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Our G&A numbers show the creeping rise of inflation starting to seep into the economy. See pages 12-13.

Will SaaS + Virtualization Eat the Desktop and Transform IT?

by Rick Braddy, Virtual-Q

Rick Braddy is the Chief Technology Officer at Virtual-Q and blogger at RickBraddy.com. Rick is the former Chief Technology Officer of CITRIX Systems, where he led product management, architecture and technology strategy for application and desktop virtualization products XenApp and XenDesktop. Visit Rick's blog at <http://www.winningware.com/blog/> to provide comments and feedback on this article.

Will a perfect storm of technologies, combined with the SaaS financial and delivery model, disrupt traditional Windows desktops and transform how IT services are delivered, and how corporate data centers are managed? It may be more imminent than you think.

First, let's examine a little background and the context that's brought us to this point.

Over the last decade, application virtualization solutions provided by companies like CITRIX Systems and Microsoft Terminal Services have changed the way "legacy" Windows business applications are managed and delivered.

At the same time, server consolidation projects have virtualized the majority of corporate servers, using server virtualization technology by companies like VMware to reduce the physical server footprint in the data center.

More recently, interest in VDI (virtual desktop infrastructure) solutions has grown markedly, as companies look for ways to deal with an aging desktop infrastructure and migrate to Windows 7. At the same time, SaaS and cloud computing are changing the way new applications and data are developed, managed and delivered—outside the traditional data center, where data now commonly resides in third-party data centers, alongside their corresponding SaaS applications.

All this is happening at a time when extreme financial pressures continue to depress capital investments, and executives are hungry for ways to avoid capital spending and minimize operating costs.

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SaaS and the Outsourcing Paradigm Shift

by Andy Bender, Polaris Management Partners

In the 2011 Softletter SaaS survey, we asked the following question (we have asked this question for the last four years):

Is the primary development of your SaaS product done by an outsource (a third-party firm or firms hired for this specific task)?

Yes	26%
No	74%

Last year's Yes number was 17% and every year has seen a statistically significant increase in the number of companies turning to outsourcing. Our survey numbers reflect what we've been seeing in the field—that increasing numbers of SaaS companies are turning to outsourced development to bring new products to market.

The news isn't all good, as you can imagine. In last issue's DonorCommunity case study, David Blyer told us he'd tried the outsourcing approach to product development and it had been a major failure (DonorCommunity did establish its product development center in Columbia in a successful bid to bring costs down and we're going to be looking at the ramifications of this choice in an upcoming issue of Softletter). But in the InheritedHealth case study in the June 2011 issue of Softletter, we profiled one successful outsourcing effort and because of the importance to SaaS firms of an outsourcing decision, we decided to take a look at another success story.

Andy Bender is the founder of Polaris Management, a US-based SaaS firm that provides compliance systems and professional services to the pharmaceutical, medical devices and biotechnology industries. The company currently has 75 employees at its New York City HQ, is growing revenues 25%+ per year, and is self funded and bootstrapped.

In 2005, as the SaaS rebirth was gaining steam, Andy Bender knew his company was at a cross roads and needed help to grow. Polaris' SaaS suite of technology products and compliance services required ongoing development and customization, which in turn began to deplete internal resources and take time way from product development and customer service (a key component of the company's business model, since the complex nature of regulations and health regulation compliance requires not only powerful products but extensive hand holding and professional services during deployment and implementation as well as during major product upgrades).

Realizing this, Bender initiated a growth strategy designed to allow for both scalability and cost control. A key element of this decision was to find a long term technology partner who would provide Polaris ongoing developmentinvolved a choice to ; this in turn led which lead him to finding a long-term technology partner in India. For help, Andy turned to Annet Technologies, an Indian IT solutions consulting firm focused on providing services to the healthcare and real

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Local and state governments now find themselves operating under even more dire financial circumstances, brought on by shrunken tax bases and local economies.

Both businesses and government agencies are searching for ways to reduce unnecessary spending, avoid large capital investment outlays and reduce operating costs wherever possible. Meanwhile, the move is well afoot to virtualize the enterprise desktops, using VDI technology. However, the maturing VDI solution stacks are mostly premise-based—and highly capital-intensive.

Worse yet, these premise-based VDI solutions drive corporate data centers in the wrong direction—drastically growing the number of servers, power and air conditioning requirements and increasing data center management costs—wiping out gains from earlier server consolidation efforts.

Still, some companies are moving forward with VDI, despite its questionable ROI, CapEx intensity and the data center bloat factors involved. But in addition to the factors listed above, there's the Microsoft factor. Microsoft's botched release of Vista has disrupted Microsoft's release schedule, leading to long-range IT pain the company did not foresee as the Vista mess ground on.

Instead of Vista allowing Microsoft to coast into the release of a mobile enabled OS, the company had to scramble to buff the rough edges off of Vista, reposition/ rename it as Windows 7, reset its upgrade efforts away from Vista and on to Windows 7, then set the stage for Windows 8/Metro. For many, the pains associated with managing, upgrading and replacing fat-client desktops and the Windows 7 desktop refresh cycle are simply too much to bear. And, unless steps are taken to improve basic desktop management and deployment processes, just choosing VDI for desktop deployment will not reduce total cost of ownership (TCO) either.

Enter the "cloud-hosted" virtual desktop, offered by vendors such as DeskDone, Virtual-Q and others. Cloud-hosted desktops virtualize Windows desktops and applications, similar to what CITRIX and Terminal Services have done on-premise.

