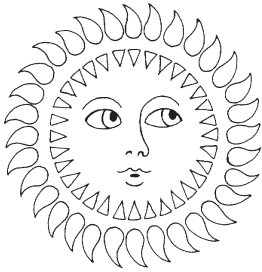


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BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS



*Operating income numbers weren't bad at all considering the economy; are brighter days ahead for the industry?
See pages 5 & 6.*

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The PC Desktop—The Final Frontier

by Merrill R. (Rick) Chapman, *Softletter*

In the May 31st, 2006 issue of *Softletter*, I wrote an article entitled "Endangered Environments." The article began with a discussion of my travails in transporting my PC desktop to a new (then) state of the art computer I'd built in 2005. Despite multiple attempts, I was unable to move the backup images I'd made of my current system to my new computer. Faced with the daunting task of completely reinstalling a PC desktop that represented several years of customization and tweaking, I deferred the task. For two and a half years. With the new computer sitting on the floor next to my aging, but still functional box. And when I finally managed to make time to do the transfer, a process that took the better part of a week before it was completely finished, my start of the box...wasn't.

Now, more than four years later, I face a similar dilemma. While the complaints about Windows Vista were overblown (on laptops, I found the OS to be rather smooth and a pleasure to use), I made the decision to forego updating my current XP desktop to Vista and decided instead to wait for Windows 7. And I'm glad I did! Windows 7 is even smoother than Vista, has less teething problems (because it's basically a debugged Vista), and handles most hardware devices with aplomb. And it was very easy to install. Of course, some of that ease of use came from the fact that I couldn't directly update my current desktop to Windows 7. A complete reinstall was required. So, to make the transfer process easier, I installed Windows 7 on a separate partition on my hard disk about four or five months ago. Where it resides to this day, pretty much unused, because it will take several days to transfer all my desktop settings, Outlook files, browser settings, etc., to the new OS and I haven't yet been able to block out enough time to dedicate to this task.

This is clearly a ridiculous state of affairs and can't continue on in the age of SaaS (or cloud applications), cloud storage, mobile applications, the growth of tablets (which are currently fat smartphones), Google Docs and Microsoft's own Internet (sigh, "Cloud") versions of office. As I pointed out in the original article, the single most valuable asset I currently possess in my entire personal computing firmament is my desktop environment. Requiring that I destroy it every two or three years is a waste of my valuable time and is becoming an unacceptable requirement on

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Summary Results from The Softletter Social Marketing Survey for Software Companies, Part I of IV

The **Softletter Social Marketing Survey for Software Companies** was launched in August and closed at the end of October. The Allegiance online system (www.allegiance.com) was used to generate and manage this survey. The purpose of this project was to develop a comprehensive analysis of how software companies are using the primary social marketing systems, Facebook, Linked In, and Twitter, to build brand awareness, generate leads, provide customer support, and other key business activities. This is the first and only type of survey ever created in the software industry focusing on these key metrics.

This survey asked respondents to answer up to 82 (depending on whether their company used all three social networks) detailed questions that provided us with an accurate snapshot of current uses and best practices when using Facebook, Linked In, and Twitter (the survey also asked respondents to tell us what other social networks they participated in). The survey recorded 126 valid responses, with 10 respondents stating their title was CEO, president, founder, or variant thereof, 32 vice president of marketing, ten vice president of sales, and the remainder a variety of director level titles in both sales and marketing. Throughout this report numbers of particular interest have been **bolded**.

Company Profiles

Development stage of your company?	%
No significant customer revenue	17%
Privately owned, privately funded	49%
Privately owned, venture funded	16%
Public	17%

Current gross revenue?	%
Under \$1 million	43%
\$1 to \$5 million	16%
\$1 to \$5 million	10%
\$11 to \$50 million	10%
\$51 to \$100 million	2%
\$100 million+	21%

Company Type?	%
Desktop/Retail	14%
Mobile Applications	5%
OEM	3%
On Premise, Client/Server	22%
SaaS (Software as a Service)	56%

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the part of Microsoft. (Yes, yes, I know. There are various programs that are supposed to make transferring desktops easy. I've tried them and they don't work, or don't work well enough for me to avoid the agony of an upgrade.)

