

Monday, Jan. 31, 2008  
Vol. 24, No. 02

# Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

## Gaming Innovation



*Our M&A summary for 2007 reveals multiples of revenue are looking good when compared with 2005's numbers. See pages 4-6.*

**Publisher & Managing Editor**  
Merrill R. Chapman  
rickchapman@softletter.com  
860/663-0552

**Research Editor**  
Lilith R. Chapman  
lilith@softletter.com  
860/663-0552

**Editorial office**  
Soft•letter  
34 Sugar Hill Rd.  
Killingworth, Conn. 06419  
Voice: 860/663-0552

**Subscription office**  
Aegis Resources  
34 Sugar Hill Rd.  
Killingworth, Conn. 06419  
Voice: 860/663-0552  
Fax: 860/663-0553  
info@softletter.com

**www.softletter.com**

*Readers of Softletter know that we're fans of business simulations as training tools. Alas, few companies take our advice; encouraging people to play games during work just doesn't fit most corporate zeitgeists. But then most companies haven't met Spigit. Spigit is a fascinating new simulation system that combines social networking, communities, reputation ranking, and the monetization of participation in the aforementioned into a coherent whole. We spoke with Paul Pluschkell, CEO of Spigit, to discuss the system and its purpose.*

### How do you define Spigit?

We call it social productivity software. Spigit is designed to allow companies to unlock internal productivity and innovation. Web 2.0 technology has generated a revolution in the ability of people to communicate within their immediate circle. Sites such as LinkedIn, Facebook, MySpace, Jive, etc., are all good examples of this.

But one of the problems with social sites is that they don't really work well in assisting people to work with quality contacts outside your immediate circle. Again, take a look at LinkedIn and MySpace, for example. Both of these systems encourage you to build networks of "contacts" or friends but the truth is you spend very little time interacting with your virtual "buddies."

Spigit attacks this problem by establishing a system that encourages interaction by allowing system participants to both build reputations within an online community as well as monetize their contributions.

### Paid to play?

In a sense. There's been a lot of criticism aimed at the claims made for social interaction systems and it's a fair one. Unless you introduce some form of quantifiable measure of value into a system, it's hard to see how you ever justify their expense unless you're willing to accept all the intangibles associated with such systems. But one trend we see developing is that the time employees spend online is rapidly becoming equal to the time spent off.

*continued on page three*

## The Case Against Cold Calling

*by Mr. X (Mr. X is a long time cold-calling coach who's departing the business though he still provides cold calling training for "companies who insist on it.")*

Cold calling is both a technique and a skill that's been deployed and taught for several generations. But in my opinion, it's time to put this hoary old chestnut on the brazier and roast it. Cold calling's time is over (and I'm a person who's taught it, used it, and advocated it for over 20 years). Here's why it's time to stop ringing and dinging for dollars:

- The telephone infrastructure is increasingly hostile to cold calling. The "do not call systems" close many "after hours" opportunities down to increasingly smaller numbers. The requirement that you use caller ID makes it easier for calls to be screened. And while "do not call" is supposedly aimed at consumers, not companies, the line between the two is becoming increasingly blurred in many industries, particularly in the software business, where a startup may be located in someone's basement. Also, the number of landlines is steadily shrinking, and if you want to truly enrage a potential customer, call them on their cell phone and try to pitch them while they're thinking every second of the conversation that you're spending their dime without their permission.
- Many cold calling techniques teach practitioners to use marginal and dishonest techniques to reach decision makers and influencers. Things like pretending to be a friend of the person you're calling or sending fake E-mails asking for support from a company and using your contact with the company to try to learn about a firm's internal organization. Before the Internet and widespread knowledge of phishing and vishing (voice phishing) people were more tolerant of such shenanigans. But today, any hint of dishonesty or trickery in a phone conversation can literally bring people to a foaming rage (I know; I've experienced it personally).
- The mathematics are increasingly turning against cold calling. Traditionally, if you made a 100 cold calls you could count on five to ten of them eventually turning into meaningful leads (not sales, leads). Now, you're lucky if two of those calls lead anywhere. You just can't make enough cold calls to justify the time spent on cold calling; in point of fact, my metrics indicate that the more you call, the less money you're going to make over time.
- Cold calling, particularly in high technology and software, is an immediate reputation killer. Sales personnel at firms I've worked with tell me that some people they've been lucky enough to reach at software firms are often greeted with incredulity that a high tech firm would actually resort to cold calling in age of social networking, forums, communities, E-pubs and many other options.
- There's been a lot of talk about "cold calling 2.0": cold calling 2.0 is a joke. Cold calling is cold calling and it doesn't matter what fancy title you attach to it.

