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Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Our Softletter sales survey shows the close cycle has speeded up! See page 3.

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The 2007 Softletter Sales Efficiency Survey: Summary Results

Introduction: Methods and Respondent Profiles

Our Sales Efficiency Survey, conducted in July 2007, was sent to approximately 23k companies over a period of three weeks. The survey was conducted entirely via the web and results were processed with the Perseus Web Surveyor system. The survey received 274 valid responses, with the single largest group of respondents reporting that their title was CEO, president, or some variant of the aforementioned (one participant identified themself as the "Big Boss"): 86 in total. Not surprisingly, the second largest cohort identifed themselves as having a sales title including VP of Sales, director of sales, and other variants: 59. The third largest cohort was participants with a financial title, either CFO or controller: 31. In addition, 19 participants identifed themselves as having primary marketing responsibilities; titles given included product manager, VP of Marketing, and similar variants. Titles for the rest of the respondents ranged from human resources to business development. Only six respondents failed to provide a title.

Summary Results

The survey broke companies down into four basic categories, companies selling Enterprise/Client Server products, SaaS, Desktop/Retail and OEM (which was defined in the survey as product embedded directly within another software product). The results were as follows:

Software Category	Totals
Enterprise/Client Server	168
SaaS	48
Desktop/Retail	43
OEM	15

The strength of SaaS among the respondent groups was only mildly surprising given the increasing strength of on-demand in the marketplace. A year ago, Desktop/Retail would have been in second place.

Results for "Development Stage," are given in the table on the following page. *(continued on page two)*

Development Stage	Totals
No significant customer revenue	8
Privately owned, venture funded	34
Privately owned, privately funded	207
Public	25

The low number of "No significant customer revenue" is not surprising; most companies without an initial revenue stream do not spend much money on sales personnel.

Current Revenues	Totals
Under $1 million	40
$1 to $5 million	94
$5 to $10 million	50
$10 to $99 million	72
$100 million+	18

The smooth distribution of companies by revenue (with the exception of companies under $1 million, who will often not be involved in extensive direct sales efforts) tracks in general with current software industry trends. While their has been a great deal of attention paid to consolidation in the high end of the enterprise market, new software companies are still developing at a high rate.

Average Yearly Sales Quota	Totals
Less than $500,000	57
$500,000 to $1,000,000	137
$1,500,000 to $2,000,0000	58
$2,500,000 to $3,000,000	16
$3,000,000+	6

The standout datapoint in these results is the persistence of the traditional $50k base/$1 million quota/5% variable sales model that has been in place in the software industry for decades (adjusted, of course, for inflation, recession, and market segment). It's interesting to note that every respondent reporting $3m+ quotas is a company in the $10-$99m category.

Average Yearly Salary (both fixed and variable)	Totals
$50,000 to $75,000	40
$75,000 to $100,000	94
$125,00 to $150,000	63
$150,000 to $175,000	36
$175,000 to $200,000	22
$200,000 to $250,000	13
$250,000 to $300,000	4
$300,000+	2

(continued on page three)

Base Salary	Totals
Base salary this year (average)	$66,500
Base salary this year (median)	**$65,000**
Base salary last year (average)	$63,684
Base salary last year (median	**$60,000**

When reading these numbers, we focus on the medians as they tend to eliminate outliers; averages are included in the interest of providing further insight. Nonetheless, the significant rise in base from last year to this reflects both the recovering health of software companies from the dot.com collapse and the increasing competition for high-quality sales personnel. (Further analysis of these numbers on page five.)

"In the August 15th issue of Softletter, we will drill down further into our survey data by company revenue, type of product sold and development stage."

—Rick Chapman
Softletter

Average Variable Commission Paid	Totals
3–5%	75
5–6.5%	57
6.5–7.5%	30
7.5–8.5%	24
8.5–10%	29
10%+	57

