

# Utility Pricing: Benefits and Challenges

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# About Wind River

- Market leader in Embedded Software.
- Licenses Tools and Operating Systems via two business models.
- Launched Enterprise Licensing Model in November of 2002.
  - Utility based subscription model.

# Sean's Roles and Responsibilities

- Drive license management strategies into a product or product bundle to support major business and pricing models.

# Benefits of Utility Pricing

## ISV's

- Enables new business models and price points to attract new buyers.
- Enables usage metrics and forces sales to manage accounts differently.
- Weaknesses with traditional models
  - Redundancy
  - Follow the Sun
  - Network limitations

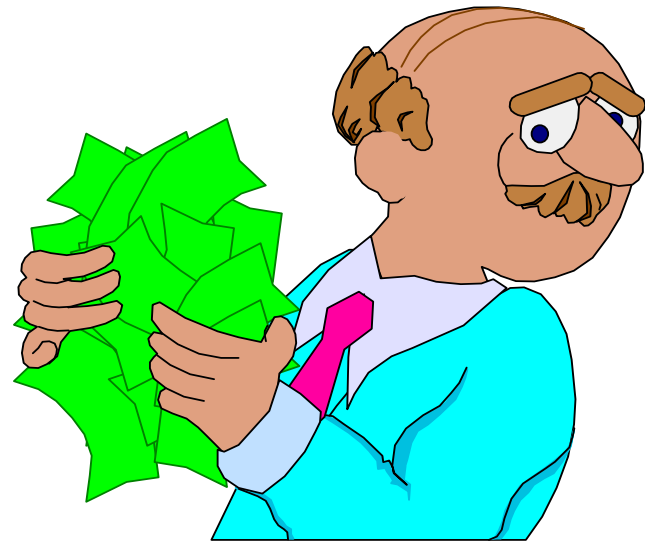
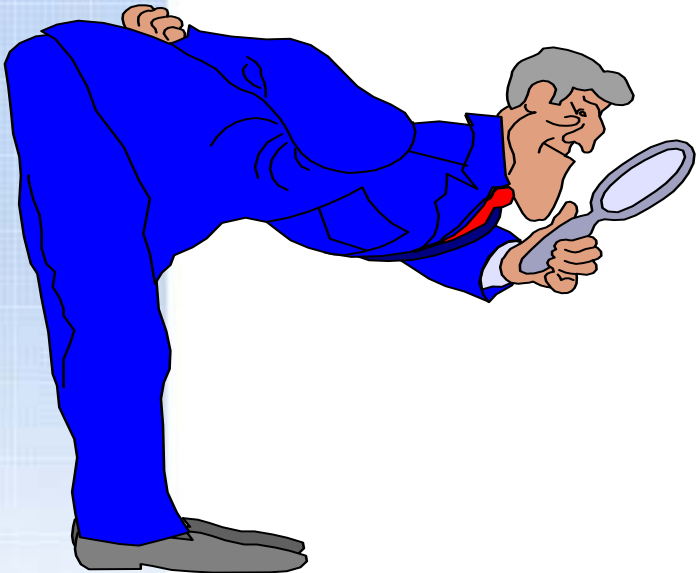
## Customers

- Enables new buying methods to match how YOU do business.
- Requires REPORTING
- Introduces objective metrics for your investment.
- Compliance should be easier