There is one form of telesales that is still somewhat effective, but, in my opinion, it's not cold calling. If you can determine that a company is using a service you offer via an examination of their website and use posted phone numbers to call and offer your product as an alternative, I don't think that's technically cold calling. Of course, you're late to the purchasing party and your chances of persuading the customer to buy your solution are low, but it's your call how you spend your time.

---

---

## How does Spigit work?

The Spigit system incorporates several elements into its framework, including forums, blogs, contests, a prediction market. In addition, the system combines two key elements which we believe are key to what we're trying to achieve; reputation ranking and monetization. People have different motives driving their participation in online communities. One of the most powerful drivers is recognition and community esteem; there are individuals who will not be interested in participating in any system unless this is present. We offer this via our reputation ranking (RepUrank) system, which allows a person to build a community ranking position based on their interaction with its members.

But there are other people who are more driven by the concept of financial reward. We thus monetize participation in Spigit via "spigits," a virtual currency that individuals accumulate as they participate in the community and "spocks," a virtual stock. Of course, it's up to the company to tie spigits to currency exchange in the real world. Some companies allow people to spend their spigits in a company store. In one case, a Fortune 50 customer of ours is funding the top three ideas generated by its Spigit community.

## What is the point of the virtual stock?

This brings us to the underlying engine that drives Spigit; it's an ongoing business simulator. Spigit's ultimate purpose is to encourage innovation by facilitating quality communication while providing a strong business rationale for community participation. It does this by providing a framework for ideas that are transformed by Spigit teams and the community into virtual startups that can ultimately be launched into a virtual market. Spocks are the means by which the success of the virtual startup is measured. When an idea or proposal is launched in the system, it goes through three stages:

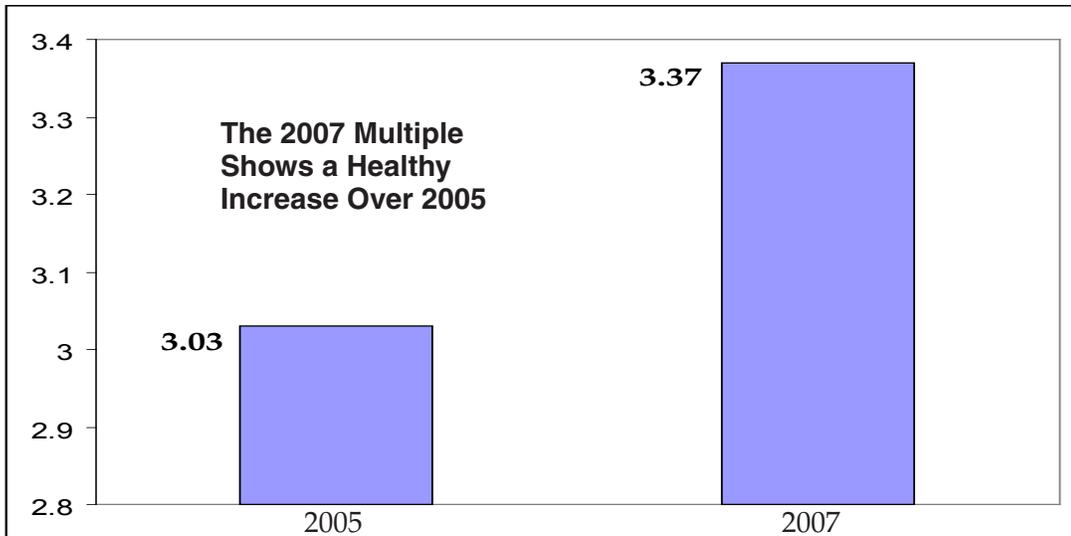
- **Incubation.** In this stage, you post an idea, measure buzz, and run your idea by the experts.
- **Validation.** In validation, you look for expert approval, continue to measure buzz, and prepare your idea for launch into the virtual market.
- **Emergence.** This is where your idea is launched into the virtual market and you can use spocks to track its success.

