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CHARLOTTE, NC, UNITED STATES, June 23, 2022 /EINPresswire.com/ -- With prices of both consumer and business goods and services on the rise, many software companies are debating whether they, too, should implement price increases. For companies struggling with that question, industry consulting firm Software Pricing Partners offers key insights.

“This is a tricky time for software companies regarding their pricing,” said Chris Mele, managing partner at Software Pricing Partners. “While other industries can leverage commodity shortages and cost increases to raise their own prices and, in some cases, generate additional profits, software companies can’t exploit such factors,”

U.S. software companies are seeing a rise in the wages of experienced software engineers, architects and developers–a Robert Half survey suggests a 3.8% increase in average salaries for software engineers in 2022. “But wages aren’t a commodity, and the disparity in how they affect individual software companies—due to differences in geography, work structure or even willingness to subsidize growth—makes using them as the basis for raising prices especially difficult,” said Mele.

Many software companies have added great value to their solution over time but have resisted, neglected, or had no mechanism to determine price increases. They may view the current environment as an opportunity to catch up.

“But underpinning a company's price increase with an inflation bump is like setting its initial pricing model based on how its competitors do. It’s a trap—a shortcut with no foundation in actual performance,” said Mele.

Instead, companies need to evaluate the right time and the right way to do a price increase. Here are the key factors to consider:

Software pricing must reflect the value of the company’s solution.
It is not a game of, “how much can we get away with”, but rather the company’s pricing model must align with how companies and customers use the product and generate value from it. For more information on this, visit the article: An Introduction to Successful Software Pricing.

Timing is a key consideration when increasing prices, specifically:
For whom will prices increase and when? Choosing to increase prices only for low-probability-to-churn customers is risky, and violates important Market Fairness principles.
Will the price for existing customers and new customers go up at the same point or will companies start with new customers only?
Will all legacy customers get the price increase at the same time, or will companies stratify based on length of relationship or some other criteria?

How companies handle the timing can have a large impact on customer churn and must be well-planned.

Communication is the most impactful consideration of all.
Achieving a successful price increase, with minimal customer churn, requires effective communication to customers. Companies will need to clearly and thoughtfully explain the rationale—why they are increasing prices—and the process—how and when companies are going to go about it. The process component will address decisions companies make about the roll-out timing and phase-in or all-at-once elements above. Moreover, the communication edict also extends to each company's internal marketing, sales and customer service staff, as they must be able to understand and convey the rationale and the process.

When it comes to price increases, a “soft-land” approach is key to the company’s overarching objective.
Not only will careful planning, open communication, and fair-minded implementation help companies accomplish that, but they will also protect companies from using inflation as the excuse to claw back revenue from past pricing mistakes. And in the end, companies will be able to minimize customer churn and sales friction and even strengthen customer relations.

For more information, please visit: softwarepricing.com

About Software Pricing Partners
Founded in 1982, Software Pricing Partners (SPP) was the world’s first global software pricing consulting firm. Since then, SPP has worked with clients, including Bamboo HR, Mission Cloud, Gartner, OSIsoft, Tune, Sun Microsystems and Wordstream to leverage their tested and proven pricing strategies to help emerging and enterprise clients expand with profitable growth.

With a focus on the impact effective licensing, packaging and pricing strategies can make on the most essential software company metrics, revenue, profit and valuation, SPP’s team of consultants have launched some of the software industry’s most transformative monetization strategies. For more information, visit softwarepricing.com

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