

Multicore Processors: The Last Straw for Hardware-Based Pricing?

Jim Geisman, Principal & Founder

MarketShare, Inc.

35 Main Street // Suite 8

Wayland, MA 01778

Tel: (508) 647-0330

jimg@softwarepricing.com

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Agenda

- Introduction
- Case Against Hardware-Based Pricing
- Aligning Software Pricing with Value
- Achieving Value Alignment
- Wrap-up

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

Takeaways for Software Vendors

- Move away from hardware-based pricing metrics
- Business value depends on “granularity”
- Several ways to achieve “granularity”
- What to do now

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Case Against Hardware-Based Pricing

How Software Vendors Tie Pricing to Hardware

Per Computer

Per Computer By Class

Per Server By Class

Per CPU

Per Core...?

- Hard to predict the future...
...but tying SW prices to HW won't work!

Case Against Hardware-Based Pricing

HW-Based Pricing Causes Problems

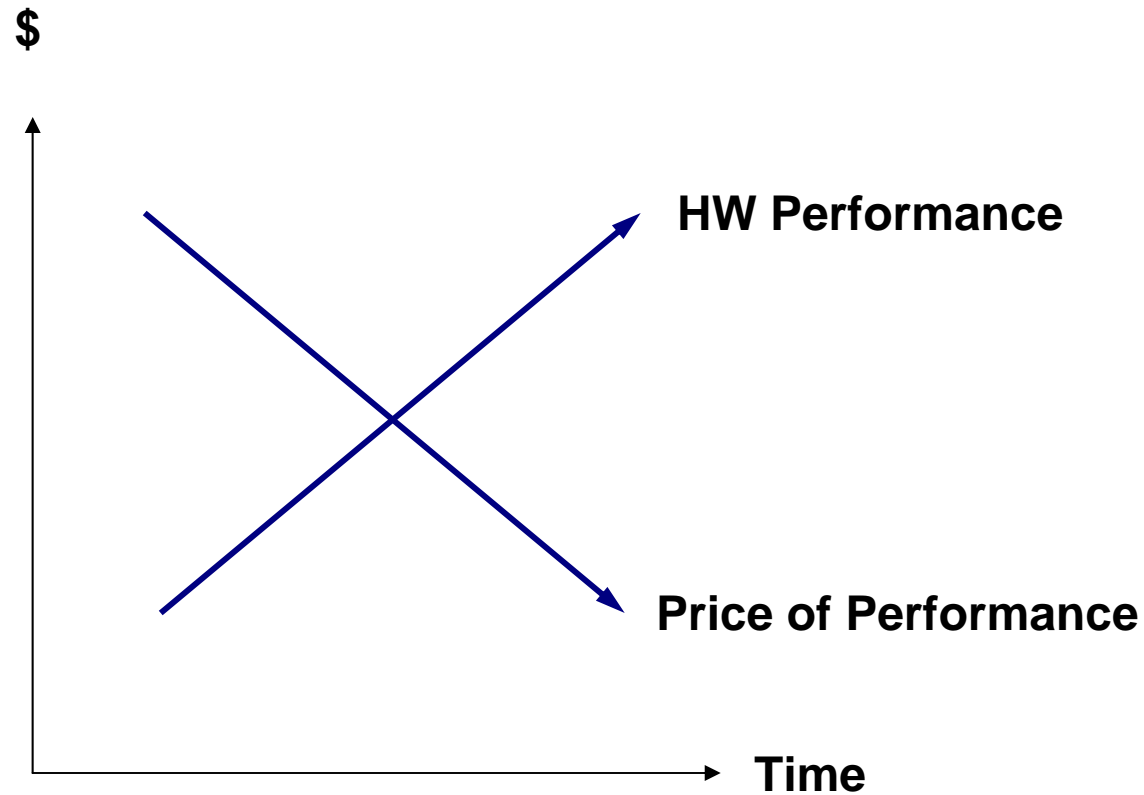
- When license count depends on HW performance...
 - ... Less software will be licensed
- When pricing metric refers to HW in any way...
 - ... Customers will expect lower prices
- Where HW prices go down
 - ... SW looks more expensive

This is a No-Win because...

