

Pricing Your Product for Profit

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Topics

- What is the buyer thinking
- Software pricing – historical lessons
- Technology licensing
- Product and service pricing metrics
- Prepayment
- Final words

Buyers – Needs, Fear, Fairness



What Does the Customer Expect? Want?

- Price to be fair versus:
 - > Comparable products and services
 - > The customer's perception
- Tie the price structure to the value the customer perceives (or receives)

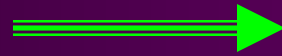
Full Circle – Software Pricing

1970's



Time sharing

Early 1980's



By the CPU

Next



By the location

Next



By the cluster

1986



By the PC

Full Circle – Software Pricing

1986



By the user

1990



By blocks of users

1996



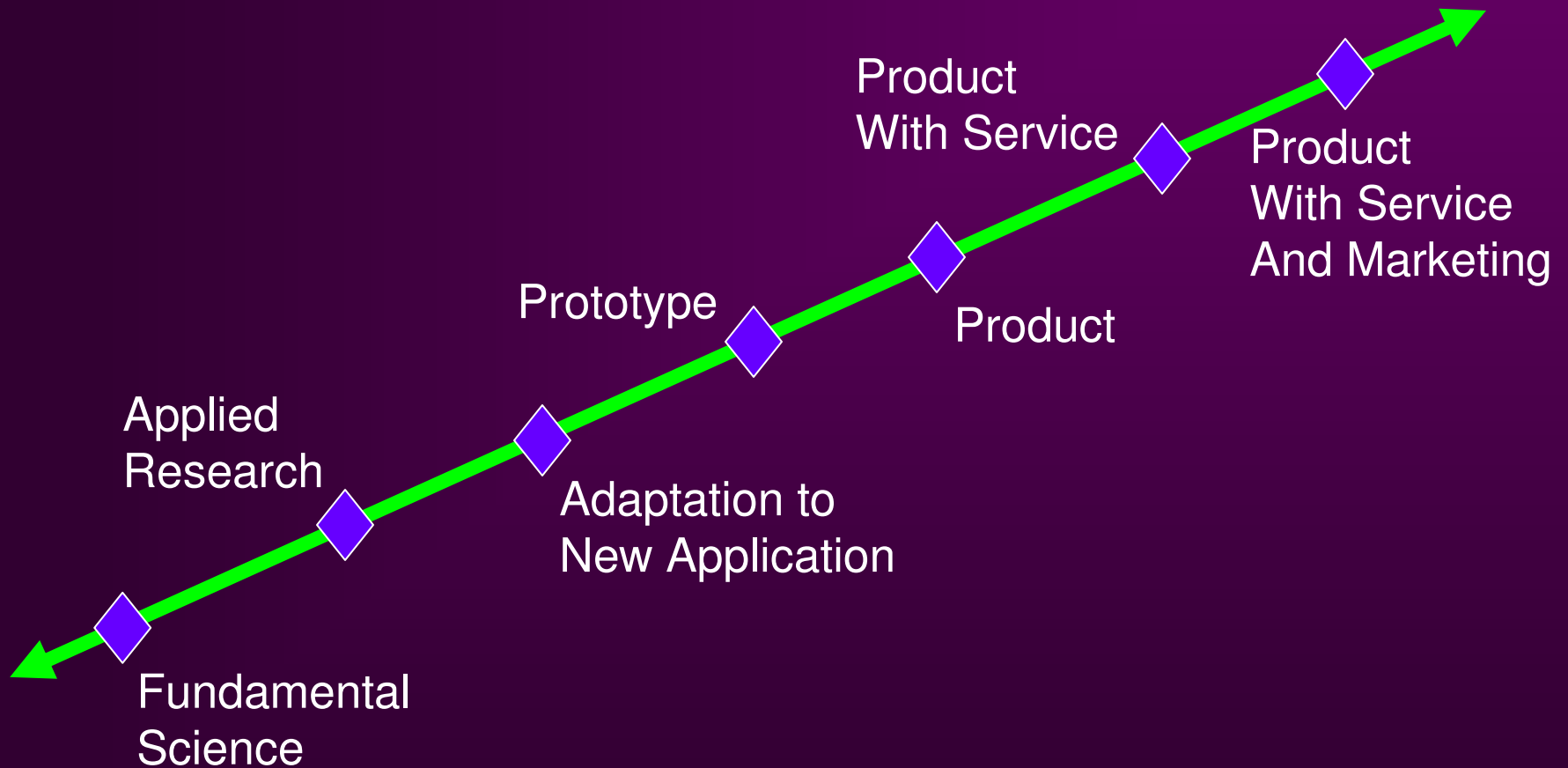
By # people served; or by # of transactions

1997



ASP model

Product Spectrum



Licensing Deal – OR Software

- Software licensed by large medical equipment company for bundling with patient monitors
- Licensee wanted to achieve:
 - > Market differentiation
 - > Additional sources for sales leads
- Licensee was considering giving the software away

For the Inventor – What to Propose?

