

Software Product Revenue

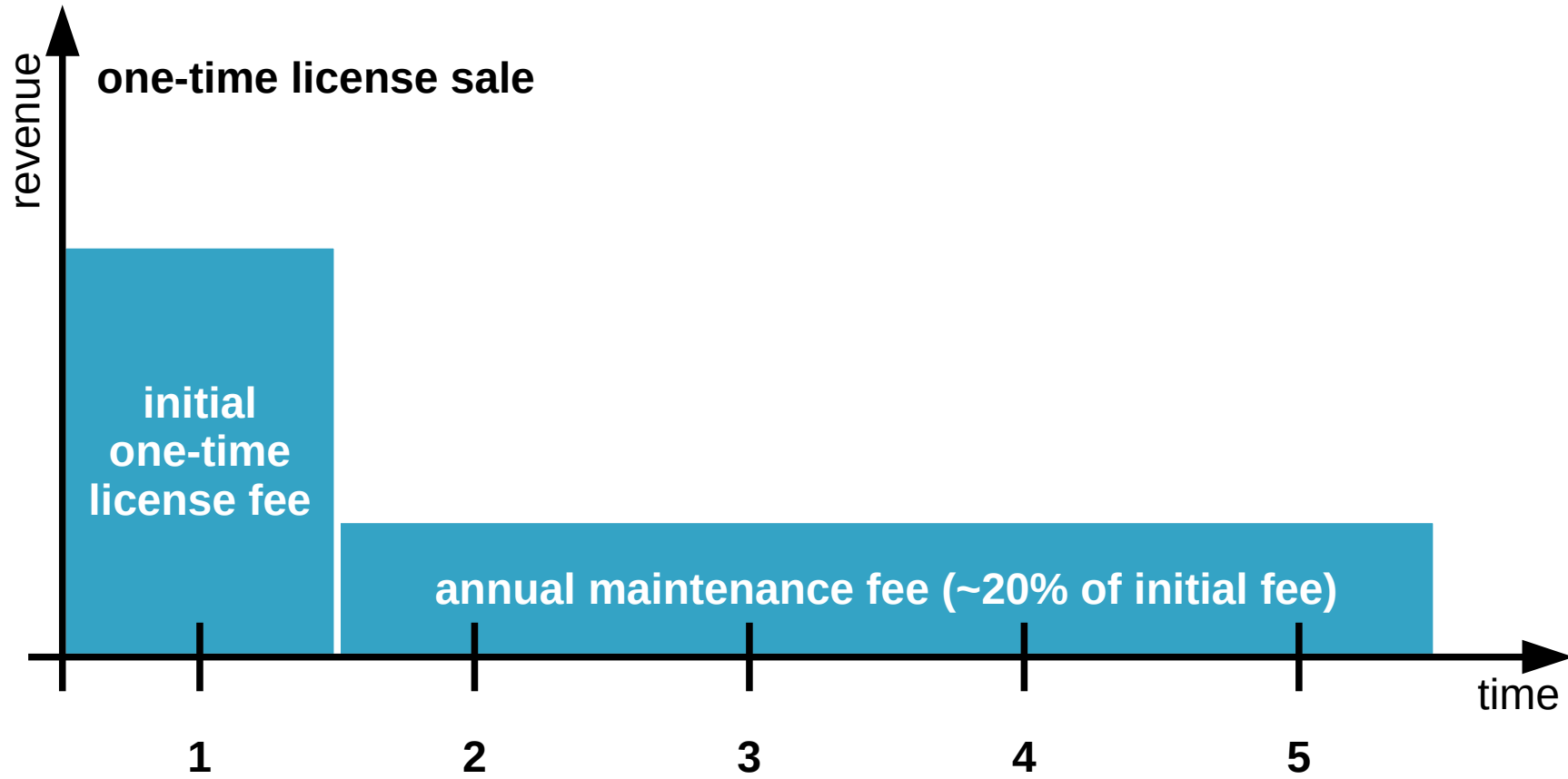
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Software Product Revenue (Recap)