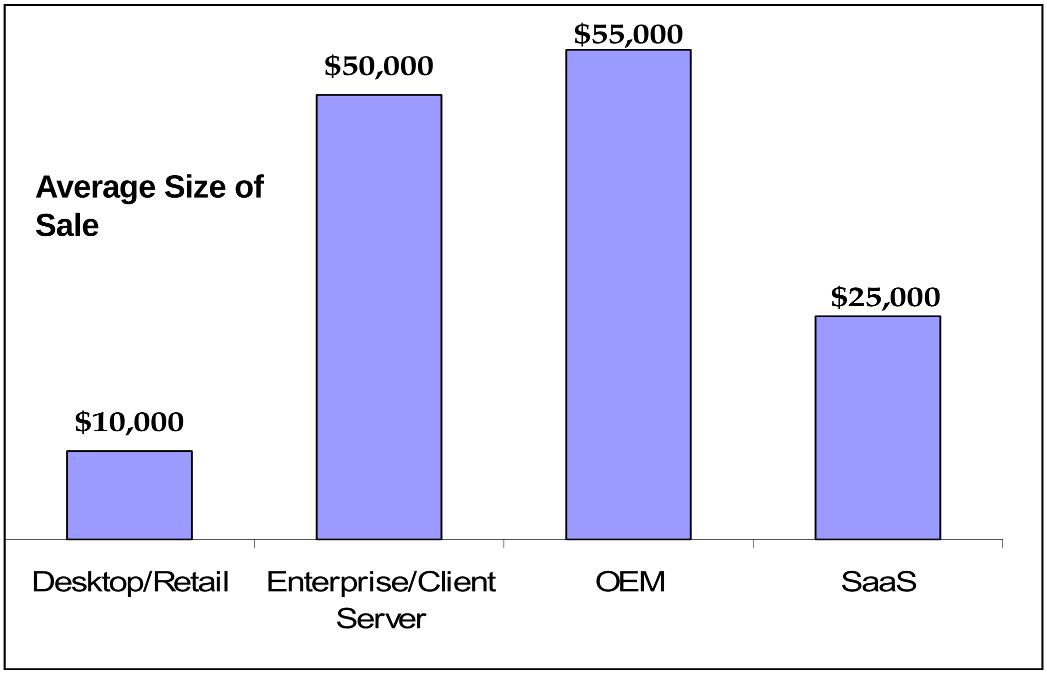
The standout data point in the responses is the high number of companies offering 10%+ plus commission rates; this is handsome compensation indeed. Our August 15th issue will drill down into this number in greater detail.

Average Time to Close	Totals
Less than three months	22
Three to six months	96
Six to nine months	77
Nine months to a year	45
A year to 18 months	34
18 months+	0

These numbers reflect a definite speedup in the software sales cycle. Ten years ago, the nine months to a year and a year to 18 month segments would have dominated the responses. Internet demos, E-mail, and the ability of corporations to push information about their products and services is having a profound effect.

Reward for exeeding quota	Totals
Increase in commission percentage	114
Fixed monetary bonus	52
A combination of an increase in commission and a fixed monetary bonus	55
They do not receive any extra compensation	53

(continued on page four)



The most interesting data point in this chart is the average size of SaaS sales reported. We would have predicted a much lower number, something ranging between $10–$15k, in keeping with on-demand's reputation as appealing to small and mid-sized businesses. We attribute this higher number to increased SaaS penetration in larger corporate accounts.

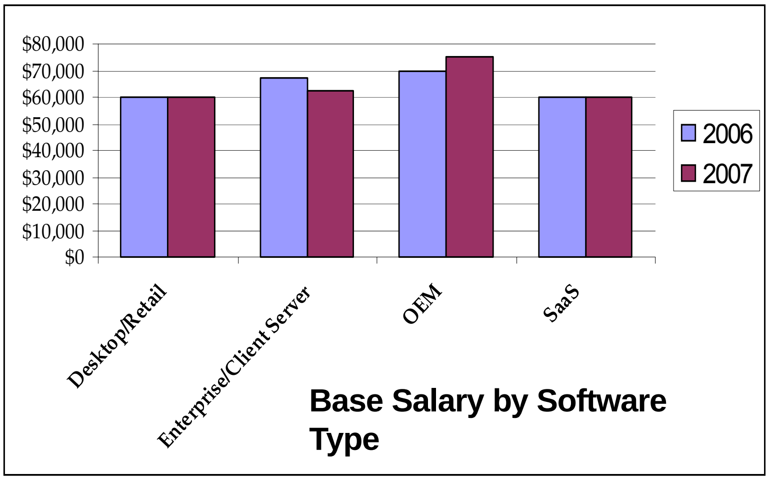
Percentage of Sales Personnel Who Achieved Quota	Totals
Desktop/Retail	55%
Enterprise/Client Server	50%
OEM	33%
SaaS	57.5%

While the performance of the Desktop, Enterprise, and SaaS sectors are either healthy for within historical norms, OEM is performing poorly across all performance metrics. We've examined the numbers carefully to ensure that no outliers are distorting the results, but the weakness is real. We're not sure how to account for the problems we see in OEM sales. Because OEM is by nature a small and highly focused market that tends to target large companies with deep pockets, it may be that the consolidation the industry has seen over the last several years in both the desktop and enterprise sectors is reducing the pool of clients. This would have the effect of making the sales cycle more difficult as companies fight over a samller customer base.

