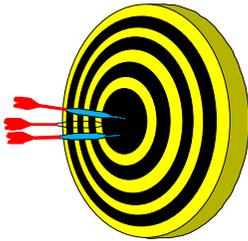


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# Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

## Building a Balanced Executive Team



Our third Google impact survey reveals that just about everyone thinks Google has painted a bullseye on Microsoft. See pages 4-5.

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*The recent management debacles at Enron, Global Crossing, and now HP have people wondering why these companies, ostensibly filled with such smart people, have done such stupid things. Particularly in the case of HP, when you read about what's happening, you just have to shake your head. How could the chairwoman of a company authorize a series of investigatory actions and claim to have no idea of what the people reporting to her were doing? This defense doesn't do well in the post-Enron age; ask Bernie Ebbers of WorldCom who tried it and is heading off to prison for what may well be the rest of his life. And Watergate wasn't so long ago that a person of Dunn's age and experience shouldn't remember how "plumbers" brought down a president.*

*And just how does HP justify rewarding Mark Hurd with HP's chairmanship after statements such as "I could have and I should have" read the 18 page document distributed to board members discussing the investigation and its techniques? This type of sentence would sound about right coming from Andrew Fastow before his conviction and departure for a stay at Club Fed. Hurd has been HP CEO for a year and a half; if the job of CEO leaves him no time to read memos on important investigations being carried out against the HP board of directors, he probably can't handle the extra burden of the chairmanship.*

*The question underlying the entire developing HP tragedy is what type of environment creates an HP, or Enron, or WorldCom mess? It takes a corporate monoculture and/or a group of executives that lack psychological balance. The best general hires the best generals, and makes sure that they're different **kinds** of generals.*

In the foreword to the first edition of *In Search of Stupidity: Over 20 Years of High-Tech Marketing Disasters*, Joel Spolsky states his belief that high tech companies can't succeed unless there's a programmer (and we'll assume he's also partial to hardware engineers) at the head of a company. It's a natural assumption; after all, Joel is a programmer, and coders and engineers do tend to be the loci of new ideas and products for high tech. But it's a supposition that's easy to argue with. Ray Noorda was the man most directly responsible for the early success of Novell, and he wasn't a programmer. Steve Jobs was the man most responsible for the rise of Apple and the creation of the Macintosh OS. Jobs was never a programmer and only nominally an engineer. It was Steve Wozniak who

*(continued on page three)*

## The Latest in Search Engine and AdWords Shenanigans, Part II of III

### Linking and Content Techniques

Most webmasters have become aware of “reciprocal link” programs, automatic importunings sent to you via E-mail offering to exchange links with websites that may, or may not be, relevant to your market. Google and the other major search engines formerly paid fairly high attention to these forms of links. But recent changes in the search algorithms are deprecating their value. These links may draw traffic, but will have increasingly little impact on your website’s rankings. (Google has announced that it can filter over 95% of bartered links.) Other important techniques include:

- **Developing “testimonial grade” links.** Inbound links, to be effective in raising your rankings, should come from well known and ranked sites with high traffic.
- **Linking to your competition (or at least sites that are highly complementary to your own), especially if they have high rankings.** While painful to contemplate from a marketing standpoint, if your competition is ranked highly, Google and other search engines like to see those outgoing links.
- **Use keywords to create interior links within your site.** For example, if you are selling a backup utility for SQL databases, your link to more information about the product should say something like “More information on backing up SQL databases here,” not just “click here.”
- **Create original content for product descriptions; avoid reusing boilerplate.** Google has become increasingly effective at stripping out duplicate text from sites and reducing rankings when it finds large wads of repetitive words and phrases.
- **Use keyword modifiers to optimize for geography.** Google and the other search engines have become more sensitive to keyword modifiers targeted at regions and countries. Use specific cities and locations in your keyword tags if your product is marketed geographically.

