



VALUE BASED BUYING FOR IT LEADERS

Winning the IT Pricing Game

Boston SIM Meeting

February 17, 2011



VALUE-BASED PRICING SYSTEM

ORACLE CUSTOMER EXPERIENCE

Discount Level



ORACLE®

"Our job is to figure out what we have to bid to win the deal. No magic here."

— Oracle CEO Larry Ellison, testifying In U.S.A. vs. Oracle Corporation





WHAT DOES VALUE-BASED PRICING MEAN TO ME?

Product Category	High	Low
App Development Tool	\$1,600	\$345
App Server	\$55	\$10.50
1 year Storage SW Support	\$55,000	\$7,500
Mainframe SW Title/MIP	\$6,250	\$64
Server	\$8,000	\$4,500
Network Equipment	\$300,000	\$125,000
Labor Rate	\$125	\$87.75





VALUE-BASED PRICING SYSTEM COMPONENTS

KEY DEAL AND PRICING INFLUENCES ON IT SPEND

- Compensation Models
- Street Pricing
- Revenue Recognition Policies/VSOE
- Vendor Alternatives
- Organizational Models/Exec. Profiles
- Deal Tendencies
- Acquisition Implications
- Channel Programs
- Deal Approval Process
- Corporate Strategy
- Deal Experience
- Competitive Product Positioning





ARE SELLERS PLAYING THE PRICING GAME WELL?

Long Term Perspective: Steady Margin Expansion

	HP	IBM	EMC	Oracle	SAP
2010 GM	29.0%	46.1%	58.9%	79.3%	71.3%
2003 GM	24.3%	36.5%	45.6%	73.0%	65.0%
Change	+ 470bp	+ 960bp	+ 1330bp	+ 630bp	+ 630bp

