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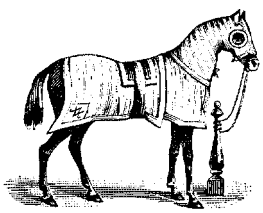

Several of our benchmark categories turned in thoroughbred Revenue per Employee results in our latest benchmark study
See pages 4-5.

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Mike Bosworth on Sales Ready Messaging

If you've ever had to sell enterprise software products, you've probably heard of Mike Bosworth, informally known as the "Father of Solution Selling," perhaps the software industry's most popular sales methodology. Mike began his career in the information technology industry in 1972 as an application support specialist for Xerox Computer Services. He was their top new business salesperson in 1975 and was promoted to national manager of field sales in 1979. From 1976 through 1982 he designed and delivered sales training programs for XCS. Mike is a founding partner of CustomerCentric Systems, a firm dedicated to helping organizations build predictable revenue engines by integrating sales processes with sales-ready marketing. Mike is also the author of "Solution Selling: Creating Buyers in Difficult Selling Markets" (McGraw-Hill, 1993) a classic in the genre, and co-author of "CustomerCentric Selling" (McGraw-Hill, November 2003).

Recently Mike has begun the process of focusing on what he calls "sale ready messaging" (SRM). After reading some of his recent material, we decided to ask him to share with us more information about what is SRM, how you execute it, and what are its benefits.

Mike, what is sales ready messaging?

It's a process designed to help a customers visualize goals, describe needs, or solve problems. This is done by teaching a sales person to ask highly relevant questions about a customer's business and the different challenges and issues they face. The ultimate goal of this approach is to enable the customer to visualize an important business event occurring, such as a sales goal being achieved or a new level of customer satisfaction being reached. If the customer has been properly qualified and the questions are properly framed and targeted, the process shifts responsibility for solving a business problem from the seller to the buyer. The role of the salesperson is to facilitate the customer's search for an answer to how they can achieve goals and solve problems.

There are other sales methodologies which attempt to do the same thing; what makes the SRM methodology different?

Its emphasis on working before the sales process with sales, marketing, and professional services to understand what questions your sales force must be prepared to ask *(continued on page three)*

The Open Source Dilemma, Part I of II

by Rick Chapman

This June and July Softletter will be sponsoring a new seminar on marketing and selling Open Source software, eponymously named Softletter's Marketing and Selling Open Source Software Seminar. The time seems right for such an event; in its April 27th issue the New York Times reports that the VCs are again making major investments in Open Source software companies. There are several factors driving this resurgence, including such developments as the increasing acceptance of the software as a service (SAAS) model, where the idea of having access to source code is often irrelevant to a customer.

But tremendous tensions still exist in Open Source between free software advocates and Open Source pragmatists as the recent BitKeeper controversy illustrates. BitKeeper is a source code manager (SCM) that many in the development community regard as best of breed, at least if you want to manage a highly distributed development project. The product's best known advocate is Linus Torvalds, who was quoted as saying that "BitKeeper is different. It's made me more than twice as productive, and its fundamentally distributed nature allows me to work the way I prefer to work...."

In 2002, Torvalds made the decision to use BitKeeper to manage future Linux code development because of difficulties he faced during the release cycle from the 2.4 to 2.6 Linux kernel upgrade. BitKeeper is a proprietary product, the principal offering of BitMover, a successful and growing company. BitKeeper maintains its proprietary advantage partly via its "metadata" file format and communication's protocols. This file structure is separate from the actual data that a programmer would log into BitKeeper. BitKeeper does allow the user's data to be exported via "gateways" and file exports to competing commercial and Open Source products. To assuage Open Source sensibilities, the company provided a free version of BitKeeper that matched the functionality of the commercial product in all key respects accompanied with a license that prohibited the licensee from using BitKeeper to clone BitKeeper.