Once ideas are launched into the market, the Spigit dashboard gives company executives an overview of the company's Spigit activities, dialogues, and idea generation. Ultimately, Spigit creates an internal market of ideas for a company by using communities and their community interactions.

Paul Pluschkell, CEO, 311 Ray St., Pleasanton, Calif. 94523; 925/297-2608. E-mail: paul@spigit.com.

**"Spigit's predictive market allows participants to test ideas and concepts by harnessing a company's collective brain trust."**

— Paul Pluschkell  
Spigit



### **Benchmarks: Mergers and Acquisitions**

In the 12 months ending December 31st the Corum Group reported 77 mergers and acquisitions. Here they are sorted by multiple of revenues; the chart above contrasts 2005 with 2007.

In 2005, the last time we did this analysis, the median multiple across all deals was 3.02; contrast this with 2007's 3.37, a reflection of the relative health of the software industry over the last several years. The multiple revenue champ was Google's purchase of DoubleClick for a princely 20.67 time earnings. Even more fabulous was Google's buyout of YouTube, which didn't really have any revenues, making a multiple of revenue calculation meaningless.

These Google acquisitions sparked a frenzy of media attention and pundits immediately appeared who began to pour out a torrent of words and advice on how to be acquired by Google. The problem with this approach to M&A is that there is no model to pursue; purchases of this type are simply a matter of a company being in the right place at the right time. There is no way to ensure you will be in the right place to be struck by lightning a second time.

Illustrative of this reality is the now forgotten story of ICQ and Israeli entrepreneur Yossi Vardi. Vardi's son was one of the founders of Mirabilis, publisher of IM client ICQ, another "revenue zero" product, which was purchased in 1998 by AOL for the then fabulous sum of \$400m (cash and stock). This success led Vardi to proclaim the doctrine of the "Vardi Paradox," which stated that the more marketing you spent on a software company, the less it was worth. Hordes of young Israelis flocked to hundreds of startups in Israel in pursuit of the Vardi Paradox, but none succeeded in replicating the ICQ bonanza. While Vardi invested in several more mildly successful Internet startups, none were sold or acquired at fabulous multiples of revenue and all spend money on conventional marketing and sales programs.

