# Value and Pricing Perspective

## On the Top Service Revenue Generation Business Challenges

Tech revenues and margins are under intense pressure. Analysis of the top 50 Technology and Services companies by TSIA reveals that 2015 first half revenues are down on average 7% from the same period in 2014. Though managers have to date been able to protect operating income, it is now beginning to follow suit, down over 1%. Prospects for the future are more of the same.

Tech firms are searching for profitable revenue growth opportunities, and service revenues are receiving heightened attention from the C-suite. TSIA has identified 16 questions that define the top service revenue generation business challenges faced by technology companies. Since price is a primary driver of purchase behavior, and since it is arguably the single the most powerful lever available to drive profitability, we assembled this white paper to offer a value and pricing perspective.

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## Foreword

In a recent webcast, Thomas Lah, Executive Director of the Technology Services Industry Association (TSIA), reported that technology company revenues, margins and profits were under duress. Through the first half of 2015, revenues on average are down 7% from a year earlier, with profits down over 1%. Though hardware companies are hardest hit, neither software nor services are immune to the trend. More, he predicts tech company revenues, margins and profits will continue downward for the foreseeable future.

In this environment, tech leaders are looking for methods and tools that they can apply to reverse the trend, and service revenues are receiving heightened attention. Strategic pricing alone cannot solve the problem, but in our experience tech companies may be leaving as much as 10% of revenues on the table due to ineffective pricing. And that's just the top line. For the typical tech company, with profits of 14%, a 1% price rise translates into as much as a 7% improvement in profitability. Improvements in value and pricing capabilities, therefore, not only deliver growth, they deliver profitable growth.

**Strategic pricing alone cannot solve the problem, but in our experience tech companies may be leaving as much as 10% of revenues on the table due to ineffective pricing . . . and a 1% price rise translates into as much as a 7% improvement in profitability.**

TSIA's Service Revenue Generation (SRG) discipline focuses its research on the sales and marketing practices that drive optimal revenue growth across the following recurring revenues:

- Subscription plans for XaaS business models
- Maintenance and support contracts
- Managed service contracts.

[1] TSIA Technology & Services 50 Webcast, August 18, 2015

There are five trends and evolutions occurring with recurring revenues:

1. **Intensify** the optimization of renewal rates.
2. **Maximize** the sale of support services at point of technology sale.
3. **Shift** from free to fee-based support/adoption services in cloud computing models.
4. **Create** compelling value propositions for premium support offers in both cloud and on-premise models.
5. **Evolve** from product-attached services to outcome-based offers, with a special focus on monetizing high-value adoption services.

In its work, the SRG group has posed sixteen (16) questions that comprise the Top Revenue Generation Business Challenges. Since value delivery is the key to growth, and price is a primary driver of purchase behavior, we assembled this white paper to offer insights to managing these challenges from a value and pricing perspective. This paper describes how value based pricing strategy concepts, methods and tools can be applied as a lever to sustain revenues and earnings even in this difficult business environment.

**Tim Matanovich**

President

Value and Pricing Partners

## Attaching Support Services

1. **What practices are employed by companies that experience the highest support attach rates? (sale of support services at point of new technology sale)**

### Value and Pricing Perspective

1. At the time of the product sale, unless you are in a land grab, the overriding business objective is to maximize the long term profitability of the deal. High attach rates translate into high recurring revenues, a good thing for long term profitability.

2. The question is how high? Lower prices will increase attach rates but damage profitability. High prices will increase profit, but reduce attach rates and may reduce total revenues. Our goal is not to maximize attach rates, or even revenues, but to decide on a target attach rate and target price level that maximizes long term profitability. The real question is: Do you want to sell more stuff or make more money? The two answers are not the same.

**Since most firms offer multiple levels of service, the goal is not simply to optimize a single attach rate. Rather it is to optimize multiple attach rates, one for each service level.**

3. Since most firms offer multiple levels of service, the goal is not simply to optimize a single attach rate. Rather it is to optimize multiple attach rates, one for each service level. Multiple service levels provide higher levels of customer success and value delivered, creating strategic pricing opportunities.

