Soft•letter

Our second series of excerpts from Flexera Software's software downloads report provides more insights into global software sales and the impact of the recession on the industry..
See pages 4-5, 10.

Softletter Case Study: Donor Community: Doing Good in SaaS

by David Blyer, DonorCommunity

In 2009 David Blyer founded DonorCommunity after a long and successful career as a technology executive and entrepreneur. The impetus for the development of DonorCommunity came from a series of conversations David had with friends and business acquaintances who specialize in running events for non-profit organizations and educational institutions.

This market has long been served by established players such as Blackbaud Software and Convivio, but the individuals he spoke with felt that implementing these companies' products in their organizations was too lengthy and expensive a proposition; they also felt the licensing and payment process was overly abstract and complex. Of particular concern to many non-profits is event management as galas, balls and charity auctions are mainstays of charitable fund raising. Out of these discussions, DonorCommunity was born. As originally conceived, the product was intended to focus on providing event management services for non-profit organizations.

There are approximately one million registered non-profit organizations in the US broken into a series of tiers that define the non-profit's size and determine the type of regulatory regime it operates under. After marketing sizing and analyses exercises, the company decided to focus on Tier E firms, organizations between $1 to $5 million in revenue (the overall average size was $3M). This class of non-profit brings in $86 billion in donations yearly, with about 24% of that raised via events—$20 billion per year and devotes a disproportionately high percentage (about 40%) of their annual operating budgets to fund raising and administration.

Tier E firms face the same challenges and issues larger non-profits do, but have less resources and money to carry out their activities. The economic downturn beginning in 2008 has only made their financial situation more challenging.

Work with some early potential Tier E firms uncovered the

The Hidden Value in Public Opinion: Spiking Web Traffic With Online Polls

by Joe Dysart, Softletter

One of the web's most resounding successes, web-based surveys are currently being used to significantly cut the costs associated with the traditional survey process—while simultaneously improving the user's overall visibility on the Internet.

Essentially, software businesses can expect to cut their survey costs in half when using the web as compared to more conventional mediums, according to Joanna Belbey, president of Direct Response Marketing, based in Brooklyn, New York.

Gerardo Altman, a manager at Velocity Host (http://www.velocityhost.com.au/), a SaaS provider, says he's saving "a few hundred to up to a thousand per survey," by using web-based surveys rather than paper or telephone. Others, like software maker OutStart (http://www.outstart.com), are seeing even great value. "Over the course of a year, we estimate a 90%+ savings," says Jeff Whitney, OutStart's vice president of marketing.

Plus, software companies can expect the response rates for those surveys to be much higher that those found with traditional surveys—rates as high as 50%, according to Belbey.

"Web surveys allow for a more interactive experience with the content and allows the user to not feel pressured to participate," says Velocity's Altman, adding that "willing participants are more likely to provide their honest opinions and answers."

In addition, Web surveys can be used to boost a company's website rankings, especially if details of a survey are doled out over time. The reason? Web survey or poll results are seen by search engines like Google as "fresh content"—something the search engines reward with higher search engine returns.

Results of a poll or survey that are discussed for weeks or even months on a software's blog, for example, will continually be seen by search engines as new content. And surveys can be converted to other marketing materials. White papers, which are always more effective if backed up by research obtained from the customers to which they are directed, are excellent vehicles for disseminating survey results. Survey results and analysis also make excellent grist for blog mills, webinars, other marketing collateral, and posts on social sites such as LinkedIn, Facebook, and private social business networks.

Meanwhile, survey results can also get a software company's website extra legs if published in a press release on a major PR service like PRNewswire (http://www.prnewswire.com) or BusinessWire (http://www.busineswire.com). The mere presence of a press release on those services will result in more clicks to your company site.

"People appreciate good data," says OutStart's Whitney.

following problems with the current software products available to these companies. These were:

- As noted, many Tier Five firms rely heavily on events for fund raising as well as third party software and resources to manage the financial side of the event, including registration and payment management. In return for these services, the non-profit was expected to pay a license fee for each event managed by the service provider, a transaction fee for each payment received through the provider's system, a payment gateway fee, and a percentage of the money raised at the gala itself. The overhead per event is substantial: even the most efficient non-profit organizations, religious, typically send $.71 to raise $1. Other sectors don't perform nearly as well; health and arts organizations typically spend $1.80 to raise $1 in contributions (remember, these are **non-profits**).

- The available on premise products available were expensive (installation, maintenance, and licensing fees could easily exceed $30k) and required IT staff to manage, maintain and upgrade; Tier E non-profits find it difficult to maintain even small IT groups.

