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# **Pricing in a Crisis Economy**

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*Keep your head...*

*Stay out of trouble...*

*Jim Geisman, founder & principal*

**MarketShare, Inc.**

35 Main Street // Suite 8  
Wayland, MA 01778  
Tel: (508) 647-0330  
[www.softwarepricing.com](http://www.softwarepricing.com)

# About MarketShare

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- **Pricing software and systems since 1987**
- **Address client problems**
  - **Slow sales cycles**
  - **Money left on table**
  - **Chaotic / confusing pricing**
  - **Entry into new markets / segments**
- **Help clients meet objectives**
  - **Improve financial performance**
  - **Strengthen competitive position**
  - **Foundation for future growth**

# Introduction

## SaaS Innocence

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# Introduction

## SaaS Opportunity

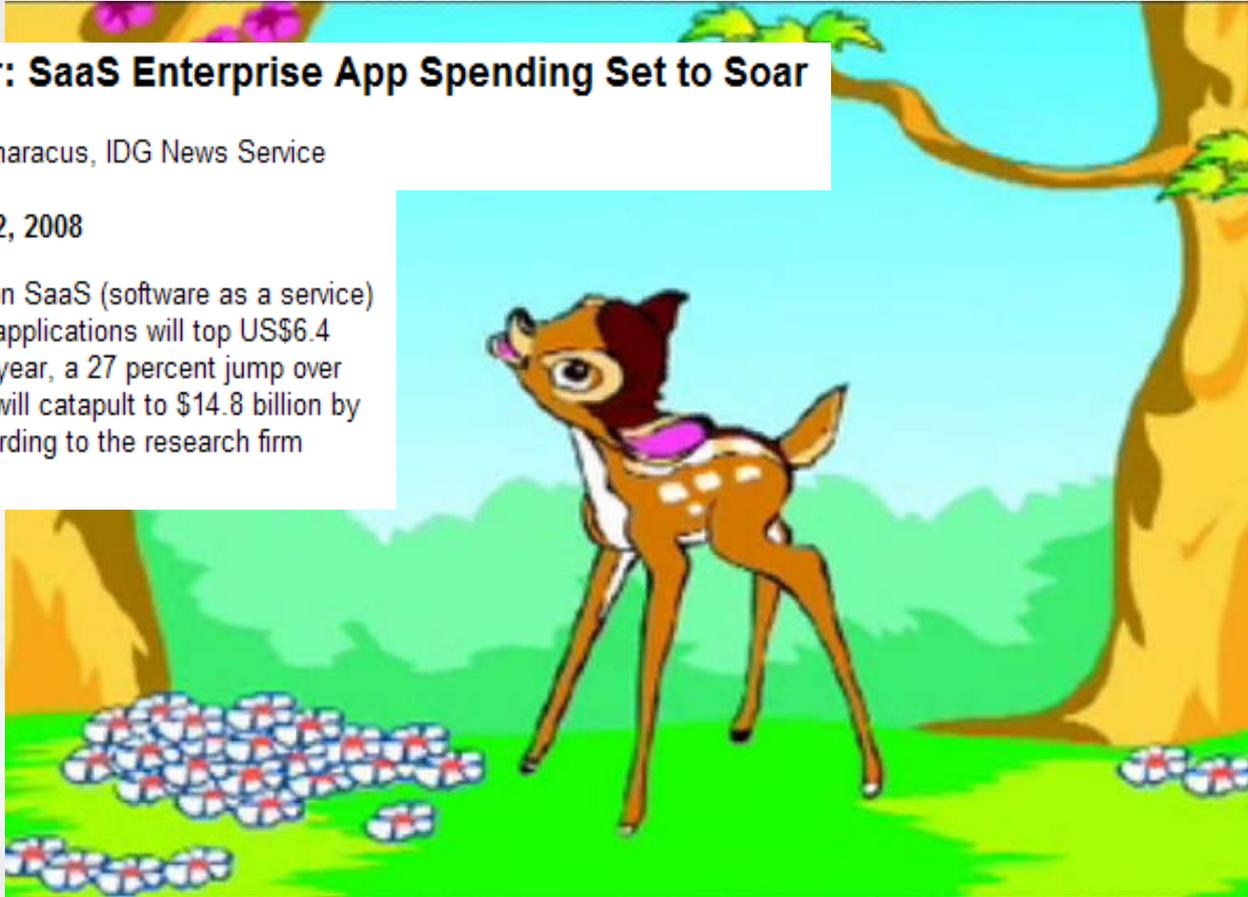
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### Gartner: SaaS Enterprise App Spending Set to Soar

– Chris Kanaracus, IDG News Service

October 22, 2008

Spending on SaaS (software as a service) enterprise applications will top US\$6.4 billion this year, a 27 percent jump over 2007, and will catapult to \$14.8 billion by 2012, according to the research firm Gartner.