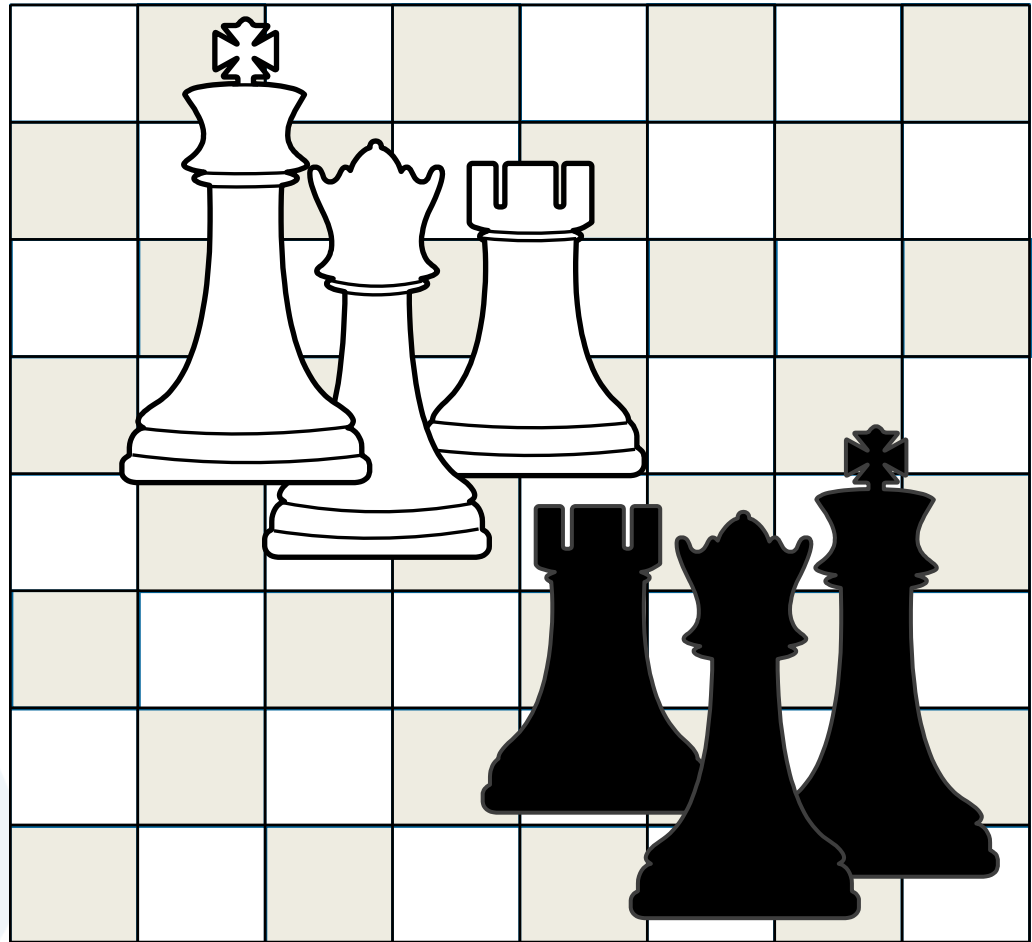




VALUE-BASED PRICING: A GAME OF STRATEGY

Gross Margin

Switching Costs





SWITCHING COSTS ARE THE KEY DRIVER

KEY DRIVERS



Incumbency Highly Valued
Limited Late Competition

When suppliers succeed in making switching costs prohibitively high, traditional procurement best practices break down and no longer work for the buyer.





PRICING GAME: INVESTMENT IN STRATEGIC SELLING

Suppliers Invest Heavily in Strategic Sales Training

U.S. enterprises spent \$6 billion training sales professionals in 2007, half of that investment with third-party training firms.

- ES Research Group, 2008 Sales Training Vendor Guide



CustomerCentric Selling®

On average, each dollar invested in sales training (when properly reinforced) results in a **revenue increase of \$550.**

