Wednesday, Nov. 30, 2005
Vol. 21, No. 22

Soft•letter
BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Value-Based Partnering Programs, Part II of II

by Karyn MacKie, Amazon Consulting

Let's resume from last issue's article with a more in depth look at how you build a value-based partnering model. Your model will be built by assigning point to each reseller activity that the vendor believes delivers value. Point values may vary by activity to convey the relative value of the activity to the vendor. For example, a VAR may receive more points for executing an E-mail campaign that generates demand for a firm's product than they do for participating in the vendor's booth at a trade show.

Partners earn points for executing each of these various activities and the points are then totaled. The partner program structure defines the point requirements for each level in the partner program. This model is easy for resellers to understand and provides them with the ability to create a plan for achieving the next higher program level. By reviewing the "points" model, knowing their current point total, and having an in-depth understanding of their business, a partner can easily determine a realistic path for reaching the next program level. In addition to point totals, vendors may have additional requirements to achieve certain levels in their program, for example, requiring a partner to create an annual business plan or particiapate in a quarterly business review.

Most value programs include **competency** metrics; these describe the reseller's unique specialties and help define a partner's area of specialization based on their business model and skills in working with the vendor and customers. Partners qualify for competencies based on technical depth and business expertise, regardless of their organization size or the market segments they serve. Competencies typically focus on expertise with specific products; market segments, including markets that the vendor is trying to penetrate; or the vendor's strategic initiatives. Competencies tend to carry significant point values, providing a powerful incentive for your resellers to obtain the skills needed to qualify for them. Each competency normally has a unique set of requirements that could include technical and/or sales certification, customer references for a specific type of solution implemented by the VAR, or experience with selling solutions *(continued on page three)*

COOs: A vanishing breed in software? Our survey indicates that this is the case
See pages 4-6.

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Advisory Board

SoftSummit, 2005: Recapping the Strategic Points

by Brian S. Sommer, TechVentive

Four different presenters made almost identical points at this show and, interestingly, each used different data to make their points. The first conclusion was that the 'real' cost of software to users has been declining for some time now. Some presenters looked at falling margins while others studied price per function point. No matter what metrics were used, attendees came away with the following:

- Software companies must develop a ruthless competency in reducing internal development, operating and support costs. It could be ruinous to be the most expensive software vendor in a given space.

- ` Open source is putting cost and pricing pressures on applications markets. When wide price differences exist between open and proprietary software, CIOs will look favorably at open source options. Some CIOs even stated their desire to look at open source solutions before seeking proprietary products.

The second discussion theme was SOA (services oriented architecture). As with ODBC, XML, etc., SOA is being touted strongly as a means of further promoting reuse and lowering application development costs. Adding SOA to other trends covered by other speakers (i.e., offshoring, software as a service, hosting, etc.), one sees a marketplace being transformed into one of low-cost parameters. Application software is being Wal-Mart-ed with one vendor after another vying for the low-cost leadership mantle. The problem is that only one vendor in a segment can be a low-cost leader.

SoftSummit attracts hundreds of smart tech marketing executives; however, in the Q&A, side discussions, etc. at the show, it was distressing to hear how many vendors are making 'TCO' (total cost of ownership) the mainstay of their marketing message.

TCO only works as a sales message if your firm is absolutely the low cost leader. It also means that your firm is less concerned with innovation, strategic value creation for customers and other attributes. When you sell TCO you are conceding that the cost is greater than the value derived. Otherwise, you would be discussing the great ROI your solution offers rather than how inexpensively it can be used.

The bottom line on TCO selling is that it is:

- For products that people have already bought.
- For transaction processing needs that have already been automated.
- For items people feel that have to buy but would prefer not to.

When vendors use TCO, they admit that the uniqueness is gone and innovation is over in this space. ***Commodities*** are sold via TCO, yet many of the attendees come from firms offering far more than commodity solutions. Next year's event should focus on finding the real value drivers in application software and how software marketers should tap into latent needs of buyers. While that should be an everyday part of every marketing executive's activities, the real star of next year's show should be on how application software vendors rediscover innovation.

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to a specific target market like the government or academic market. Below is a generic model you can use and adapt to your particular business requirements.

