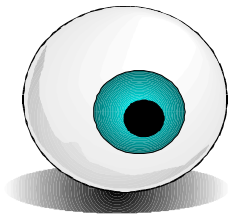


Endangered Environments

by Merrill R. (Rick) Chapman



Read our Google Impact Survey to discover how ISVs are using Google promotional systems
See pages 4-5.

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Since the introduction of the original IBM PC I have never bought a fully configured Intel-derived computer; I've always bought either stripped units or component parts and configured or built my own systems. I do this because a) I enjoy it (sort of), b) to save money (not really anymore), c) to learn about how new hardware is configured and to understand the interaction between boxes and software, and d) to give myself the best chance to move my files and programs over to the new system with a minimum of agony and loss.

I have recently built a new system and am in the process of moving my current hard drive contents over to the new box but have been stymied to date in my attempts to do so. The image management system I've been using, TrueImage, allows me to create images of my partitions and transfer these to my new computer; however, because of a puzzling interaction between BootMagic, a boot manager product from the former PowerQuest (bought by Symantec) and TrueImage, I've been unsuccessful to date. Attempts to bring the new system to life end up in error messages and complaints about corrupt or lost files.

Eventually I'll figure it all out and bring the new PC to life; in the meantime, I estimate I've blown more than 12 wrestling with the problem, an amount of time that has already cost me more than the cost of the new computer system (my time have value).

I do have an alternative to what I'm doing, one that's been suggested by several computing experts. I could take "advantage" of the situation to simply do a clean "reinstall" of my Windows system, on the theory that after several years of use, all Windows' installations become "gunked up" and sluggish because of performance and safety degradation (an odd concept when you consider that software can't rust or decay).

The only problem with this idea is that by doing so, I will destroy the most valuable computer asset I own, my working "environment." The idea of throwing away four years of accumulated tweaking and alteration of my virtual workbench throws me into the same kind of cold sweat felt by those who

(continued on page three)

Avoiding Purchasing Pitfalls

by Jeff Thull, Prime Resource Group

Traditionally, software vendors have regarded purchasing departments as mere speedbumps on the road to a close. But in today's environment for selling enterprise software, companies are discovering this can be a serious mistake. Recently, one software company we were working with thought they had closed a major deal that included software, maintenance, and professional services. The contract was passed to the company's purchasing for what everyone thought would be a routine inspection.

The inspection proved anything but routine. The purchasing department, noting that the sale's contract terms were above the medians it tracked for sales of similar items in the areas of rates per day for programming and maintenance percentages, asked enough questions to delay moving to a signing for a month; if the sales' ROI hadn't been carefully recorded, the deal would have been delayed even further and could have collapsed altogether.

This experience points up the changing role of purchasing in many software negotiations in the post-bubble world. Increasingly, a purchasing department's role in the software buying cycle is to protect buyers from sellers; a role that gained increasing importance in the wake of the billions of dollars of shelfware purchased during the 1996-2001 era. (In my experience, while some purchasing departments have attempted to aggrandize their importance under the "strategic outsourcing" rubric, few departments actually are allowed to influence strategic purchases during the evaluation cycle.) But while purchasing is rarely involved in making technical evaluations and opportunity assessments, in many cases, this is often no longer an important factor in the sales cycle. For example, many companies are now using their fourth or fifth generation of accounting software; few technical innovations or opportunity questions exist. The same is increasingly true of other markets, including CRM, ERP, database, and similar well-established categories. Purchasing groups will usually inspect all contract terms involving such products armed with well-established averages and medians for programming, maintenance, training, and upgrades. Step outside these numbers and your contract will often trigger alarm bells.

