

Friday, October 15th, 2010
Vol. 26, No. 19

Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

**Softletter's SaaS
University: Selling,
Marketing,
Infrastructure
and Finance
Conference returns
to Boston, MA!**

Nov. 9-11

**30 Sessions, Six
Keynotes, Five Tracks,
Four Workshops**

**Softletter Subscribers
Save \$200 on Their
Attendance**



The responses from our lead generation and management survey on setting goals for lead and sales conversion are shocking. See pages 2, 4, 5 & 8.

**Publisher &
Managing Editor**
Merrill R. Chapman
rickchapman@softletter.
com
860/663-0552

Editor
Randy Hujar
randy.hujar@softletter.
com
860/657-2838

Editorial office
Soft•letter
34 Sugar Hill Rd.
Killingworth, Conn.
06419
Voice: 860/663-0552

Subscription office
Aegis Resources
34 Sugar Hill Rd.
Killingworth, Conn.
06419
Voice: 860/663-0552
Fax: 860/663-0553

Affiliate Relationships the SaaS Way

Affiliate relationship programs are nothing new in the software industry but to date, they've not been effective for SaaS companies. Programs from affiliate networks from companies such as Commission Junction were designed to primarily sell desktop/retail class software, not recurring revenue subscriptions.

Stepping up to fill this need in the market is AppDoubler, a new SaaS affiliate system from GetApp, a popular SaaS directory system. Headquartered in Spain, GetApp currently has four full time employees and has enjoyed month to month growth of 30% since the company launched in July, 2009. Christophe Primault, GetApp's CEO, explained to Softletter how the new system works while also providing some interesting insights into the growth of SaaS reseller channels.

Christophe, first, why AppDoubler? What's wrong with the existing affiliate reseller systems?

The short answer is they don't work well for SaaS companies. We've spoken to several companies who've tried the existing systems and have withdrawn from them. They're expensive to join (\$5k is a typical initial fee, then you pay a monthly management fee, then there's an override fee, usually something around 30% on top of the margin given to the affiliate).

The existing systems are also too complex. In some cases, it can take up to 30 days for the signup process to finish. You have to go through the contract, go through the technical setup, then wait an additional period while the affiliate attempts to find partners within the system. And these systems just aren't set up to handle subscription fees. They don't quite know what to do with the freemium and trial access systems that exist in SaaS.

Affiliate programs have usually been associated with lower end programs and utilities on the desktop. What about SaaS affiliate programs?

This is an area of commonality between the two markets. Affiliates who are a good fit for a SaaS affiliate program are looking for programs for SMB markets that are comparatively easy to sell, don't require much customization, are relatively straightforward in their

continued on page three

Summary Results from the Softletter Lead Generation, Management, and Conversion to Sales Survey, Part IV 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 Generation Conversion Metrics (cont.)

Over the last 12 months, what percentage of your sales qualified leads/sales opportunities converted to sales?	%
1% to 2%	6%
2.1% to 3%	9%
3.1% to 5%	5%
5.1% to 7.5%	10%
7.6% to 10%	9%
10.1% to 15%	7%
15.1% to 20%	7%
20.1% to 30%	9%
30.1%+	12%
We don't track this	20%
Other, please specify (no significant answers)	4%

As with the previous question, **percentage of your marketing leads converted to sales qualified leads/sales opportunities**, the fact that 20% reported that **We don't track this** is shocking.

Over the last 12 months, did you achieve your goals for converting marketing leads to sales qualified leads/sales opportunities?	%
Yes	24%
No	34%
We did not establish any set goals	42%

Over the last 12 months, did you achieve your goals for converting sales qualified leads/sales opportunities to sales?	%
Yes	24%
No	41%
We did not establish any set goals	35%

If the responses to converting marketing lead and sale qualified leads were shocking,

operation, and have broad market (including international) appeal.

The initial markets we've identified as a good SaaS affiliate fit are:

- CRM
- Project management collaboration
- Help desk and support
- Online backup and storage

We're also seeing strong interest in HR products. On the other hand, products such as tax preparation software, and related financial systems, aren't a good fit to an affiliate program because they're locked closely to a country's regulatory and legal environment.

