

# **Value-Driven Pricing**

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***Customer Alignment Is Key***

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# Agenda

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- Introduction
- Industry challenges
- Business alignment
- Alignment examples
- Achieving alignment
- Wrap-up

# Introduction to MarketShare

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- **Unique Focus**
  - Pricing 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

# Where We're Headed / Takeaways

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- Understand your customers and end-users
- Align product with customer's usage needs
- Make product available in bite-sized chunks
- Align pricing with customer's business model

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## *Industry Challenges*

# **Current Environment**

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- **Customer's view of value is changing**
- **Increased competition**
- **Buyer's market**
- **Focus more on price than features**

***Does anyone pay for value anymore?***



## *Industry Challenges*

# Customer View of Value Is Changing

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- Pay for business performance
  - Focus more on economic value, ROI
- COD charge for product
  - Emergence of On Demand, SaaS
- More (features) is less (value)
  - Resistance to M&S payments
- Scalable usage
  - Who uses what and how much used

## Industry Challenges

# Way to Assess Customer Value

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- Customers want contracts with:
  - Charges based on usage
  - Payments based on *their* needs
- Customers want product that delivers:
  - Functionality they *need*
  - Access by individuals who need it

**Value created when ...**

**...contract terms and product are  
aligned with customer business model**

## *Industry Challenges*

# Helping You Meet the Challenge

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- **Assess company position**
  - Contract terms
  - Product delivery
- **Suggest near-term actions**
- **Indicate how technology can help**

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## *Business Alignment – Charges & Payments*

# **Way to Assess Customer Value**

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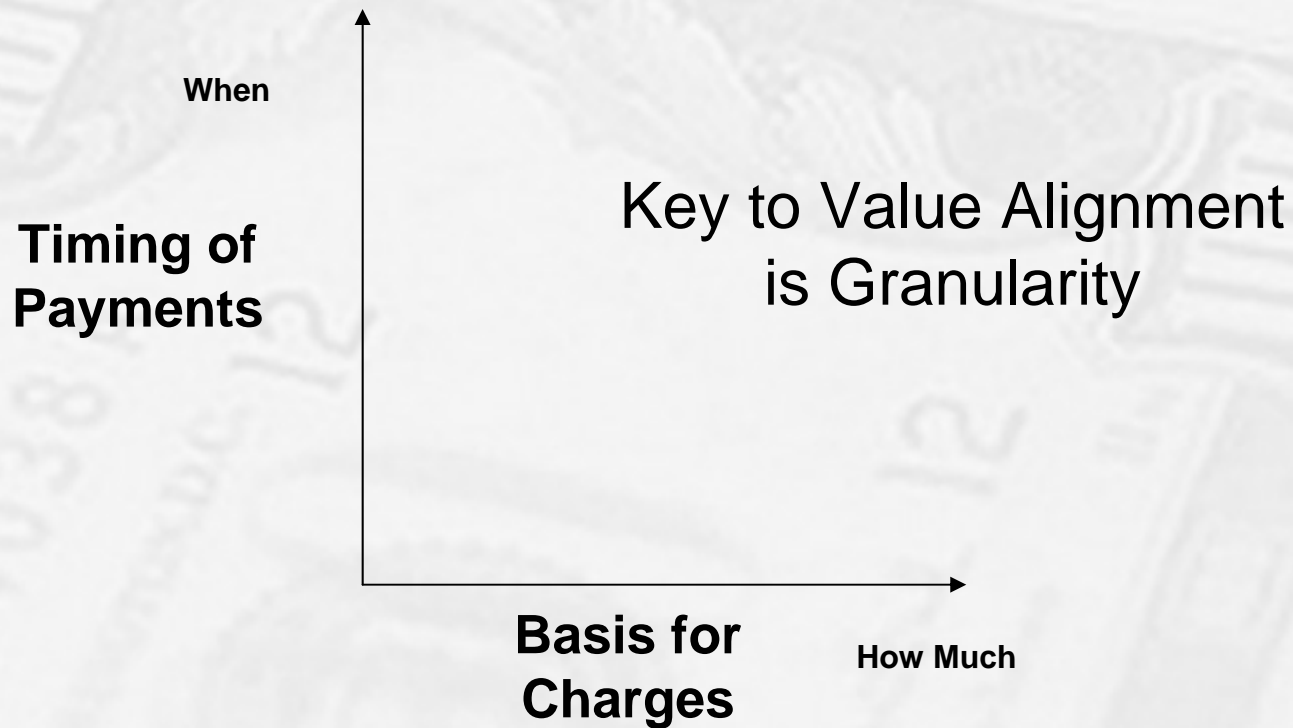
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# ***Business Alignment – Charges & Payments***

