

# Software Product Revenue

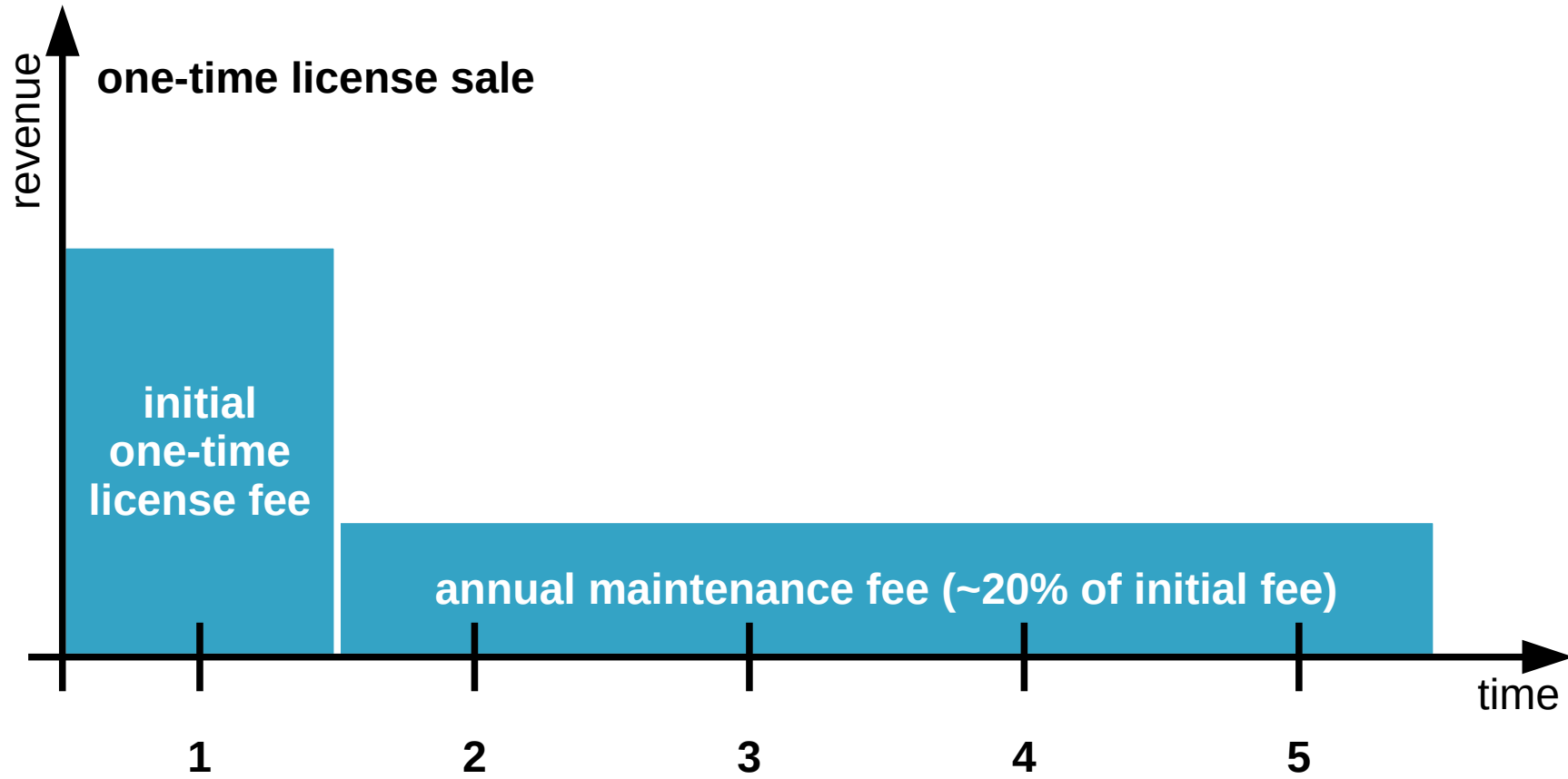
**Prof. Dr. Dirk Riehle**

**Friedrich-Alexander University Erlangen-Nürnberg**

**PROD B02**

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# Software Product Revenue (Recap)



# Core, Basic, and Whole Product (Recap)

- **Core product** =
  - Core software
- **Basic product** = bundle of
  - Software + complementary materials + self-help services
  - Guarantees about fitness for use + indemnification
  - Support services
- **Whole product** = basic product +
  - Training
  - Consulting
  - Operations