The problem is only exacerbated by the increasing use of smartphones. As we discussed in the February 2010 issues of *Softletter*, the iPhone, various Android offerings, and other competing platforms represent what we call the fourth platform. In certain respects, smartphones act in a similar fashion to the desktop PC. Most applications are downloaded to your phone and you interact with them on the device (as opposed to the predominant SaaS model, where the interface interaction takes place within a web browser environment). But the application in many cases is only a stub, a gateway to a database residing on a remote server somewhere. Real estate listings, game stats, updates, and other elements of the application interact seamlessly and almost transparently to the user.

Apple's iPhone showed the world how to build a smartphone for the masses and is responsible for the explosive growth of the platform. People who only reluctantly use desktops and laptops quickly become addicted to their smartphones, and now, tablets. In fact, the experience has become so compelling to so many so quickly that the industry is abuzz with the idea that smartphones and tablets will supplant the PC, Mac, and Linux desktops. As of this writing, new word processors, spreadsheets, project managers, and others are in development for these new devices.

Unfortunately, most of the new products will not be very good from a usage standpoint. Smartphones are wonderful for quick burst communications, light web surfing, some content playing and light gaming. The tablets make nice E-readers and are naturally much better for extended web surfing. But for huge numbers of necessary tasks, smartphones and tablets are not even close to being competitive to desktops and laptops. You can't do serious writing on a smartphone and it's not that pleasant on a table (unless you plug in a keyboard. And we already have something that does that—it's called a "laptop".) And for those of us who've gotten used to dual-monitor setups (I have four on my desk), forget it.

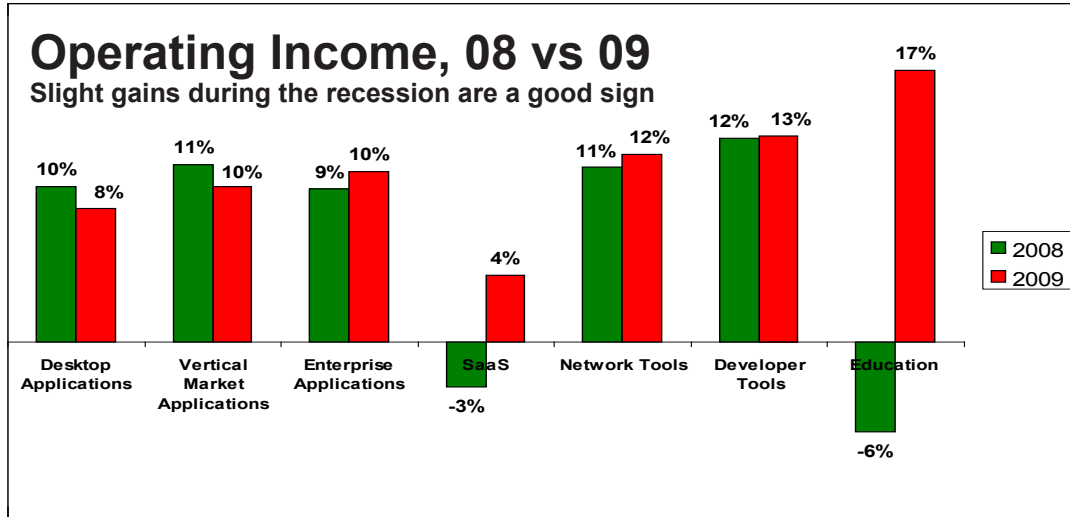
The same problem with spreadsheets. There are few people who are eager to return to working on number crunching on monitors that offer the same amount of screen real estate typical of an Apple II computer circa 1978. And project management, business presentation creation, image manipulation, CGI creation and dozens of other horizontal and vertical markets are all poor fits to smartphones and tablets.

And, of course, there's the issue of reinventing the wheel. After all, we already have robust and time tested applications in all of the application categories just mentioned; why do we need to build new ones all over again? But while it may be hard to read a spreadsheet

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“PC pundits have been proclaiming for years that it's an excellent idea to completely reinstall Windows on your PC every X period of time to clean out the “junk” in your system. Looked at from the standpoint that time is money, this makes as much sense as tearing down your house because your drainage gutters are filled with leaves.”

