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Soft•letter
BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Wisdom of the Crowd: Building Your Software Business with Online Reviews

by Joe Dysart, Softletter

While software marketers have long been tracking the growing influence of online consumer reviews, a recent study from Opinion Research reveals the impact of these reviews has reached a tipping point. Specifically, the study found an eye-opening 83% of all online consumers responding said that the evaluations and reviews they find on the web are now influencing their purchasing decisions.

Moreover, another 32% said they had personally posted feedback or a review on the web after an experience with a product or service.

"Businesses today exist in an era in which it's nearly impossible to escape the likelihood of being evaluated—there's nowhere to hide," says Linda Shea, a senior vice president at Opinion Research, which also does national polling for CNN. "Even a single negative review, when posted in a very public forum, can have a significant impact on a prospective buyer's decision."

Michael Swan, director of marketing and communications at GoIWx (www.goiwx.com, a SaaS provider), is among the believers. His firm hosts a number of positive service testimonials on its website, and is actively searching for ways to increase review visibility in the coming months via the automated review system they've developed internally.

"In fifteen years of creating and implementing winning marketing strategies, one thing I know is that success builds success," Swan says. "Customer testimonials offer one way to convey the value you are offering from the perspective of one who is closely aligned with that potential new customer. I believe that if your customer is willing to put their time and energy into providing a testimonial for your company, and your brand—you win.

"We will be garnering more over the next year as we build out an interactive portal within our website, where a potential client may select criteria, and the interactive application will provide testimonial responses."

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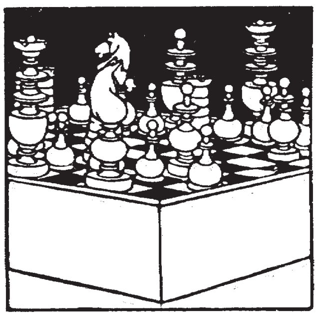

VC money flows into a product category that hasn't seen much investment for over a decade—games. See pages 4-5.

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Advisory Board

The Retail Epoch in Software Draws to a Close, Part II of II

by the Softletter Staff

To understand the issue facing software firms considering the channel, let's step through the purchasing cycle on a step by step basis. First, we'll assume a $100 SRP (yes, we know, it's really $99.99/5 but let's avoid the decimal points). The demise of the SRP (also known as the MSRP), a benchmark figure no one usually pays, has been predicted for decades but has proved too useful to discard. If you're a new company, you'll then give away 50 points or 50% of your SRP to the channel, leaving you with $50. This amount is representative of the typical margin you'll provide your distribution chain, but it can vary depending on your product, size, and market. If you're an Adobe or Microsoft, the amount of points you'll give up is closer to 25%.

Now, let's move through the chain step by step. As you enter the channel, you'll be dealing with:

The aggregator. If you're a new or smaller company, the odds are you'll not be able to sell software directly to either distributors or resellers. Instead, you will contact an aggregator such as Channel Sources Distribution Company, who will in turn move inventory into the channel on your behalf. (Larger companies can bypass aggregators in most cases.) Your aggregator will subtract 5% to 7% from your initial $50.

The distributors. Before we go further, we need to inform you that if you're a new company "selling" into distribution, they will in most cases **not take delivery of any physical inventory unless an order has been received; the distributor's traditional function of breaking bulk via buying quantities of products in advance no longer exists for most software companies.** After you're established, they will stock some limited inventory. In many cases, you will expected to drop ship orders taken by the distributor to either resellers or possibly large corporate customers who have been recognized by the distributors as resellers. You will be expected to pay all drop shipping costs. When an order from a reseller comes to you via a distributor, it will reflect the 2% to 8% the distributor has extracted from your $50.

The obvious question is why use distributors? One reason is that many resellers will insist on your product being stocked by distributors to reduce billing overhead. Another is resellers may require a dual source supply of product in the event your title is moving off retail shelves on a steady basis. In some cases, particularly if you're selling an established title, you will be able to bypass the distributors.

The resellers. Regardless of whether your product has been purchased directly from your company or via a distributor, you will now have to deal with marketing development fund fees (MDF; the term co-op is also often used). Most major retailers have raised their base MDF charges from 5% to 10%, 15% and 20% of your $50 (recently, online reseller Tiger Direct raised their MDF charges from 5% to 20% in one stroke). MDF was originally designed to support in store programs such as the placement of end caps, special signage, and in store collateral. Today, MDF is often a means to extract extra margin from resellers. If you wish to run in store promotions, you'll pay extra for **actual** MDF programs; costs will vary from an additional 5% to

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ProActive Software (www.proworkflow.com), makers of ProWorkFlow, is another heavy user of the tactic. "About 5% to 10% of new customers look for some sort of product validation from others before purchasing ProWorkflow's project management software," says Julian Stone, ProActive's CEO. "We're an unknown to them, so they need to hear that others have used us successfully. The testimonials help well in this regard."