What's the process of setting up an affiliate account with AppDoubler? What types of companies are you looking for?

Right now, we're inviting new members by invitation, though we'll also of course talk to companies that contact us directly. We're looking for companies selling business-oriented products with some proven adoption. We do not accept beta-stage products, freeware, shareware, or consumer applications; as your *Sofletter SaaS Report* has shown over the last several years, the current market for B2C products in the SaaS space is very low. (It also helps if your company is familiar with affiliation programs and their benefits.)

Affiliate systems are complementary to your channel programs and don't normally substitute for a full blown VAR program. They're a good choice for companies who are in the process of exploring channels, looking to scale up their business, and who may have a multi-tiered product line. If we agree to accept you into the affiliate network, we can normally have you up and running in less than 10 days, though in a limited number of instances it's taken as long as 30; if it does, this is because of some special technical requirements on the part of the SaaS vendor. **There are no initial sign-up fees;** this has been a strong deterrent to SaaS firms considering whether to use affiliate systems.

From a process standpoint, setup consists of:

- Setting up tracking gifs on the website so that the interaction between you and your affiliates can be tracked by the system.
- Developing web banners, text links, and related materials.
- Adding training material, collaterals, white papers, etc for your affiliates.

What margins can affiliate vendors expect to pay to their resellers? And what are the network fees?

"In The 2010 Sofletter SaaS Report, 21% of SaaS vendors report they are currently participating in affiliate reseller programs."

— Sofletter

"Many SaaS firms will over time develop a layered approach to their channels by working with their strongest affiliates to move them into a full blown VAR relationship. Their affiliate programs will be used to prospect for new vendors, act as a program manager for lower performing resellers, and also act as a natural outlet for less complex products."

— Christophe Primault
GetApp.com

continued on page six

the 42% and 35% reporting that they have no established goals for generating qualified marketing leads or converting these leads to closed sales is jaw dropping. There's simply no excuse for a software company to not have sales, marketing, and the CEO sit down, analyze lead generation operations and establish reasonable goals for these vital metrics.

Do you use an on-premise or SaaS-based marketing automation system to help generate marketing leads?	%
Yes	38%
No	48%
We are considering it	14%

Please tell us what marketing automation and management systems you use (Please pick all that apply)	%
Marketbright	0%
Aprimo	0%
Eloqua	6%
Marketo	18%
Act On	0%
Boomerang	0%
Manticore	3%
MarketingPilot	0%
Saepio.com	0%
Genius	9%
eTrigue	0%
Pardot	9%
Jesubi	3%
MarketFirst	9%
Cosential	3%
Salesforce.com	12%
ActiveConversion	0%
NetLine	0%
LeadLander	3%
NetSuite	9%
Proprietary /In House	9%

Please tell us what aspects of your lead management process you manage with your marketing automation system(s) (Please pick all that apply)	%
Amount of interaction by leads with your website	74%
Amount of interaction by marketing leads with your sales personnel	60%
Amount of interaction by marketing leads with your marketing personnel	37%

Lead source information (E-mail, advertising, PPC, etc)	86%
Demographics of your leads (company size, geo location, company size, industry, etc)	66%
Lead scoring	49%
Tracking of conversion of marketing leads to sales qualified leads	69%
Tracking of conversion of sales qualified leads to closed sales	54%
Reports on marketing leads activities that are provided to sales personnel	57%
Creation of E-mail templates, call scripts, and qualifying queries to marketing leads	74%
Lead data management (deduplication of records, demographic plotting, etc)	66%
Other, please specify (significant answer was "tasks - scheduling demos, work on rfp's, etc.")	6%

Please rank your satisfaction with your marketing automation system(s)	%
Very satisfied	34%
Somewhat satisfied	34%
Somewhat unsatisfied	11%
Very unsatisfied	14%
Other, please specify (significant answer was "not as good as salesforce.com, but needed a company-wide system for support, billing, etc.")	6%

Do you use a dedicated on-premise or SaaS-based lead management system?	%
Yes	47%
No	43%
We are considering it	11%

Please tell us what dedicated lead management systems you use (Please pick all that apply)	%
Leads360	2%
SalesInSync	2%
Salesforce.com	35%
NetSuite	9%
MarketFirst	7%
Marketto	4%
Proprietary/in house	16%
Other (Answers included "Act," "Cosential," "Blue Link Elite," "Pivotal," "Siibel," and "Zoho")	25%

continued on page eight

“While there are no upfront fees for joining the AppDoubler program, we might implement an escrow program to protect the network against non-payment of fees; this money would be returned to the vendor upon the termination of the relationship.”

