

MARK SYSTEMS – A Revenue Stream Runs Through It

By Susan Darling

In the book and movie, *A River Runs Through It*, the river was vital to the Maclean family. As expert fly-fishermen, they depended on the river's everlasting provisions of life and literature, passions and pastimes.

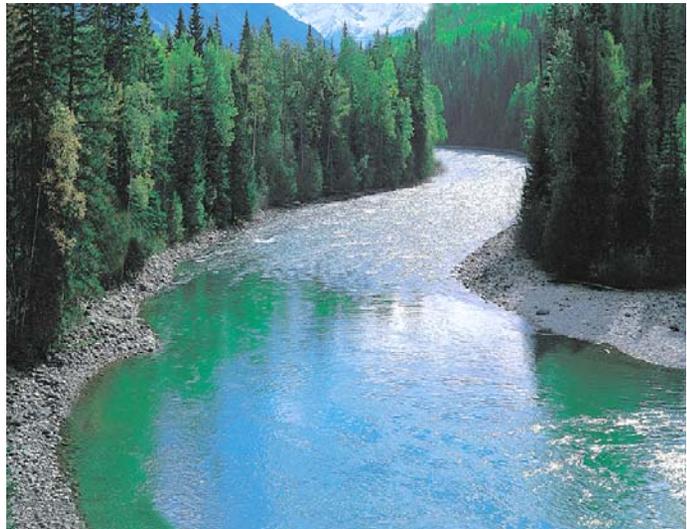
Similarly, an ongoing revenue stream is a company's source of existence and expectations. How MARK SYSTEMS, Inc. created this revenue stream, what effect it has on their company, and how they nourish the stream to guarantee a prosperous future, unfolds in this true BASIS success story.

It was the turn of the new century...the year, 2000. MARK SYSTEMS found themselves in a rather difficult dilemma. A \$400 million behemoth was about to buy up most of their competitors to 'take over the world of homebuilding software.' While fewer competitors would seem to be every salesperson's dream, the sheer size of this company's resources presented a daunting threat. MARK SYSTEMS was about to release their new but semi-unproven GUI version of their very successful Integrated Homebuilder Management System (IHMS). Dissatisfied with their past pricing models, they had an opportunity to influence their financial future, and builders around the country. Their strong customer base and 20-year history with their character-based product was valuable, but this small company, like David versus a modern-day Goliath, needed some rocks in their slingshot to stay alive.



Don Scattergood, principal of MARK SYSTEMS, Inc., explains, "Pricing is always a challenge. The reason is that the software effectively does not change based on the utility that it provides. In our case, if we sell our software to one builder that is building 100 units a year and we sell to another builder that is building 5000 units a year, the 5000-unit builder is getting greater utility out of the software, but there is no difference in the product. The question is, 'How do you price it to reflect the actual value to the user?'"

Pricing based on derived utility is difficult. There must be a reliable way to measure the utility of the product for each customer in order to design a fair and effective pricing model. Because of this, many companies sell on a per seat or per module basis. In an effort to build a recurring revenue stream, MARK SYSTEMS tried selling on a per seat basis. Their theory was that the builder who was building 100 units a year today would build 300-500 in 5 years and therefore would need more user seats. But this approach was not successful. While builders volumes did tend to increase over the years, so did their



productivity thanks to MARK SYSTEMS' software. New personnel were almost never required, so the number of seats did not increase.

Like many other companies, MARK SYSTEMS also tried selling IHMS on a per module basis, but found that this created a disincentive to use the whole package. Don explains, "Perhaps the single biggest strength of our software is its single database; its ability to instantly, not just seamlessly, but instantly tie information between a sales person working in the office to a construction manager working out in the superintendent's trailer over the Internet on the same database. It's a huge, powerful tool but only if you happen to have both modules."

New Licensing Model Spawns the Stream

Fortunately, homebuilders do have a specific, measurable performance criterion on which MARK SYSTEMS could build a pricing model: the number of houses built per year. With this in mind, MARK SYSTEMS' new approach was to charge per house, effectively amortizing the total price of the system over 4 years. To arrive at a price, they calculated the average sale price of a full IHMS installation, and factored in the average number of homes a builder built (at the time, 80-150 per year). From this, they determined how much they needed to charge per house to receive full payback in the 4th year from a typical builder.

The new pricing model generated recurring revenue, which was proportional to the value each builder derived from the software and reduced the risk of entry. All builders would pay \$100 "per house" for the first 25 houses built each year. They would pay \$75 each for the next 50 houses, then \$25 for each additional house after the first 75. The builders loved it. "It was almost a money back guarantee since they pay for it as they use it. And it simply became a line item in their house budgets just like a kitchen sink or a door knob," explains Don.

continued...



Susan Darling
Technical/Marketing
Writer

Partnership

Language/Interpreter

Database Management

Development Tools

System Administration



MARK SYSTEMS, Inc., a New Jersey-based company with over 20 year's experience, is the developer and distributor of the **Integrated Homebuilder Management System (IHMS)**. With over 1,700 users, MARK SYSTEMS' software will manage the construction of over 40,000 homes in the coming year. Their most recent success comes from moving their application from PRO/5® to Visual PRO/5®, increasing gross revenues by 30%. They are in the process of moving their application to BASIS' newest BBx® generation, BBj®. Visit their Web site at: www.virtualbuilder.net.

MARK SYSTEMS created a secure and manageable system for builders to maintain their block of houses. Builders simply request a "start" from the House File Maintenance. If the account balance reaches zero, the builder receives notification (see **Figure 1**) with directions to purchase more "Starts." With just a phone call and authorization to purchase more starts, MARK SYSTEMS generates a new key for the builder to enter and unlock a new block of houses.