Interestingly, the bravest of the review site pioneers—including heavyweight online retailers Amazon, eMusic and eBay—have decided to embrace reviews on their sites that are both positive and negative. Essentially, these companies buy into the Brave New Web theory that a retailer demonstrating complete "transparency" on the Internet earns the greatest respect—and the most repeat business—from today's most sophisticated online shoppers.

"Social marketing communities would seem to be natural venues for review communities, but their viral impact can be highly negative unless they're closely managed. Another problem is that these sites (particularly Facebook) tends to attract a demographic that's quick to use vocabularies loaded with words such as 'suckz' and 'Microshaft.' This type of fanboy nonsense is very repellent to many serious business users of software and tends to drive away people who use and like your software."

—Joe Dysart
Softletter

But others are hedging their bets, convinced that by posting only glowing reviews, they'll still be able to look trendy while bringing in more business to boot.

Either way, if you're looking to ride the promotional wave of the review frenzy that has seized the Web—a frenzy that could negatively impact your business with just a few, well-placed, unflattering reviews—you may want to consider creating a review domain on your Web site.

"We're currently leveraging testimonials in two ways," adds GoIWx's Swan. "The first is manually—selectively providing specific testimonials outlined in a branded PDF file format, per client as a part of the sales process. The second is having short snippets—pearls—scattered throughout our website, brochures and other marketing collateral material."

The advantage of having such a domain on site is that it can be overseen, guided and edited by you. And while these review domains cannot erase a negative review posted elsewhere on the Web, you can at least control public opinion where it matters most—on your home online, where customers do business with you.

Observes Paul Gillin, author of ***The New Influencers: A Marketer's Guide to the New Social Media***—"blogs, discussion boards and other forms of interactive media are the most cost-effective customer feedback mechanism ever invented. You won't get a representative sampling of your customers. But you will get your most passionate customers."

Fortunately, there are plenty of review service providers ready to help you create a wide array of online review communities, which can be run on the service provider's computer servers, or brought in house

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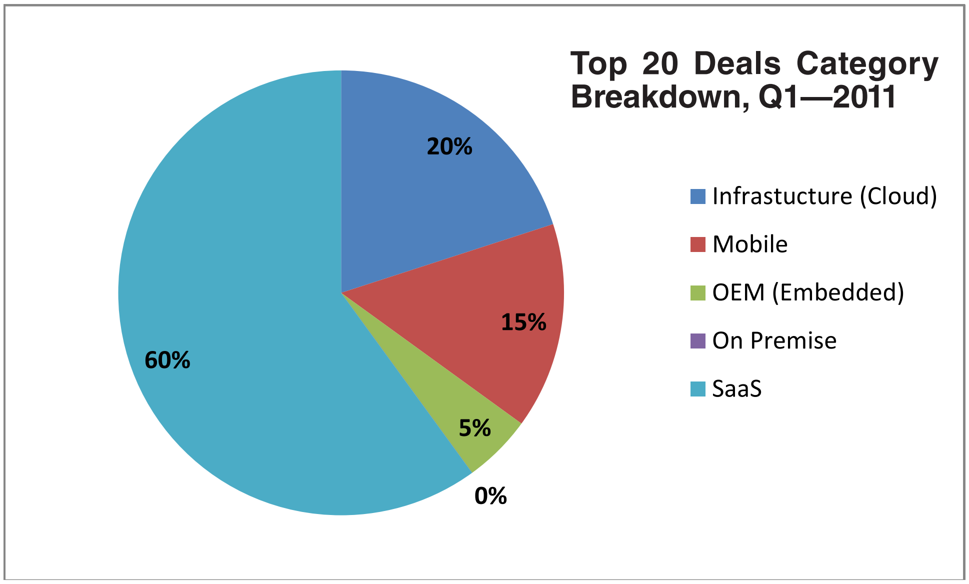

Benchmarks: Key Highlights from Software Venture Capital Investments—Q1, 2011

When analyzing the companies who received VC funding we're immediately struck by the relatively large number of entertainment and gaming companies receiving serious dollars, five, with three firms dedicated solely to mobile games (and the $40m going to OnLive is very impressive for a gaming company). Through the 80s and into the 90s there were a plethora of small and medium-sized gaming companies focused primarily on the PC platform, but by 2000 the majority of them were out of business or failing, victims of the console onslaught and increasing the costs of game production. Whereas a fun word puzzle product or addictive arcade style game such as Tetris could provide a solid living for a smaller entertainment company, by 2000 new games required production costs and marketing expenditures that rivaled (and often now surpass) those lavished on major movie productions. The overall production costs for Grand Theft Auto IV for example exceeded $100m. In 2009, the amount of revenue generated by the gaming industry (all platforms included) exceeded the movie industry's.