- Auctions and merchandising also play a key role in fund raising, but overhead fees were also high, and information generated by auction programs was frequently not captured and added to the non-profit's donor database.

- There was a smattering of SaaS firms that addressed some of the needs of these non-profits such as Tapestry (donor outreach) and DonorPerfect (outreach and management), but continued usage of these systems led to increased fragmentation of donor information and presented a data integration problem with the marketing software many Tier Es were beginning to use.

After analyzing the problems uncovered by their research, DonorCommunity decided to increase the scope of the new SaaS offering. In addition to its event management capabilities, the new system would also offer:

- A donor-oriented CRM engagement system. This functionality would enable a non-profit to communicate with its donor community and track not only the typical contact information managed by CRMs but also information of importance to non-profits such as media, government and corporate contacts, pledge histories, family relationships et al.

- An online marketing system that included blogging, social marketing integration and E-mail management.

- Online auction and donation management.

> **"DonorCommunity does have the capabilities to address other markets such as local towns and municipalities who face many of the same challenges as non-profits, but we've made the decision to stay focused on our core market."**
> — *David Blyer*
> *DonorCommunity*

Benchmarks: Key Highlights from Flexera's Software Usage and the Impact of the Global Recession, Part II of II

Flexera Software (www.flexerasoftware.com) is a specialist in software product licensing management. Many key software companies across the world use Flexera's systems to manage downloads and license entitlement and because of this, the company is in a unique position to provide global snapshots of the health of the global software industry (with the exception of SaaS subscriptions; however, despite the rapid growth of on demand, the industry is still dominated by desktop and on premise applications). This report focuses on economic activity in North America, Europe, Australia, and New Zealand; we'll be providing Asian and ROW snapshots in the future. The Flexera system counts new purchases of software in addition to patches and upgrades of software as part of maintenance agreements. As such, these download statistics can be closely correlated with a software provider's revenues from new and existing customers.

	2007 Share of Total EU Downloads	2010 Share of Total EU Downloads
Germany	19.4%	21.5%
United Kingdom	27.8%	14.4%
France	13.3%	13.1%
Italy	4.7%	8.2%
Netherlands	6.8%	6.7%
Spain	3.7%	5.1%
Switzerland	3.4%	3.8%
Poland	2.4%	3.5%
Belgium	2.6%	2.6%
Sweden	2.4%	2.4%
Russia	1.3%	2.2%
TOTAL	**87.9%**	**83.6%**

Chart One: Downloads Share by Country. Source: Flexera Software

Chart One above is color coded to show countries that grew their share of European downloads in 2010 (in green) versus 2007 in contrast to those whose share shrunk (in red).

Among the top three countries, Germany alone grew share while the United Kingdom and France lost share. These are the traditional EU powerhouses, dominating the software industry. A drill down by country for download share is shown in the Chart Two on the next page. It's not surprising that Germany, United Kingdom and France dominate Europe with 49% of the total downloads in 2010,

but outside the top three, the market is very fragmented. The 11 countries shown below accounted for 88% of all European downloads in 2007 versus 84% in 2010. ISVs and device manufacturers that are looking for growth opportunities in Europe need to keep this increased fragmentation in mind as they develop go-to-market strategies for Europe.

	Rank Based on 2010 Completed Downloads	Rank Based on 2010 GDP
Germany	1	1
United Kingdom	2	3
France	3	2
Italy	4	4
Netherlands	5	7
Spain	6	6
Switzerland	7	8
Poland	8	9
Belgium	9	10
Sweden	10	11
Russia	11	5

Chart Two: Total Completed Downloads by % and GDP. Source: Flexera Software

How does download activity correspond to a country's GDP? In the chart above, we ranked European countries based on their completed downloads and by GDP. In general, the GDP rankings and download activity rankings are closely correlated. Russia is the one exception—by GDP, it ranks 5th in Europe, where as by download activity, it ranks 11th.

What accounts for this disparity? A key factor may lie in the fact that Russia's economic output is dominated by commodities and this helps its GDP ranking (Russia, for example, out produces Saudi Arabia in oil, is the single largest exporter of natural gas to Europe, and is the world's second largest

- Online "boutique" stores that are enabled to sell branded items (Jason Taylor Ts for example) and similar goods.

The entire system was packaged into a content management systems (CMS) which was designed to be managed by an administrator in the non-profit's office. The goal of the by DonorCommunity system was to provide a complete online donor relationship management system that solved the problem of non-integrated databases, reduced pricing overhead, and enabled subscribers to create a persistent community of people and donors interested in the cause or institution supported by the non-profit.