4. Since price is an important driver of purchase behavior, price levels drive customers to choose service levels. Prices for each level should be set in concert with the others to optimize profitability of the entire portfolio. Why? The price of any one level, in part, drives demand at other service levels.
   For example, if I raise the price for my lowest level offering, and don't change my mid-level price, then the price increase at the low end will likely prompt some customers to switch to the mid-level and others to drop the service entirely. The goal, therefore is not to maximize profitability of a single service, but to maximize profitability across the portfolio.

**Prices for each level should be set in concert with the others to optimize profitability of the entire portfolio.**

[2] Profitable Technology Services Pricing: How to use offering design and pricing strategy to accelerate sales and increase willingness to pay, Timothy Matanovich

## Expansion in Emerging Markets

**2. How does the performance of my recurring service revenue compare to other companies in the same country?**

### Value and Pricing Perspective

1. Every country and its mix of companies is unique and so benchmarking against peers is a fundamental first step in assessing recurring revenue performance.

2. In the emerging B4B era, however, identification of peers and understanding their performance will require deeper dives than before. A service dollar may be generated from legacy maintenance services, outcome based professional services or SaaS, and each firm may be at a different stage of transition.

**Firms will need to increase their investments in research to understand markets, competitors and customers.**

3. This complexity makes peer data both more valuable and more difficult to interpret. To better manage the risk, firms will need to increase their investments in research to understand markets, competitors and customers.

## Health of Recurring Service Revenues

**3. How do I benchmark my company's recurring service revenue performance versus the industry?**

### Value and Pricing Perspective

1. Benchmarking is a fundamental first step in evaluating recurring revenue performance.

2. Two major shortcomings of benchmarking, however, are that it is rear view oriented and it inclines us towards commoditization. In other words, it shows what has been done, not what can be done. At its worst, benchmarking can lead to red ocean thinking and narrow mindness[3].

3. Think of benchmarking as a solid first step. From there, home in on customer needs and willingness to pay. Your core support offering may need to be different than that of your peers. Your service options will need to address the unique needs of your target customers, and may therefore differ from those of your peers. As you trek toward an outcome focus, these differences will grow. The greater your differentiation, the greater your pricing power.

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4. Finally, your investment in benchmarking information should be balanced with investments in customer information. Information is the key to pricing power and needs to be a regular part of your price management and strategy review process, and governance. Benchmarking, customer information, analytics, customer success platforms, and advisory councils completed on a regular cycle let you have your finger on the pulse of your customers, segments, markets, and regions.

[3] Blue Ocean Strategy, How to create uncontested market space and make the competition irrelevant, Renee Mauborgne and W. Chan Kim, 2005

## LVL3 LVL4 Service Development Lifecycle

**4. How do companies define outcome-based service offers based on KPIs that are important to the customer?**

### Value and Pricing Perspective

1. KPIs are the measures of performance against a firm's critical priorities. We call these priorities "Value Drivers". These are the 3-5 top priorities for Cost Management and Revenues/Margin Management. The better your services align with these value drivers, the greater your value delivered and the stronger your pricing power.

2. Value drivers vary widely across every firm's customer base (by segments and regions) and outcome based service offers must reflect that variance. Value drivers, therefore, are an outstanding basis for segmentation and targeting. Outcome based service offers are targeted to groups of customers, with common value drivers, that are large enough to justify investment in offering development and marketing. Here is an example

   **Value drivers vary widely across every firm's customer base and outcome based service offers must reflect that variance.**

   In the case of manufacturing, customers, one group of manufacturers might be focused on throughput, producing a commodity 24 X 7 X 365. Another group of manufacturers might be focused on burst capacity, ramping up to produce a specialty item for 60 days, and then changing to produce a second item for the next 45 days, then ramping down until the next order is scheduled. Consider what the ideal service offering would look like for these two manufacturers. For the throughput firm, the big focus would be uptime. Uptime makes or breaks their cost model. Excellent service is defined as maximizing uptime.

   In contrast, for the burst capacity manufacturers, the big focus is flexibility. Flexibility permits the manufacturer to achieve the highest productivity of their resources, given the constraint of short production runs. Excellent service in this case is defined as ramping the plant up and down, or transitioning between runs, as efficiently as possible. That efficiency permits them to manage their costs down while flexibly meeting the changing demands of their customers. The outcome they desire is flexibility.