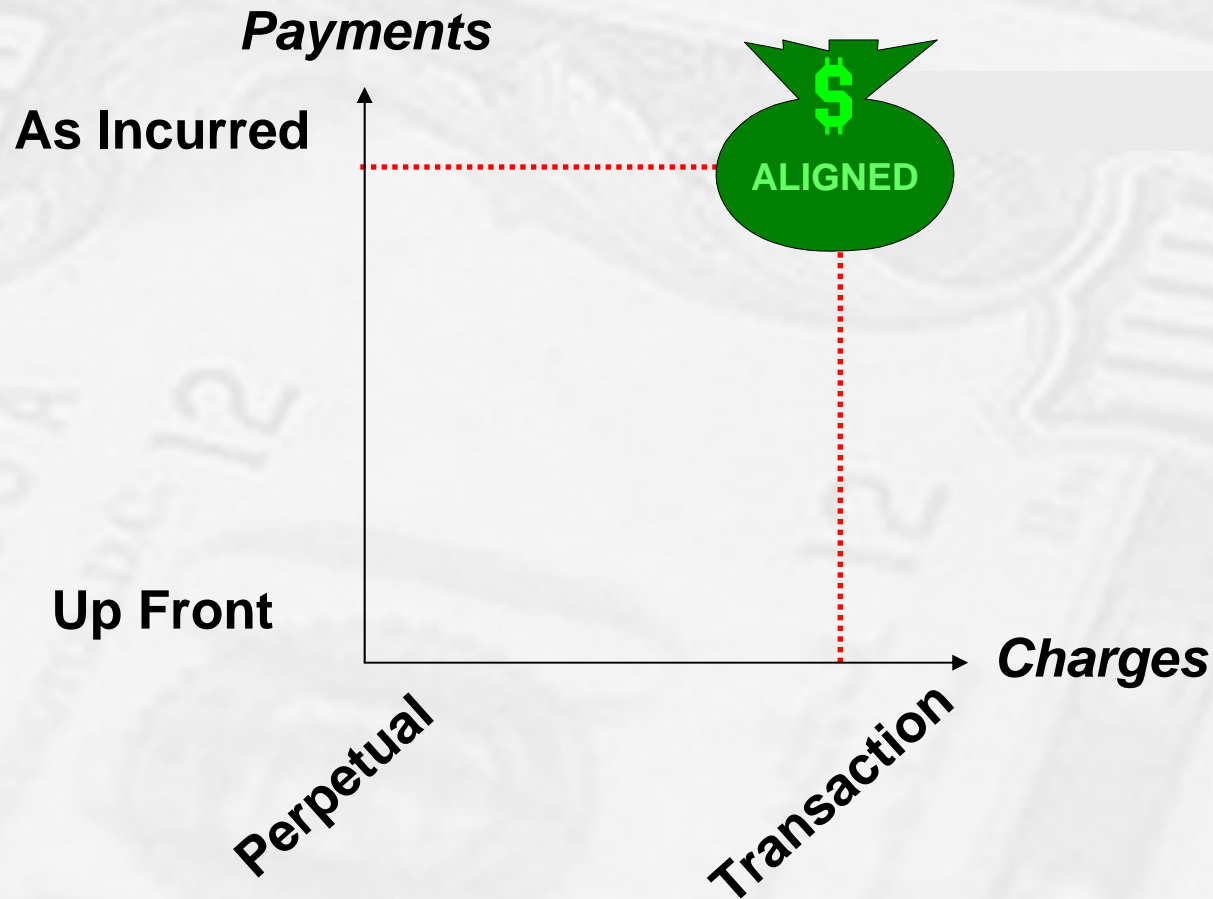
## **How Much and When to Pay**

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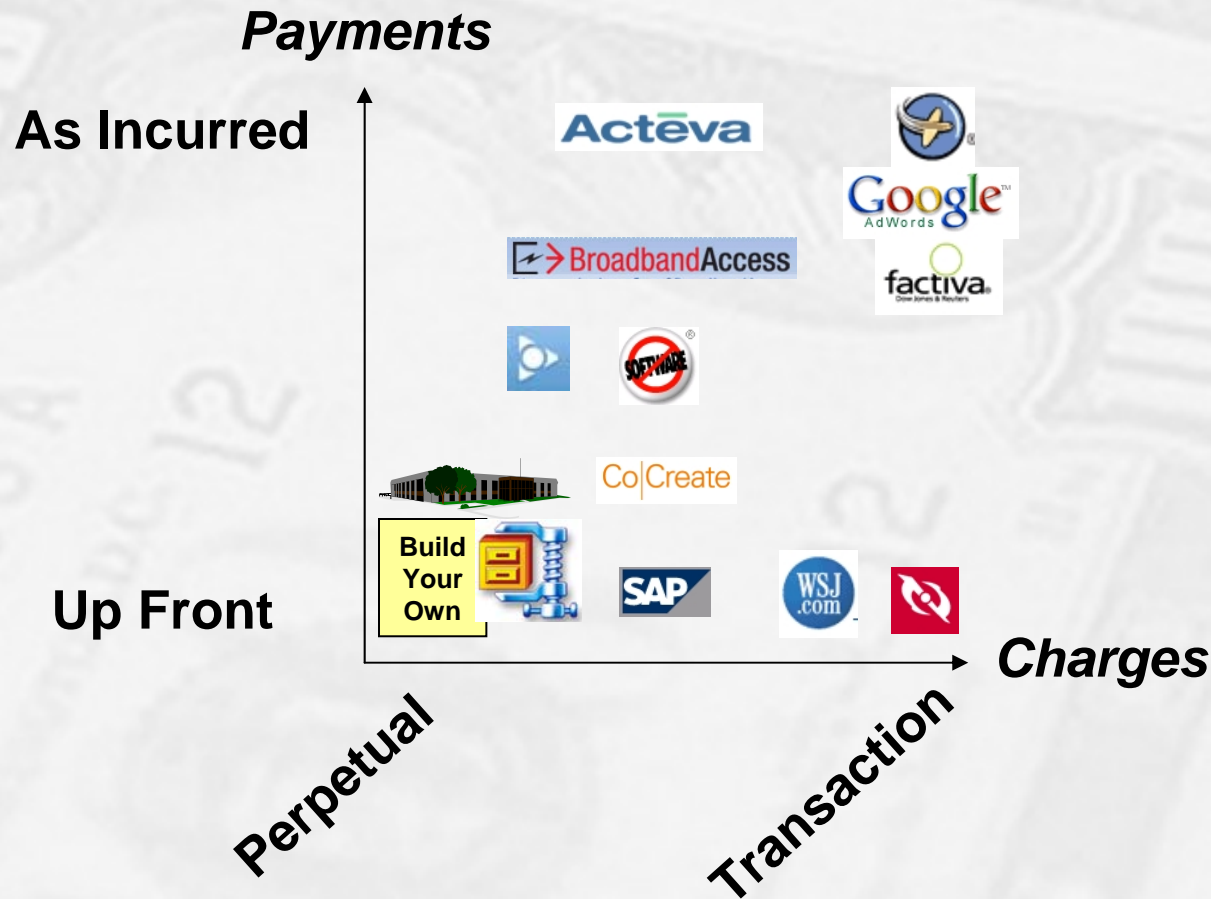


# *Business Alignment – Charges & Payments* **Provide Contract “Granularity”**

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# Business Alignment – Charges & Payments Provide Contract “Granularity”



