

NewChannel Price Plan

Engagements-R-Us

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Introduction

Executive Overview

This document proposes a new pricing model for NewChannel services to replace both the old, unused "phone company" model and the interim flat-fee pricing.

The basics of the pricing model are: a variable base fee with two tiers; a per engagement charge. The base fee charge will be based on the level of scalability and service required by the account. The per engagement fee will have a sliding scale for reduced costs with higher usage. Yearly contracts will be offered, but will not be required. A customer loyalty program with close marketing ties is strongly recommended.

The international and professional services prices are to be determined, with the fees described in this document serving as a strawman for further discussion.

Requirements Overview

The requirements for the pricing model are described below. The order of appearance approximates the relative importance of each requirement. All pricing options were evaluated against these requirements when determining the final pricing model.

- Revenue / profit margin. Revenue is required and profit is highly desirable, but generating a profit at current usage levels is not a requirement of the pricing model. However, in conjunction with anticipated usage patterns, the pricing model must be capable of creating profit and sustaining long-term growth.
- Competitiveness. The pricing model should extract additional revenue from accounts as compared to competitors in accordance with our greater value. The cost / value ratio should be obfuscated such that the cost differential is not easily compared, while the value is immediately apparent.
- Increase customer commitment. The pricing model must promote both increases in product usage and customer longevity, while preserving a low entry point for new and small customers.
- Predictable. The pricing model must be predictable for both NewChannel and the customers. From the NewChannel side, the cost per month must be able to be forecasted reliably. From the service buyer perspective, the monthly cost must be easily forecasted and capped.
- Easy to understand. The pricing model must be simple, both for NewChannel to implement and for prospects/customers to understand. While price may be a sales objection, the pricing model should not be.

Feasible Alternatives

The following options were evaluated as variables that could be manipulated as part of the pricing model, but were decided against.

- Per rep fee. A per rep fee was decided against, since it is too easily comparable to competitors. Also, there is an issue of named vs. concurrent users which is perpetually complicated. Concurrent user pricing would need to be high per-user, which would be a competitive disadvantage.
- Per message fee. A per message fee was eliminated as a possibility because the association with our value proposition is low. In addition, this pricing option does not align well with the stated objectives.
- Per minute fee. A per minute fee was decided against due to its highly unusual nature in the software industry. This option was, at the least, very thought provoking.
- Value-based pricing was considered, but ruled out due to the complexities involved with negotiating percent of revenue contracts and the associated reporting / auditing problems.
- Annual contracts only. The option of having a per month price, but selling in set contract sizes of six months or year was rejected because it can lengthen the sales process and does not provide a suitable low-end entry point. However, the option to sell long-term contracts remains.

Service Plan Pricing

This section describes the NewChannel pricing plan for North America. The Engagement Service Plan pricing is a final proposal, whereas professional services, partner, and international prices are rough estimates.

Engagement Service Plan Overview

The Engagement Service Plan pricing model has two basic charges—a base monthly charge and a per engagement fee. There will also be a one-time setup fee charged. A small number of incentives and options complete the pricing model. The incentives and options include annual contracts, customer loyalty programs, and additional pay-as-you-go services.

There are two Engagement Service Plans available for customer subscriptions. The standard plan, called NewChannel Engagement Service Plan¹, has a base fee of \$2000 per month and engagements cost \$2 each. The second plan is called NewChannel Enterprise Engagement Service Plan. The Enterprise Engagement Service Plan costs \$5000 per month; additional engagements cost \$2 each. There is a one-time setup charge of \$3500 and \$5000, respectively, for training and implementation. See [Engagement Service Plan Comparison](#) for a complete description of the components of and differences between the Engagement Service Plans.

Service buyers will be able to purchase annual subscriptions. The annual contract will cost \$22,800/year for NewChannel Engagement Service Plan and \$54,000/year for NewChannel Enterprise Engagement Service Plan. If a customer purchases an annual Engagement Service Plan contract, then decides to discontinue the service, they can buy out the remaining term of their contract for thirty percent of the remaining value.

¹ The names presented here are the current names. It is likely the names will be changed in accordance with the strategic marketing discussions that are currently happening.