# Key Questions for Software Vendors considering Utility pricing:

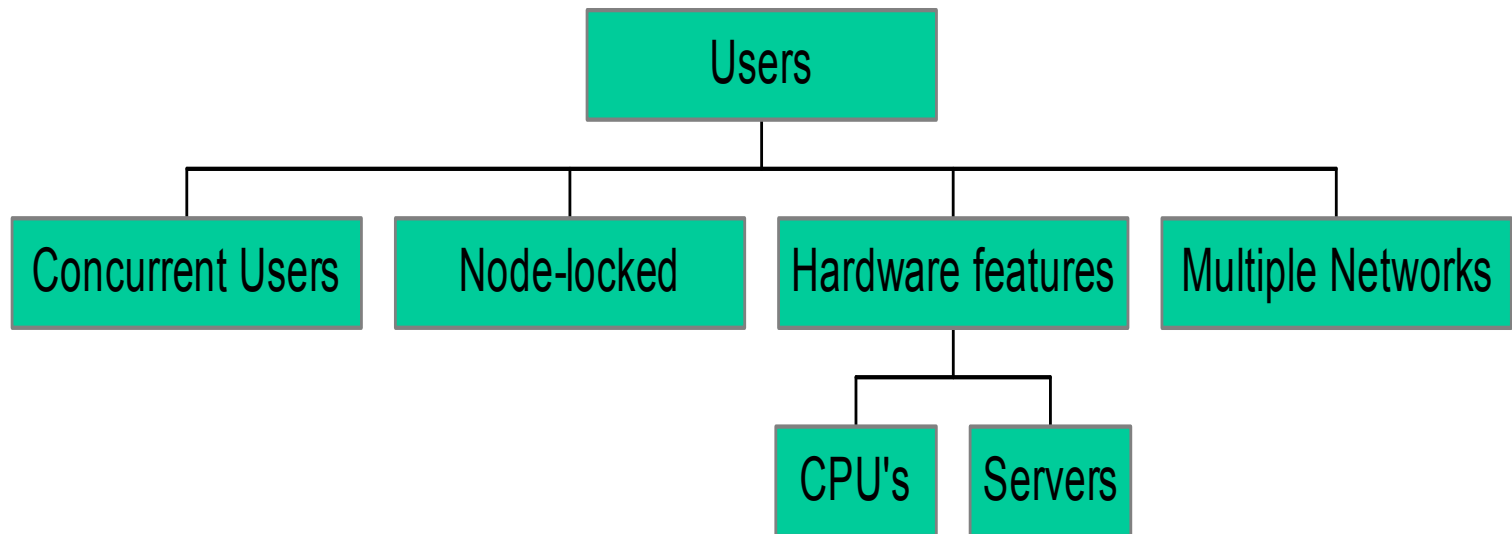
- What market forces are driving you and your customers towards utility based pricing?
- What's the utility you're trying to price and why have you chosen it over others?
- Who's asking for it and why?

# Market Dynamics and industry trends



- Are your customers asking for usage metrics or telling you about usage metrics?
- Are you telling your sales force to get more “Strategic” with your customers?

# What's the Utility?

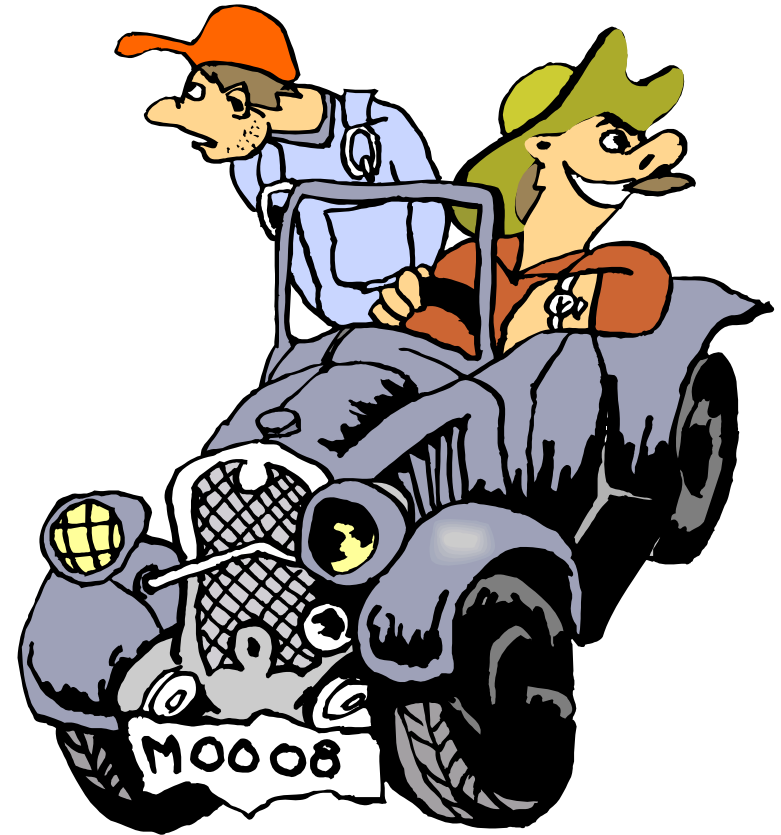


- Analyze the strengths and weakness of your traditional models.
- Determine what is most important to a specific market need.
- Major benefit of Utility pricing is creating a new offering for existing and new buyers to consider.



# Who's asking you to look into a Utility pricing model and Why?

- Analysts
- Executives
- Business Consultants
- Industry Experts
- Customers
- Competition
- Sales Reps





# "Selling" the concept

- Identify the benefits of the model with your customer BEFORE going to Market.
- Key Questions to seek answers to:
  - Have you identified who your target customer is for Utility pricing?
  - Is he in more than one market?
    - HINT: (If YES, you've got more than 1 buyer to worry about.)
  - Have you identified who the buyer is within a market specific customer?
  - Do you know how he has to buy?
  - Have you tested the model with all the target markets you plan to sell the utility to?
  - WARNING: If you don't answer these questions, you are going to have trouble selling utility pricing to your sales force BECAUSE.....
  - However, if you do gain an understanding of your target buyer(s), selling the concept becomes a lot easier for everyone!