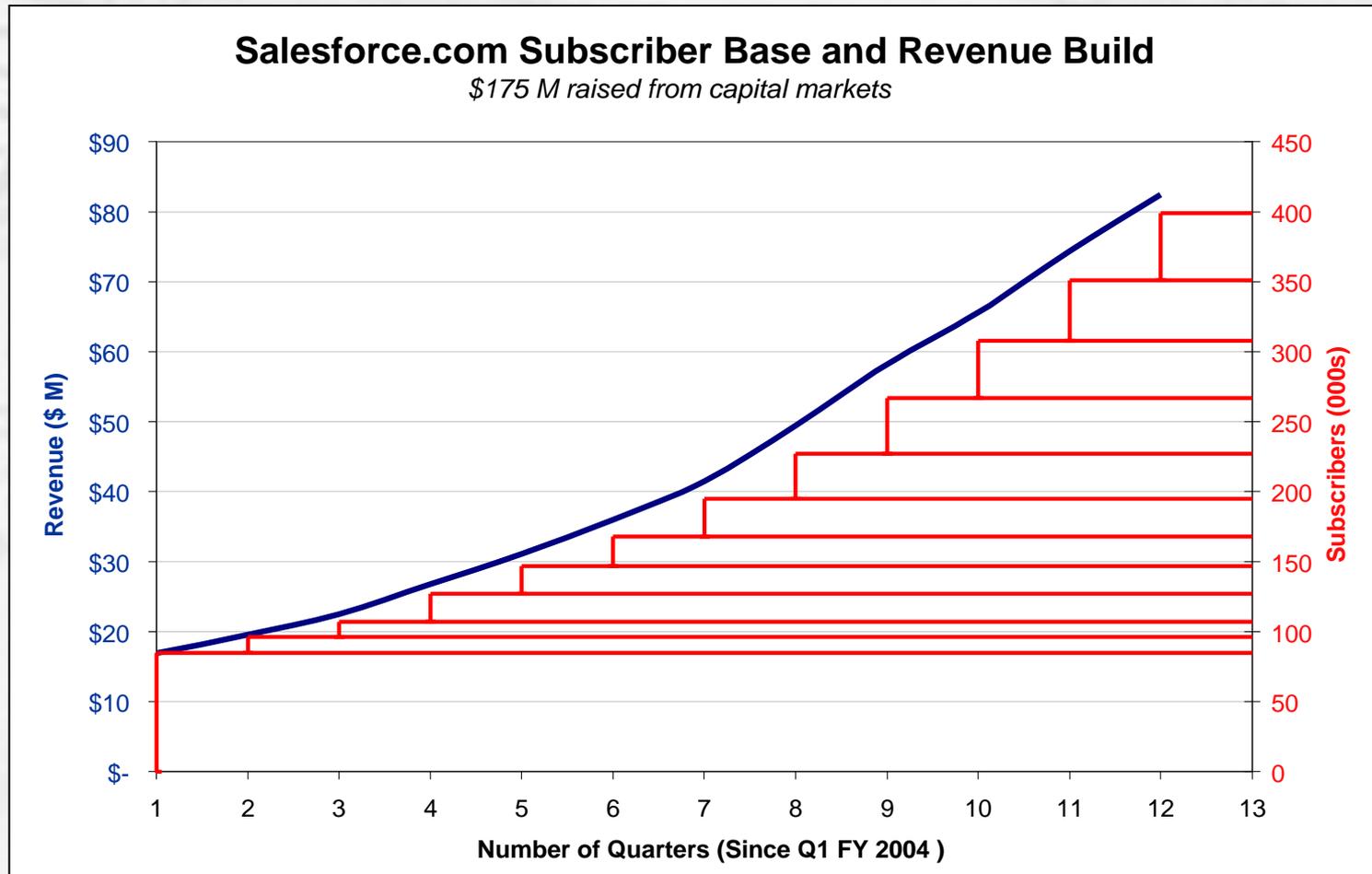
# Introduction

## SaaS Squash?



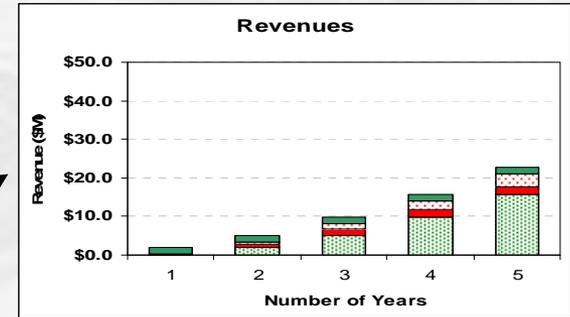
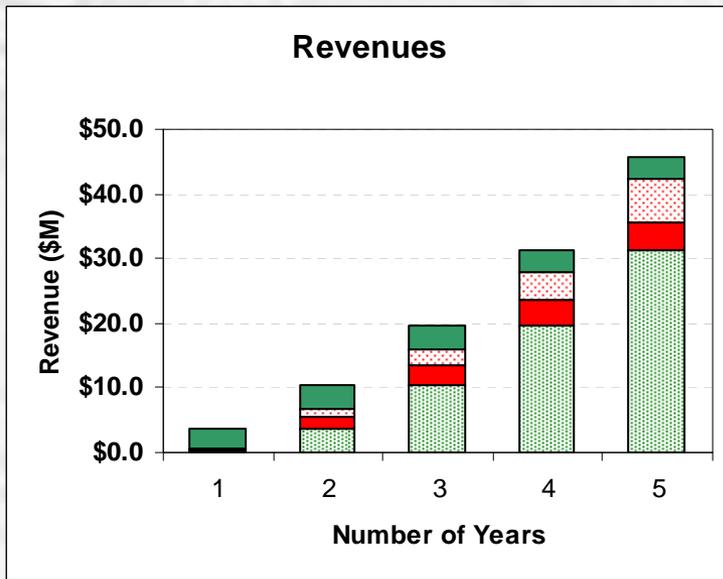
# Introduction

## Good News: The Model Works

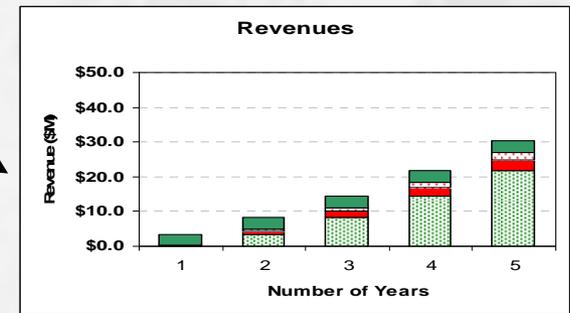


# Introduction

## But It's a Balancing Act



**Slow new customer growth now means less viral growth in future**



**Slow viral growth (units and upgrades / options) lowers value of new customer**

## ***Introduction***

# **So Watch Your Step**

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- **Uncertainty will last 1-2 years (58%)**
  - >2 years (28%)
- **Impact of downturn neutral to slightly positive**
  - On SaaS industry overall (75%)
  - For some vendors (58%)
    - But others will feel pain (30%)
- **Spend more on sales, marketing, BD**
  - Find new partners
  - Add features
  - Expand existing channel
  - Repackage product
- **No differences?**
  - Do what's right – for your company

# Takeaways

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- **Execute the basics**
  - Attract new customers
  - Increase viral attractiveness
  
- **Don't weaken yourself**
  - Don't underprice
  
- **Improve pricing execution**
  - Make sensible pricing decisions
  
- **Don't compete on price**
  - Think before reacting to competition

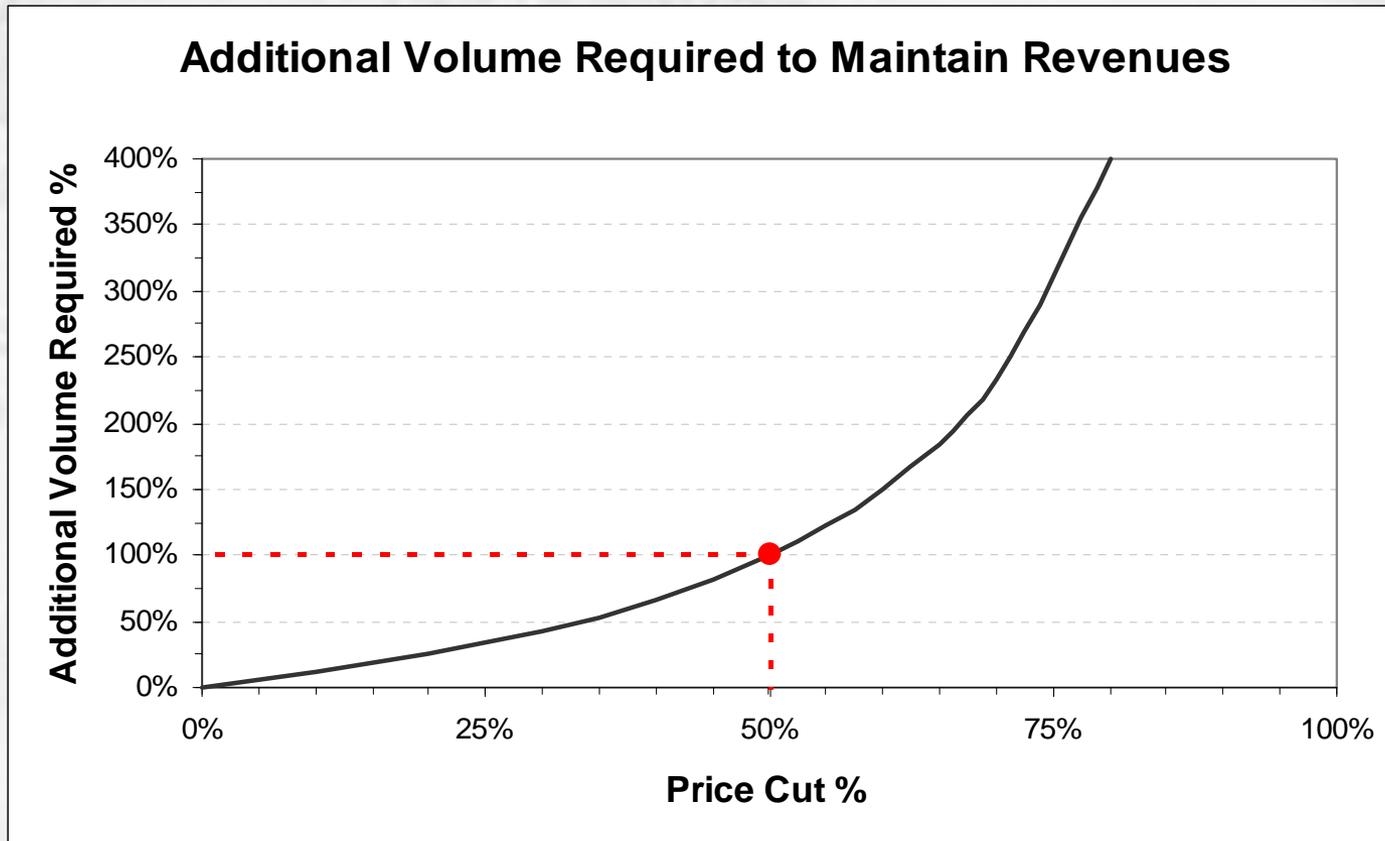
# Topics

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- **Don't weaken yourself**
  - Deep price cuts
  - Too few packages
  - Generous discounts
  - Illogical discount structure
- Improve pricing execution
  - Make sensible pricing decisions
- Don't compete on price
  - Think before reacting to competition

