

New Business Models

Pricing to Increase Competitive Strength

Software 2005

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Agenda

- Introduction
- Pricing – Not Price
- Right Pricing
- New Dimension of Competition
- Subscription Model Pricing
- Wrap-Up

Introduction

MarketShare

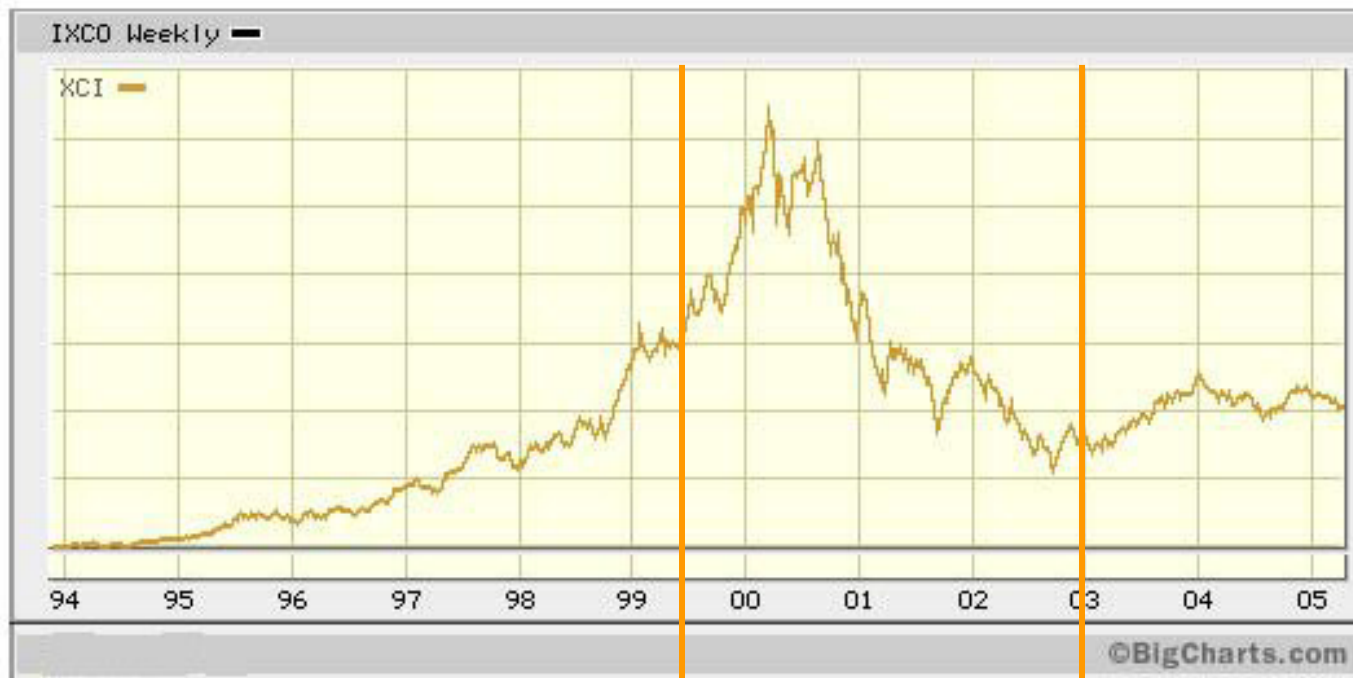
- **Unique focus**
 - Pricing computer software
- **Practice areas**
 - Value-Driven Pricing
 - Value-Based Selling
 - Discount Containment
- **Results**
 - Improved financial performance
 - More value from products & services
 - Increased sales effectiveness