... SW economics are different from HW

Case Against Hardware-Based Pricing

Trends in Hardware Pricing



Case Against Hardware-Based Pricing

How HW Vendors Deliver Greater Value

Hardware

Technical advances	Moore's Law
Component architecture	✓
Finely tuned processes	✓
Breakthrough design tools	✓
Production efficiencies	✓
Scale economies	✓
Pricing strategy	Cost-oriented
Pricing goal	Incremental cost

Case Against Hardware-Based Pricing

Why SW Vendors Can't Keep Pace

	Hardware	Software
Technical advances	Moore's Law	Bloat's Law*
Component architecture	✓	?
Finely tuned production	✓	X
Breakthrough design tools	✓	?
Production efficiencies	✓	X
Scale economies	✓	X
Pricing strategy	Cost-oriented	Value-based
Pricing goal	Incremental cost	?

* **Complexity more than doubles with each major release**

Case Against Hardware-Based Pricing

HW-Based Pricing Is a Trap

- Causes customer (and sales) problems
- Provides wrong price “anchor”
- Focuses customer on cost not value

Where to turn, what to do ...

...Get SW pricing aligned with **business** value

Agenda

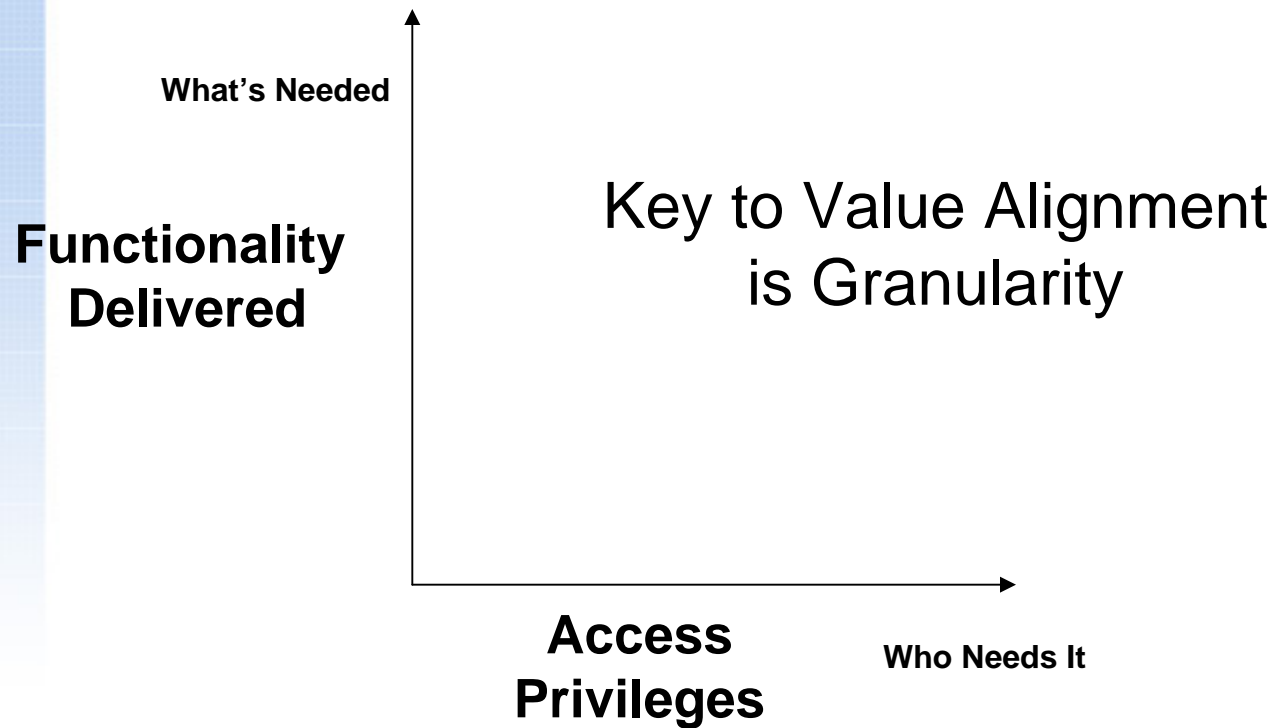
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Aligning Software Pricing with Value Framework for Delivering Business Value