The CMS frameworks was also important. If the non-profit chose to do so, it could import its existing website and maintain its look and feel into the DonorCommunity CMS. There was also the option of changing the design via a template system built into the system. This process typically took 10 days and cost the subscriber a one time fee of $2k. (It did not include redesign of graphics, logos, and banners.)

Vertical Integration

An overlooked strength of SaaS is the ability of the model to allow subscribers to vertically integrate their own organizations. For example, many non-profits are broken into chapters that possess varying degrees of autonomy. Many SaaS vendors will enable their subscribers to in return resell the system to **their** chapters, divisions, business units, etc, often in return for discounts or extra services. From the standpoint of the subscriber, this enables them to develop a common IT infrastructure throughout their organization at a very low price. The SaaS vendor benefits because once an initial sale is made, the subscriber base grows quickly as the vertical integration takes hold and the likelihood that the organization (or any sub-unit) will not resubscribe drops substantially.

Development

The development cycle took approximately 18 months and DonorCommunity faced some significant obstacles along the way. Initially, an attempt was made to use a pure outsource model to build the new system using an Indian firm but it failed. Instead, the company hired a development team in Bogota, Columbia, managed by a company CTO who splits her time between duties in the US and Bogota. In the words of David "I believe your development group must be employees of the company. In my experience, this is the only way to ensure the group is aligned with and vested in your success. In my previous software startup, my partner, the CTO, had strong relationships with developers in Bogota Colombia through friends and family connections.So, we wound up setting up our main development organizations there and having satellite groups in each market to perform customization work as needed. This worked very well and provided us with very skilled developers at one third the cost of their US counterparts."

"Marketing DonorCommunity has been a major challenge because the typical media outlets that existed when I was first entering the industry no longer exist or have lost their ability to reach vertical audiences. The new online marketing vehicles don't reach specific industries very well; creating PR and awareness is very much a 'roll your own task.'"

— David Blyer
DonorCommunity

Marketing

Marketing also presents challenges that are often typical of those facing companies in vertical niches. David notes that "getting the word out about DonorCommunity is a challenge because there's a lack of marketing vehicles in our industry. There are only two organizations, GuideStar and Charity Navigator, that cover non-profits and their business issues and a single industry tradeshow. We have to depend on building our community out to drive word of mouth awareness as well the careful development of reference accounts to create credibility. "Another issue facing DonorCommunity is that as some of the larger companies become aware of DonorCommunity, they've adopted a strategy of attempting to sign their licensees to longer term deals. " The problem with this strategy is that it's at odds with the need of Tier E non-profits to become leaner in lean times" notes David.

On the other hand, the company is learning to use its intrinsic advantages as a SaaS vendor to explore new promotional and revenue examples. In September of 2011, the company announced an alliance between DonorCommunity and Merchant Data Systems (MDS), an merchant services provider (bank). The program consisted of DonorCommunity being able to collect, approve and process donations at specially discounted rates, whether they originate from the Web, a phone call, a point of sale device or a computer. MDSs will also donate 100% of its profits from processing these donations back to the non-profit as part of the MDS ProcessGive rebate program. For the first time ever, payment processing will become a fresh source of revenue instead of a cost non-profits must incur to electronically process donations.

In addition, the alliance between DonorCommunity and MDS allows non-profits to implement new types of fund raising campaigns never before possible. For example, a non-profit can create a branded set of MDS gift cards that are sold using DonorCommunity's Online Auction Manager application, earning rebates on every auction sale. Later, when the card is used to purchase items, the non-profit would earn an additional rebate based on a percentage of the purchase price.

> **"We didn't give a lot of thought to channel development during the run up to the system's rollout; we were surprised how the SaaS model opened new channels and the speed at which these opportunities appeared."**
> — *David Blyer*
> *DonorCommunity*

Pricing

The price of subscribing to all DonorCommunity modules is a yearly price of $7.5k including unlimited support and training. There are no other charges and access to all system modules is included in that price. There are no "maintenance" and "licensing" fees. This meets the needs of Tier E firms to reduce IT overhead to the lowest levels possible while pursuing their charitable missions.

DonorCommunity did a great deal of competitive research on what their competition was offering and realized they could charge 50% to 75% less by offering their system via a SaaS offering that created recurring revenue that increased rapidly as they scaled up in clients. The bottom line was

that allowed them to offer their products at a price Tier E's could afford, thus undercutting their competition.

