



The Perfect Storm Hits Software Pricing: Keys to Survival

**Jim Geisman
Founder / Principal
MarketShare, Inc.**

Sponsor of www.softwarepricing.com

Introduction

Presenter / MarketShare

- **Principal of MarketShare, Inc.**
 - Consultant to software industry 20+ years
 - Coined term “floating license” in 1987
- **MarketShare - Unique Focus**
 - Pricing computer software since 1987
 - Sponsor of www.softwarepricing.com
- **Practice areas**
 - Value – Driven Pricing
 - Value – Focused Selling
 - Discount Containment
- **Deliverables**
 - More value from products & services
 - Increased Sales effectiveness
 - Improved financial performance

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Introduction

Takeaways / Summary

- **Insights into SaaS disruption**
 - Unique combination of elements
 - Affects economics
 - Affects everyone in some way
 - Power equalizer
 - Standard stuff...
- **What makes SaaS really unique**
 - Lots of tiny delivery units (e.g. user months)
 - Price-sensitive revenues
 - Volume-driven business model
- **Makes unique demands on pricing**

Introduction

The Perfect Storm – Situation

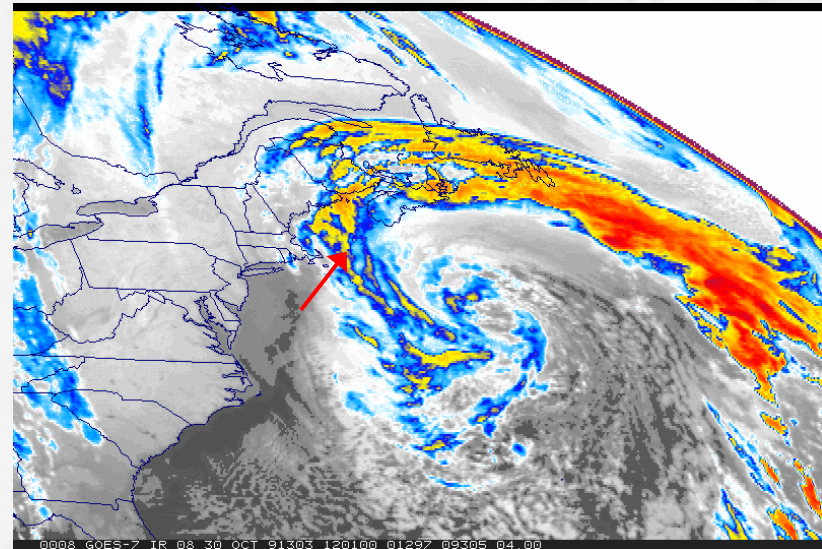
- Experienced fishermen
- Properly equipped
- Going for “big catch”
- Saw changing weather
- Lost control



