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BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

If you're in sales, you may feel frustrated; from 2003 to 2006, median base pay for top sales officers declined See pages 4-6.

Timing Disruption, Part I of II

by Merrill R. (Rick) Chapman

I've recently finished reading the "Innovator" tomes by Ward Christensen and was excited to find the last book ends with the author proposing an answer to the innovation problem he admits no one has ever actually used (which is a rather innovative way to end a business book series, when you come to think about it). But more to the point, I don't think Christensen satisfactorily answers the key question many businesses need to ask, which is "How do you know if a new technology is truly disruptive?" After all, the Internet was first developed in the late 60s and was a going concern by the mid-80s. But it wasn't till the mid-90s that its disruptive potential was unleashed on the business landscape. And even after this had occurred, the number of wrong guesses made about the Internet's impact on established commerce were enough to fuel the greatest financial bubble seen since Black Tuesday and the stock market crash of 1929.

When I was writing the second edition of "In Search of Stupidity: Over 20 Years of High-Tech Marketing Disasters "(Apress, October 2006), I spent a great deal of time pondering this issue and finally developed a method of analyzing technology advances that I feel gives companies a shot at knowing whether they're in the gun sights of big change. Below are excerpts from the second edition which outline my take on the topic.

There are several powerful and practical lessons to be drawn from the Internet and ASP meltdowns. One of the most important is the realization that the concept of disruptive change and paradigm shifts as described by most pundits and analysts, is dangerously misguided and has convinced many people to throw their money into ventures that are doomed because true disruption is very, very rare indeed. A true disruption is a rapid change in a market that destroys or overthrows an existing business or industry within a short period of time. For instance, within a few years of their introduction the development of CD-based encyclopedias in the mid-90s destroyed the venerable business of selling home encyclopedias. ASP (now SaaS) is being presented as a disruptive challenge to licensed software sales, but you wouldn't have taken that claim very seriously in 2001.

It's important to understand that most disruptions are really simply adaptations, alterations made by companies in response to a constantly evolving market. The Internet was *(continued on page three)*

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Aligning Sales and Marketing for Better Leads, Part I of II

by Brian Carroll, InTouch, author of "Lead Generation for the Complex Sale"

There's unanimous agreement that sales and marketing should be closely aligned during the lead generation process, but if industry statistics are any measure, few companies are doing the job well. The Aberdeen Group reports that 80% of marketing expenditures on lead generation is wasted, and my own business experience leads me to believe that the vast majority of leads provided to a sales group are never acted on. This is because the sales group, after a few initial calls, quickly learns these "leads" are of little value in helping them make their monthly, quarterly, and yearly numbers.

To help companies improve lead quality, my company has developed an approach to aligning sales and marketing that several software companies have used with great success. It's important to keep in mind that the execution of this process is the responsibility of your marketing group; your sales team is there in the role of marketing's customer, providing information in the expectation of better service.

The ultimate goal of this effort is to turn the grim figures I've quoted above around. Once the alignment process is in place and running, 60% to 80% of the leads your sales team is receiving should be highly qualified and actionable.

The alignment exercise kicks off with a meeting that incorporates the following:

- **CEO-driven leadership.** If the CEO isn't available, then the meeting needs to be run by someone who speaks with their authority.

- **Attendance by your firm's top sales and marketing executives, as well your top sales people and key marketing managers.** It may also be appropriate for your product management head to attend as well. Keep the number of attendees between four to 14. We've had success with both virtual and in-person formats.

- **A three hour time limit on the meeting's length.** More than that, and your sales group will check out mentally.

- **The use of mind mapping tools (I recommend MindManager).** Mind mappers are particularly valuable because they enable team members to instantly see their ideas and suggestions incorporated into the developing plan.

- **A list of your top 10 to 15 clients.** You're going to use this list to derive a profile of your ideal customer and sale.

