

From: Brett Hurt
Sent: Monday, February 13, 2012 12:58 AM
Subject: Re: Roadshow questions - prep for this weekend

Importance: High

Thanks, very helpful team. The write-up that Osborne did for me to create a narrative is even better. See attached.

In short, we price on value. To create a list price would be capping our potential – this is a line I will use with prospective investors. They are used to list pricing per seat for replacement SaaS businesses. We are not replacement – we are nascent and value-driven as a result. Our industry is far from commoditization – it is just starting. And the value we drive is huge (plus we hugely discount off of the value we drive, and that helps drive our ~90% retention).



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UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF CALIFORNIA TRIAL EXHIBIT <u> GX0203 </u> 13-CV-0133-WHO Date Entered _____ By _____ (Deputy Clerk)
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From: Michael Osborne <Michael.Osborne@bazaarvoice.com>
Date: Sat, 11 Feb 2012 19:45:52 -0600
To: Mark Riggs <Mark.Riggs@bazaarvoice.com>, Brett Hurt <brett.hurt@bazaarvoice.com>, Heather Brunner <Heather.Brunner@bazaarvoice.com>, Erin Nelson <Erin.Nelson@bazaarvoice.com>
Subject: Re: Roadshow questions - prep for this weekend

I'm going to add to this thread the HTC example, a most recent and most productive value based pricing example... Brett, please let us know if you need more than this and the structure I sent over in PPT.

HTC EXAMPLE

- HTC started with a discovery session where Bazaarvoice uncovered their goal of selling 15mm handsets in the next 12 months totally approximately \$3b in revenue.
- Customer centricity was core to their project and we reviewed our services and determined they'd be a match to fuel their marketing initiatives for this project.
- Profit margins on the revenue increase was determined to be approximately \$600mm, of which Bazaarvoice was a portion of the potential result.
- Ads, retooling of internal applications that allowed for gathering of customer information on their phones (HTC Sense 4.0) and other projects were part of this. We worked with Mother (agency) to determine the fair values of each contribution.
- The Bazaarvoice platform was determined to be between \$25 and \$50mm of the value delivered towards that profit goal, and we subsequently priced our managed program at \$4.425mm per year.
- The two year term covers the first year ramping into that value and the second year exceeding it, averaging out to the \$4.425mm value figure.

There were complex discovery and evaluation sessions around the value, worked with Mother and other HTC parties to determine the final value, but the pricing methodology was consistent. What more details on this or other examples do you need?

From: Mark Riggs <Mark.Riggs@bazaarvoice.com>
Date: Sat, 11 Feb 2012 09:50:59 -0600
To: Brett Hurt <Brett.Hurt@Bazaarvoice.com>, Heather Brunner <Heather.Brunner@bazaarvoice.com>, Michael Osborne <michael.osborne@bazaarvoice.com>, Erin Nelson <Erin.Nelson@bazaarvoice.com>
Subject: RE: Roadshow questions - prep for this weekend

Brett,

Let me know if this is what you are looking for. And apologies for the length....

Overview:

In summary, Bazaarvoice offer two different commercial engagements with clients. Option 1:- Market entry level commercials utilizing our 'Ratings & Reviews platform' only. Option 2:- If clients want to drive greater business value through the use of a broader conversation subset beyond product or service opinion e.g. utilizing Ask & Answer or Stories, they move to a 'full platform' commercial engagement. Pricing takes into account the type of business the client is from a sector perspective, the size of their annual revenue and where the client wants to deploy Bazaarvoice geographically. Embracing solution selling methods, Bazaarvoice collaborates with clients to understand their pains and business objectives to build out the appropriate ROI business cases.

Previously, clients had the opportunity to pick and choose what products/functionality and services they wanted from Bazaarvoice which led to lengthy conversations about what elements delivered the most significant and least value of our overall offering with clients wanting to opt out of certain elements and then wanting the price reduced. In the early years, we found ourselves in a 'cost based model' as a consequence. The way Bazaarvoice operate now, allows us to ensure we are constantly talking about a 'value' model now which lends itself to a different and more productive conversation. As a SaaS business with our new commercial model, clients understand that similar Salesforce.com, there is no picking and choosing. It's an 'all in' type engagement on the two commercial engagements I've alluded to above. This means it's up to the client as to whether or not they use all the capabilities. It's part of the Bazaarvoice pre-sales engagement where Client Services and Solution Architects are involved at a very early stage in the sales cycle to ensure the clients understand and drive as much business value as they can.