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Pricing – Not Price

Changing Face of Competition



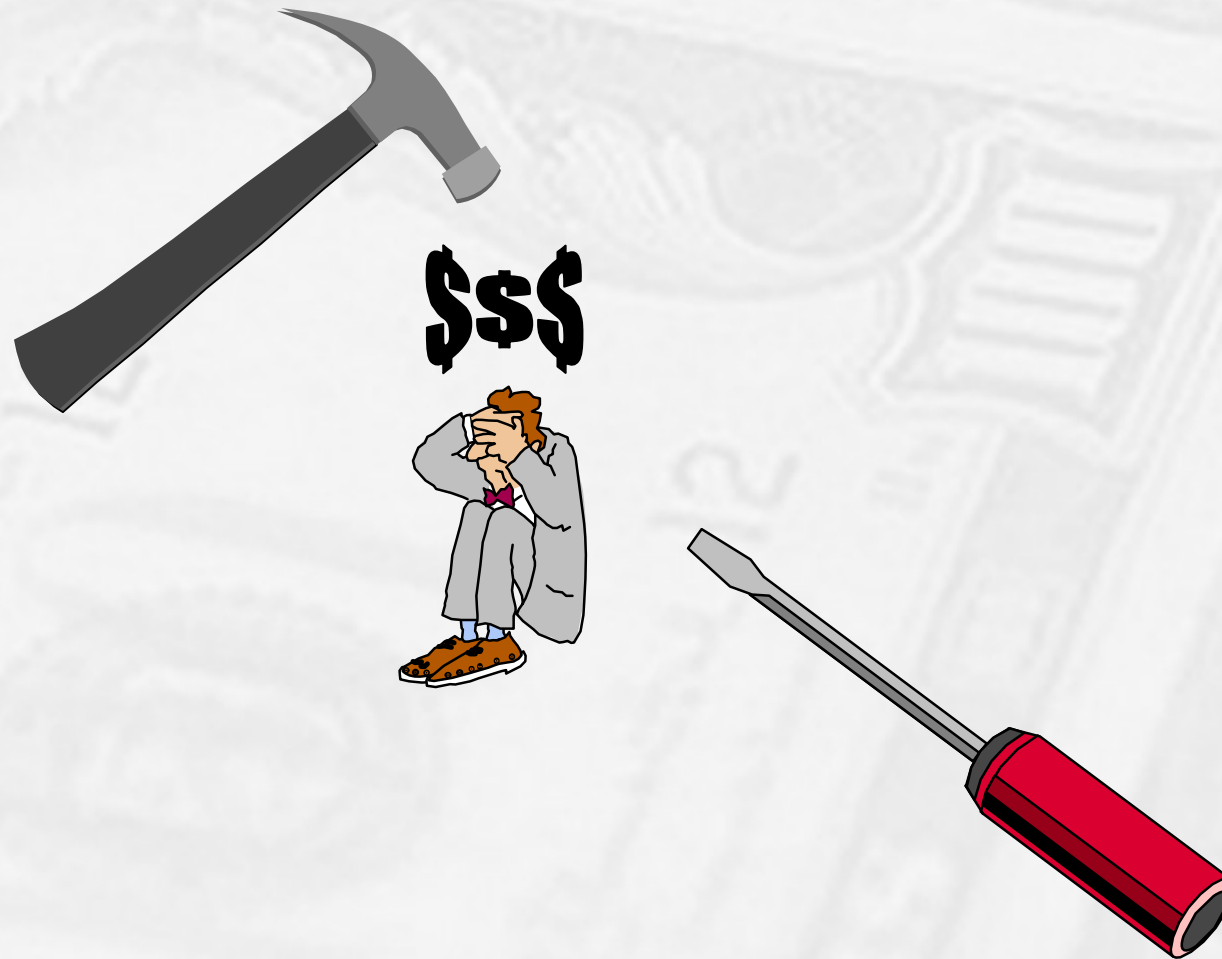
Product

Price

Pricing

Pricing – Not Price

Price – Meeting Customer Demands



Pricing – Not Price

Pricing – Addressing Customer Needs

- **Tool to deliver greater value to customers via alignment...**
- **How software is used**
 - Right sized solution
- **What value is extracted**
 - Price paid for value delivered
- **How customers pay for value**
 - Payments in line with value received