Introduction

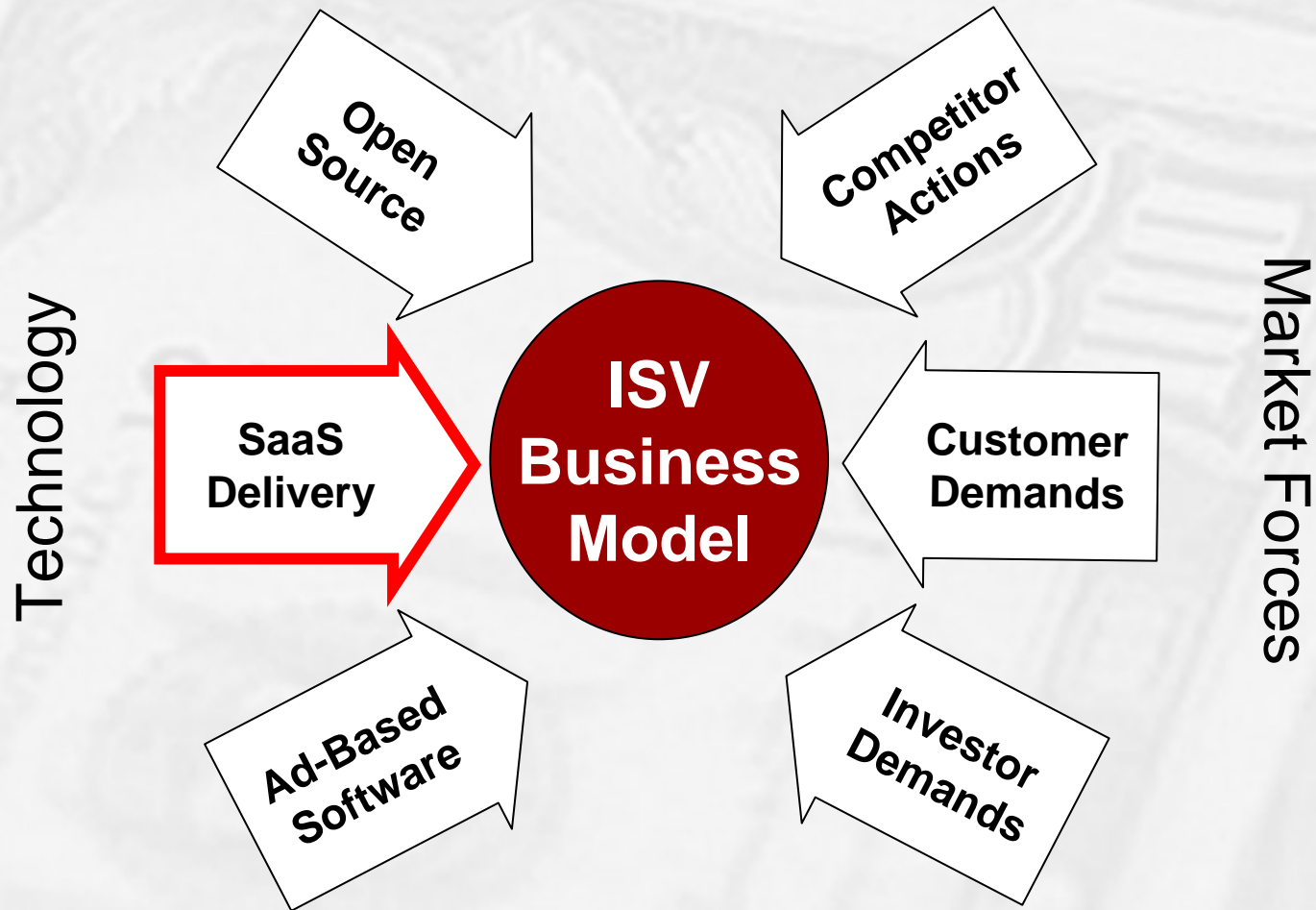
The Perfect Storm – Failure Analysis

- Saw the signs
- Misunderstood threat
- Chose wrong course
- Overwhelmed



Introduction

The ISV Perfect Storm - Situation



Introduction

Keys to Success and Survival

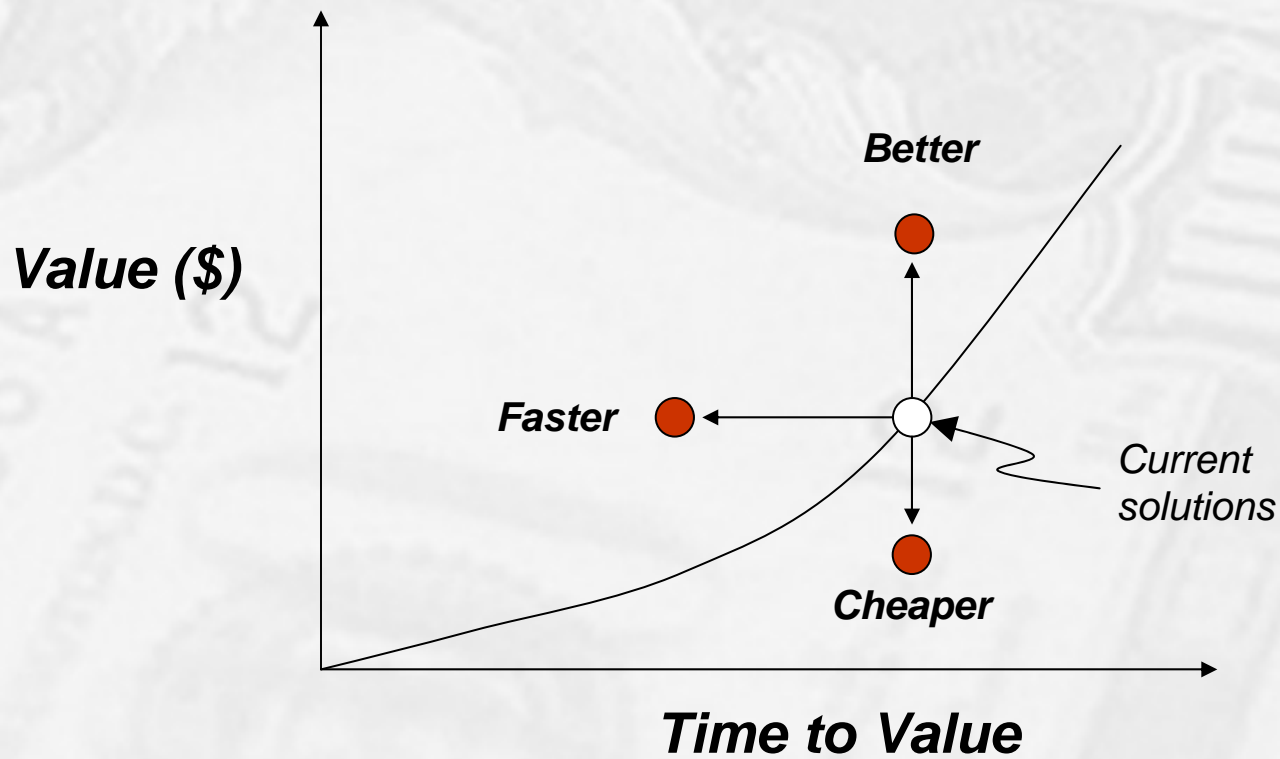
- **Recognize change**
- **Respond to early warnings**
- **Select strategy**
- **Anticipate economics**
- **Take control!**

Agenda

- Introduction
- ➔ ■ Current State
- Early Warning Signs
- Select Strategy
- Anticipate Economics
- Take Control

