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BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

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*Clean tech surpasses
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here before?
See pages 4 & 5.*

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Summary Results from the Softletter Lead Generation, Management, and Conversion to Sales Survey, Part III of IV

The Softletter Lead Generation, Management, and Conversion to Sales Survey was launched in June and closed at the end of August. The Allegiance online system (www.allegiance.com) was used to generate and manage this survey. The purpose of this survey was to develop a comprehensive analysis of how software companies generate, manage, and convert their marketing leads to actionable sales opportunities. This survey asked respondents to answer 30 detailed questions that provided us with an accurate snapshot of current lead processes and management. Throughout this report numbers of particular interest have been **bolded**.

Lead Management (cont.)

How often do you adjust/refine your marketing lead generation programs?	%
Daily	2%
Weekly	13%
Monthly	36%
Quarterly	21%
Yearly	1%
On an as needed basis	23%
Never	2%
Other, please specify	2%

What is the single most important factor that must be in place before a marketing lead is defined as one suitable to be handed off to sales as a Sales Qualified Lead or Sales Opportunity?	%
The lead has demonstrated that they have the budget to purchase your product/system	8%
The lead has indicated that your product/system may be able to solve a business problem the lead must deal with	56%
The lead has the authority to purchase your product/system or can strongly influence a purchase decision	8%

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Running Effective Online Focus Groups

By the Softletter staff

Online focus groups have become popular because they are less expensive to conduct than live groups and enable your company to economically reach a wider range of geographies and companies. All of these systems function similarly to in-person groups, allowing a company to setup Internet-based discussions during which a professional moderator asks a series of open-ended questions that explore a pre-qualified group's thoughts, opinions, and behaviors about a product or service.

The moderator conducts a live chat with the selected group who join the focus group session via a password-protected chat connection. Instead of watching from behind a mirror, the company sponsors can observe the group's comments as the session progresses. In addition, clients can chat directly with the moderator during the session (the focus group is blocked from seeing these messages). The advantages of online focus groups are:

- The sample size of a group can be larger, though as it increases most specialists believe the value of the sessions drops; you lose "focus" and the ability to moderate comments and interact personally with group members becomes limited. While we've seen focus groups created that were as large as 100 respondents, the norm is to limit online groups to between 25 to 35 people.
- Because there are no geographic restrictions, it's easier to create international groups and sessions in national locations that are too remote or too expensive to reach with traditional groups. And it's possible for more sponsor attendees to attend the session because no travel to the session is involved. (But be careful to avoid over-inviting.)
- Unlike face-to-face sessions, participants not only don't know who the group's sponsors are, they are also anonymous to each other. This can encourage shyer members of the group to participate. But online sessions tend to be "flatter" and less productive because no personal group dynamic forms.
- For software companies, online focus groups can be particularly useful as it's possible for you to watch directly as group attendees interact with your product. If elements of your product's UI or workflow are frustrating, you can watch the frustration mount in real time. But during online sessions, count on respondents to be reading E-mail, reading online, snacking, etc.
- All online focus group systems record and store all comments in real time, making the program transcript immediately available. But technical problems such as dropped connections, limited bandwidth, monitor size and quality, etc. can lead to session quality varying widely. Also, it's more difficult with online groups to alter the program agenda and make mid-course corrections.

We recommend, if your budget can stand it, a hybrid approach. For initial and key markets, we advocate running real life sessions. Once a baseline has been established, use online groups to research more remote or difficult to reach markets you want to learn more about.

What is the single most important factor that must be in place before a marketing lead is defined as one suitable to be handed off to sales as a Sales Qualified Lead or Sales Opportunity? (cont.)	%
The lead has provided a timeline to purchase a product/system	0%
In your conversations with the lead, you have determined that your product/system can solve problems specific to the lead's industry or market	16%
Other, please specify (significant answers included "# of employees, product fit (suite needed vs. single component), country," "signs up and pays via credit card," "there's a name and email or phone number"	8%