Source: SPI Survey of 100 High Tech Firms





BUYER STRATEGY : JUST-IN-TIME PROCUREMENT

IT Buying Stages

IT Roadmap
2 Years Out

Budgeting
1 Year Out

Forecast
9 Months Out

Contract
Negotiation
3 Months Out

Purchase
Order



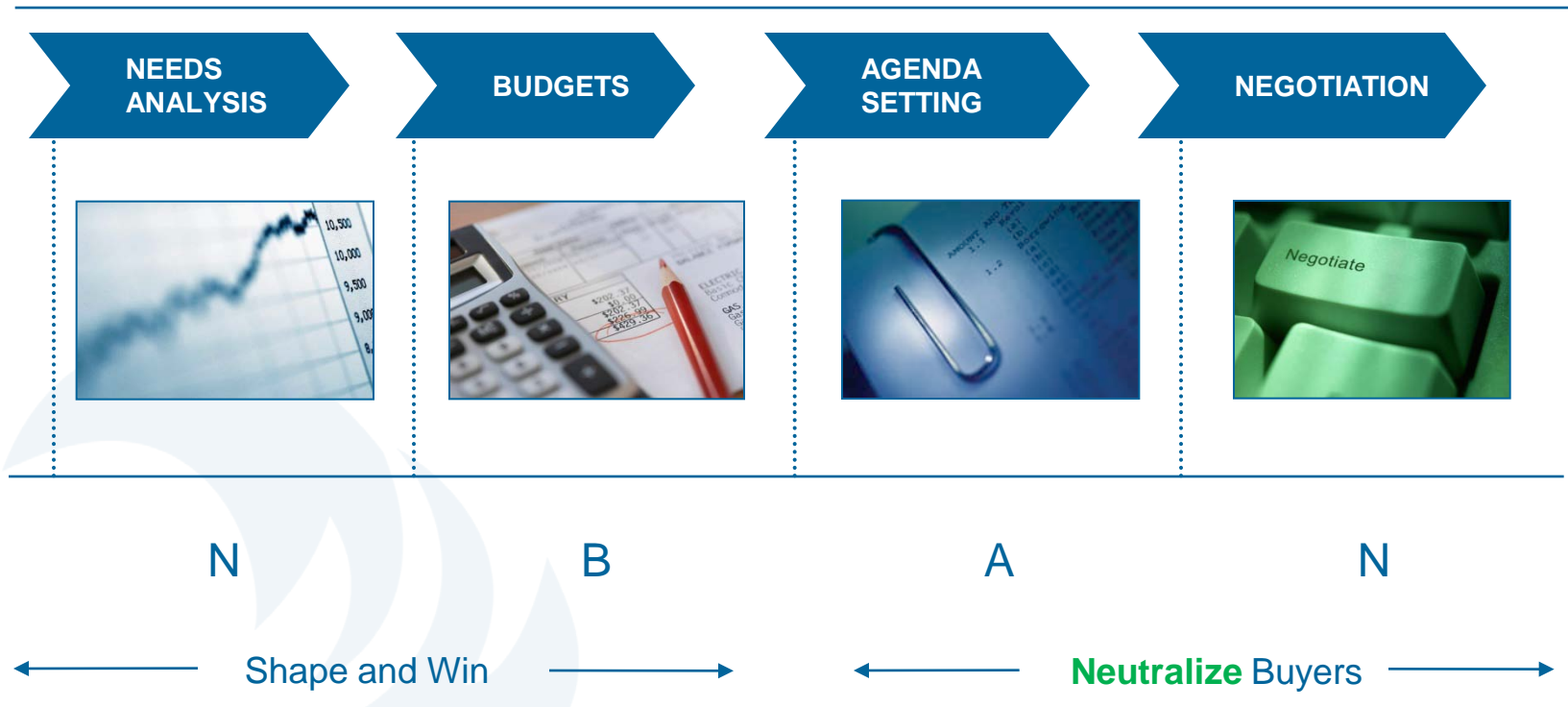
Pricing Game Focus





SELLER STRATEGY: N-BAN®

N-BAN® PROCESS: PLAYING EARLY MATTERS





JUST-IN-TIME PROCUREMENT VS. N-BAN



Sales: N-BAN