The agenda of the group will be to arrive at a definition of what, from the standpoint of sales, constitutes your company's ideal lead. The normal factors companies focus on are need, budget, time frame, purchase authority, and ease of doing business with the potential customer. What the meeting will do is drill down into each of these parameters and allow the team to decide what importance you wish to assign to each of these factors in the context of their impact on your company's sales goals. The result of this exercise will be a customer profile you'll use to move forward.

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described as a "disruptive" technology, but in the end it disrupted only some things, changed others, had a minimal impact on yet others, and contains the potential to change businesses in the future.

To illustrate what I mean, let's discuss the music industry, a business that is facing disruption of its current business model (caused in part by its own stupidity). When I was a boy, a hit 45 cost approximately a dollar, making them highly accessible to kids, but the quality of the records and the record players was low and the durability of your average 45 was poor. Then the late 60s and 70s saw the release of classic rock albums such as "Sergeant Pepper's,""Tommy," and "Dark Side of the Moon," and the prevailing teen/young adult zeitgeist shifted from dance parties to getting stoned and sitting around listening to 33s.

"When the recording indutry switched over to CDs, it took the opportunity to jack up the price of an album by 40% to 50% for hot sellers, ostensibly because of the cost of the changeover. However, prices stayed high even after everyone had thrown out their turntables and bought CD players, despite the fact that CDs are cheaper to manufacture in bulk than vinyl records. And the CDs still had one or two really good songs and a lot of filler."

—Merrill R. Chapman
Softletter

By the late 80s the album craze was over and most people had woken up to the fact that most of the records they bought usually had one or two good songs they wanted to listen to. The rest were often filler material churned out by the band to create an album that the record companies then turned around and sold to you for the price of about ten 45s. People didn't appreciate this, and the desire to create custom mixes of just the songs you wanted to hear grew steadily. Unfortunately, the only way most people could create a mix was with a combination of a receiver, tape recorder, and record player. This was expensive and slow.

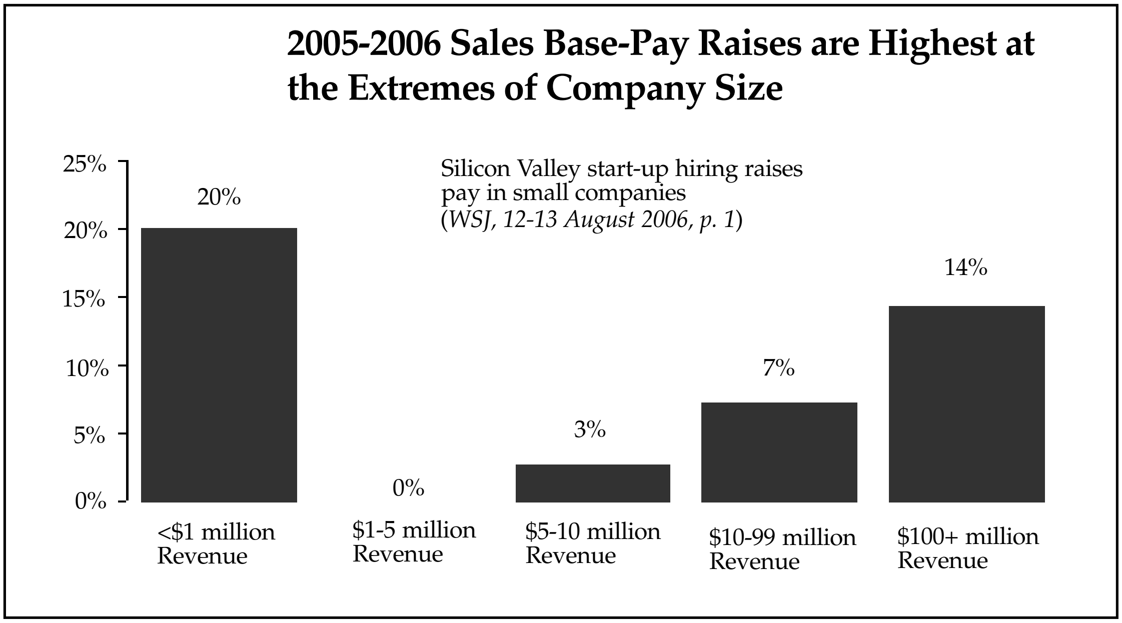
In 1989, while working for a small software startup in New York, I was approached by the company's founder and told about a ground-floor investment opportunity that I might be interested in. A business acquaintance of the founder had developed a kiosk-based system that allowed you to step into a booth, look at a menu of contemporary songs, and then have them burned from a hard drive onto a tape cassette while you waited. The process only took a few minutes, you could buy as many songs as would fit on the cassette, and you were charged on a per song basis. Your mix tape ended up costing about as much as an album. The record companies, who had tentatively agreed to license their music, received the lion's share of the revenue but the kiosks, if people liked them, were still almost money-printing machines for the new company.