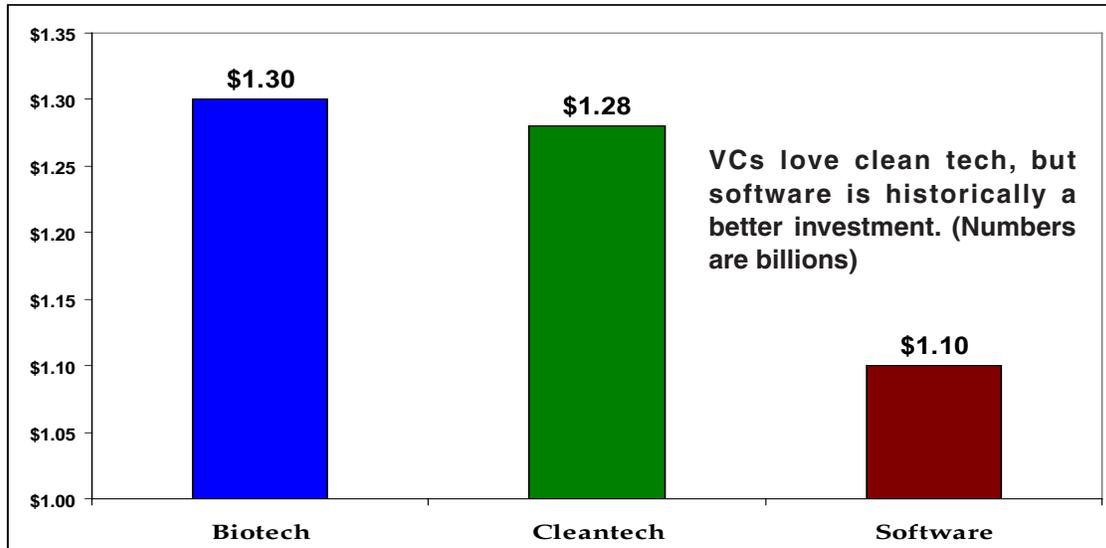
We don't believe any metrics have ever been attached to the widely used BANT formula (and we know none have ever been published in the software industry till now). Note that no companies rated **timeline to purchase** as of primary importance.

Please rate the importance of the following factors when deciding that a lead is ready to be handed off to sales as a Sales Qualified Lead or Sales Opportunity				
	Very Important	Somewhat Important	Somewhat Unimportant	Very Unimportant
The lead has demonstrated they have the budget to purchase your product/system	38%	50%	8%	4%
The lead has indicated that your product/system may be able to solve a business problem the lead must deal with	80%	17%	2%	1%
The lead has the authority to purchase your product/system or can strongly influence a purchase decision	35%	53%	10%	2%
The lead has provided a timeline to purchase a product/system	24%	45%	28%	3%
In your conversations with the lead, you have determined that your product/system can solve problems specific to the lead's industry or market	51%	39%	7%	3%

Do you conduct joint activities to ensure alignment between your sales and marketing operating groups? (An example of such an activity might be a post-sales win/loss analysis)	%
Yes	72%
No	28%

We were pleasantly surprised by the high number of respondents (72%) reporting that they conduct joint sales/marketing analysis.

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Benchmarks: Software Venture Capital Investments—Q2, 2010

Software VC investments came in at \$1.1b spread over 230+ companies in the second quarter of 2010. Of the top ten deals, five were SaaS, three Cloud/infrastructure, and two mobile applications. While not a bad performance, it's interesting that software in most VC roundups came in third behind biotech and what is often called "clean tech"—bio fuels, wind, solar, fuel cells, tidal (but almost never nuclear, sequestered coal, or natural gas).

At *Softletter*, we view the clean tech boom with a slightly jaundiced eye as we recall the Carter era effort to create a synthetic fuels and solar industry alternative to oil out of whole cloth. Despite the huge amount of hype directed at clean technology, the problem remains with all of these technologies after decades of investments and government subsidies. They are uneconomical and/or still impractical. After over 100 years of effort, pure electric cars still can't go much further than 50 miles before the batteries are dead and take hours to recharge. Hybrids need subsidies to compete. If someone can develop a battery pack that will drive a mid-sized sedan 250 miles with a recharge cycle under 45 minutes, wealth beyond the dreams of avarice awaits them, but physics and chemistry don't seem inclined to cooperate right now. Bio fuels such as corn degrade the environment and require subsidies to compete with oil. Windmills are useful for spot power purposes, but all of a sudden even green dreamers have discovered they don't like 50+ feet droning bird macerators in their back yards. Solar works best in deserts, where there aren't many transmission lines and the panels become dusty and need water to be cleaned. There isn't much water nor many water pipes in deserts. (We note that California has decided that while solar is wonderful, it's not appropriate for the Mojave desert.)

