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States of Seduction: How to Work with State CIOs

Tracy Williams until January of this year was a member of an elite club (and may be again someday): the state CIO of Rhode Island. Tracy cut her business IT teeth in the industry as a top notch Novell administrator, consultant, and sales representative with firms such as Sun and CSC. When we've needed inside information on how software companies can best interact and work with government agencies while making enterprise sales, we've turned to her for insight and analysis.

Tracy, what is the role of a state CIO in the purchasing and sales cycle in state governments?

State CIOs can play one of two roles. Sometimes their role is more that of a very high-end network administrator. However, most state CIOs play more strategic roles, heavily involving themselves in policy, infrastructure, and standards. In some states, the admin and policy positions will be clearly delineated by examining the state's IT org chart; in other cases, you'll have to do some research to determine the CIO's particular focus.

When dealing with a "strategic" CIO, their influence over standards is the biggest role they play and this in turn will have the heaviest impact on a software company's sales cycle.

How so?

Because in a large number of cases sales are driven by the narrow IT skill sets within or possessed by the state's information environment. As a CIO, it was always surprising to me how many vendors simply failed to research this critical point. For example, a majority of your IT employees may have built up skills in Oracle or perhaps DB/2. If you walk in with a proposal to use OpenIngres (I'm using this just as an example), the fact that OpenIngres is free or very cheap has almost no meaning in the overall scheme of things when the cost of retraining and reprovisioning skill sets are considered.

Let me provide you with a practical example of what I mean. In Rhode Island, the state General Assembly funded an initiative to provide $5m to build a data warehouse for the department of revenue. The warehouse was designed to provide the department with the ability to do what-if analyses, forecast revenues based on historical models, analyze trends, etc. Prior to this, the state had lacked this capability (well, they did do *(continued on page three)*

Advisory Board

Hot Tips on Optimizing AdWords Campaigns

*by Howie Jacobson, PhD, author of **AdWords for Dummies***

First, the bad news. The one thing everyone needs to understand is that the Wild West Days of Google are over. The world in which you could dominate a particular keyword and generate handsome revenues with little to no expenditure of money has vanished into history (with some rare niche exceptions) much as the Old West did. Only a few years ago, people protected their keyword information with a zealousness equivalent to that given to gold bars in Fort Knox. But in today's world, there's incredible software that can show everything you're competing on and how you're doing it. The way to win now is by spending money to acquire visitors and then extracting value from your work by converting them to customers.

That said, if you want to create quality AdWords campaigns, here are several new factors you must consider:

- **Understand that Google is now all about keyword quality.** Google introduced the keyword quality score in 2006 without telling many people about it. It's not shown in the default ad group Keyword tab. To use this metric, add the Quality Score column to the ad group Keyword tab. A quality clickthrough rate is critically important because the lower your Quality Score for a keyword, the **more** Google will charge you for that keyword. If a keyword you were bidding on has gone from a nickel to a dollar a click, Google is telling you it thinks the quality of the add is very low and is penalizing you for it. In the past, it paid to bid on low performing keywords because the projected ROI from dragging in the occasional lucky hit was reasonable. Unfortunately for some advertisers (and fortunately for others), Google has decided to give up some incremental income now to ensure a high quality search experience for its users (and ultimately, it believes, more money).

- **Optimize your website to support high quality keyword scores.** In judging quality scores, Google examines such things as how fast a visitor clicks on an ad and **how fast they click back**, the assumption being if that if the potential customer quickly returns to the search page, they did not think your ad was relevant or useful. You thus need to make sure your landing pages link well with your keywords and that the technical basics, such as ensuring the page loads quickly, are attended to.

- **Don't pull the trigger on A/B testing before your keyword quality work is finished.** In the past, I've recommended that companies begin split testing almost immediately upon launching their campaigns. Instead, I now recommend you spend two to three days focusing on keyword quality before beginning A/B tests.

- **Optimize for negative keywords.** Many companies are unaware that you can flag keywords for **omission** from AdWords. Software and high-tech firms are particularly at risk of wasting money from acronyms and jargon that, while they may be familiar to their audience, are also widely used in **other** industries as well. If this is the case, use the synonym finder to winnow these word from your keyword list. However, if you believe that the acronym or jargon is too important to cut away completely, use quotes (phrase matching) and brackets (exact matching) to narrow in on highly specific instances of usage to preserve these keywords in your campaign.