—Merrill R. Chapman
Softletter



Benchmarks: Operating Income, 2009

Operating income measures a company’s earning power from ongoing operations, equal to earnings before deduction of interest payments and income taxes and is also referred to as operating profit or EBIT (earnings before interest and taxes). Unlike EBITDA (earnings before interest, taxes, depreciation, and amortization), EBIT is a GAAP-compliant metric. *Softletter* has never reported on EBITDA metrics because these figures are easy to manipulate and examples of fraud and deceptive reporting are rife; the metric was particularly misused during the dot.com bubble. Operating income is useful (and reliable) in judging a company’s ability to manage its core competency and, in the aggregate, is a good indication of a market or market sector’s overall health. The industry’s overall score for 2009 of 10.7% is a pleasant bump up from 2008’s 10.7% and is an indicator of an industry that is weathering the “Great Recession” rather well. Note that for 2009, most of our benchmark categories also saw OI numbers up.

Our overall champions for 2009 remain Microsoft, at 35% and Google, at 35%; note that Google has pulled even with the Redmond giant in this key metric. Last year’s figures showed some slight slippage, but in the interim Google has succeeded in its push into the mobile applications market and has successfully begun to monetize its Android OS in the mobile markets (to Microsoft’s and Apple’s chagrin). Next up, if Google has its way, is the tablet market. Adobe also showed impressive gains; we thought this year’s numbers would not be as good because the desktop business model is coming under severe pressure from SaaS competition. But Adobe is quite cognizant of what’s heading toward it and is busily introducing new cloud applications services and systems into the market—Buzzword, Tables, Presentations, et al.

This is the last year Novell will appear in our rankings with its announced acquisition by Attachmate for \$2.2b, a modest premium for a company with revenues of \$862m. Novell has been something of a zombie since the death of Netware, stumbling from one business model to another, with none of them ever sparking a rebirth of the one-time networking giant.

The SaaS category, as we predicted, did quite well despite the recession, with OI rising from -3% to 4%, a 7% swing. An indicator of the growing strength of this category.

