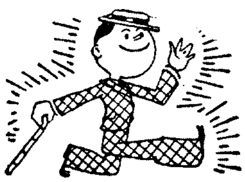
Friday, Sept. 30, 2005
Vol. 21, No. 018

Soft•letter
BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS



Good times for marketing chiefs: rising pay indicates a strengthening software market
See pages 4-6.

Publisher & Managing Editor
Merrill R. Chapman
rickchapman@softletter.com
860/663-0552

Editor
Donald K. Rosenberg
don@softletter.com
919/687-4172

Editor Emeritus
Jeffrey Tarter
jtarter@softletter.com
617/668-0028

Editorial office
Soft•letter
34 Sugar HIll Rd.
Killingworth, Conn.
06419
860/663-0552

Subscription office
United Communications Group
11300 Rockville Pike
#1100
Rockville, Md. 20852
301/287-2718
866/313-0973
customer@softletter.com

www.softletter.com

Channel Optimization: Are You Giving the Channel Too Much?, Part I of II

by Nilofer Merchant, Rubicon

Given the squeeze-play on end-user prices, increased channel competition, and investor demands for steady—if not increasing—earnings, it is hard to believe that many companies have an untapped source of additional profits on current business.

In a recent worldwide channel economics study, Rubicon analyzed industry giants such as Microsoft, Symantec, Apple and Macromedia, as well as their top channel partners, and discovered that each, in their own way, was leaving money—profits—on the table. Neither the channel nor the vendor was using their channel investments optimally to bring products to market. The Rubicon study found that the investments many companies make in the channel fail to reverse loss of mindshare or improve returns. Most importantly, the study exposed that channel economics are changing in ways that challenge conventional wisdom.

What kind of impact, you say? We are talking about small changes that make a sizable impact. A dollar saved in the channel is a dollar that flows directly to your bottom line. A $1 billion+ software company client of Rubicon expects to see earnings jump by $10 million from optimizing a single point in channel spending. Not bad you think, but follow through on the logic. If the company earns a five percent return, the channel optimization results in a 20% earnings increase, a result welcomed by any investor or analyst.

Most companies fail to optimize their channel spending because they fail to view it with enough of a macro perspective. The key is to look at all forms of payment to the channel—not just margin, but direct, indirect and "soft dollar" spending—making sure each component is being used effectively to achieve your goals and not being lost or thrown away.

A proper view of channel economics must, at the very least, include the following expenses and investments towards the channel:

- Discounts (both the amount a vendor "provides" and the amount channel partners keep).

Advisory Board

RSS as a Replacement for E-mail?, Part II of II

When RSS first appeared on the scene there were no useful ways to analyze who was reading your RSS feed, but several firms have appeared that offer a variety of tracking services. While no standards exist for analysis methods among the various RSS vendors and products, the following information can now be tracked:

- Some web analytics on the readers who have subscribed to your feed (i.e., browser type, countries, etc.).
- Who clicked through to your site via an RSS feed vs other links.
- Which RSS feed reader clicked on your link (if you insert tracking information in the link).
- Number of feeds subscribed to.

As with E-mail, initial click through rates for RSS feeds were very high when the technology was first introduced, ranging between 15% to 25%. However, over time click through percentages have experienced the same deterioration as E-mail, with average rates now hovering between 2% to 5%. These numbers can vary widely depending on the marketing function of your feed and the content provided.