Business Performance Items	Points Earned	Maximum Points
Revenue and Influence achievement		
• Annual revenue achievement of $500K	5	5
• Annual revenue achievement of $750K	5	5
• Annual revenue achievement of $1M	5	5
• Exceeding prior year's revenue by 25% or more	5	5
Competencies	10	50

Capability Building Items	Points Earned	Maximum Points
Certification		
• Technical	5	15
• Sales Skills	5	5
Customer Satisfaction	5	10
Quarterly Marketing Activities	2	10
Participation in Partner Readiness Activities	2	10

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... partner selects the type ... of the vendor ... as access to all top tier ... r benefits, and so on. However, in reality the partner will only make use of the benefits that make sense for their business. This approach gives the reseller the ability to tailor the program to fit their needs. In contrast, in most reseller or VAR programs today the vendor dictates which benefits the partner has access to, based solely on one aspect of the partner's business, with no consideration for the rest of their business. This can be very frustrating for the partner because they may need to foster a separate partnership with the vendor to address another aspect of their business model, rather than having the ability to leverage a single relationship that recognizes all of their business capabilities.

Value programs are the wave of the future, with many leading technology vendors implementing or designing their own programs. If your company is struggling with how to recognize and reward your best partner, those that bring you the most value regardless of their size, you should seriously consider implementing a value-based partner program.

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"In a value-based partner program, the partner type is much less important than the partner's level in the program. Program benefits are segmented by level, not by partner type. Partners today come in all shapes and sizes. Many have truly unique business models, which makes it very difficult to fit them into one distinct partner category. In fact, some value-based programs have no concept of a partner type. A partner is simply that—a partner—rather than being a channel, developer, alliance, or other type of partner."

—Karyn MacKie
Amazon Consulting

Benchmarks

Benchmarks: Chief Operating Officer Compensation

Next issue: Our Controller survey. You can participate by visiting www.softletter.com/survey/CONpay.htm before 12/09/2005.

Last year's COO pay study concluded that "trends in COO compensation are still ambiguous at best." The question that now faces the market is: Will this job title going to continue to be relevant in the software industry? The chart above is based on annual surveys of current pay for the years 2003-2004. The 2003 study noted a drop in COO pay, and the 2004 study saw it recovering again. But despite self-reported increases in the 2005 poll, indications are that it is beginning to recede again. By taking reported current pay for each year and ignoring the current years' assessment of the previous year's pay, we can see that variable pay is dropping lower than ever, while base pay is barely holding steady (a median drop of $500 this year).

Earlier studies noted dwindling numbers of COOs, and suggested that their apparent rise in pay resulted from companies' shedding of less-effective COOs, causing an apparent upward swing in the collective pay of the survivors, who were simply more effective in their jobs and better paid to begin with. We may very well be seeing more shedding of COOs this year. For one thing, responses to the 2003 poll came from 113 persons, to the 2004 poll from 75, and to the 2005 poll from 34.

Furthermore, this year we could not come up with a full Top 50 of the highest-paid COOs. (Because of this, we are considering demoting this study to semi-annual status.) The lower we went down the size-arranged list of public software companies, the harder it was to find them. We found only ten persons bearing the title of Chief Operating Officer (marked * in the Top 50 list), and to these we added seven more with the word Operations in their titles (marked **). In a few cases we added officers who from their pay and positioning obviously functioned as overseers of operations or seconds-in-command in their companies. *(continued on page six)*

Overall COO Compensation*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	$139,500	$150,000	$100,000	16.3%
Base Pay—last year	$120,000	$140,000	$32,500	
Variable Pay—current	$21,000	$60,000	n/m	75%
Variable Pay—last year	$12,000	$25,000	n/m	
Total Pay—current	$150,000	$200,000	$135,000	19%
Total Pay—last year	$126,000	$190,000	$100,000	

* Number of respondents = 34

COO Pay by Company Size*	Base Pay	Variable	Total	Raise
Under $1 million—current	n/m	n/m	n/m	n/m
Under $1 million—last year	n/m	n/m	n/m	
$1-$5 million—current	$110,000	$16,500	$136,500	15.8%
$1-$5 million—last year	$95,000	$11,000	$107,500	
$5-$10 million—current	$145,000	$22,000	$180,000	16%
$5-$10 million—last year	$125,500	$13,750	$138,500	
$10-$99 million—current	$150,000	$23,948	$200,000	7%
$10-$99 million—last year	$140,000	$0	$180,000	
$100+ million—current	n/m	n/m	n/m	n/m
$100+ million—last year	n/m	n/m	n/m	

* Number of respondents = 2 for Under $1 million, 12 for $1-$5 million, 11 for $5-$10 million, 7 for $10-$99 million, and 1 for $100+ million. Values are medians. n/m = Sample size too small for accurate comparisons. Raise percentage calculated on Base Pay.

