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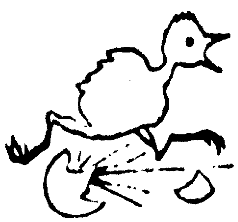


Our newly hatched product manager survey uncovers PMs in the $1-5 million company revenue range enjoyed median base pay raises of 39% *See pages 4-5.*

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

Editor
Donald K. Rosenberg
don@softletter.com
919/687-4172

Editor Emeritus
Jeffrey Tarter
jtarter@softletter.com
617/668-0028

Editorial office
Soft•letter
34 Sugar HIll Rd.
Killingworth, Conn.
06419
860/663-0552

Subscription office
United Communications Group
11300 Rockville Pike
#1100
Rockville, Md. 20852
301/287-2718
866/313-0973
customer@softletter.com

www.softletter.com

Acquiring New Customers: Enterprise Sales V2.0

by Antony Awaida, StartLeap

In the post-bubble era, many software companies are finding they have to forget about "top down" selling. Innovative companies are acquiring new customers by selling to the enterprise "through the backdoor". What does the new sales process look like and what are the key requirements to ensure its success?

It was the early 90s and I was listening to—yet another—Oracle sales kickoff. The speaker emphatically stated that the only way to succeed in enterprise sales is to sell top down. Start by calling on the top of the organization, ideally on the COO or the CIO. The rule was simple: The higher you start, the more likely you are to encounter success.

His advice was timely during this era. The CIO **would** sometimes take the call, or more often, refer the salesrep down to the appropriate person. Since most software companies were using this approach, I often wondered how many sales calls a CIO would entertain. Apparently quite a few—those were the days when IT **did** matter.

Fast forward to the post-bubble years and many salespeople will tell you that unless you're an Oracle, SAP, Microsoft, etc., this top-down approach to sales rarely works. Most CIO's budgets are already spoken for by large companies. Worse, CIOs are unwilling to assume the risk of trying new technologies from new vendors; after all, IT does **not** matter any more.

A new generation of companies is finding success by espousing a radically different approach to sales—an approach I call "selling through the backdoor." These companies are in the main midsize and startups who are trying to carve out a piece of existing markets. They perceive themselves as being able to benefit from several forces that are disrupting the status quo.

The process starts with the end user downloading a piece of software over the Internet. They may have heard about the new product or service via a blog, a PR campaign, product review or word of mouth. After the download, they spend time experimenting with the product and evaluating it's functionality. *(continued on page three)*

Advisory Board

SaaS Pricing Flexibility and Ecosystem Development

by Peter Cervieri, Scribe Studio

The SaaS model presents software companies with several challenges, one of the foremost being how you're going to present and value your services as well as deal with the ecosystem you build around your product. While the initial appeal of the SaaS model for IT is its low cost of entry, if third parties embrace your product as a platform on which to build new products, the ostensible pricing advantage you offer customers can change quickly. A January InfoWorld article estimated that if a customer purchased all 160 plug-ins currently available for Salesforce.com, the cost per user would rise to $8000 per month.

Our experience is that this concern is exaggerated, particularly if your basic product is robust enough to meet, for the most part, your target audience's needs. My product, ScribeStudio, combines a content management system with a supporting infrastructure to create and publish e-Learning programs, including course authoring, test creation, learner management, web conferencing, chat communities, and other capabilities. As we continued to add functionality to the core product, we began to get pushback (a guesstimate would peg it at about 15%) from potential clients on "nice to have" features they didn't want to pay for. As a result, we will begin to "unbundle" some of our functionality and offer them as separate products (ScribeLive web conferencing, for example). A key advantage of the SaaS model is that you can do this fairly easily without having to go to the agony of releasing a "light" version of your product. Internal research and Google's AdWords helped us analyze data and develop a sense of what features people wanted. The result of our strategy is that we're able to quickly "fit" our product offerings to new market segments. Over time, while we do expect to move customers to the full platform, we're able to quickly move ScribeStudio's pricing floor to accommodate initial functional requirements and cost concerns.

The value-add question and its impact on pricing is another issue SaaS firms are going to be dealing with on several levels. Our experience has been that the type of platform you're developing and your channel strategy can have a major impact on pricing perception. A key component of our underlying business model is for users of ScribeStudio to in turn resell the content they create using ScribeStudio and the surrounding services package to content consumers. One capability people who are developing computer-based training courses want is a remote desktop capability so they can take control of trainees desktop systems and walk them step-by-step through a lesson. We're adding this capability but users who buy this feature as an a la carte item are in turn expected to pass the costs along to their customers.