Staying within established medians is one way to avoid having a purchasing department slow a sale, but if during the evaluation process you've established the value and fairness of the solution you're offering, it's not the optimum approach. Instead, first establish early in the sales cycle if purchasing will have role in the buying decision and what that role will be. Document meticulously the diagnostic evaluation you've made of the customer's situation, problem, and goals. Be prepared to show, in as concrete a form as possible, how the product/services package you're selling is justified in terms of payback and ROI. In the case of the company above, they fashioned what they referred to as a "value simulator" based on technology from Lucidus (www.lucidus.co.uk). The simulator incorporated, cost, and "value created" variables, was highly transparent, and was open to analysis by the purchasing group and all involved in the decision cycle. It enabled the company to show the client week by week the cost of not implementing the software system; this led to the purchasing group withdrawing its objections to the contract.

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lost their Day-Timers on innumerable trains, taxis, cars, and airplanes during the 80s and early 90s. My computing environment is more than a workspace; in an increasingly real sense, it's my "life."

It's also extremely valuable. In 1981, the cost of a fully loaded IBM PC, with all the associated accessories and software you needed to be productive, ranged between \$4K to \$8K (and could easily go higher). That amount of money bought you a car back then. Today, a highly functional PC with equivalent accessories and software costs you about \$500 to \$800 (adjusted for inflation, that's about \$300 to \$600 in 1981 dollars). That buys you a set of tires for your car. Laptops prices are also plummeting rapidly, with mid-level units now costing between \$700 to \$1K, on average.

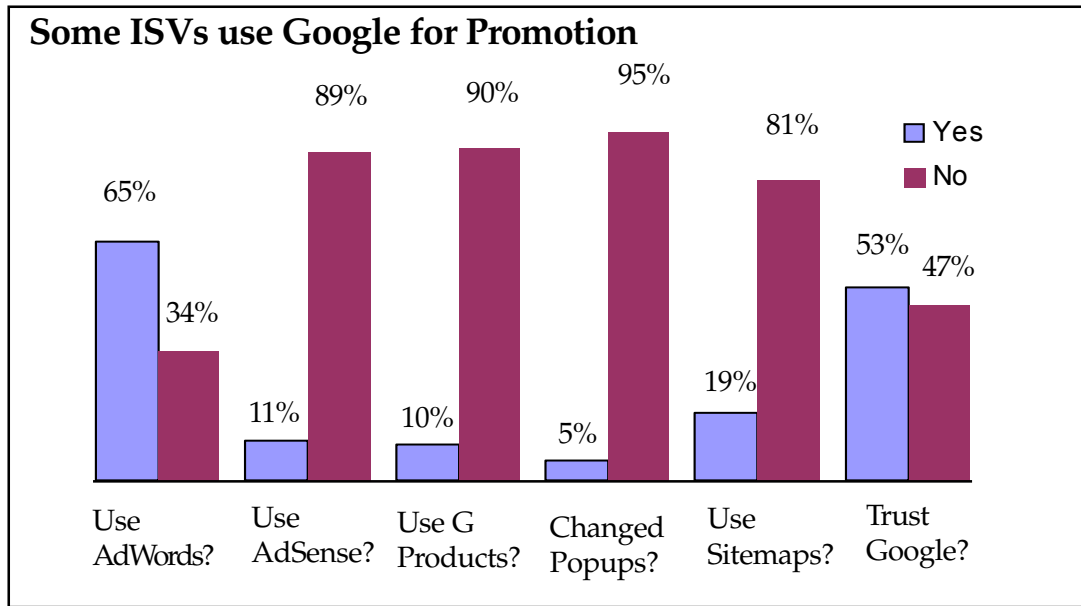
But what is the time cost of replacing your computing environment? First, let's define what that environment comprises. It will include:

- Your applications.
- Your files (documents, music, data, etc).
- Your hardware settings.
- Hardware BIOS settings.
- All DRM (digital rights management) protection that has been applied to copy-protected products such as Windows and Office.
- Fixes to Windows, Office, and all other applications you have installed.
- Your Internet bookmarks, cookies, saved passwords, etc.
- The organization of your desktop.
- Custom configurations you may have applied to your system, including color choices, task bar arrangement, registry tweaks, integrated service shut offs, etc., etc.
- All data that drives applications; for instance, lists of keywords and phrases that drive a macro program, Skype addresses, AIM custom-configured buddy lists, and so on.
- Images and backups of your data.
- And anything else I've neglected to think of.