# Don't Weaken Yourself

## Deep Price Cuts



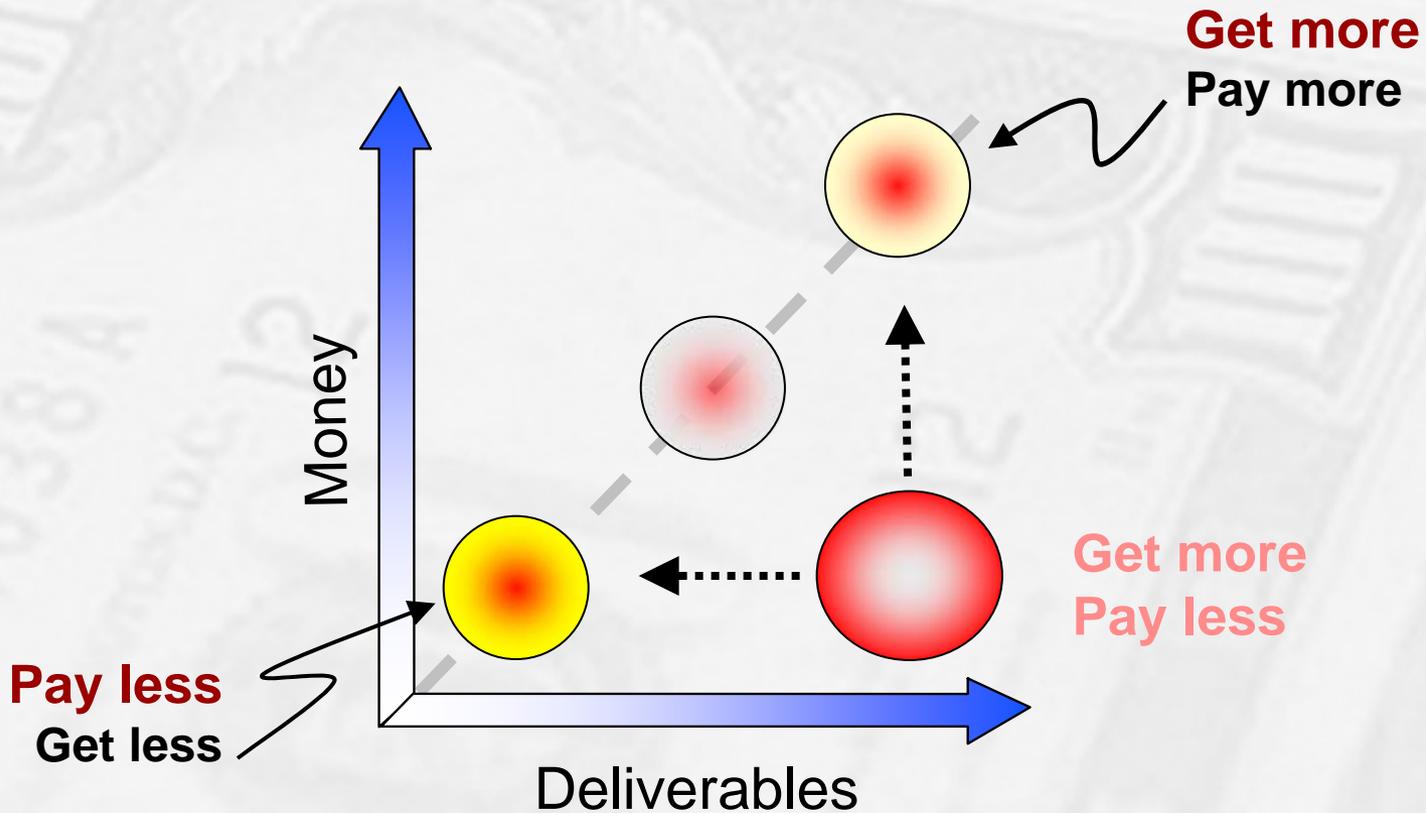
# *Don't Weaken Yourself* **Too Few Packages**

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# Too Few Packages

## Offer Packaging Alternatives



# Don't Weaken Yourself

## Generous Discounts

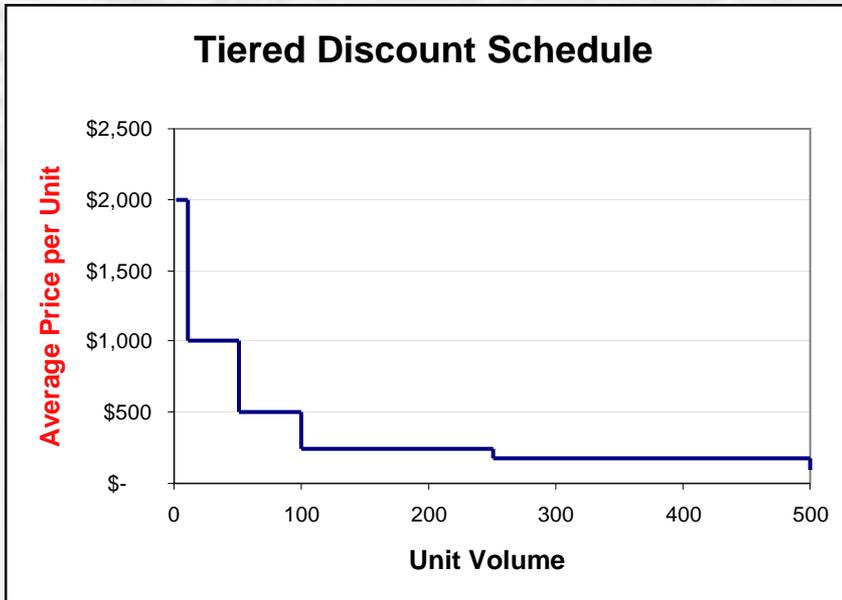
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# Units	\$/Unit	\$ Revenues
1	2000	\$2,000
10	1000	10,000
50	500	25,000
100	300	30,000
250	200	50,000
1000	100	

**95% discount**

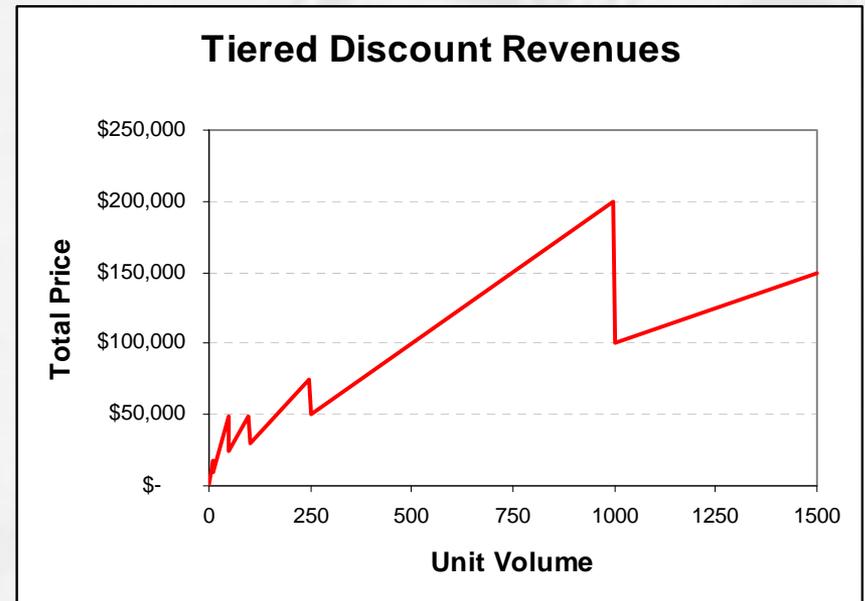
# Troublesome Discounts

## Illogical Discount Structure



**Average Price**

**Discontinuous Revenues**



## *Discount Schedule*

# Improve Structure & Levels

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### Tax-Table Discount Schedule