I thought it was a great idea. Several trial kiosks had been set up in the city and I tried the system out. It worked as advertised. I loved it, and the people I watched stepping up to the system loved it too. "This can't miss," I thought, and I prepared to open up my piggybank and do some serious investing. "I'm in" I told the CEO. I thought I might get rich.

After several weeks had passed and I hadn't heard anymore about the mix system, I asked my boss what was the story with the company and the kiosks. "It's not going to happen" he told me with a long face. "The record companies decided not to license their music; they're making too much money from album sales."

Then MP3, Napster, and the Internet appeared and we all can see how that's turning out.

Benchmarks



Benchmarks: Chief Sales Officer Compensation

How you are doing as a top sales executive depends on where you are, of course: those in bigger companies make more money. For everybody else, the aggregate figures for base and variable pay are not cheering.

The Soft•letter survey of top sales execs in 2003 showed median combined base pay and variable pay to be $203,500; for 2006 the figure is $185,500. Similarly, median base pay dropped from $135,000 to $120,000 and median variable pay from $65,000 to $62,500. While these figures show that it is harder to get a high base salary, and harder to make up the difference in performance-based compensation, it is possible that the difference is being made up in stock-based compensation, more valuable now than it was a few years ago.

Thinking about SaaS but not selling it? Then you need to participate in part one of our SaaS survey now; check the Softletter home page for more info.

The survey's use of medians instead of averages prevents a few well-paid cases skewing results for everybody, and lest any reader believe that there is skewing from having more persons from large companies participate in the 2003 survey than in the 2006 survey, the participation by CSOs from $100 million+ companies in 2003 was 6%; in 2006 it was 12%.

The graph points out that today the greatest increases in base pay over the past year are at the extreme ends of the company size scale: in the largest firms the increases this year are large, but these are outdone by the smallest firms, who are looking to attract and incent top sales managers to rapidly build market presence and momentum. This trend fits the heavy hiring in start-ups currently going on in Silicon Valley.

Our Top 50 Sales Executives this year show a median combined pay of $357,232; median base pay is $225,000 and median variable pay is $128,000, or 35.8% of total pay. Long-term compensation records the exercise of stock options; the median value here is $306,488, but only 21 of the Top 50 exercised their options.

Overall Compensation--Top Sales Officer*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	$120,000	$160,000	$80,000	12%
Base Pay—last year	$107,000	$150,000	$77,000	
Variable Pay—current	$62,500	$100,000	25,000	18%
Variable Pay—last year	$52,850	$100,000	21,015	
Total Pay—current	$185,500	$250,000	$120,000	2%
Total Pay—last year	$181,000	$228,000	$110,000	

* Number of respondents = 118 for "current," 114 for "last year."

Top Sales Officer Pay by Company Size*	Base Pay	Variable	Total	Raise
Under $1 million—current	$90,000	$20,000	$102,000	20%
Under $1 million—last year	$75,000	$15,000	$90,000	
$1-$5 million—current	$80,000	$25,999	$115,000	0%
$1-$5 million—last year	$80,000	$22,884	$112,884	
$5-$10 million—current	$98,000	$65,000	$175,000	3%
$5-$10 million—last year	$95,500	$50,000	$162,500	
$10-$99 million—current	$150,000	$100,000	$230,000	7%
$10-$99 million—last year	$140,000	$100,000	$228,000	
$100+ million—current	$200,000	$99,000	$267,500	14%
$100+ million—last year	$175,000	$75,000	$240,000	

* Number of respondents = 9 for Under $1 million, 35 for $1-$5 million, 25 for $5-$10 million, 35 for $10-$99 million, and 14 for $100+ million. Values are medians. n/m = Sample size too small for accurate comparisons.