<b>Seller</b>	<b>Buyer</b>	<b>Price/Terms</b>	<b>Seller Revenue</b>	<b>Structure</b>	<b>Type Firm</b>	<b>Rev. Multiple</b>
Xansa	Groupe Streria	\$962,600	\$816,900	Cash	Euopean IT Services	1.18
one45 Software	Cytiva Software	\$1,430	\$1,200	Cash and Stock	Medical Education	1.19
E-Tech Solutions	Perficient	\$12,200	\$10,000	Cash and Stock	IT Services	1.22
BravoSolution	Verticalnet	\$15,200	\$12,000	Cash and Stock	SaaS Supply Mgmt	1.27
CorVu Corp	Rocket Software	\$19,800	\$14,400	Cash	Business Intelligence	1.38
First Consulting	Computer Sciences	\$365,000	\$264,100	Cash	IT Services	1.38
AccessLine Comm	Telanetix	\$34,900	\$24,300	Cash & Stock	Hosted VoIP	1.44
Digica	Computacenter	\$54,800	\$38,000	Cash and Debt	European IT	1.44
Avaya	Silver Lake	\$8,200,000	\$5,400,000	Cash	Communications	1.52
SpectraLink	Polycom	\$220,000	\$144,800	Cash	Wireless Telephony	1.52
Inter-Tel	Mitel Networks Corp	\$723,000	\$460,900	Cash	IP Communications	1.57
Bisys Group Inc.	Citigroup	\$1,450,000	\$862,700	Cash	Financial Outsourcing	1.68
Electronic Clearing	Intuit	\$131,000	\$76,900	Cash	Payment Processing	1.70
Castelle	Captaris	\$18,800	\$10,600	Cash	Document Mgmt.	1.77
iEmployee	Forgent Networks	\$10,700	\$6,000	Cash & Stock	Workforce Mngmt	1.78
Dendrite	Cegedim SA	\$751,000	\$421,000	Cash	Compliance Solutions	1.78
Carreker	CheckFree	\$206,000	\$114,400	Cash and Debt	Financial Services	1.80
RelQ Software	EDS	\$40,000	\$22,000	Cash	Software Testing	1.82
3Com Corporation	Bain Capital Partners	\$2,200,000	\$1,127,000	Cash	Voice/Data Networ	1.95
Vertical Pitch LLC	Edgewater Technology	\$20,000	\$10,000	Cash and Stock	Business Intelligence	2.00
Krak (Denmark)	Eniro AB (Sweden)	\$72,300	\$35,400	Cash	Search/Portal	2.04
InfoGenesis	Agilysys	\$90,000	\$42,000	Cash	Point-of-Sale	2.14
Mobius	Ilen Systems Group	\$197,200	\$91,600	Cash	Records Management	2.15
Document Sciences	EMC	\$85,000	\$38,700	Cash	Document Output	2.20
SafeNet	Vector Capital	\$634,000	\$287,000	Cash and Debt	Network Security	2.21
Snowdrop Systems	Sage Group	\$33,500	\$14,800	Cash	Human Resources	2.26
Neoware	HP	\$214,000	\$91,000	Cash	Virtualization	2.35
MeziMedia Inc	ValueClick	\$100,000	\$40,000	Cash	Comparison Shop	2.50
Infocrossing	Wipro Ltd	\$600,000	\$232,400	Cash	IT Outsourcing	2.58
webMethods	Software AG	\$546,000	\$208,800	Cash	SOA Process	2.61
Embarcadero	Thoma Cressey Bravo	\$200,000	\$71,200	Cash	Data Management	2.81
Infinite Conf.	Onstream Media Corp	\$17,200	\$6,100	Cash	Audio Conferencing	2.82
BCS Informatica	TOTVS S.A.	\$26,700	\$8,900	Cash and Earmout	Law Firms	3.00
Software of Excel.	Henry Schein	\$58,000	\$19,100	Cash	Clinic Management	3.04
StubHub	Ebay	\$310,000	\$100,000	Cash	Online Ticket Reseller	3.10
CoCreate Software	PTC	\$250,000	\$80,000	Cash and Debt	PLM/CAD Modeling	3.13
Triton GmbH	Software Quality	\$20,900	\$6,600	Cash	IT Consultancy	3.17
Ceridian	Thomas H. Lee Pptrns.	\$5,300,000	\$1,590,000	Cash	Information Magmt	3.33
eBaum's World	HandHeld Enter	\$17,500	\$5,200	Cash and Stock	Online Entertainment	3.37
NSB Retail Systems	Epicor Software	\$318,200	\$92,400	Cash	Specialty Retail	3.44

