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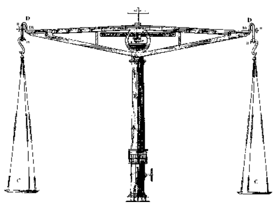

Our G&A report shows that large firms continue to enjoy economies of scale over smaller firms *See pages 4-5.*

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Automating Your Product Management Processes

During my career in the software industry I've worked as a product manager (PM) several times. Traditionally, managing the myriad of tasks, goals, and milestones a PM is responsible for was handled by a mix of spreadsheets, documents, in some cases project management software, and plenty of scribbles on whitepads and in three-ring binders. Even in the 80s these tools were often unequal to the needs of the market, and many missed deadlines and botched product rollups can be blamed on product management not being able to control what was an increasingly complex and cumbersome process. In the late 80s and early 90s, I twice started abortive attempts to create software programs that would automate the product management process.

My initial approach was to build, in the then popular DOS-database Paradox, a template-driven system that would help automate the process of creating what is usually called the "marketing requirements document" (MRD) for new products. A related module was designed that would allow a PM to track the various programs and goals outlined in the MRD through the marketing launch and execution cycle. These included channels, sales promotions, PR, collateral development, advertising, and so on. (In both cases my indifferent programming skills and lack of time led me to abandon these efforts before I'd done more than build prototypes and some simple tools.) Then, in the late 90s and through the millennium, to my intense interest a series of new software products along the lines of what I'd envisioned began to appear on the market. The current crop of widely used programs include Accept 360, FeaturePlan, and TrueReq.

Depending on your company's size and product management structure, what software you should consider purchasing can vary widely. For instance, if your company has divided your product management titles between product managers (who usually work with products on a prelaunch basis) and product marketing managers (responsible for post launch activities), the type of software you'll need can change. Making things more complex, there's an increasing trend to break off requirements from product management. The decision becomes even tougher when you realize how much ambiguity exists when attempting to define what constitutes product management software. Some companies are now selling what they define as product lifecycle management (PLM) software. Many of these systems are slanted towards development, and are good at tracking products through the requirements management, development, and end–of-life cycle, but they don't possess the capacity to manage marketing programs and tie development expenditures back to sales *(continued on page three)*

Advisory Board

How to Build an Effective Affiliate Program, Part II of III

by Ted Finch, Chanimal

OK, you've put together a basic affiliate program. What type of software are you going to choose to run it? You have five choices. They are:

- **Build your own system.** The advantage of this is your system can do whatever it's spec'd for. The disadvantage is the time and expense involved in rolling your own.

- **SaaS-hosted systems.** With a SaaS host, you pay a monthly flat fee that can range from $2K to $24K monthly. These systems, depending on the options and packages you purchase, can handle every aspect of running an affiliate reseller program, from signups to tracking affiliate disbursements. (You'll still have to cut the affiliate checks.) An important upside of these systems is that you own the names of the people who sign up for your program. The primary disadvantage is the cost. In my opinion, SaaS hosts are most suitable for companies running very large affiliate networks. Unless you intend for your software to be sold primarily through an affiliate network, this should probably not be your first choice for a program. A good example of a SaaS host is Kowabunga! Interestingly enough, Kowabunga's presentation of its own affiliate program is one of the worst I've seen; it's difficult to setup and administer and finding key facts about the system is hard. Recently, some of the SaaS hosts are adding a network to their offerings; you normally pay extra to access it.

- **Network commission-based programs.** These are pre-built SaaS applications that offer a wide variety of capabilities and features. Setup fees can be as high as $2500. Once setup, the network charges you a commission from 5% to 10% on sales of your product through its network. The advantage of these programs are much lower startup costs than SaaS-hosted systems and you only pay when you make a sale (though the commission payouts are stiff). A key disadvantage of network systems is that you do not necessarily own the names of your affiliates; the network does. Commission Junction (www.cj.com) is a good example of this approach. Evaluate the quality and focus of the network carefully; it may not fit well with your product's market and category.

- **Shopping-cart systems.** These are integrated with some of the popular shopping carts programs and their cost tends to be low (either free or a small additional surcharge tacked onto your normal rental). Their value varies widely and in many cases, the software will not meet your particular needs.

- **Pre-built scripts and programs.** These are programs you buy and install on your own or rented servers. Their advantages are a high degree of flexibility and adaptability to your needs combined with low cost. Keep in mind you'll need to have established yourself as a merchant with a bank, picked a payment gateway, become a certified PayPal seller and so on for these systems to be useful. The disadvantages are the costs involved in deploying, configuring, and customizing the script if you're not web savvy; these can range from $100 to $2500 on average (costs can run even higher if you require extensive customization). In most cases, I feel this is the best, first option for software companies.

