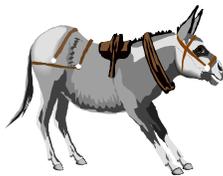


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# Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

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*Our latest look at G&A  
costs reveal they're highly  
resistant to reduction  
See pages 4-5.*

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## Agents: A Different Partnering Approach

*by Rick Vieth, Amazon Consulting*

*Agent: one empowered to act for or represent another. Of all the partner types in a software vendor's go-to-market strategy, an agent partnership is perhaps the most subtle yet powerful and economically valuable relationships available. Even in companies where traditional partnerships are established and effective, agents can often reach customers or perform sales and marketing duties that previously would have fallen outside the scope or bandwidth of existing direct sales or partner teams.*

The primary differentiator between agents and traditional reseller partners lies in their representation of the vendor's product. Agents are frequently resellers or integration houses. Unlike some other partners, agents never represent an ISV's product as their own, nor do they resell the ISV's product. Furthermore, the ISV's product is typically not positioned as the agent's core competency, but rather as a complement to the agent's own offering. The benefit of this model is that the agent's sales influence is every bit as powerful as another type of reseller, but their impact on pricing is much lower than other partner types.

An agent's compensation is highly structured, predictable, consistent, and generally lower than that of other partners. This allows the ISV to maintain a more stable price for its product and also results in simpler administration of agent programs.

There are certain types of companies who are best suited to serve as agent partners. Likely candidates are resellers or development and/or integration specialists who serve the SMB market and whose business focus is different from but complementary to the vendor's. These firms are usually small, focus on a core competency and are looking for additional revenue sources that don't require a large commitment of their own resources. Their revenues usually come from services rather than products, and they don't sell enough volume with most product lines to compete against discount value-added channels.

Agent candidates typically also stay current on all technologies that touch their customers and are typically viewed as trusted advisors by 80% of their customers, who, in turn, provide 80% of their business. They have good account management

*(continued on page three)*

## Tips for Increasing Software Maintenance Renewals

By Paul Robinson, License Technologies Group

The January 31st issue of *Softletter* reports that profit margins on service in software are 60%+, a strong argument in favor of ensuring your software maintenance renewals are as high as possible. To boost your renewal rates, we have several field-tested techniques you should consider incorporating into your sales efforts. These include:

- **Communicate broadly when sending out renewal notices.** You can't rely on a single point of contact when reaching the right person to sign the renewal check/PO. The right person can sometimes be in IT, a software purchasing department, contract renewal specialist, etc. Plan on sending your maintenance renewal materials to several people when the cycle kicks in. In addition to querying your direct sales force and leveraging existing contacts to identify new contacts, consider establishing a web portal for customers where they can provide appropriate contact information.
- **Create a software renewal "mileage statement."** This document should be professionally laid out, ideally be four color, and contain two main sections. The first section should contain a complete history of their maintenance purchase, including the quantity, original order date, original PO numbers, descriptions of service and similar line item details. If your company addresses vertical markets, your documents should use language and provide information germane to that customer.

The second section should contain complete part number/SKU and quantity information the customer will need to reorder their maintenance "product." Your design should highlight this information. This is particularly important during the renewal process because SKU/part numbers will be different from those of products. Your goal is to take as much work as possible out of the process of renewing for the person administering the purchase decision; you also want to make it easy, in many cases, for your customers to purchase maintenance from the reseller of their choice. Remember that providing clear SKU information makes it easier for your resellers to sell renewals as they tend to be very parts oriented.