Channels

Depending on your industry and the maturity of your company, channel development may not be relevant to your business, but DonorCommunity discovered that there were several channel opportunities in their market. One primary group was large consulting firms who work with non-profits. After a look at DonorCommunity, several decided that reselling the system would help their clients and themselves. Reseller's margins are currently a recurring 10% with no rebranding of the system with the reseller's identity. (DonorCommunity can also resell its partner's products, where applicable, under similar terms.) DonorCommunity has also developed a program that enables major corporate donors and sponsors to purchase a subscription to the system for their favored non-profits; this is an excellent example of how the flexibility of the SaaS model opens up new marketing venues and opportunities.

Lessons Learned

The experiences of DonorCommunity exemplify the ability of SaaS to reach new and different stratas of customers in an industry even when there's existing and seemingly formidable competition. When planning your startup, identify the following elements when mapping potential customers to your application:

- Look for new opportunities in markets where it's not practical for potential subscribers to purchase or sustain a complex IT infrastructure (or even a simple one, as in the case of the Tier E non profits).

- Identify industries that you can quantify with a reasonable amount of accuracy so that you can understand more precisely their specific needs and challenges. In the case of DonorCommunity, an existing ranking system for non-profits simplified this task, but even in market sectors that lack this, it's almost always possible to segment potential subscribers into different classes or rankings.

- If you're entering a market where existing competitors are entrenched, identify market layers that aren't well served by existing on premise products. If your competition is offering a SaaS alternative to its on premise products, analyze what they're doing carefully. In the case of DonorCommunity, one of their main competitors is offering a SaaS product but the pricing and deployment model is encrusted with on premise concepts. It's very difficult for an established company with a flourishing on premise business to switch to the SaaS model without major internal trauma (ask the phone companies about this).

- SaaS firms are oftne in a position to disrupt the existing pricing structure of a marketing sector. In SaaS "consumer" or highly commoditized markets, a VOIP product such as Skype can seriously impact long established pricing schedules and practices. In vertical markets, this impact is not always as pronounced, but can still be very significant.

David Blyer, DonorCommunity, 13630 NW 8th Street, Suite 205, Sunrise, FL 33325; 954-607-7361. E-mail: dblyer@donorcommunity.com. Website: www.donorcommunity.com.

Moreover, if the press release is picked up by an editor or reporter, the company source behind the press release may find himself or herself very quickly being interviewed for a story to appear on TV, the web, on radio, in print—or in all the aforementioned mediums.

"Polls and surveys are valuable publicity tools because they tip off reporters to emerging trends," says Joan Stewart, a publicity consultant and founder of The Publicity Hound (www.publicityhound.com). "Often, they provide nuggets of information that don't take up a lot of space. Or, they can result in longer news or feature stories—as long as they don't sound like blatant self-promotions."

Yet another major benefit of polls and surveys are their use as market research tools. Both serve as excellent ways to solicit feedback on a new product or marketing approach.

Fortunately, there are a wide array of tutorials and easy-to-follow instructions on how to create an effective web survey or poll for your company. Some of the best are offered by Web survey software companies, including those from Vovici (http://www.vovici.com/resources/survey-white-papers.aspx).

Nearly as old as the web itself, web surveys have grown increasingly sophisticated over the years, currently offering users extremely powerful tools for soliciting respondents and analyzing results.

"We can create and distribute surveys to hundreds, thousands or tens of thousands of people in minutes," says OutStart's Whitney.

There are several basic features any modern survey system should possess; if the system you're using now doesn't have them, consider switching to one that does:

• Conditional/branching logic. This enables you to direct survey respondents to different questions and sections in a survey and/or allow them bypass areas not relevant to them

• Progress meters. One of the quickest way to ensure high abandonment rates for a survey is to not give a respondent a sense of how soon they'll complete it. Meters should provide percentage or number of questions remaining indicators.

• Conditional display of questions based on previous answers. In other words, if you ask about A,B and C and want to drill down into B and C in a subsequent questions, the system should have the ability to hide question A.

• Basic statistical breakdowns. Averages and medians are the bare minimums.

• Data export to Excel and CSV files.

Some of the more advanced E-mail survey solutions enable users to personalize each survey with dozens of user defined fields. In practice, that translates into being able to address each potential respondent by his or her own name, and include a score of other personalized facts about the recipient to ensure he or she does not feel like the target of a spam-fest.

diamond product—however, the commodities sector is not a heavy consumer of software.

