

Software pricing

Introduction

- Just the cost are not enough to set the price
- The company's goal are important to set the price
- The company must account the price after the situation on the market

- Pricing depends of different points
- The buyers point is low cost and good quality
- The sellers point is that the price must cover costs and make profits

- The seller can approach:
- In accounting
- In marketing
- Strategy
- Success
- All these together

- Use experiment
- Doing errors
- Correct failures

- The main objective of pricing is the price that generates sales revenue
- Price shows to the buyer:
- Quality
- Information
- Not too low
- Not too high
- Change it if necessary

- Identify price range
- Appropriate level
- Long term decisions
- Less material
- Buyers influence more
- Easy to calculate value

Practical pricing

- Many studies of pricing
- Act companies as they have plan
- Practical pricing
- Examine statistics afterwards

- Results:
- Flexible cost-based after the demand based for coverage
- Flexible cost-based where demand is systematically accounted in price
- None used a pure cost-based in practice

- Important to take into account:
- Costs
- Competition
- Customers
- The good pricing highlights good information

Software business and products

- Highly processed products
- High educated people
- Hi-tech companies

- Embedded in the industry
- Many functions in modern societies
- Disturbance reflects at once

- Sell know-how
- Software components
- Prototypes
- Ready programs
- Whole systems
- Service
- License

Pricing of software

- New products constantly at markets
- Moores law affected
- More complex software products
- Life-cycle shorter
- Pricing follow not development

- Pricing has long tradition
- First studies at 1970s
- Various models how cost influence
- Code number of lines
- Mount of functions
- Number of objects

- Construction of prototypes
- Built a cyclic program in pieces
- Different case-use-tools
- Using in design
- Self-assessment programs by large companies

- Pricing is not important area
- Not much time
- Many calculated to the costs
- Person who set the price is often more selling person
- Software is immaterial product
- Between services and product
- Knowledge of products or software's

- Market information
- Internal accounting methods
- No patent solution

- Buyers want good and cheap
- Sellers want maximize profit
- Easiness of copying set restrictions

- Software business:
- more as service
- Internet sets new challenges

Pricing process

- Always based on profit
- Cost are based:
- Information
- Knowledge
- Fixed cost

- What client wants:
- Good quality
- Better financing
- Customers relations
- Software sector:
- High fixed cost and small additional cost

Summary

- Pricing is a key factor
- Software business is going through big changes
- Incomes come from service
- mckinsey companies study:
- 70% incomes from license sales

- Why pricing fails too often?
- Study in Finland:
- Customer not know the benefit of the product
- Market conditions are not known
- Buyers vision is not known
- Costs are not known
- Relevant information on pricing are not known
- Models are not known or how to use models

- Good pricing demands:
- Be able to accounting
- Know marketing
- Know corporate strategy

- Each markets has specific chracteristics
- Pricing follows same main features:
- Pricing
- Accounting
- Marketing
- Information science
- Management
- jurisprudence

- In all sectors profitability is lifeblood
- In spite of internet effect software business is still growing
- 2006:
- Worldwide software market 215 milliard euros
- In Finland it was 1,52 milliard euros