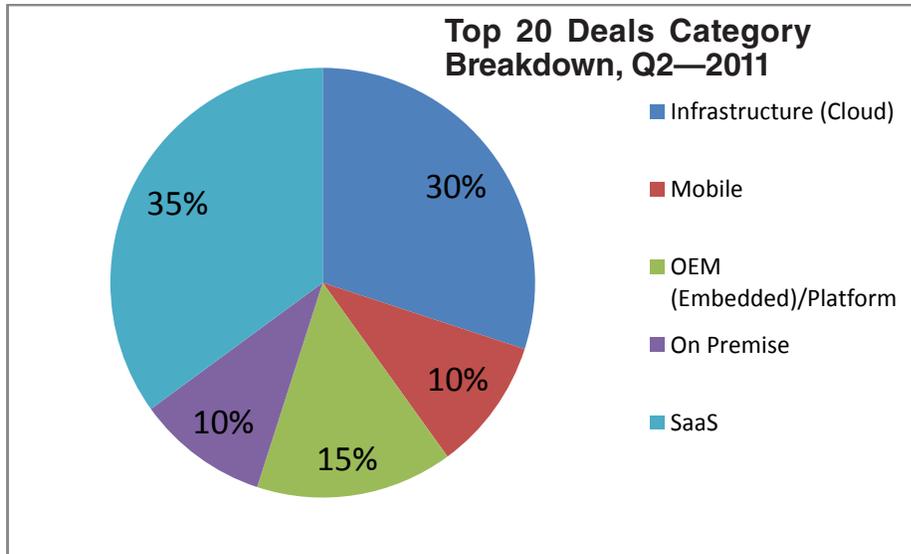
But instead of the virtual desktops residing in the corporate data center, they are hosted in the cloud—within a private, third-party data center. Importantly, cloud-hosted virtual desktops are leased in bulk to the customer using a SaaS licensing model. There is no capital investment required on the part of the customer to virtualize their business desktops.

Rather, desktop and application delivery costs become operating expenses ("OpEx") under a SaaS subscription model. The vendor

"Even Microsoft acknowledges that VDI can't help you reduce costs VDI does not reduce desktop costs because it can represent a significant up-front investment in infrastructure, including hardware, software, storage, and network."

— Rick Braddy
Virtual-Q

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Benchmarks: Key Highlights from Software Venture Capital Investments—Q2, 2011

Analyzing the second quarter VC results, we were again struck by the relatively large number of gaming companies receiving impressive VC funding—Kabam, (\$85m), Crowdstar (\$23m), Funzio (\$20m) and Tiny Speck (\$10.7m). Since our last report, **Farmville** publisher Zynga, launched their IPO, though the creators of this generation’s “The Sims,” has filed its long awaited IPO. Alas for Internet-based (sorry, make that “Cloud”) gaming prospects, the IPO in the eyes of many observers flopped. No frenzied bidding drove the stock up to unreasonable levels and as of this writing, the stock’s price is hovering around the \$10 per share range, with a total marketcap of about \$6.5b and a cash haul of \$1b. This uninspiring performance has led many to predict that the flow of money to online gaming companies will dry up.

Perhaps, but a look at the history of online (SaaS) gaming is instructive. The idea is by no means new, with the first mass market game, Ultima Online, appearing in 1997. At its peak, the system boasted 250k active participants, before it was supplanted by EverQuest, which in turn peaked at around 4m active participants in 2004, to be in turn supplanted by World of War Warcraft, which currently boasts an active subscriber base of 12m. The trend is clear.

But unlike other major software markets, the online gaming systems are subject to fast, and in some cases, completely unpredictable swings in popularity and usage. Just why did Warcraft surpass EverQuest? Too many princesses and not enough Orcs? The quests just lost that “zing” that keeps you coming back for more chances to waste more time and money buying new spells and better armor? And what about that mega hit, “Angry Birds”? If you were a VC, just how would you react to a business proposal that suggested you fund a Finnish company that had developed a puzzle game based on the premise that a group of dyspeptic and exploding birds will kill large numbers of egg stealing swine? You see the problem. Investing in gaming companies is similar to investing in movie studios; you have to believe that the entertainment company will continue to have its pulse on the gaming zeitgeist for an extended period of time and the number of companies succeeding at this is very low. What was the next hit game released by the firm that developed Tetris?

