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Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Softletter Case Study: The East Goes West



We continue with Part II of our extensive Open Source survey indicating ISVs seem to be embracing OSS; 87% think that Open Source is here to stay
See pages 4-6.

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Establishing an effective software presence in the US for international firms has always been difficult. The Internet was supposed to provide a more level playing field, but the number of international successes has been comparatively small. One intriguing exception to this is Radiocom, a Ukrainian-based firm in the web metrics and optimization category. We first became aware of the company in early 2003 when we responded to a well-crafted promotional E-mail from the Radiocom for their website optimization and keyword-tracking software. It wasn't until we'd dealt with them for a bit that we realized we were dealing with an overseas firm. (Yes, we use the product and think highly of it.)

From its founding in 1996 as a telecomm firm offering paging and other types of communications services, Radiocom has grown to over 50 employees, is solidly profitable, and has begun to catch the eye of some major US VC firms on the strength of sales of Web CEO, one of the leading website search engine optimization (SEO) tools on the market. The product was introduced in 2002 and to date has 163,000 registered customers (though not all of them are paying). Currently, 52% of registered users are from the US, with a further 35% coming from the UK, Australia, Canada and New Zealand. (The Netherlands is another strong market, with English widely spoken in that country.) Radiocom's software is aimed squarely at the SMB market, with 50% of its customers consisting of firms from three to five people. Other significant purchasers are web masters and search engine professionals, who use Web CEO as a component of their own service offerings.

Yuri Baranov, Radiocom's vice-president, recently provided us insight into how the company has grown and flourished.

- **Provide a free download and don't require registration:**
"Anyone can download Web CEO for free, with no registration required. Unregistered products have decent functionality, but many new capabilities are turned on once you register. And registration is also free and with registration you obtain free support" says Baranov. "When we introduced the free version of Web CEO, we saw a huge increase in traffic. Of those who visit the site, 30% download Web CEO; 50% of downloaders register, with 5% to 7% of these ultimately converting to paid customers."
- **Speaking of free support:** While offering free support seems to be an expensive proposition, Radiocom has found that providing free service via E-mail (paying customers (continued on page three) can call in to a support representative) is a key component in

Using Your Press Kit to Educate the Press

by Kimberly Maxwell, NetPR

One critical key to high-tech PR is helping the press understand the product. It's one thing to promote colas and theme parks; but if you're going to push editors to write about your client's Mesh Networking solution or the newest Copper Gigabit Switch, a little education has to go along with savvy press relations. A good press package that educates, whether it is on-line or in hard copy format, is the foundation to any successful PR campaign. Key educational elements in the package should include:

- Text that tells the press what is important about the product and what differentiates it from others in the market. Make sure the tagline, which is the company descriptor, and the boilerplate, which is at the end of the release and typically gives a more detailed description of the company, its products and/or services, remain consistent. These elements provide press pack materials with a "branding" language that guides editors and writers in how to write about and refer to your products.
- A lead-in sentence that references significant customers and achievements. The most overused word in PR today is "leading." Every company is a "leading" this or that. Few members of the press believe this hype or pay attention to it. Instead, mention some of your key customers in the lead-in sentence. This helps establish your credibility and may spark or support a story idea. It is usually a good idea to ask permission from customers to include them your press releases. Some publishers embed an agreement to be referenced in their licensing or subscription contracts, but we still recommend asking for specific permission.
- Data sheets or specification sheets. Marketing departments develop these so that a sales team has a piece of collateral material to send out to potential customers, but you should also use these pieces in your kits. They they provide more detailed information about the product such as key features and requirements, and save reporters time and energy when writing features and articles about your products.
- White papers or market strategy papers should be included if the product or technology being introduced breaks new ground and needs more detailed technical descriptions to help the press understand your product and market. White papers are more detailed research-like documents that expand on the technology, competition, and hone in on the product's differentiators in detail. Market strategy papers exclusively discuss customers and markets and the product's differentiators in those markets. Feature editors tend to prefer to work from marketing strategy pieces, while reviewers find the white papers more useful.
- A pitch letter. This is a proposal to a publication that outlines a feature story idea or concept focused around your product or service. It is surprising how many releases ignore this key PR component.
- Proof of company success, if you have them, in your press kit. Good reviews, articles and mentions are worth thousands of ad dollars. If your product has won an award, put a sticker on the press jacket and include previous releases about it in the press kit. Yes, only some editors care, but other audiences, such as the analysts, want to know you are winning awards and earning leadership in the industry.

