Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Our R&D survey indicates that the industry recovery is restoring the slashed development budgets of a few years ago See pages 4-5.

Softletter Case Study: Training Your Resellers to Sell

One constant that has reverberated throughout software for the last twenty five years is the failure of software publishers to help ensure that their channel partners are able to sell. ISVs offer resellers and distributors plenty of technical and operations training but surprisingly few offer programs that train reseller personnel on modern sales techniques and methodologies. In the past, we've been involved in programs that teach resellers how to sell and the results, without exception, have been excellent. Despite this, it's been rare in our experience to find a software company that makes an ongoing commitment to improving the sales skills of its channel. (In all fairness, this isn't always the fault of the publisher, particularly when dealing with the larger distributors, who, despite providing plenty of lip service about becoming "solution sellers," really want to remain box pushers in the secret places in their hearts.)

Thus, when Ben Zoldan, principal of Broad Integration, a CustomerCentric affiliate, described the work he's been doing in providing sales training to resellers on behalf of two of his ISV clients, we wanted to know more. We think the program he describes serves as a model for many publishers who want to transform their channel into an effective selling force.

Ben, who were the companies for whom you provided reseller sales training and what drove their decision to start these programs?

I worked with two companies: Tridium, and a division of Siemens Building Technologies. Tridium is in the facilities management space; their principal product is the Niagara Framework, a software system that integrates diverse systems and devices into a unified platform that can be easily managed and controlled in real time over the Internet. Siemens is an OEM customer of Tridium and uses Niagara. Siemens has about 100 resellers; Tridium approximately a third of that. The division at Siemens is about $40M in revenue.

What drove the decision was simple; in the case of both companies, 100% of sales comes through their channels. Neither has a direct sales force. In both cases, the 80/20 rule was applying (actually, closer to 90/10) in term of channel sales performance. Both companies would see a substantial increase in their bottom line revenues if they could increase their channel's skill set. They both offered various levels of technical training but neither had ever tried to

Make Conferences Work for Lead Generation

by Marie Warner, Warner Sales Architecture

Conferences and seminars can be rich hunting grounds in lead generation for software companies. In fact, senior executives indicated that they are twice as likely to respond to a sales contact at an off-site meeting than a direct sales phone call. (Source: Survey by the Kenan-Flagler Business School, University of North Carolina). Yet many companies attend these events and leave without making a single new contact. The following "Targeted Networking" techniques will help you build contacts at the highest level, with the senior executives who speak at these events.

Suppose you are attending an industry roundtable of Chief Technology Officers. One CTO, John Smith, is from Acme Internet Security, a top prospect your sales group has been unable to reach. How do you speak to John? You won't be seated with him during lunch, and after the roundtable he may be swamped by other attendees.

Don't get lost in that crush. Speakers typically arrive 30 minutes in advance, are greeted by the event sponsor, and are left relatively alone. Use this opportunity to approach the 'targeted' executive to introduce yourself and your company. Do not expect to have a comprehensive discussion of your firm's capabilities. Your objective is to get agreement that the executive will speak with you at a future time. You should:

- Introduce yourself and your company. Shake hands.
- Highlight the topic of the roundtable and the executive's company. Ask a relevant (but not complex) question. Have a **brief** dialogue.
- Suggest a valid reason to have a future discussion with you. Relate the reason to the topic you just highlighted and/or question you raised.
- Close with the proposed action. Give your card, repeat your name. Get his/her card and/or administrative assistant name.

Example: "Hello, John. I'm Marie Warner from XYZ Software. I look forward to your comments on security in software releases. Will you be addressing how Acme plans to address security in the roll-out of your new 'T-Shot' offering?"

John responds.

"That's very interesting. A concern I frequently hear from IT executives is frequent system crashes caused by conflicts introduced in product releases. XYZ Software has helped other security vendors build conflict testing into their software. I would like to share some ideas with you on how we did that, but now isn't the time. I'll call you later this week to speak. Here's my card—Marie Warner. What is the best day to reach you? Shall I call your administrative assistant to set a time?" Very few executives will rebuff you, and the stage is set for a productive conversation.

After the roundtable, John will remember your conversation only briefly, so make that call within 48 hours. Once you have John on the phone, be prepared to engage in diagnostics to learn his priorities. These may or may not be your "reason" to call as expressed at the conference.