The Top 50: Software Venture Capital Investments—Q2, 2011

Company	Business Focus	Lead Investor	Investment
Appsense	Virtualization for enterprises	Goldman, Sachs & Co	\$70,000,000
Kabam, Inc	Entertainment apps for social networks	Canaan Part, Google Vent	\$84,999,800
iControl Networks	Broadband home management	Charles River Vent, Cisco Systems	\$51,634,400
Palantir Tech	Data analysis software	The Founders Fund	\$50,000,000
Kno, Inc	Electronic reading devices	Advance Publications, Intel Capital	\$37,295,000
RockMelt, Inc	Internet browsers	Accel Part, Khosla Vent	\$30,000,000
Verdasys, Inc	Enterprise security platform	Greylock Part, Special Situation Fund	\$28,875,900
Spiceworks, Inc	Social information management software	Austin Vent, Tenaya Capital	\$25,000,000
ViVOtech, Inc	Wireless payment software and chips	Alloy Vent, Draper Fisher Jurvetson	\$24,000,000
CrowdStar, Inc	Social games	Intel Capital, Time Warner	\$23,000,000
Practice Fusion	Online medical applications	Felicis Vent, Glynn Capital	\$23,000,000
Ping Identity Corp	Secure Internet single sign-on software	Fidelity Vent, SAP Vent	\$21,000,200
PolyRemedy, Inc	Designs medical devices	Delphi Vent, Flybridge Capital Part	\$20,600,000
Magnet Systems	Social applications for enterprises	Andreessen Horowitz	\$20,442,000
Funzio, Inc	Social games	IDG Capital Part, Signia Vent	\$20,100,000
OpenX Tech	Digital advertising technology	AOL Vent, Accel Part	\$20,016,000
MobileIron, Inc	Data-driven smart device management	Foundation Capital, Sequoia Capital	\$20,000,100
Rally Software	Agile application lifecycle management (ALM)	Boulder Vent, Greylock Part	\$20,000,100
Silver Tail Sys	Fraud prevention for Web sites	Leapfrog Vent, Seraph Group	\$20,000,000
Humedica, Inc	Health care informatics company	Bain Capital Vent, General Catalyst	\$20,000,000
NVIDIA Techn	Media company	InterWest Part	\$19,766,000
Tintri, Inc	Storage system for virtual machines	Lightspeed Venture Part	\$18,000,000
JouleX, Inc	Enterprise energy management systems	Intel Capital, Sigma Part	\$17,243,000
TOA Technologies	Mobile workforce management software	Intel Capital, Sutter Hill Vent	\$17,199,700
Cotendo, Inc	Suite of Web and mobile acceleration services	Benchmark Capital, Juniper Networks	\$17,000,000
Peel Technologies	Software for social television	Baseline Vent, Redpoint Vent	\$16,700,000
Aylus Networks	Infrastructure software	Matrix Part, m8 Capital	\$16,000,000
VideoSurf, Inc	Operates as a video search engine	Pitango Venture Capital	\$16,000,000
Evolv, Inc	Hiring management solution for contact centers	GGV Capital, Khosla Vent	\$15,750,000
NaviNet, Inc	Internet-based healthcare information systems	North Bridge Venture Part	\$15,000,000
Jobvite, Inc	Online job networking and hiring management	ATA Vent, CMEA Capital	\$15,000,000
Streetline, Inc	Smart parking	Rockport Capital Vent	\$15,000,000
XtremIO, Inc	Solid-state-based storage systems developer	Battery Vent, JVP	\$14,000,100
SAVO Group, Ltd	Collaborative Sales Enablement	SAP Vent, Sterling Part	\$14,000,000
ServiceMax, Inc	Field service management	Mayfield Fund, Trinity Vent	\$14,000,000
Bit9, Inc	Endpoint security software	Atlas Vent, Paul Capital Part	\$12,500,200
Intacct Corp	Cloud software applications	Bessemer Venture Part, Sigma Part	\$12,300,000
MD On-Line, Inc	Electronic claims software	Abingworth Management	\$12,000,000
Allegiance Soft	Feedback management service	Allegis Capital, El Dorado Vent	\$12,000,000
Clarizen, Inc	Enterprise-grade project management services	Carmel Vent, Opus Capital	\$12,000,000
Explorys, Inc	Cloud-computing platform for healthcare	Austin Vent, Sante Vent	\$11,499,900
JasperSoft Corp	Open source reporting	Adams Street Part, DCM	\$11,000,000
Mashery, Inc	API management	Cisco Systems, Formative Vent	\$11,000,000
Tiny Speck, Inc	Online game, Glitch	Accel Part, Andreessen Horowitz	\$10,700,000
Room 77, Inc	Hotel search engine for room-specific details	Felicis Vent, Sutter Hill Vent	\$10,500,200
StorSimple, Inc	Cloud storage application	Ignition Part, Mayfield Fund	\$10,500,000
Virtustream, Inc	Cloud computing services	Columbia Capital, Intel Capital	\$10,051,000
ParAccel, Inc	Data warehousing software	Amazoncom, Bay Part	\$10,000,200
Macheen, Inc	Cloud services for connected devices	DFJ Mercury	\$10,000,000
Domo, Inc	Technology holding company	Hummer Winblad Venture Part	\$10,000,000

incurs the capital investment costs associated with the VDI hardware and software, data center operations, security and management. Of course, IT continues to develop, install, update and manage the company's applications and data—it just resides in a data center that's physically located across the Internet.

For example, to implement a basic 100 user VDI solution here's what you would need:

Description	100 Users	CapEx	OpEx	Total (3 Yr)
Blades	Blade Array	\$120k	\$2k	\$192k
SAN	15 TB	\$40k	\$667	\$64,012
Terminals	100 Terminals	\$20k		\$20k
Licenses	100 VDI + CALS	\$40k	\$333	\$51,988
Virtualization	VM's + VM Management	\$26k	\$524	\$44,864
Total		\$246k	\$3,524	\$372,864

Table: Costs to Implement 100 VDI Users. Source: Virtual Q

For many companies and government entities, the cloud-hosted desktop is a very enticing proposition. However, desktops running applications require high-speed, secure access to server-side (e.g., client-server) application code and corresponding data, typically residing in SQL databases.

So how can cloud-hosted desktops access the data and application back-ends they require?

Answer. Move the existing virtualized servers and databases out of the corporate data center and collocate them with the cloud-based virtual desktops. By collocating both the virtual desktops and back-end servers and data within the same third-party data center, it's possible to switch most, if not all, of the IT infrastructure from a capital-intensive, corporate-owned and managed data center into a fully cloud-hosted IT service.

I know, I know. Blasphemy! Especially to many CIO's and IT managers, who view their corporate data centers, servers and data as too business critical and sensitive to trust to any third party.