Customer alignment is key

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Right Pricing

Key Steps in the Process

Configuration

Metrics

Structure

Levels

Discounts

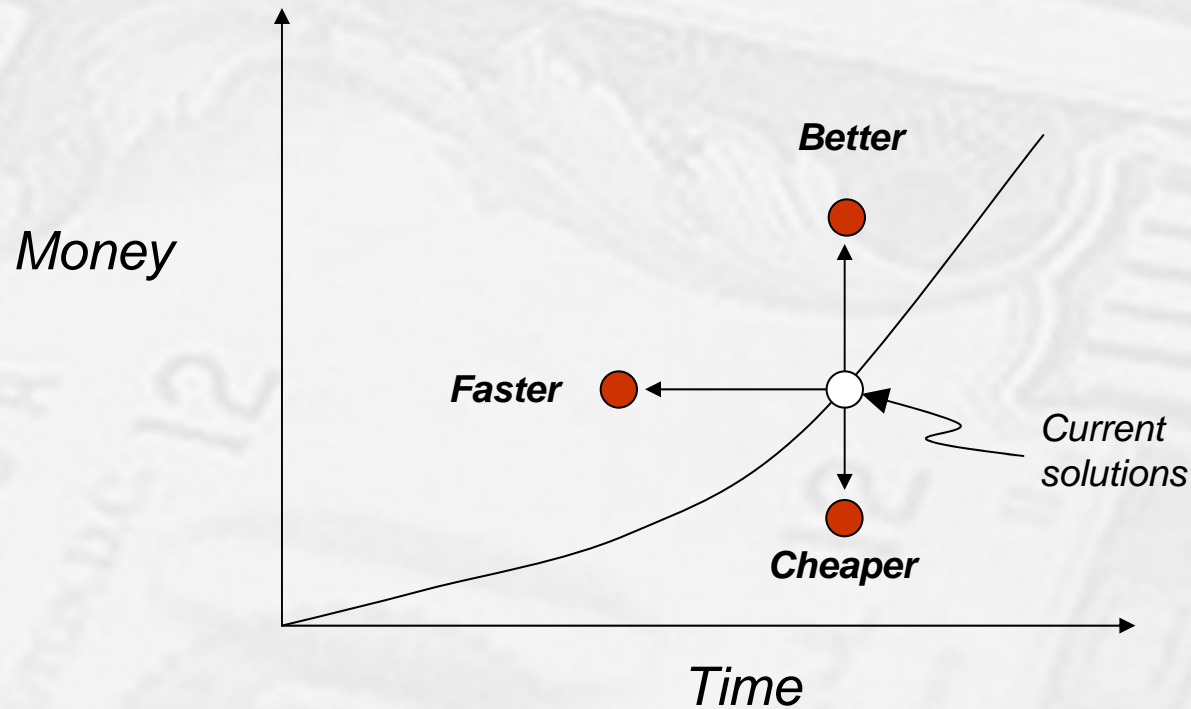
Right Pricing

Deliver What “Counts”

- **Pricing (or scaling) metric**
 - What you count
 - What you charge for
- **Align with customer’s revenue model**
 - People ↔ Per user/seat
 - Deployment ↔ Per copy/CPU
 - Web access ↔ Per session
- **Misaligned metrics = weakness or failure**
 - MIPS / Tiered pricing
 - Megahertz (mega-hurts)
 - Number of citizens