Torvalds' choice of BitKeeper was extremely controversial and almost from the moment the decision was made the software was the subject of determined efforts to discover how the product's file formats and protocols worked, all with an eye to building a BitKeeper clone. At one point, the "Father of Free Software," Richard Stallman, urged developer's to "write a free client to work with BitKeeper" (though he didn't volunteer to undertake the effort personally). These efforts came to a head when in April, Open Source Development Labs fellow and co-founder of the Samba project, Andrew Tridgell, announced he'd created a free software product called "Source Puller" that worked with BitKeeper's data and communication's protocols. BitMover reacted to this event by pulling Torvalds' and the OSDL's BitKeeper licenses. Torvalds labeled Tridgell's act as one that "tore down something new (and impressive) because he could."

Torvalds' irritation was understandable; BitKeeper's loss will impede future Linux development; no existing product matches the software's functionality and building one that can will not be easy. But beyond the expected delays in Linux development, the BitKeeper controversy highlights the growing dilemma that faces those who are working to build profitable businesses on an Open Source foundation. Part II of this article will examine this dilemma and its challenges in greater detail.

potential customers, then mapping your messaging to both industries and titles. For SRM to work, the questions you ask must be highly tailored to a specific audience; I call it a "targeted conversation list."

What role does each functional group play in this process?

Well, I think we understand why sales needs to be there; they're going to execute your strategy and put money in your pocket. Marketing is the group tasked with developing the tools needed to execute your SRM strategy via your positioning, collaterals, advertising, etc. Professional services is there to provide concrete examples of customer usage of your software; this in turn drives the entire process of developing compelling usage scenarios. Professional services serves as "the voice of the customer."

Isn't product management in a software company supposed to provide this information? Act as the "voice of the user" to development and sales?

Product management typically engages with a sales group at the tail end of the development process, not at the beginning of the sales cycle. Product managers tend to know a great deal about how to demo and use features but not how features are used by customers.

"Product managers by inclination are always focused on creating demand for potential new users of the product, on attempting to attract early adopters with new features and technology. But, as we all know (or at least should know if you've studied the product life cycle model, only 20% of the market ever consists of early adopters."

—Mike Bosworth CustomerCentric Systems

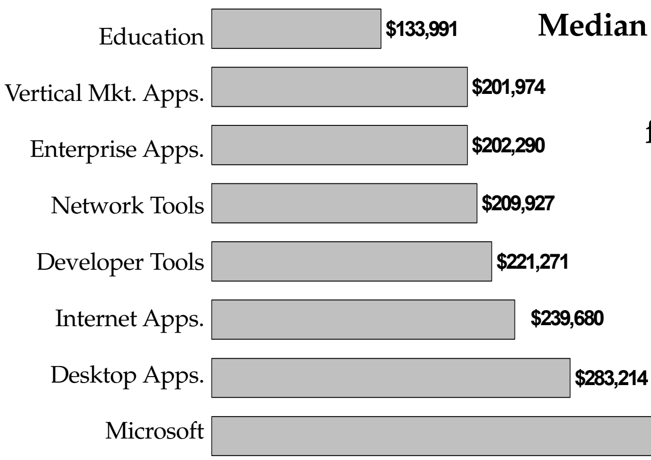
Another serious problem is that in most organizations I've worked with, product managers tend to obtain their information from the lips of salespeople who've lost. Most salespeople win alone, but defeat has a thousand fathers. So, the product is normally going to be blamed for the failure to close sales, not bad salesmanship. This often leads to a distorted view of why your company is failing to close sales and yet another frantic push to add more features into a product without understanding why you're doing this and if lack of features is truly why you're not closing more business.

Let me give you a real-life example of what I mean. During the dot.com bubble, a firm called Ventaso attracted large wads of venture capital. Ventaso worked as follows. Someone was supposed to sit down with the system and fill out checkboxes, provide SIC codes, and answer questionnaires about their company's products and services. When they were finished, they'd "hit a button" and Ventaso would spit out custom PowerPoint presentations, white papers, case studies, etc.