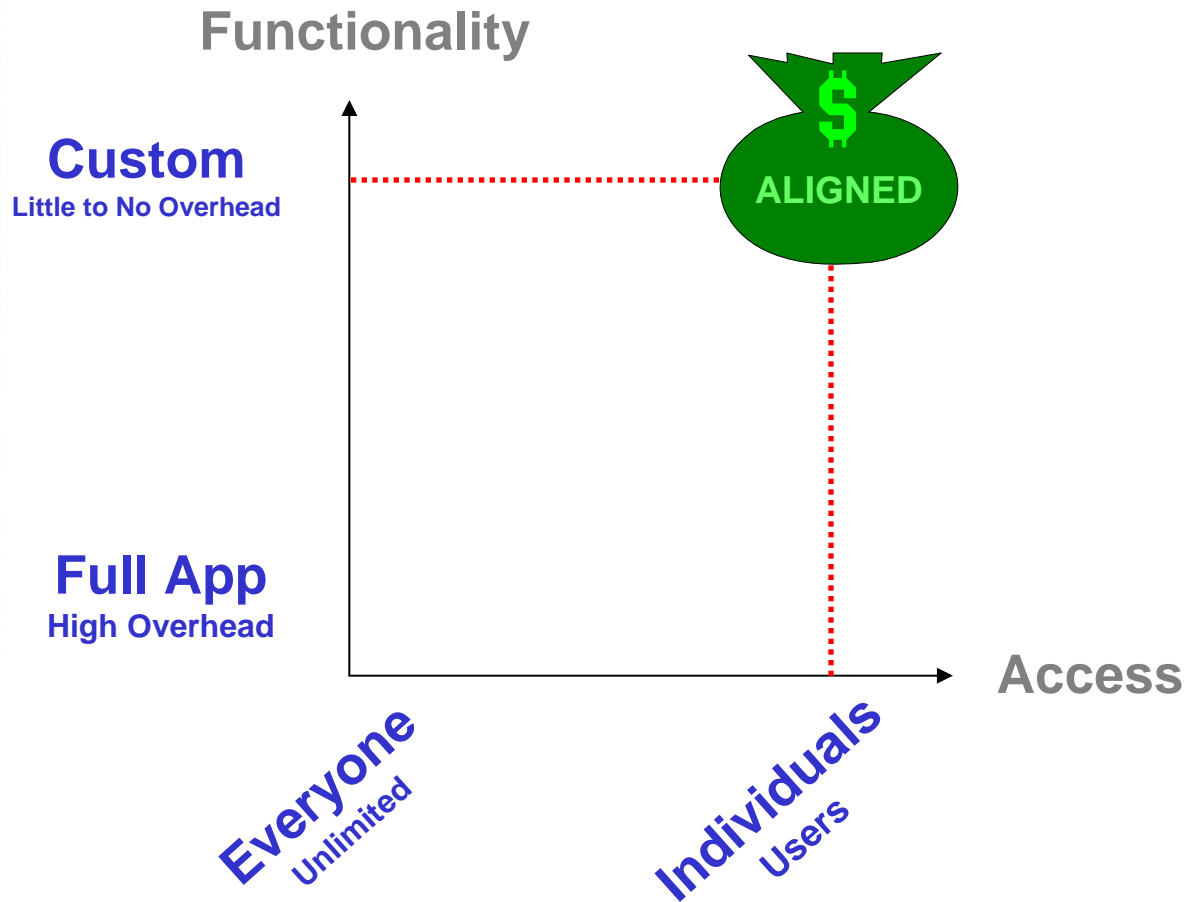
- Provide customers with what they want...
- Customers want :
 - Functionality they need
 - Access by individuals who need it
- Customers want:
 - Charges based on usage
 - Payments based on their needs

Customers want “granularity”