What do you estimate the cost of replicating all this would be, assuming you do a ground-up rebuild of your system? And just how do you propose to do the build up? I'm not aware of any tool that allows you to inventory and track all the myriad adjustments and changes you can and do make to a workspace you've *(continued on page six)*

"In contrast with your work environment, the cost of hardware is negligible and becoming more so; while software is more expensive, its cost has also dropped steadily over the years (don't forget to factor in inflation and functionality when doing your calculations)."

*—Rick Chapman
Softletter*



Google Survey Part I: Google for Promotion

This survey attracted more respondents (152) than any recent survey, and had a very low percentage of invalid forms submitted. Clearly Google is a hot topic.

Google offers new software and search products (most of them free) as rapidly as it adds new employees, and is having a strong impact in advertising and print publishing as well. In search world, the Library of Congress is curtailing some of its cataloging procedures as it expects Google to take up the slack. The company's 2005 revenues were \$6.1 billion, an increase of 92% over 2004; net income from operations was \$2 billion in 2005, more than double the net income from 2004. Current market cap is \$112 billion, and the P/E of 65 attests to the great value the market finds in the company.

Google is a moving target; its \$600 million (2005) research budget and \$8 billion in cash support its growth not only as an advertising power, but as a growing media company, buying up dark fiber, wiring up cities with WiFi, and offering free online collaborative word processing (Writely).

Softletter wanted to find out how ISVs are reacting to Google, and we began by asking questions about their use of Google for promotions.

1. Does your company buy Google AdWords?

Yes: 65.13% No: 34.87%

Bidding on AdWords is the most basic and popular way to tie into Google promotions, and likewise popular among our respondents. Google not only ranks the paid search results on the basis of how much advertisers paid for an AdWord, but also on the popularity of each advertiser based on click throughs. This combination insures more relevant ad results and more revenue for Google.

2. Does your company's Web site use Google AdSense to display Google ads?

Yes: 10.60% No: 89.40%

Far fewer responding ISVs are allowing Google to put ads on their Web sites, even though the ads are paid. Perhaps they do not realize that they are allowed to block competitors' ads. Nevertheless, as in the next question, there is a small group that has made the plunge.

3. Does your company use Google Products (<http://www.google.com/options/>) to promote its own products?

Yes: 9.87% No: 90.13%

At only 10%, this is presumably a band of pioneers exploring the many opportunities to tie Web services into Google search by using a simple XML API. Among the many examples would be your linking to maps to guide visitors to your business (a mobile API is also available). Another product is Subscribed Links; it lets you write a gadget that delivers your service so that the user can put it on his personalized Google home page. An obvious use would be to deliver some subset of your full software product's functionality.

4. Has Google's anti-pop-up capability in their Toolbar caused any change in the way you advertise?

Yes: 5.26% No: 94.74%

Only a small percentage of ISVs seem to have been involved in using pop-ups for advertising. The most interesting software pop-ups of course are those advertising pop-up blocking utilities. Most users by now have figured out that their browsers will block pop-ups, and need not depend on the Google Toolbar to do it for them.

5. Does your company's Web site use Google Sitemaps to help Google point to site information?

Yes: 18.54% No: 81.46%

Sitemaps is a means of sending a catalog of Web site pages to Google for inclusion in its searches, and is intended to index dynamic pages that would otherwise be unavailable to the Google spiders, as well as to instantly notify Google when a page has changed. The information can be sent as a text file listing the pages, although Google prefers an XML format and provides a free tool to generate such a report. In the tradition of Google mashups, there are numerous free third-party software offerings that support Sitemaps.

Considering the usefulness and lack of drawbacks to this program, it is surprising to see that more ISVs are not using it.

6. Are you comfortable with the potential for Google to collect information from the machines on which it runs, and potentially report it back to Google.com?