The Benchmark 50: Operating Income, 2009

	Revenues (000)			Operating Income			Avg. '07-'09
	2007	2008	2009	2007	2008	2009	
Microsoft	\$51,122,000	\$60,420,000	\$58,437,000	36%	37%	35%	36%
Google	\$16,593,986	\$21,795,550	\$23,650,563	31%	30%	35%	32%
Desktop Applications				10%	10%	8%	7%
Adobe	\$3,157,881	\$3,579,889	\$2,945,853	27%	29%	23%	26%
Corel	\$250,480	\$268,230		3%	9%	*	6%
Intuit	\$2,672,947	\$3,070,974	\$3,182,537	24%	21%	27%	24%
Smith Micro	\$73,377	\$98,424	\$107,279	6%	3%	10%	6%
Symantec	\$5,199,366	\$5,874,419	\$6,150,000	10%	10%	0%	7%
Bitstream	\$23,610	\$24,008	\$21,489	15%	10%	5%	10%
Nuance Commo. (Scansoft)	\$602,000	\$868,500	\$950,400	6%	4%	6%	5%
Vertical Market Applications				12%	11%	10%	11%
Ansys	\$385,340	\$478,339	\$516,885	33%	35%	35%	35%
Autodesk	\$1,839,800	\$2,171,900	\$2,315,200	24%	11%	3%	13%
Unica	\$102,243	\$121,131	\$100,618	-2%	-3%	-22%	-9%
Allscripts	\$281,908	\$383,771	\$548,439	7%	10%	8%	9%
Advent	\$215,303	\$264,832	\$259,508	6%	7%	11%	8%
Micros	\$785,727	\$954,184	\$911,847	18%	15%	12%	15%
Enterprise Applications				9%	9%	10%	10%
Sapient	\$565,989	\$687,488	\$666,678	3%	9%	6%	6%
SPSS	\$291,000	\$302,913	*	17%	16%	*	17%
Manhattan Associates	\$337,401	\$337,201	\$246,667	13%	8%	9%	10%
Concur Technologies	\$115,996	\$215,491	\$247,596	12%	12%	16%	13%
Pegasystems	\$161,949	\$211,647	\$264,013	1%	7%	16%	8%
Lawson	\$750,388	\$851,926	\$757,328	-2%	6%	6%	3%
Open Text	\$595,664	\$725,532	\$785,665	9%	14%	12%	12%
SaaS				-1%	-3%	4%	0%
Blackbaud	\$257,038	\$302,495	\$309,338	20%	16%	15%	17%
Callidus	\$101,657	\$107,181	\$81,058	-16%	-13%	-22%	-17%
Omniture	\$143,127	\$295,613	*	-9%	-3%	*	-6%
salesforce.com	\$497,098	\$748,700	\$1,076,769	6%	9%	11%	8%
RightNow Technologies	\$112,077	\$140,435	\$152,687	-20%	-7%	3%	-8%
Savvis	\$793,833	\$857,041	\$874,414	43%	3%	5%	17%
Vocus	\$58,076	\$79,383	\$84,579	-1%	-3%	4%	0%
Network Tools				11%	11%	12%	11%
Novell	\$932,499	\$956,513	\$862,185	-6%	0%	-24%	-10%
Citrix Systems	\$1,391,942	\$1,583,354	\$1,614,088	15%	11%	11%	12%
McAfee (Network Associates)	\$1,308,220	\$1,600,065	\$1,927,332	12%	12%	12%	12%
iPass	\$191,732	\$191,368	\$171,377	-7%	-49%	-8%	-22%
VMWare	\$1,325,811	\$1,881,027	\$2,023,937	18%	17%	12%	15%
NetScout	\$102,472	\$168,956	\$267,604	7%	-3%	14%	6%
Quest Software	\$630,981	\$735,377	\$695,236	11%	11%	12%	11%
Developer Tools				12%	12%	13%	11%
Magic Software	\$580,400	\$620,000	\$550,400	0%	1%	1%	1%
Red Hat	\$400,624	\$523,016	\$652,572	13%	13%	13%	13%
Sybase	\$1,025,530	\$1,131,930	\$1,170,569	16%	19%	25%	20%
Progress Software	\$493,500	\$515,560	\$494,137	12%	12%	10%	11%
Pervasive Software	\$40,783	\$42,467	\$47,218	5%	6%	14%	9%
TigerLogic Corp.	\$18,744	\$19,772	\$16,252	-11%	-3%	-22%	-12%
MicroFocus	\$268,781	\$172,027	\$274,731	21%	43%	33%	33%
Education				-3%	-6%	17%	0%
Apollo Group	\$2,723,793	\$3,140,931	\$3,974,202	23%	24%	27%	25%
Renaissance Learning	\$107,932	\$115,223	\$121,513	10%	-26%	25%	3%
Scientific Learning	\$46,053	\$47,754	\$55,288	-3%	-6%	9%	0%
Skillsoft	\$225,172	\$281,228	\$328,494	14%	13%	24%	17%
Saba Software	\$99,867	\$107,777	\$102,821	-7%	-2%	-1%	-3%
SumTotalSystems	\$121,924	\$126,646	*	-6%	-55%	*	-31%
Plato Learning	\$69,632	\$68,401	\$65,183	-22%	-139%	2%	-53%
All companies (median)	\$314,201	\$360,486	\$532,662	9.3%	9.1%	10.7%	8.7%

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

* 2009 filings not yet available.

“Apple’s continuing transformation into a consumer electronics firm means it’s becoming increasingly agnostic about the future of its desktops and laptops. The company has no interest in the business computing enterprise market and is looking to new form factors and ways to exit from “open” markets. If computers cease to be fashion statements, Apple will exit this electronics segment without regret.”

—Merrill R. Chapman,
Softletter

“To protect the PC (Windows) desktop, Microsoft must make the PC desktop the machine and monetize it by offering services that extend, repair, and improve desktop performance and integration with SaaS applications and cloud infrastructure. If it does not, this new machine model will be created in the smartphone/tablet environments.”

—Merrill R. Chapman,
Softletter

on a smartphone and real estate is limited on tablets, it’s very, very nice not have to go through the agony of looking up installation keys, transferring files, and recreating a workspace. And, now there’s SaaS (sigh, cloud applications)! The smartphone demonstrates how a PC works when a personal computer transforms from a computing hub to a spoke that’s plugged into the Cloud (and Google is certainly a believer with Google Cloud Connect). It’s a wonderful experience, if not fully practical for many types of work. But, wait a second! There’s Google Docs! And ZoHo! And Open Goo! OK, they’re not as nice as Microsoft Office, or OpenOffice, but they’re getting better. And they’re cheap, or even free. And I don’t have to reinstall them either.