Our take on the development of Salesforce.com's AppExchange and similar systems is that utility markets have flourished around desktop products since the industry's beginnings. It's easy to buy different tools for Excel, for instance, that greatly increase the price of the "core" product; this doesn't seem to be hurting Excel. Over time, we feel that developing a strong ecosystem around a SaaS product is a necessity. We would expect that if certain add-ons become very popular, they'll be eventually be incorporated into the main product (perhaps via acquisition so as to avoid channel conflict), lessening issues of perceived cost increases.

Peter Cervieri, director of business development, ScribeStudios, 135 5th Ave, 3rd Floor, New York, N.Y. 10010; 212/353-0022x23. E-mail: pcervieri@scribestudio.com. Website: www.scribestudio.com.

If the experience is positive, they will spread the word in their organization. As use of the software multiplies, the company eventually acquires a network version or purchases technical support.

Some of the companies where this is working very well are JBoss, SugarCRM, Zimbra, and MySQL, with others adopting these tactics. This sales process, which has been pioneered by Open Source companies, is now being adopted by more "traditional" companies and firms in the SaaS market. It differs from the shareware model which is a "try before you buy"system— end users are asked to pay a fee for their use of the software. More importantly, shareware is associated with "Mom and Pop " software companies that may disappear if Mom and Pop decide to do something else. Open Source, on the other hand, gives you the full version of the software, free. Also, since the development is supported by a community with access to the code, there is decreased concern that the product will die a premature death.

Why are companies adopting this approach? Because they are finding it is a powerful and cost effective way to satisfy an enterprise's "niche needs" and acquire new customers. These "niche needs" have often gone unfulfilled in a traditional sales process. A salesperson calling on an executive to introduce a new product is often rebutted with: "We already use XYZ as our corporate standard" or "we have an enterprise wide license for XYZ".

Even Oracle is starting to dabble with this model since its acquisition of Open Source companies Sleepycat and Innobase (and Oracle is reportedly in conversations to acquire JBoss and Zend). Larry Ellison has, on several occasions, stated his objective is to ride the Open Source model.

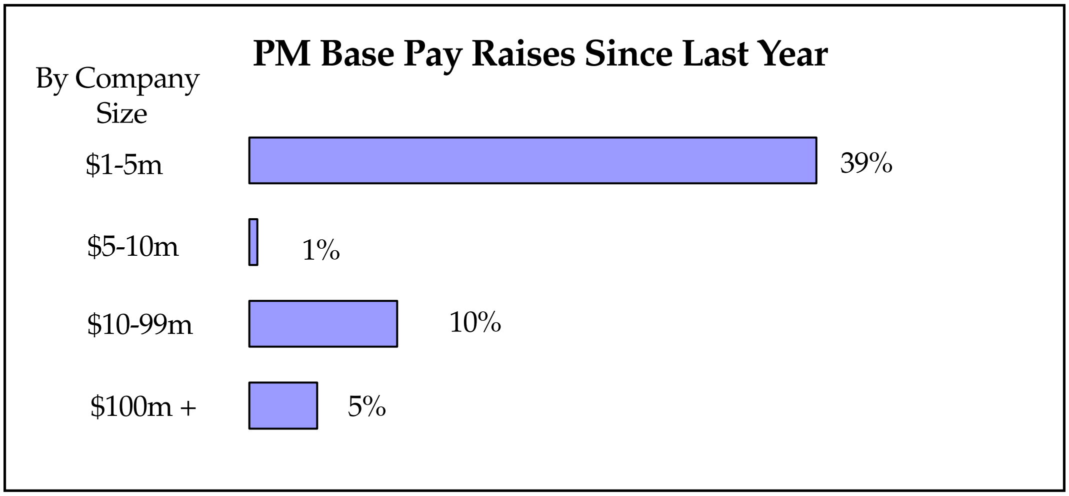
What are the key ingredients needed to ensure the success of this sales process? Here are some quick tips:

- **Tip #1:** Create an addictive user experience. The free product must turn the end user into an evangelist within the organization. This can be achieved through a great user interface, an easy-to-use tool, a quick learning curve, etc. In my opinion, Zimbra is an example of a company that's created an addictive user interface. (The product also functions as an excellent advantage of what can be done Ajax-class applications.) Zimbra enables you to do things that you always wanted to do with, say, Outlook but couldn't. For instance, you get an E-mail confirming an appointment. Drag and drop the E-mail onto your calendar and it automatically becomes an appointment. Or if you exchange E-mails with your customer and want to document that exchange in Salesforce.com, just drag and drop that E-mail on the Salesforce.com Zimlet and you are done.