Another important feature recently added to Google’s AdWords system is scheduling (dayparting). Prior to this, if a software company wanted to adjust their bids based on time of day or increase their AdWords bidding, manual intervention on the part of a webmaster or marketer was necessary (there were tools that claimed to be able to automate the process, but their reliability was poor). Now, with the new features, you can:

- **Deliver ads at times when conversion rates are highest.** This is extremely useful if your market is disinclined to buy products at times such as 4:00AM in the morning (in fact, people clicking on your ads at certain times may almost be guaranteed to not be potential customers for your product. The new system allows delivery of ads to be throttled on and off at anytime during a given period.
- **Use what Google calls standard vs. accelerated delivery.** Standard delivery takes a campaign’s daily budget into account and spaces the delivery of ads throughout the day. Accelerated Delivery displays ads as quickly as possible until a budget is depleted. Accelerated Delivery is recommended for advertisers who want to ensure they spend their daily budget.

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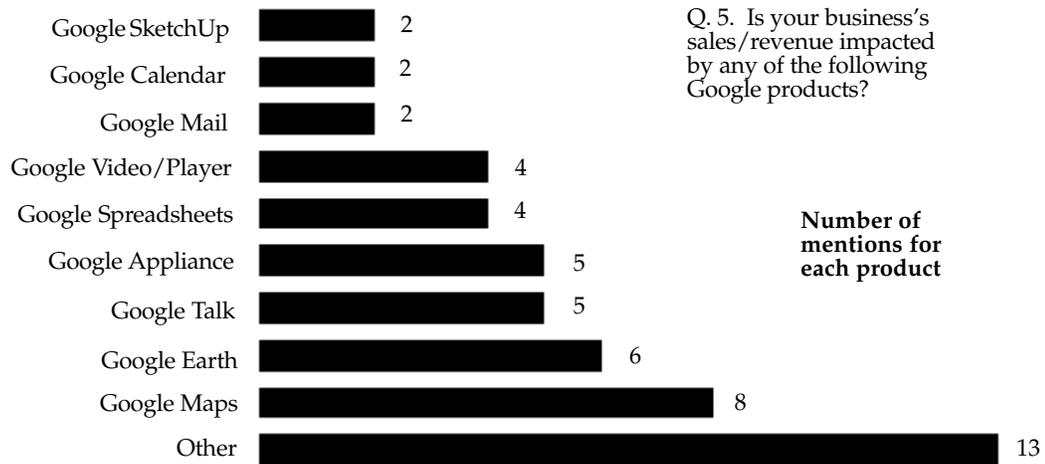
did all the significant work in this respect during Apple's early days. Charles Wang, founder of Computer Associates (now CA), may have done some nominal coding, but his main interest was always business. Charles Tate of Ashton-Tate never programmed for a living nor did Scott Cook, founder of Intuit.

Of course, Joel advocates can point to some significant examples that prove his case. Bill Gates was certainly a programmer. Mitch Kapor, founder of Lotus, was a developer as well. John Warnock of Adobe was an engineer and onetime chief scientist at the legendary PARC lab. But then you look at the history of developers in relation to the companies they either founded or worked for, and the picture again becomes decidedly mixed. The SuperSet helped damage Novell. The WordStar programming team drove the final stake through MicroPro's heart. Dan Bricklin and Bob Frankston, developers of the first blockbuster desktop application, VisiCalc, engaged in a foolish and ruinous fight with the publisher of the product, VisiCorp, that destroyed the spreadsheet cash cow for both companies. Apple's developers made a 20-year career of running amok from time to time. It's probably fair to state that programmers and developers help kill and hurt as many companies as they start.

Many historians believe the principal reason that Napoleon was beaten at Waterloo had little to do with the specific tactics used on the field of battle but by the absence of three men from the campaign: Marshalls Berthier, Lannes, and Davout. Berthier was Napoleon's chief of staff, a master of interpreting Napoleon's wishes and transmitting complex orders in clear, simple terms. After Napoleon's first exile, he switched sides and never switched back. During the battle, his replacement, Marshall Soult, proved unable to provide the same clarity of communications achieved by Berthier, and the French suffered mightily because of it. Lannes, a brilliant fighter who was willing to talk back to the Corsican when he felt he was wrong, couldn't make the big event; he was dead, killed at the battle of Aspern-Essling. Davout, Napoleon's strategic equal and a man who would have crushed the Prussians at Wavre where Marshall Grouchy failed and thus made it likely Napoleon wins at Waterloo, declined to show up for the battle, tired of Napoleon and his endless wars. The marshals who did show up to support the emperor were for the most part brave men and competent, but they were also his managerial second tier.