Top Sales Officer Pay by Development Stage*	Base Pay	Variable	Total	Raise
No significant customer revenue—current	n/m	n/m	n/m	n/m
No significant customer revenue—last year	n/m	n/m	n/m	
Privately owned, privately funded—current	$99,000	$45,000	$151,000	10%
Privately owned, privately funded—last year	$90,000	$35,000	$150,000	
Privately owned, venture funded—current	$150,000	$100,000	$235,000	11%
Privately owned, venture funded—last year	$135,000	$82,000	$225,000	
Public—current	$142,000	$100,000	$250,000	7%
Public—last year	$132,500	$100,000	$232,500	

* Number of respondents = 0 for No significant customer revenue, 72 for Privately owned, privately funded, 25 for Privately owned, venture funded, and 21 for Public. Values are medians. n/m = Sample size too small for accurate comparisons.

The Top 50: Highest Paid Public Company Sales Executives

		Base Pay	Variable Pay	Total	Long-Term
1	**Keith Block**, OracleCorp.	$800,000	$3,422,100	$4,222,100	$150,588
2	**Jimmie E. Stephens, Jr.**, Adobe Systems	$420,000	$1,026,590	$1,446,590	$7,882,832
3	**George M. Bado**, Autodesk	$342,500	$960,159	$1,302,659	$3,262,844
4	**Greg Corgan**, CA	$395,833	$898,221	$1,294,054	
5	**Tony Sirianni**, Cognos	$260,000	$934,175	$1,194,175	
6	**Cosmo Santullo**, BMC Software	$425,000	$552,942	$977,942	
7	**Alex Pinchev**, Red Hat	$316,667	$403,213	$719,880	$6,578,968
8	**Natasha Giordano**, Dendrite International	$250,000	$417,975	$667,975	$38,019
9	**Léo Apotheker**, SAP AG	$527,360	$128,000	$655,360	$3,502,080
10	**Burton Goldfield**, Hyperion Solutions Corp.	$300,000	$333,396	$633,396	$884,646
11	**Thomas Volk**, Sybase	$562,200	$2,000	$564,200	
12	**Steve Allen**, Witness Systems	$318,263	$225,396	$543,659	$419,350
13	**Scipio M. Carnecchia**, Interwoven	$200,000	$340,504	$540,504	
14	**Peter Hauser**, Nuance Communications	$246,525	$275,700	$522,225	
15	**John Shap**, SPSS	$240,698	$225,160	$465,858	$451,752
16	**H. Allan Dow**, Logility	$180,000	$285,686	$465,686	
17	**Dan T.H. Nye**, Advent Software	$260,000	$193,163	$453,163	$306,488
18	**Jeffrey Carr**, Taleo Corp.	$225,000	$217,000	$442,000	
19	**Mark H. Cieplik**, Dendrite International	$322,917	$68,863	$391,780	$117,087
20	**Steven J. Martello**, Interwoven	$231,250	$157,516	$388,766	
21	**Ilene M. Vogt**, Actuate Corp.	$225,000	$155,388	$380,388	
22	**Carla Stratfold**, RealNetworks	$230,000	$143,934	$373,934	
23	**Bill Robinson**, Witness Systems	$225,000	$143,202	$368,202	$101,181
24	**John S. Denault**, Onyx Software Corp.	$225,000	$140,170	$365,170	
25	**Peter P. Dunning**, Rightnow Technologies	$255,000	$109,701	$364,701	$1,232,886
26	**David L. Gibbs**, Phoenix Technologies	$260,000	$89,763	$349,763	
27	**Mark Theilken**, Dendrite International	$284,167	$54,275	$338,442	$10,350
28	**Joseph C. Fairbanks**, Jr; Ansys	$157,500	$166,500	$324,000	$978,718
29	**Chip G. Harmon**, Pervasive Software	$197,308	$117,874	$315,182	
30	**Matthew Thompson**, Borland Software Corp.	$300,000	$11,411	$311,411	
31	**Michael L. Eberhard**, Concur Technologies	$175,000	$126,997	$301,997	
32	**Peter M. Riccio**, Document Sciences Corp.	$167,000	$133,159	$300,159	
33	**Mark Kent**, Astea International	$172,080	$127,389	$299,469	$50,752
34	**Michael Morrison**, Applix	$180,000	$111,018	$291,018	
35	**Simon Nelson**, Concur Technologies	$188,550	$85,532	$274,082	
36	**Paul O'Callaghan**, Optio Software	$200,000	$69,000	$269,000	
37	**Matthew Suffoletto**, AXS-One	$239,583	$19,982	$259,565	
38	**Michael R. Samuelian**, Altiris	$210,000	$49,373	$259,373	$405,771
39	**Dennis J. O'Donnell**, Concur Technologies	$130,000	$111,243	$241,243	
40	**Mario I. Barrenechea**, Raining Data Corp.	$180,000	$53,554	$233,554	
41	**Mark P. Mader**, Onyx Software Corp.	$180,193	$36,083	$216,276	$107
42	**Nathan Cocozza**, ilinc Communications	$173,835	$38,429	$212,264	
43	**John M. Greathouse**, CallWave	$161,538	$41,972	$203,510	
44	**Derek Dawson**, Navtech	$182,691		$182,691	$70,938
45	**Christopher G. Lippincott**, Smith Micro Software	$164,000	$17,200	$181,200	$189,702
46	**R. Ernest Chastain**, Vantagemed Corp.	$175,044		$175,044	
47	**William R. Wyand**, Smiith Micro Software	$150,000	$22,800	$172,800	
48	**John W. Gazzola**, Proginet Corp.	$147,537	$23,237	$170,774	
49	**Darrin T. Coulson**, Sonic Foundry	$139,615		$139,615	
50	**Paul Buzby**, Astea International	$111,000	$22,000	$133,000	$25,900