   In sum, from an offering design standpoint, you see the need for two distinct service offerings for these two segments of manufacturers. These manufacturers require different value propositions, based on different definitions of value. By segmenting your customer base and defining your offering based on that segmentation, you have created competitive advantage. You are not only hearing the voice of the customer, you are acting on it.

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3. In sum, an offer based on KPIs is an offer designed around value drivers, i.e. customers' critical priorities. This requires value based segmentation to identify groups of customers with common priorities. This is not industry verticals. In our experience, industry vertical segmentation is not sufficient for getting clear on value drivers

5. **What are the capabilities we must build to shift from 'compulsory' support services to a service portfolio that creates real business value for customers?**

## Value and Pricing Perspective

1. Essential services require two capabilities to be successful: service operations and sales. Service operations assures that the functional value of the product is delivered. Sales job is to communicate value delivery, secure the service attach or renewal, and capture a fair price. Good delivery means repeat sales at a respectable price.

2. Value added services are fundamentally different. Customers don't have to buy them. This is a discretionary spend. As a result, the firm needs to target customers with the ability and willingness to pay, develop offerings that are appealing, implement a sales and marketing communications strategy, and ultimately sell these services at a profit. That means the primary skills you need are strategic marketing and pricing.

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3. Service organizations are often excellent at operations and sales, but woefully inadequate at strategic marketing and pricing. So how do you build those skills? Here are two examples.

### Action Learning Experience

One learning approach that we frequently deploy is an Action Learning Experience, where a team of managers is guided through a work process to simultaneously solve a business problem and develop capabilities. For example, the problem could be development of a VAS offering. These initiatives are typically deployed over a 2-6 month period, though in some cases, a 3 day "workout" approach can work.

### Hyper-Learning Experience

When building a strategic marketing capability, it is not simply a matter of changing the work process, but development of a market oriented culture. Managers need to learn how to look outside the organization to customers. The real question is how to drive a rapid shift to market orientation while providing skills and tools? We have used the term Hyper-Learning to describe a workable approach.[4] Hyper-Learning involves use state of the art business simulations to both intellectually and emotionally engage managers. In this environment, teams of managers compete with one another as part of the learning process. This approach has been used successfully with industry leaders including Boeing, Ericsson, Dell and GE. The simulations we employ are used by over half of the top MBA programs in the world, including MIT, Stanford and INSEAD.

[4] Hyper Learning in a Hyper World, How time pressured managers can accelerate market response without risking the farm, Timothy J. Matanovich and Geaorge E. Cressman, Marketing Management, Summer 2006

# Market Analysis

**6. What are effective methodologies for surfacing unmet customer needs?**

## Value and Pricing Perspective

1. In the section above entitled LVL3 LVL4 Service Development Lifecycle we walked through a process that focused on Value Drivers. That is the place to start, by focusing on the most powerful ways you can lower the customer's costs or increase their revenues.

2. In our experience working through this process, we find that managers focus too much on the functional benefits of their offerings. To surface unmet customer needs, we need to reorient managers to think broadly about each of the four categories of benefits sought, i.e.

    a. Functional Benefits – Benefits related to how our offering functions in the customer's work process. In particular, we encourage them to look for adjacencies in the customer's value chain.

    b. Process Benefits – Benefits that make us easy to do business with, e.g. evergreen approach to renewals

    c. Relationship Benefits – Benefits of doing business with us that are not easily replicated by other suppliers

    d. Social Benefits – Benefits of working with us that have broader societal implications, like environmental impact.

3. That work can be supplemented by pricing research to confirm and quantify those value drivers and identify the key benefits sought by customers. In the research we are looking to identify offering attributes that are "meaningfully different" from the competition. For example, we are in the midst of a research project right now in which we are using conjoint analysis to identify the characteristics that meaningfully differentiate service contracts. Then we can design service features that target those benefits sought.

    Any number of analytical or research techniques can be used to surface unmet needs. The choice of a particular technique depends on the situation.[5] Here are some examples.

    1. Value Hierarchy Analysis
    2. Discrete Choice Modeling
    3. Conjoint Analysis
    4. Value Based Segmentation
    5. Perceptual Mapping

[5] Engineering the Price-Value Relationship, Value and Pricing Partners White Paper, May 2012

**7. Essential services sell themselves.**

### Value and Pricing Perspective

1. Ask any marketer or sales person, and they will tell you: Nothing sells itself unless you give it away, and even then some customers do not want it. As mentioned above, essential services require two core skills: operations and sales.