## *Business Alignment – Functions & Access* **Way to Assess Customer Value**

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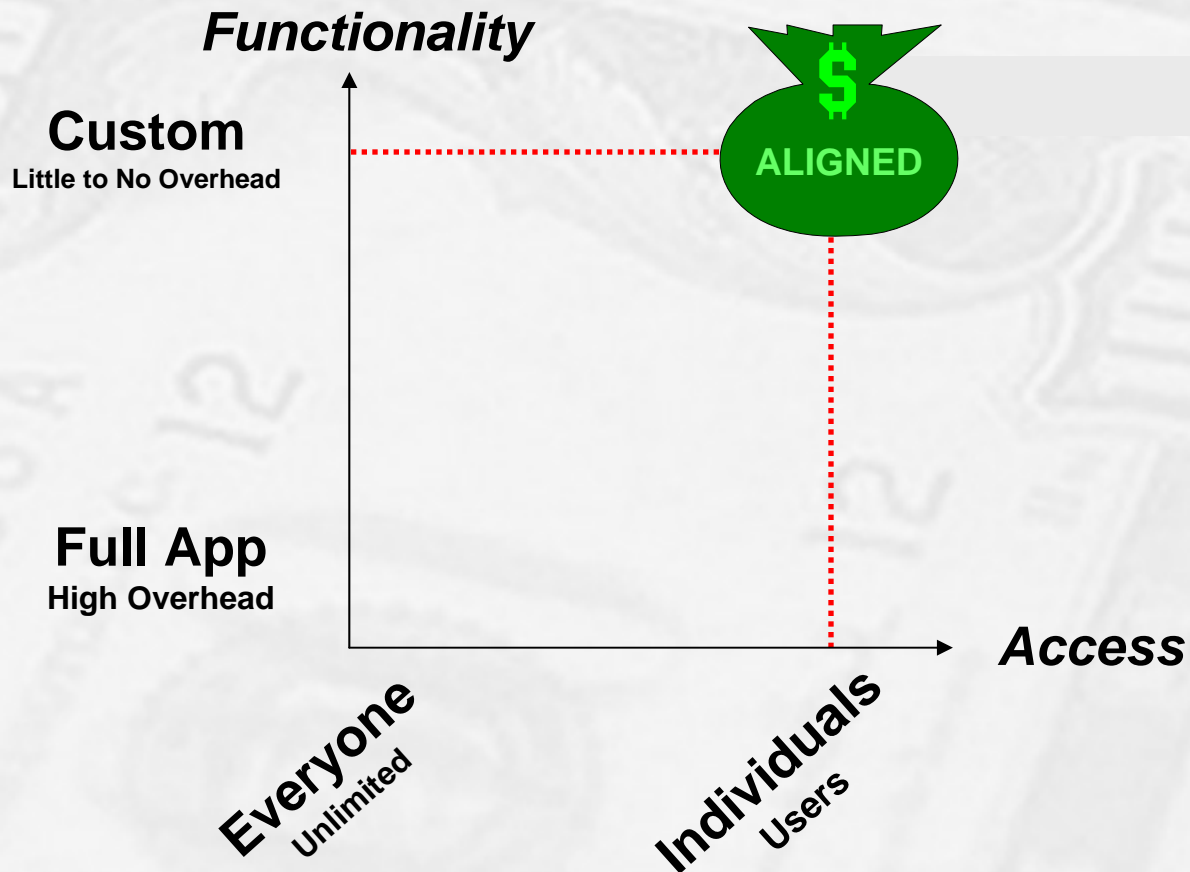
# *Business Alignment – Functions & Access*

## **Who Can Get What**

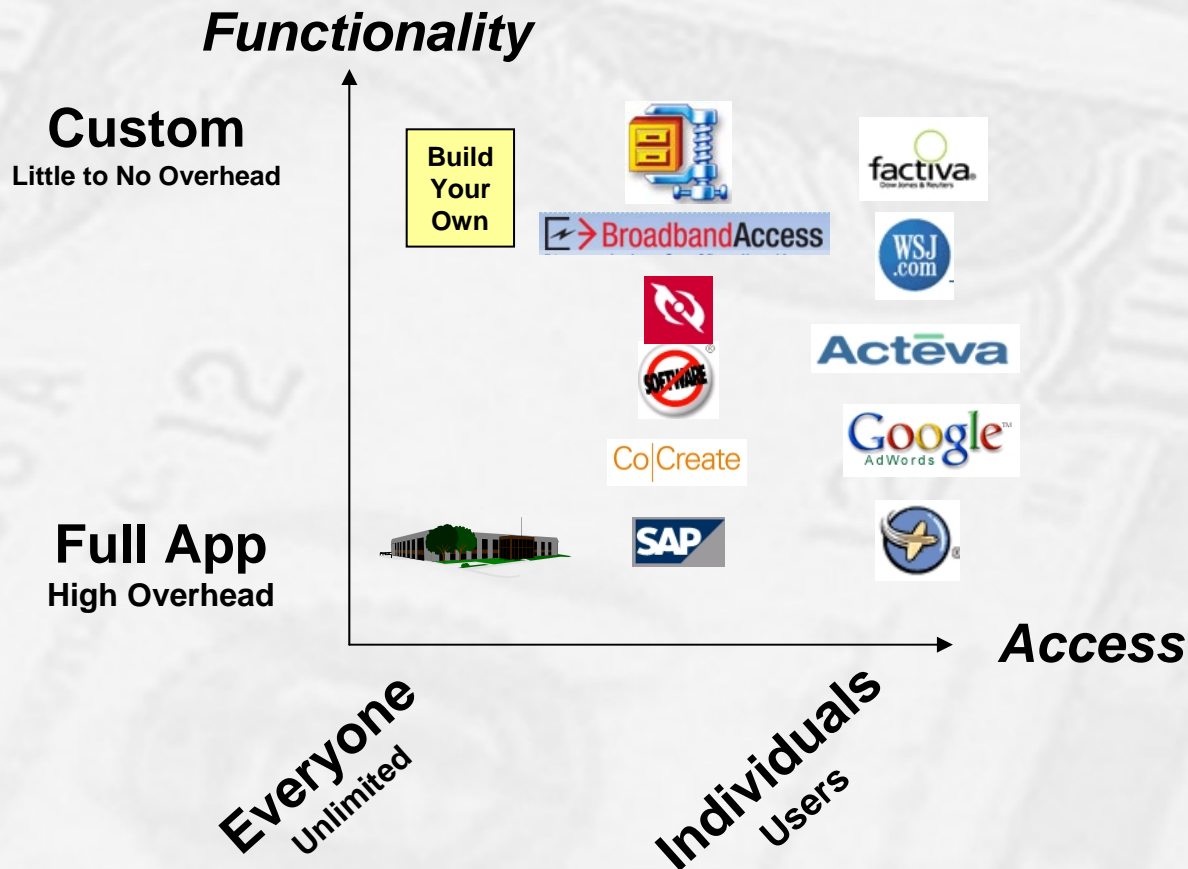
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# Business Alignment – Functions & Access Provide Product “Granularity”