Seller	Buyer	Price/Terms	Seller Revenue	Structure	Type Firm	Rev. Multiple
WhereNet Corp.	Zebra Technologies	\$126,000	\$36,000	Cash	RFID Asset Mgmt	3.50
DataMirror	IBM	\$163,500	\$46,500	Cash	Data Capture	3.52
Zantaz	Autonomy	\$375,000	\$106,000	Cash	E-mail Archiving	3.54
eTapestry	Blackbaud	\$24,800	\$7,000	Cash	Fundraising	3.54
Agile Software	Oracle Corp.	\$495,000	\$130,000	Cash	PLM	3.81
Catalina Marketing	Hellman & Friedman	\$1,700,000	\$440,800	Cash	Direct Marketing	3.86
Altiris	Symantec	\$830,000	\$214,600	Cash	Systems Management	3.87
ORTHOsoft	Zimmer Holdings	\$47,500	\$12,100	Cash	Surgery Navigation	3.93
First Data	Kohlberg Kravis	\$28,000,000	\$7,080,000	Cash	Credit Card	3.95
Hyperion	Oracle	\$3,300,000	\$831,000	Cash	Business Intelligence	3.97
Corillian	CheckFree	\$245,000	\$61,000	Cash and Debt	Internet Banking	4.02
CIMNET	Invensys Systems (UK)	\$23,200	\$5,300	Cash	Manufacturing	4.38
ScriptLogic	Quest Software	\$90,000	\$20,000	Cash	Network Admin	4.50
CheckFree Corp.	Fiserv	\$4,400,000	\$972,600	Cash	Online Banking	4.52
Gemstar-TV Guide	Macrovision	\$2,800,000	\$616,900	Cash and Stock	Data and Information	4.54
Witness Systems	Verint (Comverse)	\$950,000	\$204,300	Cash	Workforce Mgmt	4.65
KnowledgeStorm	TechTarget	\$58,200	\$12,000	Cash and Stock	Internet Search Engine	4.85
Cognos	IBM	\$5,000,000	\$1,020,000	Cash and Stock	Business Intelligence	4.90
Business Objects	SAP AG	\$6,800,000	\$1,380,000	Cash	Intelligence	4.93
Applix	Cognos	\$307,000	\$61,200	Cash	Analytics	5.02
Actimize	NICE Systems Ltd	\$280,000	\$55,000	Cash and Stock	Risk Management	5.09
TALX Corporation	Equifax	\$1,400,000	\$256,800	Cash, Stock, Debt	Payroll and HR	5.45
Visual Sciences	Omniture	\$415,100	\$76,000	Cash and Stock	Analytics Platform	5.46
Tegic	Nuance Commu	\$265,000	\$48,000	Cash	Mobile Devices	5.52
Authorize.Net	CyberSource	\$565,000	\$98,500	Cash and Stock	IP Payment Solutions	5.74
Hitwise	Experian Group	\$240,000	\$40,000	Cash	Internet	6.00
BeVocal	Nuance	\$140,000	\$22,000	Cash and Earnout	Customer Care	6.36
VoiceSignal	Nuance	\$293,000	\$40,000	Cash	Mobile Device	7.33
Postini	Google	\$625,000	\$80,000	Cash	Electronic Comm	7.81
WebEx	Cisco	\$3,200,000	\$380,000	Cash	Online Conferencing	8.42
eCollege.com	Pearson	\$477,000	\$52,000	Cash	Distance Learning	9.17
Navteq	Nokia Corporation	\$8,100,000	\$685,600	Cash and Debt	Navigation techn	11.81
Visicu	Philips Electronics NV	\$431,400	\$36,000	Cash	Clinical	11.98
Opsware	HP	\$1,600,000	\$108,100	Cash	Data Centers	14.80
Tractus	Naspers	\$1,910,000	\$116,200	Cash	Internet Auctions	16.44
Traiana	ICAP PLC	\$247,000	\$15,000	Cash and Stock	Post Trade Processing	16.47
DoubleClick	Google	\$3,100,000	\$150,000	Cash	Online Advertising	20.67

**Median (all deals) 3.37**

**Numbers in 000s**

## Not All Revenue is Created Equal, Part III of III

By Mark S. Reed, Corum Group

A list of recent M&A transactions involving SaaS companies shows transaction values ranging from 2X to 13X trailing revenues. The evidence shows that recurring revenues alone are not enough to drive high value. What sets the highest performing SaaS companies apart?

**First**, they understand providing service is key to success. They are focused on meeting the business needs of their customers, not on building technology. Their solutions are highly functional, intuitive, reliable, and easily deployed by customers. Customer support roles are staffed by knowledgeable personnel committed to solving problems.

**Second**, they provide real value to customer, which creates customer loyalty and retention. Value can come in many forms: functionality of the application, best practices expertise in the business process, cost efficiency, regular product release cycles to keep the solution current, and the easy ability to integrate with other applications, regardless of whether those systems are behind a customer's firewalls, is another contributor to value.

**Third**, company operations are organized to maximize the benefit from the leverage that SaaS provides companies. The SaaS system is designed to enable rapid deployment with a minimum of staffing. Complex business processes are simplified through software that is highly configurable to meet customers' needs. New customers produce disproportionately high profit margins at scale.

**Fourth**, the company is organized to be efficient while being effective. This applies not only to product development and implementation but perhaps even more importantly to the sales function. Since the price point for SaaS applications is lower, the sales organization of a successful SaaS company must have the skills and tools to reach the customer, present the value proposition, and close the sale on a much shorter cycle.