2. The really important question is: What should your essential services be? Often we think of essential services as something that is fixed in the marketplace and that all providers define in the same way. While there is some element of truth to that (some services are "required") how you define essential services is purely a management decision.

3. Should your essential services be the same as your competitors? NO! Uber has redefined the essential services of a taxi provider, and that made all the difference. If Uber defined essential services the same as their competitors, they would just be another taxi company.

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4. Any service can be essential or value add. In VPP terminology, companies need to draw a "big fat red line" and decide what goes on each side.

5. Using our Offering Configuration and Price Menu tools, we have further refined that thinking so that both essential and value add services can be clustered into four distinct categories. In combination, these four categories provide businesses and sales people with the flexibility to configure offerings to meet the needs of their customers, while simultaneously increasing value capture and reducing the need for discounting.

## Outcome-Based Pricing Models

**8 How have pricing methodologies evolved with the advent of outcome-based offers?**

### Value and Pricing Perspective

1. As Thomas Lah wrote in the preface of our book, legacy pricing models "will not serve technology companies well in the future".[6] The big story here for firms considering how to price for outcome-based offers, is that they need to move away from cost based and market based pricing to value based pricing, i.e. they need to develop value pricing capabilities in their offering development organizations.

2. Outcome based pricing is essentially a subset of value based pricing. Value based pricing is about getting sufficiently clear about the value you create for a client that you can capture a fair share of it. Often with value based pricing, the price paid is tied to a "price metric" that scales price with value. Consider Salesforce.com with a price of $25 per user per month for a specific offering value bundle, and additional tiers at varying price levels associated with the value bundled together at those levels/tiers. This is value pricing.

3. Outcome based pricing is a special case of value based pricing. If you are going to successfully implement outcome based pricing, you need to do all the work of value based pricing, and then when it comes to the price metric, it defines a KPI outcome as that metric. The price paid, then, is based on that outcome. For example, if you are selling leasing automation software into car rental agencies, then you could tie your price to the number of cars leased per month. This is an outcome based price.

4. There are three key questions to ask before deploying outcome based pricing:
    1. Does outcome based pricing make sense in our business and with our customers? (E.g. It may not if you serve a diverse customer base.)
    2. Do we have a well-defined, sizable segment of customers for whom an outcome based pricing strategy can be developed? (You don't want to do outcome based pricing for one or two customers.)
    3. Are we and our customers willing to accept a new risk-reward distribution between us? (If the supplier is going to take on higher risk, then that means the customer pays higher prices.)

[6] Profitable Technology Services Pricing – How to use offering design and pricing strategy to accelerate sales and increase willingness to pay, by Timothy Matanovich

## Partner Performance and Compensation

**9 How do I hold channel partners accountable for growing support service revenues?**

### Value and Pricing Perspective

1. Do your channel partners have a stake in the success of your support services revenue beyond simple discounts to them on those services (i.e. a certain margin level). If not, then here are a few questions to answer in helping hold partners accountable for growing support services revenue:

    1. Does your broader channel program have specific channel services components as part of it that focus on services that can be extended through specific partner sets on your paper or theirs (including your essential and value added services - or a partner's value added services)?

    2. Is your channel and/or channel services program segmented by and aligned with the value that specific sets of partners bring to your product and services portfolio and that customer segments seek from your and/or your partners?

    3. Does your channel / services channel program currently have success metrics beyond simply revenue and/or margin goals? Such as CSAT (of the Partner and you), NetPromoter (of the Partner and you), services attach rates, services renewal rates, first call closure rate (for partner provided services – yours or theirs), total case closure % rate vs. escalation % rate to you (for partner provided services – yours or theirs).

    4. Have you defined or looked at defining certain services that may be moved from your services portfolio (essential or VAS) that can be more cost effectively provided via specific segments of your partners (either in whole, or in part, i.e. partner provides L1 & L2 levels and then escalates to you)? This aligns well in the area of rationalizing your overall services offering portfolio profitability.