Whole product

Basic product

Usage rights

Software (core product)

- Core software
- Additional software (extensions + plug-ins, tools and utilities, integrations)

Complementary materials

- Documentation
- Training materials

Self-help services

- Forums, mailing lists
- Help and chat agents
- On-line tutorials

Pricing of usage rights

- Quantity: User, machine, time, ...
- Duration: Perpetual, time-limited, ...
- Structured: Initial license fee, regular maintenance fee

Guarantees (“insurance”)

- Fitness for use, certification
- Indemnification

Pricing of guarantees

- By damage: Loss of business, fines received
- Structured: Levels / bands, formula

Support services

- Hot-line support
- On-site servicing

Pricing of support services (SLAs)

- By availability: Incident-based, 9x5, 24x7
- By quality: First-level, second-level, third-level

Training

- In-house training
- Off-site training

Pricing of training

- Fixed fee
- Per participating person

Consulting

- Technical implementation services
- Strategic solution consulting

Pricing of consulting

- Fixed fee
- Time and materials

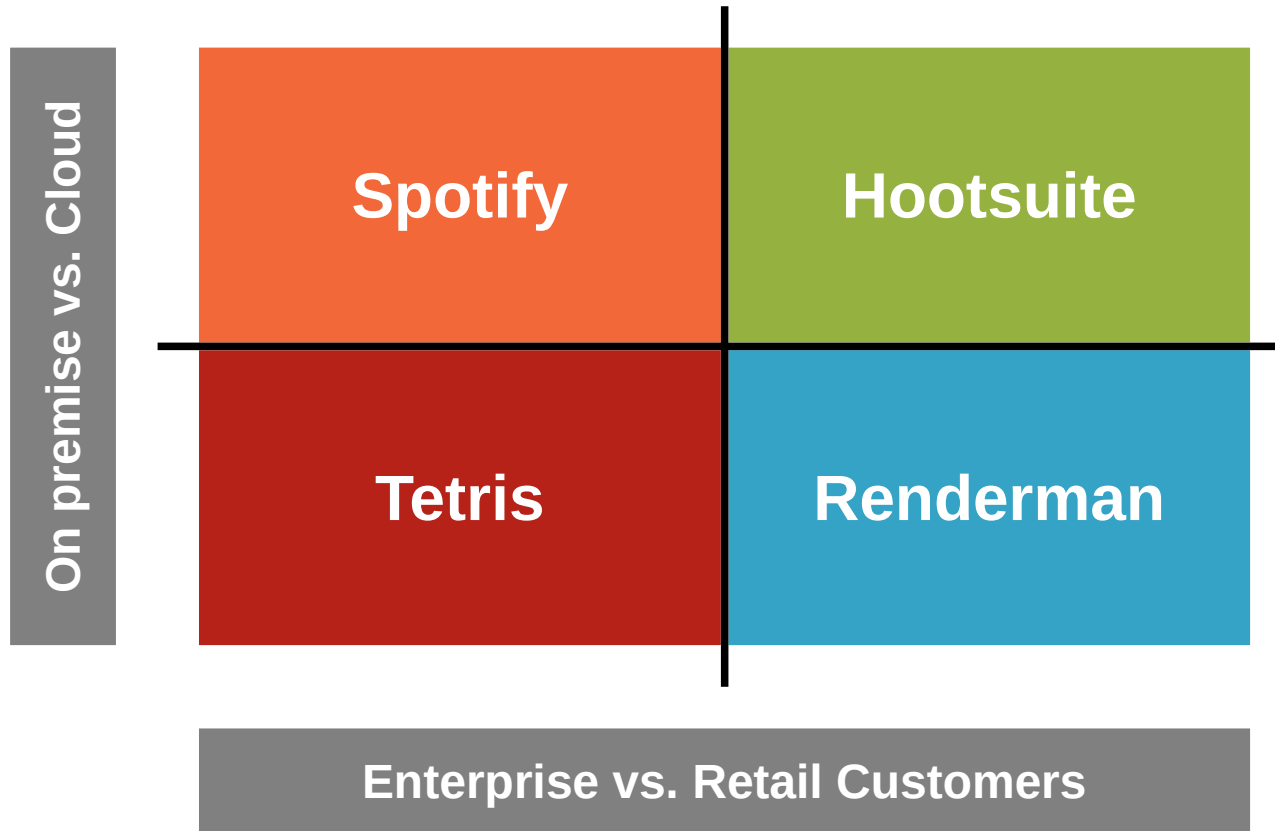
Operations

- Provision of SaaS (managed service)