The mobile and tablet platforms offer gaming companies new platforms and "clean slates" in which to compete and grow. Small companies can again introduce new and clever games that don't require millions of dollars in production costs, as the success of Angry Birds, this generation's Tetris, demonstrates. Driving the point home is the news that **Farmville** publisher Znynga, creators of this generation's "The Sims," has filed for an IPO that they hope will generate $1.5b to $2b, with a potential estimated market cap of $20b. Personally, we're not sure a game that allows people to create imaginary farms and play a version of Axis and Allies online is worth quite that much money, but Zynga is currently estimated to be generating about $15m in profits per month, primarily from the sale of imaginary farm implements, real estate, fish, various sorts of animals, et al.

As noted, relatively low production costs are helping Zynga grow, but just as important is the social driver. Zynga doesn't just build games, it builds interactive customer communities that find (entertainment) value in interacting with other people through Zynga software. There is no reason that business software companies can't begin to explore the same concept of building communities in their software and seeking out related multiplier effects.

The Top 50: Software Venture Capital Investments—Q1, 2011

Company	Business Focus	Lead Investor	Investment
Appsense	Virtualization for enterprises	Goldman, Sachs & Co	$70,000,000
MedSynergies	Revenue and performance management	FTV Capital	$43,046,000
Color Labs, Inc	Web-based applications	Bain Capital, Redpoint Ventures	$40,999,900
OnLive, Inc	Cloud gaming	Undisclosed Firm	$40,000,000
2tor, Inc	Online higher education services	Bessemer, City Light Capital	$32,500,100
ObjectVideo, Inc	Video processing software	York Capital Management	$27,750,000
Nicira Networks	Transitions data centers to cloud infrastracture	Lightspeed Venture Partners	$25,900,000
Movik Networks	Multimedia software for mobile operators	North Bridge Venture Partners	$25,028,000
GrubHub, Inc	Online search engine for restaurant meal deliv.	Benchmark Capita	$20,000,000
TinyCocom	Games for mobile devices	Andreessen Horowitz	$18,110,000
ViTrue, Inc	User-created advertiser platform	Comcast Capital, Dace	$17,000,000
Boxee Inc	Social media center	Softbank Capital, Spark Capital	$16,500,000
Marin Software	Search management applications	Benchmark Capital, Crosslink Capital	$16,000,000
Scientific Cons.	Energy efficiency and optimization software	Draper Fisher Jurvetson, Westly	$15,650,000
Control4 Corp	IP-based home control and entertainment	Frazier Healthcare and Technology	$15,000,000
Aryaka Networks	Cloud-based Applications	Mohr Davidow Ventures	$15,000,000
Prolexic Tech.	Cloud-based cyber defense	Undisclosed Firm	$13,900,000
Big Switch Net	Commercializes networking technology	Index Ventures, Khosla Ventures	$13,773,000
Kony	Mobile platform and vertical market mobile	Insight Venture Partners	$13,370,000
BayNote, Inc	Search and navigation engine technology	JK&B Capital, Steamboat Ventures	$13,300,000
LOC-AID	Wireless mobile data	HIG Capital LLC, Intersouth Partners	$12,999,900
UpLogix Inc	Remote management network software	Adams Capital Management, Inc	$12,810,000
Alert Logic, Inc	IT compliance and security softwares	Covera Ventures, DFJ Mercury	$12,600,000
Damballa Inc	Bot protection software	Imlay Ventures, InterWest Partners	$12,000,100
Coupa Software	Procurement software for businesses	BlueRun Ventures, El Dorado	$12,000,000
InsideView, Inc	SaaS and marketing applications	Foundation Capital, Greenhouse	$12,000,000
Digital Chocolate	Games/applications for mobile phones	Bridgescale Partners, Intel Capital	$12,000,000
DynamicOps, Inc	Private cloud automation software	Next World Capital, Sierra Ventures	$11,298,400
Guardian Analytics	Online banking security	Foundation Capital, Sutter Hill	$11,050,000
Outbrain, Inc	Blog and RSS ratings services	Carmel Ventures, Lightspeed	$11,000,000
Path, Inc	Mobile application for mobile devices	First Round Capital, Index Ventures	$10,840,000
Mindless Dribble	Real-time group mobile communication	Khosla Ventures, Lerer Ventures	$10,600,200
Spigit, Inc	Social productivity/networking	Warburg Pincus LLC	$10,252,000
LogRhythm, Inc	Log management and analysis software	Grotech Ventures, High Country	$10,000,000
ClairMail, Inc	Mobile software	JAFCO Ventures, Norwest Venture	$10,000,000
Sprout Social	Integration with social networking sites	New Enterprise Associates, Inc	$10,000,000
Jasper Wireless	Machine-to-machine mobile operator	Sequoia Capital	$10,000,000
VisionOSS, Ltd	Unified communication service platform	Eden Ventures, Intel Capital	$9,999,900
Cooliris, Inc	Plug-ins that provide web link previews	Kleiner Perkins Caufield & Byers	$9,600,000
Apperian, Inc	Mobile application development company	CommonAngels, LaunchCapital LLC	$9,500,000
WatchDox	SaaS product for the work environment	Shasta Ventures Management LLC	$9,249,900
Bromium, Inc	Virtualization and security	Undisclosed Firm	$9,225,000
Evernote	Web information capturing technologies	Undisclosed Firm	$8,966,000
Five9, Inc	Call center	Adams Street, Partech	$8,600,000
Tier 3 LLC	Enterprise Platform-as-a-Service	Ignition Partners, Madrona	$8,500,000
SnapRetail, Inc	Software for independent retailers	Adams Capital Management, Inc	$8,009,000
Centric Software	Eenterprise applications	ABS Ventures, Oak Investment	$7,500,000
ConnectAndSell	Communication services	Institutional Venture Partners	$7,500,000
TerraSpark	Software tools	Lime Rock Partners LLC	$7,440,000
Birst, Inc	Analytical applications that process raw data	Hummer Winblad Venture Partners	$7,020,000