These dynamics, plus what appears to be a coming major change in the political landscape, makes us wonder if there isn't a future rich opportunity for software startups. After November 2nd, we suspect the subsidies for clean tech will begin to dry up; the public is not currently in the mood to throw more money into even worthy ventures. In the software industry, the rise of SaaS, cloud virtualization and mobile are preparing the industry for strong future growth. After the Carter era was over, software blossomed and many of the same dynamics appear to be in place over the next several years. And software companies (some of them) have a 25+ year record of returning investment multiples and profits to investors. It's hard to think of a comparable clean tech company that's provided the same over the same time period.

The Top 50: Software Venture Capital Investments—Q2, 2010

Company	Business Focus	Lead Investor	Investment
Workday Inc.	SaaS based enterprise solutions for HR	Greylock Partners, New Enterprise	\$75,000,000
Castlight Health, Inc	Web applications	Maverick Capital, Oak Investment	\$60,000,200
Tremor Media, Inc	Online video advertising technology	Canaan Partners, Draper Fisher Jurvetson	\$40,000,000
Undisclosed	Provides technology for the distribution of digital content	Court Square Ventures, SoftBank Capital	\$26,384,000
Trilliant, Inc	Wireless network solutions for grid management	Hercules Technology Growth Capital	\$25,000,000
IronKey, Inc	Manufactures flash drives and USB mgmt. software	Bridgescale Partners, Crosslink Capital	\$22,000,000
Moka5, Inc	Desktop virtualization technology for consumers	Highland Capital Partners, Khosla Ventures	\$20,841,000
Booyah, Inc	Mobile and web content.	Accel Partners, Duff Ackerman & Goodrich	\$20,000,100
Eucalyptus Systems	Open Source private cloud platform	Benchmark Capital, New Enterprise	\$20,000,000
Tectura Corp	SaaS system for Microsoft Dynamics	Hercules Technology Growth Capital	\$17,500,000
Ingenuity Systems, Inc	Software technologies for life science companies	Accel Partners, Three Arch Partners	\$15,399,900
ScienceLogic, LLC	Software for IT operations and cloud monitoring	New Enterprise Associates	\$15,000,000
Host Analytics, Inc	BPM software solutions	StarVest Partners, Trident Capital	\$15,000,000
RichRelevance, Inc	Personalization and product recommendation software	Draper Fisher Jurvetson	\$14,250,000
ReadyForce, Inc	Applications that will create a virtual marketplace	Menlo Ventures	\$14,042,000
Sencha, Inc	Open-source JavaScript products	Radar Partners, Sequoia Capital	\$14,000,000
Zeebo, Inc	Designs entertainment and education system	Qualcomm Ventures	\$13,500,000
eMeter Corp	Wireless technology for the energy industry	Foundation Capital, Northgate Capital	\$12,500,000
Xobni Corp	Email analytics software	Atomico Ventures, Baseline Ventures	\$11,300,100
Marin Software, Inc	Provides search management applications	Amicus Capital, Benchmark Capital	\$11,200,000
Lookout, Inc	Software for mobile security	Accel Partners, Khosla Ventures	\$11,000,100
Cloud.com, Inc	Cloud computation software	Index Ventures, Redpoint Ventures	\$11,000,100
AppDynamics, Inc	Application platform for virtualized environments	Greylock Partners, Lightspeed Venture	\$11,000,000
UNIX Companies, LLC	Trading technology company	Goldman, Sachs & Co., Vernon & Park	\$10,750,000
Bit9, Inc	Endpoint security software solutions	Atlas Ventures, Kleiner Perkins	\$10,133,600
DeviceVM, Inc	Platforms and technologies for personal computing	Dragon Ventures, SAP Ventures	\$10,000,100
NorthScale, Inc	Memcached technology as a website solution	Accel Partners, Mayfield Fund	\$10,000,000
InTouch Technologies	Mobile robotic platforms for remote healthcare presence	Beringea LLC, Galen Associates	\$10,000,000
Heroku, Inc	Online deployment system for Ruby on Rails	Baseline Ventures, Redpoint Ventures	\$10,000,000
Sipera Systems, Inc	VOIP and unified communications security devices	Austin Ventures, S3 Ventures	\$10,000,000
Blazent, Inc	Provides information technology software services	HighBAR Ventures, Walden Venture Capital	\$10,000,000
Mformation Techn., Inc	Mobile device management software	Battery Ventures, Cross Creek Capital	\$10,000,000
Schrodinger, LLC	Chemical simulation software	Undisclosed Firm	\$10,000,000
Netuitive, Inc	Analysis software for business service management	MK Capital, Cross Creek Capital	\$9,999,900
Altierre Corp.	Wireless business solutions for consumer retail chains	ATA Ventures, D.E. Shaw Group	\$9,981,000
Machinima, Inc	Online entertainment network software.	MK Capital, Redpoint Ventures	\$9,200,000
WorkingPoint, Inc	Software for inventory-based businesses	CMEA Capital	\$9,068,400
Guardian Analytics	Analytics-based products to prevent online identity theft	Foundation Capital, Sutter Hill Ventures	\$9,000,000
Zend Technologies	Hypertext Preprocessor (PHP) technology	Greylock Partners, Index Ventures	\$8,999,900
SimpleGeo, Inc	Location-based technology	First Round Capital, Foundry Group	\$8,140,000
Libre Digital, Inc	Digital publishing solutions	Adams Capital, S3 Ventures	\$8,100,000
KXEN, Inc	Analytics software	Motorola Ventures, Saints Ventures	\$8,000,000
Voxify, Inc	Automated customer service via speech recognition.	EI Dorado Ventures, Intel Capital	\$8,000,000
Xactly Corp.	Provides sales compensation application	Alloy Ventures, Bay Partners	\$8,000,000
Cloud9 Analytics Corp	Data services software for BI applications	InterWest Partners, Leapfrog Ventures	\$8,000,000
SafetyWeb, Inc	Online child safety	Battery Ventures, First Round Capital	\$8,000,000
Watercooler, Inc	Entertainment applications for social networks	Canaan Partners	\$8,000,000
Public Engines, Inc	Crime-mapping software.	Austin Ventures. vSpring Capital	\$7,795,000
IP Commerce, Inc	Open commerce network	Total Technology Ventures, Venrock	\$7,500,000
Firm58, Inc	Post-trade management software for financial services	New World Ventures, North Bridge Venture	\$7,105,000
Extreme Reach, Inc	All-software video advertising technology	Greycroft Partners, Village Ventures	\$7,000,000