# Business Alignment – Functions & Access Provide Product “Granularity”



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## *Alignment Examples*

# **Align Metric with What “Counts”**

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- **Pricing (or scaling) metric**
  - What you count
  - What you charge for
- **Align with how value is delivered**
- **Customer’s revenue model**
  - People ↔ Per user
  - Deployment ↔ Per copy
  - Web access ↔ Per session

## *Alignment Examples*

# **Aligned Metrics**

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- **Salesforce (RightNow) – per sales rep**
- **Check scanning (Kodak) – per check**
- **Network mgmt (OpenView) – per device**
- **Insurance (Allenbrook) – per policy**
- **Survey (Zoomerang) – per survey**
- **Stock trading (Archipelago) – per trade / share**
- **Credit processing (Verisign) – % transaction**
- **SW asset mgmt (Macrovision) - % revenue**

## *Alignment Examples*

# **Misaligned Metrics**

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- **Mainframe – Per CPU**
- **Mainframe – MIPS / Power unit**
- **CAD software – Per WS + Unix version**
- **Oracle – MegaHertz**

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## *Achieving Value Alignment*

# **Actions – Charges & Payments**

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- **Introduce Limited-Term licenses**
  - Lowers risk to vendor and customer
  - Lower entry price can broaden market
- **Move from “All Now” payments**
  - Get closer to pay-per-use
- **Offer term as an alternative to perpetual**
  - New prices needed
  - Consider new metrics?
- **Revise price points**
  - Improve value orientation
  - Factor in financing, risk

## *Achieving Value Alignment*

# **Actions – Functions & Access**

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- **Focus on customer segments in terms of...**
  - Price sensitivity
  - Access requirements
  - Product bundles
- **Uncover new opportunities during development**
  - Listen to customers
  - *Really listen* to end-users
- **Establish and maintain dialog**
  - Economic buyers
  - End users
  - Support staff

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## *Basics of Value*

# Customer Understanding

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- **Focus on customer knowledge**
  - Who is “customer”, what segments
  - Know risks they will bear
- **Understand how customers decide / buy**
  - Decrease risk and financial exposure
  - Keep payback period short
- **Need information**
  - Customer / account level
  - End-user level
- **Continuous process**

## *Getting Aligned With Value*

# **Product Usage**

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- **How will people use product?**
  - Personal vs. group use
  - Transaction vs. continuous use
  - Sporadic use vs. frequent use
- **How do customers want products installed, supported ?**
  - Individually vs. workgroup
  - Division, site, company-wide, corporate
  - In-house vs. external support

## *Staying Aligned With Value*

# **Pricing & Scaling Metrics**

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- **Choose metrics carefully**
  - Focus on significant metrics
  - No more than two or three?
- **Create appropriate bundles**
  - Related to how “product” is delivered
- **Instrument the application**
  - License servers, keys
  - Can't charge for things you don't count

# Thanks!

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