For customers who pay monthly fees as they go, Engagement Service Plan costs are guaranteed for twelve continuous months. If a service buyer voluntarily discontinues service or fails to pay for services in accordance with the Engagement Service Plan contract, the price guarantee is forfeited. If the service buyer resumes service after a previous discontinuance or failure to pay for services, the twelve-month price guarantee is re-established at the levels of the new contract.

Engagement Service Plan Comparison

This section describes the components and limitations of each Engagement Service Plans. See [Table 1 - Comparison of NewChannel Engagement Service Plans](#) for an overview of the Engagement Service Plans.

Table 1 - Comparison of NewChannel Engagement Service Plans

	NewChannel	NewChannel Enterprise
Setup Fee	\$3500	\$5000
Monthly Base Fee	\$2000	\$5000
Price per Engagement	\$2	\$2
Max Engagements a Month	5000	Unlimited
Server	Shared	Dedicated
Service and Support	Basic	Enhanced
Reporting	Basic	Enhanced
Enterprise Integration	No	Yes
Call Center Integration	No	Yes

Setup Fee

The setup fee is a one-time charge for initial training and implementation. The setup fee includes training for up to ten people. Initial implementation of the NewChannel Engagement Service Plan is also bundled in this cost. Travel and expenses for on-site training and implementation are included.

The price difference reflects a general rule of thumb regarding the time and effort required for each type of account. The customer care and professional services organizations will spend as much time is necessary (within reason) to train service buyers and implement the NewChannel service. Generally, this is one or two days with NewChannel Engagement Service Plan subscribers and two to three days with Enterprise Engagement Service Plan members.

Monthly Base Fee

The major purpose of the base monthly fee is to cover ongoing costs for each customer. These costs include hosted technologies personnel, hardware, and bandwidth, customer care and technical support, and product upgrades².

² The hosted technologies costs are approximately \$800/mo per machine; bandwidth is an additional cost item. Customer care, maintenance, product upgrades, and other costs are harder to quantify.

For a variety of reasons, two tiers of base fees were created. First, the operational overhead, and thereby costs, imposed on NewChannel will differ greatly from customer to customer. The customer size, measured by the number of NewChannel Reps, web site visitors, and engagements is an obvious contributing factor. However, customer size is not the only, or necessarily best, reason for a tiered base fee. A second consideration is that the price-point threshold varies from customer to customer. Large enterprise organizations with a commitment to eCRM will be more willing to pay larger base fees than companies just beginning their investment in web technologies. Also, there is a perverse perceived value argument that large companies will have the pre-conceived notion that low price points indicate low value. Finally, three or more tiers can be created, but the new tiers would be on the upper end of the scale. Since, the upper end of the scale implies larger customers for whom customization and enterprise integration will be critical, custom pricing developed by a direct sales representative will be much better than a third level of base fee.

Free Engagements³

No free engagements are included with the Engagement Service Plans. However, sales reps may use free engagements as a bargaining ploy, especially during early stages of the customer relationship.

A separate billing issue is that customers will not want to pay for engagements we or they do for testing or demo purposes. The billing system will either have to count these "internal" engagements and deduct them from the monthly fee or establish a policy of not charging customers for 50/100 engagements a month.

Engagement Fee

If the base fee is roughly equivalent to our recurring costs, then the engagement fee represents the profit portion of our price. There is a simple synergy between increased customer usage and increased profit--successful customers are equivalent to a successful company.

The engagement fees cause revenue to scale closely with usage, providing a higher upside and profit margin. For competitive purposes, the engagement fee is not an apples-to-apples price comparison. Consequently, high rep fees will not become a sales objection while simultaneously re-enforcing the value of interacting with qualified prospects.

Engagement Fee Volume Discounts

For high-volume service buyers, a sliding scale for engagement fees has been developed. The sliding scale for engagement fees is applicable to both the NewChannel Engagement Service Plan and the NewChannel Enterprise Engagement Service Plan. Currently, no existing service buyer has high enough usage levels required to invoke discounted engagement pricing.

Engagements / Month	Price / Engagement (\$)
0 - 2,500	2.00
2,500 - 5,000	1.90

³ Free engagements were originally part of the plan, but have been removed to provide negotiating flexibility for the sales force--reps can give away free engagements instead of haggling over per engagement discounts.

5,000 - 10,000	1.80
10,000 - 25,000	1.70
25,000 - 50,000	1.60
50,000+	1.50

Maximum Engagements per Month

The NewChannel Engagement Service Plan allows a maximum of five thousand engagements per month. At this point, both the costs and bandwidth needs are sufficiently high that the service buyer should be purchasing the Enterprise Engagement Service Plan.