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train their channel on solution selling and SRM, sales ready messaging. In Tridium's case, the company's CEO had made a commitment to his board to grow top-line revenue by 30% percent, but the numbers before we began training didn't indicate they were going to reach that goal.

Please describe how you started the process.

We began by first developing a methodology for measuring their resellers. This consisted of grading them along two axes, commitment and competence, divided into four quadrants. The amount of product they sold was factored into the equation, but the real point of the program was to increase the selling skills of the lower performing partners.

In terms of commitment, each reseller was assigned points for their willingness to attend sales training (obviously), willingness to execute key aspects of the training, for example, creating the Solution Development Prompters (or vertical scripts) that underlie the process of getting ready to prospect and develop customers, willingness to participate in joint sales calls, ability to resell into a customer base, etc. Competence considered such points as their sales readiness (some of these companies' resellers did have good sales forces in place), technical skills, service skills, etc.

What did the actual program consist of? Who paid for the training?

The resellers paid; the cost was approximately $1800 per person. The program consisted of a three-day sales training based on the CustomerCentric SRM methodology. (Editor's note: For a more complete look at SRM, please refer to the April 30, 2005 issue of *Softletter*.) Once we'd developed SRMs specifically designed for selling the ISV's offerings, we used them to teach the attendees how to locate potential buyers in targeted markets who are not yet looking for a software solution; help curious buyers become interested enough in their offerings to share a goal; and ask directed questions to help their buyers understand how if they had the ISV's product, they could achieve their stated goals, solve problems or satisfy needs.
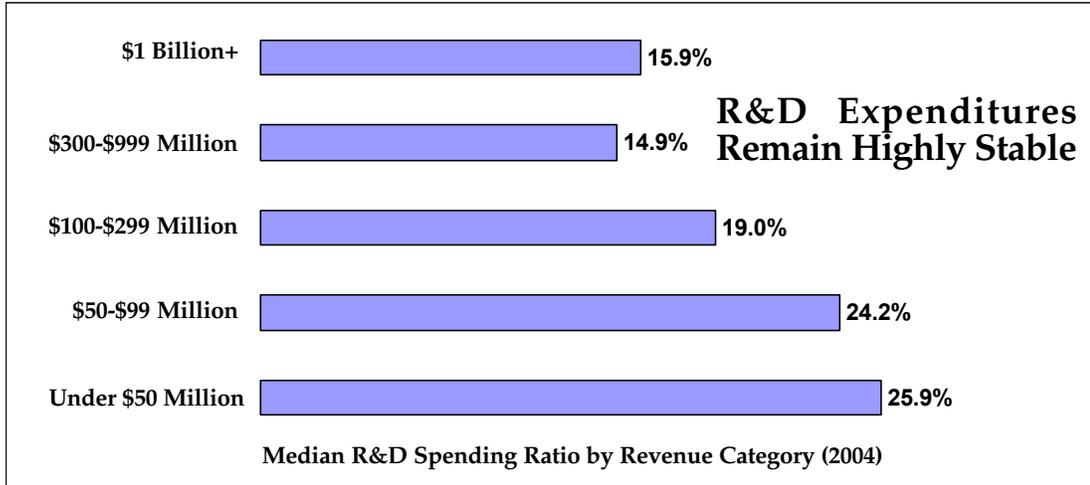
There were seven role plays throughout the three days, with each company's channel managers serving as facilitators and group leaders throughout the sessions; the breakdown of channel managers to attendees was three to one. During the first two nights of the training the attendees were separated into case study teams and asked to develop their own SRM scripts and tools, based on their knowledge of their particular markets.

What were some of the key challenges you faced in implementing the program?

There were several. One of the most important was changing the attitude of each company's channel

> **"The result of the quadrant approach to measuring the channel was to create a four quadrant matrix in which each reseller was placed. This created a highly visual view of the quality of the resellers and their relative strengths and weaknesses, both individually and as a group."**
>
> *—Ben Zoldan*
> *Broad Integration*

Revenue Category	R&D Spending Ratio
$1 Billion+	15.9%
$300-$999 Million	14.9%
$100-$299 Million	19.0%
$50-$99 Million	24.2%
Under $50 Million	25.9%

R&D Expenditures Remain Highly Stable

Median R&D Spending Ratio by Revenue Category (2004)

Benchmarks: Research & Development

Benchmark 50 public software companies held to a median 20%, the same three-year figure as last year's R&D ratio report. Larger companies continued to spend a higher proportion of their money on R&D than smaller companies. If we average all the companies for which we have complete data, we see a steady 20% / 19%/ 19% for the 2002-2004 period. But the overall average without Microsoft is a more revealing 16% /16% /23%, indicating that the industry recovery is restoring the slashed R&D.