A large financial services company used the system for 250 products in their portfolio. Six months later, the firm's sales force had accessed less than 10% of the product info. Why? Because the database was designed to spit out lots of information on product features and capabilities but not much on product usage.

OK, let's discuss the actual process of developing the targeted conversation list. How does it begin? What is the end result of the process? How long does it take?

(continued on page six)



Revenue per employee figures are generally healthy across the industry

Gains over our last survey in 2001 were most dramatic in Developer Tools, Internet Applications, and Enterprise Applications. Network Tools showed some slippage from 2001.

Benchmarks: Revenue per Employee

The ratio of revenue per employee (RPE) is often maligned as too simplistic a benchmark for measuring company performance. The RPE ratio is found by dividing annual revenue by year-end head count. Generally, a higher RPE ratio indicates that a company can produce more with less, a powerful indicator of efficiency. Individual investors often dismiss RPE in favor of more complicated quantitative analyses such as ROA and ROE. We disagree with this viewpoint; over the years we've found that an informed analysis of a company's RPE (sometimes called sales per employee) ratio, interpreted correctly, is a powerful indicator of a software company's health.

The RPE ratio is best understood in two ways. First, charted over a long period (at least three years), the ratio can illustrate how well a company is run. Short-term blips in the rating can mean any number of things, including headcount cuts, consolidations, or divisional sell-offs. Second, the ratio is only useful when comparing companies within the same sector. For example, companies with large direct sales forces are labor intensive and will have deceptively low RPE ratios. On the other hand, software firms with strong retail product lines and extensive channel programs normally enjoy strong RPEs, reflecting the high "scalability" software in these categories enjoy.

When analyzed against past performance, RPE gains are impressive in several sectors, particularly in the Enterprise and Developer Tools categories. In 2001 our three year average for Enterprise Applications was $134,707 vs. 2004's 191,060. By contrast, Vertical Markets gains were weaker than expected: $150,232 vs. $179,608. Network Tools saw a slippage from $231,456 to $215,363. Microsoft remains far and away the RPE leader, but its average gains from 2001 are relatively slight: $580,963 vs. $597,710, respectively. However, 2004's increase to $646,228 was surprisngly strong.

Data for this analysis has been drawn from the Benchmark 50, a group of 50 public software companies whose financial results are broadly representative of trends in the PC software marketplace. The 50 companies are divided into seven product- and market-related segments, plus Microsoft in a category of its own.