Percentage of Sales Reps Exceeding Quota	Totals
Desktop/Retail	55%
Enterprise/Client Server	25%
OEM	10%
SaaS	12.5%

(continued on page five)

These numbers provide interesting insights into current software market dynamics. The numbers for Enterprise/Client Server are healthy but do not represent an outlier. However, the strong performance of Desktop/Retail is surprising, given the perception of many in the market that desktop software is a dying market. The truth may be that while retail shelfware may going away, the Internet, acting as a distribution "iceberg," is hiding a continued strong and robust market. One qualitative fact that tends to support this supposition is that ***Softletter*** over the last 24 months has received a growing number of press releases and requests for reviews by desktop products from international firm, mainly from Russia, Ukraine, and China. The number of review request from US firms has held steady. OEM continues its poor performance, and SaaS is not a standout in this category. This may be due to the difficulty many SaaS firms have in creating compelling compensation plans for their sales personnel. The annuity nature of SaaS sales tends to rob sales forces of the promise of an immediate big payday as reward for a big sales push.



Base Salary	**This Year**	**Last Year**
Desktop/Retail	60,000	60,000
Enterprise/Client Server	67,500	62,500
OEM	70,000	75,000
SaaS	60,000	60,000

The significant jump in enterprise base compensation is an indicator of good health in the software industry; during the dot.com collapse, base salaries hovered around $50K for several years. Despite the the proclamations on the part of many that sending "feet out on the street" is passe, it appears the demand for shoe leather is strengthening.

Percentage Quota Exceeded By	**Totals**
Desktop/Retail	14%
Enterprise/Client Server	10%
OEM	.05%
SaaS	10%

This questions asked respondents to tell us, in percentage terms, by how much their sales forces exceeded their quotas. The numbers reported adhere to past norms, with the exception of our 98lb weakling, OEM. Again, it is interesting to note that Desktop/Retail is the winner in this performance category. *(continued on page six)*

How soon do sales personnel receive their variable pay?	**Totals**
Immediately	6
Within a month	100
Within 45 days	78
Within three months	61
More than three months	29

Size of the average sale	**Total**
Average	$94,650
Median	**$50,000**

The value of medians is illustrated by this response. The reason for the disparity between the median and the average is created by responses from defense contractor firms, who apparently sell very big ticket systems. We will be doing further cross tabulation by company class, size, and other criteria in the August 15th issue.

"While 178 of survey respondents report they pay commissions within 45 days or sooner, we were struck by the 29 who report they take more than three months to compensate their sales personnel This is not a strategy we recommend to most companies. In our experience, deferring commissions this far out leads to low morale and high employee turnover."

—Rick Chapman
Softletter

Percentage of sales personnel achieving quota	**Total**
Median	50%

This figure is interesting for its "ordinariness." For the last fifty years, half of a "typical" company's sales force has reached quota and half haven't. Software firms are apparently unable to exceed historical norms despite their perceived access to technology that should give them an edge.

Percentage of sales personnel exceeding quota?	**Total**
Median	25%

Again, a very ordinary response. Typically, one quarter of any industry's sales force will exceed expectations. Software companies are not overachievers in this area in any respect. However, as page five illustrates, SaaS and OEM companies are finding that reaching this performance level is a challenge.

Percentage sales quota exceeded?	**Total**
Median	10%

Another number well within historical norms.

How often does the sales plan change?	**Total**
Median	12 months

This number was consistent across all classes of software sold.

Developing Solid Financial Projections

By Dang Q. Nguyen, Corum Group

One of the most difficult tasks for an owner of a software company to undertake is building credible financial projections. Most managers develop financial projections for general business planning or for raising new capital. Here, we'll take a look at projecting financials in the context of pursuing an exit strategy through mergers and acquisitions. When developing financial projections, it is important to capture a realistic future earning potential of the company, especially if the forecast is used for an M&A event. Most acquirers will want to structure the deal around the future operating performance of the company. Below are a few things to think about as you take on the challenge of building solid financial projections:

- Make sure your projections are realistic compared to the company's historical performance and industry metrics such as revenue growth, profit margin, and expense ratios.