Yes, there was a time when that attitude and perspective was completely understandable and even justified; however, times are changing. In a 2010 article titled "**Gartner Highlights Key Predictions for IT Organizations and Users in 2010 and Beyond.**" Gartner predicts that "by 2012, 20 percent of businesses will own no IT assets. Several interrelated trends are driving the movement toward decreased IT hardware assets, such as virtualization, cloud-enabled services, and employees running personal desktops and notebook systems on corporate networks."

This is a little extreme, the need for computing hardware, either in a data center or on an employee's desk, will not go away. However, if the ownership of hardware shifts to third parties, then there will be major shifts throughout every

"Trusted, professionally-managed data center providers like Softlayer, Rackspace and others now provide viable alternatives to corporate-owned and operated data centers—arguably, better managed and even more secure in many cases."

— Rick Braddy
Virtual-Q

facet of the IT hardware industry. For example, enterprise IT budgets will either be shrunk or reallocated to more-strategic projects; enterprise IT staff will either be reduced or reskilled to meet new requirements, and/or hardware distribution will have to change radically to meet the requirements of the new IT hardware buying points.

Another point that driving this trend are increased security concerns as private datacenter after center succumbs to different hacking and penetration schemes. In 2011, Sony, NASA, RSA (this one is particularly ironic), Commonwealth Financial Network, Stanford and a multitude of others reported security failures. In government, the story is worse. In 2011, Canada's federal government saw its highest number of privacy breakdowns, with 64 major breaches. In the US, Scripps Howard News Service said it discovered the social security information of 31,931 living Americans while reviewing three copies of the Social Security Administration's Death Master File, which can be purchased online. The claims of corporate and government IT that only internal controls can secure customer and citizen privacy are ringing increasingly hollow. Complicating matters even more are the security issues raised by the rising incorporation of tablets and smartphones into corporate IT infrastructure.

As a consequence, what begins as a cloud-based, desktop-as-a-service pilot project quickly evolves into a more comprehensive cloud-based IT-as-a-service solution, whereby the IT infrastructure is relocated into a private, secure data center managed by one of these trusted data center providers. Backup data centers and multiple points of presence on the Internet provide the safety nets that make this a viable solution.

This is even easier to contemplate today because most corporate servers are already virtualized, and IT has become more comfortable with virtualization and cloud technologies applied to business-critical computing. It's relatively straightforward to develop a plan to forklift application servers and databases, migrating them out of corporate data centers and into a cloud-hosted data center.

I know. Double-blasphemy.

Needless to say, even the suggestion that the corporate data center, servers and data could no longer be directly under IT management's control makes many of us gray-haired IT managers either want to scream or perhaps reconsider early retirement.

On a more serious note, many CIO's are beginning to recognize this emerging cloud-hosted desktop and data center model as the next logical step in the evolution of virtualization of IT, combined with cloud IaaS and SaaS delivery of applications and IT services. The security capabilities provided by top-tier hosting, colocation facilities and cloud-hosted desktop solutions has reached an inflexion point—one that enables many companies and government agencies to leave their own data centers behind over the next two to five years.

“The cost uncertainties introduced by VMware's rejiggering of its pricing schedule shook the confidence of many corporate IT managers, leading many to take a closer look at Cloud alternatives.”

— Rick Braddy
Virtual-Q

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Is this really happening? Yes, it is.

Earlier I showed you the cost of implementing a basic 100 user VDI solution. Now add to that the cost of redundancy, firewalls, support, bigger bandwidth, power and cooling. All this is included as part of a cloud-hosted solution.

Description	100 Users	CapEx	OpEx	Total (3 Yr)	Cloud Hosted Total (3 Yr)
Blades	Blade Array	\$120k	\$2k	\$192k	Redundant
SAN	15 TB	\$40k	\$667	\$64,012	Redundant
Terminals	100 Terminals	\$20k		\$20k	Included
Licenses	100 VDI + CALS	\$40k	\$333	\$51,988	Included
Virtualization	VM's + VM Management	\$26k	\$524	\$44,864	Included
Total		\$246k	\$3,524	\$372,864	\$356,400 @\$99/month/user Includes redundancy, firewalls, support, increased bandwidth, power and cooling

“CapEx vs OpEx is an enterprise concern and provides a view of the future of SaaS in larger businesses.”

— Rick Braddy
Virtual-Q

Table: Cost Comparison of 100 VDIs Implemented by Internal Resources vs. Hosted Cloud. Source: Virtual Q

The financial advantages of transforming IT from a largely CapEx constrained proposition into OpEx is extremely attractive by itself. And for many, it may be the only financially viable way forward.

As CFO's and CEO's become more aware of the cloud-hosted desktop and data center as a viable alternative to traditional IT-owned and managed computing infrastructure, the business pressure to consider these alternatives is sure to increase with time. And as the cloud-hosted IT-as-a-service model is proven across an increasingly broad range of industries, it could cross the chasm and become a mainstream IT strategy.

What does all this mean to IT? And what affect will it have on the vendors who rely on capital-intensive, premise-based data centers, traditional VDI and/or fat-client desktop architectures? What about the architecture and security model of the cloud-based data center and cloud-hosted desktops? And how does all of this factor into a mobile computing strategy?

Great questions—topics we will explore in future articles.

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estate industries, based in Mumbai (Bombay), India.