# Units	\$ Payment	+ \$/Unit
1 - 9	-0-	2000
10 - 49	18,000	1600
50 - 99	82,000	1300
100 - 249	148,000	1200
250 - 999	329,000	1050
1000 +	1,110,000	800

# Topics

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- Don't weaken yourself
  - Don't underprice
- **Improve pricing execution**
  - **Align pricing metric with value**
  - **Use correct comparables**
  - **Package for value**
  - **Don't confuse customers**
- Don't compete on price
  - Think before reacting to competition

## Improve Pricing Execution

# Align Metric With Value Driver

per loan	+++
per patient	+++
per user	++
per user	++
per user	+++
per property	+++
Per user	+
per student	+++
per user	++
per customer	+++
per user	+++
per user	+++
per patient	+++
per employee	+++
per user	+
per user	++
per claim	+++
per bill	+++
Per gallon of fuel	+++
per patient	+++
per shareholder	+++
per user	+++
per employee	+++
per user	+
per ad	+++
per property	+++
per user	+
per reservation	+++
per employee	+++
per member	++
per user	+
per user	+
per user	+

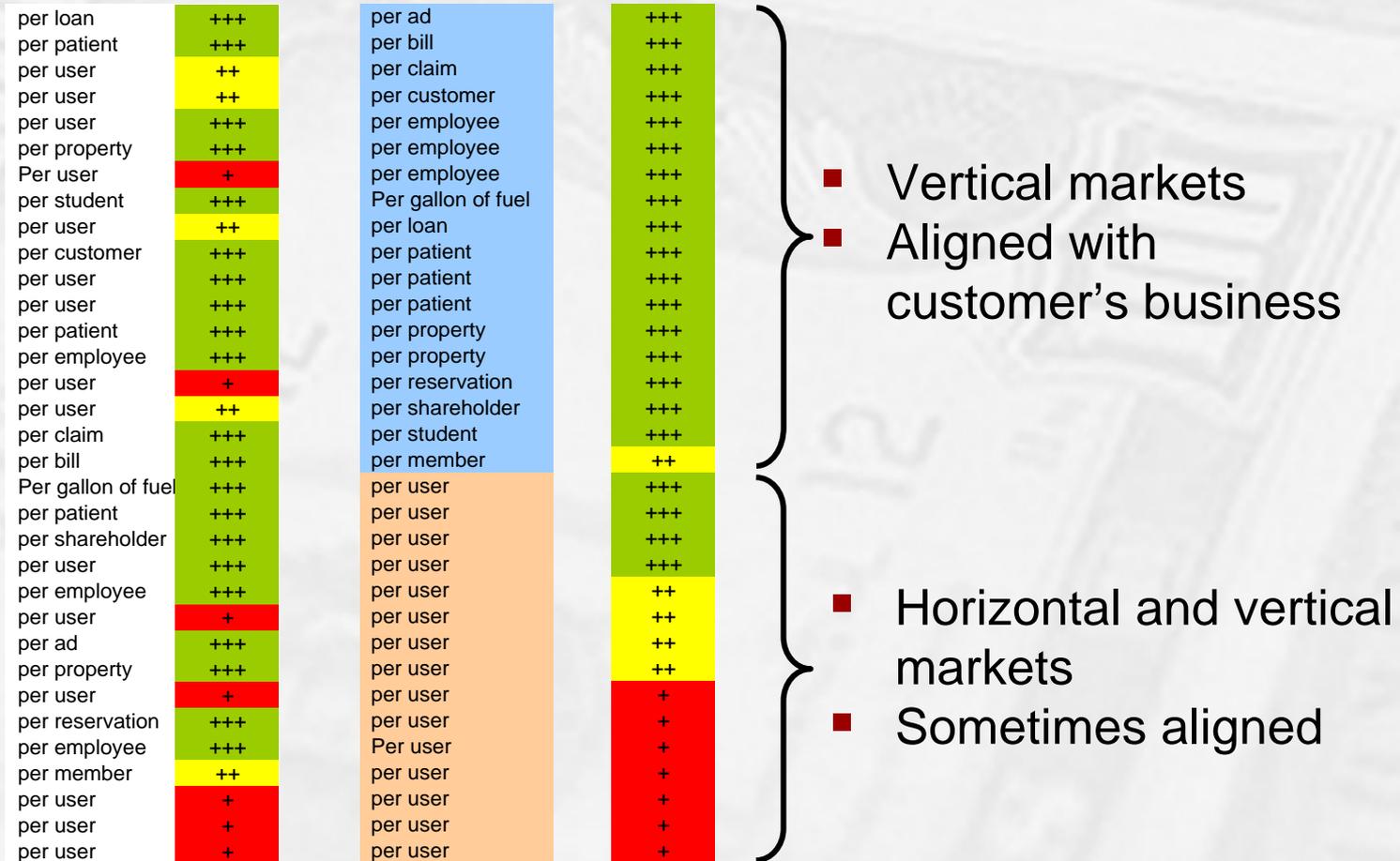
# Improve Pricing Execution

## Align Metric With Value Driver



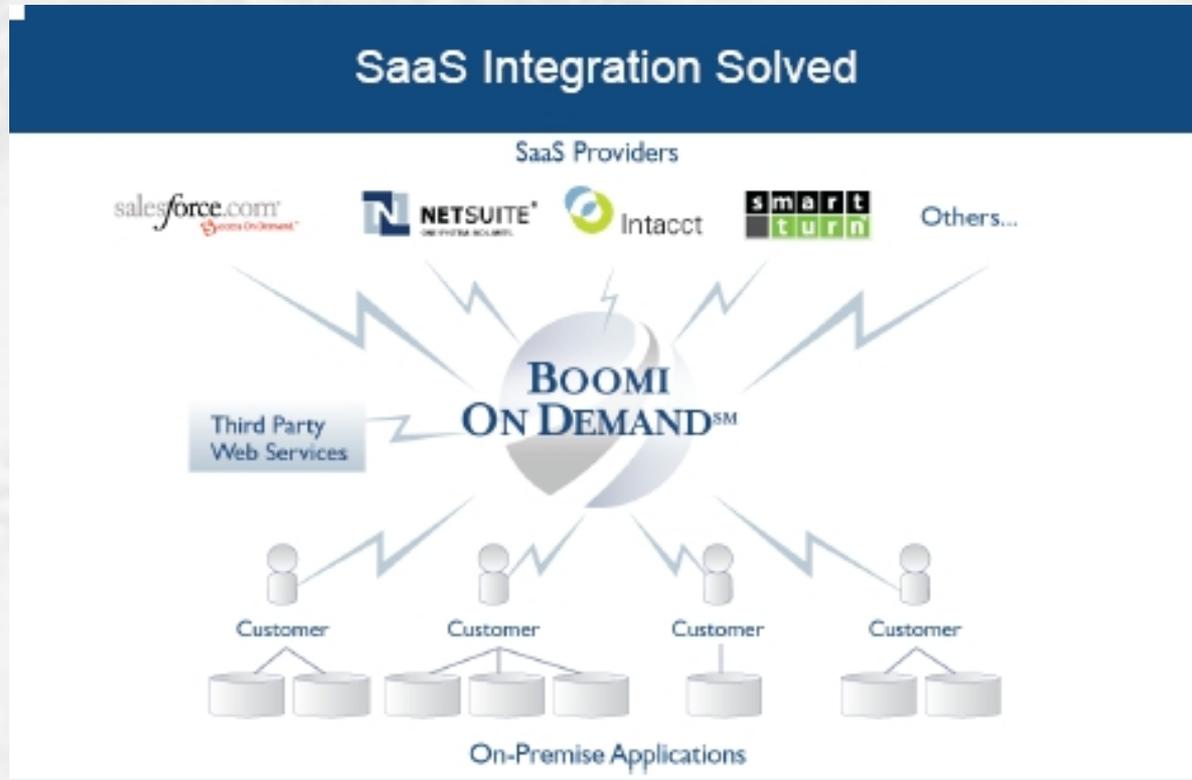
# Improve Pricing Execution

## Align Metric With Value Driver



# Value-Aligned Pricing Metric

## An Example



Per-Connection Pricing + Type of Connector

# *Value-Aligned Pricing Metric*

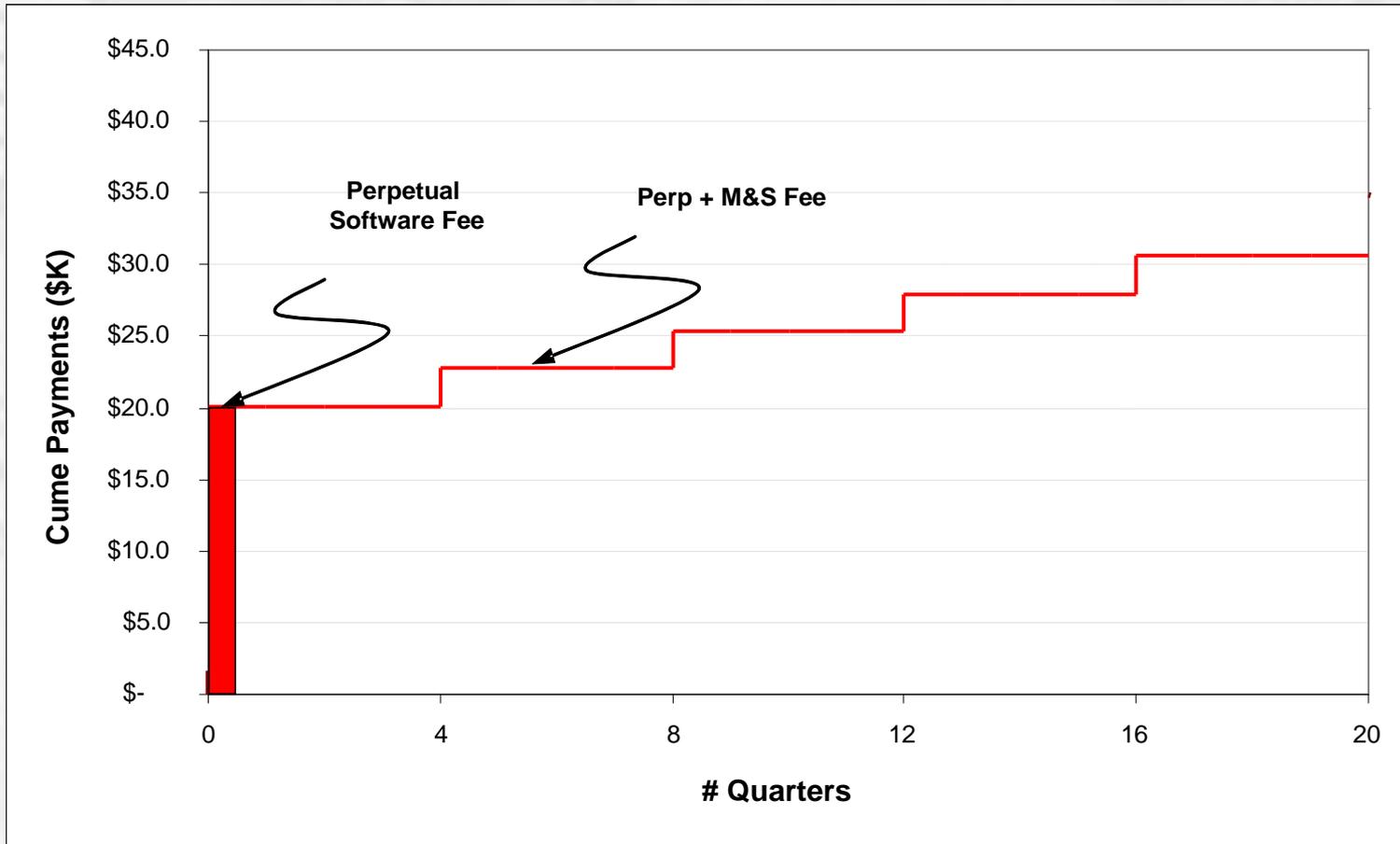
## **Selection Guidelines**

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- **Aligned with customer's business**
  - Path to revenue
  - Financial-enhancing usage
  - Revenue-generating users
- **Scales with value delivered**
- **Can be estimated for budgeting**
  - Accuracy less important
- **Should be “wired” into application**
  - License servers, keys
  - Transaction counters

