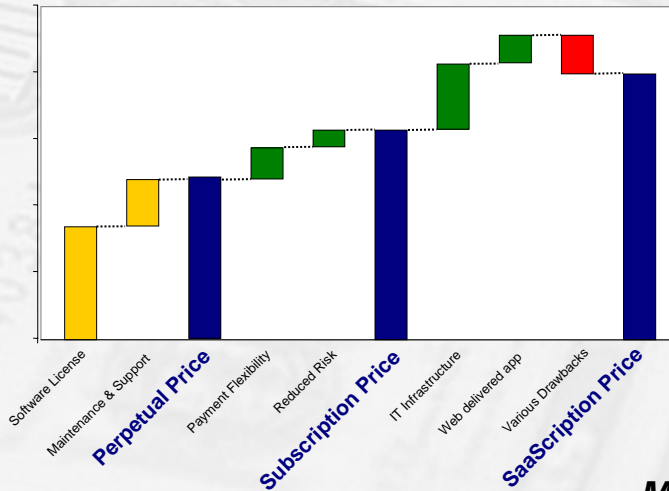


Subscription



SaaScription

## License Related "License" Value Pricing

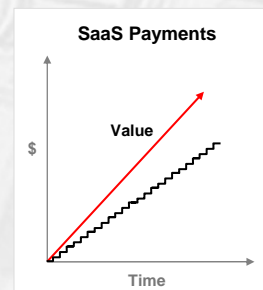
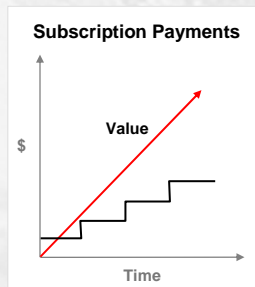
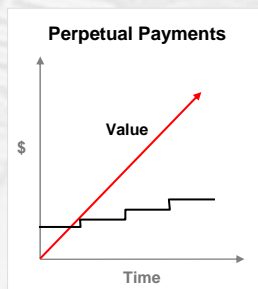


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## License Related Payments Should Reflect Value Add



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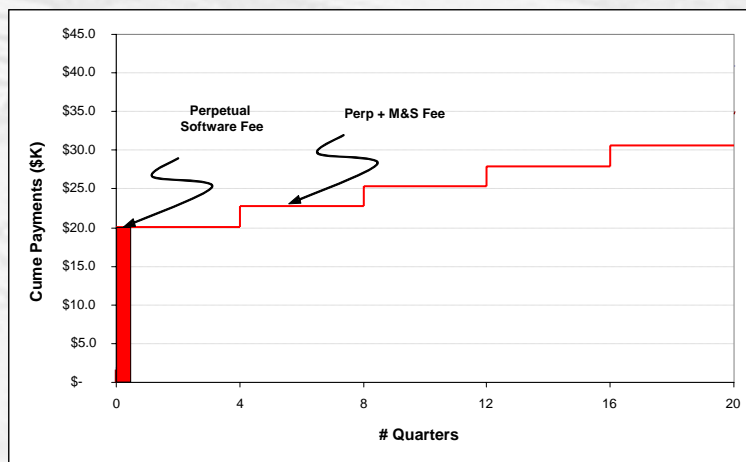
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**License Related**  
**License Equivalence**

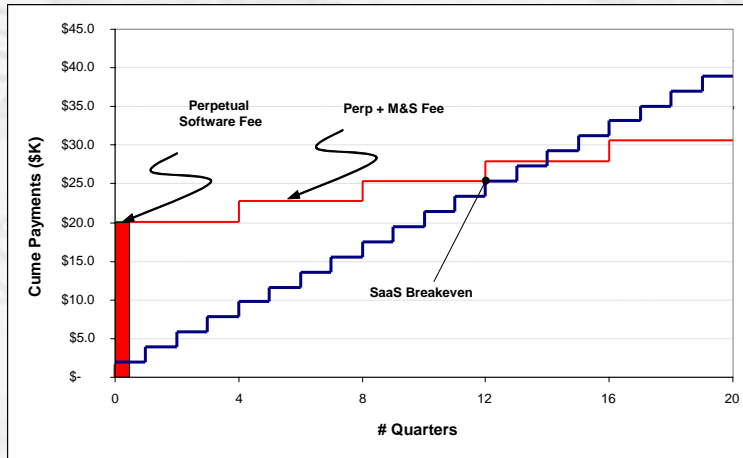
	5 Year Value*	Payment Stream
Perpetual	\$2000	\$1000 + \$250/year
Subscription	\$2500	\$500/year
SaaS	\$6000	\$1200/year \$100/month

\* Specific configuration. Numbers are illustrative

**License Related**  
**Payment Streams Are Convertible**



## License Related Payment Streams Are Convertible

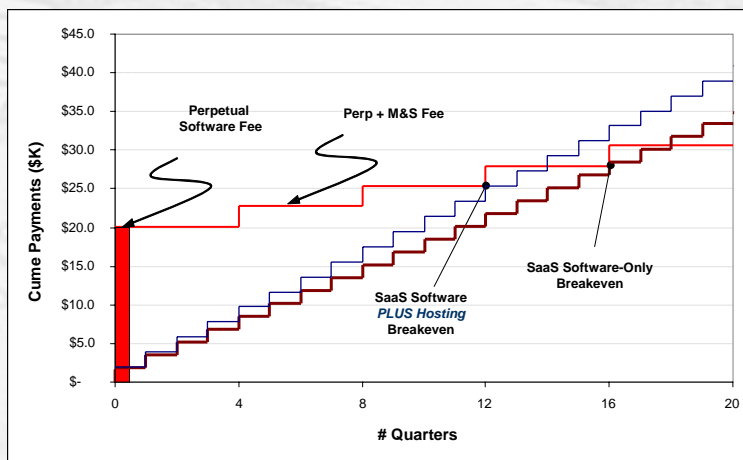


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## License Related Payment Streams Must Be Comparable



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## Topics

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- What customers are looking for
- How prices are justified
- Customer economics
- Setting price levels
- License related
- **Wrap up**

## Wrap-Up

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- What customers are looking for
- How prices are justified
- Cost savings are nice...  
... but more revenue is nicer
- More features may be less value
- Customer targeting essential
  - Design especially

## Wrap-Up

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- Customer economics
- Problem definition is key
  - Importance of delivery option(s)
- Dig in, spend time and effort
- Find several pillars of value
- Estimate economic impact
- Get specific, use examples
- Estimating tools useful

## Wrap-Up

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- Setting price levels
- Start with value and timeframe
- Use correct metric (or two)
- Configure package and price
- Make delivery adjustment (if SaaS)
- Make competitive adjustment
- Get most popular product right

## Wrap-Up

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- License related
- Parse the issue
- Metric determines RTU
- Cover risk and responsibilities
  - Legally and financially
- Align payment schedule with realized value

## Thanks!

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Jim Geisman

[jimg@softwarepricing.com](mailto:jimg@softwarepricing.com)

508 – 647 – 0330