The decision to select Annet Technologies from a list of possible strategic partners came after Polaris developed a diligent interview and vetting process designed to leave no technical and development rock unturned. The key issues that went into the selection process covered:

1. Annet Technologies' willingness to invest heavily in understanding the needs of the Polaris subscriber? Understanding these enables a development group to ultimately design products and systems that exceed expectations. Annet programmers would need to understand general expectations of the software solutions, as well as what kind of input to expect, what type of input would be required, how they would interact with the Polaris customer, and how the program applies to actual business environment. "An important point to track is who is providing the answer to these questions" notes Bender. When you ask tough questions, anyone sitting in front of you is going to tell you what they think you want to hear. But in the case of Annet, in addition to the project managers and programmers, it was also Annet's CEO, Rohan Bulchandani, who showed up to undergo the grilling and provide the answers. "This provided the company immediate credibility the competition didn't possess" Bender observed.
2. What was the company culture of Annet? "Few software companies give much consideration to this issue, but that's a mistake" says Bender. "In the case of Annet, it's a family run business that treats its employees well and is rewarded with the loyalty of their workers, a situation that parallels in key aspects the culture of Polaris." There are also geographical considerations to keep in mind. "The business environment of Mumbai is more stable with less employee turnover than you'll find in development centers located in Bangalore. The flip side of this is that in faster, more cut throat milieu, cutting edge technology tends to be more available. It's a question of what you think you need," says Bender. "In our case, it's a stable and happy development group."
3. Would Annet Technologies dedicate the appropriate amount of time and effort needed for planning, managing and testing Polaris software to get exactly what they wanted? Due to time pressures and resource constraints, some organizations take the "throwing it over the fence approach" and hope that their offshore partner will "figure it out". This typically results in poor working relationships, and even poorer results while increasing the cycle of frustrated and unhappy clients with sub-par results. To succeed, both parties need to commit to making the investment and the process work.
4. Would Annet Technologies be willing to make the investment to properly scope each project? Did they have the experience and focus needed to develop this skill? And if so, were they committed to spending the appropriate amount of time needed to properly scope each project?
5. Would Annet Technologies be able to learn Polaris' "vision" with regard to implementation and future product development? Companies are often amazed at how many different design interpretations hired developers can develop from one document. What they miss are the assumptions considered when the

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document was written—the background taken for granted by the writer—a functional specifications consultant. In order for there to be a shared “vision,” both parties need to spend time working together to ensure a clear understanding of the process to document requirements, status updates and testing. Without that commitment, the development relationship has no future.

6. Would Polaris commit to the process development and maintenance necessary to manage the relationship between the two companies? Too many times firms working with outsources don’t take the time to put in place or think through the infrastructure that needs to be in place to manage an outsource relationship. For example, what project management tools will be used? Bug tracking reporting system? Shared resource servers? “When we began working with Annet, there was a great deal of difficulty with the development and interpretation of requirements documents. Some of the problem was idiom and language. While English is everyone’s second language in India, it differs from American English enough that problems of meaning and clarity can arise. “To deal with this, single points of contact—project coordinators—on both sides of the relationship were established and document processes and service level expectations were set” states Bender.

Once Annet was selected, Polaris and Annet Technologies laid the groundwork for a solid foundational relationship. Several visits were made by both companies to meet the respective teams and get to know the people within the organizations personally—with the result that a deep knowledge of both companies’ culture and capabilities was built over time. During these visits, Polaris spent a lot of time reviewing and educating Annet on current processes, debriefing the firm on recent projects, and setting objectives for improving the process for future projects.

This strong commitment to face-to-face relations was essential, and helped overcome the “I never knew what they go through...” syndrome plaguing many U.S. companies who outsource technical work. Noon in New York is 10:30pm in Mumbai, India, but often times this is overlooked or disregarded. By allocating internal resources to spend as much time as was needed to enhance communications and obtain feedback, comfort levels on both sides of the relationship became very high.

Other concrete steps to build tww-way confidence included:

- Ensuring two people from Annet Technologies were always at the Polaris HQ at any one time, with personnel rotating through on a periodic basis.
- Sending individuals from Polaris on weekly trips to Mumbai.
- Mounting pictures from both on the Sharepoint system that helped coordinate activities between the two groups. Birthdays, marriages, and other social occasions were posted and shared remotely. When a member of the Mumbai development team passed away, both offices went into mourning.

- Instituting a requirement that key development personnel in New York talk with their counterparts twice a week.
- Creating single points of contact (“project coordinators”) between both companies and requiring they communicate frequently.
- Educating US personnel on Indian office mores and practices. It’s become something of a truism in the industry that Indian programmers will avoid saying “no” to requests, even ones that are not feasible or advisable (this, of course, never happens in the US). “The key to overcoming this issue is trust and communication” notes Bender.
- Holding regular Webex sessions during which the Mumbai development group demonstrated new product features and capabilities.