A well-run company follows the example of Napoleon at his best (we'll pause a moment for all you current and nascent CEOs and future members of upper management to enjoy the frisson this analogy is generating, but please remember we're simply resorting to an analogy here; business is not war) and develops a well-rounded, high-quality management team. An interesting aspect of many of the most successful high-tech companies is that they seem, at least for a time, to follow a "binary star" system, with two people in essence sharing the CEO's job—one person focusing on the technical side of the company and the other on key business issues. Notable *(continued page six)*

### Effects of Google Products on Software Revenues



### Google Survey Part III: Google as Competitive Environment

Soft•letter's earlier two Google surveys looked at software companies' use of Google to promote their products (05-31-06), and at the companies' incorporation of Google technology into their own products (31-07-06). This third survey looks at Google as a competitor to software companies.

In the first place, some 80% of those answering said they believed that Google was out to compete with Microsoft, and that the battle would take place in consumer applications, rather than in vertical markets.

**1. Do you think Google plans to compete with Microsoft Office and other Microsoft products?**

Yes: 84%                      No: 16%

**2. Do you believe Google's primary focus will be on competing in consumer markets (for example, Picasa) or in more vertical markets such as finance, business intelligence, project management, etc?**

Consumer: 79%              Vertical: 21%

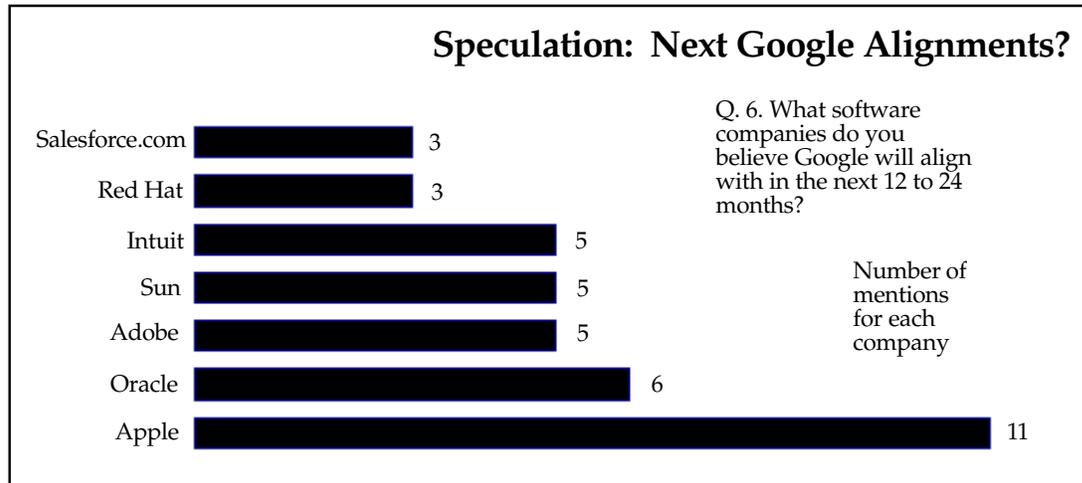
Most of the respondents, however, did not believe themselves threatened by Google.

**3. Do you anticipate that Google will be competing in your market?**

Yes: 35%                      No: 65%

The majority believed that Google would have no effect on their business, and a slightly larger number even believed that Google's entry into their marketplace would benefit their business.

## Speculation: Next Google Alignments?



#### 4. If yes, do you anticipate Google’s impact will be positive or negative on your business?

Positive: 38%  
 Negative: 17%  
 No Effect : 45%

Unfortunately the question did not include an “Unsure” option. Everyone answered questions 1-3, but this question was left blank by 23%, indicating their uncertainty.

With the next question we leave off speculating about the future to ask a sharp question directly about the present:

#### 5. Is your business’s sales/revenue impacted by any of the following Google products?

Seventy percent of the respondents did not believe their business revenue currently impacted by the Google products we listed, and so did not answer this question. The chart on p. 4 lays out the answers of the 26 respondents (30% of the total) who did point to products, some of them to more than one. The chart leaves out products we asked about but which no one saw as having any current effect on their revenue: Picasa, Google Mini (although Google Appliance showed up), and Writely.