Yes: 52.63% No: 47.37%

Here we tap into the rich vein of caution that surrounds Google. Part of it is generated by Google's size, rate of growth, and metastasis into so many activities, but behind it all is the fact that Google is accumulating staggering amounts of data. While Google truthfully states that for many of its products no personally-identifiable data is collected, it is also true that the Google cookie is the constant identifier for all the services. At some point the user may add a service requiring personal information (such as Gmail or Orkut), and the cookie and all the information it points to will then be related to an identifiable user.

“The next release of Windows, Vista, does not provide for easy migration of environments and thus fails to protect its prospective customers’ most expensive asset. And telling people to throw away thousands of dollars because Windows ‘decays’ is rapidly becoming an untenable strategy.”

—Rick Chapman
Softletter

“A major appeal of SaaS is that it promises, in theory, to provide anytime, anywhere access to a stable and slowly changing environment which cannot simply collapse and disappear. But SaaS does not presently offer the integration and functionality to fulfill this promise.”

—Rick Chapman
Softletter

developed over the years. Furthermore, how many of you have kept track of all the serial numbers, passwords, and configuration data you’ll need to reinstall and reconfigure your various programs and access the various websites important to your business and work requirements?

There are programs that purport to make this process easier; I’ve used several, and they all have severe restrictions. Some of these products barely, or don’t, work (as I’m finding). Most, of course, don’t deal with files; that’s the responsibility of backup. None, so far as I can tell, quite know what to do about DRM. There are some standards groups which are looking at the problem, most notably U3 (www.u3.com), a portable computing environment standard being pushed by companies such as SanDisk. I think they’re heading in the right direction for the Windows world, but it’s too early to know how effective their standard will be and even U3 doesn’t have an answer for DRM.

I sat down and estimated that complete reinstall and reconstruction of my current computing system would take approximately 60 man hours (this counts the time required to locate all applications, locate all documents associated with the applications, request lost documents and configuration information, physically reinstall them, then test and “debug” the new environment to try to discover what I’ve missed and which products no longer work). Since I’ve had to create “from scratch environments” over 25 times over the years, this number is not based simply on supposition, but on hard-won personal experience.

Let’s assume you’re a working professional who bills out their time at \$50 dollars per hour, with 50 man hours needed for a complete rebuild (generous estimates). That means the replacement cost of your environment is \$2500; that’s not counting lost opportunity expenses you may incur as you attempt to reconstruct a lost or corrupted environment. I’ve spoken to professionals who peg the value of their environment at far higher levels; one attorney I spoke estimated the cost of rebuilding her environment from scratch to be \$20K+. And the costs of your environment are steadily rising; after all, most of us are not relying less on computing power and Internet access to do business, but more. Increasingly, more customers are going to expect that their personalized computing environments are permanent and valuable investments which will “die” only when they do (and maybe not even then).

Despite this, many practices in the software industry, such as the reintroduction of copy protection under the DRM umbrella, make computing environments more fragile and easily damaged or lost. This places customers and companies at cross purposes to each other and presents major problems for the next release of Windows, Office, and other platforms. For the most part, these products are very insensitive to the value of an environment; worse, their greater complexity combined with DRM makes them increasingly unable to be “fixed” in case of a problem. Conversely, major opportunities exist for products and services that can harden, protect, and guarantee the survival of a user’s most valuable computing asset.

“Earnouts are Useless.” A Deal Structure Myth?

By Mark Reed, Corum Group

If you're selling your company, an earnout could be your best friend or your worst enemy; it's the structure of the transaction that will determine which scenario applies. Buyers are always wary of giving sellers all cash; this protects them from finding out after the deal closes that the anticipated ROI goals can't be met. By being flexible on transaction structure, the seller can maximize the total deal value. If a buyer won't pay the price a seller wants all in cash and all at closing, then an earnout might be the best way to bridge the valuation gap and get the deal done. But whether the seller ever realizes any payment under an earnout depends on how the earnout is negotiated.

Here are key points to remember when negotiating an earnout:

First, make sure the dollar amount paid at closing meets your minimum requirements; if the deal falls short of that minimum amount, then don't go to contract till you've reached that point.