- **Plan on beginning the renewal cycle 90 days** out from the expiration date and be ready to continue the cycle 60, and 30 days out. For enterprise-class products, 120 days out is probably not too soon; use your judgement and account knowledge.
- **Use your maintenance communications as an opportunity to cross- and up-sell** other products and services. Including trialware links/offers or CDs (still) in your renewal pieces has been a very effective tactic for companies in the desktop, storage and security markets. For enterprise products, consider offering opportunities to test drive new module or upgrades that integrate directly with the core product.
- **Automate the service renewal process for smaller accounts via the Internet.** Depending on our market/product, service renewal sales under \$X dollars may not appeal to your channel; once you've determined the "magic" threshold, communicate directly with customers and push them towards an Internet renewal service. If you're channel friendly, you may want to rebate back a "finders fee" or bounty to the reseller of record: 3% to 10% of the sale are typical rates.

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practices and insist on maintaining account control with annuity customers. When acting as agents, these firms usually prefer not to write the proposal or provide anything other than budgetary pricing to the customer. They typically earn less than \$10M annually and function on thin lines of credit. The incentives they receive as agents, such as market development funds, sales performance incentive funds, and finder's fees, are very valuable, and, in some cases, these revenues can make the difference between a profitable and an unprofitable month.

## Lead Referrals

Lead referral is the simplest and most common function of an agent. In this role, the agent discovers a lead for the vendor, usually in the course of doing business with the agent's customer base, and passes it directly to the vendor with no further sales support. In this model, the agent doesn't offer or specialize in the vendor's product and their effort on behalf of the ISV is minimal. Upon closure of the deal, the vendor pays the agent either a predetermined finder's fee or a percentage of the sale. In addition to the obvious financial motivation, the agent is also able to improve its own customer service by providing the customer with information or recommendations for solutions that it doesn't provide.

The benefits of this function for the vendor are obvious. For virtually no effort and a relatively small and predictable amount, the vendor receives a well-qualified lead. What's more, when the agent recommends the vendor's product to its customer, the chances are good that the customer will follow the recommendation because the agent has trusted advisor status in the account. Perhaps the greatest benefit of the lead referral agent is that the ISV receives a lead that it would probably never have discovered otherwise.

For example, solution providers that sell, install, and support small CRM products frequently encounter customers with a need for wireless infrastructure and services. When the solution provider calls the issue to the customer's attention, the customer typically asks, "Can you take care of that problem for me?" The solution provider replies, "No, that's out of my business focus, but I can introduce you to one of the best in the business." The likelihood that customer will take their solution provider's referral seriously is very high. Agents typically expect to receive a referral fee of between 8% to 10% of the cost of the product sale portion of the total deal; a minimal program will provide at least \$100 for a "warm" lead. If finders' fees are not provided within a six month period, the program will quickly become moribund.

## Lead Development

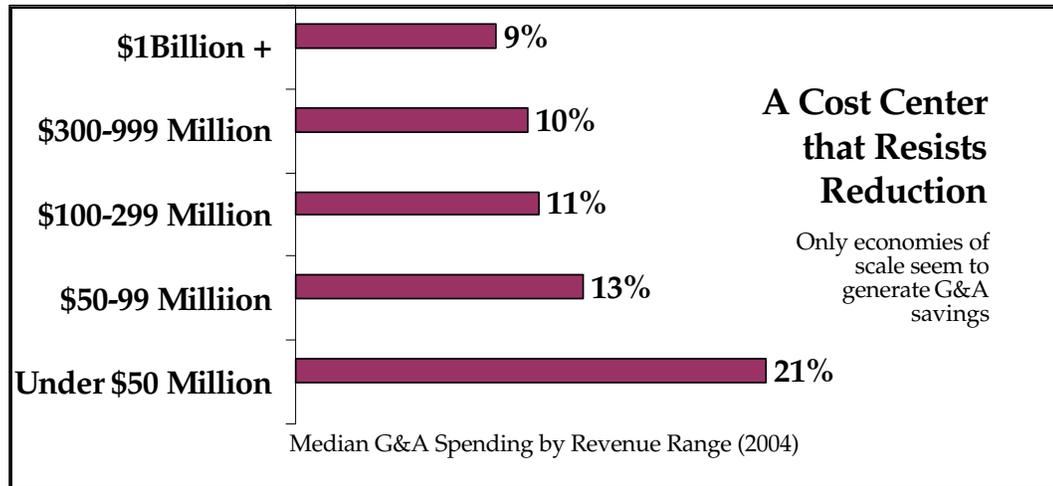
The next step up the ladder is lead development. In this model, the vendor provides the agent with unqualified leads or opportunities they simply don't have the bandwidth, budget or the inroads to pursue themselves. The agent's job is then to develop lead. The goal is to first see if a real opportunity exists and if so, *(continued on page six)*