Please rate the importance of the following factors when improving coordination between marketing and sales operations					
	Very Important	Somewhat Important	Somewhat Unimportant	Very Unimportant	Not Done
Joint post-sales win/loss analysis	48%	50%	8%	4%	7%
Joint measurement of conversion of marketing leads to sales qualified lead conversion	55%	17%	2%	1%	9%
Joint planning of marketing lead generation programs	46%	53%	10%	2%	7%
Joint analysis of sales qualified lead to closed sales conversion rates	46%	45%	6%	0%	13%
Other, please specify (significant answers included "Sales and Marketing teams are under one leader," "joint execution. marketing often requires sales to get the last nuances tuned to the target market")	4%	4%	3%	0%	88%

Do your sales and marketing departments agree on the definition of what constitutes a sales qualified lead/sales opportunity?	%
Yes	81%
No	16%
Other, please specify	3%

We think the 81% reporting **Yes** to sales and marketing agreeing on the definition of what constitutes a sales qualified lead/sales opportunity is very interesting and explodes (in the software industry at least) a myth that most companies do not agree on what constitutes this key metric.

Lead Generation Conversion Metrics

Over the last 12 months, what percentage of your marketing leads converted to sales qualified leads/sales opportunities?	%
1% to 2%	3%
2.1% to 3%	5%

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Business Process Patents: What Remains After Bilski, Part I of II

By Michael Whitener, VistaLaw International, LLC

A lot of ink was spilled over the summer regarding the Supreme Court's decision in the Bilski case, which examined the issue of whether business processes are patentable or not. Now that the ink has dried, it may be useful to step back and consider what the decision means for business process patents in particular and the software industry in general.