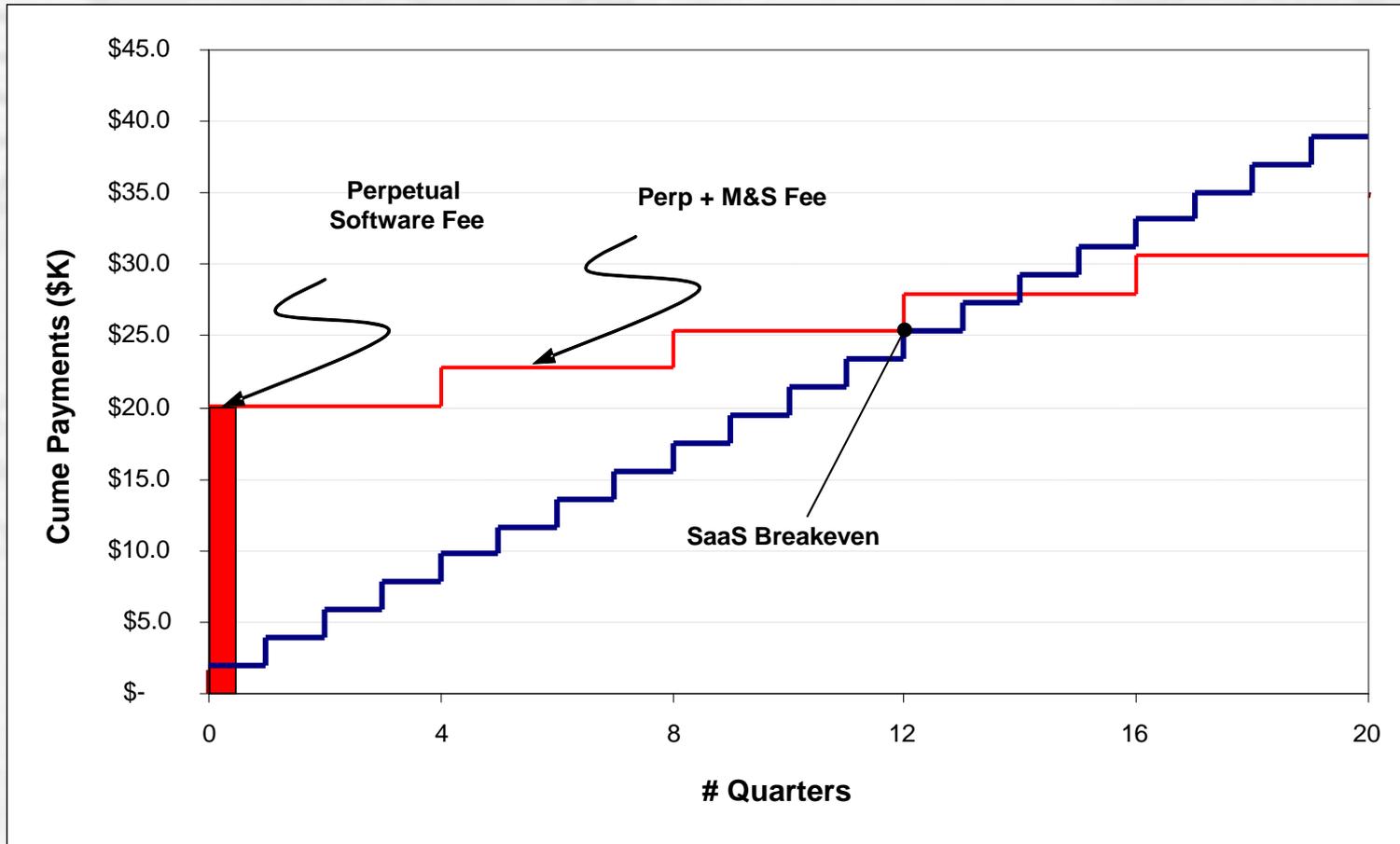
# Improve Pricing Execution

## Use Correct Comparables



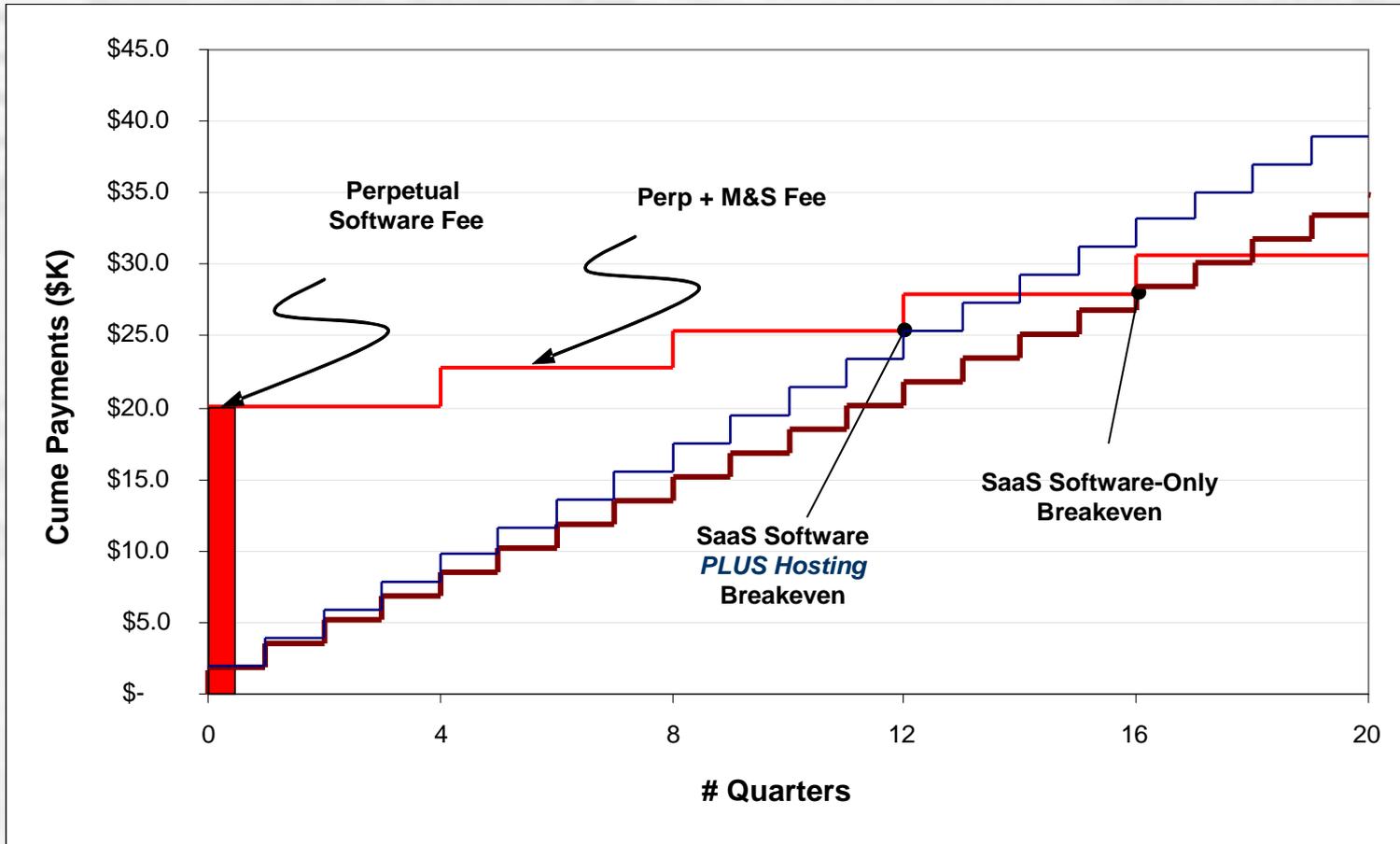
# Improve Pricing Execution

## Use Correct Comparables



# Improve Pricing Execution

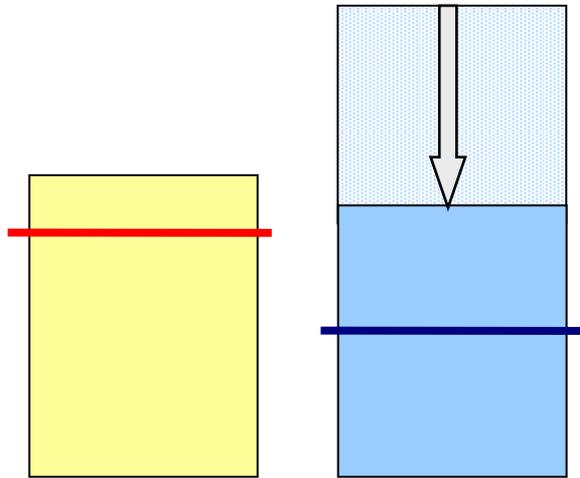
## Use Correct Comparables



# Improve Pricing Execution

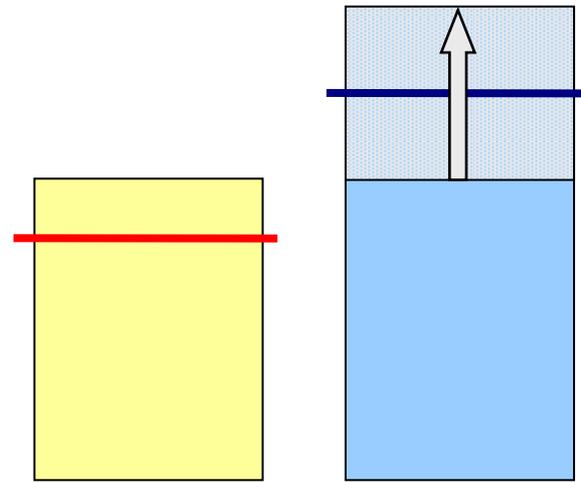
## Package for Value

Take Away



How *little* needed to *beat* price?

Build Up



How *much* needed to *justify* price?

# Improve Pricing Execution

## Don't Confuse Customers

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### NetSuite Eyes Midsize Manufacturers

By John Pallatto  
2008-06-12

**NetSuite takes aim at SAP and vertical markets with a new SAAS edition.**

Called NetSuite for Manufacturers, the package is part of NetSuite's effort to compete with SAP for small and midsize companies in vertical markets.

NetSuite for Manufacturers is available online now for \$999 per month and \$99 per user per month.

### NetSuite targets SAP R/3 customers with discounted SaaS ERP offer

By Courtney Bjorlin, News Editor  
03 Nov 2008 | SearchSAP.com

Hoping to win SAP R/3 customers who are angry with SAP's support fee hikes, NetSuite is promising to cut their annual bills in half if they switch to its SaaS ERP.

Whatever they're paying annually for SAP maintenance and support, NetSuite says it will charge half that amount for an annual NetSuite subscription and support for a comparable number of seats. NetSuite typically sells one-year subscriptions but will consider multi-year subscriptions and apply the offer, a spokesman said.

NetSuite is calling the program "Business ByNetSuite." NetSuite costs \$99 per user per month, plus a base fee of \$499. That price includes maintenance but not support. Business ByNetSuite comes with 24/7 support, but the vendor didn't provide its cost.