**"To recruit agents, look at your target customer market, analyze how they are buying complementary solutions, and contact these providers."**

—Rick Vieth  
Amazon Consulting

**"A good deal registration system can help an ISV develop an effective agent registration program."**

—Rick Vieth  
Amazon Consulting



### Benchmarks: General & Administrative Costs

Unlike R&D costs, which supposedly reward investment with competitive new products, and S&M costs, which should be related fairly directly to revenue, G&A costs stubbornly refuse to go away (and resist reduction). And although they do have a linear relationship with revenue, that relationship is inverse with the size of the firm.

Because they are so tied to fixed costs (rent, insurance, accounting), they are difficult to pare when sales decline. The best way to reduce their bite of net revenue is to grow that revenue.

The table on the next page shows for each of the Benchmark 50 firms the percentage of net revenue consumed by G&A costs for each of three years, and the three-year average for that firm. The median percentage figure for each software segment is given for the individual three years, and for the three-year period.

Some firms (marked with an asterisk) combine G&A with S&M in their financial reports; their figures are entered in the table, but are not used in computing the segment medians or the all-companies median.

If we look all the way back to 2000, G&A costs for the Benchmark 50 have remained stubbornly around 13%. The variability among individual firms can be quite large: from lows of about 5% for Symantec and Apollo Group (despite the latter company's being in the high-cost Education segment) to 46% and 50% (both in Education). While some companies as expected shrink their G&A ratio as revenues rise (MapInfo, Tumbleweed, Autodesk), and McAfee shows an increasing ratio as its revenues decline, Mercury Interactive is unable to shrink the ratio despite significant revenue growth.