Pricing of operations

- Quantity: Users, resources, ...
- Duration: Always time-limited
- Structured: Set-up, subscription

# Four Example Products

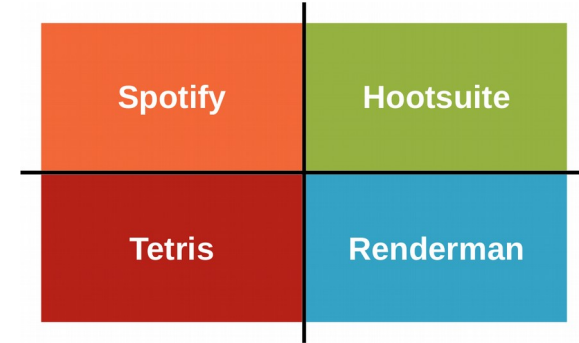


# Basic Product

- A bundle of three contractually agreed-upon provisions
  - **Usage rights** to software, complementary materials, and self-help services
  - **Guarantees** about fitness for use and **indemnification**
  - **Support services**

# (Usage Rights to) Software

- Core software
- Additional software
  - Extensions and plug-ins
  - Tools and utilities
  - Integrations with other software



# (Usage Rights to) Complementary Materials

- Documentation
- Training materials

Spotify	Hootsuite
Tetris	Renderman



# (Usage Rights to) Self-help Services

- Forums and mailing lists
- Chat and help agents
- On-line training

Spotify	Hootsuite
Tetris	Renderman

# Pricing of Usage Rights

- By consumption
  - Number of users
  - Number of cores / processors / machines
  - Amount of time consumed
- By availability
  - Perpetual
  - Time-limited (e.g. one year)
  - Only on Halloween at 6:66am
- Structured as
  - Initial license fee
  - Regular maintenance fee
  - Prepaid, postpaid, some other time

# Guarantees

- General fitness for use
- Certification / certified fitness for use
- Indemnification from damages

# (Guarantee of) Fitness for Use

- Fitness for use is
  - The fitness of the product for described uses
- In case of unfitness, vendor typically has (right) to fix problem
  - Provides bug fixes within defined time
- In case of continued unfitness
  - Loss of business may have to be compensated

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# The Meaning of “Maintenance”

- Maintenance
  - Is the provision of bug fixes to customers
  - Pro-actively or in response to bug reports
- Vendors will try to sell maintenance as a positive feature
  - Legally speaking, they are making good on “fitness for use”
  - This is a smart move to hide problems, but legally questionable

# Certification

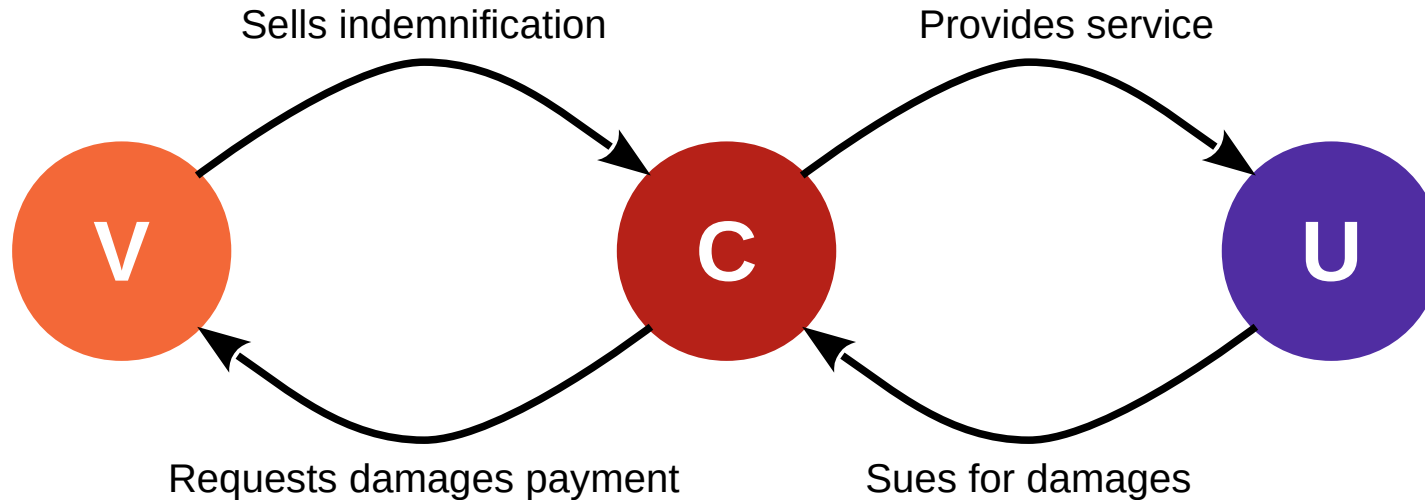
- Certification
  - Is a guarantee of fitness for use
    - for a formally defined domain / use
  - Is provided by a
    - Certification agency
    - Complementary product vendor
- Is often a purchase requirement