Mark Reed, executive vice president, Corum Group, 10500 NE Eighth St., Bellevue, Wash. 98004; 425/455-8281. E-mail: mreed@corumgroup.com.

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
<b>Trolltech (Norway)</b> • Software development frameworks	Nokia	\$ 155,400,000 Terms: Cash	\$41,400,000	<b>3.75</b>
<b>Cieffe S.p.A. (Italy)</b> • IP video surveillance	March Networks	\$ 29,600,000 Terms: Cash	\$14,800,000	<b>2.00</b>
<b>Audible</b> • Digital spoken word	Amazon	\$ 300,000,000 Terms: Cash	\$101,980,000	<b>0.29</b>
<b>Trayport (UK)</b> • Real-time electronic trading	GFI Group	\$164,000,000 Terms: Cash	\$28,000,000	<b>5.86</b>

**CORUM**  
MERGERS & ACQUISITIONS

## Reputation Management Resources

- **DNA13** ([www.dna13.com](http://www.dna13.com)) Integrated system with a focus on measuring and analyzing what people think and are saying about your company. Includes tools for issue and communications management (call and E-mail logging), journalist database and contact management and real time media monitoring.
- **Done!SEO** ([www.doneseo.com](http://www.doneseo.com)): SEO site that specializes in helping fix damage from popular consumer and complaint sites.
- **Factiva** ([www.factiva.com](http://www.factiva.com)): Dow Jones-based company focused on reputation management.
- **Reputica** ([www.reputica.com](http://www.reputica.com)): Subscription-based system; has a good reputation in high tech.
- **ReputationDefender** ([www.reputationdefender.com](http://www.reputationdefender.com)): SaaS-based system that searches online databases, websites, blogs, new sources, and other data sources for unfavorable mentions of you. System then claims to be able to “destroy” such mentions.

**COMPUTERWORLD COLUMNIST BART PERKINS ON THE LIMITS OF SOCIAL NETWORKING:** “Many articles on social networking claim that it will facilitate sales. Executive use of social networking is not widespread, however. Many executives already have substantial personal networks and rely less on new technological platforms for interaction. (This will undoubtedly change in the future, but networks have limited selling power today.)” (Quoted in Computerworld, 02/11/2008)

**WALL STREET JOURNAL REPORTER BEN WORTHEN ON SAAS:** “Fabrice Cancre, chief operating officer at Olympus NDT, a division of Olympus Corp., agrees. He is a fan of online software, having used NetSuite’s management software for the past six years. That software, which costs Mr. Cancre less than \$100 a person a month, is a fixed cost, which makes budgeting easier. He also loves that he doesn’t have to install new versions of the software every few years -- NetSuite updates the software on its Web site, and customers automatically have access to the latest version.

But when it came time to choose a manufacturing system in 2004, Mr. Cancre selected traditional software from Infor Global Solutions Inc. In spite of his belief in online software, he says, “the No. 1 question has to be, ‘Is the product going to meet our needs.’” (Quoted on The Wall Street Journal Online, 02/05/2008)

**PLEXUS VP OF MARKETING PATRICK FETTERMAN ON WHETHER SAAS IS OVERHYPED:** “However, what these analysts (and some fellow bloggers) miss in positioning SaaS in the trough portion of the Hype Cycle is that SaaS has already gone through the full hype cycle, under other names - the ASP period, the “hosted” period, etc.” (Quoted on [www.patrickfetterman.com](http://www.patrickfetterman.com), 10/24/2007)

Colleagues made off with your last issue? Go to [www.softletter.com](http://www.softletter.com). Click Subscriber Login in the upper right of the home page. To view the current issue and to search archives of hundreds of articles by keyword, topic, or issue date, log in and enjoy!

Soft•letter is published 24 times per year; entire contents copyright © 2007 by Soft•letter. All rights reserved. Reproduction by any means, without permission of the publisher, is prohibited. ISSN: 0882-3499.

Subscription rates: \$395 worldwide. Subscription office: Aegis Resources 34 Sugar Hill Rd. Killingworth, Conn. 06419 Voice: 860/663-0552 Fax: 860/663-0553 [info@softletter.com](mailto:info@softletter.com)