*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: General & Administrative

Individual firms are averages; segments are medians

	Revenues ('000)			General & Administrative			Avg. '02-'04
	2002	2003	2004	2002	2003	2004	
<b>Microsoft</b>	\$28,365,000	\$32,187,000	\$36,835,000	6%	8%	14%	9.2%
<b>Desktop Applications</b>				10%	10%	10%	9.7%
Intuit	\$1,312,228	\$1,650,743	\$1,867,663	8%	9%	10%	9.0%
Macromedia	\$336,913	\$369,786	\$436,168	11%	10%	10%	10.3%
Adobe	\$1,164,788	\$1,294,749	\$1,666,581	9%	9%	8%	9.0%
Symantec	\$1,406,946	\$1,870,129	\$2,582,849	5%	5%	4%	4.9%
IMSI (Int'l Microcomputer)	\$8,484	\$8,095	\$11,985	42%	36%	33%	36.7%
*Scansoft	\$62,717	\$106,619	\$135,399	40%	41%	48%	43.2%
Smith Micro	\$7,131	\$7,216	\$13,316	33%	32%	22%	29.1%
<b>Vertical Market Applications</b>				11%	11%	11%	11.0%
Autodesk	\$824,945	\$951,643	\$1,233,767	10%	10%	8%	9.2%
Moldflow	\$35,088	\$36,625	\$48,673	19%	20%	18%	18.8%
Ansys	\$91,011	\$113,535	\$134,539	11%	11%	11%	11.0%
Advent	\$159,436	\$137,159	\$149,990	13%	17%	18%	15.9%
*Dendrite	\$225,756	\$321,107	\$399,197	34%	34%	33%	33.6%
MapInfo	\$92,598	\$106,255	\$124,673	15%	14%	12%	13.8%
Kronos	\$342,377	\$397,355	\$450,694	6%	7%	7%	6.6%
<b>Enterprise Applications</b>				10%	10%	12%	10.8%
Concur	\$45,097	\$56,737	\$56,550	15%	12%	13%	13.3%
Manhattan Associates	\$175,721	\$196,814	\$214,919	12%	12%	13%	12.2%
ServiceWare Technologies	\$10,158	\$11,511	\$12,502	29%	18%	19%	22.3%
Mercury Interactive	\$400,122	\$506,473	\$685,547	8%	8%	8%	8.1%
*Witness Systems	\$67,686	\$108,037	\$141,335	60%	56%	46%	53.8%
SPSS	\$208,480	\$208,367	\$224,074	8%	9%	11%	9.3%
Business Objects	\$454,799	\$560,825	\$925,631	6%	8%	9%	7.8%
<b>Internet Applications</b>				12%	11%	10%	11.0%
CryptoLogic	\$34,427	\$42,211	\$63,714	17%	12%	9%	13.0%
RealNetworks	\$182,679	\$202,377	\$266,719	11%	10%	12%	11.0%
NetIQ	\$278,239	\$310,224	\$261,645	7%	8%	10%	8.3%
VeriSign	\$1,221,668	\$1,054,780	\$1,166,455	14%	16%	14%	14.7%
Ultimate Software Group	\$55,149	\$60,416	\$72,028	12%	10%	9%	10.6%
Centra	\$33,400	\$43,041	\$38,064	24%	23%	23%	23.2%
Interwoven	\$126,832	\$111,512	\$160,388	11%	11%	8%	10.0%
<b>Network Tools</b>				17%	17%	15%	16.0%
Citrix Systems	\$527,448	\$588,625	\$741,157	17%	15%	14%	15.3%
McAfee (Network Associates)	\$1,043,044	\$936,336	\$910,542	11%	14%	15%	13.6%
*Tarentella	\$14,220	\$14,006	\$12,488	138%	113%	149%	133.0%
Novell	\$1,134,320	\$1,105,496	\$1,165,917	11%	10%	9%	9.9%
Spescom Software	\$6,970	\$7,362	\$9,002	26%	19%	22%	22.3%
Tumbleweed	\$25,525	\$30,595	\$43,438	18%	20%	12%	16.8%
NetManage	\$65,740	\$50,663	\$47,666	19%	23%	19%	20.2%
<b>Developer Tools</b>				13%	12%	11%	11.6%
Raining Data	\$21,006	\$22,297	\$21,483	21%	17%	17%	18.5%
Pervasive Software	\$37,197	\$39,205	\$49,608	14%	12%	11%	12.5%
Progress Software	\$273,123	\$309,060	\$362,662	11%	11%	11%	10.8%
*Borland Software	\$244,579	\$295,236	\$309,548	51%	58%	54%	54.3%
Sybase	\$829,861	\$778,062	\$788,536	10%	11%	11%	10.6%
Red Hat	\$90,275	\$124,737	\$196,466	17%	15%	16%	16.0%
BEA Systems	\$934,058	\$1,012,492	\$1,080,094	8%	8%	8%	8.1%
<b>Education</b>				21%	20%	14%	19.7%
Renaissance Learning	\$131,232	\$130,544	\$114,048	11%	10%	11%	10.8%
Apollo Group	\$1,009,455	\$1,339,517	\$1,798,423	6%	5%	5%	5.2%
Saba Software	\$55,648	\$44,416	\$34,471	12%	15%	13%	13.2%
American Education Corp.	\$8,483	\$8,599	\$10,400	36%	28%	28%	46.0%
Docent	\$29,011	\$27,792	\$30,238	45%	21%	20%	28.9%
Plato Learning	\$74,391	\$82,192	\$141,801	71%	66%	14%	50.2%
Click2Learn	\$31,209	\$30,477	\$29,487	21%	20%	19%	19.7%
<b>All companies (median)</b>				12.3%	12.2%	12.0%	12.5%

Note: "Years" may not correspond to company fiscal years. An asterisk indicates companies that report combined S&M and G&A costs.