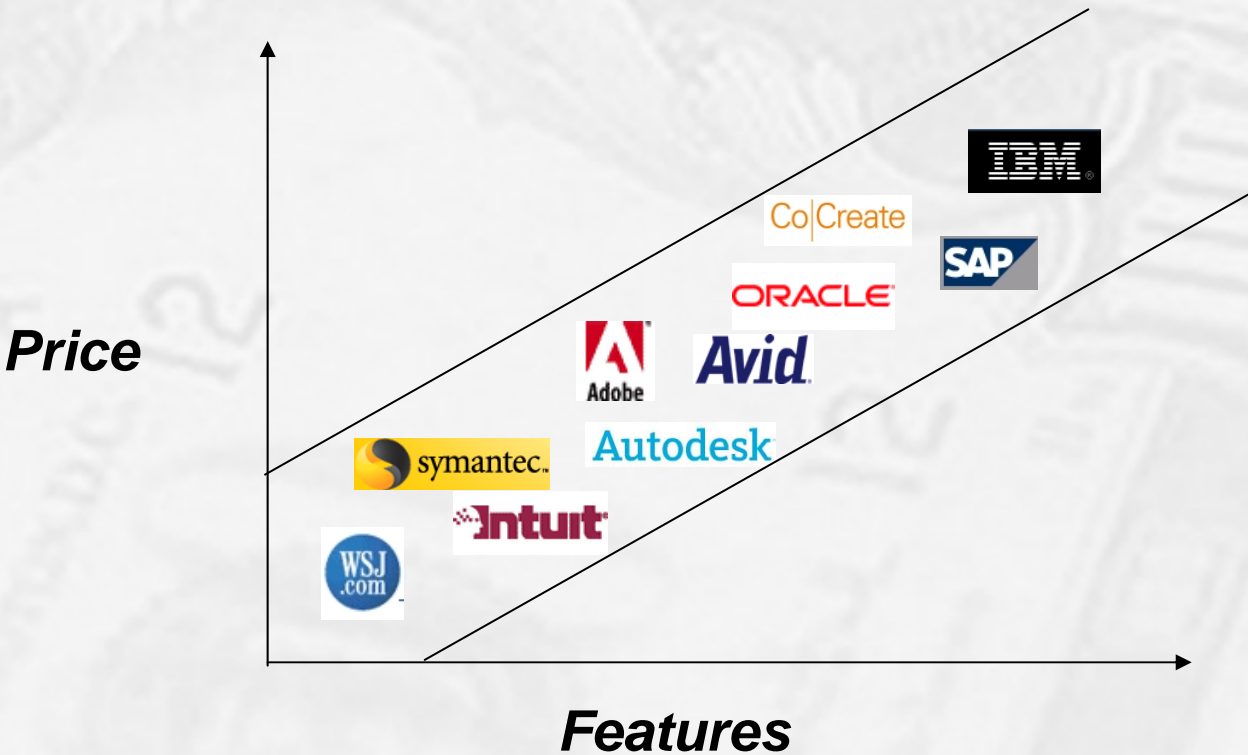
Current State

Functionality Delivers Value



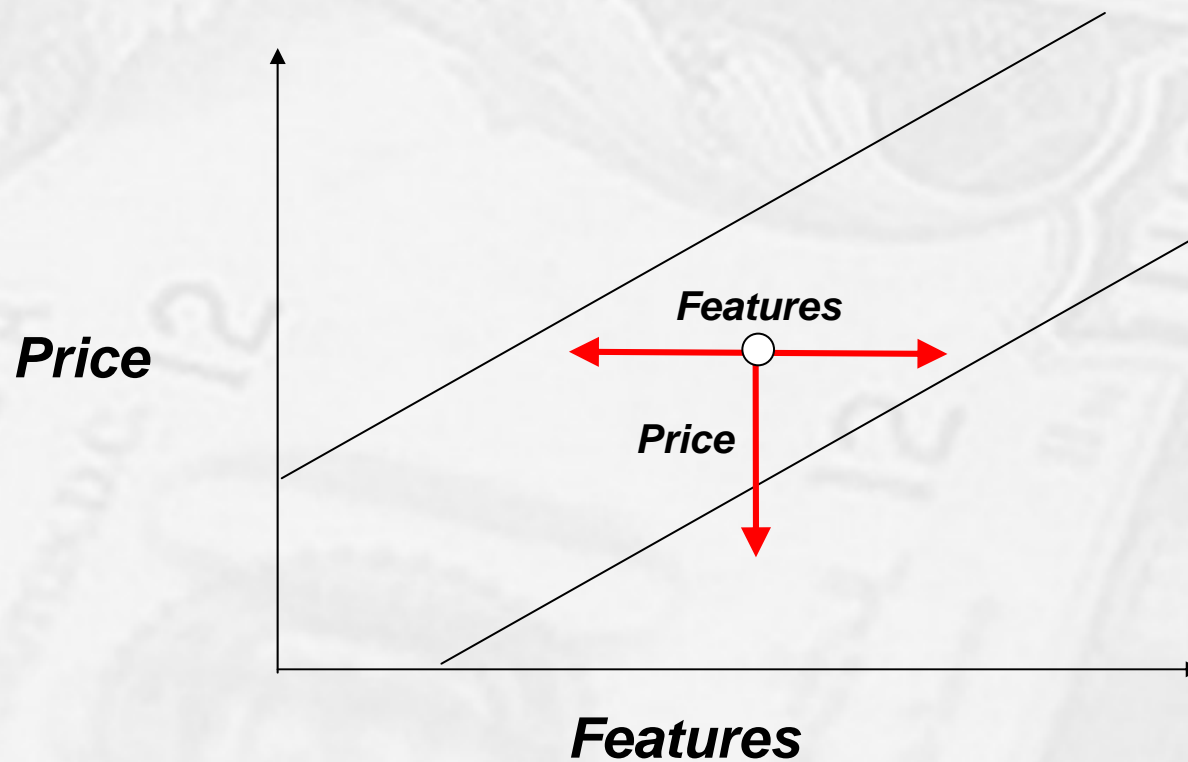
Current State

Price Tracks Functionality



Current State

Basic Competitive Moves



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Agenda

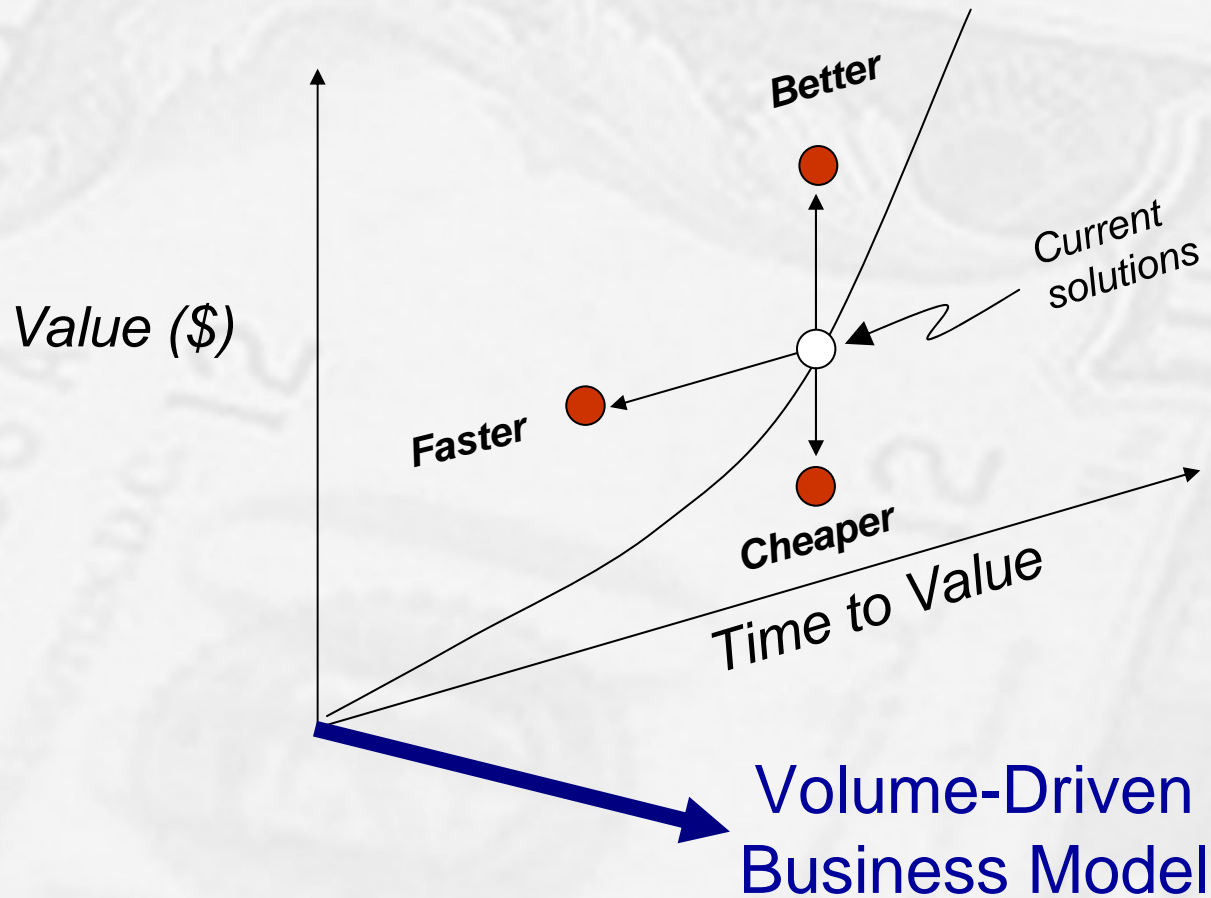
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Early Warning Signs SaaS Is Disruptive