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converting registered users of its free products to paying customers. "Each customer is assigned to and sent a picture of what we call a 'support angel,' a live person who communicates regularly with people who have downloaded the product and/or registered it. Over time, the support relationship leads to many sales" Baranov says. *(Editor's note: We have observed that the "support angels" tend to be rather attractive young people and predominantly women, a fact that probably doesn't hurt Radiocom's conversion efforts.)*

- **Execute a strong and ongoing E-mail campaign to your registered downloaders:** Within 14 days a registered user receives three E-mail offers; one HTML and two plain-text pieces with strong calls to action. "Our conversion rate is at its highest during this point, with 46% to 53% of our sales coming from this period. Our offers perform best in late spring and from October through mid-December" Baranov observes. "A follow up E-mail offering is then sent 30 days later, then another in sixty days. Every 90 days the entire active database of registered users is sent a 'reminder' E-mail (and an offer to purchase)."
- **Surround your desktop product with a strong stable of complementary (and for purchase) services:** "Web CEO users can purchase a paid version of Web CEO with more features enabled, updates to our knowledge base of keywords, search engine ranking tools, HitLens (live traffic analysis), BigBrother, (24/7 website monitoring), etc. We increase the product's core profitability by extending it this way" says Baranov.
- **The desktop client model still offers definite advantages over SaaS applications:** "We are considering developing a purely hosted application, but a desktop product allows us to avoid maintaining a complex server network. The user provides his own PC and bandwidth. If executed on our side, certain tasks such as rank reporting would take a lot of computing and bandwidth resources which would cost us ten times as much."
- **A strong affiliate marketing program helps sales:** "We rely strongly on our two thousand affiliate program members to make incremental sales. At this time, our affiliates account from 18% to 20% of our total sales. We pay margins from 15% up to 40% based on performance. And all support is handled by Radiocom, which makes selling the product very attractive to our affiliates." *(Editor's note: Please note these margins are similar to those offered resellers in conventional software channels.)*
- **Provide strong training support for customers:** "As we added capabilities and features to Web CEO, the product became more robust and more complex. We decided to offer training and a certification course from Web CEO University. Users of the free edition can also earn a CSEM (Competent Search Engine Marketer) certification. To date, we have almost 400 graduates."

Yuri Baranov, vice president, Radiocom, 15, 9th Yanvaryia St., Suite 422, Kherson 73000, Ukraine; 38/055/232-5205. E-mail: yuri.baranov@webceo.com.

"When we first launched the web site, it was highly localized for the US market, but as we grew we tended to add new pages and alter existing copy to fit new developments and circumstances. As a result, our site became less clean in terms of its use of language and idiom. We have to do a complete rewrite. We have found that you can use British resources with a strong knowledge of American idiom to do the job right."

—Yuri Baranov
Radiocom

"When we offered PayPal as an option, over 50% of our affiliates opted to use it to receive their commissions. But be careful; PayPal is not available in most Eastern European countries at this time."

—Yuri Baranov
Radiocom

The First Softletter Open Source Software Poll, Part II

Background

Recently Softletter sent out invitations to ISVs to reveal their use, attitudes, and plans regarding Open Source Software (OSS). Last issue we learned among other things from Questions one to eight that ISVs are most concerned about losing the advantages of proprietary code, and that 66% to 75% of ISVs are using OSS in their products or will do so in the next 12 months.

Survey Results

9. If you do expect to be using OSS in your product in the next twelve months, how do you expect to be distributing that OSS? As in Question 6 current distribution, the overlap in the answers indicates multiple methods. The even split among the answers is like that in Question 6.

| | |
|---|-------|
| Distributed with our product | 34.6% |
| Made available in connection with our product | 32.7% |
| Included in our product's software | 32.7% |

10. If you are currently using or expect to be using OSS in your product, what do you believe your resulting competitive advantages are?

This question sought to test the conventional wisdom on OSS advantages against the beliefs and experience of ISVs. Again, the skipping of this question by a quarter of the respondents reinforces the estimate of a 3:1 split in favor of OSS among the ISVs.

A more detailed breakdown will be available in the full report; in the summaries below, the subtotals for Important and Extremely Important (positive) are contrasted with those for Neutral, Not Very Important, and Not at All Important (negative).

The responses confirm the benefits usually cited for Open Source, and they are given below in the order of their importance to those using or intending to use OSS in their products:

| | |
|--|-------|
| Wider Distribution of Product | 73.6% |
| Ability to Compete with Current or Future OSS Products | 71.2% |
| Outside Development Help | 66.0% |
| Outside Bug Reports | 64.2% |
| Brand Enhancement | 44.4% |

Wider Distribution of Product

The results show how strongly the adoption of OSS is driven by real market forces. 38% of the respondents say it is Extremely Important to them, the most strongly held opinion in all of Question 10.