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and customer satisfaction. There are also several marketing management products available, both on the desktop and as SaaS offerings, but few integrate well with requirements management, beta programs, and other pre-release activities.

With the above in mind, we've been discussing the use of product management and product planning systems with several people in the industry. We just recently concluded a conversation with John Giubileo, senior vice president of operations at BEA. BEA, a major force in developing web infrastructure tools and services, is in the process of rolling out Aspect 360 throughout the organization and we wanted to discover what impact the use of this product is having on the firm's business processes. This is the first in an ongoing series of articles examining the use of product management tools in the software industry.

"One of the primary reasons for adopting a product management tool was to add workflow to the process. By moving to an automated, online approach, we're achieving consistent results we couldn't with manual processes."

—John Giubileo
BEA

Before we go further, could you briefly outline your product marketing structure?

BEA has both product managers and product marketing managers. Product managers work with the development group before launch and product marketing managers handle post-launch activities. In BEA, product management is a separate division on our organization chart. We also have requirements managers.

Why did you choose Accept 360 for BEA?

Other products were evaluated and we whittled the finalists down to two or three. We picked Accept 360 because of its flexibility and ability to accommodate our existing processes. The goal behind the purchase was to help us to consolidate our development and product management methodologies. We also liked the fact that while it's very comprehensive in terms of its feature set, the software doesn't feel like an ERP product. We can roll the tool out in phases and consume it at our own pace.

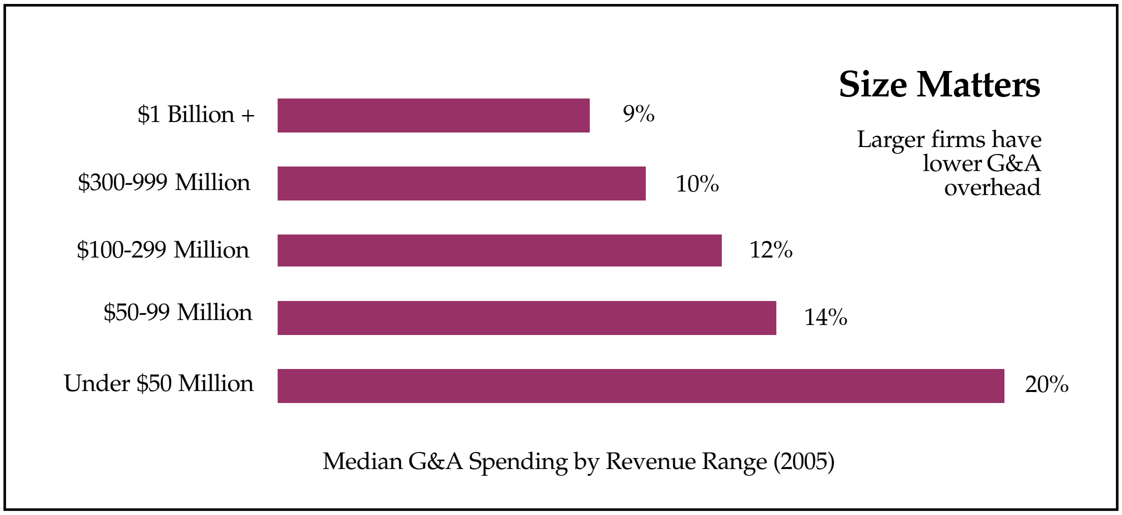
How do your product managers use Accept 360?

They're using it for requirements development and developing product MRDs and was integral to the launch of our WebLogic and AquaLogic products. At BEA, we first develop what we call a corporate strategy document. This is a high-level look at our business goals and strategies and it's a blended document that's the result of collaboration between development, sales, and marketing. This in turn drives the development of product-specific MRDs.

At BEA, an MRD typically encompasses:

- A high-level market overview.
- Competitive analysis.
- Vertical markets being targeted, if any.

(continued on page six)



Benchmarks: General & Administrative Costs

Part Two of our Google usage survey is now up at www.softletter.com/survey/google2.htm. Initial results will appear in the July 31st issue.

General and Administrative costs are expenses that can't be directly tied to production; besides rent and insurance it very likely includes the salaries and staffs of the CEO, COO, and CFO. These costs tend to grow in good times, and are always difficult to shrink. Some costs may be beyond company control: because legal and accounting fees fall into this category, external events (such as changes in regulations) can have an effect on G&A.