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

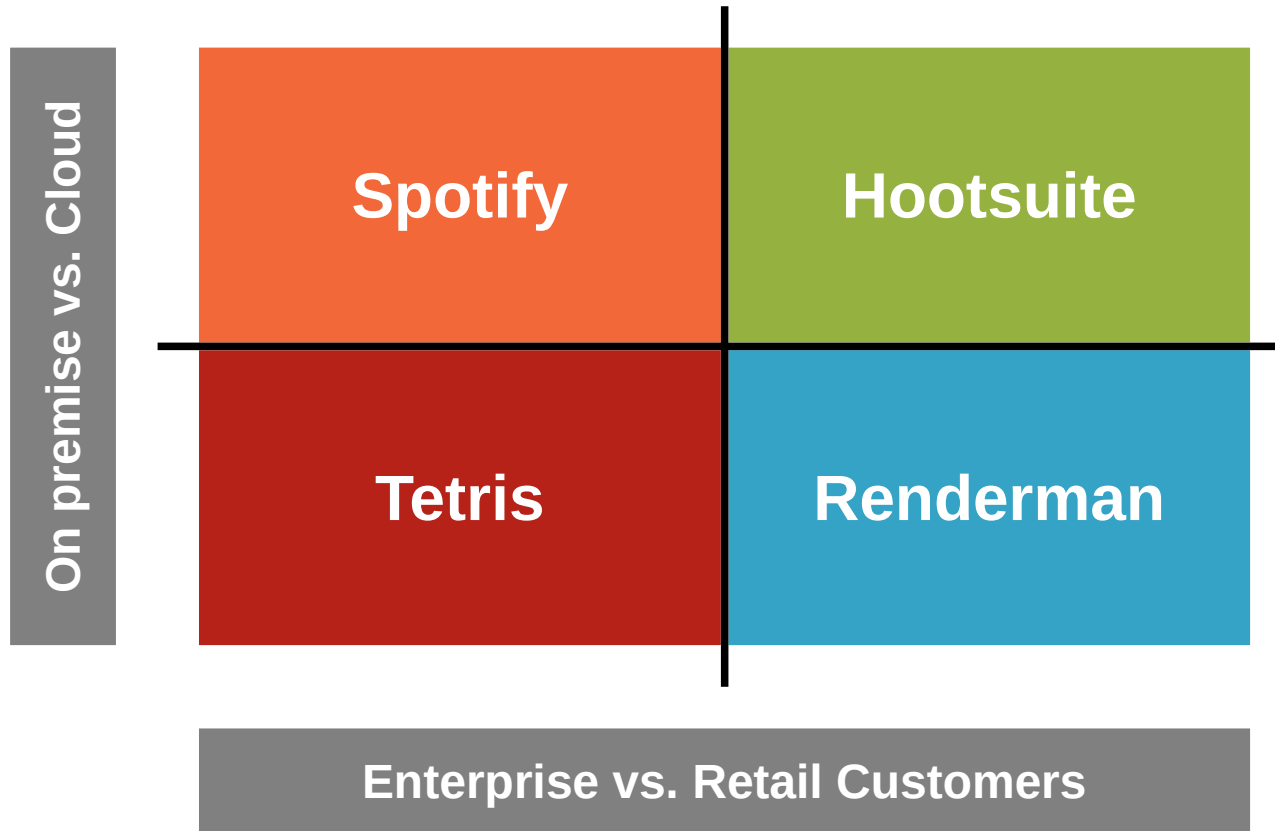
Operations

- Provision of SaaS (managed service)

Pricing of operations

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

Four Example Products

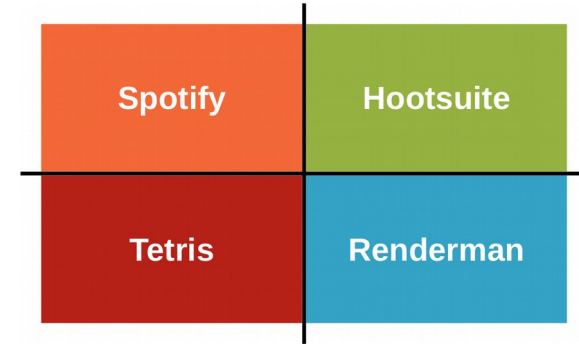


Basic Product

- 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

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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