Large companies continue to spend proportionately more on R&D than small companies; the difference is not innovation so much as maintenance of software.

The seven market segments studied vary between 13-17% by segment, weighted as they are by smaller firms, but within the segments themselves there are wide variations. Internet Applications varied from 5% to 30%, but the 5% belongs to the largest firm, VeriSign, showing that this company is powered by a business model rather than a technology. Without VeriSign the ratios range from 21-30%.

In Network Tools the range is 12-35%, with Citrix and Tarantella holding low and high positions. Although Tarantella (once called Santa Cruz Operation, and recently acquired by Sun) spent a third of its revenues on R&D, the much smaller revenue fraction spent by Citrix during this period amounted to 12 to 20 times the dollars spent by Tarantella, who could not continue to compete head-on.

The widest variation in R&D ratios is in Education, varying from 4% to 55%. This segment includes not only ISVs offering software for educational institutions and companies, but education companies developing or purchasing software to run their services.

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 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: Research & Development

| | Revenues (000) | | | Research & Development | | | Avg. |
	2002	2003	2004	2002	2003	2004	'02-'04
Microsoft	$28,365,000	$32,187,000	$36,835,000	**22%**	**20%**	**21%**	**21.3%**
Desktop Applications	$614,172	$758,191	$959,137	**17%**	**17%**	**16%**	**16.8%**
Intuit	$1,312,228	$1,650,743	$1,867,663	15%	15%	15%	15%
Macromedia	$336,913	$369,786	$436,168	27%	25%	23%	25%
Adobe	$1,164,788	$1,294,749	$1,666,581	21%	21%	19%	20%
Symantec	$1,406,946	$1,870,129	$2,582,849	14%	13%	13%	13%
IMSI (Int'l Microcomputer)	$8,484	$8,095	$11,985	18%	17%	21%	19%
Scansoft	$62,717	$106,619	$135,399	22%	26%	25%	24%
Smith Micro	$7,131	$7,216	$13,316	30%	35%	19%	28%
Vertical Market Applications	$253,030	$294,811	$363,076	**18%**	**17%**	**15%**	**16.6%**
Autodesk	$824,945	$951,643	$1,233,767	23%	22%	19%	21%
Moldflow	$35,088	$36,625	$48,673	18%	15%	13%	15%
Ansys	$91,011	$113,535	$134,539	22%	21%	20%	21%
Advent	$159,436	$137,159	$149,990	25%	25%	22%	24%
Dendrite	$225,756	$321,107	$399,197	5%	4%	2%	4%
MapInfo	$92,598	$106,255	$124,673	21%	19%	17%	19%
Kronos	$342,377	$397,355	$450,694	11%	10%	10%	10%
Enterprise Applications	$194,580	$235,538	$322,937	**15%**	**15%**	**15%**	**15.1%**
Concur	$45,097	$56,737	$56,550	24%	18%	16%	19%
Manhattan Associates	$175,721	$196,814	$214,919	12%	14%	13%	13%
ServiceWare Technologies	$10,158	$11,511	$12,502	29%	17%	18%	21%
Mercury Interactive	$400,122	$506,473	$685,547	11%	11%	11%	11%
Witness Systems	$67,686	$108,037	$141,335	22%	17%	15%	18%
SPSS	$208,480	$208,367	$224,074	20%	21%	21%	21%
Business Objects	$454,799	$560,825	$925,631	16%	17%	16%	17%
Internet Applications	$284,140	$270,841	$299,977	**12%**	**13%**	**13%**	**12.7%**
Cryptologic	$91,011	$113,535	$134,539	22%	21%	20%	21%
RealNetworks	$182,679	$202,377	$266,719	26%	23%	19%	23%
NetIQ	$278,239	$310,224	$261,645	22%	23%	26%	24%
VeriSign	$1,221,668	$1,054,780	$1,166,455	4%	5%	6%	5%
Ultimate Software Group	$55,149	$60,416	$72,028	32%	30%	25%	29%
Centra	$33,400	$43,041	$38,064	36%	27%	26%	30%
Interwoven	$126,832	$111,512	$160,388	21%	22%	19%	21%
Network Tools	$402,467	$390,440	$418,601	**15%**	**16%**	**16%**	**15.8%**
Citrix Systems	$527,448	$588,625	$741,157	13%	11%	12%	12%
McAfee (Network Associates)	$1,043,044	$936,336	$910,542	14%	17%	19%	17%
Tarantella	$14,220	$14,006	$12,488	40%	31%	35%	35%
Novell	$1,134,320	$1,105,496	$1,165,917	15%	17%	17%	16%
Spescom Software	$6,970	$7,362	$9,002	26%	20%	15%	21%
Tumbleweed	$25,525	$30,595	$43,438	39%	30%	27%	32%
NetManage	$65,740	$50,663	$47,666	20%	16%	15%	17%
Developer Tools	$347,157	$368,727	$401,200	**16%**	**16%**	**16%**	**16.0%**
Raining Data	$21,006	$22,297	$21,483	31%	34%	35%	33%
Pervasive Software	$37,197	$39,205	$49,608	19%	20%	20%	20%
Progress Software	$273,123	$309,060	$362,662	15%	16%	17%	16%
Borland Software	$244,579	$295,236	$309,548	24%	25%	22%	24%
Sybase	$829,861	$778,062	$788,536	14%	15%	15%	15%
Red Hat	$90,275	$124,737	$196,466	24%	20%	16%	20%
BEA Systems	$934,058	$1,012,492	$1,080,094	14%	14%	14%	14%
**Education	$64,298	$46,601	$54,329	**22%**	**14%**	**12%**	**16.3%**
Renaissance Learning	$131,232	$130,544	$114,048	13%	13%	15%	14%
Apollo Group	$1,009,455	$1,339,517	$1,798,423	NA	NA	NA	NA
Saba Software	$55,648	$44,416	$34,471	55%	59%	52%	55%
*American Education Corp.	$8,483	$8,599	$10,400		17%	15%	16%
Docent	$29,011	$27,792	$30,238	40%	40%	31%	37%
Plato Learning	$74,391	$82,192	$141,801	5%	3%	4%	4%
Click2Learn	$31,209	$30,477	$29,487	28%	27%	22%	0%
All companies				**19.6%**	**18.6%**	**18.5%**	**18.9%**