The G&A ratio should shrink as sales rise, but discontinuous shifts are also apparent. Microsoft, for instance, increased sales by 14% from 2003 to 2004, but its G&A costs more than doubled from 8% to 14% of sales. In 2005 sales increased 8%, but G&A dropped by 17%, resulting in a 10% G&A ratio.

For over half the market segments covered by Soft•letter's Benchmark 50, the median G&A ratios vary between 10.3% and 11.8%, while the remaining three have median ratios between 14.1% and 15%.

But whatever the individual variation among companies, the economy of scale does not vary. The bigger you are the lower your relative G&A. The median for companies with revenue over $1B is 9%, whether we include Microsoft or not.

In the table opposite, the three companies that include Selling Costs with their G&A expenses are excluded from calculating the 3-year average given for each market segment; these averages are based on the medians for the 3-year averages given for each firm. The All Companies line at the bottom of the table likewise uses medians (except for the final 3-year average figure for all companies).

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) 2003	2004	2005	General & Administrative 2003	2004	2005	Avg. '03-'05
Microsoft	$32,187,000	$36,835,000	$39,788,000	8%	14%	10%	**10.5%**
Desktop Applications				11%	10%	11%	**10.7%**
Symantec	$1,870,129	$2,582,849	$4,143,392	5%	5%	5%	5.1%
Adobe	$1,294,749	$1,666,581	$1,966,321	9%	8%	8%	8.7%
Intuit	$1,597,071	$1,802,224	$2,037,703	9%	10%	11%	10.0%
Macromedia	$336,913	$369,800	$436,168	11%	10%	10%	10.3%
Nuance Commo. (ScanSoft)	$135,399	$130,907	$232,388	12%	14%	14%	13.3%
IMSI (Int'l Microcomputer)	$11,985	$10,017	$13,874	33%	20%	12%	21.7%
Smith Micro	$7,216	$13,316	$20,258	32%	22%	23%	25.5%
Vertical Market Apps				12%	12%	11%	**11.8%**
Kronos	$397,355	$450,694	$518,658	7%	7%	8%	7.2%
Autodesk	$951,600	$1,233,800	$1,523,200	10%	8%	8%	8.7%
Ansys	$113,535	$134,539	$158,036	11%	11%	11%	10.9%
MapInfo	$106,255	$124,673	$149,424	14%	12%	12%	12.6%
Advent Software	$137,159	$149,990	$168,701	17%	18%	20%	18.2%
Moldflow	$36,625	$48,673	$64,418	20%	18%	19%	18.7%
*Dendrite International	$321,107	$399,197	$437,240	34%	33%	33%	33.3%
Enterprise Applications				10%	12%	12%	**11.3%**
Business Objects	$560,825	$925,631	$1,077,151	8%	9%	9%	8.7%
Mercury Interactive	$399,953	$506,205	$686,071	8%	11%	9%	9.4%
SPSS	$208,367	$224,074	$236,063	9%	11%	12%	10.5%
Manhattan Associates	$196,814	$214,919	$246,404	12%	12%	12%	12.3%
Concur Technologies	$56,737	$56,550	$71,831	12%	13%	14%	13.0%
Knova Software (ServiceWare)	$11,511	$12,502	$23,595	18%	19%	17%	18.1%
*Witness Systems	$108,037	$141,335	$185,371	56%	46%	46%	49.3%
Internet Applications				10%	9%	9%	**9.7%**
WebEx Communications	$189,341	$249,133	$308,422	8%	8%	8%	7.9%
Interwoven	$111,512	$160,388	$175,037	11%	8%	8%	8.8%
Ultimate Software Group	$60,416	$72,028	$88,603	10%	9%	9%	9.4%
RealNetworks	$202,377	$266,719	$325,059	10%	3%	16%	9.6%
Cryptologic	$44,211	$63,714	$86,307	12%	9%	9%	10.0%
Verisign	$1,017,345	$1,118,306	$1,609,494	17%	15%	12%	14.6%
NetIQ	$264,138	$217,000	$213,216	9%	23%	14%	15.4%
Network Tools				14%	12%	12%	**13.0%**
Novell	$1,105,496	$1,165,917	$1,197,696	10%	9%	10%	9.7%
Altiris	$99,339	$166,565	$187,640	8%	9%	12%	9.9%
iPass	$136,078	$166,319	$169,373	12%	11%	10%	11.2%
McAfee (Network Associates)	$936,336	$910,542	$987,299	14%	16%	13%	14.2%
Citrix Systems	$588,625	$741,157	$908,722	15%	14%	14%	14.2%
Tumbleweed	$30,595	$43,438	$50,001	20%	12%	12%	14.9%
NetManage	$50,663	$47,666	$43,434	23%	19%	19%	20.4%
Developer Tools				14%	14%	14%	**13.9%**
BEA Systems	$1,012,492	$1,080,094	$1,199,845	8%	8%	9%	8.3%
Progress Software	$309,060	$362,662	$405,376	11%	11%	10%	10.6%
Sybase	$778,062	$788,536	$818,695	11%	12%	11%	11.2%
Red Hat	$124,737	$196,466	$278,330	16%	18%	17%	17.0%
Raining Data	$21,006	$22,297	$21,483	21%	17%	17%	18.5%
Pervasive Software	$39,205	$49,608	$48,352	20%	20%	23%	21.2%
*Borland Software	$295,236	$309,548	$276,743	58%	54%	63%	58.4%
Education				15%	14%	14%	**14.5%**
Apollo Group	$1,339,517	$1,798,423	$2,251,472	5%	5%	4%	4.8%
Renaissance Learning	$127,632	$111,724	$116,283	10%	11%	11%	10.5%
Saba Software	$44,416	$34,471	$42,210	15%	13%	13%	13.5%
Plato Learning	$82,192	$141,801	$121,804	16%	14%	15%	15.0%
Scientific Learning	$29,916	$30,976	$40,319	15%	17%	14%	15.6%
SumTotalSystems	$29,487	$55,204	$74,970	19%	20%	22%	20.2%
American Education Corp.	$8,599	$10,187	$9,819	28%	19%	25%	24.3%
All companies (median)	$137,159	$196,466	$232,388	**14.9%**	**13.5%**	**12.7%**	**13.7%**