	Price	Features	Support
Ad-Supported	Free	Limited	Free, Limited
Open Source	Free	Competitive	Fee-Based
Traditional	Up Front	Competitive	M&S Fee
SaaS	PAYG	Simple (incl. Delivery)	Included

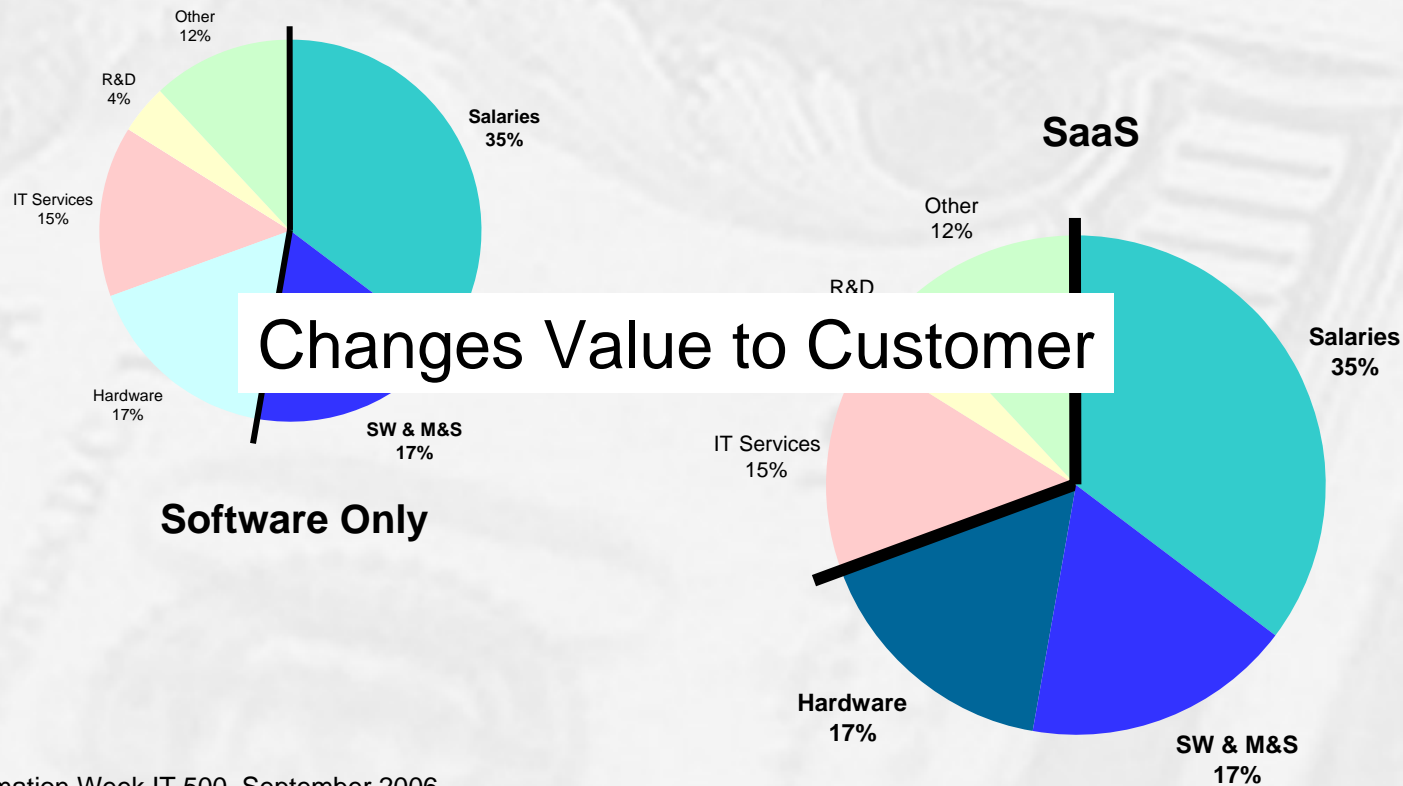
Early Warning Signs

SaaS Disruption is Unique