Ability to Compete with OSS

Ability to Compete with Current or Future OSS products is a strong second for the most strongly held opinion and reason for going with OSS. *(continued on page five)*

Outside Development Help

Ranks about the same as Outside Bug Fixes: two-thirds of the respondents thought the issue important, and over half of those saw it as Extremely Important.

Outside Bug Reports

Outside Bug Reports are important (64.2%) to those using or expecting to use OSS in their products, and Extremely Important for half of those attaching importance to this issue, while 36% of the respondents rated it as Neutral or less.

Brand Enhancement

Brand Enhancement is the least important reason. Technical reasons and actual response to the market are more important.

11. If you do not currently use or expect to use OSS in your product, please rank your reasons below.

Over two-thirds (48) of respondents did not answer this section; they are presumably those who include or intend to include OSS in their software.

The reasons for not using OSS in products, in the order of importance given to them by respondents (the percentages are those *not* answering Disagree or Strongly Disagree):

| | |
|--|--------------|
| Outsiders More Trouble than Benefit | 86.4% |
| Code Exposure Fatal | 81.8% |
| No Competitive Advantage | 77.3% |
| Do Not Know How | 63.6% |

Interacting with outsiders would be more trouble than benefit

This is the biggest reason chosen from among those offered the respondents. In terms of Strongly Agree, it is equal to the 27.3% of Fatal to Code Advantage, while Fatal to Code Advantage is stronger in disagreement (18.2%). Note that disagreement with Too Much Trouble stands at a low of 13.6%

This result is unexpected from conventional wisdom, but we believe that the OSS refusers have put their finger on the hardest part of OSS: managing developers external to the organization.

Exposure of company code would be fatal to competitive advantage

This is the second-strongest reason expressed for not using OSS in software. Only 18% of respondents disagreed with the proposition.

No competitive advantage to be derived from OSS

Fewer than a quarter of those responding see any competitive advantage to be had from using OSS in their products, while an equal number saw the advantage, but chose not to participate in it for other reasons. Over three-quarters saw no such advantage.

(continued on page six)

Do not know how to go about opening our code and/or engaging the Open Source community

This is an interesting issue. Over one-third of respondents believe they understand the issues and could execute on them if they chose to, but the same number say they don't know how. The remaining quarter of the respondents are Neutral on the issue—this muddled position may express their never having thought about the issue, which might indicate that they also do not know how to handle the issue.

12. Would you consider changing your No to OSS to a Yes if your code could be restricted to customers only (“gated community” approach)?

Presumably the half of the respondents not answering are already using or intend to use OSS software in their products.

While 38.9% of those responding to this question would not change their minds if they could have a closed community of customers as a “gated” Open Source community, 61.1% would see this condition as an inducement into Open Source. It is certainly one of the first things that ISVs think of when they consider Open Source.

13. Do you believe OSS to be a passing fad?

This question was open to all respondents, regardless of whether they are using OSS in their software or not, and we can now say it's official: 87% of those answering think OSS is here to stay. The question sparked enough interest so that only 4% skipped it.

14. What obstacles do you see to more cooperation and interoperability between proprietary and OSS software?

This question looked at the usual objections to Open Source; it is slanted toward licensing, and leads into the prickly question of how ISVs feel about the OSS community, which initially made ISVs nervous because of its more fractious elements. Notice that the level of OSS community acceptance (77% do not say it is a problem) here matches the use of OSS software by the respondents.

OSS licensing is identified as a problem by 41.9%, and the GNU GPL by 35.1%, of respondents (but part of the reason will be that only three choices were given). After all, 40% of those using OSS in their products say they use the GPL.

15. Have your developers brought up the question of including OSS in your product?

Two-thirds of the respondents said their developers answered Yes, evidence for the warm reception of OSS among developers.

16. How do you believe your developers would react if you were to decide to use OSS in your product?

About two-thirds of the developers are assessed by their employers as being welcoming to the introduction of OSS into company products; this is a warm reception. The 11.1% who left this question blank apparently have no idea how their developers feel about OSS; presumably they are among the holdouts. As for the 14.3% who think their developers would object, it would be interesting to know the reasons.