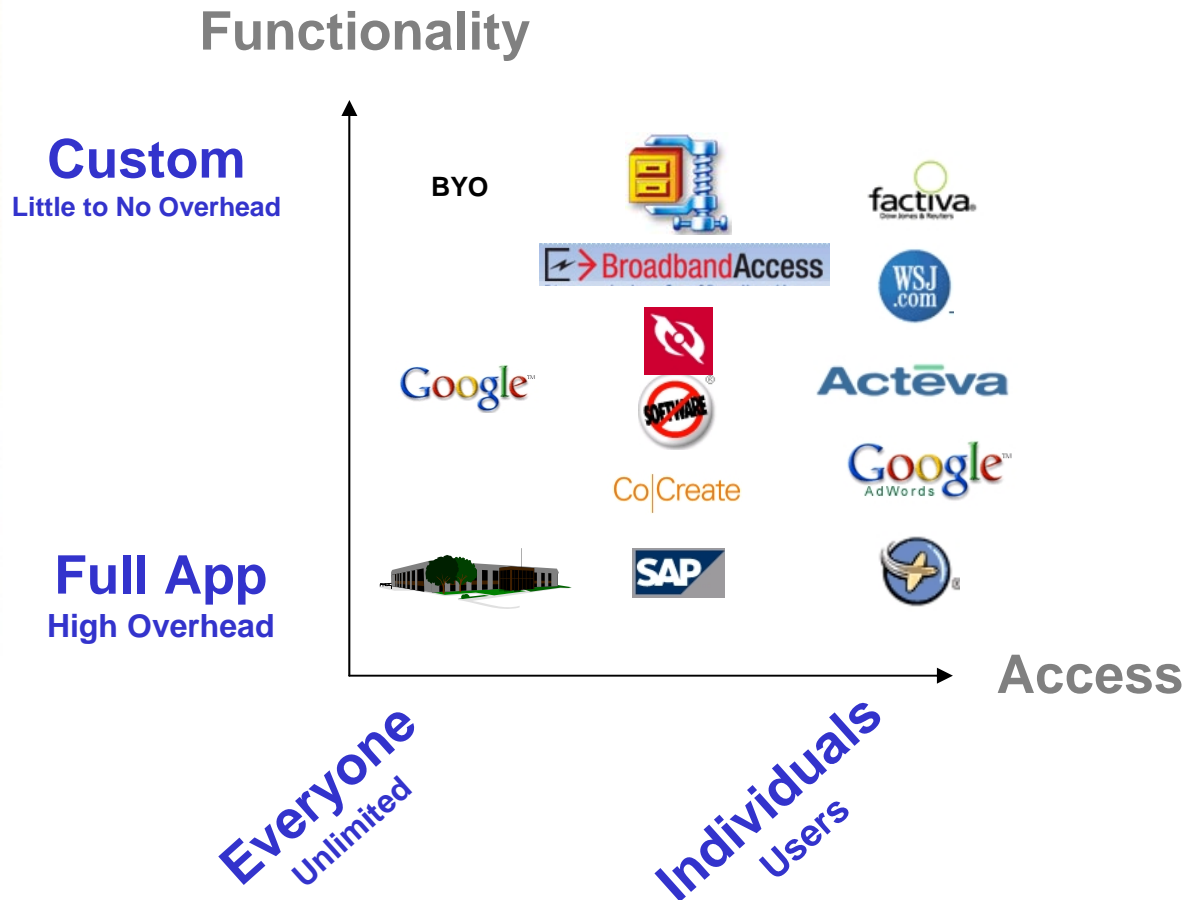
Aligning Software Pricing with Value Product: Functionality and Access



Functionality and Access Providing Desired "Granularity"