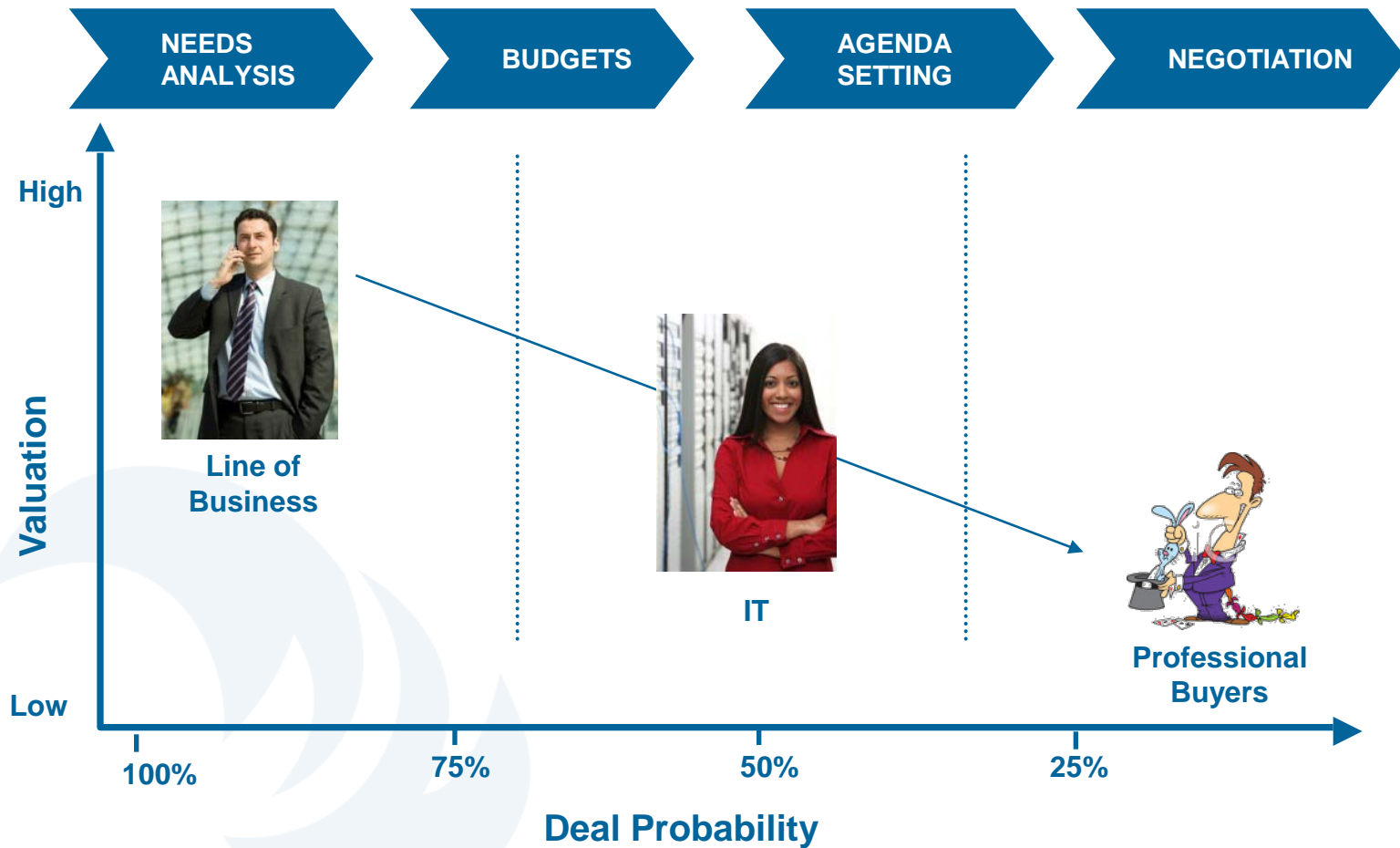
	NEEDS ANALYSIS	BUDGETS	AGENDA SETTING	NEGOTIATION
Sales Intelligence				
- Product Positioning	Unclear	Known	Known	Clear
- Spending Size	Uncertain	Uncertain	Understood	Clear
- Funding Source	Unidentified	Identified	Identified	Clear
- Timing	Unknown	Unknown	Clear	Clear
- Business Case	Undefined	Uncertain	Clear	Clear
- Decision Criteria	Unstated	Unstated	Clear	Clear
Buyer Leverage	High	Medium	Weak	None