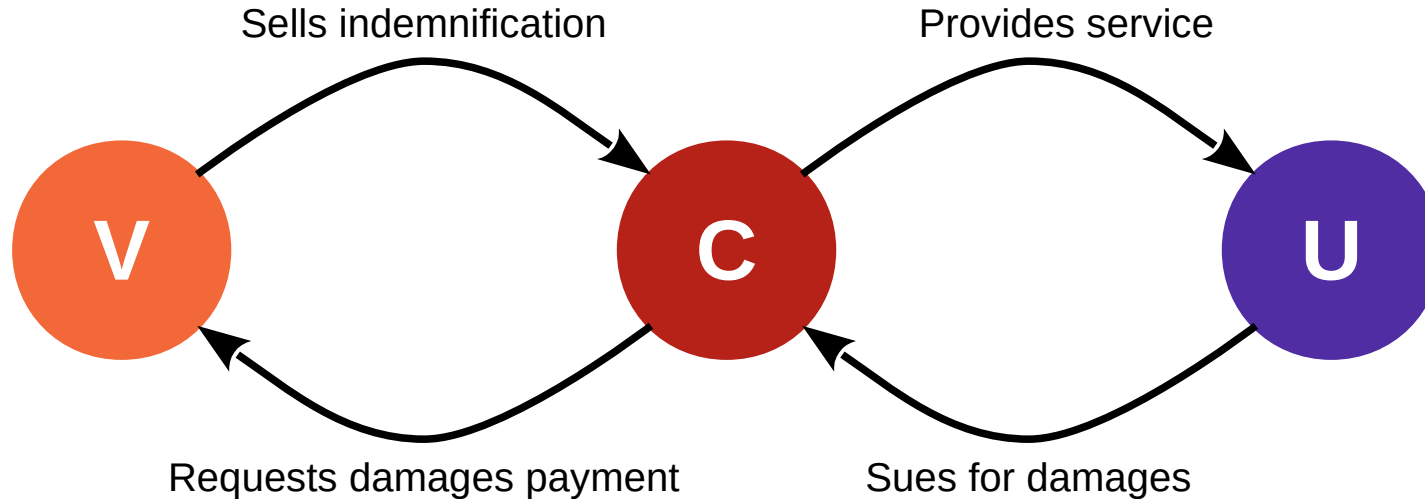
- Certification
 - Is a guarantee of fitness for use
 - for a formally defined domain / use
 - Is provided by a
 - Certification agency
 - Complementary product vendor
- Is often a purchase requirement

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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

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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

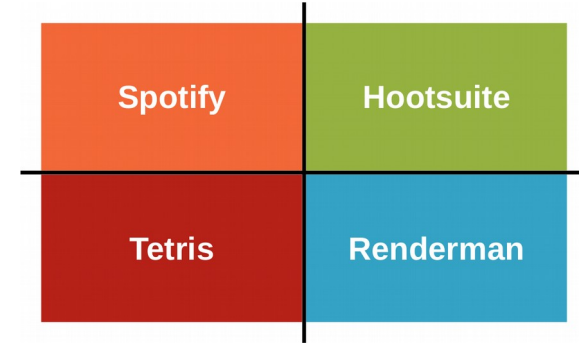
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Pricing of Training

- Fixed fee
- Per person
- By volume

Consulting

- Technical implementation services
- Strategic solution consulting

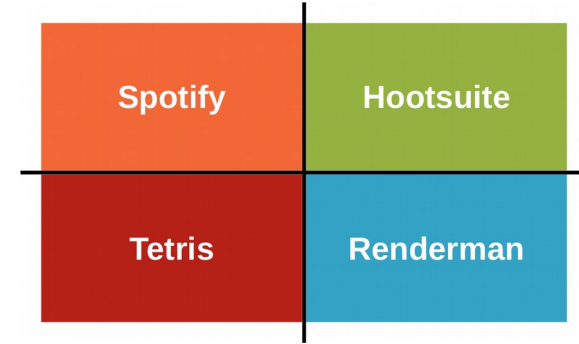


Pricing of Consulting

- 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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