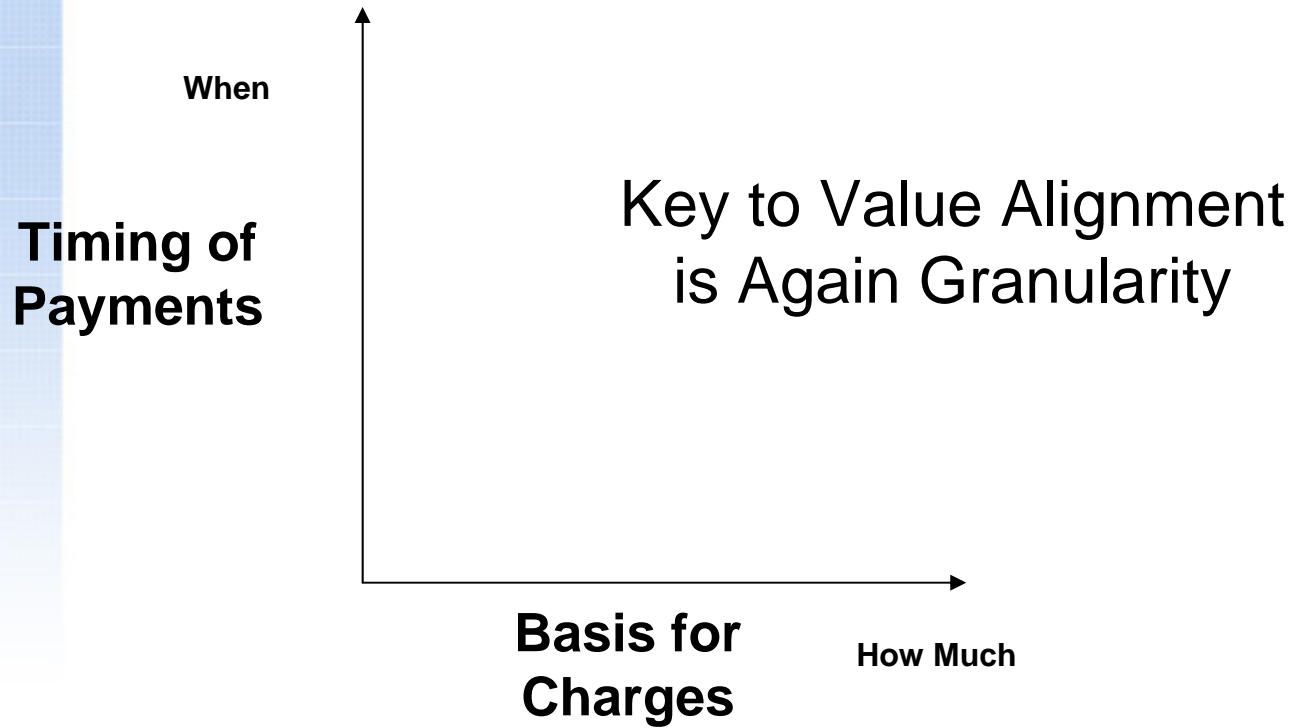
Functionality and Access Providing Desired "Granularity"



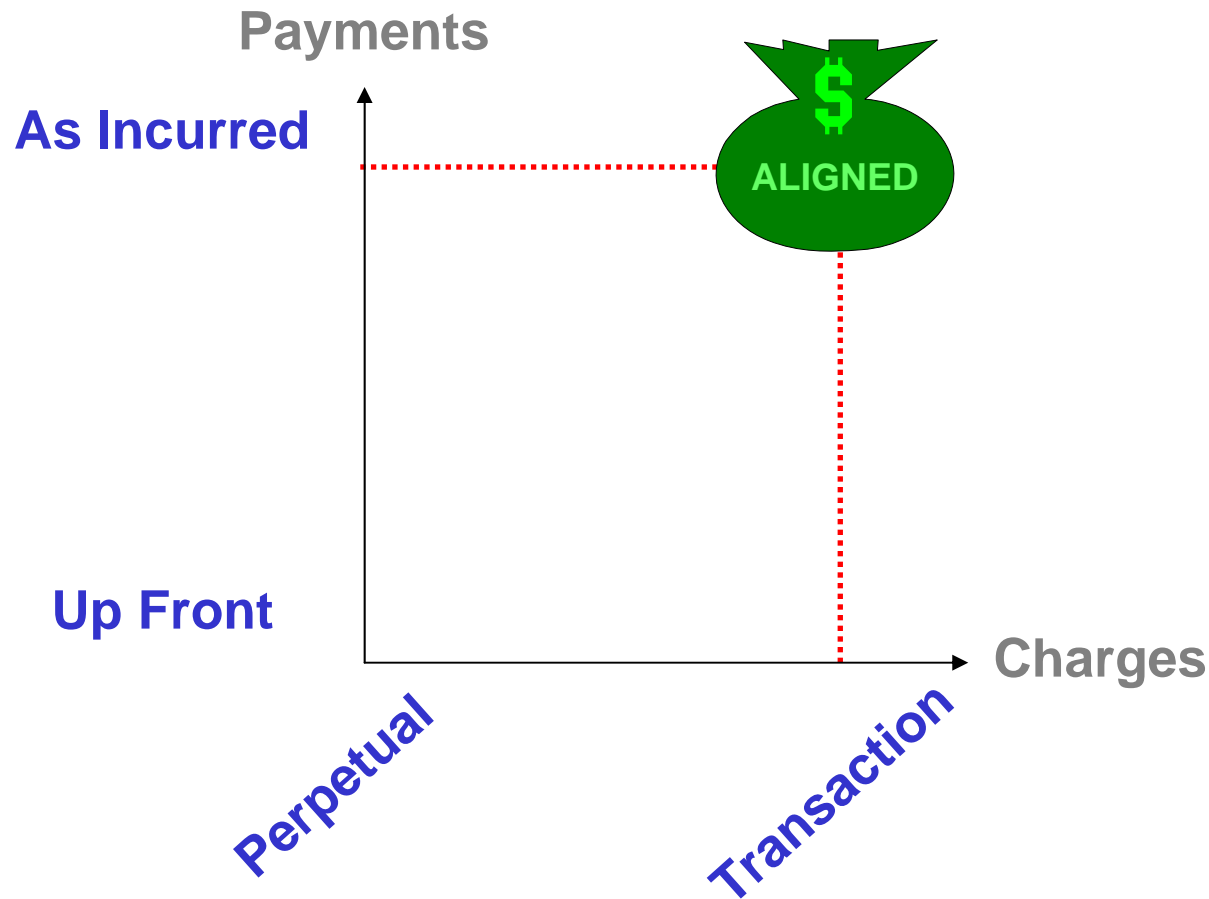
Aligning Software Pricing with Value Contract: Charges and Payments