The 26 respondents covered by the chart (p. 4) checked off 38 instances of listed products that affected their sales; an *additional* 13 respondents listed products not on our list. Thus it is actually 45% of the respondents who say their business is currently being hurt by Google. These “other” products included (two each) Google Translate, Google Analytics, Google Search, and Google Finance.

#### 6. What software companies do you believe Google will align with in the next 12 to 24 months?

Unlike the chart on p. 4, the chart above deals in speculation, not fact. It is nevertheless interesting to see how software companies read the tea leaves (even if only 52% of those polled gave Question 6 a try). The chart lists those companies mentioned by three or more respondents; two mentions each went to IBM, AOL, and Yahoo! Linux makes its way onto this list in a way, because Red Hat and Canonical Ltd. (Ubuntu) were each mentioned once.

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examples of this approach include Gates/Ballmer, Warnock/Geschke, Jobs/Wozniak, and Cook/Proulx.

Regardless of how or whether the top job is split up, you're also going to need to establish and manage a management group with a diverse psychological profile. Please note we're not discussing specific skill sets, such as the ability to write Java code or do basic bookkeeping; it's a given that if you are to build and sell products and services, you have at least some initial competence in doing so. What we mean by "diverse" is the mental landscape of your team and the way they choose to use their abilities and ambition. In many companies, the founder and CEO tend to create an upper management team that is a clone of themselves. Each member of the team, when they look around, tends to see a somewhat distorted image of themselves that smiles back in approval and affirmation. In such an environment, a company's upper management functions in almost cult-like fashion—self-referential, self-absorbed, and increasingly cut off from both the rest of the company and the market (this syndrome seems to be a major factor in what took place at HP).

**“The Napoleonic model we’re discussing includes another type: the “Bernadotte. Bernadotte was perhaps Napoleon’s most incompetent Marshall, a poor fighter, teller of tales, and reliably dishonest. He was rewarded for his faults with the kingship of Sweden after Napoleon’s fall. George Keyworth, the HP boardmember who was revealed as the director who was leaking board deliberations to the press, best typifies a Bernadotte at work in a company. You don’t want this type on your management or corporate team.”**

—Softletter

Another extreme is the management theory that the executive suite functions as an analog to the Roman Colosseum in its heyday. Periodically, members of the management team are expected to check in for fights to the death with each other held under the watchful eye of the company founder or CEO. The rationale normally offered for this practice is Darwinian in origin; by encouraging this type of ongoing fratricide, you are supposedly building a tougher, better business executive. Apparently, no one has ever considered the possibility that what you are evolving towards is a manager better adapted to killing his peers than the competition.

The best management systems we've worked with or observed avoid both of the extremes described. Instead, they seek to blend these psychologically diverse types into an effective group. The best teams at minimum always seem to possess the following:

- Someone with the ability to successfully communicate the CEO's ideas and business goals to the rest of the company and its managers. The "Berthier."
- Someone equal in business skills and abilities to the CEO, an individual who can step in and run the company in the event something renders the company's leader hors de combat; this person is also willing to step back into their assigned role and take orders. The "Davout."
- Someone unafraid to challenge upper management's assumptions and beliefs when warranted. The "Lannes."
- Someone with a strong understanding of the company's logistical needs and capabilities (this can include the firm's finances). The "Wellington" (Napoleon's managerial group never mastered the importance of logistics, as the 1812 debacle in Russia demonstrated.)

## Strategic versus Financial Buyers, Part II of II

By Ward Carter, Corum Group

Financial buyers take many forms, but in general they're investors instead of businesses that already operate in your space, unlike a strategic buyer. Types can include angel investors, venture funds, private equity funds, and others. The element common to all is that they rarely operate the company, but instead rely on existing management or new managers they bring in to manage the firm. Financial buyers bring their own set of pluses and minuses to the M&A equation.

Pros:

1. The transaction will likely be perceived as an investment and therefore less likely to be seen by employees and customers as a sell-out.
2. The existing business identity will be preserved, as you will not be merged into another entity unless the fund has similar portfolio investments.
3. Financial buyers pay with cash, as they can't offer you stock like public strategic acquirer.
4. You can usually opt to retain a piece of the equity going forward, especially if the deal is structured as a recapitalization.
5. Financial buyers are professional dealmakers and can act very quickly.