on your web hosting service.

Generally, these online review communities currently break out into three categories. Most popular are simple social hang-outs, which offer a review domain component. These communities borrow from the Facebook model, and attempt to offer as many community features as possible to attract a large mass of visitors.

A second breed of online review communities are completely private, invitation-only affairs. While these are generally much smaller than the public sites, many businesses have discovered there's a big pay-off when they pick-and-choose who will belong to their review community.

Meanwhile, a third genre of review community exists solely to solicit reviews from extremely happy customers. Many of these communities are driven by highly sophisticated review software packages, which walk visitors through every step of the review process and find all sorts of ways to encourage them to expound positively on your business.

"The traditional PC press is rapidly losing its reviewer influence. Through the early years of the new century, a favorable review in the pages of PC Magazine or eWeek moved your sales meter in most cases. But as these publications struggle to recreate their businesses on the web, most have sharply curtailed the amount of "ink" they dedicate to reviews."

—Joe Dysart
Softletter

Whatever method happens to work for you, one thing is certain: the ongoing rise of such gathering places is inevitable.

If you're interested in going with a Facebook clone, which includes a review domain component, you'll only be able to achieve that look and feel by offering a full array of community fostering amenities, including discussion boards, chatrooms, instant messaging, blogs, photo, audio and video posting, and similar community building services.

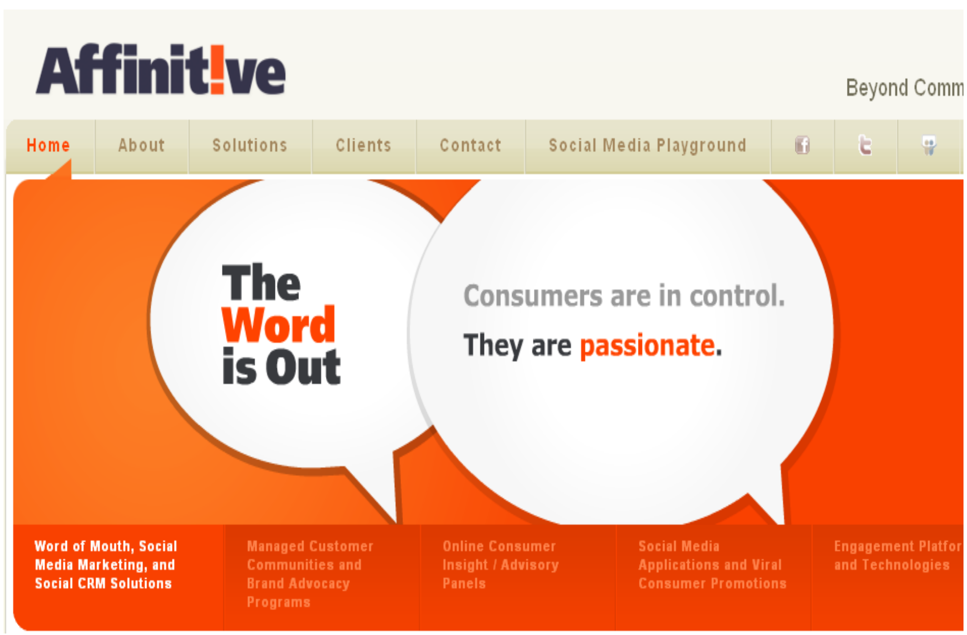

Figure: The Affinitive System Allows Software Companies to Build More Manageable Social Communities than the Facebook Option

You'll also want to jump-start the community's nerve center—the discussion board—by posting commentary on a dozen or so topics, and then encouraging visitors to offer their own reactions and opinions to the discussions you've started.