Note: The 50 individuals here received the highest annual compensation of top sales executives of public software companies with a current market capitalization of $25.3 million or more. "Variable" compensation includes bonuses, commissions, company-paid insurance, relocation and housing allowances, forgiven loans, memberships, profit-sharing contributions, etc. "Long-Term" compensation is income from the exercise of stock options.
Source: Company proxy statements for most recent fiscal years.

Equities

Liabilities, Liabilities, Liabilities...Is That All You Can Think About? Part II of II

By Mark S. Reed, Corum Group

Another important task for sellers is ensuring an appropriate period for representations. Buyer's may wish to extend the seller's representations long after a deal closes, thereby exposing sellers to liability years after a transaction's close. Sellers should negotiate for time limitations on the reps and warranties that end those risks after a reasonable period, normally no more than three years (sellers should push for one year).

Buyers will seek indemnification from sellers that compensates them if the reps and warranties are breached. Some buyers will try to recoup 100% of their losses from the seller, which can greatly exceed the sellers total transaction consideration. Sellers should negotiate for reasonable limitations on the amount a buyer can recover, typically not more than the seller's after tax receipts from the transaction in a worst case scenario. The informed seller will also seek other limitations on their indemnification liability by using "baskets" or thresholds to ensure the buyer really suffers a material loss before being entitled to come after the seller. When multiple sellers are involved, the buyer may seek "joint and several" indemnification from all the sellers. This permits the buyer to take the course of least resistance and recover their entire loss from a single seller. Joint and several indemnification is usually unfair to the seller with the deepest pockets. It's also unfair to sellers with small ownership stakes, those with no active involvement in running the business, and sellers who do not possess enough knowledge about company operations to make representations.