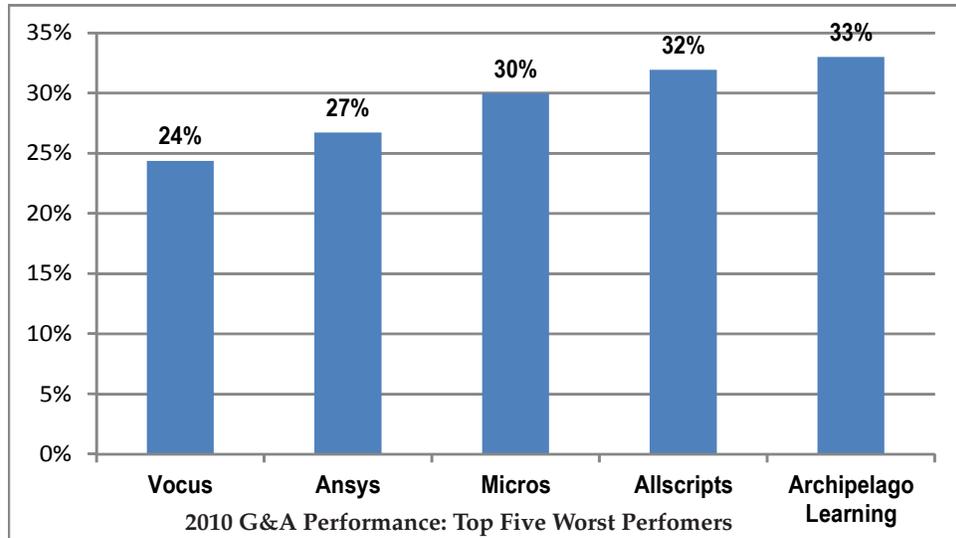
In the beginning, like in most relationships, things progressed slowly, and did not go without hiccups. Annet was tasked with small jobs to learn the Polaris systems and understand best practices for implementation, and the foundation began to take shape. Polaris provided background information and presentations on where its clients’ markets were evolving, what the drivers of change were, and how these drivers would impact the service offerings.

As the processes and procedures established to drive the relationship began to take hold, significant payback began to appear. The number of bugs coming back to the development group was reduced significantly because of the processes and documentation that had been developed jointly. Customer satisfaction with the product improved and kept improving. Polaris client managers found themselves with more time to focus on clients and project management, which led to further satisfaction, and reduced sales cycle times and costs.

A final key factor is something of a paradox—CEO Bender’s rejection of the scale up/scale down model that makes outsourcing so attractive, in theory, to software companies. “The scaling model is not as effective as advertised. Yes, it sounds wonderful. You hire resources when you need them, and, in affect, lay them off when you don’t.

“And that’s the problem. The impact on your organization is very similar to the morale issues created by layoffs. Development knowledge and working partnerships are lost, people tend to leave the development group for greener pastures if they’re not getting enough billing hours, people stop being willing to work late hours on a project because the fact they’re just hired hands is driven home. Instead of layoffs, we challenged the development group in between major release cycles to:

- Develop new demos for our sales and marketing groups.
- Challenge them on new platform concepts.



Benchmarks: General and Administrative, 2010

G&A expenses normally includes the salaries and staffs of the upper management, rent, connectivity costs, etc. To be honest, it's our most unexciting metric; things often only become interesting when companies are threatening to spiral out of control and are attempting to execute overly complicated business models. Rapidly rising or high G&A during economic good times or periods of stability are often a sign of internal turbulence; during a recession, they can reflect internal inefficiency if a company can't keep expenses under control. High G&A costs are also sometimes associated with outsourcing operations where a software company has traded R&D costs for higher G&A expenditures, a symptom of a poorly executed program.

A final driver of higher G&A expenditures is inflation and this year's numbers indicate that inflation is slowly seeping into the economy as the consistent higher energy prices of the last four years and the high money supply to eat the value of a dollar. Inflation can express itself in ways often not captured by the standard measurements. Take just one small example, the cost of plastic storage containers, items much used by companies of all sizes. Two years ago, WalMart typically sold 56 plastic gallon containers for between \$4 to \$6 dollars per unit; today, on sale, the cheapest price one sees for these units is \$6, a reflection of petroleum costs. On such humble foundations are major inflationary trends sometimes built.

As always, the best way to shrink G&A ratios is to be big, as our 2010 numbers for Microsoft (7%) and Google (7%) illustrate. The G&A laggards this year include nsys (27%), Archipelago (33%), Xformity, (21%), Micros (30%) and TigerLogic (9%). All of them with the exception of Xformity, are smaller firms. Most improved G&A performances include Progress from 2009's 12% to 2010, 10%, Tibco (2009—19%, 2010—16%, and Magic Software, (2009-15%, 2010—9%). Note that it's much easier to drive G&A costs than it is to lower them.