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# Indemnification

- Indemnification (“Schadensfreistellung”) is
  - The vendor’s guarantee to compensate customer for any damages
- If customer (C) gets sued by their customers (U)
  - The vendor (V) may have to compensate customer for fines incurred

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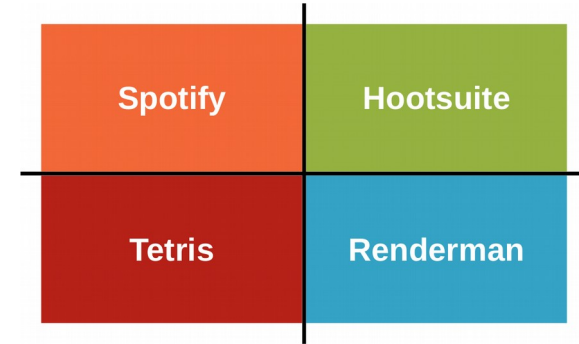
# Pricing of Guarantees

- Commensurate with damage incurred
  - Lost business in case of unfitness for use
  - Fines received in case of indemnification
- Priced in levels or bands or using a formula



# Support Services

- Hot-line support
- On-site servicing



# Pricing of Support Services

- By availability
  - Incident-based, 9x5, 24x7, ...
- By quality
  - First-level, second-level, third-level support

# Training

- In-house training
  - Vendor holds training at customer location
- Off-site training
  - Users attend training at vendor location

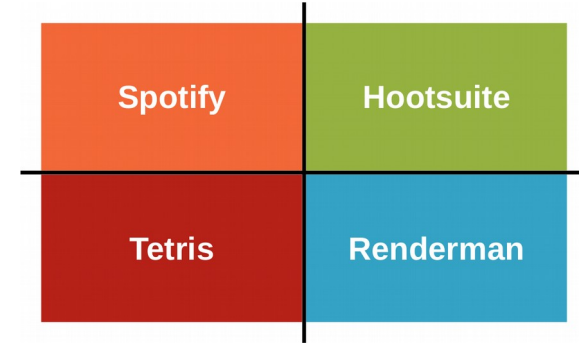
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# Pricing of Training

- Fixed fee
- Per person
- By volume

# Consulting

- Technical implementation services
- Strategic solution consulting

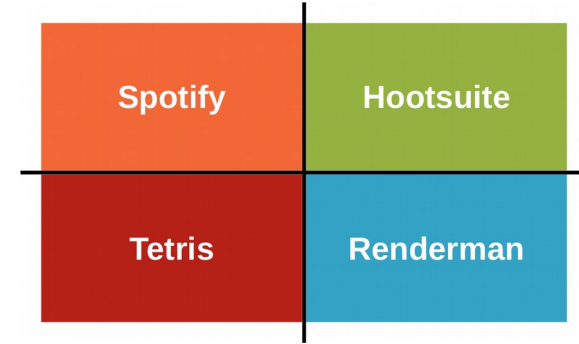


# Pricing of Consulting

- Fixed fee
- Time and materials

# Operations

- Provision of Software-as-a-Service



# Pricing of Operations

- Pricing is similar to usage rights
- By consumption
  - User, resources, time, ...
- Structured as
  - Set-up free, subscription fee
- Duration is always limited in time



# Review / Summary of Session

- Software products
  - Core, basic, and whole product
- The basic product
  - Usage rights, guarantees, and support services
- The whole product
  - Training, consulting, and operations
- Dimensions of pricing

# Thank you! Questions?

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- Contributions
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# Software Product Revenue