Right Pricing

Address Value Broadly



Hard Dollar Impact of Better / Faster / Cheaper

Right Pricing

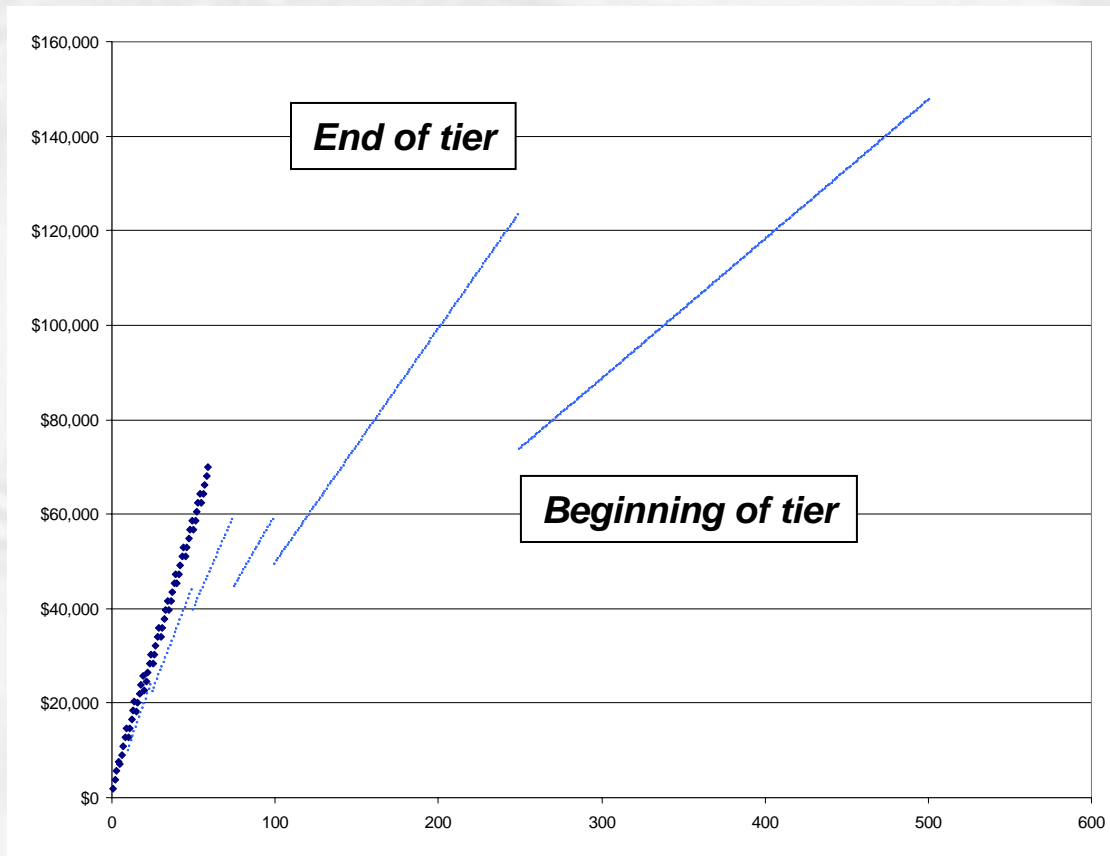
Pay Attention to Detail

- **Get QOP right**
 - Starting point for discount schedule
 - High watermark for all pricing analysis
- **Construct appropriate bundles**
 - Solutions focused - related apps and modules
 - Functionality focused – related modules
- **Make sure price scales smoothly with value**

Right Pricing

Pay Attention to Detail

Revenues



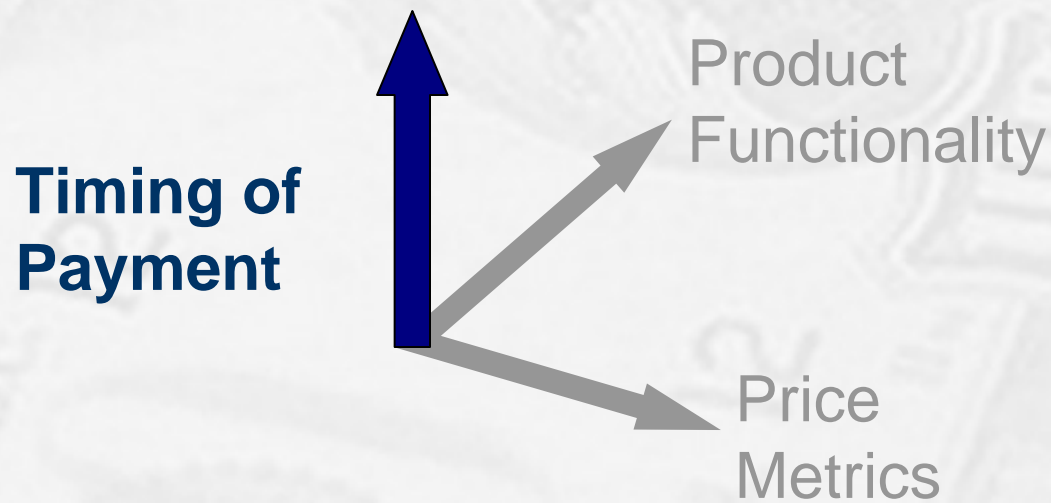
Unit Sales

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New Dimension of Competition

How Customers Pay for Value



New dimension of competition

New Dimension of Competition **Addresses Customer Needs**

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

Whatever it's called...