Server⁴

Service buyer's that subscribe to the standard Engagement Service Plan will be installed on (one or more) servers that share resources with other service buyers. Each service buyer's data will be secure and not accessible to other service buyers. NewChannel is responsible for distributing customers across servers while maintaining service levels⁵. Customers on the Enterprise Engagement Service Plan will have a dedicated machine.

Service and Support

The NewChannel Engagement Service Plans are designed to make service buyers as successful as possible. Enterprise Engagement Service Plan buyers enjoy enhanced services and a higher level of touch, concomitant with the increased service rates.

	Basic Service & Support	Enterprise Service & Support
Usage Reviews	Monthly	Semi-Monthly
Strategic Reviews	Quarterly	Monthly
Additional Training	Fee-based Service	4 Free Days per Year

Usage Reviews

Account usage reviews are pro-active measures to ensure customer success. These reviews are tactical examinations of a service buyer's usage patterns. In a usage review, an eCRA Consultant will assess the types of engagements, the success of engagements, and the tools and resources used in engagements in order to assist the service buyer to use NewChannel more effectively.

Strategic Reviews

Strategic Reviews are a top-down analysis of the service buyer's use of NewChannel. In a strategic review, the eCRA Consultant will analyze both the sales process and the corresponding tools. Based on this evaluation, the eCRA Consultant will recommend improvements to the service buyer's e-sales process. Alterations to sales tools such as

⁴ Currently, NewChannel does not install multiple service buyers on a single machine. The operations staff has made decisions regarding hosted facilities resource utilization. The pricing plan, as written, does not dictate that multiple service buyers must be installed on a single server, but preserves NewChannel's right to enforce such a policy should it become desirable.

⁵ Currently, NewChannel does not have Service Level Agreements (SLAs) with its service buyers. A standard SLA for each level of service needs to be developed.

rules, invitations, and scripts will be proposed in conjunction with the sales process modifications. Additionally, the eCRA Consultant will coach the service buyer to use NewChannel more effectively.

Training

All service buyers receive training as part of the implementation program. For NewChannel Engagement Service Plan subscribers additional training is a billable item--see the [Professional Services, Training, and Documentation](#) section for prices. Enterprise Engagement Service Plan subscribers will receive up to four free days per year--one day for each quarter of use.

Reporting

NewChannel Engagement Service Plan subscribers will have read-only access to reports. Access to reports will be limited to one user per service buyer; licenses for additional reporting users can be bought for an additional fee. Also, the ability to create custom reports will be a charged item. NewChannel Enterprise Engagement Service Plan subscribers will include the ability for one person to create custom reports. Additional custom reporting licenses are an additional charge item. For both service plans additional report users and custom report users are a one-time charge.

	Engagement Service Plan	Enterprise Engagement Service Plan
Read-Only Users	1	1
Custom Report Users	0	1
Additional Read Only Users	\$500/each	\$500/each
Additional Custom Report Users	\$2,000/each	\$2,000/each

Enterprise Integration⁶

NewChannel does not currently support enterprise application integration, except through professional services. In the future, specific product integration options will be developed. When these integration points are established, then they will be used to differentiate further the Engagement Service Plans.

Call Center Integration⁷

NewChannel does not currently support call center. In the future, specific integration options will be developed. When these integration points are established, then they will be used to differentiate further the Engagement Service Plans.

Engagement Service Plan Subscription Comparison

This section describes the components and limitations of each subscription's duration. See [Table 2 - Comparison of Monthly and Annual Subscriptions](#) for an overview of the Engagement Service Plans.

⁶ Potential difference for future releases.

⁷ Potential difference for future releases.

Table 2 - Comparison of Monthly and Annual Subscriptions

	Monthly Engagement Service Plan / Enterprise	Annual Engagement Service Plan / Enterprise
Annual Base Fee	\$24,000 / \$60,000	\$22,800 / \$54,000
Discount	NA / NA	5% / 10%
Buyout	No / No	Yes / Yes

Annual Base Fee

For monthly subscriptions, the annual fee is the sum of monthly fees for one year of service. This amounts to \$24,000 for the Engagement Service Plan and \$60,000 for the Enterprise Engagement Service Plan. Service buyers who select an annual contract will be given a discount on the monthly fee.