# What should I compare it to and Why?

- Is the demand strong enough to outright replace your traditional software
- pricing and licensing or should I view utility based pricing as simply another
- procurement option for customers to consider?
- Have you analyzed your ASP lately?
- Have you analyzed your discounting percentages?
- What is your maintenance renewal percentages?
  - Are they flat? Increasing? Decreasing?
- Are you analyzing Wins and Losses?
  - Is price or licensing terms a common reason for losses?
- Should you limit your product offering to one model?

# I've gone to market, NOW WHAT?



- Challenges to consider:
- To whom have you sold the concept?
- Is your license agreement in alignment?
- Is your support renewal agreement in alignment?
- Is your ERP infrastructure in alignment?
- Can you quote it?
- Can you update it?
- Can you renew it?

# Implementation guidelines / best practices / hints and tips

- TIP #1

- 90% of the work is figuring out.....

- Business Rules
    - Process / System Gaps
    - Business Model drivers

- Tip #2

- Implementing the technology is pretty simple if you execute tip #1.

# Implementation guidelines / best practices / hints and tips

- Tip #3
- Business Rules should drive the process.....but who should drive the Business Rules?
  - Surround yourself with decision making team members.

# Implementation guidelines / best practices / hints and tips

- Tip #4:
- To determine your infrastructure changes
  - Do a Process Flow for each critical functional area.
    - Quoting, Ordering, Supporting, Renewing, Reporting

# Implementation guidelines / best practices / hints and tips

- Tip #5
- Train Sales to find your target customer and show them what they look like.
  - Avoid presenting too much detail on actual implementation.
  - What should you expect if you don't do this?



# It's your Buyer's mindset that counts!



Start-up Bobs

Traditional or Utility?

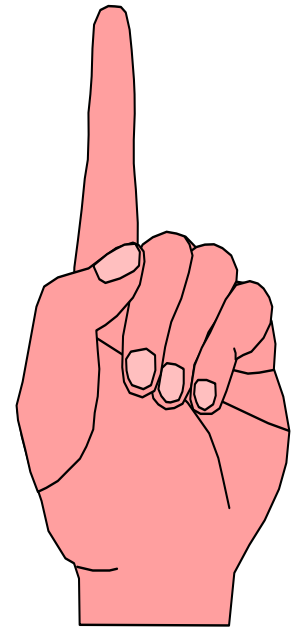


Multi Bob



Utility

Silo Bob

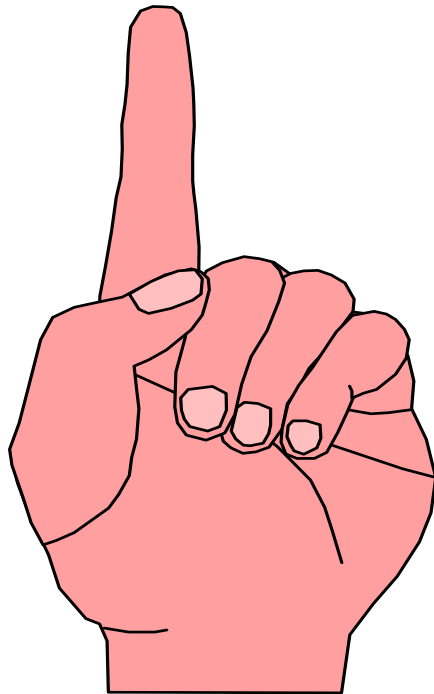


If Utility.....  
Change request?



# Create Customer Profiles....

## Large to Medium sized Defense Company



Silo Bob

### Common Characteristics:

- One Site
- Chooses 1 Option and sticks with it
- One Network
- Multiple Host
- One Development Team
- Single Focus (Project X)
- Controls resources for length of Project X
- Team averages 5 to 20 Developers
- Communication concerns

# Implementation guidelines / best practices / hints and tips

- Documents to consider creating..
  - White Paper on the model
    - Business Leaders
    - Lawyers
  - System Administrator's Guide
    - Reporting Instructions (new)
    - Current Documentation update

# Implementation pitfalls and how to avoid them

- Learn the technology limitations.
- Try to simplify, it's easy to get too complicated.
- Who do you need to help you execute?
  - Engineering
  - Project management
  - Legal
  - Executives
  - Finance
  - Operations

# Conclusions



- Strive to understand the market forces
- Get multiple executive support to go to market
- Set the expectation that utility pricing won't be a fit for every customer.

What are your Questions?