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some of this by downloading data from a mainframe to an Excel spreadsheet and then massaging the numbers. But no one thought this was an optimum approach).

As you can imagine, several major vendors submitted proposals, but the winning bid came from a small company, one that was highly specialized in this type of forecasting. Their system used SAS on the front end and Oracle on a back. One of the key factors in this firm's success was that their bid met the RFP' s statement that an Oracle backend was the preferred solution, given that Oracle use would allow the state to leverage both its skill set and existing licenses.

Another observation I can offer is that many vendors that claim to be "vendor neutral" just can't resist attempting to recommend an internal technology if they have one. If you're going to make that claim, I suggest you study the state's existing technology skill set and base and be prepared to actually walk the "we offer the best solution based on your needs" walk, not just talk about it.

How do you suggest a software company work with a state CIO?

Ask for a capabilities and priorities meeting with the state. To ensure the meeting goes well, I suggest you follow these guide lines:

- **Don't ask for a meeting that goes past an hour;** state CIOs are very busy and there are always fires to put out.
- **Prepare your agenda in advance** and send it to them.
- **Tell the CIO how many people are attending the meeting and don't bring five when one is expected.** Their office may not comfortably fit a larger group and time spent looking for a place to sit is time wasted when you could be discussing their state's needs and technology expectations.
- **Always confirm the appointment a day in advance;** I'd also recommend two hours in advance as an IT crisis can change schedules.
- **Send a qualified sales person.** One of the most (inadvertently) funny experiences I had as state CIO was the sales person who showed up to demonstrate a document imaging technology to me and announced that he didn't really like government work and had to do this appointment because someone else couldn't make it! You can recover from a blown appointment, but these types of mistakes at this level are almost impossible to recover from.
- **Don't attempt to call "over" the CIO.** Yes, I know, Microsoft did it in Massachusetts. (I did it once as a wet-behind the ears sales rep; I never met the state CIO and never made the sale I was working on.) But the long-term repercussions of their strategy are potentially enormous. Every state CIO is aware of what occurred with Peter Quinn, and Microsoft's ability to function as a strategic partner may be seriously impacted in the future.

Let's also discuss follow up, an area where many companies fall down. After your meeting, your best approach is to *(continued on page six)*

"In one presentation I sat in conducted by a major accouting firm, the entire sales team was male except the young women who was running the PowerPoint slides. Their team lead failed to introduce her to me. When we had finished with the introductions on our side, I asked for their group to introduce her. It certainly left an impression with me and I was the economic buyer making the final decision."

—Tracy Williams SAIC

Benchmarks: Detailed Enterprise and SaaS Sales Analyses

Enterprise/Client Server

In this issue, we drill down into the Enterprise and SaaS markets in detail, allowing you to compare apples to apples when comparing your sales compensation and performance with your peers. Numbers of particular interest are boldfaced.

Median Base Salary by Company Development State

Privately Owned, Privately Funded	Privately Owned, Venture Funded	Public
$65,000	**$75,000**	$65,000

Median Base Salary by Company Revenue

Under $1m	$1 to $5m	$5 to $10m	$10 to $99m	$100m+
$65,000	$65,000	$75,000	$60,000	$65,000

Average Yearly Salary (both fixed and variable)

$50,000 to $75,000	14%
$75,000 to $100,000	**33%**
$125,00 to $150,000	**19%**
$150,000 to $175,000	15%
$175,000 to $200,000	9%
$200,000 to $250,000	6%
$250,000 to $300,000	2%
$300,000+	0%

Medians of Sales Personnel Achieving Quota by Development Stage

Privately Owned, Privately Funded	Privately Owned, Venture Funded	Public
50%	65%	30%

Medians of Sales Personnel Achieving Quota by Company Revenue

Under $1m	$1 to $5m	$5 to $10m	$10 to $99m	$100m+
97%	50%	50%	50%	60%

Medians of Percentage of Sales Personnel Exceeding Quota by Development Stage

Under $1m	$1 to $5m	$5 to $10m	$10 to $99m	$100m+
10%	**37%**	25%	25%	**50%**

SaaS

Median Base Salary by Company Development State

Privately Owned, Privately Funded	Privately Owned, Venture Funded	Public
$60,000	**$85,000**	$60,000