Note: "Years" may not correspond to company fiscal years. An asterisk indicates companies that combine Selling Costs and G&A.

- High-level financial targets and goals.
- Special challenges we face in a particular market.

Once completed, the MRD "feeds" our PRD (product requirements document). The PRD incorporates product requirements, beta planning, and some elements of marketing's launch planning. For example, if the MRD calls for an international launch, the PRD must reflect this.

How long has your firm been using Accept 360? And other than product managers, what other groups in BEA are currently using it?

Accept 360 has been deployed at BEA for over a year. We host it on our servers; it's not a SaaS implementation. Right now, the primary users in addition to product managers are our developers. Our finance and product marketing managers are currently just adopting Accept. The product can manage post-launch activities, but it will take time for us to move our current processes into the Accept framework. I'd like to note that acceptance of the product has been high; our people appreciate the ability to move their processes into a framework.

"BEA wants to become a $1B company. We don't think we can achieve this goal without automating our internal product management system. "

—John Giubileo
BEA

In terms of requirements management, there are lot of different approaches to requirements development. Agile, use cases, SCRUM, etc. How does a tool like Accept 360 integrate with these different processes?

That's a work in progress. At BEA, there's no one way the different groups and product lines develop requirements. Some teams use Agile methodologies. Others lock themselves into a room, shut the door, and commune with themselves and the product before developing requirements. Requirements are developed for most products before major development begins; we use primarily a top-down approach.

In terms of MRD development, what improvements are you hoping to see? Faster generation of MRDs? Better quality?

To be honest, we've not seen MRDs churned out more quickly. There are a lot of factors that impact the timing of a release, and speeding up the process is not always either feasible or important.

"The BEA finance group believes systems such as Accept allow it to understand the tie-in between development and revenue."

—John Giubileo
BEA

Instead, what we're looking for is improved MRD "quality." What using a tool like Accept allows us to do is ensure that everyone who's supposed to participate in the process does. With manual tools such as spreadsheets and documents, there's no easy way to do this. There's no audit trail and view on how the process is moving forward. Just as important is that with Accept, we're developing the ability to tie requirements developments to product revenue (one of the reasons our CFO has also endorsed the product). This is also a work in progress, but for us this is something of a Holy Grail.

John Giubileo, senior vice president of operations, BEA Systems, 2315 North First Street, San Jose, Calif. 95131; 408/470-8000.

Equities

Preferred Shares: The Monster That Ate Your Deal

By Ward Carter, Corum Group

If you've not accepted outside investment for your company, you'll probably have little reason to worry about preferred stock. But outside capital will almost always require that their equity investment be issued in the form of preferred stock. Let's look at how the structure and use of preferred stock can vary.