Pricing Game Model





STRATEGIC SELLING: VALUE OF TARGETS





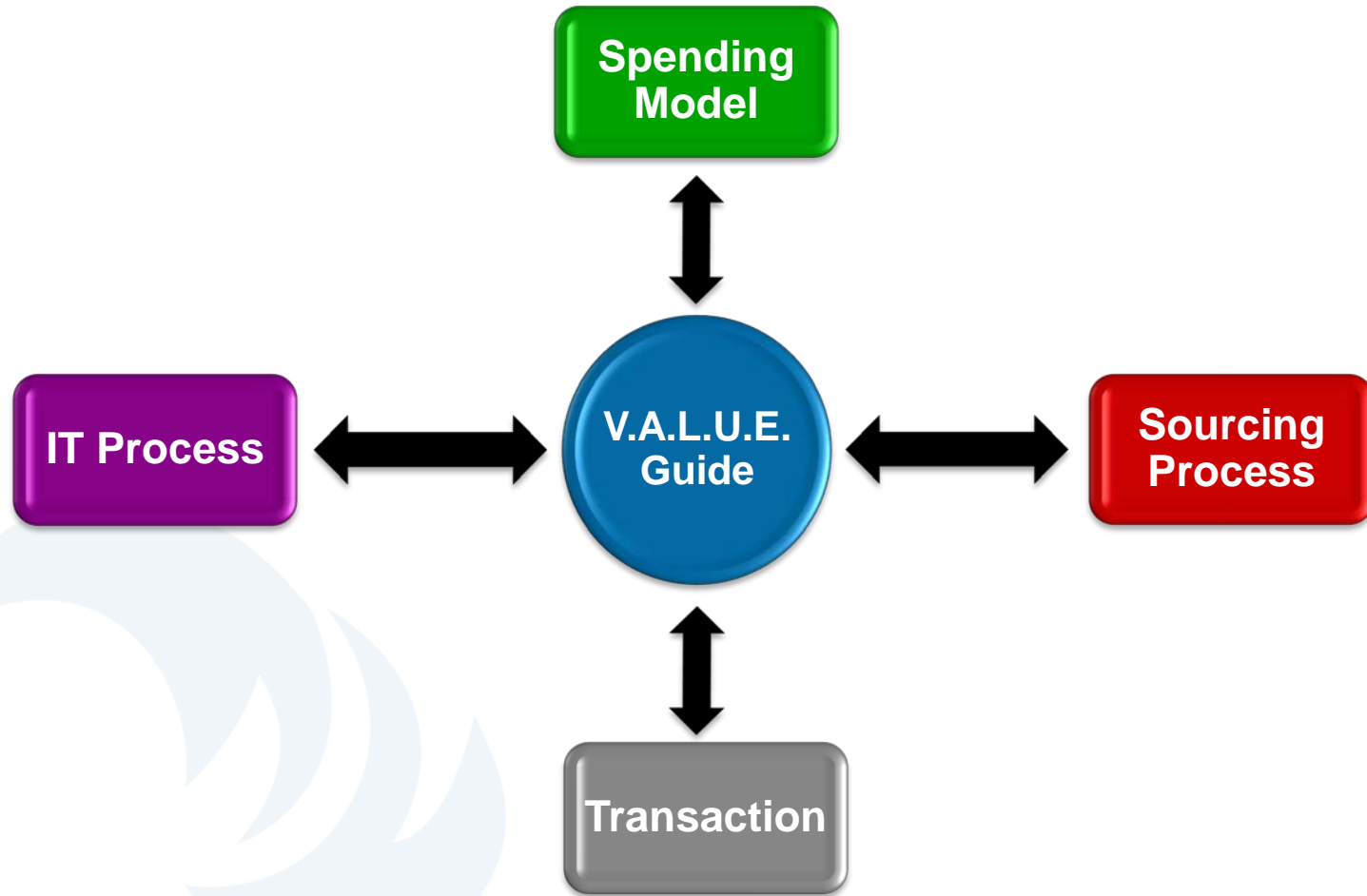
THE COMPELLING EVENT IS CRITICAL



1. Understanding the business drivers and their impact on the customer
 - What are you trying to do?
 - Why are you trying to do it?
2. Quantify the value of the solution
 - How much does it hurt?
 - What happens if you do nothing?
3. Why is this important?
 - Minimize uncertainty around a deal



BUYERS: ALIGN SHORT- AND LONG-TERM PROCESS



V.A.L.U.E. GUIDE: LEVELING THE IT VENDOR PRICING GAME

Valuation

1	V.A.L.U.E. Spending Model	Validated	+
		Unknown	-
2	Business as Usual	Calculated	+
		Unknown	-
3	Switching Costs	Documented	+
		Unknown	-
4	Pricing Gap	Secured	+
		Uncertain	-

Awareness

5	Compelling Event	Documented	+
		Unknown	-
6	Funding Source	Understood	+
		Unknown	-
7	Stakeholder Priorities	Identified	+
		Unknown	-
8	Relationships	Understood	+
		Unknown	-

Leverage

9	SWOT Analysis	Complete	+
		Incomplete	-
10	Current Leverage	Documented	+
		Unknown	-
11	Leverage Plan	Developed	+
		Incomplete	-
12	Dependency	Known	+
		Unknown	-

Uncertainty

13	Decision Criteria	Understood	+
		Unknown	-
14	Information Flow	Documented	+
		Unknown	-
15	Message Alignment	Aligned	+
		Siloed	-
16	Transaction Alternatives	Available	+
		Unknown	-

Event

17	Timeline	Defined	+
		Unclear	-
18	Playbook	Developed	+
		Not Done	-
19	Supplier Alignment	Yes	+
		No	-
20	First Move	Prepared	+
		Waiting	-



TAKING CONTROL OF THE VALUE-BASED PRICING GAME

1. It's about you, not about the suppliers
2. It's a long-term strategy, not short-term tactics
3. It's a team game
4. It's about leverage



Thank You!



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