Year-Over-Year Growth in Completed Downloads

■ 2007-2008   ■ 2008-2009   ■ 2009-2010

Eastern Europe: 25%, 14%, 0%
Northern Europe: -17%, 5%, -35%
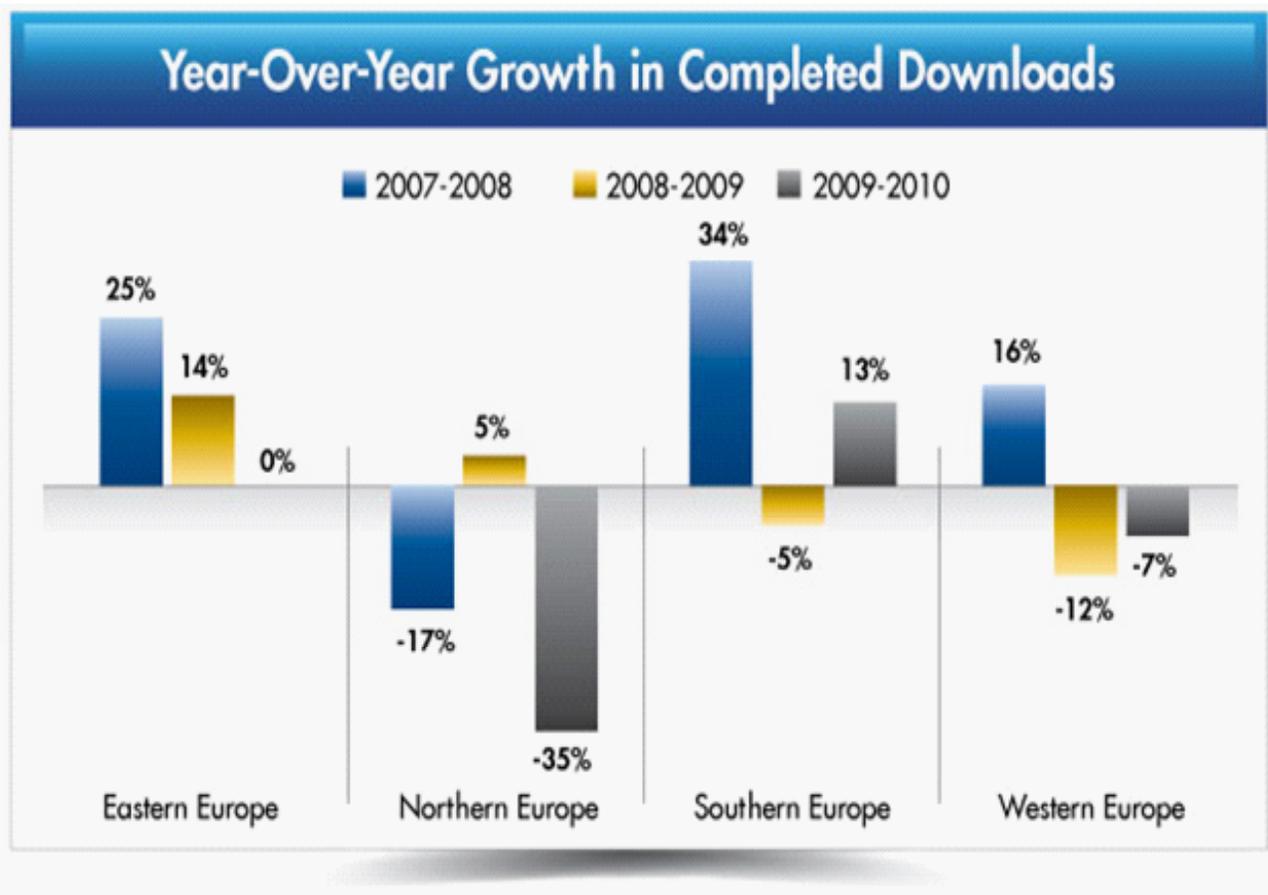**Southern Europe:** 34%, -5%, 13%
Western Europe: 16%, -12%, -7%

Chart Three: Year Total Completed Downloads by % and GDP. Source: Flexera Software

Finally, we looked at year over year growth in completed downloads between 2007 to 2010 by sub-region in Europe. Within Europe, the performance of different regions varied widely:

•   Southern Europe was strongest coming into the recession (34% growth in 2008) and strongest coming out (13% in 2010). Strong growth in Italy in 2010 more than offset declines in Spain. Italy and Spain have a dominant share of downloads in Southern Europe (not a great surprise).

•   Australia's growth pattern was very similar to Southern Europe—strong growth in 2008, decline in 2009 and returning to positive growth in 2010.