The usual strategic marketing value of creating a feed is to establish that your site's contents is valuable to a particular audience, cultivate widespread signups, and eventually move feed readers into a "warm leads" database. If you decide to implement an RSS capability on your website, we suggest the following best practices:

- Integrate your feed with a high-content, quality blog. This will encourage a high sign up rate. But remember that producing fresh, relevant content on an ongoing basis is not a trivial experience. If you don't have the time to provide content, consider outsourcing its development.
- If you have the bandwidth to manage it, breakup your feed into several "sub channels" and allow subscribers to pick just the notifications they're interested in. This is typically done by directing the user to a special page that describes the various feeds.
- RSS allow you to attach a header to your feed, a piece of text that describes the new material on your website. Keep your headers short and to the point; embedding large wads of text into the header will lead to a high rate of feed abandonment.
- Despite the temptation to do so, avoid sending RSS feeds that direct people to purely promotional pages (however, this is not a hard and fast rule; it may be appropriate for pages announcing events, for example, or very aggressive promotions). A feed that is perceived as purely commercial will, in many cases, quickly wither (one exception to this rule are "special offers" pages).
- Integrate your RSS feeds with E-mail campaigns, where appropriate. RSS is not usually appropriate for time-sensitive promotions, but it can support them by providing relevant content on a new product or service available from your firm.

.

- Ironically, the best way to develop your RSS channel is via E-mail campaigns.

- MDF/Marketing spending.
- Rebates/SPIFs.
- Headcount placed in the account.
- Sales and marketing headcount to manage the channel.

So, why don't companies do this already? The primary reason is that at most software firms no single executive controls all these programs: there is no single "eye in the sky." For example, in some companies product management will own product discounts, MDF falls under the purview of field/corporate marketing, spifs and rebates are owned by sales and channel headcount can be divided between different groups. Some programs may be part of individual or department performance metrics, meaning that efforts to adjust one at the expense of another may ignite an internal turf war between corporate sales, marketing and the field. A holistic view (supported by at minimum a yearly review of channel expenditures) is needed to focus on benefits to the entire company. But how do you develop a holistic view?

The first step is to stop focusing on discounts. One issue vendors get hung up on is the channel discount—that is, your product sales margin. If you can move past the rhetoric however, you'll discover channel partners care about aggregate profit, not the individual components that contribute to it. In this way, their interests are more aligned with yours than you might think. Reseller sales reps increasingly are paid on profitability rather than product or vendor margin alone, so it is the overall contribution margin, not the form of contribution, that your product makes that is most important.

Contribution margin is the sum of all payments retained by the channel partner. It is important to consider total contribution margin because at the end of the day this determines reseller profitability and the channel's ongoing ability to create and support sales. Calculate your contribution margin by using the simple methodology below.

Purchase discount (intended margin)
-Additional discount given to customers by channel
+Additional payments and support (MDF, Rebates, etc.)