— *Christophe Primault*
GetApp.com

“Some SaaS vendors are interested in generating signups via the networks even if no sale is involved; the strategy is to build a relationship with the affiliate and encourage them to move to a reseller relationship. The cost per acquisition in these deals ranges from \$10 to \$30. The network system can track when this account moves to a paying basis.”

— *Christophe Primault*
GetApp.com

Margins that SaaS vendors are paying their affiliates are ranging from 10 to 30 points, though the median seems to be settling in at 20. In terms of fees paid to the network, this controlled by a cost per acquisition (CPA) fee generated by the affiliate recruiting process. The CPA cost is controlled by the SaaS vendor, who bids on their placement within the system’s lists and categories. However, it’s not simply the amount of your bid that will determine your placement. Your ratings by vendors and the number of affiliates reselling your software also determines your CPA; the higher your rating and reseller base, the lower your CPA.

This fee is an ongoing commission payment made to the network that’s a percentage of the amount paid to the affiliate. For example, a \$100 dollar a month subscription which pays \$20 dollars to an affiliate would pay an additional 20% (this commission can be higher and is negotiated with the network) or \$4.00 (20% of \$20 is \$4.00). The affiliate system can handle different types of recurring schedules (annual, multi-year, monthly, quarterly, etc).

What type of resellers do you believe will be attracted to a SaaS-affiliate model?

We’ve identified five types who are a good fit to the model:

Recommenders from your current client base. These are subscribers who will recommend your system to other potential customers in return for receiving a better deal from you.

Other SaaS vendors. These represent companies who will cross sell your applications; we’ve noticed that if a company has used your API to integrate with your product the opportunities to resell into each other’s subscriber base are greater.

Business coaches and agents. These are often consultants and specialists in working in particular vertical markets. We think HR is a particularly good market for this reseller type. Often, the coach or consultant will tell the customer if they buy through them, they’ll receive a discount. Initially, many consultants say they will never participate in affiliate programs but we’re seeing their resistance fade.

Bloggers and dedicated business sites. Most of them are struggling to monetize their work. We think this will be a fertile area of development.

Professional online media sites and directories. Again, like the blogging sites, these businesses are looking for more monetization opportunities.

Christophe Primault, CEO, GetApp.com, Urb. Garraf II, C/Cova Fumada, 11, Les botigues de Sitges; Barcelona, Spain, +34618736960; E-mail: christophe.primault@getapp.com.

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

By Michael Whitener, VistaLaw International, LLC

In the last issue of *Softletter*, we looked at what the Supreme Court's decision in the Bilski case means for the future of business process patents. In Bilski, the Supreme Court confirmed that "abstract ideas" are not patentable, but deliberately left the door open to future applications for business process patents.

Many observers were hoping that the Court would close that door, especially with regard to software patents. Instead, the Court punted, refusing to provide any bright line test for business process patents.

So what does Bilski mean for the software industry?

Perhaps most significantly for software developers and vendors, it gives an "all clear" signal to the patent trolls. Patent trolls file for or otherwise acquire software and other patents and then look for opportunities to litigate against other companies that develop similar products.

Take, for example, the company launched by former Microsoft CTO Nathan Myhrvold, called Intellectual Ventures. This company has amassed a war chest of thousands of patents—many of them software patents—and is adding to its portfolio about 450 patents each year. Intellectual Ventures either buys up or applies for these patents, then demands huge payments from companies that are using the same or similar technologies or software in order to avoid lawsuits.