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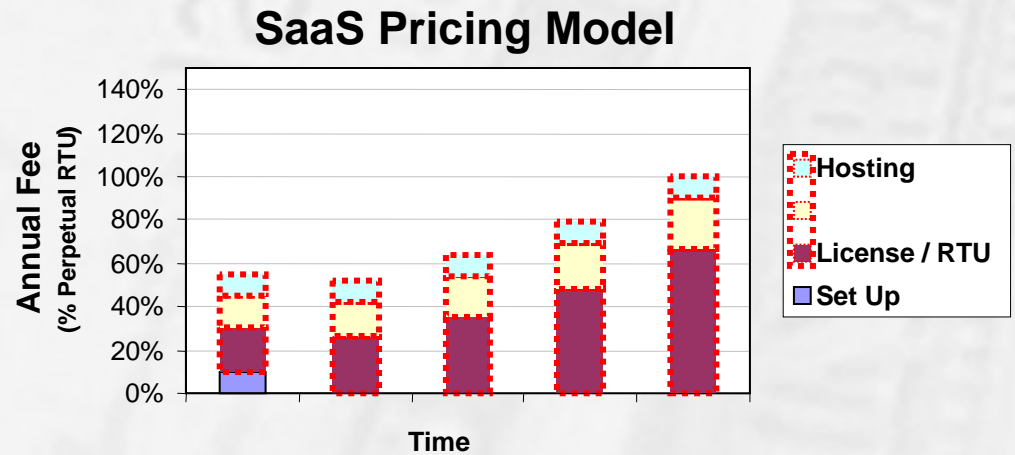
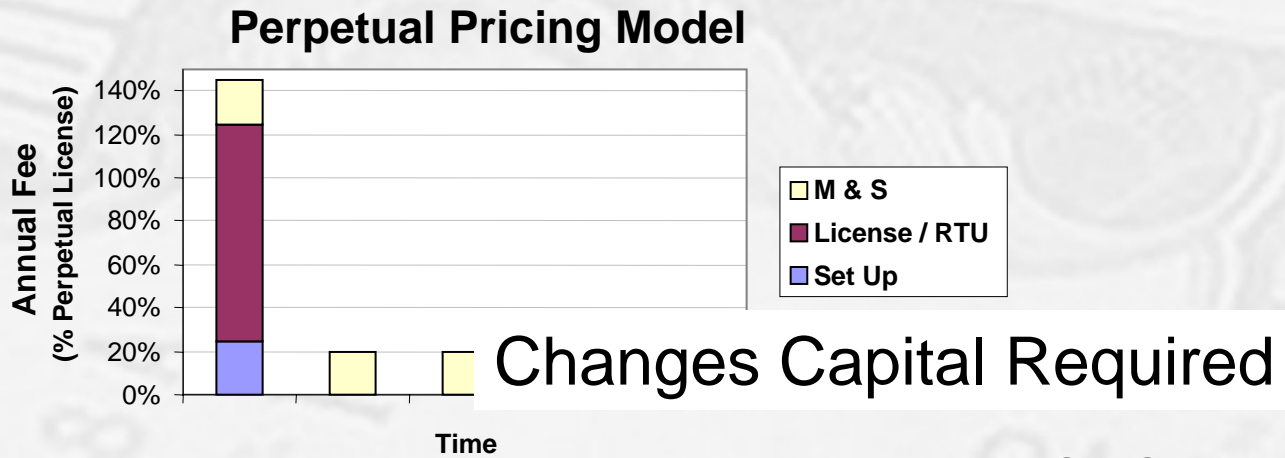
Early Warning Signs Affects Customer Economics



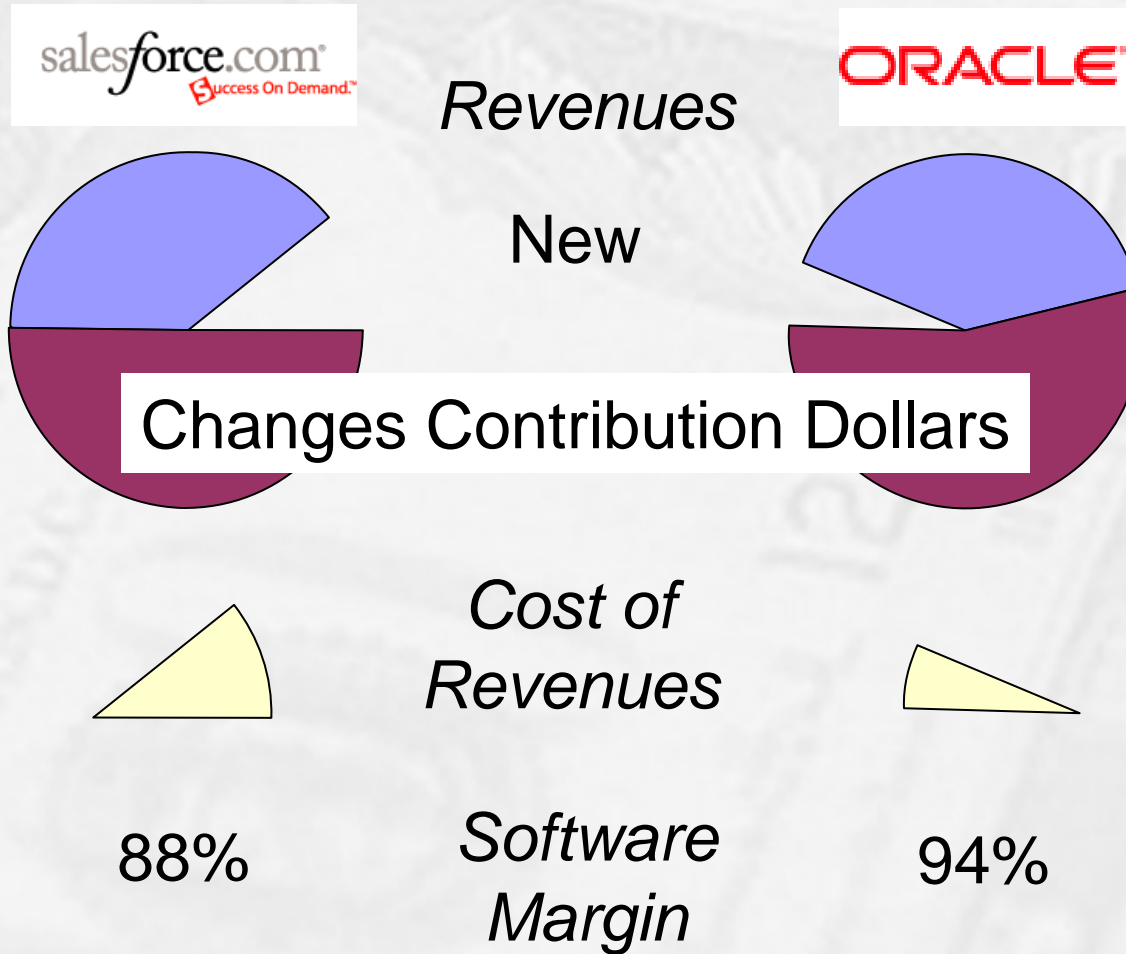
Source: Information Week IT 500, September 2006