# Topics

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- Don't weaken yourself
  - Don't underprice
- Improve pricing execution
  - Make sensible pricing decisions
- **Don't compete on price**
  - **Find your niche**
  - **Be flexible**
  - **Don't get trampled**

# *New Product Elements*

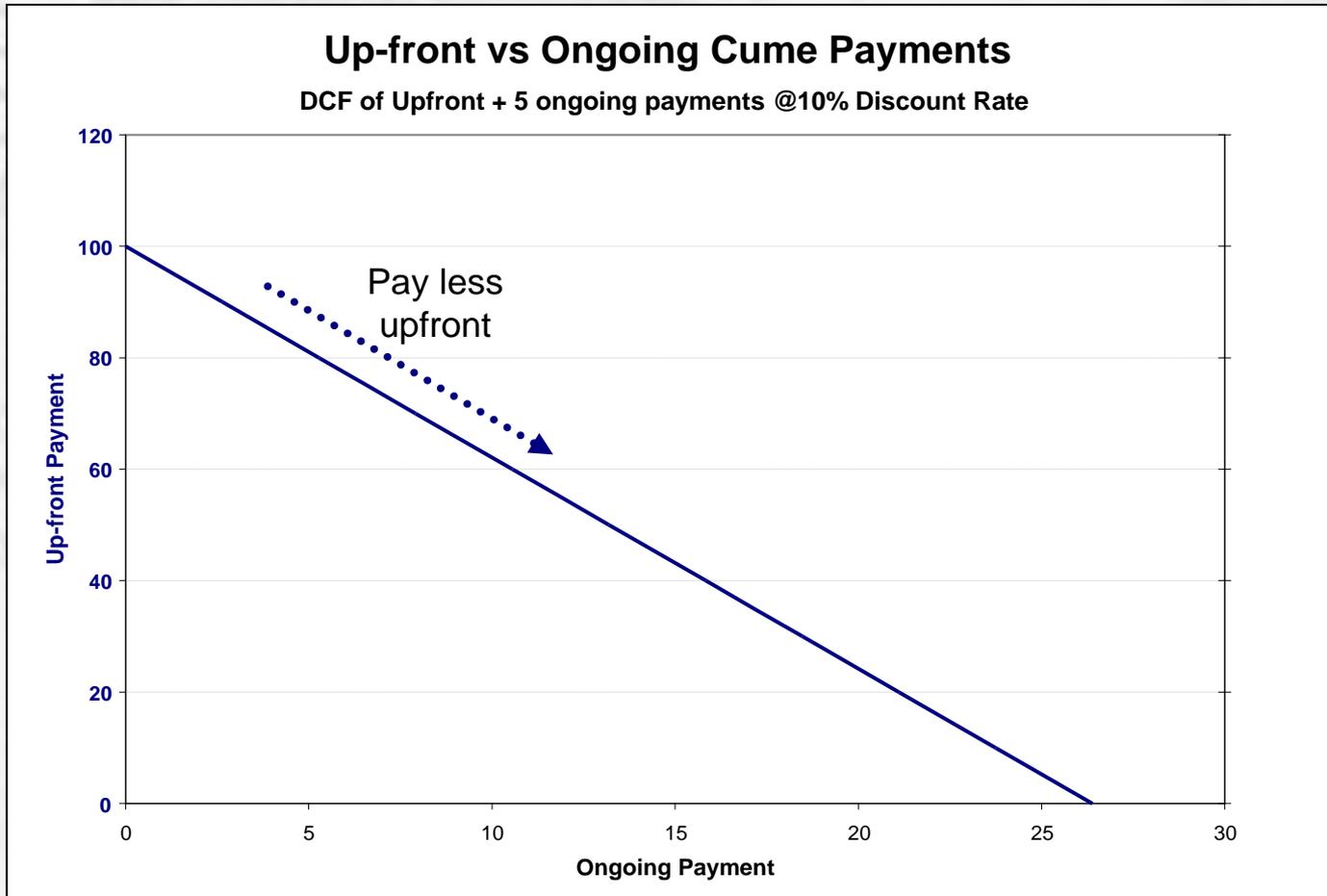
## **Find Your Niche**

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<i>SaaS Benefits</i>	<i>Customer Types to Target</i>
<i>No / low need for internal IT</i>	No IT budget
<i>Web-delivered application</i>	Rapid deployment
<i>Monthly payment</i>	Cashflow sensitive
<i>Pay as you use</i>	Uncertain usage
<i>Low upfront cost</i>	Price sensitive
<i>SaaS Drawbacks</i>	<i>Customer Types to Avoid</i>
<i>Flexibility</i>	Need custom solution
<i>Integration</i>	Legacy apps
<i>Security</i>	Risk averse