Second, make sure the earnout is achievable after closing. Payments under an earnout structure are usually tied to performance targets, so the definition of those targets is critical. It's not effective to tie your earnout consideration to a target that is outside your control. It's also not a good idea to tie the earnout to a metric where the seller's and buyer's interests are not well aligned. For example, a buyer might circumvent a profit-based earnout by allocating corporate G&A costs into the seller's P&L. Or impose a hiring freeze that makes it difficult to meet agreed upon sales goals.

Third, determine what commitments you need the buyer to make in order for the earnout to be achievable. Negotiate for these to be included **within** the definition of the earnout. For example, do you need a certain marketing and sales budget to hit future revenue objectives?

Fourth, identify reasonable decisions a buyer might make in the future that could jeopardize your ability to achieve the earnout. A buyer might decide to re-focus on its core business and then sell the product line on which your earnout depends. Negotiate terms that protect you from such eventualities.

Mark S. 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
eps Electronic Payment Systems • <i>Electronic payments</i>	Trans. Sys. Architects (TSAI)	\$36,400,000 <i>Terms: Cash and stock</i>	\$16,000,000	2.28
SSA Global Technologies (SSAG) • <i>ESP provider</i>	Info Global Solutions	\$1,360,000,000 <i>Terms: Cash</i>	\$732,700,000	1.86
WebHencer • <i>Website measurement</i>	Microsoft (MSFT)	\$10,000,000 <i>Terms: Cash</i>	\$4,800,000	2.08
Franchise Gator • <i>Digital marketing</i>	aQuantive (AQNT)	\$21,500,000 <i>Terms: Cash</i>	\$7,500,000	2.87

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- **Proposal Kit** (www.proposalkit.com): Site offers a series of pre-formatted proposal kits formatted and with graphics; templates are broken into different industries.
- **Quotewerks** (www.quotewerks.com): Adds proposal management to Act!, Goldmine, Salesforce.com, SalesLogix and other contact managers. Links to the Ingram Micro, Merisel, and Tech Data offline pricing databases.
- **RFP** (www.santa.com): Publishes both proposal and RFP management software products.

BLOGGER JOHN CARROL ON EVIL MICROSOFT: “The fact of the matter is that large vendors of personal computers are really large vendors of WINDOWS personal computers who have chosen to achieve economics of scale by standardizing on the provision of systems that meet the needs of 95% of potential customers. These are customers who have no real desire to offer systems with alternative operating systems, which makes restrictions designed to ensure they have this choice about as effective as offering a version of Windows with Media Player (but not the media pipeline, on the request of Real Networks) stripped out.” (Quoted on <http://blogs.zdnet.com/carroll/?p=1566&tag=nl.e539,05/16/2006>)

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Subscription rates: \$395 worldwide. Subscription office: United Communications Group, 11300 Rockville Pike, #1100, Rockville, Md. 20852-3030; tel 301/287-2718 866/313-0973 customer@softletter.com

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WRITER MATTHEW STEWART ON THE USEFULNESS ON MANAGEMENT THEORY: “What they don’t seem to teach you in business school is that the “five forces” and “the seven Cs” and every other generic framework for problem solving are heuristics; they can lead you to solutions, but they cannot make you think. Case studies may provide an effective way to think business problems through, but the point is rather lost if students come away imagining that you can go home once you’ve put all of your eggs into a two-by-two growth-share matrix.” (Quoted in *The Atlantic, The Management Myth*, 06/2006)

COLUMNIST STEVEN VAUGHAN ON WIKIS: “Wikis are just another in a long, long line of tools designed to help people produce useful work that end up not being all that useful to most people. Deal with it.” (Quoted in *eWeek*, 05/22/2006)

BLOGGER PETER O’KELLEY ON GOOGLE’S BROWSER WORRIES: “...if Google is worried about people dumping it for MSN Search because it’s not worth the extra effort to click twice in IE7 to change the default search setting, perhaps Google fears it really does have a one-click brand loyalty problem.” (Quoted on <http://pbokelly.blogspot.com/2006/05/new-microsoft-browser-raises-googles.html>, 05/01/2006)