**Prof. Dr. Dirk Riehle**

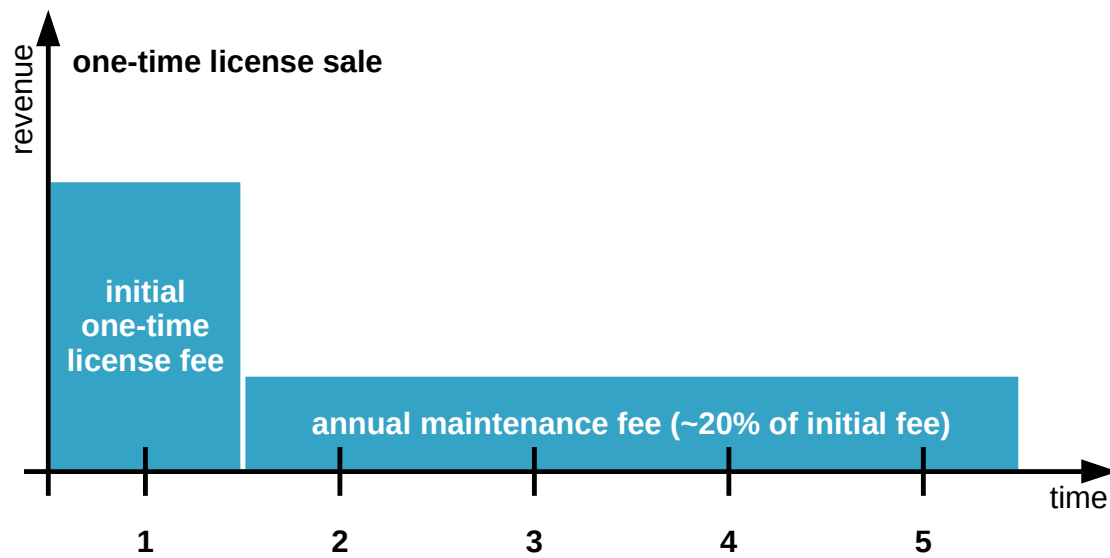
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## Whole product

### Basic product

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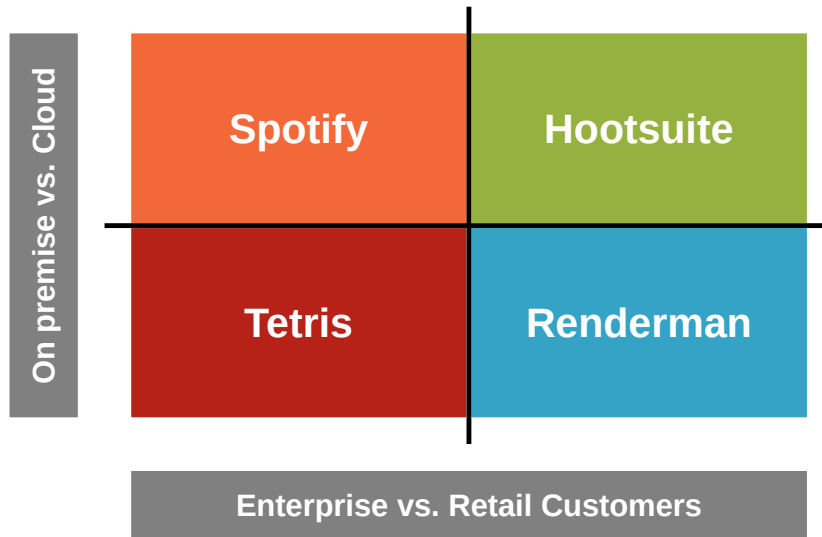
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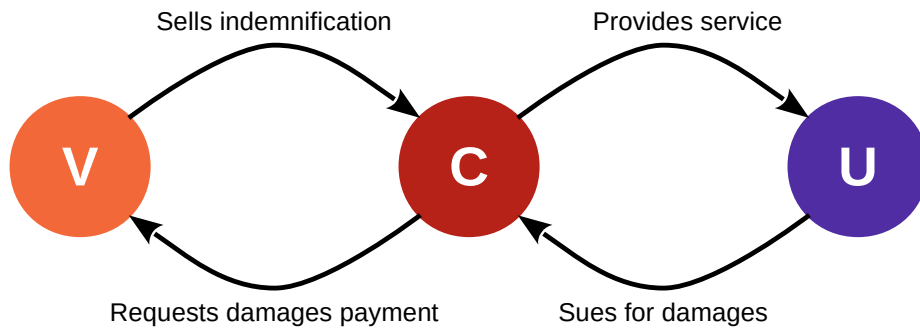
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DR

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