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to advocate the vendor's solution. This may involve the agent providing marketing services such as telemarketing, direct mail, or web seminars as well as sales support such as product demonstrations. If enough interest is generated, the agent then continues to promote the vendor's product during the sales cycle by answering product questions and, perhaps, even doing a demo. Once the customer is close to a final decision, the customer purchases directly from the vendor for fulfillment.

In this scenario, upon closure of the deal, the agent would receive a percentage of the amount of the product sale (typically 10-13%) in addition to the revenue from the sale of its own services. The ISV, in turn, receives product revenue and gains a customer which, without the agent, it would never have closed.

### **Demand Creation**

The most significant function agents can accomplish is demand creation. In this role, an agent seeks out leads for the vendor's product and then provides marketing and/or sales support to develop those leads. This is most often done in situations where the vendor's product is a component of the overall solution the agent is designing for its customer.

This model has been used successfully by large phone carriers looking to increase the sale of Internet services. For example, telecom carriers, such as SBC, are competent at performing fulfillment functions such as configuring and provisioning service lines, processing orders, installing equipment, and billing. They are not as adept, however, at identifying and penetrating new businesses.

When a new business starts up, its primary contact and point of influence is a network solution provider who will architect the company's overall network. Since Internet access is a vital component of this solution, the network service provider is in a position to recommend and represent the Internet access provider to their customer. When this network service provider is an agent of a carrier like SBC, the service provider actively seeks out new opportunities for the vendor and represents it in the sales cycle. Upon closure of the deal, the agent will receive the agreed-upon fee, typically 12%-15% of the product sale, and the vendor will complete product fulfillment and take over the customer account.

### **When to Implement an Agent Program**

Historically, large, complex sales have not lent themselves to the agent model. In enterprise accounts, large consulting and system integrators often play highly influential roles in the sale of products. Although they maintain vendor relationships that involve "design-in" fees to avoid conflict of interest in their consulting recommendations, these fees are relatively small and the reseller is motivated more by reciprocal opportunity-passing and the ability to obtain greater customer mindshare than by these fees.

Agent programs are most effective when the vendor sells transactional deals where the product amount is at least equal to or greater than the services costs. The paperwork developed to support an agent program should be simple and easy for the agent to process; don't expect them to jump through the same hoops your primary resellers do. Program elements typically encompass an hour or two of company and product orientation, access to collateral, access to a web portal for deal registration, and at least once-a-month E-mail communications.

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## Angel Investors

By Marshall Warwaruk, Corum Group

Angel investors are often “high net-worth” former business owners or executives with relevant subject matter expertise of the business. They frequently become active, unpaid consultants to the entrepreneur, providing valuable management advice and important business contacts. Angel investors tend to personally invest smaller amounts in a start-up, ranging anywhere from \$20,000 to \$150,000, and are normally affiliated with a regional group of investors in order to pool opportunities, know-how and investment capital for larger placements of \$500,000 or more. Startups could have as many as five to 10 individual angel investors as shareholders who may potentially participate in later rounds of funding.

While it is difficult to precisely quantify the size of the angel market due to its informal nature, some studies estimate the size of the angel investments to be larger than that of the institutional venture capital market. The latest numbers from the Center for Venture Research at the University of New Hampshire show that in 2004, approximately 225,000 individuals made angel investments of \$22.5 billion in roughly 48,000 ventures. This amount was slightly higher than the amount invested by institutional VC firms in 2004, and up from 2003’s total of \$18.1 billion.