To protect themselves, sellers should negotiate for "several and not joint" indemnification limited in proportion to their share of the transaction proceeds. The sellers as a group can also enter into a contribution agreement to define how they will share liabilities arising from indemnification provisions. A transaction can also be structured so that the buyer obtains redress from a common pool before pursuing individual sellers.

The interrelationships of the representations, warranties, indemnification provisions, and disclosure schedules can be complex. Obtain experienced legal and professional counsel to help limit your risk.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
MaxStream	Digi International (DIGII)	$38,500,000	$10,400,000	**3.70**
• *Wireless device networking*		*Terms: Cash and stock*		
M-Systems (FLSH)	SanDisk (SNDK)	$1,560,000,000	$717,100,000	**2.18**
• *Flash memory*		*Terms: Cash*		
MAI Systems (MAI.PK)	Softbrands (SBN)	$15,500,000	$21,500,000	**0.72**
• *Application erformance monitoring*		*Terms:Cash*		
MRO Software (MROI)	IBM (IBM)	$740,000,000	$199,200,000	**3.71**
• *Asset and service management software*		*Terms: Cash*		

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Book Review: *Exceptional Selling: How the Best Connect and Win in High Stake Sales* by Jeff Thull. John Wiley and Sons, September 2006

This is the third book by Jeff Thull of Prime Resource Group expounding on his theories of "diagnostic selling," a process whereby a salesperson selling enterprise-class software seeks to establish themselves as a trusted, consultative authority to the customer during the sales cycle. For followers of Thull's system, apotheosis is achieved when a salesperson is accorded the same degree of respect and deference given to a doctor or similar professional.

Exceptional Selling focuses heavily on the actual processes of the diagnostic process Thull advocates and offers excellent advice and examples on such topics as protecting the customer's ego during the sales cycle, learning how to develop analyses of customer needs that are credible, and (perhaps my favorite topic in the book) why you should avoid those PowerPoint presentations the industry is addicted to.

One caveat I must offer is that Thull is hard-core about achieving diagnostic credibility. He expects salespeople to own up when they can't offer answers to customer problems and ***even recommend another company's product if appropriate***. We've never seen an industry salesperson actually do this, but we're sure it's happened. Somewhere.

Diagnostic selling competes directly with such methodologies as Mike Bosworth's CustomerCentric system and the venerable Solution Selling program. In our opinion, Thull's approach best fits a software firm that offers products that tend towards the leading edge with higher median integration and implementation costs. But regardless of your firm's exact product profile, *Exceptional Selling* at 230 pages is a worthwhile and succinct read.

BLOGGER DANA BLANKEHORN ON SOURCEFORGE: "I personally feel that the big community Sourceforge created didn't build identity or culture amongst those projects. What you see at Apache.org or Java.net is a community feeling you don't see on Sourceforge." (Quoted on http://blogs.zdnet.com/open-source/?p=725&tag=nl.e550, 07/28/2006)

FREE SOFTWARE MAGAZINE EDITOR TONY MOBILY ON RED HAT: "By abandoning their desktop users, Red Hat has effectively shot itself in the foot. Funnily enough, they kept on chasing the mirage of thousands of soulless corporate customers with the real money. However, the bleeding didn't stop altogether, and behind those faceless corporations there are thousands of system administrators who now use Ubuntu Linux rather than Red Hat Linux." (Quoted on http://www.freesoftwaremagazine.com/articles/editorial_13, 08/01/2006)

TECHDIRT CONTRIBUTOR "JOE" ON A RECENT ARTICLE BY BUSINESSWEEK MAGAZINE: "Suffice to say, BusinessWeek has written the ultimate Web2.0 hype piece without the slightest hint of skepticism about the numbers that it throws around. Digg very well may be sold at some point, and Kevin and the other Digg staff may make out very well. However, to suggest that they already have is pure bubble logic. Yeah, we've got some serious deja vu." (Quoted on http://techdirt.com/articles/20060803/1812214.shtml, 08/03/2006)

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