Median Base Salary by Company Revenue

Under $1m	$1 to $5m	$5 to $10m	$10 to $99m	$100m+
$60,000	$60,000	**$100,000**	$60,000	$85,000

Average Yearly Salary (both fixed and variable)

$50,000 to $75,000	17%
$75,000 to $100,000	34%
$125,00 to $150,000	38%
$150,000 to $175,000	0%
$175,000 to $200,000	0%
$200,000 to $250,000	9%
$250,000 to $300,000	0%
$300,000+	0%

Medians of Sales Personnel Achieving Quota by Development Stage

Privately Owned, Privately Funded	Privately Owned, Venture Funded	Public
55%	60%	57.5%

Medians of Sales Personnel Achieving Quota by Company Revenue

Under $1m	$1 to $5m	$5 to $10m	$10 to $99m	$100m+
57%	52%	**65%**	60%	60%

Medians of Percentage of Sales Personnel Exceeding Quota by Development Stage

Under $1m	$1 to $5m	$5 to $10m	$10 to $99m	$100m+
6%	15%	15%	**40%**	n/a

In the SaaS category, we went back to check the numbers in the **$5 to $10m** cohort to see if any outliers were distorting the numbers; there were none. We interpret this high number as reflecting the fact that SaaS companies are currently moving from early stage growth to wider market acceptance. In talks we've had with industry recruiters and software firms, sales personnel with extensive SaaS experience currently command a market premium.

continue to communicate with the CIO by providing ideas and facts relevant to the state's IT requirements. Your goal is to become a research assistant for the CIO. Informally, state CIO's rank companies as vendors, preferred vendors, advisors, and strategic advisors.

"Strategic advisor" provides you with the highest level of access, and a firm ranked this way can find their informal role transformed into a formal one, with their company helping draft plans and RFPs. But remember that this is a two-edged privilege. Many states, Rhode Island among them, don't allow vendors to bid on RFPs which they helped draft.

Then why would a company aim to become a strategic advisor?

Several reasons. One is that you may not be able to provide the technology or services found in the RFP. Another is that while you may not be able to bid on this RFP, you will probably be able to bid on a future one, and the knowledge and influence you'll gain from participating in the process will help you at that time. Also, an RFP can broken into several distinct projects and while you may not be able to bid on one segment of the project on which you did RFP work, you may be able to bid on another.

You also have to remember that an RFP may be broken down into several stages; any one of which you may want to bid on. A major project may incorporate a 1) bid for insight; 2) bid for strategic advice/plan; and 3) bid to implement.

How do you see Software as a Service (SaaS) selling into state and local governments? What are the specific challenges SaaS vendors face?

Several dynamics are at work in state IT. As I said, skills are aging, with often no funding support to hire new employees with current technology skill sets; factor in retiring work forces as well. Given that, I think that the states will be looking to off-load as much maintenance as possible to the private sector through SaaS arrangements. The biggest challenge is the resistance to putting sensitive data outside the geopolitical borders of the states. One way to overcome this is by keeping the hosting location as close as possible to the state (i.e. host Vermont judiciary courts data in Rhode Island at a secure data center. You should also consider proposing that thedata be hosted within the state's IT walls but use outside resources to maintain the system.

And another way to position hosting outside the state's borders is by building a case to place important data assets in different parts of the country in case, for example, a pandemic flu causes all IT professionals to either report to hospitals because they are sick or stay home to care for a family member that is sick. As state CIO, we did a lot of scenario planning along these lines.

As a woman state CIO, what observations do you have to make on your interaction with vendor sales forces that are predominantly male? Do you think sending a women as a sales representative is an effective tactic? Or would it be looked on as patronizing?

I don't think it is patronizing to develop a strategic face-off strategy for a female state CIO that includes at least one woman on the business development team. Also, keep in mind that the public sector is more sensitive to diversity issues because of goals set for doing business with small/woman/disadvantaged enterprises in contracting. It should be a **must** on sales teams.

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What is a Recapitalization?

By Nat Burgess, Corum Group

Most entrepreneurs are capable of growing their companies up to a certain scale, but eventually they hit a ceiling. Sometimes that ceiling marks the boundary of their capabilities and the limits of their experience, which means that a new CEO is in order. In order to be comfortable bringing in a CEO, the founder will need to put some money in his pocket. Other times, the ceiling results from a conservative risk profile that drives the entrepreneur to focus on profits rather than growth, which means that performance will increase if the founder has some money in his pocket. Either way, the company benefits from putting money in the founder's pocket, and the shortest path to that end is a recapitalization, or recap.