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Early Warning Signs Affects ISVs Cashflow



Early Warning Signs Affects Revenue Structure



Early Warning Signs Changes Cost Structure

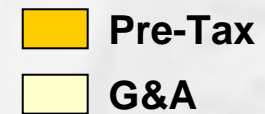


88%

Software
Margin



94%

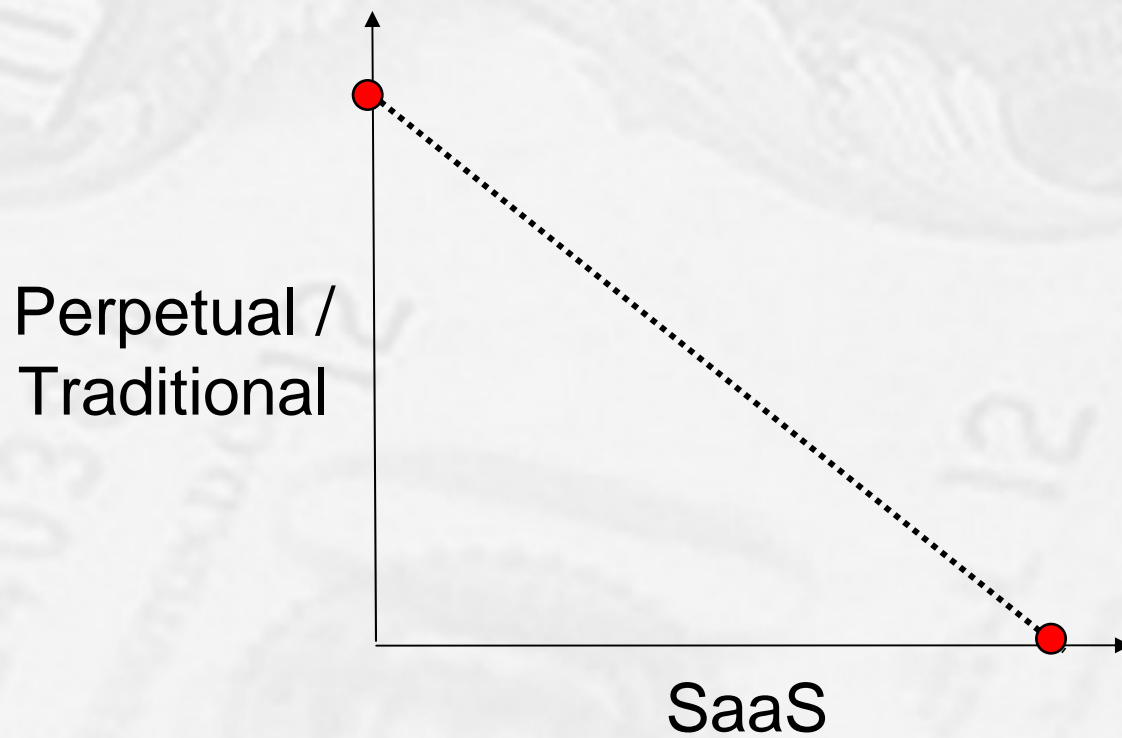


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Select Strategy

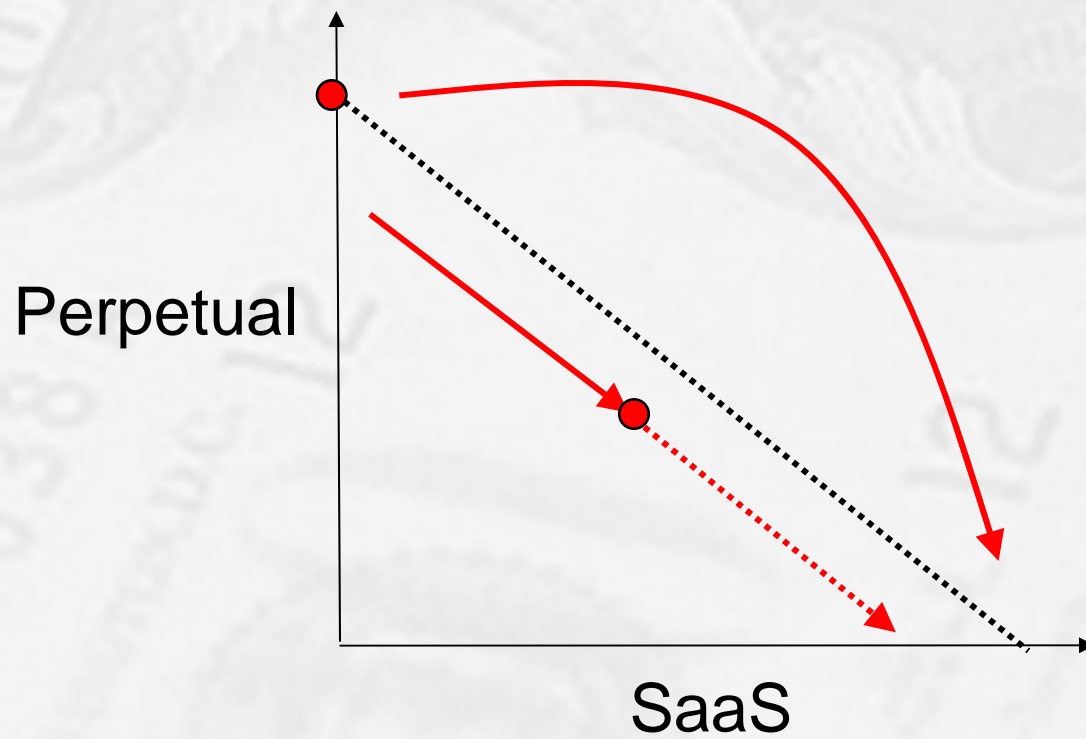
New Company Choices



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Select Strategy

Existing Company Choices



Select Strategy

Making the Choice

- Do we need to change?
- How much?
- By when?