2. If your answer is no to more than one of the above questions you then need to start looking closely at how you can answer yes to more if not all four of them. Simply stated in our new B4B world, you need to create a segmented channel services eco system that incents partners for services revenue growth, customer success, customer satisfaction (with the partner and you) and holds them accountable with a well defined set of metrics in a scorecard format that is reviewed regularly with those partners. This channel services partner segmentation should align with your overall pricing segmentation. Some partners, of necessity, will be excluded from your program. Selling through all channels increases channel can petition and negatively impacts price capture.

## Premium Support Offerings

**10. How do I create premium/platinum support offerings that customers need and are willing to pay for?**

### Value and Pricing Perspective

1. In our comments here we are assuming that the business has a stage-gate or similar process for evaluating the merits of investments in new offerings. Typically, one of the stages within that process is development of a business case. The VPP approach described here largely would reside within that business case.

2. In Questions 4, 5, 6 and 7 above we have addressed varying aspects of this question. Here we will focus on the process, beginning with Value Drivers, i.e. the impact we will have on the customer's business.

3. There are two points of origin in creating premium/platinum support offerings.

    a. Most often companies approach us with one or more offerings they believe fit the bill. From there, the work involves evaluating the business impact of the alternatives on customer Value Drivers.

    b. An alternative, less frequent but often more profitable, approach is to identify a gap in the company's approach to impacting Value Drivers. That customer problem then becomes the fundamental rationale for development of a new solution.

4. In both cases, if a premium or platinum offering is to be developed the focus is on business impact, i.e. Value Drivers, measured in dollars. That impact, in turn, determines the size of investment we want to make in the new offering. If we are solving a $10M problem, then a reasonable investment in the new offering might be $1M. If we are solving a $100M problem, then a reasonable investment might be $10 M. In other words, the value of the solution informs the investment in the solution.

5. Premium offerings will not sell to everyone, so as we look at these value drivers, we also look for a Target Segment of customers for whom those value drivers are important. Experience in market after market tells us that the importance of individual value drivers varies markedly from customer to customer. Starting with the value drivers, we work with the management team to create a target segment profile of customers with a willingness to buy.

6. Based on the Value Drivers and Target Segmentation, we then determine the features and benefits that are instrumental to the offering's success. Our goal is to identify the Meaningful Differentiation of the offering, i.e. the 3-5 features and associated benefits that have a large enough impact on the customer's business to justify their investment in a solution. Meaningful differentiation has two dimensions

    a. The term meaningful has to do with business impact. The impact is meaningful if it is large enough to get their attention and justify an incremental investment.

b. The term differentiation means the degree to which the new solution is truly different than the next best competitive alternative. That may be a true competitor or simply an inefficient incumbent process.

That meaningful differentiation, then, becomes the heart of the value proposition providing guidance to marketing and sales.

7. Through the Offering Configuration process we decide on a feature set that delivers the desired benefits and business impact while simultaneously eliminating features that increase cost but have little benefit.

8. As part of the development process we routinely employ Customer Research to validate the business problem to be solved, its value to the customer and their willingness to pay.

**11. What are best practices for designing and launching new service offerings?**

### Value and Pricing Perspective

1. Designing and launching new service offerings are distinctly separate activities, with independent work processes. We have covered the design considerations above. Our comments here are regarding launch.

2. Successful launch of a new offering involves 7 Steps
    1. Establishment of an initial value price.
    2. Identification of Innovators willing to pilot a new offering.
    3. Negotiating a contract price with them that simultaneously recognizes the value of the new offering, while acknowledges the inherent risk of implementing it, and incorporating information gathering on value delivered.
    4. Consistently demonstrating and documenting value delivered to create reference customers that validate the price
    5. Adjustment of the value price based on actual value delivered.
    6. Increasing the price for successive customers as the risk of successful implementation decreases.
    7. Transition to broad launch to Early Adopters.

## Recurring Service Automation

**12. What technology investments do I need to make to create a frictionless renewal for my customers?**

### Value and Pricing Perspective

1. Integrate "Evergreen" clauses where possible and practical into your services agreements with an appropriate prior cancelation timeframe (30-60 days in writing in advance) to cancel the "auto" renewal aspect of the Evergreen clause.