Microsoft is directly responsible for this entire state of affairs (Linux is a non-factor on the desktop and Apple increasingly doesn’t care, for obvious reasons). By forcing constant reinstalls, Microsoft has been for years encouraging its customers to destroy one of their most valuable assets, the PC workspace; the result is the devaluation of this asset. This form of “creative destruction” is opening up the applications market to competitive forces that disappeared in the late 90s. Thus, the reality facing Microsoft is that Windows 7 must be the last desktop killer OS released by Redmond if the company is to maintain its monopolies in the spreadsheet, word processing, database, and presentation application markets.

It’s not hard to figure out how Redmond can achieve this. By now, every business in the country is incorporating virtualization into their core IT operations in order to maximize hardware investments. Microsoft bundled in a simple bit of virtualization with Windows 7, allowing you to tow your Windows XP desktop over to Windows 7 while planning your transition. It’s a nice idea that works about 40% of the time.

Microsoft must do better. The next Windows must be cut off from its underlying hardware, with the application, and “OS” layers separated from the “machine layers.” The result must be a portable, completely transferable virtualized infrastructure that can be quickly moved to a new machine via a memory stick, on a CD, or via a cloud repository. This portable PC desktop should be pluggable at will into a new computer, laptop, or even a smartphone. Reinstallation of applications, unless a customer chooses to buy an upgrade, must become a thing of the past. All customizations and modifications made to the above portable desktop environment must also be completely transferable—these include macros, data files, color choices, underlying tweaks, and everything else that contributes to this single entity.

It’s important to remember that this new model does not postulate the creation of virtual machines that reside on a new machine. In this model, the PC desktop becomes “the machine”; all the underlying hardware does is provide a snap-in home for the portable workspace. Improvements in performance offered by new hardware should be transparent to the desktop owner.

Twitter Usage

Do you use Twitter for business purposes?	%
Yes	79%
No	13%
No, but we are exploring its use to support our business	8%

What is your primary business use of Twitter?	%
Brand visibility	74%
Lead generation	8%
Promotions/advertising	6%
Customer service	6%
Personnel recruiting	0%
Other, please specify (significant answers included "thought leadership," "obtaining services," "competitive intelligence" and "partner assistance")	6%

What other business purposes do you use Twitter for? (Please pick all that apply)	%
Brand visibility	44%
Lead generation	46%
Promotions/advertising	46%
Customer service	28%
Personnel recruiting	16%
No other uses other than our primary use	10%
Other, please specify	10%

How does your organization Tweet? (Please pick all that apply)?	%
Using a single corporate account	63%
Using a single personal account of a CxO	24%
Using multiple corporate accounts (product/business lines)	27%
Using multiple personal accounts of senior leadership	20%
Other, please specify	2%

What is the frequency of your business tweeting?	%
Once a day	16%
Several times a day	40%
Once a week	14%
Several times a week	18%
Once a month	4%
Several times a month	8%
Other, please specify	0%

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How many followers does your corporate Twitter account have?	%
Median (the average figure was 2807)	177

What is the average response you receive to Tweets made to your followers?	%
.1% to 1%	18%
1.1% to 1.5%	16%
1.6% to 2%	10%
2.1% to 4%	4%
4.1% to 6%	6%
6.1% to 10%	4%
11% to 20%	8%
21% to 30%	2%
30%+	0%
We don't track this	28%
Other, please specify	2%

On a monthly basis, how many of your Tweets are Retweeted?	%
0 to 5	30%
6 to 10	8%
11 to 20	12%
21 to 30	12%
41 to 50	0%
51+	12%
We don't track this	24%
Other, please specify	2%

Have any industry influencers on Twitter quoted your tweets, either on Twitter or on their blogs?	%
Yes	62%
No	38%

What type of information do you monitor on Twitter? (Please pick all that apply)	%
Brand mentions	76%
Customer opinions and feedback	47%
Competitors	49%
Industry trends	55%
We don't monitor other Twitter feeds for information	10%
Other, please specify	0%

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