In case you've forgotten, or were doing something more interesting than following Supreme Court rulings, here's the Bilski decision in a nutshell. Bernard Bilski, along with a partner, filed a patent application for a method of hedging risks in commodity trading. The patent office rejected the application, the Federal Circuit affirmed, and so did the Supreme Court. The crux of the Supreme Court's opinion was that "abstract ideas" are not patentable.

Reaction to the Bilski decision generally fell into two camps. In one camp are those who see business process patents as a blot on the patent landscape, and who were hoping to see the Supreme Court issue a broad ruling that business process patents should be disallowed. But the Supreme Court didn't do that. Even though the Court rejected the specific patent application filed by Bilski, it left the door open to future applications for business process patents. Justice Kennedy, who wrote the opinion, noted that the standards used to judge patents during the Industrial Age aren't necessarily appropriate for the Information Age. In other words, patent standards have to evolve with technology.

So what patent standards are appropriate for the Information Age? The Supreme Court basically punted on this question. "Rather than adopting categorical rules that might have wide-ranging and unforeseen impacts," wrote Justice Kennedy, "the Court resolves this case narrowly." So those looking for a litmus test regarding what constitutes a business process patent were disappointed. The heading of a *Wall Street Journal* editorial on the decision summed up this reaction nicely: "Government Drops the Ball on Patents."

What's wrong with business process patents, you may ask? Unlike technology-based patents, process-based patents tend to have vague and uncertain boundaries. That makes it hard to judge whether a similar process is crossing the line into infringement or not. Red Hat, in opposing software patents in particular, noted the following in a filing with the U.S. Patent and Trademark Office:

"It is virtually impossible to determine whether a new software product could be deemed to infringe an existing patent. This means that introducing any innovative software product entails a risk of a lawsuit based on a vague patent. Such lawsuits often cost millions of dollars to defend, along with the risk of actual damages, treble damages, and injunctions. Far from encouraging innovation, vague software patents discourage it."

The Supreme Court has previously ruled that a mathematical algorithm capable

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of being used in programming a general purpose computer cannot be patented, because it's an abstract idea. If that argument is applied to software algorithms, one could conclude that software should not be patentable. But in its *Bilski* decision, the Supreme Court was not willing to go that far, leaving the challenge for software developers of not knowing for certain that the code they are writing does not infringe some prior patent. Because business process patents are so ill defined, even a search of existing patents will not establish beyond doubt that an innovative new software product is in the clear. No wonder that innovation in software has been compared to sky diving, requiring a substantial tolerance for risk.

While those who oppose business process patents were disappointed with the *Bilski* decision, another camp was delighted that the Supreme Court didn't raise the bar on obtaining a business process patent. In this camp is the Business Software Alliance, whose members—such as Microsoft—own thousands of software patents. Also in this camp are the “patent trolls” that file for or otherwise acquire software patents and then look for opportunities to litigate against other companies that develop similar software. Whether the lawsuits have merit or not, they can tie up a company's resources for years, and many companies are willing to pay up just to make a patent troll go away.

Unsurprisingly, yet another group that was happy with the *Bilski* decision are patent lawyers. There is no greater source of revenue for lawyers than vague and confusing legal standards. Without clear-cut guidance from the Supreme Court, lower courts are bound to be hearing a lot of cases focused on whether particular software patents and other business process patents are too “abstract” to be enforced. And the litigation circus will go on.

In the next issue of *Softletter*, I'll examine in more detail what the *Bilski* decision means for the software industry, and how software companies can protect themselves from the patent trolls—and their lawyers—that *Bilski* has emboldened.

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Lead Generation Conversion Metrics (cont.)

Over the last 12 months, what percentage of your marketing leads converted to sales qualified leads/sales opportunities? (cont.)	
3.1% to 5%	3%
5.1% to 7.5%	8%
7.6% to 10%	9%
10.1% to 15%	12%
15.1% to 20%	5%
20.1% to 30%	14%
30.1%+	12%
We don't track this	23%
Other, please specify	4%

The 23% stating they don't track this is a bit shocking. A quick drill down into the numbers shows that it's mostly smaller companies reporting that they aren't carrying out this vital activity.