This newly created stream started to trickle as customers began migrating to the new GUI product. Thanks to superior software and the new low-risk pricing model, MARK SYSTEMS sales increased while the mighty behemoth was losing sales. The revenue stream grew to a steady flow. They enjoyed many benefits, some anticipated, and some unexpected. With this new pricing and revenue stream, they found that:

Current customers eagerly upgraded to the GUI version, enjoying new functionality and a high return on a low and predictable investment.

- Most customers improved their business practices and profits by implementing the full suite of integrated IHMS modules.
- Sales increased with the low risk of entry for a complete IHMS system. New customers were much more comfortable with an up-front investment of \$12-15K instead of \$60-70K.
- New customers liked the fact that the new pricing model meant MARK SYSTEMS was committed to them over the long haul, sharing in the business risk of an uncertain building future.
- License revenues increased with the cyclical rise in the building market.
- Recurring revenue streamed in, funding product support and ongoing research and development.
- A new financial foundation secured a solid future for MARK SYSTEMS.

continued...

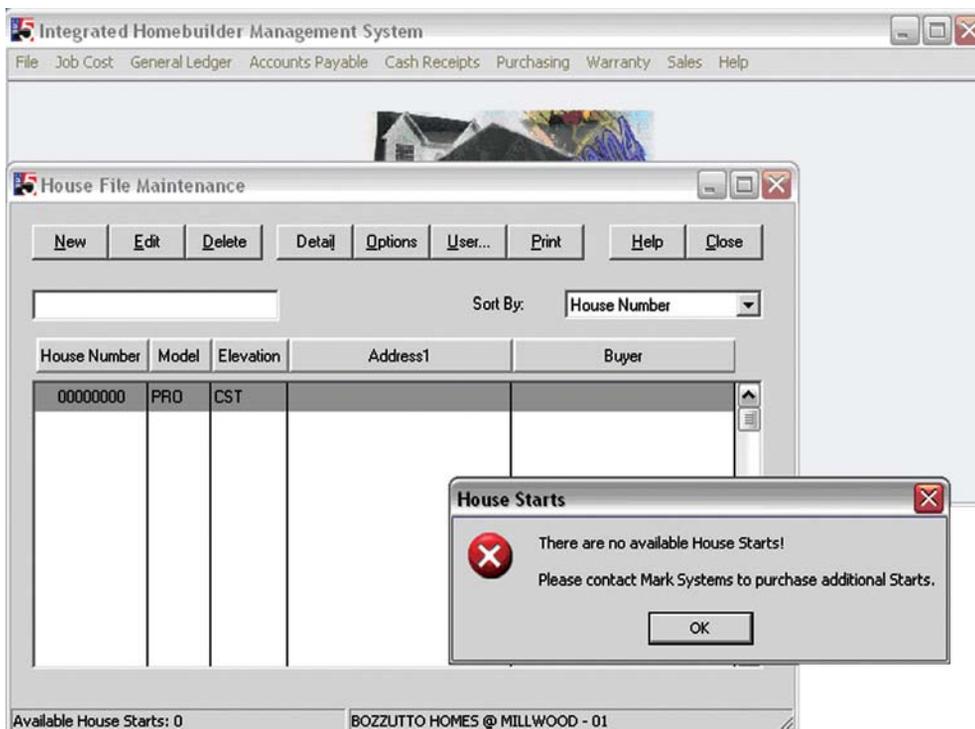


Figure 1. House File Maintenance "no balance" notice.

Monthly IHMS Maintenance Stocks the Stream

In addition to selling IHMS per house, MARK SYSTEMS also sells monthly maintenance. The builder receives invaluable help desk support along with monthly IHMS features and fixes. This predictable revenue stream funds MARK SYSTEMS' research and development, help desk, and the 30- to 45-minute monthly maintenance updates. The monthly software maintenance:

-  Brings significant revenue to MARK SYSTEMS with full payback on each system.
-  Keeps customers at the same and most current revision of IHMS.
-  Helps to maintain customer satisfaction through monthly contact and monthly value-added updates.

BBx Licensing Widens the Stream

MARK SYSTEMS also widens the revenue stream with BBx licensing. They build the cost of one year of software maintenance into each new Visual PRO/5 license, which they market as the "BASIS DBMS" license. This is not only a sizable addition to the revenue stream, but is significant in enabling them to develop with and deploy the most current BASIS language. Using the most current version of BBx enables MARK SYSTEMS to pass on these benefits to their customers:

-  Enables ongoing development in the current BBx language.
-  Delivers the latest technology to the customers.
-  Positions MARK SYSTEMS on the cutting edge of technology and potentially ahead of the competition.

Summary

Today, the revenue stream surges forward through MARK SYSTEMS, Inc. New sales continue to increase. Last year's goal was to close two new accounts a month; the final score was 22 new accounts for the year. They added a new rep in the Midwest to reach the 2005 goal of three new accounts a month. Don has no doubt that they will easily meet that goal, with a 50% close rate each time they demonstrate IHMS to prospects. Builders, with their first IHMS installation as far back as 1983, become customers for life. The home building industry is strong and growing, so volumes are constantly increasing. Lastly, the threat of the behemoth died when the conglomerate went bankrupt within the first few years.

In one sentence, what did this new pricing model and revenue stream do for MARK SYSTEMS? Without a moment's hesitation, Don answered simply. *"It saved us."* The company's future looks bright. 