- Provide customers with what they want...
- Customers want:
 - Required functionality
 - Access by Individuals who need it
- Customers want:
 - Charges based on usage
 - Payments based on their needs

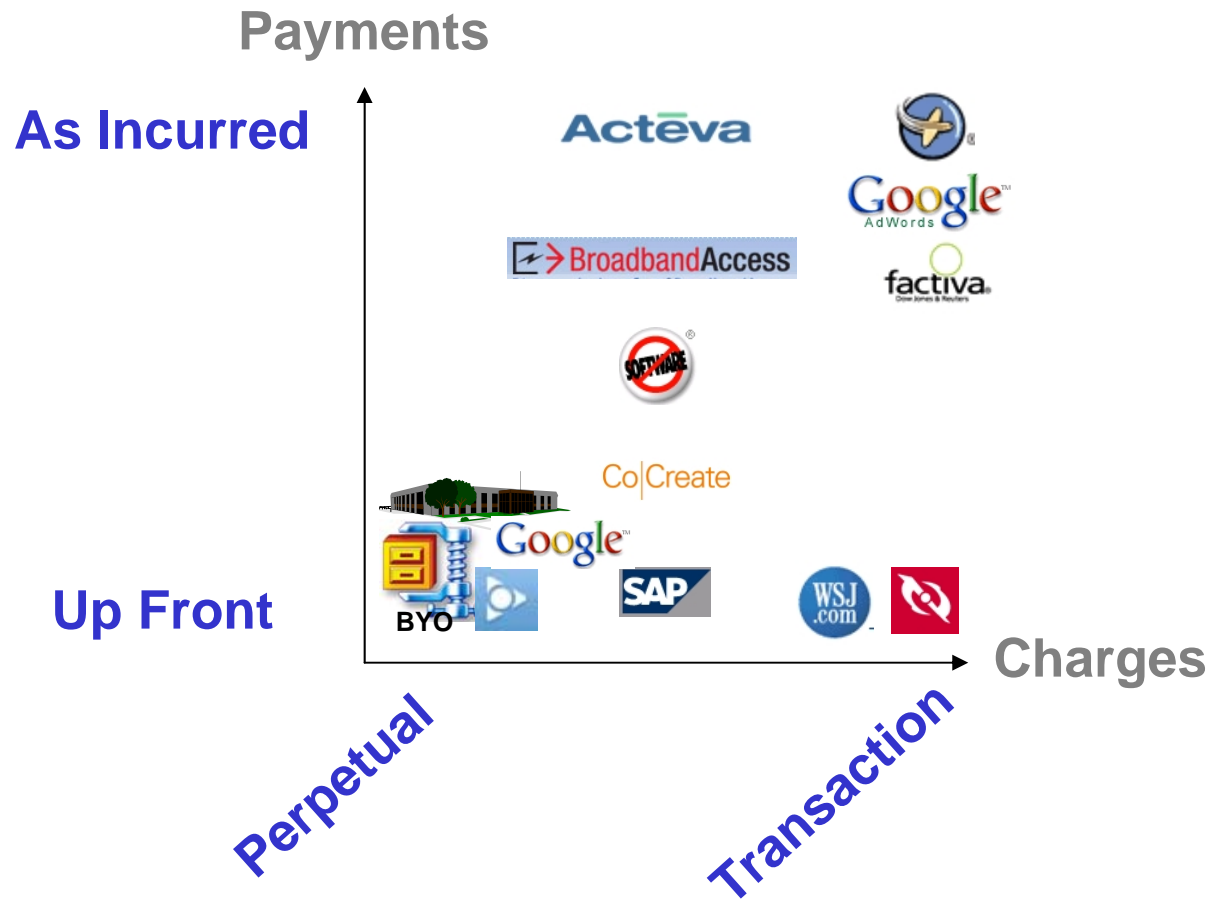
Charges and Payments Providing Desired "Granularity"