How Much Change **Influenced By Execution**

- **Transaction Volume**
 - Many small
 - Very high volume
- **Delivery**
 - Data center
 - Network infrastructure
- **Sales and Marketing**
 - Comp plans
 - Channels
- **Development**
 - Customer-useful features
 - Multi-tenant (in long run)
- **General & Administrative**
 - Billing systems

When to Change

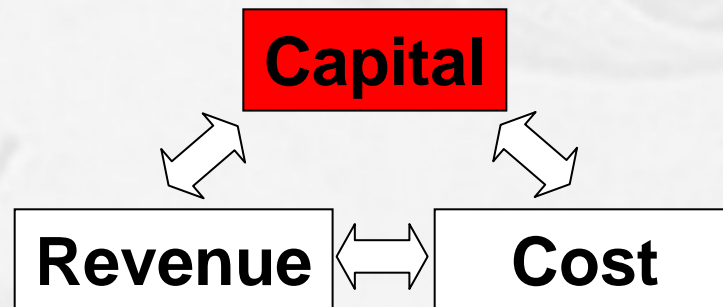
Timing Considerations

- **Customer base**
 - Retention, re-orders?
 - New opportunities meet growth needs?
- **Product features and support**
 - Competitive, reliable, innovative?
 - Support availability?
- **Sales organization**
 - Complexity? Dispersion?
- **Development**
 - Discipline, speed, accuracy?
- **Revenue, cost management**
 - Discount, expense control?
- **Capital**
 - Adequate, positive cashflow?

Agenda

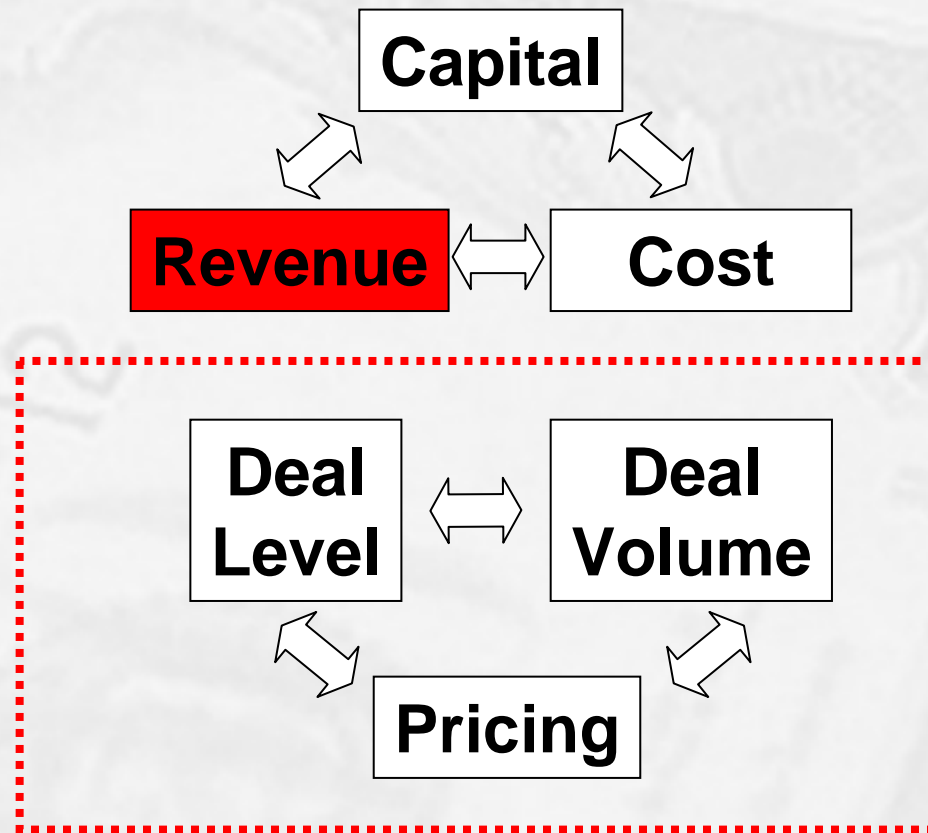
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Anticipate Economics Funding Required