Loosely defined, a recap is a balance sheet transaction that changes the equity ownership of a company through a sale of shares by a shareholder or shareholders. Liquidity for shareholders, rather than the company, is what distinguishes a recap from an investment. A leveraged recap adds debt to the mix, and can increase the returns of investors and shareholders.

Consolidation and turmoil in the software markets have reduced the number of strategic buyers, limited the role of strategic sales in the growth of companies, and pushed recaps into the limelight as a normal stage in the life cycle of a growing software company.

Here is a typical example: Joe Founder (JF) started his company in 1998 and has reached $20 million in revenue and $5 million in EBITDA. He is 57 years old, thinking about retirement, and taking most of the profits out of the company. Employees are polishing their resumes and customers are worried about how little is being invested in R&D. JF solves these problems through a recap.

A private equity firm buys 70% of JF's equity for $35 million, and JF rolls over the remaining 30% into equity in the newly recapitalized company. The company takes on $15 million in debt, which helps cover the equity purchase. JF signs a three-year employment contract as CEO. No longer concerned about retirement funds, JF increases the growth rate of the company and it is purchased for $150 million at the end of 3 years. He gets a second bite of the apple, the private equity firm makes money, and everyone is happy.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
Applix *• Business intelligence*	Cognos	$307,000,000 *Terms: Cash*	$61,200,000	**5.02**
AccessLine Communications *• Hosted VoIP services*	Telanetix	$34,900,000 *Terms: Cash & stock*	$24,300,000	**1.44**
iEmployee *• SaaS workforce management systems*	Forgent Networks	$10,700,000 *Terms: Cash & stock*	$6,000,000	**1.78**

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Alternatives to Google Analytics

(Though the price of Google analytics is certainly right, some people aren't fans and the software lacks some features such as true heatmapping. Here are some alternatives).

- **ActiveMeter** (www.activetracker.com): Web analytics tool that focuses on tracking visitors; basic service is free. Useful adjunct to many analytics packages.
- **Crazyegg.com** (www.crazyegg.com): Notable for its useful heatmapping feature; a heatmap is an overlay that provides a visual view of what people are clicking on any particular page. Google has a similar, but less useful capability.
- **Mint** (www.www.haveamint.com): Self-hosted web site analytics program. We strongly recommend installing this or a similar program if your website is hosted on your own dedicated server.
- **Opentracker** (www.opentracker.com): Provides drill-down statistics Google lacks.
- **SmarterStats** (www.smarterstats.com): Enterprise-class system; very extensive reporting. Reasonably priced for what it does at $199.

INDUSTRY ANALYST RICHARD PTAK ON VIRTUALIZATION: "All this talk about virtualization and the success that VMware has had with the partitioning and isolation of multiple resources on a server is old hat. That from day one has been on mainframes." Quoted on http://www.connectitnews.com/usa/story.cfm?item=1199, 9/11, 09/11/2007

NEW YORK TIMES REPORTER RANDALL STROSS ON APPLE: "The official line from Apple is that all has gone swimmingly. The company said it shipped 1.52 million Macs in the first quarter of this year, up 35 percent from the year-ago quarter. In the second quarter through June 30, it shipped 1.76 million Macs, up 32 percent from a year ago, an all-time quarterly record.

Funny thing, though: based on the ratio of Windows and Macs actually in use, no gains can be seen for Apple.

The Mac's share of personal computers has actually edged a bit lower since Vista's release in January, and the various flavors of Windows a bit higher, according to Net Applications, a firm in Aliso Viejo, Calif., that monitors the operating systems among visitors to 40,000 customer Web sites." (Quoted in ***The New York Times***, 09/16/2007)

BLOGGER ALLAN LEVSON ON INNOVATION: "There is just one problem - there is no such thing as innovation. We have all heard the jokes about the highly enlightened management teams that put their smartest people in a room and instruct them to "Innovate!". This seems to me about as likely to succeed as putting an appointment in your PDA that reminds you on Thursday morning at 11:30am to be spontaneous." (Quoted on http://community.featureplan.com/community/2007/07/there_is_no_such_thing_as_inno.php, 07.03/2007)

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