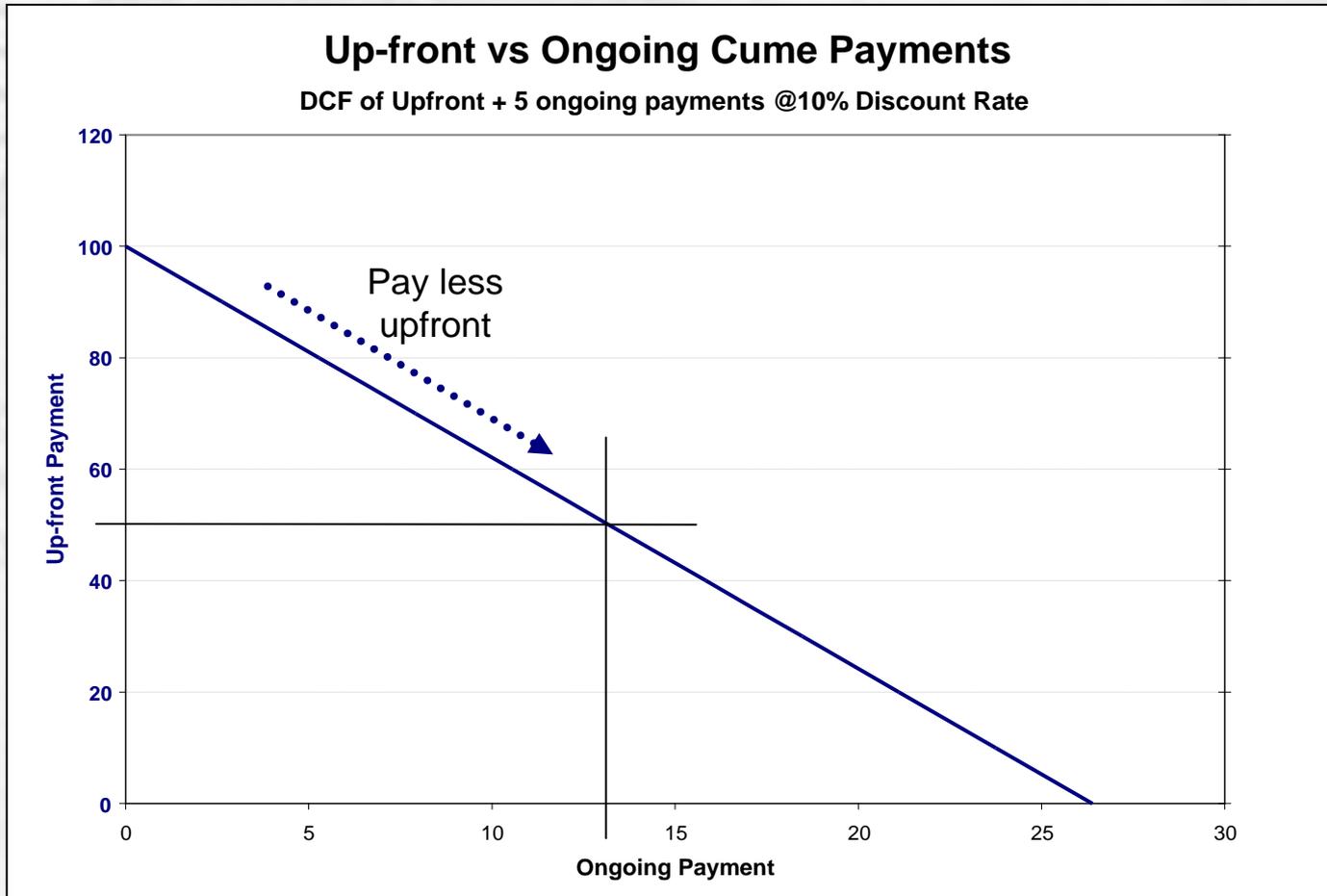
# Don't Compete on Price

## Be Flexible with Payments



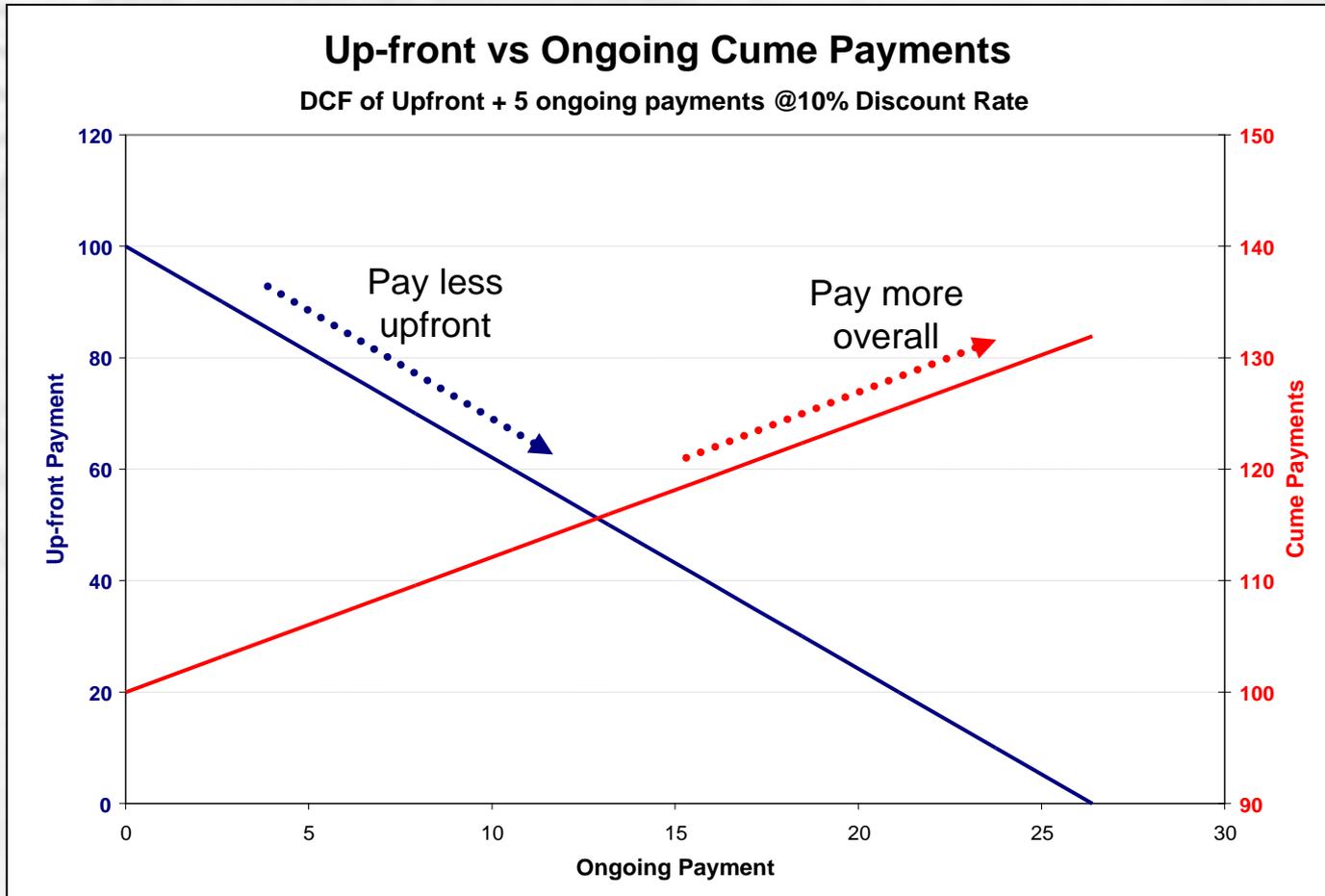
# Don't Compete on Price

## Be Flexible with Payments



# Don't Compete on Price

## Be Flexible with Payments



# Don't Compete on Price

## Avoid Being Trampled

### Economic woes may lower SaaS prices

The world's economic woes could bring about lower prices for on-demand software.

[Chris Kanaracus \(IDG News Service\)](#) 20/10/2008 08:30:00

The ongoing global economic crisis may spark a pricing war in the SaaS (software as a service) arena, according to a major vendor in the space.

During an appearance at an investor conference in New York last week, Salesforce.com Chief Financial Officer Graham Smith discussed the company's readiness to lower prices in order to remain competitive.

"It won't surprise me if going forward in these times that we see much more aggressive pricing. That's sort of typical," said Smith, who also addressed investors in London on Friday. "We are able to match pricing."

"My view is you have to sometimes be aggressive but equally, if you've got a small company that's being insanely aggressive on pricing, if I was a customer I'd be kind of nervous about that -- it speaks to their business situation," he said.

During an appearance at an investor conference in New York this week, Salesforce.com Chief Financial Officer Graham Smith discussed the company's readiness to lower prices in order to remain competitive.

### NetSuite's Salesforce.com discount indicative of SaaS CRM pricing pressures

By Barney Beal, News Director  
22 Oct 2008 | SearchCRM.com

NetSuite today took direct aim at Salesforce.com customers, offering to replace their current Salesforce.com implementation with NetSuite CRM+ for half the price.

Under the RenewForce Program, customers will pay 50% of their current Salesforce.com license for a comparable NetSuite CRM+ license for a minimum one-year contract. NetSuite is also offering

# *Avoid Being Trampled*

## **NetSuite Financials\***

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- **Revenues**
  - Up 44% (\$40 vs \$28M)
- **Gross margin**
  - Down 4 points (66% vs 70%)
    - 6% decline
- **Sales & Marketing**
  - Up \$6M (40% growth)
  - Still 50% of revenues
- **Operating Cashflow**
  - More negative (-\$6M vs. -\$1.8M)

\* Q3 2008 vs Q3 2007

# Wrap-Up

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- **Execute the basics**
  - **Attract new customers**
  - **Increase viral attractiveness**
  
- **Don't weaken yourself**
  - **Don't underprice**
  
- **Improve pricing execution**
  - **Make sensible pricing decisions**
  
- **Don't compete on price**
  - **Think before reacting to competition**

## *Wrap-Up*

# Final Thoughts

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- ☑ **Align price with value**
- ☑ **Use packaging to add value**
- ☑ **Link payment timing to value delivery**
- ☑ **Test prices, packages, offerings**
- ☑ **Watch billings and cashflow**

# Wrap-Up

## Are Things Really This Bad?



### SEG SaaS Index

#### Company Name

- Athenahealth
- Concur
- Constant Contact
- DealerTrack
- DemandTec
- Kenexa
- LivePerson
- Netsuite
- Omniture
- RightNow
- Salary.com
- Salesforce.com
- SoundBite Communications
- SuccessFactors
- Taleo
- Vocus



November 2008

# Wrap-Up

## Maybe Not!

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### eWEEK CHANNEL INSIDER

#### CIOs Forecast Flat Spending Growth, but No Declines

(2008-11-13) - Contributed by Jessica Davis

Two new surveys of IT decision makers, CIOs and IT managers show that the spending forecast for 2009 is lower than usual but **not dramatically lower**. That means it's time for vendors and IT solution providers to plump up marketing and sales initiatives to ensure they get their piece of the smaller 2009 pie.

The Computer Economics survey also found that **one-quarter** of respondents anticipated spending **reductions of 3 percent**, but that another **one-quarter of respondents** said their IT operational budgets would **rise by at least 5 percent**. And the survey indicated that at the median, IT organizations are forecasting flat spending growth.

<http://tinyurl.com/no-decline>

# Thanks!

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Jim Geisman

[jimg@softwarepricing.com](mailto:jimg@softwarepricing.com)

508 – 647 – 0330