Charges and Payments Providing Desired "Granularity"



Charges and Payments Providing Desired "Granularity"



Aligning Software Pricing with Value Give Customers Desired “Granularity”

- “Granularity” is key
- Product dimension
 - Deliver needed functions; minimize unwanted overhead
 - Provide the right access
- Contract dimension
 - Payments tied to need
 - Charges tied to usage

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Achieving Value Alignment

Product-Based Actions

Actions Now

- Uncover new opportunities during development
- Focus on customer segments in terms of...
 - Price sensitivity
 - Access requirements
 - Product bundles

Actions Later

- Prepare for next release
 - Do “what ifs” for different bundles
 - Access and feature control mechanisms

Achieving Value Alignment

Contract-Based Actions - Payments

Actions Now

- Move from Up-Front payments
 - Get closer to pay-per-use
 - Alternative to perpetual license fees?
- Revise price points
 - Improve value orientation
 - Factor in financing, risk

Actions Later

- Separate what is charged for from billing cycle
 - Increase invoicing frequency?
- Future billings based on historical access

Achieving Value Alignment

Contract-Based Actions – Charges

Actions Now

- Introduce Limited-Term licenses
 - Lowers risk to vendor and customer
 - Lower entry price can broaden market
- Offer as an alternative to perpetual
 - New prices needed
 - New metrics?

Actions Later

- Move away from perpetual term
 - HW is bought that way
- Develop better pricing metrics
 - Customer friendly

Achieving Value Alignment

Other Actions to Consider

- Use Ts & Cs to create new opportunities
 - Additional choices often add value
- Use customer incentives to shift sales
 - (Perpetual + M&S) < 4-year term
- Separate payments from hosting location
 - How customer pays
 - Where software is hosted
- Squeeze discounts to offset revenue changes
 - Invest discount dollars wisely
- Simplify pricing
 - Rationalize prices post-acquisition

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Wrap-Up

Avoid Hardware-Based Pricing

- Creates problems for vendor and customer
 - Change now?
- Get some distance
 - Move from perpetual to term
 - Count something else
- Mitigate financial exposure from changes
 - Careful pricing
 - Run the numbers, scenarios
 - Phased introduction



Wrap-Up

Strengthen Alignment with Business Value

- Several ways – Product and Contract
- Product-based actions
 - Develop pricing-friendly product architecture
 - Choose right pricing metric
- Contract-based actions
 - Change how customers get charged
 - Change how charges accumulate
 - Shorter term licenses
- Other actions
 - Segment customers, meet non-product needs
 - Other changes done in parallel with product development

If Not Now, When?

Microsoft takes stand on 'virtual' licensing

By Martin LaMonica, CNET News.com

Published on ZDNet News: October 10, 2005, 6:00 AM PT

Microsoft is taking a stand on an emerging technology that threatens to reshape software pricing models.

However, much like multicore processor-based server technology, virtualization software throws the widely used per-processor licensing model out of whack. Currently, most server software is licensed based on a per-processor basis. Virtualization skews that formula, since many "virtualized" instances of an operating system, each running applications like a database or e-mail server, can exist on any given physical server. That scenario can lead to sticker shock for customers, and an unmanageable mess for software makers.

Thanks!

Contact Information:

Jim Geisman
jimg@softwarepricing.com
508-647-0330

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