Note: "Years" may not correspond to company fiscal years. An "*" indicates figure is amortized software costs. A "**" indicates segment average based only on firms with complete information.

managers; prior to the training, they thought of themselves mainly as product pushers. (This was also true of marketing at both companies by the way; we had to work with these groups to persuade them to reorient their collateral and websites from typical features/benefits approaches to a more targeted SRM approach.) That's why the managers served as coaches and mentors during the training sessions; the goal was to reorient their thinking and encourage them to regard their resellers as "their" sales force.

What were the types of resellers who attended? The best performers? What percentage of the ISVs' resellers attended the sessions?

In the case of both companies, about 10% of their resellers attended the first sales training sessions. No, not their best; most of the companies were mid-level performers or newer partners. That actually aligned with the point of the training; your best performers typically are going to need sales training the least, though if you don't put your entire channel through your reselling program you run the risk of a splintered message being delivered to the market. But an important note to keep in mind is that if you don't require your channel to go through sales training as part of the initial authorization process you're going to have a hard time requiring it after the fact; many resellers are going to look on the program as a way to extract more money from them.

What did these companies do to reinforce the sales training programs after they were completed?

Siemens developed an aggressive program to move tier-three resellers ($0 - $100K) to tier-two status ($200k-$499k) and their tier-two resellers to tier three (>$500k). Each channel managers was told to pick four to six resellers from their quadrant charts and move at least three either from tier one to tier two or from tier two to tier three, recruit an additional six resellers for upcoming sales training courses, increase sales per reseller by 20% for the second half of 2005, and target an additional 20 to 24 resellers to work with on further business development.

In terms of compensation incentives, Tridium altered their salary package to support the new program. Prior to the new reseller training program, their channel managers were salaried with a bonus structure of about 10%. They've now moved to a plan where 60% of a channel manager's salary is a base with the rest of their compensation tied to their resellers' performance.

What were the results of the training?