The Benchmark 50: General and Administrative, 2010

Revenues (000)				Gen. and Admin.			Avg. '07-'10
	2008	2009	2010	2008	2009	2010	
Microsoft	\$60,420,000	\$58,437,000	\$62,484,000	8%	7%	7%	7%
Google	\$21,795,550	\$23,650,563	\$29,321,000	8%	7%	7%	7%
Desktop Applications				12%	12%	15%	13%
Adobe	\$3,579,889	\$2,945,853	\$3,800,000	9%	10%	10%	10%
Rosetta Stone	\$209,380	\$252,271	\$258,868	19%	23%	21%	21%
Intuit	\$3,070,974	\$3,182,537	\$3,455,000	10%	9%	10%	10%
Smith Micro	\$98,424	\$107,279	\$130,501	20%	18%	19%	19%
Symantec	\$5,874,419	\$6,150,000	\$5,985,000	6%	6%	6%	6%
Bitstream	\$24,008	\$21,489	\$23,144	11%	14%	19%	15%
Nuance Commo. (Scansoft)	\$868,500	\$950,400	\$1,118,948	12%	11%	11%	11%
Vertical Market Applications				26%	22%	21%	24%
Ansys	\$478,339	\$516,885	\$580,236	28%	27%	27%	27%
Autodesk	\$2,171,900	\$2,315,200	\$1,714,000	9%	9%	12%	10%
Xformity	\$1,457,884	\$1,978,231	\$1,925,298	30%	22%	21%	24%
Allscripts	\$383,771	\$548,439	\$704,502	26%	36%	32%	32%
Advent	\$264,832	\$259,508	\$283,501	14%	14%	13%	14%
Micros	\$954,184	\$911,847	\$914,319	32%	31%	30%	31%
Enterprise Applications				10%	10%	10%	10%
Sapient	\$687,488	\$666,678	\$863,519	18%	18%	17%	18%
Parametric	\$1,070,330	\$938,185	\$1,010,049	8%	9%	9%	9%
Manhattan Associates	\$337,201	\$246,667	\$297,117	11%	12%	11%	12%
Concur Technologies	\$215,491	\$247,596	\$292,936	15%	12%	13%	13%
Pegasystems	\$211,647	\$264,013	\$336,599	10%	7%	7%	8%
Lawson	\$851,926	\$757,328	\$736,408	12%	11%	11%	11%
Open Text	\$725,532	\$785,665	\$1,033,303	10%	9%	8%	9%
SaaS				15%	15%	15%	16%
Taleo	\$169,419	\$198,412	\$237,275	19%	17%	18%	18%
Callidus	\$107,181	\$81,058	\$70,880	13%	15%	19%	16%
DemandTec	\$61,270	\$75,005	\$79,052	10%	13%	12%	12%
salesforce.com	\$748,700	\$1,076,769	\$1,305,583	26%	15%	15%	19%
RightNow Technologies	\$140,435	\$152,687	\$185,522	10%	10%	10%	10%
LivePerson	\$74,655	\$87,490	\$109,862	17%	15%	16%	16%
Vocus	\$79,383	\$84,579	\$96,760	26%	25%	24%	25%
Network Tools				12%	11%	10%	11%
Novell	\$956,513	\$862,185	\$811,871	12%	12%	13%	12%
Citrix Systems	\$1,583,354	\$1,614,088	\$1,874,662	16%	15%	14%	15%
McAfee (Network Associates)	\$1,600,065	\$1,927,332	\$2,064,807	13%	10%	10%	11%
iPass	\$191,368	\$171,377	\$156,080	11%	17%	13%	14%
VMWare	\$1,881,027	\$2,023,937	\$2,857,343	10%	10%	9%	10%
NetScout	\$168,956	\$267,604	\$260,342	15%	10%	8%	11%
Quest Software	\$735,377	\$695,236	\$767,097	12%	11%	11%	11%
Developer Tools				18%	17%	16%	17%
Magic Software	\$61,980	\$55,350	\$88,578	18%	15%	9%	14%
Red Hat	\$523,016	\$652,572	\$748,236	16%	15%	15%	15%
Versant	\$25,298	\$18,150	\$15,766	22%	20%	20%	21%
Progress Software	\$515,560	\$494,137	\$529,120	12%	12%	10%	11%
Pervasive Software	\$42,467	\$47,218	\$47,213	12%	11%	11%	11%
TigerLogic Corp.	\$19,772	\$16,252	\$13,670	25%	31%	31%	29%
Tibco	\$273,415	\$247,237	\$301,532	19%	19%	16%	18%
Education				15%	15%	14%	15%
Apollo Group	\$3,140,931	\$3,974,202	\$4,925,819	7%	7%	6%	7%
Renaissance Learning	\$115,223	\$121,513	\$130,094	13%	11%	10%	11%
Scientific Learning	\$47,754	\$55,288	\$43,384	17%	15%	19%	17%
Skillsoft	\$281,228	\$328,494	\$285,404	12%	11%	12%	12%
Saba Software	\$107,777	\$102,821	\$116,657	14%	15%	13%	14%
Blackboard Inc.	\$312,134	\$377,000	\$447,318	16%	15%	15%	15%
Archipelago Learning	\$31,415	\$42,768	\$58,650	33%	22%	33%	29%
All companies (median)	\$324,668	\$352,747	\$391,959	13%	14%	13%	14%

Note: "Years" may not correspond to company fiscal years. Individual firms are averages; segments are medians.

- Innovations to existing systems.
- New ideas for features and capabilities.

“Another factor to remember is that the delta between American and Indian programming resources is shrinking. American programmers, depending on location, can be hired for \$30 to \$40 per hour. Distance and the normal overhead associated with outsourcing are further narrowing the costs between the two approaches” noted Bender.

As the depth and mutual respect of their relationship grew, both Polaris and Annet realized they were “like minded” companies and the “vision” for the relationship emerged. Within two years, Annet moved from primarily supporting system implementation to providing development and production for 40+ applications that run in their totality as Polaris’ SaaS Healthcare Compliance Suite. This shift in responsibilities reflected the reality that Annet had become a strategic partner to Polaris.

What made this possible? Not just commitment, but communication with the required context to enable Annet to grow domain expertise. Meaning, Polaris people made great efforts to explain business cases for requested changes in context to ensure Annet people understood business reasoning within the healthcare marketplace. This paid off in spades. The shift of Annet Technologies’ position from tactical to strategic development partner meant tremendous gains for Polaris in terms of customer service and growth. It allowed their staff to focus on customer development and service which dramatically improved their bottom line estimated to be 15% on most projects and up to 20% to 25% for others.

So what is the secret to making offshore partnerships succeed? Not unlike personal relationships, a commitment to invest in, and go through, the learning process is key. Having insight and accepting that things will not go always perfectly, but will work out the end, is imperative. Being open to accept continuous feedback in a respectful manner for improvement with 360 degree feedback cycles is crucial—application development, testing, accountability, hours being logged, all facets of the relationship should be reviewed for efficiency. Without this feedback, there is no growth, and no basis to develop a mutual understanding of each other’s position. And above all, the more time spent with developing the relationship, the more will be learned about one another as partners, not only in business, but in life.