Cons:

1. Financial buyers don't bring any strategic assets. If you are short on brand, distribution or development expertise, don't expect to receive help in these areas from financial buyers.
2. Due diligence will probably be more stringent, especially the financial review. These buyers eat and breathe numbers and will be quick to scrutinize financial data as the best way to understand the business.
3. The holding period for most financial players is four to five years, meaning that they don't like to retain investments longer than that. Your employees and customers are almost assured of another change of ownership in that timeframe.
4. You will normally need to be larger to attract a financial buyer, and many will require your firm be profitable.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
<b>Metrologic (MTLG)</b> • Data capture, collection, and imaging	Francisco Partners	\$420,000,000 Terms: Cash	\$237,800,000	1.77
<b>ALG Software</b> • Profitability management and costing	Business Objects(BOBJ)	\$56,000,000 Terms: Cash	\$19,000,000	2.95
<b>WiderThan Ltd. (Korea) (WTHN)</b> • Mobile entertainment	RealNetworks (RNWK)	\$350,000,000 Terms: Cash	\$118,800,000	2.95
<b>DataWave Systems</b> • Point of sale retail software	InComm Holdings	\$36,000,000 Terms: Cash	\$35,000,000	1.03

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## More Useful Search Engine Tools Redux

- **AdSense Buddy** ([www.adsensebuddy.com](http://www.adsensebuddy.com)): Free tool that generates a series of useful charts and graphics that help you analyze your AdWords expenditures. Links clicks to earnings.
- **Google Ban Checker** ([www.seojunkie.com](http://www.seojunkie.com)): Free tool examines your website for links Google can't or won't spider.
- **GooHay!** ([www.goohay.com](http://www.goohay.com)): A stupid name but a useful tool. Software enables you to track your competition's AdWords. Can tell you if they run their ads 24/7 or just at particular times. A very useful adjunct to Google's new dayparting capability.
- **Keyword Niche Checker** ([www.majormarketingtools.com/keyword\\_niche\\_power](http://www.majormarketingtools.com/keyword_niche_power)): Despite the awful website presentation, a very useful keyword checker you should evaluate.
- **Site Wide Duplicate Content Analyzer** ([www.seojunkie.com](http://www.seojunkie.com)): Utility scans your entire website looking for duplicate content.

**COMPUTERWORLD EDITOR-IN-CHIEF DON TENNANT ON MARK HURD'S KEYNOTE SPEECH AT HP'S TECHNOLOGY FORUM:** "It was even more obscene than I had imagined it might be. I had held out hope that Hewlett-Packard CEO Mark Hurd would do the right thing and address the company's leak-probe scandal directly and courageously during his opening keynote at last week's HP Technology Forum in Houston. I knew it was a long shot. But I didn't expect Hurd's disdain for his users to be so blatant." (Quoted in *Computerworld*, 09/25/2006)

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**SECURITY CONSULTANT CHARLES MITTELSTADT ON PRETEXTING:** "Pretexting is a valuable investigative tool in its natural form. Company A calls Company B and impersonates a consumer to vendor to obtain vital information about pricing, development plans, etc." (Quoted in the *New York Times*, 09/25/2006)

**EDITOR SHARON GAUDIN ON PRETEXTING:** "And by the way, I'm more than a little tired of the term 'pretexting.' Let's just call it what it is: stealing personal, confidential information by posing as someone else. We can also call it fraud, lying, cheating—take your pick. Pretexting must be a marketing term, meant to put a positive spin on a negative action." (Quoted in InformationWeek Daily Newsletter, 09/25/2006)

**ZDNET BLOGGER GEORGE OU ON VISTA COMPATIBILITY:** "Windows Vista does break applications but it breaks applications that need to be broken. These are either sloppy applications that compromise the security of Windows or they're Malware applications that you definitely want broken. People need to realize the significance of a locked down permission model and UAC because Windows Vista preemptively breaks every Malware application to date." (Quoted on <http://blogs.zdnet.com/Ou/?p=325&tag=nl.e539>, 09/26/2006)