It has changed the competitive landscape

New Dimension of Competition **Applies to 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 Model

Key Issues for New Companies

- **Get early traction?**
 - Attract right customers?
- **Is demand real?**
 - Will customer actually pay
- **Sole business model?**
 - Handling buyouts

Subscription Model

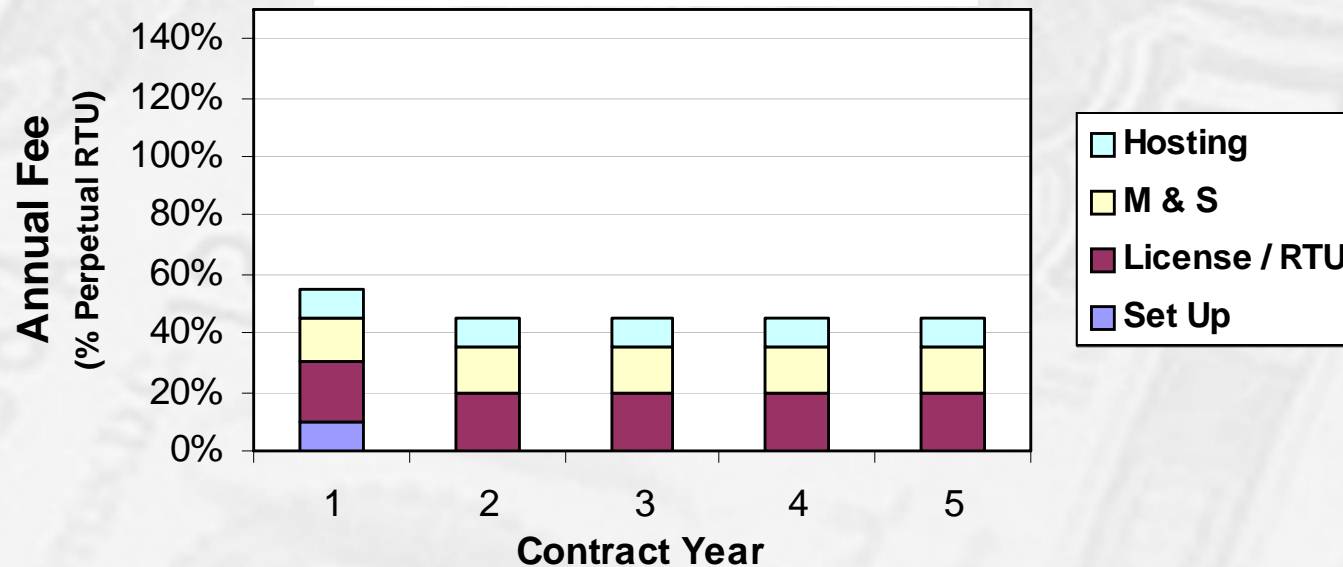
New Company Basics

- **Right Pricing rules still apply**
 - Pricing, packaging, discounting
 - Value support for selling
- **Package must include everything**
 - Maintenance & Support
 - Installation & Training
 - Other services?
- **Align packaging with how value is delivered**
 - Functionality
 - Delivery
 - Payment, other Ts & Cs

Subscription Model

New Company Basics

Subscription Pricing



Initial fee?

Hosting? Where?

Contract term?