•   Northern Europe was weakest going into the recession (-17% in 2008) and significantly weaker as the recovery started in 2010 (-35%)

•   Western Europe shares a growth pattern with North America—strong growth in 2008 followed by declines in 2009 and 2010.

Figure: Conditional Survey Question Processing
Source: Allegiance Systems

Advanced solutions can also track who actually received your survey via E-mail, who clicked on the links embedded in the survey, who forwarded the survey onto a colleague or friend, and who responded to the survey. Such solutions also enable you to embed a survey within your company e-newsletter, as well as add automatic triggers to enable you to send surveys before, during or after specific events of your choosing.

You'll also find many survey packages will automatically graph your survey responses, create multiple sub reports based on how one or more questions are answered, and offer simple and multi level data filtering based on all question, data or system data points.

Today's surveying tools are also adapting to mobile users. "With mobile surveys, you no longer need special devices, as there are now new mobile survey tools that work with basic cells phones, smart phones and tablets," says OutStart's Whitney. "Your survey can pretty much reach everyone, regardless of the device they carry."

The state of the survey art has reached the point that if you can dream up a way you want to analyze and present data, chances are one or more of the industry providers already have a tool to do so or can offer you the ability to create your own customized report.

Fortunately, the widespread popularity of web-based surveying has spawned an entire cottage industry of Web service providers. Many provide these services for free in exchange for free advertising space within the survey form. (For more info, type "free surveys" into any major search engine). Others sell packages you can bring in-house for under a $100. And still others will host your survey on their own servers for a nominal monthly fee.

Channel Blockage and Steering: Lessons in Expectations

by Ted Finch, Chanimal.com

When the SaaS model first began its comeback in the 2004/5 timeframe, the place of channels is SaaS was (and among some still is) hotly debated. After all, no shipping or installation of products is required in SaaS. All customers share a common set of capabilities and services. Customer recruitment, sign up, and services are administered and carried out at a common portal or portals managed by the SaaS provider. The on demand model seems particularly well suited to a direct sales model.

There's also the issue that in SaaS, the balance of power shifts in key areas from the channel to the vendor. With SaaS, providers enjoy the following:

- No prospect of disintermediation from the customer. The on demand model inherently provides the SaaS vendor with complete access to all users of its system. By contrast, with on premise software, companies frequently wrestle with their resellers over access to customers; there have even been cases when software publishers have been contractually prevented from identifying or contacting a reseller's clients.

- The ability to aggregate, package, and potentially resell data and insights on best practices and trends across the full spectrum of a company's subscribers, regardless of their market or geographic location.

- Much tighter control over service levels, billing cycles and payments; again, this is inherent in the SaaS model.

- Decreased services overhead. In the on premise model, the two-tier reseller model introduces of necessity more complexity and overhead into customer and technical service as the software publisher must learn about and support a vast array of different reseller customer hardware and software environments.

Channel margin structures have also been significantly changed by SaaS. In the on premise model, margins have traditionally ranged from 30% to 50% "points," depending on the reseller's business volume and commitment to the vendor (and there have been outlier cases where margins have reached 70%+).

By contrast, in SaaS, Softletter's SaaS research shows that the median margins for resellers range from 10% to 30%; this assumes that the reseller will be compensated on a recurring revenue basis in alignment with the provider. While some channel segments, such as agents and recommenders typically receive one time commissions, as do some VARs in some markets, *Softletter's* research shows the overwhelming trend is towards VARs being paid on a recurring basis. Margins in your market will be impacted by reseller volume, commitment, and competitive pressures in your industry.

It's worth noting that there are a very limited number of instances where SaaS providers have resold their SaaS systems to the channel on a licensed basis, allowing the reseller to install and manage the system. Over time, expect to see only a small number of SaaS firms embrace this approach as it introduces back into the equation the issues of account control and disintermediation as well as raising the cost of both customer and reseller support.

But despite the doubts and questions, channel development in SaaS is strong and growing. Companies have discovered that the traditional reasons to implement a channel in SaaS apply as much to on demand as they do to on premise markets. The principal drivers of channel development are, and remain:

- **The ability to reach new market segments outside the reseller's core expertise and sales bandwidth.** In markets such as document management, compliance, non profit management, small business marketing and sales portals, CMS systems and many others, SaaS firms are continually discovering that channels bring new market segments and revenues into reach faster than attempting to build a direct sales force to address the myriads of potential niches and market sectors. And channels are also powerful qualifiers. If there are no resellers present in a market, it can mean there's no market there.