Intellectual Ventures is incredibly secretive about its operations, but details do leak out occasionally. Last year, for instance, Intuit paid \$120 million to Intellectual Ventures to avoid being sued. Critics of patent trolls argue that this type of payment is simply a net loss to society, because that money could have been used by Intuit to develop new products or pay dividends to investors. Instead, it went into Intellectual Ventures' coffers, totaling \$5 billion, where it can be used to buy up still more patents and issue still more ultimatums. One commentator calls it a "don't sue us" tax.

Another angle on the business of Intellectual Ventures is that the company will sell patents from its portfolio to companies that want to use such patents to build a defensive moat around their business. Earlier this year Intellectual Ventures sold several patents to Verizon for use in its fight against TiVo. Similarly, speech to text company Vlingo, which was sued by speech recognition software giant Nuance for patent infringement, has paid Intellectual Ventures for patents for use in its defense.

Not to pick on Intellectual Ventures—they just happen to have the highest profile among the patent trolls. The main point is that this kind of "roadside banditry" arguably stifles innovation and sucks funds out of companies that could otherwise use it to grow. No wonder there was widespread disappointment that the Bilski decision didn't do anything to rein in the patent trolls.

continued on page eight

There is another side to the argument, of course. Intellectual Ventures says that its mission is “to energize and streamline an invention economy that will drive innovation around the world.” It also says that its focus is on the business of invention, not litigation. But it’s come to light that Intellectual Ventures has set up more than 1,000 shell companies, which reportedly it’s using as vehicles for lawsuits, so the patents cannot be easily traced back to the actual owner. In other words, they’re playing—literally—a shell game. No wonder the company’s detractors call it “Intellectual Vultures.”

So given that patent trolls have been given a new lease on life by the Bilski decision, what’s a software company to do?

- **Know your trolls.** If you’re aware that a particular patent troll has been enforcing patents in your market segment, investigate what patents that troll is holding in its portfolio. Those are the patents you’ll want to be on guard against.
- **Join forces with other troll targets.** There’s safety in numbers. If a troll is going after a number of players in your industry, consider joining together—perhaps by establishing a joint defense fund and sharing legal expenses.
- **Fight back.** Patent trolls often rely on their litigious reputations and the reluctance of their targets to devote time and resources to fighting patent lawsuits, however frivolous. A low-cost alternative to litigation is to ask the U.S. Patent and Trademark Office to reexamine the patent at issue and possibly invalidate it. At the very least, a court is likely to stay (suspend) any litigation while a reexamination proceeding is ongoing.
- **Develop a fearless reputation.** If you demonstrate that you’re unwilling to settle and pay the troll toll, the patent troll may be inclined to seek out easier targets.

Eventually Congress will be forced to fix an outmoded patent system that the Supreme Court declined to repair in its Bilski decision. Until then, forewarned is forearmed.

Michael Whitener, Principal & Co-Founder, VistaLaw International LLC, 1875 I Street, N.W., 5th Floor, Washington, D.C. 20006; 202-429-5526. Email: mwhitener@vistalaw.

Colleagues made off with your last issue? Go to www.softletter.com. Click Subscriber Login in the upper right of the home page. To view the current issue and to search archives of hundreds of articles by keyword, topic, or issue date, log in and enjoy!

Soft•letter is published 24 times per year; entire contents copyright © 2010 by Soft•letter. All rights reserved. Reproduction by any means, without permission of the publisher, is prohibited. ISSN: 0882-3499.

Subscription rates: \$395 worldwide. Subscription office: Aegis Resources 34 Sugar Hill Rd. Killingworth, Conn. 06419 Voice: 860/663-0552 Fax: 860/663-0553 info@softletter.com

Please rank your satisfaction with your lead management system(s)	%
Very satisfied	27%
Somewhat satisfied	39%
Somewhat unsatisfied	18%
Very unsatisfied	11%
Other, please specify	5%

Our analysis of use of lead management systems and companies that met their goals in converting salesleads to sales found that companies using lead management systems were **71% more likely** to meet their goals than companies not using these systems. (*Softletter* has no association with any of the companies we’ve listed and that were rated by respondents.)