

DEAR CMMS SALES REP, WHAT WOULD YOU DO?

How Should I Evaluate Price?

by Chris Olsen, MPulse Sales Professional

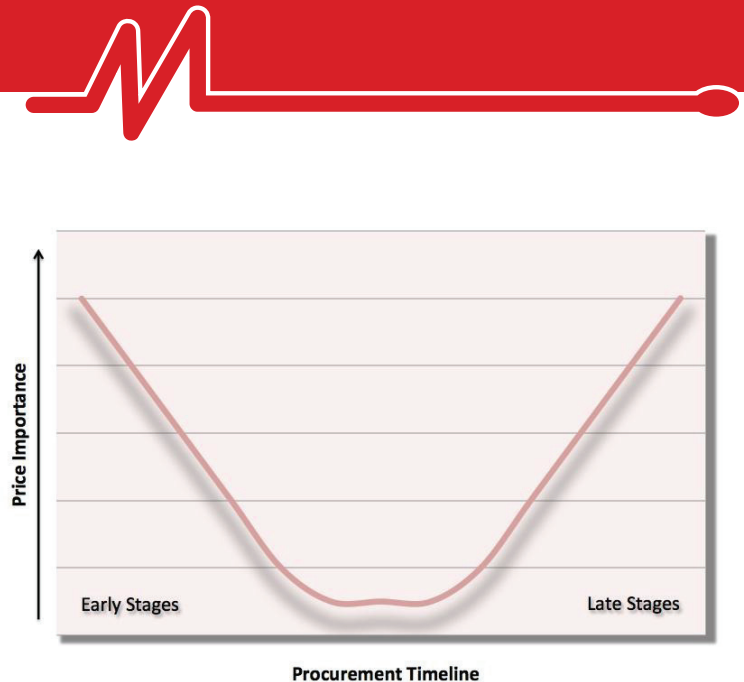
In an earlier article, I answered a customer's question on pointers for selecting maintenance or asset management software. In that post, I focused on key considerations specific to the product itself. Another important part of the selection is price, which is the focus of this post. In my final article of this series, coming in April, I'll discuss suggestions for evaluating the company behind the software.

Read Part 1, *Evaluating the Product*

The "Price Curve"

To achieve the best results with maintenance/asset management software, your staff should be able to use the software easily, and the software needs to have a comprehensive set of features and functions.

Long ago, a co-worker shared an interesting observation with me: the importance of pricing during a software procurement cycle graphs as a U-shaped curve. Imagine a vertical axis that represents "level of importance" and a horizontal axis that represents the "evaluation timeline." At the beginning of an evaluation, price is very important to buyers because they don't want to waste time assessing solutions that are out of reach. During the middle of an evaluation, product features and vendor attributes are the dominant considerations. As the evaluation wraps up, price regains importance as final selections are compared.



Where to Start: Range Estimates

When you're beginning your evaluation of a software package, it's fair to expect sales reps to provide price-range estimates. I like to do that during my first conversation with a new prospective customer. Of course, you'll have to cooperate by answering questions about your specific needs. The more accurate answers you give, the better price estimate you'll get.

Early quotes that include optional features and "add-ons" may provide more precise estimates, but they can also add complexity early in the discussions. If you decide to include such items in preliminary quotes, be willing to devote some extra effort to understanding the details. If the range of the estimate is in your ballpark, you can feel confident about going forward with evaluating the product and company.

Once you've narrowed down your choices to a few favorite vendors, ask each sales rep to refine her pricing. Make sure you calculate the five-year total cost of ownership. Include startup training, integration services, data migration from legacy systems, hosting, and maintenance/support agreements.



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Pricing Models

Typically, there are two ways to purchase software.

Subscription Pricing

This purchase method is often referred to as Software as a Service, or "SaaS." When you opt for SaaS, you're actually renting the software and you pay a monthly or yearly fee. This is a common option with many applications today—but it may not be the best one for you.

Advantages

- Easier on cash flow up front and over the first 2-3 years.
- May be able to purchase it without a formal procurement process (i.e., your just signing up for a service).
- You get to try out the product and the vendor without fully committing.

Disadvantages

- Higher total cost over the long term.
- Vulnerability to price increases.
- You never own the software. Stop paying and you lose access.

Licensed Purchase

With this option, you will purchase a license to use the software (in practical terms, forever) for a one-time fee. Typically, you will also have the option of purchasing or renewing a yearly maintenance agreement that includes software updates, tech support, hosting services, and access to training. It's usually charged as a percentage of the software's original price.

Advantages

- Less expensive over the long run than the never-ending subscription. Usually it's a 2-3 year break-even vs. SaaS pricing.
- You own it. If your company's budget gets tight one year and you don't get your yearly allotment, you will still be able to use your software because you own the software license.

Disadvantage

- Higher up-front cost.

If you're leaning toward a subscription model, find a vendor who would allow you to switch to a license purchase model in the future if your situation changes. It's a good option to have just in case. Make sure your procurement method doesn't preclude you from other options, such as where you can host the application.

Range. Finalists. Choose.

In summary, my advice is to get ballpark pricing with options up front. Once you've selected packages within your range, evaluate features and company characteristics. Finally, you should then further assess price, taking into account pricing models, five-year total cost of ownership, training, and other vendor-recommended investments. Follow these recommendations and you should soon find a solution that satisfies your requirements at a price that's right for you.

Be sure to check out Part 1 and Part 3 of this series to learn how to evaluate product attributes and vendor companies.



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