Stream of payment(s)

Subscription Model

Key Issues for Challengers

- **Other ways to dislodge competitor?**
 - Better alignment, among other things
- **Fit with perpetual license**
 - Get details right - fast
- **Dealing with current customers**
 - Transitions

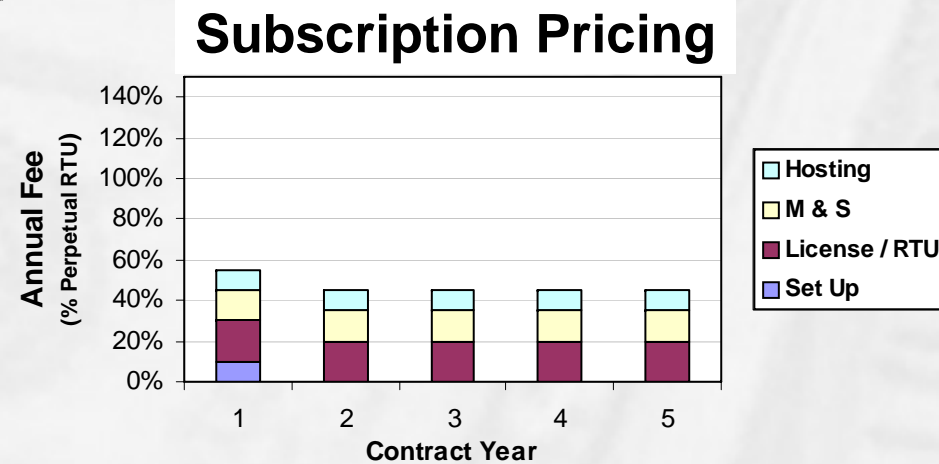
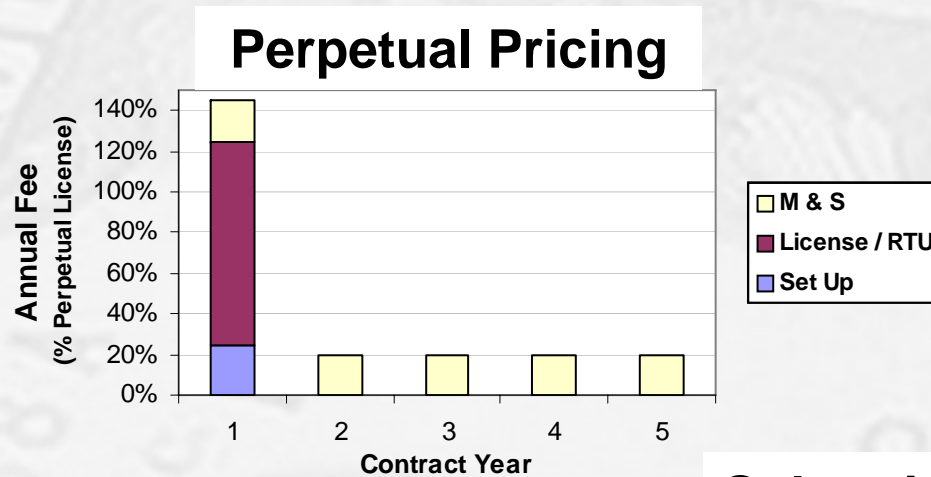
Subscription Model

Challenger Basics

- **Perpetual pricing basics must be solid**
 - Pricing, packaging, discounting
 - Value support for selling
- **Price relative to perpetual**
 - Carefully – for long term
- **Revenue neutrality?**