The Benchmark 50: Revenue per Employee

	Revenues (000)			Revenue/Employee			Avg.
	2002	2003	2004	2002	2003	2004	02-'04
Microsoft	$28,365,000	$32,187,000	$36,835,000	**$561,683**	**$585,218**	**$646,228**	**$597,710**
Desktop Applications				**$264,481**	**$249,988**	**$283,214**	**$265,894**
Adobe	$1,164,788	$1,294,749	$1,666,581	$348,635	$369,190	$530,420	$416,082
Symantec	$1,071,438	$1,406,946	$1,870,129	$274,728	$327,197	$352,855	$318,260
Macromedia	$326,498	$336,913	$369,786	$268,502	$310,519	$304,852	$294,624
Scansoft	$106,619	$135,399	$130,907	$426,476	$167,989	$157,340	$250,602
Intuit	$1,312,228	$1,650,743	$1,867,663	$201,881	$246,380	$266,809	$238,357
IMS Inc.	$12,636	$8,095	$11,985	$203,806	$197,439	$114,143	$171,796
Smith Micro	$7,131	$7,216	$13,316	$127,339	$131,200	$256,077	$171,539
Vertical Market Applications				**$165,417**	**$171,434**	**$201,974**	**$179,608**
Autodesk	$748,944	$836,707	$1,057,108	$214,106	$239,538	$304,029	$252,558
Ansys	$91,011	$113,535	$134,539	$202,247	$189,225	$244,616	$212,029
Advent	$159,436	$137,159	$149,990	$162,524	$179,527	$199,455	$180,502
Kronos	$342,377	$397,355	$450,694	$155,626	$165,565	$180,278	$167,156
Moldflow	$35,088	$36,625	$48,673	$142,634	$148,882	$167,261	$152,926
MapInfo	$92,598	$106,255	$124,673	$135,974	$150,078	$155,841	$147,298
Dendrite	$225,756	$321,107	$399,197	$144,808	$127,221	$162,341	$144,790
Enterprise Applications				**$180,523**	**$190,355**	**$202,290**	**$191,056**
Witness Systems	$67,686	$108,037	$141,335	$206,991	$221,842	$291,412	$240,082
Mercury Interactive	$400,122	$506,473	$685,547	$219,606	$218,119	$257,821	$231,849
Business Objects	$454,799	$560,825	$925,631	$210,360	$142,922	$241,427	$198,236
SPSS	$208,480	$208,367	$224,074	$165,067	$166,427	$192,338	$174,611
Manhattan Associates	$175,721	$196,814	$214,919	$176,604	$176,199	$153,514	$168,772
ServiceWare Technologies	$10,158	$11,511	$12,502	$151,612	$225,706	$117,943	$165,087
Concur	$45,097	$56,737	$56,550	$133,423	$181,268	$161,571	$158,754
Internet Applications				**$226,109**	**$234,577**	**$239,680**	**$233,455**
Verisign	$1,221,668	$1,054,780	$1,166,455	$381,771	$421,912	$363,835	$389,173
RealNetworks	$182,679	$202,377	$266,719	$265,136	$273,482	$325,664	$288,094
Cryptologic	$34,427	$44,211	$63,714	$247,676	$252,634	$218,948	$239,753
NetIQ	$278,239	$310,224	$261,645	$222,058	$227,437	$197,916	$215,804
Interwoven	$126,832	$111,512	$160,388	$208,605	$160,218	$230,443	$199,755
Centra	$33,400	$43,041	$38,064	$124,627	$166,826	$183,000	$158,151
Ultimate Software Group	$55,149	$60,416	$72,028	$132,889	$139,529	$157,956	$143,458
Network Tools				**$234,613**	**$201,550**	**$209,927**	**$215,363**
Citrix Systems	$527,448	$588,625	$741,157	$315,837	$312,268	$279,050	$302,385
McAfee	$1,043,044	$936,336	$910,542	$274,485	$253,064	$308,658	$278,736
Tarantella	$14,220	$14,006	$12,488	$346,829	$155,622	$124,880	$209,110
NetManage	$65,740	$50,663	$47,666	$187,829	$214,674	$211,849	$204,784
Novell	$1,134,320	$1,105,496	$1,165,917	$173,869	$192,797	$188,477	$185,047
Spescom (formerly Altiris)	$6,970	$7,362	$9,002	$151,522	$160,043	$195,696	$169,087
Tumbleweed	$25,525	$30,595	$43,438	$191,917	$122,380	$160,881	$158,393
Developer Tools				**$198,941**	**$217,457**	**$221,271**	**$212,556**
BEA Systems	$934,058	$1,012,492	$1,080,094	$304,949	$324,309	$322,128	$317,128
Pervasive Software	$37,197	$39,205	$49,608	$254,774	$245,031	$202,482	$234,096
Progress Software	$273,123	$309,060	$362,662	$211,559	$222,185	$233,674	$222,473
Sybase	$829,861	$778,062	$788,536	$211,861	$212,585	$221,002	$215,150
Borland Software	$244,579	$295,236	$309,548	$152,101	$217,405	$227,442	$198,983
Red Hat	$78,910	$90,926	$126,084	$124,464	$160,647	$185,145	$156,752
Raining Data	$19,267	$21,006	$22,297	$132,876	$140,040	$157,021	$143,312
Education				**$124,174**	**$127,290**	**$133,991**	**$128,485**
Docent	$29,011	$27,792	$30,238	$129,513	$167,422	$182,157	$159,697
American Education Corp.	$9,416	$8,598	$10,399	$159,593	$148,241	$165,063	$157,633
Saba Software	$55,648	$44,416	$34,471	$167,111	$155,846	$133,609	$152,188
Plato Learning	$74,391	$82,192	$141,801	$150,895	$109,589	$180,179	$146,888
Renaissance Learning	$131,232	$130,544	$114,048	$131,627	$132,130	$121,070	$128,275
Click2Learn	$31,209	$30,477	$29,487	$87,666	$125,420	$95,737	$102,941
Apollo Group	$1,009,455	$1,339,517	$1,798,423	$42,815	$52,382	$60,122	$51,773
All companies (median)	$878,613	$987,875	$1,144,954	**$244,493**	**$247,234**	**$267,322**	**$253,016**