- **Tip #2:** Plug into existing communities. Many people downloading free software tend to be technical people who like to congregate with other technical people in on-line *(continued on page six)*

"A C-level executive often believes that one corporate standard should work for the entire company—for instance the database standard should be used for all database needs. The end user, on the other hand, understands that the corporate standard does not fit his particular need—e.g., it is overkill and requires too much maintenance work for the simple task at hand—and will readily download a free copy of new software. "

—Antony Awaida, StartLeap



Benchmarks: Product Manager Compensation

The current national employment rate of 4.8% is not far from Internet bubble figures, leading to increased tightening of the job market in high-tech.

Softletter is adding product managers to our Benchmark positions. This is easier said than done because "product manager" is the name of a position along a continuum from marketing to development (have a look at http://www.productmarketing.com/productmarketing/magazine/2/4/0407bw.asp for a long discussion of the topic).

We are breaking our study into two parts: in this issue we are looking at the marketing side. In April we will be looking at technical/requirements managers and the development side of the product manager equation.

The product manager (who may have a product line manager or product group manager above him) is responsible for coordinating the functions and departments of a company needed to bring a software product to market, and making sure that market needs shape the development of the product.

Compensation increases for these product managers generally reflect what we have seen so far in other positions. We already know, for instance, that the recovering technology sector has more money to spend on personnel, and variable compensation is a good way to do so, because it both rewards individuals and does not encumber personnel funds for the following year. We know also that the raises in the large and public companies will tend to be smaller than those in the smaller and start-up end of the market.

But it is impressive to see that product managers in the $1-5 million company revenue range had a median base pay raise of 39%. This indicates that there is heavy activity in getting new products out the door and sharp competition for the hands-on people who can do it. Another factor contributing to increases in PM pay is that this functions resists outsourcing; while certain aspects of development lend themselves to commiditization, understanding the workings of an industry and local market conditions don't.

Overall Product Manager Compensation*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	$95,000	$114,500	$80,500	6%
Base Pay—last year	$90,000	$110,000	$77,000	
Variable Pay—current	$10,000	$15,000	500	14%
Variable Pay—last year	$8,750	$500	0	
Total Pay—current	$110,000	$130,000	$88,875	7%
Total Pay—last year	$103,250	$122,000	$78,000	

* Number of respondents = 69 for "current," 60 for "last year."

Product Manager Pay by Company Size*	Base Pay	Variable	Total	Raise
Under $1 million—current	n/m	n/m	n/m	n/m
Under $1 million—last year	n/m	n/m	n/m	
$1-$5 million—current	$83,500	$5,000	$88,875	39%
$1-$5 million—last year	$60,000	$0	$62,000	
$5-$10 million—current	$90,000	$9,500	$100,000	1%
$5-$10 million—last year	$89,500	$5,000	$93,000	
$10-$99 million—current	$102,000	$7,500	$112,500	10%
$10-$99 million—last year	$92,500	$6,750	$105,000	
$100+ million—current	$110,000	$10,000	$130,000	5%
$100+ million—last year	$105,000	$10,000	$123,000	

* Number of respondents = 2 for Under $1 million, 10 for $1-$5 million, 13 for $5-$10 million, 23 for $10-$99 million, and 21 for $100+ million. Values are medians. n/m = Sample size too small for accurate comparisons.

Product Mgr. Pay by Development Stage*	Base Pay	Variable	Total	Raise
No significant customer revenue—current	n/m	n/m	n/m	n/m
No significant customer revenue—last year	n/m	n/m	n/m	
Privately owned, privately funded—current	$86,375	$5,500	$94,000	5%
Privately owned, privately funded—last year	$82,500	$2,500	$89,000	
Privately owned, venture funded—current	$95,000	$10,000	$104,500	6%
Privately owned, venture funded—last year	$90,000	$9,000	$100,000	
Public—current	$110,000	$10,000	$124,000	6%
Public—last year	$104,000	$9,500	$114,000	

* Number of respondents = 1 for No significant customer revenue, 26 for Privately owned, privately funded, 15 for Privately owned, venture funded, and 27 for Public. Values are medians. n/m = Sample size too small for accurate comparisons.