2. Ensure that you have a tight integration between your ERP, CRM, Partner and Services reporting systems that do not require manual intervention, or data pulls to spreadsheets for tracking renewals, and customer data. If you do not have those linkages and reporting capabilities today, assess the cost of adding them to your current platforms, or invest in a migration plan to get you there.

3. Does your CRM and Services Platform have a customer portal capability to allow them to interact with support, review their license inventory, initiate renewals (if non Evergreen), and provide for appropriate partner access (with customer permission) to assist with support, value added services, and renewals.

4. Do you have a customer success platform such as Gainsight, or Totango? If not this is an area to explore to achieve deeper, richer and timely insights into your customers. Companies that invest in a centralized customer intelligence database and incorporate customer insights into customer facing actions achieve: 3.5X higher retention rates, and +20% customer lifetime value growth. – Aberdeen Group

## Renewal Process for Subscriptions

**13. What are the practices employed by companies that experience best-in-class renewal rates for subscription plans?**

### Value and Pricing Perspective

1. In our experience, companies routinely leave 1-3% or more of revenues uncaptured because of ineffective Price Management practices.

2. Price Management practices include

   a. Processes to provide sales with an effective Price Menu that codifies price policies.

   b. Enforcement of price policies

   c. Development of pricing skills among customer facing staff

   d. Providing those staffers with tools that facilitate value for price tradeoffs

   e. Organizing staff and operations in a way that facilitates value selling while streamlining the purchase process

   f. Incentives that reward price capture or margin achievement in addition to revenue capture.

   g. Systems that routinely measure price performance and put price performance on the executive agenda.

3. These Price Management gains are achievable in under 6 months and are independent of changes in Pricing Strategy.

## Renewal Process for Support Contracts

**14. What are the practices employed by companies that experience best-in-class renewal rates for maintenance and support contracts?**

Value and Pricing Perspective (See responses to Recurring Service Automation, Q-11 & Renewal Process for Subscriptions, Q-12)

## Shifting Financial Models

**15. What are the industry trends for monetizing support services and adoption services in cloud computing business models?**

Value and Price Perspective

1. The vast majority of the new entrant Cloud/SaaS companies are not profitable.[7] Among traditional software companies, new SaaS offerings are less profitable than legacy offerings.[8] In both cases, successful entrants with cloud models, i.e. companies successful at both revenues and profitability, will exhibit the following characteristics.

2. Focus on profitable growth, not just growth. Our experience in case after case is that optimizing revenues and optimizing profitability are not the same. A choice is necessary. In layman's terms: Do you want to sell more stuff or make more money? The two are not the same result. What tone are executives setting for your organization?

3. The choice of a SaaS price is not an internal financial exercise. This is a strategic marketing problem requiring pricing research, like discrete choice modeling. In a recent case, research revealed customers' willingness to pay increased by 50% if they were asked in the right way.

4. This kind of research can also provide you with insights into how quickly customers are likely to transition from legacy offerings to cloud offerings. Your goal is not to optimize profitable growth of the new offering or minimize the decline of the legacyoffering. Rather it is to optimize profitable growth across the transition.

5. Discounting remains a problem. Don't discount away your profits in the fever of the conversion to a SaaS offering.

6. Price sensitivity attributed to competitive offerings is in many cases driven by behaviors of your sales organization. Are the appropriate sales governance and incentives in place to drive profitable growth?

[7] TSIA Cloud to Webcast, September 17, 2015
[8] TSIA Technology and Services Webcast, August 18. 2015

## Support Pricing Strategy

**16. How do I leverage pricing as a growth lever?**

Here are some of the costliest pricing problems we have encountered, all having top and bottom line impact.

1. **High Discounting.** Discounting is rampant in tech companies, often with no good reason. In a recent case we looked at discounting across a firm's sales territories. Price capture in the best territory was 50% greater than in the lowest territory. There was no good reason for the difference other than weak governance. Improved price controls are now increasing revenue capture by several percentage points with no loss of customers. Fundamentally, discounting teaches customers that it is in their best interest to be tough negotiators. Our research working with TSIA has shown that high discounting often has no impact on close rates and often correlates with lower profitability.