- **The amplifier effect provided by a channel.** This is of particular value to companies selling lower end and broadly horizontal products. In project management, E-commerce, website templating and creation, etc., SaaS firms have learned that an expanding channel both increases revenues and helps fend off the competition, a lesson the desktop software market learned in the 80s (fortunately for SaaS firms, they don't have to endure the legendary levels of piracy companies such as Lotus, Microsoft, Ashton-Tate and others suffered as their products fought for market supremacy).

- **The network effect created by channels.** As the case study about DonorCommunity in this issue illustrates, SaaS products open up new channel opportunities not normally accessible to on premise products. In DonorCommunity's case, the company discovered it could build a channel via large corporate giver's who purchased subscriptions to the product on behalf of their donees. Similar instances of this effect have been found in government and the supply chain markets. In the case of supply chain products, larger retailers and distributors have been either encouraging or insisting that their vendors purchase SaaS-based software in order to integrate their entire supply networks into integrated purchasing and inventory management entities. In some cases, larger vendors retailers and discounters have been able to purchase subscriptions for their providers at attractive discounts from the SaaS vendor, thus encouraging quick adoption of the product and speeding the integration process.

- **The operational ease and speed of the SaaS model.** With SaaS, time consuming installation and setup processes and delays don't exist, nor, as noted, do resellers have to worry in most cases about adjusting the system to conform to a customer's computing environment. This does not mean, however, that providing reseller training programs is not an important component of a SaaS reseller program; it **does** mean that such programs will focus more on teaching reseller customers best practices in using the system and assisting them in providing professional services such as data integration and advanced product training.

It's important to point out that some traditional channel elements seem to have little future in SaaS. *Softletter's* recent SaaS survey shows that only 5% of resellers are using distributors such as TechData to resell their products. This is not surprising. Since the traditional role of distributors has been to "break bulk," i.e. provide warehouse and inventory management services for a dispersed network of stores and locations, it's hard to see what role distribution plays in SaaS (exceptions are for companies who are selling products that possess a large hardware component, such as an asset management system that requires the installation of tracking devices on trucks, cars, earth movers and so on). And aggregators such as JamCracker, which seek to package together select SaaS applications to specialized markets such as telcos,

have likewise not generated huge traction in the market.

SaaS companies also need to keep in mind that resellers are attracted to companies that have proven track records of success. There are very few resellers who will be attracted to unproven SaaS products for which their potential audience has expressed zero interest. Rather, the most successful SaaS channel programs provide useful lead generation programs as well as overall market awareness and validation of their products, leading to current and potential customers pushing on resellers to provide SaaS solutions to their business problems.

We recently read an analysis of SaaS channels that claimed that SaaS resellers are put at risk because they must make a 100% up front investment in acquiring customers as well as "on boarding" them into the system while only netting a % of the recurring revenue stream. This analysis is off the point, as the SaaS provider is very much in the same position **and** must also pay for product development, marketing, sales development, etc. And the value of the recurring revenue stream for resellers is the same as it is for the providers—access to a predictable and steadily growing revenue stream that avoids the peaks and valleys of on premise sales.

So, channel prospects for SaaS are good! But minefields still exist, particularly for SaaS firms that don't carefully analyze a potential existing channel for its actual, vs. its stated, potential.

A recent example of this can found in the case of a company that's been attempting to sell a SaaS system that adds compliancy and records management to Google Docs. To meet a myriad of compliancy and legal regulations and policies, the Google system would need to provide:

- Centrally controlled document access management
- Document classification policy management
- Retention policy management
- Destruction and disposition policy management
- Legal hold management

Currently, Google offers no such abilities in its system, a serious impediment to businesses and government entities such as states and municipalities that **must** meet these requirements to avoid such consequences as heavy fines and even jail time. So critical is the lack of compliancy that some early state adopters (Wyoming for example) of Google Docs have been forced to reconsider their commitment to the product and other businesses have disqualified Google Docs for purchase because of regulatory and legal issues.

This situation is tailor made for channels and third parties; after all, a stock copy of Microsoft Office lacks compliancy as well, but several companies have stepped in to the breach to provide robust document management for Microsoft, WordPerfect, and other document creators. And Google has publicly proclaimed its love of channels, announcing in 2011 that there were over **2K** Google resellers. With such policies in place and a robust channel in operation, our documents management company seemed to have a clear path forward to offering a critical compliance component to Google Docs, one that would help both the company and Google achieve greater sales and increased penetration into key (and large) market sectors. The initial plan was to contact Google's reseller channel and identify firms who were selling into larger accounts and governments, likely candidates for a Google Docs document management system.

Unfortunately for our intrepid company, Google's channel program turned out to be far less than initially met the eye. There were several problems the firm faced as it attempted to execute its channel strategy.