Perhaps the most important strategic reasons for vendors to adopt the process I describe are: 1) While the initial sales of the new product may be small, if handled properly, it can be the start of a process to dislodge the incumbent, and 2) It gives the vendor the opportunity to experiment and optimize the new sales process. The latter will be particularly important as predictions of seismic shifts in the software industry come true.

—Antony Awaida, StartLeap

Close times differ based on the vendor's business model. The timeframes to revenue are somewhat long: six to 18 months. But so are the timeframes of selling traditional software these days. In the latter case, you have to pay a sales rep for a very lengthy sales effort.

—Antony Awaida, StartLeap

communities. They also tend to be highly skeptical of sales and marketing people. Members of the vendor's technical team can play a key role in spreading the word by becoming active participants in related online communities. MySQL has done a good job of leveraging the success of Linux and Apache. By integrating tightly with LAMP and making its software widely available with Linux distribution channels, it has gained significant momentum in the low-end database market.

- **Tip #3:** Create compelling add-ons. While the free version must deliver substantial value to the end user, there must be compelling reasons for the end user to buy add-on products—whether these are more powerful "network versions" or additional components or services. Good technical support is a compelling add-on that customers are willing to pay for as they deploy mission critical applications. RedHat has created a good business delivering technical support to Linux.

- ` **Tip #4:** Avoid head-to-head competition. Inevitably, as the foot print of the new product grows within the enterprise, it will attract the attention of the people who have an interest in maintaining the status quo—account managers, executives who play golf with the account managers and so on. If the product serves a niche need better than the incumbent, it will be easier to deflect that attention. For instance, Mozilla's Firefox (which seems to be doing a nice business according to recent reports) runs on Macs (a market Microsoft just abandoned), Linux (something that Microsoft is unlikely to offer anytime soon) as well as Windows. Similarly MySQL is far from offering Oracle's functionality, but it requires little to no database administration resources—not Oracle's sweet spot.

- **Tip#5:** Lower barriers to entry. While the download may be free, the total cost of ownership can be quite high. The software should take advantage of the existing customer infrastructure. Further, it should require a minimal investment in terms of retraining the existing staff. Again, Zimbra is a good example of a company that plugs into an existing infrastructure. It works on Windows and the Mac OS while integrating with existing E-mail applications (Outlook and ApplE-mail) and Mobile apps (Blackberry, Motorola etc.)

- **Tip #6:** Adopt a light-handed sales approach: End users typically do not like to be sold to. While having a telesales force is important to help the end users in their "buying process," they should maintain a light handed approach in order to not alienate end users. It's also important to provide your downloaders with follow up tools and collateral they can use to sell the product on your behalf in the organization. These can include feature comparisons, references, ROI analyses, etc., most written with C-level concerns in mind. We have found that web videos can be effective if short and highly focused. Remember, your downloader will usually not be a decision maker or check signer.

Antony Awaida, president, StartLeap, 261 Walter Hays Dr., Palo Alto, Calif. 94303; 650/326-0920. E-mail: antony@startleap.com. Website: www.startleap.com.

Equities

A Healthy Bubble: The Second Biggest Year in Software M&A in the Last 20 Years

By Nat Burgess, Corum Group

The best of times, the worst of times—we all have mixed feelings about the last Internet bubble, but let's get it right this time: 2006 is shaping up to be the biggest year in software M&A since the turn of the century, and the underlying financial dynamics are healthy and improving. The pressures leading to more M&A activity are global. China is the world's fastest growing Internet market, and may eventually overtake the US to become the largest. Chinese sites such as IM giant Tencent.com are drawing the attention of investors and investment bankers from around the world.

One measure of M&A activity is the percentage of market cap that changed hands in transactions. The bubble saw a peak of 12%, whereas in 2005 we stayed under 8%, leaving plenty of room for growth. More importantly, the cash percentage of M&A deals in 2005 was more than double the cash percentage in the bubble. This is important, because the overheated stock market in 2000 resulted in irrational transactions that ultimately proved worthless when prices collapsed.