2. **Pricing Complexity.** In another recent case, a company goes to market with a la carte pricing for all of its products and services, i.e. no bundled offerings. A la carte pricing is the most complex pricing approach. This complexity results in confusion and low productivity for both sales and buyers. As a result customers tend to buy fewer items and spend less when they buy a la carte. Further, negotiations are more inclined to devolve into details rather than focus on real value issues important to the buyer. Through bundle pricing we can expand share of wallet and increase market penetration. These changes can impact revenues by as much as 10% - 50%.

3. **Missing the New Offering Opportunity.** Your pricing power is greatest when you bring a new offering to market. Since customers have no experience with your product or service, you have a one-time opportunity to tell them what it is worth. Price is one of your most powerful communications. In a heartbeat your price tells customers what you think your offering is worth and how it stacks up against the competition. It is one of the primary determinants of your value positioning. Good pricing decisions can result in higher revenue per sale, and encourages higher unit sales, tie-in sales and repeat sales, all while lowering your costs. In sum, your pricing decisions are instrumental for both top line and bottom line performance.

4. **Missed Opportunity with High Value Customers.** In our experience roughly 20% of customers are value buyers, willing to spend more for a company's products and services. Often companies do not know who these buyers are and how to design offerings that access this increased willingness to pay. Better pricing helps firms target these buyers, and capture more revenues.

5. **Sub-Optimal Portfolio Pricing.** Service organizations typically offer a portfolio of service level agreements, e.g. bronze, silver, gold service levels. The prices for these service levels are often set with little pricing science. As a result, revenue generation may actually be 2% to 10% lower than customers are willing to pay. Using pricing research techniques like discrete choice modeling we can optimize prices for the service levels in the portfolio, resulting in higher revenues and margins.

6. **Migration Risk.** Migration risk occurs when you are launching a new offering to replace an existing offering, e.g. SaaS replacing legacy licensed software. This risk arises because the price of your new substitute offering immediately impacts demand for your legacy offering and any recurring revenues associated with it. Insufficiently considering the impact of your new offering pricing decisions on legacy offerings can needlessly and quickly cut into overall revenues and put profitability at risk. This is especially true if your new offering delivers a substantially greater value than your incumbent offering.

[4] Technology Services Industry Association www.tsia.com

## About Value and Pricing Partners

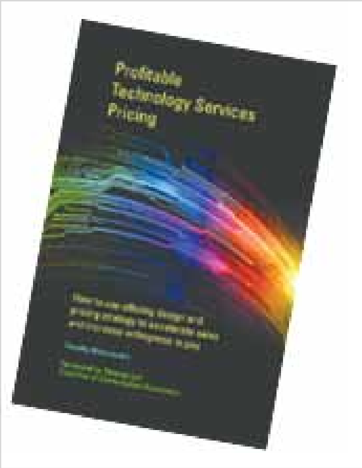
At Value and Pricing Partners, we help businesses drive more profitable growth for themselves, their partners and their customers. Using our exclusive "9 Block Approach" we provide high impact interventions and essential resources for companies to develop and sustain their strategic pricing capabilities , one block at a time.

## VPP's "9 Block Approach"

| | | |
|---|---|---|
| **Optimize ROI of a New Offering** | **Optimize Profitability of a Portfolio or Business Unit** | **Change/Simplify Pricing Model** (e.g. to bundles, "as a service" or outcome pricing) |
| **Target High Profit Customers** | **Respond Strategically to Competitive Threats** | **Strengthen Price Governance & Infrastructure** |
| **Reduce Discounting** | **Increase Sales or Channel Effectiveness** | **Lower Offering, Sales or Operating Costs** |

Companies may not have the people, the skills, the tools, the experience and the confidence to implement strategic pricing initiatives. They may not know how to engage customers to obtain required information. They may not appreciate the business wide cultural change needed across marketing, finance, operations and sales. Even if they do, their people may simply lack the bandwidth to execute, or they may want an external perspective to add credence to their efforts.

Value and Pricing Partners can help with best-in-class assessment, consulting, training and research services to supplement your capabilities. With experience across dozens of tech and near tech companies, in products and services, we have built an integrated system with proven processes, tools and results.




Value and Pricing Partners is a recognized thought leader in technology services pricing. Our book, **Profitable Technology Services Pricing**, has won endorsements from 20 industry and academic leaders, and provides a roadmap for thinking through the pricing challenges faced by tech and near tech companies.

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