Thomas J. Watson once said: “...the basic philosophy, spirit, and drive of an organization have far more to do with its relative achievements than do technological or economic resources, organizational structure, innovation, and timing. All these things weigh heavily in success. But they are, I think, transcended by how strongly the people in the organization believe in its basic precepts and how faithfully they carry them out” (from Thomas J. Watson, Jr., A Business and its Beliefs - The ideas that helped build IBM).

As true as this is for the success of a corporation, it is even more so for the individual. The most important single factor in individual success is **commitment**. Commitment ignites action. There are, therefore, two fundamental conditions for commitment. The first is having a sound set of beliefs. There is an old saying that goes, “Stand The first is having a sound set of beliefs. There is an old saying that goes, “Stand for something or you’ll fall for anything.” The second is faithful adherence to those beliefs with your behavior. Possibly the best description of commitment is “persistence with a purpose.”

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Four SaaS Integrated Business Analytics Systems to Consider

by the Softletter Staff

In 2009, at our SaaS University session in Chicago, Softletter editor Rick Chapman urged the attendees to incorporate analytics into their systems as soon as possible so as to leverage the invaluable information subscriber interaction with their systems created. He also recommended that they use third party services to implement analytics capture and reporting; great advice except for the fact that there weren't any third party systems; if you wanted analytics, you had to roll your own.

This has changed. Several new companies and technologies have appeared on the market promising to enable SaaS firms to quickly integrate analytics into their systems. Most of these systems can:

- Capture usage analytics down to the function level.
- Capture detailed information on time spent in a system, browser used, geo location, bread crumb trails, etc.
- Report on all aspects of product usage.

In theory, it should be possible to embed analytics into on premise applications to allow a software companies to benefit from analytics gathering and aggregation as can SaaS firms. The technology to do so does exist, and in the late 90s Israeli company Internum introduced Relevant Reach, a system that enabled on premise and desktop software (even PDFs) to install a small, thin client application onto a server or desktop that was able to communicate with a remote server and allow application users to "chat" with each other, build forums, send messages through applications, and usage information. Software companies at the time were cool to the technology because of security and privacy concerns. We have recently talked to a startup that is attempting to reintroduce the technology and apply it to PDFs; we'll keep you abreast of their progress.

The four firms SaaS firms should consider for analytics are:

Apptegic (www.apptegic.com). Apptegic's SaaS system captures usage data (clicks), function usage, pathing, browser usage, geo information and locations. The system is technically in beta but has paying subscribers. Subscriptions are currently charged on a per event, basis, implementation takes from three to five days, on average. We've taken a close look at Apptegic's system and are impressed by what we see; if you're a SaaS firm in B2B or vertical market, we recommend you look here first.

Kontangent (www.kontangent.com). Kontangent's technology is focused primarily on the mobile and gaming markets springing up around smartphones. In addition to the basics, the product allows a company to create user segments, measure marketing campaign effectiveness, perform funnel analysis and even manage the monetary flows from virtual economies. If you're a mobile firm, start here.

Safenet Sentinel Cloud (www.safenet-inc.com). Interesting specs but Safenet's focus is still on client/server markets. Worth investigating.

Totango (www.totango.com). Similar in performance to Apptegic. One of Totango's primary selling points is its integration with Salesforce.com. Totango offers a free trial version of its system. Company also provides some interesting light research on SaaS.

Google+ Resources

- **Google+ Best Practices** (http://www.readwriteweb.com/archives/google_plus_best_practices_trey_ratcliff_artist.php): Interesting web article/interview with photographer Trey Ratcliff who discusses his use of Google+.
- **Google+: The Complete Guide** (<http://mashable.com/2011/07/16/google-plus-guide/>): Useful site that's regularly updated with new information on the latest social marvel.
- **How to Use Google+ for Business** (<http://www.hubspot.com/how-to-use-google-plus-for-business/>). HubSpot E-book on Google+; HubSpot materials are usually very good. Registration required to download E-book.
- **The Mother of All Google+ Resources Lists** (<http://thenextweb.com/apps/2011/07/27/the-mother-of-all-google-resource-lists/>): Useful site loaded with up-to-date information on Google+.
- **11 Best Practices for Your Google+ Page** (<http://www.sexysocialmedia.com/11-best-practices-for-your-google-brand-page/>): Useful design tips.

FORBES WRITER CHRISTINE CRANDELL ON SALESFORCE.COM AND ITS CHANNEL: "Salesforce.com is expanding its footprint into areas traditionally served by its Force.com partners, many of whom were exhibiting. For Salesforce.com's ecosystem, this should be a wake call. While Benioff lambasted Microsoft for protectionist behaviors with their 'we're all you need' product strategy, Salesforce.com is engaging in the same strategy." (Quoted on <http://www.forbes.com/sites/christinecrandell/2011/09/03/salesforce-com-ceo-calls-for-a-business-arab-spring/2/>, 09/03/2011)

BLOGGER MARK SUSTER ON PRICING FOR STARTUPS:

"When I'm asked about all of the mistakes I made at my first startup (I made them all) I often tell people that the single biggest mistake that I made was charging too much for my products.

We knew how to sell – we had clients paying \$1 million / year. We knew there was value in what we provided. In order to grow we hired successful and expensive sales people who in turn were able to (and incentivized to) sell projects at higher margins and close big deals.

This was a mistake.

We grew really fast for a few years. But eventually low-cost new entrants came into the market offering most of our features at 10% the costs. We still won large customers but over time it became harder to compete.

Had I taken the lower-margin approach I really think I'd be sitting atop a \$1 billion+ company today." (Quoted on <http://www.cloudave.com/blog/>, 12/26/2011)

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