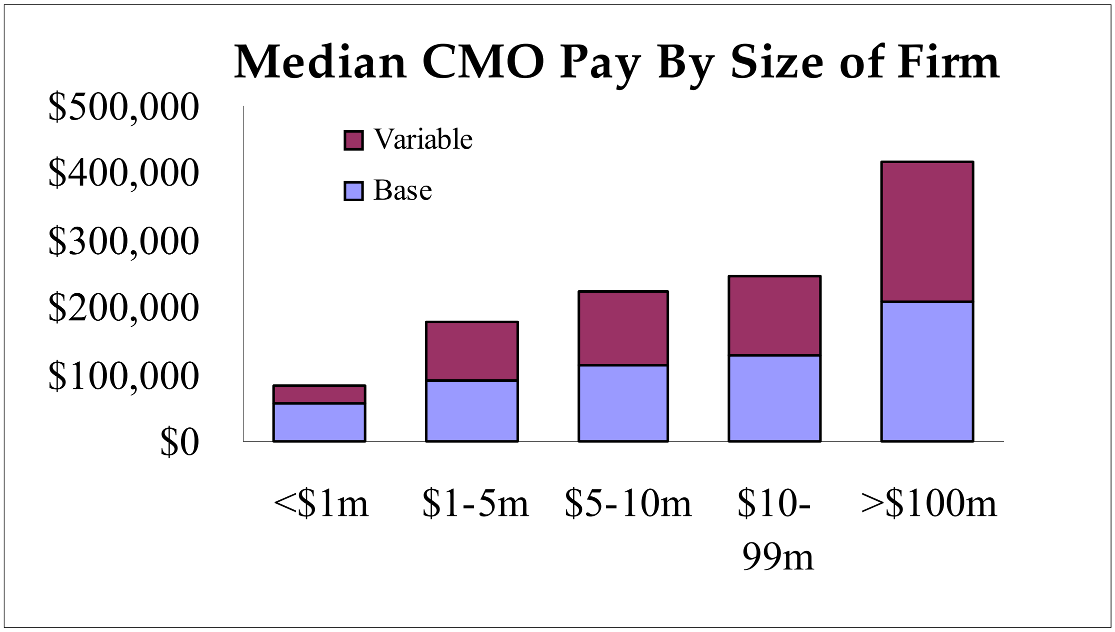
Contribution margin

Gaining and maintaining reseller mindshare for competitive and commodity products is a challenge when purchase discounts are the primary motivator. Trying to increase channel margins by deepening discounts is folly because all or most of the increase will be passed along to customers due to the competitive nature of the reseller environment. The customer wins, but you and your channel do not.

"Competitive sales environments drive resellers to give away margin in the form of additional customer discounts. For example, Symantec offers a 20% discount to the channel on one of its security products, but only 5% of that potential margin is retained by resellers due to the highly competitive nature of the market for that product. In contrast, Microsoft provides only a 10% margin upfront for many of its products, electing instead to invest its resources in back-end payments and demand generation."

—Nilofer Merchant
Rubicon

Nilofer Merchant, principal, Rubicon, 101 Church St., Los Gatos, Calif. 95030; 408/395-5534. E-mail: nilofer@rubiconconsulting.com. Website: www.rubiconconsulting.com



Benchmarks: Chief Marketing Officer Compensation

The increasing strength of the technology market is shown by the rising pay of marketing chiefs.

As a total, the base pay of our CMO poll respondents increased by 8%, and their variable pay by 65%. Of the 16 who did not receive variable pay last year, six received it this year. This year variable pay moved from 71% of total pay for our respondents to 79%.

Variable pay has always been important in sales and marketing, and the strengthening software market brought more variable pay to more people. The Top 50 Public Sales and Marketing Executives (see page 6) as a whole received variable pay nearly equal to their base pay. And the software industry remains one to grow rich in: the eighteen of the Top 50 who exercised stock options ("Long-Term Income") this year received a stock-sale sum equal to 79% of *everybody's* combined base/variable pay.

The only place where variable pay significantly lags base pay is in our "No Significant Customer Revenue" category in our CMO poll (no great surprise). In one of these responding firms, the CMO took no base or variable pay at all, and another received commissions only (and did very well). The graph above shows that base and variable pay are roughly equal across the remaining sizes of software firms, and that their total increases with the size of the company. This fact of marketing life is borne out by the Top 50 list: The top 11 of the Top 50 earned as much base/variable pay combined as the rest of the Top 50.

The Top and Bottom 25% figures in the first table opposite are the medians of the upper and lower halves of the income points: they are the starting points beyond which CMOs find themselves in the top and bottom quartiles of income.

Overall Compensation—Top Mkt Officer*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	$120,000	$150,000	$85,000	10%
Base Pay—last year	$109,500	$145,000	$65,000	
Variable Pay—current	$25,000	$50,000	$10,000	47%
Variable Pay—last year	$17,000	$39,500	$1,250	
Total Pay—current	$150,000	$185,000	$110,000	15%
Total Pay—last year	$135,000	$180,000	$84,000	

* Number of respondents = 65

Top Mkt Officer Pay by Company Size*	Base Pay	Variable	Total	Raise
Under $1 million—current	58,000	25,000	83,000	3.1%
Under $1 million—last year	25,000	53,500	78,500	
$1-$5 million—current	$90,000	$89,750	$179,750	9.3%
$1-$5 million—last year	$25,000	$15,500	$40,500	
$5-$10 million—current	$115,000	$110,000	$225,000	16.8%
$5-$10 million—last year	$25,000	$9,850	$34,850	
$10-$99 million—current	$130,000	$115,000	$245,000	16.5%
$10-$99 million—last year	$18,000	$12,000	$30,000	
$100+ million—current	210,000	205,000	415,000	2.8%
$100+ million—last year	84,000	81,000	165,000	

* Number of respondents = 6 for Under $1 million, 22 for $1-$5 million, 12 for $5-$10 million, 17 for $10-$99 million, and 6 for $100+ million. Values are medians.