Subscription Model

Fit Challenger Revenue Model

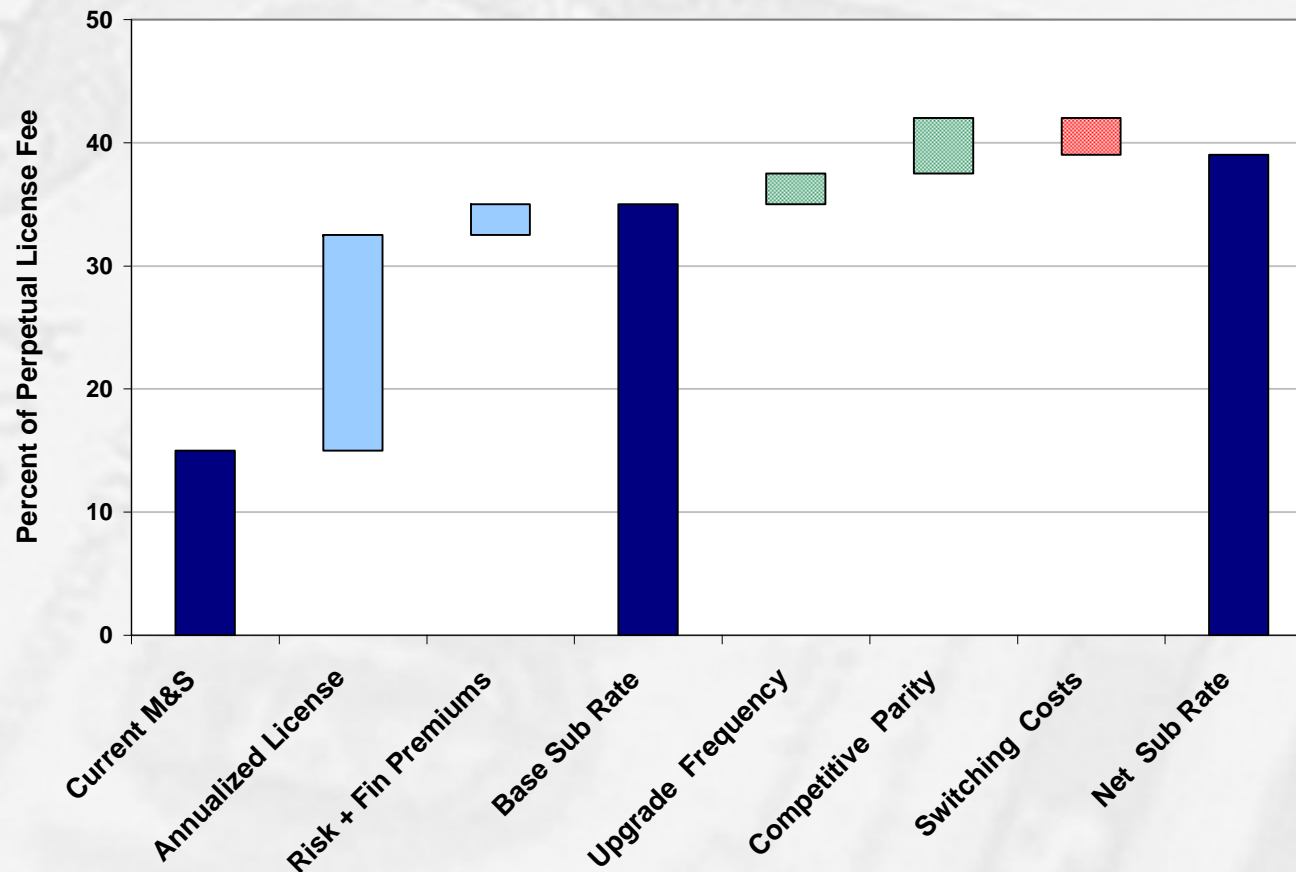


Subscription Model

Challenger Basics

- **Set basic subscription pricing**
 - Perpetual as starting point
 - Basic choices, timing, renewals
 - Finance and risk premiums
- **Adjustments**
 - Upgrade / update frequency
 - Competitive position
 - Switching costs

Subscription Model Use Pricing Methodology



Subscription Model

Key Issues for Defenders

- **Assessing impact of subscription onslaught**
- **Subscription offering needed?**
- **Will demand be there?**
- **Use other defense-strengthening moves?**

Subscription Model

Defenders Basics

- **Perpetual pricing basics must be solid**
 - Pricing, packaging, discounting
- **Use with other improvement?**
 - Tweak pricing to better align? M&S?
 - Simple spread payments?
 - Improve product functionality/value?
- **Ignore competition?**
 - Reputation
 - Long-term/high share
- **Price relative to perpetual**

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Wrap-Up

Right Pricing

- **Fundamental**
 - Subscription and perpetual models
- **Strategy and details**
- **Takes knowledge, experience**
 - Long-term
- **Still not easy**
 - Hard work
- **Increased pressure to get it right**
 - More competitive heat
 - Subscription only model
 - Coexistence with perpetual model

Wrap-Up

Competing on Time

- **“Pay for value delivered”**
 - Clear and accelerating trend
- **Need to understand and consider**
 - Follow the (customer’s) money
- **Not for everyone**
- **How many eggs? Which basket?**
- **Time is now**

Thanks!

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