Service providers who specialize in creating Facebook-type communities include Affinitive (www.beaffinitive.com) and Capable Networks (www.capablenetworks.com).

Meanwhile, the second breed of online review communities—small, private, invitation only affairs—are the type preferred by Communispace, an online community service provider that specializes in designing and helping companies run private meeting places.

"When a few hundred members are participating on a regular basis, the quantity and quality of the content is deeper and richer than from large public sites," says Katrina Lerman, co-author of the Communispace white paper ***The Fifth P of Marketing: Participation***. "For companies that truly want to connect with their customers, smaller may in fact be better."

The third genre of industry review communities—sites that limit all activity to pubic reviewing of a company's products and services—are being used by some of the biggest names in business, including Dell, Macy's, Petco, Sears, Charles Schwab and PepsiCo.

One of the leading service providers in this space, Bazaarvoice (www.bazzarvoice.com), is a review community builder that urges

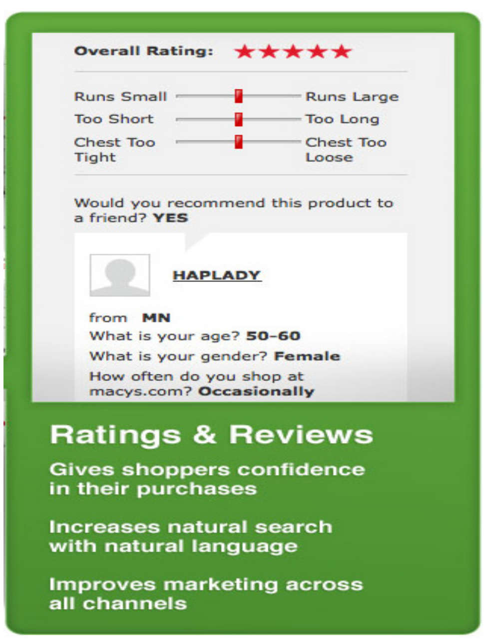

Figure: Bazaarvoice Integrates an Easy-To-Use Rating System into the Core of its System

"While the PC press has lost most of its reviewer influence, media figures such as Walt Mossberg and David Pogue still possess enormous influence. But many observers believe that these figures may be the last of their generation, as Gen X and Y are rapidly moving to online sources of information and specific communities to provide them with buying advice."

—Joe Dysart
Softletter

businesses to go the transparency route. Its flagship product, the “Ratings & Reviews” module, is designed to solicit unvarnished reviews about your business’ performance, which are published on the company’s website—although still subject to company approval.

If you’re still a bit skittish about the concept of publishing bad reviews about your business on your own Web site, you’ll probably be more interested in a solution like Genuosity’s (www.kudosworks.com) KudosWorks. Essentially, this is a glowing-testimonials-only approach, through which extremely enthusiastic customers offer accolade-filled write-ups on a software publisher.

“It should be noted that most of the new review systems being introduced into the market are based on SaaS/Cloud systems. Script-based forum and community builders are never regarded as ‘key’ internal IT assets and companies who install server-based community systems often find these systems are neglected or not regularly updated and maintained.”