Top Mkt 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	$90,000	$25,000	$115,000	11%
Privately owned, privately funded—last year	$88,000	$16,000	$104,000	
Privately owned, venture funded—current	$150,000	$25,000	$175,000	34%
Privately owned, venture funded—last year	$125,000	$6,000	$131,000	
Public—current	$175,000	$36,000	$211,000	6%
Public—last year	$170,000	$30,000	$200,000	

* Number of respondents = 1 for No significant customer revenue, 39 for Privately owned, privately funded, 13 for Privately owned, venture funded, and 10 for Public. Values are medians. n/m = Sample size too small for accurate comparisons.

The Top 50: Highest Paid Public Sales & Marketing Executives

		Base Pay	Variable Pay	Total	Long-Term
1	**Léo Apotheker**, SAP	$480,000	$1,969,200	$2,449,200	
2	**Sergio Giacoletto**, Oracle	$639,380	$1,379,000	$2,018,380	$1,769,029
3	**Keith Block**, Oracle	$800,000	$849,000	$1,649,000	
4	**Henry A. Jallos**, Compuware	$537,075	$767,250	$1,304,325	$177,301
5	**Greg Corgan**, Computer Associates	$395,833	$898,221	$1,294,054	
6	**Tony Sirianni**, Cognos	$260,000	$934,175	$1,194,175	
7	**Ronald Hovsepian**, Novell	$500,020	$602,759	$1,102,779	
8	**Kevin R. Johnson**, Microsoft	$480,336	$435,000	$915,336	$1,043,942
9	**Jim Stephens**, Adobe Systems	$408,005	$475,992	$883,997	$8,097,179
10	**David Schmaier**, Siebel Systems	$500,000	$350,000	$850,000	$2,585,732
11	**David Laverty**, Cognos	$250,000	$593,856	$843,856	$218,623
12	**Raymond G. Stern**, Intuit	$450,000	$352,680	$802,680	
13	**Mark A. Duffell**, Epicor Software	$332,800	$290,011	$622,811	$868,351
14	**Matthew A. Thompson**, Borland Software	$307,275	$216,870	$524,145	
15	**Burton Goldfield**, Hyperion Solutions	$150,000	$368,750	$518,750	
16	**Mark H. Cieplik**, Dendrite International	$300,000	$209,278	$509,278	$199,624
17	**Cosmo Santullo**, BMC Software	$177,083	$315,998	$493,081	
18	**Dan T. H. Nye**, Advent Software	$260,000	$218,962	$478,962	
19	**Thomas Volk**, Sybase	$374,999	$85,500	$460,499	
20	**Nazhin Zarghamee**, Hyperion Solutions	$259,704	$190,838	$450,542	$444,685
21	**Clyde Foster**, Intellisync	$240,000	$180,571	$420,571	
22	**James F. DeSocio**, Lawson Software	$260,000	$152,174	$412,174	$1,046,566
23	**Ted D. Williams**, MRO Software	$215,000	$195,950	$410,950	
24	**Patricia C. Foye**, MRO Software	$215,000	$173,990	$388,990	
25	**David E. Lloyd**, BindView Development	$276,339	$98,741	$375,080	
26	**Steve Allen**, Witness Systems	$320,513	$42,399	$362,912	
27	**Peter P. Dunning**, Rightnow Technologies	$250,000	$102,372	$352,372	
28	**David L. Gibbs**, Phoenix Technologies	$300,135	$48,750	$348,885	
29	**James Vickers**, Captiva Software	$272,500	$72,698	$345,198	
30	**Chip G. Harmon**, Pervasive Software	$190,000	$149,332	$339,332	
31	**John Shap**, SPSS	$240,000	$87,541	$327,541	
32	**Michael W. Lodato**, QAD	$250,000	$66,688	$316,688	$377,517
33	**Howard Dratler**, Captiva Software	$269,121	$42,575	$311,696	
34	**Sean C. Forbes**, Rightnow Technologies	$185,000	$123,987	$308,987	
35	**Ibrahim Ayat**, NetManage	$286,003	$10,372	$296,375	
36	**Gennaro Vendome**, AXS-One	$225,000	$62,459	$287,459	
37	**Boris Geller**, Raining Data	$210,000	$74,202	$284,202	
38	**Jeffrey L. Holmes**, Manugistics Group	$272,917	$10,084	$283,001	
39	**Wayne S. Crandall**, ScanSoft	$112,500	$166,829	$279,329	$1,220,303
40	**Arun Oberoi**, Micromuse	$217,115	$60,000	$277,115	
41	**Poul E. Nielsen**, Altiris	$222,806	$31,006	$253,812	$645,212
42	**William d. Barry**, Docucorp International	$223,500	$30,000	$253,500	$759,534
43	**Kevin Milne**, SS&C Technologies	$218,015	$32,702	$250,717	
44	**William R. Wyand**, Smith Micro Software	$150,000	$97,541	$247,541	$1,337,897
45	**N. Nobby Akiha**, Actuate	$205,000	$25,112	$230,112	
46	**Suaad H. Sait**, Pervasive Software	$201,800	$23,025	$224,825	
47	**H. Allen Dow**, Logility	$180,000	$30,782	$210,782	
48	**Christopher G. Lippincott**, Smith Micro Software	$164,000	$45,396	$209,396	$170,986
49	**Benjamin E. Kiker, Jr.**, Onyx Software	$199,876	$6,434	$206,310	
50	**Mario I. Barrenechea**, Raining Data	$180,000	$24,672	$204,672	