Argos as an example:

A legacy client since 2008. A strong partner and advocate of Bazaarvoice and the value we drive for their business. In the early years, it was a huge win for Bazaarvoice to obtain Argos as a client. It still is, but because Bazaarvoice has proven out our value to Argos. We are now recognized as being one of their top three strategic suppliers in conjunction with IBM and Adobe.

Below summarizes some of the high level ROI we delivered for them between 1st July 2010 – 30th June 2011.

Bazaarvoice Return on Investment for Argos:

According to Argos Omniture Web Analytics between 1st July 2010 - 30th June 2011:

- Visitors interacting with User Generated Content (UGC) collected using the Bazaarvoice platform influenced a total of +£479.3m online sales. Equating to a gross operating margin of +£29.23m (6.1%)
 - o Visitors interacting with UGC spent + £126.8m direct online sales. Equating to a gross operating margin of + £7.73m (6.1%)
 - o The same visitors booked +£352.5m reservation sales online.
- Additionally, visitors who interacted with UGC and purchased online have a +193% higher conversion rate: 0.62% to 1.2%. With a +239% increased Average Order Value: £0.89 to £3.00
- Visitors interacting with UGC booking an online reservation have a +153% higher conversion rate: 6.98% to 17.67%. With a +14% increased Average Order Value: £40.97 to £46.58
- SEO value +15% increase in natural search traffic
- Time on the Argos website extends by 9 minutes for visitors utilizing UGC
- Returns rates / Call centre cost reductions e.g. Argos show a 20% reduction in return rates

ROI excludes:

In-store impact – Customers who purchase in-store after reading Bazaarvoice User Generated Content online for research purposes before buying

Let me know if you need anything additional.

Mark

bazaarvoice:

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From: Brett Hurt

Sent: Saturday, February 11, 2012 2:42 AM

To: Heather Brunner; Michael Osborne; Mark Riggs; Erin Nelson

Subject: Roadshow questions - prep for this weekend

Erin, Heather, Osborne, and Mark,

Going very well on the roadshow – we had some very good meetings today, and Stephen, Brian, and I make a great team on the road. Quick question:

1. In the roadshow deck, you'll see we are talking about the 10,000 potential clients, of which we have 737 active live clients today. This 10,000 figure are the potential clients in the segments we serve – companies over \$50m in sales. I'm being asked how many of these we touch. How many total prospects are in our pipeline? How has that been building? I need some stats in this area.
2. Feed me more about authenticity. I'm getting a lot of questions about that. I think I'm answering those very well, but would love more.
3. Give me more pricing stories. Osborne sent me a little on that. Walk me through pricing on a brand sell and a retail sell. Both in the US and Europe. I'm talking about how we value price. How we configure the solution to a clients' wants and then price accordingly. Give me some stories on what you would tell if you were in front of a potential investor so they clearly understand pricing "case studies".

Have a great weekend. A very proud time for us all. We are rocking this roadshow.

Thanks,

Brett

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CC:

BCC:

Pricing Examples – Further Narrative

Retail – Standard Size

The first conversation we have with a retail prospect is generally around engagement with their customers or driving further insight into their products or services. Rarely does the conversation start with an RFP or a current solution that we're replacing. Once the key benefits have been explained and the prospect asks for pricing, we ask key questions to determine the relative size of the impact to their business:

- Volume of their online sales – this becomes the basis for improvement benefits to conversion, returns reduction, overall sales lift.
- Expectations on sales growth year over year – this drives the metrics around ROI for meeting their sales goals.
- Relative product set and number of sku's – this provides metrics around our impact for product coverage and category lifts in conversion.
- Amount of email marketing and patterns of delivery – this helps us calculate the amount of content we can collect and provides insight in what areas of marketing we will suggest they increase.

We use these calculations to determine the dimension of our impact based on straightforward ROI. In general for a standard retailer of say \$50mm in online sales, this impact can be calculated as follows:

Sales	\$50,000,000
SKUs	1,500
Transactions	400,000
AOV	\$125
Current Conversion Rate	2.50%
Current Expected Returns	\$7,500,000
Content Expected	16,000
Returns Reduced	3%
Conversion Lift	7%
Value: Conversion Lift	\$3,500,000
Value: Returns Reduced	\$225,000
Total Value	\$3,725,000
Pricing range	100k-200k

The pricing range can vary based on the expectations around volume, reach of coverage of the content, and both lift of sales and reducing returns. Our solution is generally in addition to the standard marketing techniques used to drive online sales, and as such requires that extra budget be justified, or other initiatives are reduced or deferred in order to allocate the budget to a Social Commerce solution.