Discount

For annual subscriptions, service buyers are given a five-percent discount; Enterprise service buyer receive a 10% discount. Service buyers will be billed monthly—the discount will be applied to the monthly base fee. Per engagement fees are not discounted.

Buyout

There is not buyout capability for monthly subscribers. For annual subscribers who wish to prematurely terminate their contracts, they may buy out the remaining term of the contract for 30% of the remaining value. For example, if a service buyer enters into an annual Enterprise Engagement Service Plan agreement beginning in January, then decides in mid-June that they would like to buy out their contract, the cost of the buy out would be \$9,000⁸. The service buyer would also be fully responsible for all costs incurred in June.

Multi-Domain Service Buyers

In many cases, a service buyer will represent a single entity within a larger corporation. These entities may be called by many names (ex - division, business unit, and department) and may be organized along many axes (ex - channel, product, and territory). For the purpose of this document, any unit of a larger corporation will be referred to as a domain⁹.

For each domain of a corporation that subscribes to the NewChannel service will be charged and treated as a distinct customer. The direct sales force may negotiate a site-license for multi-domain service buyers. The national sales manager must approve a site license.

⁸ [6 months remaining] x [5,000/mo] x [30% buyout] = 9,000

⁹ The field sales force will be largely responsible for determining new domains within a corporation. Some possible parameters to use include: separate web site or specific set of pages within a corporate web site; separate bills are required; different geographic regions are covered; the name of the division or business unit is different; the reporting hierarchies for the buyers and/or users are different; the sales channels are different.

Loyalty Programs

There are no loyalty programs established for NewChannel subscribers. Loyalty programs need to be developed in close conjunction with other marketing programs. Possible loyalty programs include a customer newsletter, gifts, featured speakers at regional events, distribution of eCRM articles and research reports, et cetera.

Professional Services, Training, and Documentation

This section is a draft of professional services pricing¹⁰.

Task	Hour	Day	Week	Minimum
Training	N/A	\$1000	\$5000	1 day
NewChannel Setup & Reporting	\$150	\$1200	\$3600	4 hours
HTML, Perl, JS & Java	\$200	\$1600	\$4800	4 hours
Architecture & Strategic Planning	\$250	\$2000	\$6000	1 day

Other fees:

Task	Weekly Updates	Daily Updates
Report Hosting	\$50/mo	\$100/mo
HTML, Perl, JS & Java	\$200	\$1600
Architecture & Strategic Planning	\$250	\$2000

Documentation:

All documentation is provided in on-line format. When paper-based documentation becomes available, it will be charged for at the cost of production plus shipping and handling.

Partner Pricing

TBD - VAR, SI, and ISV...

International Pricing

International pricing¹¹ plans and policies are equivalent to North American pricing plus a 25% uplift on base fees and a \$.0.50 uplift on engagement fees. See [Table 3 - International Pricing Summary](#) for internationally adjusted prices for the Engagement Service Plan and Enterprise Engagement Service Plan.

¹⁰ Professional services' pricing is targeted for completion by the end of Q1 '00.

¹¹ For each country that NewChannel or its partners plan to sell and support, the legality of pricing, support, and privacy policies needs to be researched.

Table 3 - International Pricing Summary

	NewChannel	NewChannel Enterprise Edition
Monthly Base Fee	\$2500	\$6250
Price per Engagement (,000)		
0 - 2.5	\$2.50	\$2.50
2.5 - 5	2.38	\$2.40
5 - 10	N/A	\$2.30
10 - 25	N/A	\$2.20
25 - 50	N/A	\$2.10
50 +	N/A	\$2.00

Discount Policy

Discounting Engagement Service Plan pricing is discouraged. However, when necessary field sales personnel can authorize discretionary discounts up to 20% of the monthly base fee. Discounts are not available for engagement fees. For discounts of 20% or greater, the discount must be approved by both the national sales manager (or above) and the product manager (or above).

Inside sales reps have discretionary discounting authority up to ten percent. For discounts up to 20%, approval must be obtained from the inside sales manager (or above). Discounts greater than twenty percent are subject to the same rules as for the direct sales force.

Professional services and training fees are to be discounted only with the approval of the regional director (or above) of professional services or a director (or above) of customer care.

At cost items, such as documentation are not to be discounted under any condition.