These included:

- Google had no program to connect its resellers with potential VAR partners. And the company refused to identify its resellers to the document management firm.

- Google also provide no directory of its Google Docs customers for its resellers and refused to tell the document management company who its Google docs customers were.

- Faced with the above, the company began a program to identify Google resellers via searches on Google, visits to the Google App store, and similar venues. Initially, the document firm identified 400 resellers and began the process of qualifying them; this effort uncovered the fact that the vast majority of Google's resellers were reselling AdWords. After further work and digging, the document company discovered the number of resellers offering Google applications to the enterprise, the proper complement to a document compliancy and management product, was...27.

- The personnel managing Google's channel programs were engineers with no channel experience. In addition, the Google channel program, while it did distribute some leads to reseller in a haphazard fashion, focused on sending most leads to its direct sales force (a common characteristic of immature channel programs).

After much head banging and imploring, Google at last relented and agreed to "match make" one meeting and introduce the company to **one** potential reseller, (who turned out to be delighted with the introduction). Google was reluctant to make further introductions because it didn't "want to show favoritism," a good reason for Google to put together the VAR solutions catalog it now lacks.

Lessons Learned

While in many markets the case for channels is compelling, SaaS companies must be very wary of depending on major industry players for access to their reseller channels. Before depending on a third party for channel access, make sure you do the following:

- **Ask for the company's reseller catalog**; if they have don't have one, assume they don't have a true channel program in place. An effective reseller catalog will contain names, contact information and **information about the markets/products they resell.**

- **Join the reseller program** and analyze it. Does the program seem professional? Does it offer tiered participation levels? Creditable lead generation programs? Channel management information and contact information clearly identified and accessible?

- **Call the company and ask to speak to its channel managers.** If you find it requires the patience of Job to endure and the strength of Hercules to remove obstacles to reach these individuals, their channel program may not be for you.

- **Communicate with companies already enlisted in a vendor's reselling program.** Ask them questions. If they don't think much of the program, they'll probably provide you with useful information on it shortcomings and issues.

Ted Finch, CEO, Chanimal.com, 12109 Lake Stone Drive, Austin, TX 78738; 512-263-9618. E-mail: ted@chanimal.com.

Higher End Online Survey Resources

- **ConfirmIt** (www.confirmit.com/): High end, sophisticated system aimed at larger companies.
- **SurveyMonkey** (www.surveymonkey.com): Free and pro version at $19.95/month. We recommend the pro version for serious work; competitive for more advanced surveys but doesn't possess the power of some of the more expensive products.
- **Voice of the Customer** (www.ixreveal.com/solutions/voice.htm): Provides E-mail, online chat in addition to surveys. Good array of reports and built in analysis tools.
- **Vovici** (www.vovici.com): Offers basic survey services, as well as higher-end modules for more specialized needs. Surveys can be embedded in social networking communities, blended with customer relationship management software; system also offers an option to gather data offline and later integrate it into online survey responses.

PC WORLD BUSINESS CENTER ON HOW THE THIRD WORLD IS SAVING BILLIONS FROM SOFTWARE PIRACY: "Pirated software saves its users in developing countries more than $2.9 billion annually. So finds a study of manufacturers in Latin America, Central and Eastern Europe and Asia-Pacific commissioned by Microsoft." (Quoted on http://www.pcworld.com/businesscenter/article/244128/companies_save_29_billion_with_pirated_software_study.html#tk.nl_dnx_h_crawl18, 11/17/2011)

NETSUITE CEO ZACH NELSON ON MICROSOFT AND THE CLOUD: "I'm shocked at the lack of innovation." (Quoted on http://www.businessinsider.com/zach-nelson-ceo-netsuite-2011-9, 08/26/2011)

ZDNET BLOGGER JASON PERLOW ON MICROSOFT'S METRO PROVING THE DEATH OF THE PC: "Now that I've seen Microsoft's next-generation Windows desktop systems architecture, it's become very apparent that Metro fits quite well into the Post-PC vision that I described earlier. It would be entirely possible for a "PC" to be built entirely without Intel legacy architecture, based on the new "Green" foundation.

Within several years, the Wintel architecture on the desktop is going to cease to exist. Microsoft has not issued a timeframe for when this transition is going to occur, but I suspect it will happen within two consecutive versions of the OS. That's certainly within the scope of ten years or less." (Quoted on http://www.zdnet.com/blog/perlow/microsofts-metro-proves-the-pc-is-dead/18705?tag=nl.e539, 08/2/2011)