Note: "Years" may not correspond to company fiscal years.

The first step is to hunt down key members of sales, marketing, and professional services and arrange to get them in a room for two or three hours to begin the process. This can be very difficult; recently, when working on a project with a $200MM, publicly held software firm, I asked the VP of sales for examples of customer usage and needs; he told me to go see the VP of marketing who told me to go see the VP of sales.

In step two the members of the working group develop usages scenarios broken down into events, questions, player, actions (EQPA).

"One of the most interesting statistics about collateral usage I've ever seen was developed by the American Marketing Association: 50% to 90% of the collateral developed by marketing groups is never used by sales."

—Mike Bosworth
CustomerCentric Systems

Step three consists of examining your scenarios and prioritizing them.

The final step consists of scripting out your scenarios and mapping the questions you've developed during the SRM process to the customer's problems, goals, and needs. Those familiar with my work know that I call these scripts Solution Development Prompters (SDPs). They're the end result of the SRM exercise. The entire process should take two to three days; this can vary based on the market you're addressing, of course.

How many SDPs should a company anticipate creating?

It depends on how long the targeted conversation list is. For a small, highly focused market, probably one or two. For a mid-range application, estimate between 10 to 15. For something like an ERP solution, plan on 20 to 25. Once they're developed, marketing creates and distributes them, but you need a collaborative process to refine, extend, and update them. From the sales side, we recommend personnel assigned to existing accounts take the lead here. Periodic customer surveys and analyses of quarterly results should be part of the program.

What should be the measurable results of implementing an SRM process and developing a library of SDPs?

There are several key benefits. One is dramatically shorter times for startup sales people. Typically, for an enterprise sale, most companies anticipate that a sales person will take between six months to a year to become effective in the field. The SRM process can help make a sales person effective within seven to 14 days. Another result is more consistent and accurate positioning of the product offering.

A third benefit is increased productivity from "B" and "C" sales people. Software companies are still depending on 10% of their sales force to carry 90% of the load. Back in the 90s, I worked with several firms where only 25% of sales personnel consistently made quota; your goal should be 80%. But you can't achieve that until you go through the SRM process and develop and test your SDPs. The result is a scalable knowledge base that can be pushed throughout your entire sales and marketing organization.

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Equities

The Power of the Minority

By Mark Reed, Corum Group

While minority investors can often bring much needed capital, potential sales, and management expertise to a firm, there are usually long strings attached to their participation. These investors always try to receive special treatment, most often in the form of preferred stock with various forms of protection attached. This can include interest (accrued returns on the investment amount), preferred returns (which kick in when the company is sold or merged), and the right to recover their money first (either at par or at some multiple) before the common shareholders receive any sale proceeds.

Preferred shareholders often also seek an operating presence that exceeds their ownership percentage. They may insist on greater board representation, request operational control over your firm's budgeting (the key way your company allocates its resources to its business activities), or request a veto over the sale of the company.