Note: The 50 individuals here received the highest annual compensation of sales and marketing executives of public software companies. "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

When is the Right Time to Sell?

By Marshall Warwaruk, Corum Group

There are three major factors to consider when trying to answer the question of timing—Business Fundamentals, Market Conditions, and Product Lifecycle.

Business Fundamentals: The best time has nothing to do with when you are ready to sell, but rather the prevailing market conditions and current trends in your business. Clearly, you want to maximize stakeholder value, which means sales and profitability should be trending up as opposed to flat or declining performance.

Market Conditions: There are a number of fiscal indicators that are major drivers. First is a favorable economic climate and stock market conditions that increase investor confidence and appetite to use acquisition as a means to drive higher growth and earnings. Second is the level of M&A activity in your market sector. After the leaders in a market category have swept up firms to meet perceived needs, companies on the trailing edge of the acquisitoin wave will likely see a lot less money being offered during deal discussions. (Another leading indicator is the level of private equity firms either investing significant funds in privately-held mid-sized firms or actively acquiring public companies and taking them private.) Lastly, you have been approached—indicating that there may be other buyers unknown to you that see equal or greater value in your business.

Product Lifecycle: The value of companies with disruptive technology has less to do with past financial performance and more to do with being first to market, new competitive advantages and raising the barrier to entry. Values for these technology-driven companies are based more on a multiple of R&D investments than past sales and can reach 15 to 25+ times R&D expenditures (please note the numbers on the E-bay purchase of Skype below). Once you gain brand name recognition and broad sales success, you become more attractive to buyers because of your customer base and cross-selling opportunities. Revenues, profits and annual growth rates become the standard to measure value, with multiples of 2 to 3 times trailing 12-month sales the norm.