—Joe Dysart Softletter

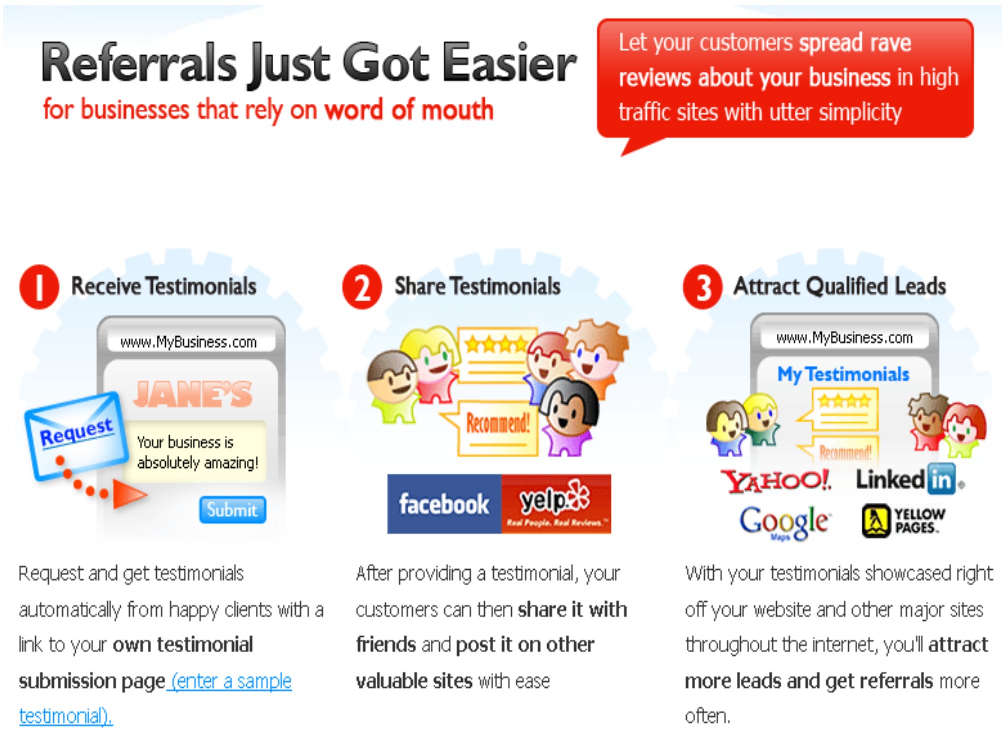

Figure: The Genuosity System is Designed to Concentrate and Frame Product and Service Testimonials

Genuosity solicits the testimonials with contact tools it places on your website, as well as in marketing E-mails. Customers who respond are directed to a “post-your-own-testimonial” module, which includes tips on how to write a humdinger of a fan letter about your business. Another service provider offering the keep-it-positive route is Zuberance (www.zuberance.com).

If you’re not ready for any of these choices, but still want to monitor what’s being said about your business on review sites, blogs, and the like, there are plenty of monitoring companies that can provide that kind of business intelligence. But software companies, particularly those in the SaaS space, are rapidly learning that their most important marketing and sales asset is an engaged and active

20% of extra margin, on average (count on the 20%). The table below provides a simplified but realistic glimpse into how the channel steadily whittles away your product revenue.

Manufacturer's representatives (MRs). MRs primarily sell product into the channel and you'll need them if you're small; they also help plan promotions, influence your placement on store shelves, and so forth. Their fees kick in after aggregator and distributors take their cut and range from 5% to 7%. Assume a median of 5%.

MSRP $100	**Channel Sell-In Price $50**	**Margin Base**	**Margin Amount**
Aggregator	4%	4% (of $45)	$1.90
Distributor	5%	5% (of $50)	$2.50
Resellers "MDF"	20%	20% (of $50)	$10.00
Reseller Additional MDF	20%	20% (of $50)	$10.00
Manufacturing Cost	$2 to $3 per unit	NA	$3.00
MR	5%	5% (of $35)	$1.75
Admin Overhead (RMA, shipping, etc)	.5% to 1%	NA	$1.00
		Net Channel Overhead	**$30.15**

Given the above numbers, why even consider using shelfware channels? There are several:

- Shelves still make excellent advertising (Microsoft, which plans to expand its retail presence, thinks so). While over the next several years their impact will lessen, many people still find out about new products by seeing them and reading about them in stores. Also, the presence of a product on a store shelf provides an implicit endorsement of quality and viability that online stores can't yet match. A current example of this is IGG, which publishes iBank, the leading Mac alternative to Quicken. When Apple, in a bid to boost its online Mac App store cut the number of in store titles sold at its retail locations by 75% (and "double faced" remaining titles such as Microsoft Office). iBank didn't make the cut and promptly saw its initial overall sales decline by 50% overnight (fortunately, the company was able to rebuild sales via online outlets; many Mac publishers were not so lucky and unfortunately for them, the handful of other major outlets for Mac software provide space for perhaps 50 titles).

- You can, with the right product at the right time, generate incremental income. Your ability to do this will be determined by your ability to leverage your market share and product popularity to fight off the channel's drain on your bottom line.

- Paradoxically, for the right product, it's actually a bit easier to get on retail shelves through the aggregators and the right resellers as the number of candidates vying for the open slots has decreased. Previously, product run rates of $1m were expected before the channel would consider a product; $250k is now the new threshold. But resellers are also moving to a model where a title appears on shelves for a limited "rollout" period, then disappears till the next release. Expect this window of opportunity to disappear over the next three to five years.

SaaS

Best Practices in SaaS Customer Service, Part I of III

by the Softletter Staff

The SaaS business model requires a different approach to customer service and support. For enterprise class, on-premise software, support is normally bundled into a service and maintenance contract, but the model is inevitably shaped by the realities of the situation. In a licensed model, a program will be installed on hardware and expected to work in a customized environment over which the software provider has no control and incomplete knowledge of the operating parameters. It is no surprise that in many cases, internal IT at a company provides the bulk of technical support for a customer.