In the case of Siemens, they increased their pipeline for new potential resellers by 300%, one of their primary goals. It's early for final numbers, but some of the initial reports by participants show up to a 50% reduction in their sales cycles. Joint sales calls increased by over 100%. Tridium saw the largest revenue spike in the company's history: 31%. An interesting point I'd like to make is the evaluation process led to Tridium decreasing the number of direct resellers by approximately 20%; they achieved their goals by increasing the productivity of their remaining resellers. Tridium's revenue per sales person also increased to $1.35M from approximately $900K before training.

A final note is that Siemens now requires new resellers to undergo sales training as part of the authorization process.

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The Ten Worst Things You Can Do When Selling Your Software Company, Part II of II

By Mark S. Reed, Corum Group

6. Talk too much. Instead, listen as much as you talk. Ask the buyer questions about why they are interested in your company and how you fit their strategy. You'll gain valuable insights that can strengthen your negotiating position and obtain a better understanding about the buyer as a prospective workplace for your employees. Record in writing key points you've discussed with the buyer; a quick E-mail documenting a conversation can be critical in supporting later negotiations.

7. Let your ego run wild. At its core, negotiating is adversarial; don't permit your emotions to drive your judgement. Know your "deal bedrock" and take the time to explain your position to the buyer. If negotiations begin to break down, refocus the buyer on the deal's key business reasons and leave a way back to the bargaining table before you walk away. Always remember that you must balance risks and rewards and decide what risk level you find acceptable.

8. Take your eye off the ball. If business performance suffers because of lack of management focus during the M&A process you provide the buyer with the opportunity to drive your price down or even walk away from the deal.

9. Be unprepared for due diligence. Get organized for the buyer's due-diligence investigation long before it actually happens. Deliver clear, complete and organized due diligence binders quickly. Manage the delivery of bad news carefully and early in the process; don't hide it and surprise the buyer.

10. Refuse to stand behind your company. Expect the buyer to ask for reasonable representations and warranties. Negotiating the reps, warranties, and indemnification is often far more difficult than negotiating price and they are key contributors to failed transactions.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
Aspect Communications (ASPT)	Concerto Software	$781,100,000	$369,600,000	**2.11**
• *Call center products and services*		*Terms: All cash tender*		
GHR Systems	Metavante	$65,000,000	$36,900,000	**1.76**
• *Loan origination solutions*		*Terms: $55M stock/$10M cash*		
SeeBeyond Technology (SBYN)	Sun (SUNW)	$314,000,000	$166,700,000	**1.88**
• *Business integration software*		*Terms: All cash*		
DST Innovis/DST Interactivex (DST)	Amdocs (DOX)	$237,800,000	$183,000,000	**1.30**
• *Customer service/billing for broadband, cable & satellite tv*		*Terms: All cash*		

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MERGERS & ACQUISITIONS

ZDNET BLOGGER DAN FARBER ON CHANGES IN THE BALANCE OF POWER IN THE SOFTWARE INDUSTRY: "No single company or CEO is going dictate the future direction of the industry. Just look at how community development and the open source movement have impacted the IT industry. It hasn't so much shifted the balance of power, but it catalyzes a shift away from proprietary to open platforms. At least two of the triad have adopted the open source mantra, and even Microsoft is beginning to show some open source skin." (Quoted on http://blogs.zdnet.com/BTL/?p=1570, 07/01/2005)

COMPUTERWORLD REPORTER FRANK HAYES ON THE RECENT SUPREME COURT RULING ON P2P NETWORKS: "The Supreme Court said explicitly that file-sharing technology isn't, in itself, illegal. Even if it *is* used to infringe copyrights. To put the court's point simply: Technology doesn't infringe copyrights. People infringe copyrights.

And in the cases of Grokster and Morpheus, the court said the people who created those particular file-sharing networks were so egregious in advertising their support for illegally trading copyrighted material that they could be sued for contributing to that piracy. What about the file-sharing technology itself? Not a problem, said the justices. In fact, the court's unanimous opinion starts talking about the benefits and legal uses of point-to-point networks on its very first page." (Quoted in Computerworld, 07/04/2005)

THE CEOS OF ALCATEL, ERICSSON, NOKIA, PHILIPS AND SIEMENS ON EUROPEAN SOFTWARE PATENTS: "As the leaders of these companies, we strongly believe in the need to ensure a balanced legal framework to ensure that Europe remains a competitive region for high value R&D. A key element in this respect is the legal framework for patents for computer implemented inventions." (Quoted in InformationWeek, 07/04/2005)