If a preferred shareholder tires of staying the course, they may use their control provisions to force a sale of the company in order to obtain a return on their investment. (This is more often seen with financial investors like VCs.) Regardless of whether the sale is forced or not, the minority investor will want to be financially satisfied before other shareholders see any sale proceeds. This diminishes the consideration available to common equity owners, which becomes increasingly onerous as transaction size decreases. Minority preferred shareholders may try to force a sale at a price that makes them whole, and is attractive to buyers, but leaves nothing for others.

If the minority investor is a strategic investor (such as a corporate partner), they may oppose an acquisition due to the business relationship's advantages. And even if they are willing to sell, they may not want the company sold to certain acquirers, such as direct or potential competitors. Keep in mind that minority shareholders have dissenters' rights in many states, which may enable them to further slow down or even derail an acquisition.

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

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
Codem Systems	DRS Technologies (DRS)	$29,000,000	$25,000,000	**1.16**
• *Signal intelligence systems/ network interface modules*		*Terms: Cash*		
Macromedia (MACR)	Adobe (ADBE)	$3,059,000,000	$422,120,000	**7.25**
• *Web development*		*Terms: Stock*		
Popkin Software	Telelogic AB (TGIAF.PNK)	$45,000,000	$19,100,000	**2.36**
• *Enterprise architecture tools*		*Terms: Cash*		
etalk Corporation	Autonomy(AUTNF.PK)	$93,000,000	$37,100,000	**2.51**
• *Software for contact centers*		*Terms: Cash/stock/earnout*[1]		

1. $30 MM cash, $40 MM stock, $23 MM earnout

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Copyright Protection and Maintenance

- **Alpvision** (www.alpvision.com): Publishes SignIt! Product embeds unique codes into your images that uniquely identify your original work, providing legally valid copyright protection. Removal of codes visually alters image.
- **Copyright Clearance Center** (www.copyright.com): Site allows you to instantly license usage of copyrighted articles over the Web, including delivery of content.
- **Copyscape** (www.copyscape.com): Copyscape searches for your content on the Web and enables you to determine whether it has been used with your permission.
- **Official Copyright and Trademark** (www.officialsoftware.com): Relatively inexpensive desktop software product that allows you to complete and store copyright and trademark documents.
- **LegalZoom** (www.legalzoom): Online copyright application and submission.
- **U.S. Copyright Office** (www.copyright.gov): Start research on copyrights here.

ZIF COLUMNIST PHILIP GREENSPUN on good customers for Open Source Software: "The problem with open source is that the only good customers are the Fortune 500 companies that all have an internal IT department. If you are a dollar cheaper and a day faster than their internal IT department of these various companies, you have a potential market in the billions of dollars. If your costs go up to the customer by $2 so that you're now a dollar more expensive and your delivery time goes up by two days so that you're now a day later than they can get it done internally, your potential market goes to zero." (Quoted on http://blogs.zdnet.com/BTL/index.php?p=1265&tag=nl.e539, 04/13/2005)

JOSHUA GREENBAUM OF ENTERPRISE APPLICATIONS CONSULTING on the changing nature of software licenses: "The whole notion of a software license?—and with it maintenance and service?—will be under attack as soon as service-oriented architectures and composite applications start dominating the market. Say you're a vendor that has just split CRM applications into dozens of individual Web services: What do you sell to the customer? One-off services? A collection of services tied to a unifying business process? Can you still sell a monolithic application called CRM? How do you charge? Is it a license, a subscription or a service? Do you price it by business process? Number of users? Business value? Can you charge maintenance on a service that isn't necessarily running inside the customers' firewall?" (Quoted on Web Services Pipeline, 04/12/2005)

APPLE CEO STEVE JOBS on the release of "Tiger":"I think we're leading the operating system race and others are following our taillights." (Quoted in the San Jose Mercury News, 04/25/2005)

"MAC FOR DUMMIES" AUTHOR BOB LEVITUS on Apple's removing books by publisher John Wiley in retaliation for Wiley's release of a new biography of Steve Job: "It stinks." (Quoted in MacWorld, 04/25/2005)

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