SaaS is different. The operating environment is under complete control of the vendor. Customers are naturally concentrated into a single working environment which is managed by the software provider. This dynamic drives the need for SaaS companies to provide levels of support and assistance that are far more comprehensive and responsive than those seen in on premise and desktop applications. While not as easy as claimed, it often **is** easier for customers to move on to other service providers if they're unhappy, and if resubscription churn rates drop to 90%, maintaining profitability and revenue growth becomes almost impossible. Let's discuss how SaaS companies can best structure and provide the white glove customer service the model demands.

Structuring Your Customer Service Department

In addition to the typical technical support and training personnel found in many software service organizations, increasing numbers of SaaS firm are adding a new title to their customer service departments—customer success specialists (in the **2010 Softletter SaaS Report**, over 40% of SaaS companies indicated they had added this title to their support org charts). These personnel are charged with proactively initiating contact with new customers after they subscribe to your system to help them learn and interact with your system as soon as they've been provisioned in their application. The probability that a customer will not resubscribe to your application **rises 50% if they've not used the application within 90 days after the initial subscription.** Typical contact vehicles include personalized E-mail, phone calls, invitations to web-based training courses, surveys and invites to participate in SaaS community of customer events and programs. Integration with a CRM or appropriate marketing support system is critical to mapping out the best processes and workflows to optimize this process.

In addition to encouraging users to get the most out of their applications, many SaaS companies assign cross-, up-sell, and resubscription programs to their CSS teams. This approach can be very effective because these reps learn a great deal about their customer during the outreach and training campaigns. Many SaaS companies are finding that salesreps with a more technical bent make good customer success specialists as they possess social skills as well as a nose for revenue that fits well with a CSS profile. In terms of workloads, ***Softletter's*** research indicates a well run SaaS support department can typically assign 40 to 60 customers to each CSS representative.

Legal

Collecting Vat on SaaS: What Rules Apply?

Michael Whitener, VistaLaw International

For most of us, the tax man has already come and done his damage for the tax year, taking his allotted pound of flesh from our personal and/or corporate accounts. So with memory of that pain still fresh, it may be worthwhile to look at how a specific type of tax—the value-added tax (VAT)—applies to sales of Software as a Service.

In an earlier column, we looked at the impact of U.S. sales taxes on software transactions, including delivery of SaaS. We saw that this area is very murky, but that an increasing number of states are reaching for additional revenue by determining that SaaS is taxable as software, rather than nontaxable as a service. Even so, if a SaaS provider is out of state, the US Constitution requires that the taxing state prove a "nexus," or sufficient connection, with the state before taxes can be assessed.

VAT is different. First of all, it's helpful to understand the distinction between VAT (sometimes also referred to as a "goods and services tax") and a sales tax. A sales tax is levied on consumers based upon the total value of goods and services purchased. In my state of residence of Maryland, for instance, the sales tax on most goods is 6%. A VAT is also a tax on consumer items, but it is levied on producers rather than consumers. At each step in the production process, producers pay a tax on the products they make. The biggest distinction between the two is that a sales tax is a direct tax, whereas VAT is indirect. As a result, a sales tax is obvious, in that it appears as a separate line on a receipt. VAT is less transparent, in that the VAT is wrapped up in the product's purchase price, so it is harder for consumers to tell what portion of the prices they pay are due to taxes.

On a global basis, VAT is very popular with politicians as it provides a revenue gusher into government coffers that's hard to track directly (a sales tax is far more in your face and its impact on your pocketbook is immediately felt). More than 130 countries around the world impose VAT on sales transactions. The United States has resisted joining this throng. President Obama did propose a national VAT last year, but he met with strong resistance from Congress (and many economists) who didn't feel that adding a national 15% to 20% surcharge on purchases combined with the federal income tax as well as state income and sales taxes would do the economy much good.

One thing that VAT has in common with sales tax is that VAT was not developed with SaaS in mind. So understanding how VAT applies in the SaaS context can be devilishly difficult.

To simplify matters, let's take a specific situation. Let's say you're a American SaaS vendor providing services to customers in European Union member countries where VAT is imposed and see how the VAT rules will apply.

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First, you should know that, if you're doing business in Europe, your sales are potentially subject to the VAT. Unlike in most US states, there is no general exception for the sale of software services, and there is no requirement for a nexus with Europe other than the existence of a customer there.

Second, you have to look at how SaaS is defined for VAT purposes. SaaS falls under the VAT rules regarding "electronically supplied services."