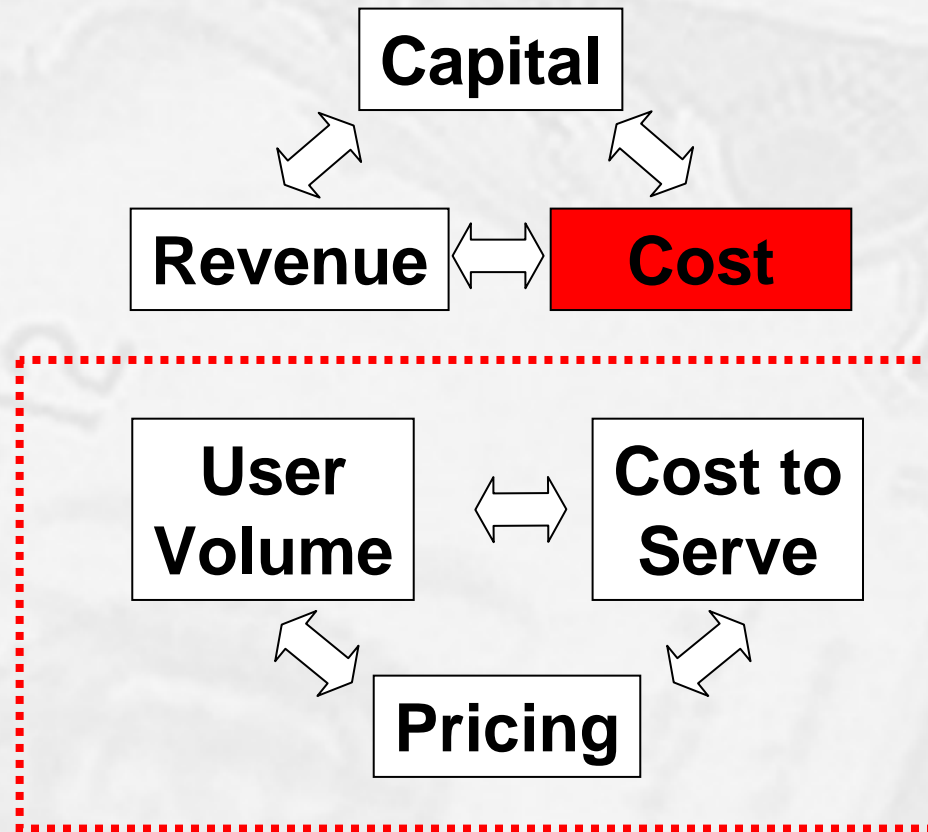
Anticipate Economics

Revenue Impact



Anticipate Economics

Cost Drivers



Anticipate Economics

Focus on Business Drivers



***Volume Drives Business
&
Pricing Controls Volume***

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Take Control

Starts with Pricing

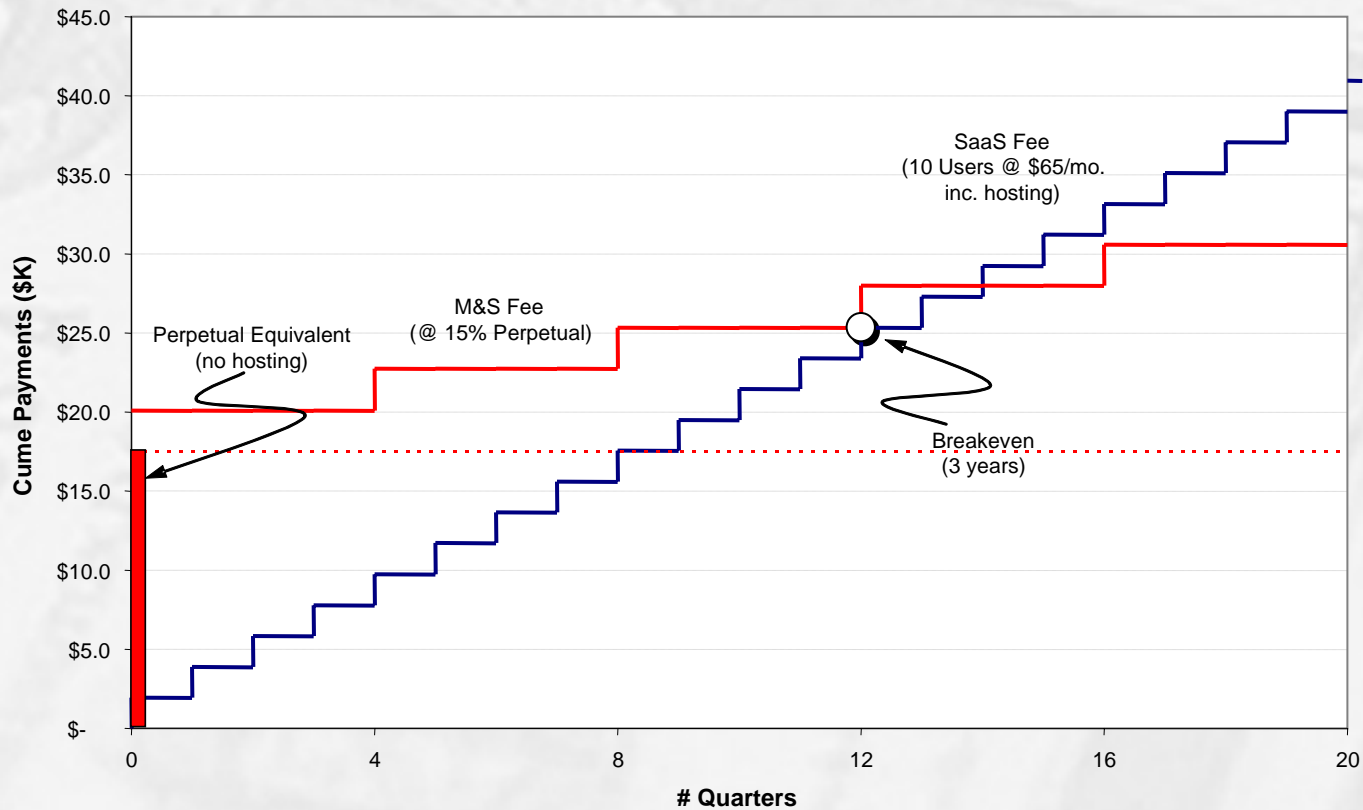
- **Price-setting critical to success**
- **Mistakes can be deadly**
 - High transaction volume
 - Price-sensitive revenues
 - Low(er) contribution margins
 - Significant cost-to-serve
- **Can't overcome with technology**
- **Wrong price – wrong volume**
 - Wrong revenues
 - Wrong costs



Price Setting

Choose Comps Carefully

SaaS Is Not On Premise Software



Take Control

Use Correct Tools

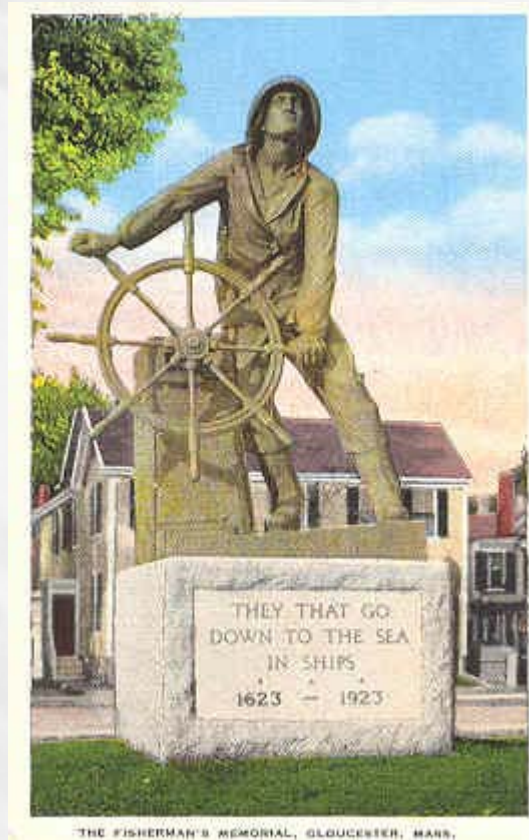
- **Standard what-if tools**
 - Financial impact
 - Contribution analysis
 - Sales forecasting
- **Simulations**
 - Segmentation
 - Demand response
- **Overlay techniques from CPG**
 - Price tests
 - Packaging, promotion

Take Control

Monitor Progress

- **Set objectives**
- **Monitor KPIs**
 - Customers**
 - **Type, purchases**
 - Sales volume**
 - **Units and average price**
 - Margin**
 - **Discounts, cost of delivery**
 - Cost to serve**
 - **Acquire, retain**
- **Adjust, adjust, adjust**

Success Starts With Survival



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Thanks!

Contact Information:

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

www.softwarepricing.com

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