As a founder/owner of a software company, you may control most or all of the equity in the company via shares of common stock. Any preferred shares held by investors would be senior to your common shares, meaning that they have privileges of both a financial and an operational nature. The investor may require preferential terms such as disproportionate representation on your Board of Directors, veto power over key operational issues, or provisions that require their approval on any subsequent financing or sale of the business. These provisions can become complicated if you have multiple rounds of financing, so be careful not to set yourself up for future conflicts between investor groups that have different preferences and investment return objectives.

The underlying objective of these preferences is to ensure that the interests of the investors are protected. At the point of a liquidity event, the preferred shareholders will almost always receive a return of their capital prior to common shareholders receiving any return. Depending on the structure, this may be simply a return of investors' original capital, but could be a return of some multiple of their investment, as well as payment of an accrued dividend. Once the investors have received their preferential return, the preferred shares are generally convertible to common shares at a predefined ratio, therefore carrying on going value commensurate with the other common shares.

Investors need incentives, and a reasonably structured deal will deliver plenty of value to all shareholders if the company performs well. But any payout to investors means less consideration is available for common shareholders, so terms need to be carefully negotiated if you, as a common holder, are to maximize your returns. Preferred structures can be so onerous as to take away incentives for management and common shareholders to enter into a liquidity event. Negotiate carefully, and seek money before the need arises in order to secure it on the most favorable terms.

Ward Carter, president, Corum Group, 10500 NE Eighth St., Bellevue, Wash. 98004; 425/455-8281. E-mail: wcarter@corumgroup.com.

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
RSA Security (RSAS)	EMC (EMC)	$2,100,000,000	$322,000,000	**6.52**
• *Identity and digital asset security*		*Terms: Cash*		
Digital Channel	TIE Holding N.V.	$2,700,000	$2,000,000	**1.35**
• *Web-based product information management*		*Terms: Cash and stock*		
Metreos Corporation	Cisco Systems (CSCO)	$28,000,000	$2,000,000	**14.00**
• *IP telephony*		*Terms: Cash*		
Unicru	Kronos (KRON)	$150,000,000	$50,000,000	**3.00**
• *SaaS talent management*		*Terms: Cash*		

CORUM

CardFile

Affiliate Management Resources

- **Affiliate Scout** (www.affiliatescout.com): Site provides extensive information on various affiliate programs broken down into a broad category list; very useful for comparative analysis.
- **Associate Programs** (www.associateprogram.com): Useful site for announcing your own affiliate program; contains extensive links to different resources on affiliate programs and marketing.
- **Commission Junction** (www.cj.com): Well-known affiliate marketing system with its own affiliate network.
- **Kowabunga!** (www.kowabunga.com): Company offers the MyAP program; system creates, automates, and manages affiliate relationships.
- **Ultimate Affiliate** (www.groundbreak.com): Highly recommended CGI-script software package. Cost is $200.
- **Wilson Web** (wilsonweb.com): Site offers a report that reviews the various affiliate software systems for $50; well worth the price.

SERVERPIPELINE EDITOR DON ST. JOHN ON THE IMPENDING EU FINES FACING MICROSOFT: "Was this all necessary? That's two years of heel-dragging when Microsoft could have been, *in its own interest,* moving to get those interoperability specs out there. Not to mention releasing them in a form that would actually be useful instead of the unreadable mess that the EC staff says it received from them last year. Yo, guys, when you build a useful ecosystem around a core product like Windows Server, a funny thing happens — it becomes more desirable to potential customers." (Quoted in ServerPipeline, 07/05/2006)

EWEEK COLUMNIST LARRY SELTZER ON WGA: "The point of WGA is to discourage piracy, and therefore the benefit of it, at least the proximate benefit, is Microsoft's, not the user's. A legitimate user gets only the vaguest of benefits from running WGA on his or her computer, and that benefit pretty much goes away after it runs successfully once.

Microsoft would have done much better, if you ask me, by being honest and simple in its language about what WGA does. As my colleague Peter Coffee points out, it has instead chosen Orwellian terms like 'consistent experience' and emphasized the benefit to ordinary users of having WGA. I sympathize fully with the desire to combat piracy, so just say that to me! Don't tell me this is all for my own good." (Quoted in ***eWeek***, 07/05/2006)

INGERSOLL-RAND CIO BARRY LIBENSON ON MICROSOFT'S SOFTWARE ASSET MANAGEMENT PROGRAM: "We said, 'This sounds like an audit.' But they recoiled when I used the word *audit*. They said, 'This isn't an audit.' It was almost like a script to make sure we didn't feel that way. Microsoft's a great software company, but when it comes to sales, they're severely lacking." (Quoted in ***Computerworld***, 07/10/2006)

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