Contrast that with information taken from the Ernst & Young, VentureOne Venture Capital Report, where venture capital firms invested \$4.6 Billion in 459 companies in 1Q 2005, with over 55% of the funds going to later stage companies, and a mere \$10.5 million (0.23%) going to startup organizations.

Clearly, angels serve a vital role to entrepreneurs and startups. This group of early investors bears much higher risks than venture capital firms and seeks a substantially higher return than their later stage counterparts, who rarely consider investments under \$2 to \$3 million while demanding a proven business model, profitability, and a demonstrable track record before providing funding.

Marshall Warwaruk, regional director, Corum Group, 10500 NE Eighth St., Bellevue, Wash. 98004; 425/455-8281. E-mail: mwarwaruk@corumgroup.com.

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
<b>Echotek Corporation</b> • Data acquisition products	Mercury Computer (MRCY)	\$49,000,000 Terms: \$4.9 MM stock, \$44.1 cash	\$16,000,000	<b>3.06</b>
<b>Bookings B.V.</b> • European Internet hotel reservation services	Priceline.com (PCLN)	\$133,000,000 Terms: All cash	\$25,000,000	<b>5.32</b>
<b>Arbortext, Inc.</b> • Dynamic enterprise publishing solutions	PTC (PTC)	\$190,000,000 Terms: All cash	\$40,000,000	<b>4.75</b>
<b>SRC Software</b> • Financial budgeting and planning software	Business Objects (BOBJ)	\$100,000,000 Terms: All cash	\$28,600,000	<b>3.50</b>

## Taxes

- **CCh** ([www.salestax.com](http://www.salestax.com)): Firm publishes well-regarded sales tax compliance software.
- **National Association of Counties** ([www.naco.org](http://www.naco.org)): Website of the national association of counties; useful resource for researching county tax structures.
- **Tax Analysts** ([www.taxanalysts.com](http://www.taxanalysts.com)): Site of non-profit organization dedicated to examining all tax issues; very extensive database of information. Site requires registration.
- **Taxware International** ([www.taxware.com](http://www.taxware.com)): Company publishes tax compliance software; of particular interest is the ability of the software to handle VAT worldwide.
- **Vertex** ([www.vertexinc.com](http://www.vertexinc.com)): Provides information on tax policies and compliance, with a strong emphasis on Internet transactions; site contains much very useful information.

**MICROSOFT DIRECTOR DAVID LAZAR ON ALLOWING SECURITY UPDATES UNDER "WINDOWS GENUINE ADVANTAGE":** "Those are available to all Windows users with or without validation. We think of it like public health. We want to make sure no one gets infected by another system on the Internet because of our program." (Quoted in Computerworld, 07/26/2005)

**DAVID BURD OF THE NAMING COMPANY ON LONGHORN'S OFFICIAL APPELLATION, "VISTA":** "If they called it Windows Garbage, would people still buy it? Yeah, they'd buy it." (Quoted in The Seattle Times, 07/25/2005)

**FORMER CHIEF OF STAFF WAYNE PAUGH OF THE U.S. PATENT AND TRADEMARK OFFICE ON BUSINESS PROCESS PATENTS:** "During the period right after the State Street decision, roughly 80 percent of business process patent applications were granted. But now the USPTO approves fewer of them; I estimate that only 16 percent win approval these days."

**GARTNER ANALYST MICHAEL SILVER ON APPLICATION MIGRATION COSTS:** "Application migration is the biggest cost—you need a critical mass of relatively few apps to get the best return. The number of applications a company has is often underestimated. You can get a rough idea of the number of applications used by your firm by dividing the number of users by 10." (Quoted on Software Silicon, 07/25/2005)

**IDC ANALYST LOREN LOVERDE ON GROWTH IN THE PC MARKET:** "This kind of growth in the PC market is just amazing....Such consistent growth raises the prospect that the recent replacement wave is being supplanted by growing adoption that could sustain higher growth into the future." (Quoted on Internetnews.com, 07/25/2005)

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