Third, you have to consider whether your customers are (1) private European consumers or (2) a VAT-registered business. Let's look at the two cases.

1. Customers are private European consumers or non-business organizations: You wil be subject to EU VAT rules implemented in 2003, which means that, in most instances, you will be liable for charging EU VAT on the invoices to your European customers. (The 2003 rules were aimed at "leveling the playing field" between EU based software service providers, who had to collect VAT from their customers, and their US competitors.) It will be necessary for your company to:

    - Register for VAT in one of the European countries (fortunately, EU rules do not require registration in every country where you're doing business).

    - Assess (charge) VAT on all of the invoices to the private consumers located in the EU countries. The VAT rate will differ by country, but generally range from 15% to 25%. For example, for UK customers it will be 20%, for German customers it will be 19%, and for French customers it will be 19.6%.

2. Customers are VAT-registered businesses: You're in luck—in this case, you're not required to charge VAT or obtain a VAT registration.

If you are required to obtain a VAT registration, it's not a costly or time-consuming process, but there are compliance costs of keeping VAT records and filing VAT returns. On the plus side, registration allows you to get refunds of any VAT paid on purchases and imports, because businesses are supposed to be tax collectors, not tax payers.

The 2003 rules do offer non-EU businesses the option of registering electronically in a single Member State of their choice and accounting for VAT on their SaaS sales to all EU consumers on a single quarterly electronic VAT declaration that provides details of VAT due in each Member State. This declaration is submitted with payment to the tax administration in the Member State of registration and that State then distributes the VAT to the Member States where the services were delivered.

There can be heavy penalties in the EU for getting the tax rules wrong and failing to collect VAT as required, so be sure you get competent tax advice from an EU-experienced tax expert if you're doing business in Europe. (Required disclaimer: Don't rely upon this short article, which is not intended as, and should not be taken as, legal advice regarding VAT.)

If you're a SaaS firm in Europe looking to do business in the US, VAT can offer your bottom line some unique challenges. For European SaaS companies, recent changes in EU tax regulations make things even more interesting then they normally are. If, for example, you're an Irish SaaS firm you are not, in theory, required to collect VAT from a US-based firm, unless the US firm has a physical presence in Ireland (i.e. a business unit, subsidiary, division, etc.). However, in theory, you are expected to gather tax ID information from the US business.

The table below provides a quick guideline to how the rules currently apply; (visit www.revenue.ie/en/tax/vat/leaflets/place-of-supply-of-services.html for more information on the topic):

SaaS Company Country	SaaS Subscriber Country	Customer Type	Place of Subscription	Entity Liable to Collect Irish VAT
Ireland	Other EU State	B2B	Other EU State	No Irish VAT collected
Ireland	Other EU State	B2C	Ireland	Irish VAT collected by SaaS firm
Ireland	Outside EU	B2B	Non-EU State	No Irish VAT*
Ireland	Outside EU	B2C	Depends on the nature of the SaaS service**	Irish VAT collected by SaaS firm

* While a non-EU state doesn't have to collect VAT, it does have to obtain a valid tax ID number from its international customer base. The odds that small or medium-sized US firms will provide this information to company outside the US are about zero.
** The list of B2C industries exempted from Irish VAT include telecomm, advertising, salt (yes, salt), IP property protection, and "electronically supplied" services.

I'll close by mentioning another angle on SaaS and VAT—namely, that business accounting solutions offered via SaaS, such as Netsuite's, can respond quickly when there are changes to VAT, such as when the UK government cut its VAT by 2.5% (from 17.5% to 15%) to stimulate business during the financial crisis, and then jacked the VAT up to 20% when it decided that the financial crisis was over.

Netsuite was able to change its software to address the change in VAT overnight. Customers of on-premise software had to wait for a patch to be installed. Netsuite trumpeted this advantage in press releases, noting that its customers doing business in the UK "will continue to enjoy full business systems compliance with the upcoming changes in the VAT without lifting a finger."

Nice to see some good for the SaaS industry coming out of revised tax laws for a change!

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Reputation Mangement Resources

- **BlogSquirrel** (www.cyberalert.com/blogmonitoring.html): Site provides a service that searches blogs for references to your products/services. Free trial available.
- **Dow Jones Insight** (www.dowjones.com/product-djinsight.asp): Web analytics service that claims to track posts from 1.5m articles in 23 languages. Includes a media monitor, custom research, etc.
- **Nielsen** (http://nielsen.com/us/en/measurement/online-measurement.html): Venerable ratings service offers a wide variety of online measurement services.
- **Position2** (www.position2.com): Offers brand monitoring and other online services; trials available.
- **WebClipping** (www.webclipping.com): Media tracking system that includes a clipping service, market analysis, etc.

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