Other factors such as market competition and budgetary constraints may reduce our pricing range, however over time the value delivered justifies the addition of other products offered from Bazaarvoice and raises the overall price to the customer for our solution.

Specific Example from Q3: Life Is Good. Their metrics were smaller than the sample calculation provided however the value delivered was in the 1-2m of lift for Y1. This drove an initial pricing of \$75k, which was discounted down to \$48k to win against PowerReviews, at \$36k.

Manufacturing – Standard size

The first conversation we have with a manufacturer differs from that of a retailer because of their business model. Direct sales is not as relevant in most cases, the product set is often much smaller, and the direct marketing to solicit content can be limited. The business case for manufacturers is built around the potential reach into the network of retailers that Bazaarvoice has as customers, as well as non-customers that we can leverage to display content. The discussion around our value delivered focuses on the reach into the channel as well as the standard sales improvement goals and potential. The key metrics are:

- Volume of online sales, including through channels of retailers – this becomes the basis for improvement benefits to conversion, returns reduction, overall sales lift.
- The reach of our retailer network – we analyze how many retailers sell their products, how many of them already have content, and what gaps exist to augment the content coverage and volume.
- Amount of direct marketing or channel marketing they do or can employ – this will drive the collection of content, and set relative budget ranges for allocation of Bazaarvoice spend.

We use these calculations to drive a similar range of benefit to that of a retailer, but we add in the reach of the retailer network into those metrics and sell the BV Network access as part of the solution. Generally this conversation is focused on one sub-brand or category of products if it is a multi-branded or multiple category manufacturer.

Windex, an SC Johnson company, is a recent example from Q3. SC Johnson owns brands such as Fantastik, Pledge, Mr. Clean, Shout, Windex, Drano, Nature's source, totaling 19 consumer brands. We determined that Windex is sold through retailers such as Wal-Mart, as well as leveraged the offline value of online research into brands as part of the pricing model. Knowing there are 18 more brands to expand our reach, we priced the initial relationship with Windex at \$70k ASF to encourage faster adoption and unlocking of the SC Johnson parent company. This first deployment will be used to drive the business case for expanding the overall

relationship within the first 18 months to include all brands and all products. The eventual pricing of that arrangement should be in excess of \$1m ASF.

Financial Services – Standard Size

The initial conversation with a financial services organization differs than that of a retailer or manufacturer. The standard metrics of sales lift or network reach are not relevant, at least not in the same ways. Our conversations start with engagement from their customers. For banks this could be around adding products and services to their account – savings accounts, credit cards, etc. For larger brands like American Express, engagement can be opening new accounts, expanding into their other services offered such as travel, or upgrading of current services.

These engagements are generally more custom tailored to the business model and goals of a given prospect, and more frequently result in an RFP process to determine the right partner for their social engagement goals. This is partly because of the conservative and process-driven nature of financial services organizations, and due to the true nascency of this engagement in that vertical.

Using Fidelity Investments as an example, we engaged with them early last year to talk about using Bazaarvoice to engage with their customers and gather ratings and reviews on their investment services. The RFP did not involve any granularity in pricing and the range given was extremely broad, due to the fact we could start small and focused or launch across all of Fidelity's services (investments, retirement accounts, financial planning, credit cards, etc.). After winning the RFP we gathered more detailed statistics focusing on the Fidelity mySmart Cash Account and the Fidelity American Express/Visa cards. This was the highest impact area with lowest barrier for entry and would provide a good test bed to prove value and over time grow the relationship. The key metrics we gathered were:

- Customers currently engaged with their mySmart Cash Account – this drove the volume expectations of content to be collected and it's reach to their customers.
- Goals around growth of account services, particularly the increase in new credit card accounts signed in the first year – this drove the financial benefits to Fidelity to justify the cost of the service.
- Long-term vision for social engagement on R&R, as well as other products from Bazaarvoice – this drove the overall pricing model so our pricing strategy for the initial engagement would align.

Our initial pricing was based on ROI values of at least \$3-5mm in year one, and we started at \$250k ASF for the R&R deployment across the initial scoped products. Their budgets were constrained due to this service being something previously unplanned for, and the initial engagement was discounted to \$175k to fit within their fiscal budget. We maintained the long-term enterprise pricing alignment by

reducing scope slightly, and will use this to drive long-term growth across all of Fidelity's lines of business.