In forecasting M&A activity for 2006, Credit Suisse lists software as the most active sector. We agree. The publicly traded software companies have become profitable, and are accumulating cash on their balance sheets. They are facing pressure to spend money on acquisitions, the implicit threat being that if they don't, they will have to issue dividends.

Along with public companies, private equity continues to drive deals. Thomas Cressey's recent investment took Made2Manage to a new level, and Apax, Silverlake, Francisco, Summit and TA all continue to pursue software transactions. Nipping at their heels, the hedge funds have come into the market with big valuations and aggressive tactics.

Volumes are up and equally importantly, blue chips are increasingly buying early stage companies. Internet deals such as Google's acquisitions of Dodgeball and Picasa, CNet's acquisition of HeyPix, and Yahoo's acquisition of Pixoria are just three of the many examples of startups being taken out by blue chips.

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

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
europrospectus.com *• Search on debt, equity and warrant prospectuses*	FactSet Research Systems	$7,500,000 *Terms: All cash*	$3,000,000	**2.50**
MatrixOne *• Product lifecycle management software*	Dassault Systemes SA	$408,000,000 *Terms: All cash*	$124,000,000	**3.29**
iVillage *• Online women's community*	NBC Universal	$600,000,000 *Terms: All cash*	$91,060,000	**6.59**
Open Ratings *• Web-based supply risk management solutions*	D&B	$8,000,000 *Terms: All cash*	$4,500,000	**1.78**

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MERGERS & ACQUISITIONS

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ROI Tools

- **Cymbic ROI Calculator** (www.cymbic.com/tools/roi_calc.php): Simple online calculator allows you to do some basic marketing expenditure calculations.
- **Lenskold Group ROI Spreadsheet Too**l (www.lenskold.com/leadership/tools.html): Free spreadsheet ROI tool; requires you register at the site to download.
- **Marketing NPV (**www.marketingnpv.com/tools.asp?type=download) Site provides a variety of ROI and marketing tools; requires you register at the site to download.
- **Phormion** (www.phormion.com): Company provides online ROI calculators and tools. Phormion has done extensive work in the software industry. Calculators are created on an industry-specific basis.
- **SearchCIO** (whttp://searchcio.techtarget.com/generic/0,295582,sid19_gci1049484,00.html?bucket=REF): Site provides the Nucleus Research ROI tool.

INFOWORLD COLUMNIST EPRHAIM SCHWARTZ ON SAAS PRICING: "SaaS providers will very quickly face the reality that, unless they are a provider of a major service with broad reach, they will not be able to charge even $25 per month. Expect prices for nice-to-have utilities to drop as low as $5 per user, per month." (Quoted in InfoWorld, 01/24/2006)

INFORMATIONWEEK COLUMNIST JOHN SOAT ON THE BSA'S LATEST BOUNTY PROGRAM: "The Business Software Alliance has upped its bounty on illegal software from $50,000 to $200,000. The BSA, a lobby organization for the big software dealers such as Microsoft and Symantec, says it will enrich the pockets of any whistle-blower willing to drop a dime on the illegal copying practices of his or her employer by 200 grand. Toward the end of the press release announcing BSA's largess was this statement: 'Software piracy is against the law, [and] can result in fines of up to $150,000 per infringement ...' Am I missing something, or is there a business opportunity here? Tell me why I can't copy myself some software, call it in, collect the $200,000 bounty, pay the $150,000 fine, and walk away with a cool 50 grand?" (Quoted in InformationWeek, 03/07/2006)

ORACLE CEO LARRY ELLISON ON OPEN SOURCE: "There's a lot of romantic notions about open source. That just from the air these developers contribute and don't charge. Let me tell you the names of the companies that developed Linux: IBM, Intel, Oracle—not a community of people who think everything should be free. Open source is not a communist movement." (Quoted in CIO, 03/02/2006)

ZDNET COLUMNIST PAUL MURPHY ON RETAIL LINUX: "...two years ago Wal-Mart offered a sub $500 PC with Linux pre-installed, now they have an offer on refurbished 900Mhz P3 Thinkpads for $482." (Quoted on http://blogs.zdnet.com/Murphy/?cat=5, 03/09/2006)

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