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

Company/Description	Acquired by	Price/Terms	Revenues	Multiple
Siebel Systems (SEBL) *• Leading CRM vendor*	Oracle (ORCL)	$3,610,000,000 *Terms: All cash*	$1,320,000,000	**2.73**
Skype Technologies *• Leading Internet VoIP service/application*	eBay, Inc (EBAY)	$2,600,000,000 *Terms:Cash and Stock*	$70,000,000	**37.14**
PalmSource, Inc. (PSRC) *• Handheld operating systems/applications*	Access Co.	$324,000,000 *Terms: All cash*	$71,910,000	**4.51**
Bisys Group (BSG) *• Information services group divestiture*	Open Solutions (OPEN)	$470,000,000 *Terms: All cash*	$180,000,000	**2.61**

CORUM
MERGERS & ACQUISITIONS

CardFile

Channel News and Management Resources

- **CRN** (www.crn.com): Venerable channel publication; in our opinion, current editorial coverage is somewhat tired, but still worth reading for news coverage.
- **The Route to Market Association** (www.the-rtma.com): Site offers information on various distribution channels, including high-tech, telecomm, pharmaceuticals, etc.
- **eChannelLine** (www.echannelline.com): Site publishes a daily E-zine; site focus is primarily on software and high-technology distribution.
- **Phil Lempert's Xtreme Retail 23** (www.xr23.com): Site focuses primarily on retail distribution and merchandising.
- **The Computer Dealer News** (www.itbusiness.ca/it/client/en/CDN/Home.asp): Site covers trends and issues in Canadian distribution.
- **VAR Business** (www.varbusiness.com): As with CRN, well-established channel publication focusing on VARs/system integrators. Coverage has recently become more lively.

THE REGISTER REPORTER JOHN LEYDEN ON FIREFOX SECURITY: "Graham Pinkney, head of threat intelligence EMEA at Symantec, said that switching from IE to Firefox as a way of minimising security risks was no longer valid advice. 'Cross-site scripting attacks have been used to attack more vulnerabilities in Mozilla browsers over the last six months than IE,' Pinkney told an IDC security conference last week ahead of the publication of Symantec's threat report today." (Quoted on www.theregister.co.uk/2005/09/19/symantec_threat_report/, 09/15/2005.)

ZDNET COLUMNIST ON PHIL WAINEWRIGHT ON SAAS BUSINESS MODELS: "The problem for all conventional software vendors is that their business model is built around products that don't work. For some reason, customers have bought into this. They hand over their money, take delivery of the product, and then start figuring out how to get it working. Mostly, they bring in specialist consultants to help them figure it out, at even more expense. Once they get it working, they then pay the software vendor even more in maintenance charges to ensure they'll get help fixing it when it breaks again.

On-demand vendors have a completely different orientation. They contract to deliver a working application, and customers start paying from the day they start using it — not before (except for setup costs, if required)." (Quoted on http://blogs.zdnet.com/SAAS/?cat=19, 09/26/2005)

INTERNETWEEK COLUMNIST ANTON GONSALVES ON RESEARCH FIRM KEYNOTE SYSTEMS: "According to The Wall Street Journal, Keynote, at the request of Microsoft, withheld a consumer survey that would have shown the software maker's MSN search engine slipping. The study, according to the newspaper, found that based on its ability to find relevant results, MSN fell to No. 5 from No. 3." (Quoted in *InternetWeek*, 09/23/2005)

Colleagues made off with your last issue? Go to www.softletter.com. Click Subscriber Login in the upper right of the home page. To view the current issue and to search archives of hundreds of articles by keyword, topic, or issue date, log in and enjoy!

ISSN: 0882-3499.

Subscription rates: $395 worldwide. Subscription office: United Communications Group, 11300 Rockville Pike, #1100, Rockville, Md. 20852-3030; tel 301/287-2718 866/313-0973 customer@softletter.com

www.softletter.com