Due Diligence Tips for Sellers, Part II of II

By Mark Reed, Corum Group

Fourth, in-depth due diligence is time consuming; begin this formal process only after the general terms of a transaction have been agreed in writing, for example in a non-binding Letter of Intent (LOI). As negotiations draw close to an LOI, sellers should begin compiling information needed in due diligence. A seller should ask the buyer for a formal "due diligence checklist" immediately after executing an LOI.

Fifth, respond promptly to the buyer's due diligence request with a complete and orderly set of documents. Organize and index the information to correspond with the outline of the buyer's checklist. Seller's gain great credibility and give buyers much comfort about the quality of the business when their due diligence responses are organized, detailed, and complete. Conversely, inaccurate, incomplete, and disorganized responses cause a buyer concern because the potential risks related to buying your company cannot readily be identified and assessed. That concern may result in a reduced purchase price, more onerous terms, broader indemnification provisions, greater ongoing liability for the seller, or even a failed transaction.

Sixth, don't hide anything during due diligence, and instruct employees who are involved to be open and helpful. If the buyer requests highly sensitive information that could be injurious to your company if the deal falls through, consider ways that can satisfy the buyer's "need to know" yet protect your company. For example, if the buyer wants to review highly proprietary source code, you may wish to engage a mutually satisfactory 3rd party and jointly agree on their mandate to provide the buyer with info they need. The scope of the due diligence checklist can be negotiated to meet the needs of both parties.

The due diligence process can seem daunting to even the most seasoned veteran of M&A. As with most areas of facilitating a successful transaction, planning and readiness is key.

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| Company/Description | Acquired by | Price/Terms | Revenues | Multiple |
|---|--------------------------|----------------------------------|---------------|----------|
| CSG Systems (CSGS) • Billing Systems Software Business Unit | Comverse Tech. (CMVT) | \$251,000,000 Terms: All cash | \$167,000,000 | 1.50 |
| JobKorea.co.kr • Online Recruitment Web Site in South Korea | Monster Worldwide (MNST) | \$94,000,000 Terms: All cash | \$15,000,000 | 6.27 |
| Captiva Software (CPTV) • Input Management Software | EMC (EMC) | \$275,000,000 Terms: All cash | \$73,100,000 | 3.76 |

Affiliate Management Software

(Despite their undoubted usefulness to some companies, this class of software is sometimes associated with some of the less savory practices in the software industry; evaluate all affiliate programs carefully before using a third-party system.)

- **AssocTrac** (www.marketingtips.com): Widely used affiliate marketing system; website design from the Elmer Gantry school of marketing.
- **Commission Junction** (www.cj.com): Well known and respected affiliate marketing program.
- **My Affiliate Program** (www.myaffiliateprogram.com): Affiliate management program; plugs into the Kolimbo network.
- **Kolimbo** (www.kolimbo.com): Affiliate selling network; you can search for both merchants and affiliates.
- **Ultimate Affiliate Software** (www.groundbreak.com): Desktop-based affiliate management software system can integrate with many E-commerce systems.

MICROSOFT FOUNDER BILL GATES ON SONY'S BLU-RAY: "Well, the key issue here is that the protection scheme under Blu-ray is very anti-consumer and there's not much visibility of that. The inconvenience is that the [movie] studios got too much protection at the expense of consumers and it won't work well on PCs. You won't be able to play movies and do software in a flexible way." (Quoted on www.arstechnica.com, 10/17/2005)

CEO JOHN CHALLENGER OF OUTPLACEMENT FIRM CHALLENGER, GRAY & CHRISTMAS ON TECHNOLOGY HIRING: "Spending on new software, IT services and computer equipment is up this year and expected to increase again in 2006. New Internet ventures are being formed, and online advertising is up 34% over last year. However, one significant question remains: Where are the new jobs?" (Quoted in *Computerworld*, 10/25/2005)

HOWARD UNIVERSITY LAW PROFESSOR ANDREW GAVIL ON MICROSOFT'S RECENT "NO COMPETE" BUNDLE FOR WINDOWS MEDIA PLAYER: "It's somewhat amazing it even happened. It's troubling that anyone inside Microsoft was still thinking this was a legitimate business strategy." (Quoted on www.siliconvalley.com, 10/20/2005)

COLUMNIST MITCH WAGNER ON PRIVACY AND GOOGLE: "Microsoft faces constant scrutiny for the data it collects—or might collect—on its customers. Four years ago, when the company introduced "product activation" to stem piracy, privacy advocates cried foul...

...Google regularly gets away with this kind of thing. According to its privacy policy, Google explicitly reserves the right to track every time you click on a link from one of its searches." (Quoted on www.informationweek.com, 10/18/2005)

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