- Make or buy decision
 - > Cost of “make” option
 - > Timing – value now to Licensee
 - > Quality of features, ease of use, stability
- Royalty as % of equipment price
- Royalty as compared to marketing expenditures

Licensing Deal Analysis

- Estimate low and high of licensee's "make" option
- Run sales projection of licensee's product
- Set up royalty cases based on those sales
- Analyze reasonableness of royalty from perspective of licensee

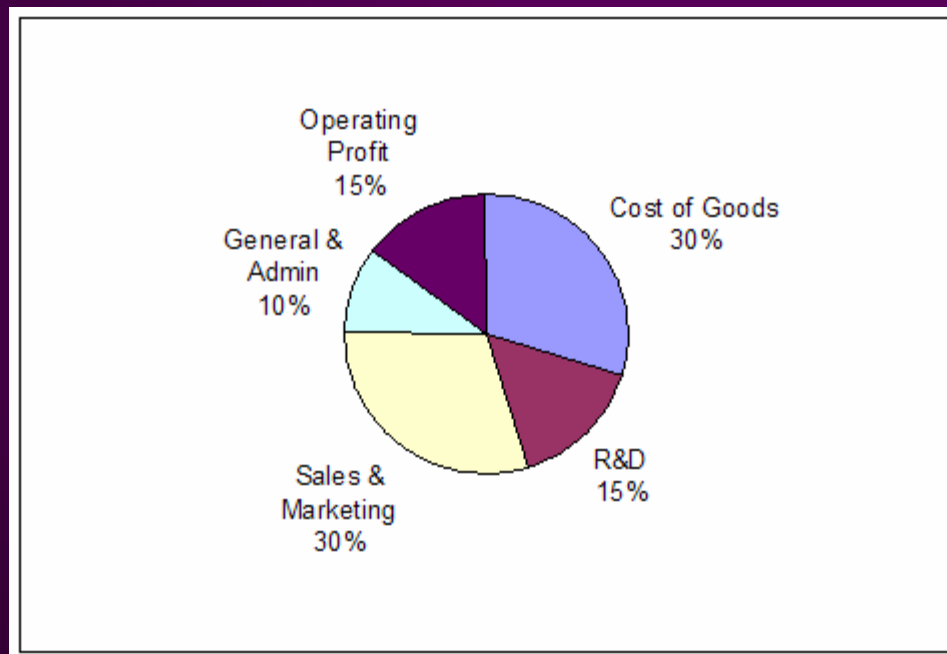
Medical Technology Example

- Guidance technology for minimally invasive surgery
- Potential for licensing for use with medical equipment
- Make or buy analysis not applicable

Royalty Levels

Set based on:

- Extent to which technology provided replaces components of Licensee's cost structure
- Fair share of profits



Royalties & Related Terms

- Percentage of revenue
- \$ per unit
- Up front payment
- Step up or down
- Minimum or maximum
- Exclusivity
- Support obligations
- Ownership of enhancements
- Obligation to enhance
- Obligation to market

Products & Services

- Make a grid of the competition
- Go for the nickels and dimes
- Can you get a premium? Must have:
 - > Image
 - > Service
 - > Novelty
 - > Top of trend

More Pricing Metrics

- What else does the customer buy and how much do they pay?
- Pricing by \$ per beneficiary
- Test by calculating % of customer's budget

Prepayment – More Opportunity Than You Might Think

Common Examples:

- Phone cards
- Newspaper & magazine subscriptions
- Insurance
- Winter heating fuel pre-purchase
- Deposits for cars, furniture, etc.

What's Important for Prepayment

- Confidence that you will deliver
- Definite need for the product or service
- Confidence in the quality
- No other way to buy the same thing
- Competitive advantage
- Good price

Prepayment Examples

- Annual payment for software maintenance
- Deposit on product involving even minimal customization
- Partial exclusivity pre-payment
- Membership program

Customer Needs Model – Violin Shop

Trust, care
with instrument

Quality of Work

Fair Price

Deliver on Time

Violin Shop – Pricing Possibilities

- By the hour
- Rate for quick turnaround
- Fee for pickup & delivery
- Annual maintenance contract
- Deposits on the work

Last Word

Spend time and care making decisions
you can't change



Don't waste time agonizing over
decisions you can change