- Your assumptions should be clearly defined and documented. Study your market and understand the factors that will drive your company to succeed. Also know the factors that will cause your company to fail. The basis of your projections is more important than the projections themselves as it informs the buyer about the financial opportunity and how the company intends to achieve its goals.

- Be conservative but not overly conservative; be optimistic but not overly optimistic. If you are too conservative, buyers will not see the proposed opportunity. On the other hand, if you are too aggressive and miss your targets while in the M&A process, acquirers may require price adjustments to move forward or worst—kill the deal altogether. Remember, acquirers are buying the future, so tell an exciting, but realistic story of the potential of the company going forward.

- Projections should be for three years so that potential buyers can easily incorporate it into their valuation model.

Forecasts are a necessary evil. The more comprehensive and detailed you are with your assumptions, the more creditability you will have with potential buyers.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
DataMirror (DMC.TO) *• Data capture software*	IBM (IBM)	$163,500,000 *Terms: Cash*	$46,500,000	**3.52**
MeziMedia *• Comparison shopping websites*	ValueClick (VCLK)	$100,000,000 *Terms: Cash*	$40,000,000	**2.50**
Neoware (NWRE) *• Thin client and virtualization solutions*	HP (HP)	$214,000,000 *Terms: Cash*	$91,000,000	**2.35**
Opsware (OPSW) *• Data center automation software*	HP (HP)	$1,600,000,000 *Terms: Cash*	$108,100,000	**14.80**

CardFile

PR Community Portals

- **Categorynet** (www.categorynet): Francophone oriented PR portal; serves French speaking communities in Belgium and Switzerland in addition to France proper.
- **mBlast** (www.mblast.com): PR portal that advertises itself as "Media and Marketing Relationship." Site enables subscribe to service and send PR releases, videos, and white papers to wide variety of publications, websites, and individuals in their PR database. Costs range from $99 to $5k per year.
- **Media UK** (www.mediauk.com): Media portal oriented towards UK audience.
- **PitchWire** (www.pitchwire): Describes itself as an online community for influencers (journalists, bloggers and analysts) and publicists. Similar in function to mBlast; has a more "bloggy" feel.

IBM PROVIDES GUIDELINES FOR AVATAR BEHAVIOR: "Building a reputation of trust within a virtual world represents a commitment to be truthful and accountable with fellow digital citizens. Dramatically altering, splitting or abandoning your digital persona may be a violation of that trust. ... In the case of a digital persona used for IBM business purposes, it may violate your obligations to IBM." (Quoted on Good Morning Silicon Valley, 07/27/2007)

THE ATLANTIC COLUMNIST JAMES FALLOWS REVERSES HIMSELF ON WINDOWS VISTA: "The other bad call came late last year, when I said that users should wait to buy new computers until the new version of Windows, Vista, was available -- and that 'of course' they should buy Vista-equipped machines once they could. That was wrong. I apologize." (Quoted in ***The Atlantic***, 07/24/2007)

PLEXUS VP OF MARKETING PATRICK FETTERMAN TECHNOLOGY SELLING TODAY: "When I started working in high tech, 20 years ago this fall, the sales guys were kings. The top sales guys at my company made a lot more money than the CEO, and all of them had been through lots of different sales training courses, from "How to Win Friends & Influence People" to who knows what. They were slick, they wore expensive suits, they drove expensive cars, and they swaggered when they walked: they were the conduit to the customer, and the fortunes of the company rose and fell according to their ability to "extract" an order from a sales prospect.

Does ANYBODY buy technology this way anymore?! " (Quoted on www.patrickfetterman.com, 07/15/2007)

BLOGGER PAUL KEDROSKY ON PRESENTING TO VCS: "I generally tell people to come to pitch meetings with less information rather than more. Sure, you'll get pressed for more, but finesse it. Presenting a full and detailed plan is, nine times out of ten, a path to a "No" -- or at least more time-consuming than having said less." (Quoted on http://paul.kedrosky.com/archives/2007/07/26/the_twitter_les.html, 07/26/2007)

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