COO Pay by Development Stage*	Base Pay	Variable	Total	Raise
No significant customer revenue—current	n/m	n/m	n/m	n/m
No significant customer revenue—last year	n/m	n/m	n/m	
Privately owned, privately funded—current	$144,000	$22,000	$150,000	22.6%
Privately owned, privately funded—last year	$117,500	$12,250	$125,000	
Privately owned, venture funded—current	n/m	n/m	n/m	n/m
Privately owned, venture funded—last year	n/m	n/m	n/m	
Public—current	n/m	n/m	n/m	n/m
Public—last year	n/m	n/m	n/m	

* Number of respondents = 2 for No significant customer revenue, 29 for Privately owned, privately funded, 1 for Privately owned, venture funded, and 1 for Public. Values are medians. n/m = Sample size too small for accurate comparisons.

The Top "50": Highest Paid Public Company COOs

		Base Pay	Variable Pay	Total	Long-Term
1	***Jeff Clarke**, Computer Associates	$650,000	$1,005,577	$1,655,577	
2	***Tommi A. White**, Cognos	$613,800	$920,700	$1,534,500	
3	***Nick Discombe**, Witness Systems	$384,615	$968,535	$1,353,150	$1,441,300
4	****Tony Sirianni**, Cognos	$260,000	$934,175	$1,194,175	
5	***Shantanu Narayen**, Adobe Systems	$507,493	$630,359	$1,137,852	$11,180,935
6	****Ronald Hovsepian**, Novell	$500,020	$602,759	$1,102,779	
7	**Jeffrey S. Raikes**, Microsoft	$570,000	$482,810	$1,052,810	
8	**R. David Schmaier**, Siebel Systems	$500,000	$350,000	$850,000	$2,585,732
9	***Scott J. Arnold**, Borland Software	$453,461	$203,380	$656,841	
10	**Jerome Adams**, BMC Software	$400,000	$247,300	$647,300	
11	****Burton Goldfield**, Hyperion Solutions	$300,000	$333,396	$633,396	$884,646
12	****Ilene M. Vogt**, Actuate	$225,000	$405,000	$630,000	
13	***Paul L. Zaffaroni**, Dendrite International	$450,000	$118,378	$568,378	$11,370
14	***Normand A. Boulanger**, SS&C Technologies	$290,480	$253,000	$543,480	$1,647,905
15	***Robert A. Eberle**, Bottomline Technologies	$262,500	$191,245	$453,745	$521,350
16	****Steven M. Capelli**, Sybase	$435,468	$7,604	$443,072	$231,404
17	***Clyde Foster**, Intellisync	$240,000	$172,050	$412,050	$164,000
18	****William J. Sawyer**, MRO Software	$215,000	$173,990	$388,990	
19	****Raymond H. Panza**, SPSS	$335,000	$51,750	$386,750	
20	****Peter P. Dunning**, Rightnow Technologies	$250,000	$95,649	$345,649	
21	***Arshad Matin**, BindView Development	$159,086	$186,232	$345,318	
22	**Brian C. Henry**, Onyx Software	316,876		$316,876	
23	****Howard Dratler**, Captiva Software	$269,121	$42,575	$311,696	
24	**David P. Hess**, Advent Software	$225,000	$69,108	$294,108	$8,864
25	**Steven G. Chambers**, Nuance Communications	$170,833	$44,575	$215,408	
26	**Daniel J. Fregeau**, Document Sciences	$191,000	$21,954	$212,954	
27	***Robert W. Scheussler**, Smith Micro Software	$163,583	$34,238	$197,821	$288,480
28	***Ted J. Lingard**, Sonic Foundry	$168,269	$994	$169,263	
29	****Lori Rodriguez**, ImageWare Systems	$163,481	$504	$163,985	
30	***Michael Morrison**, Applix	$96,250	$60,699	$156,949	
31	****Jeffrey L. Holmes**, Manugistics Group	$127,400	$10,084	$137,484	

Note: The 31 individuals here received the highest annual compensation of CFOs of public software companies. "Variable" compensation includes bonuses, commissions, company-paid insurance, relocation and housing allowances, forgiven loans, memberships, profit-sharing contributions, etc. "Long-Term" compensation is income from the exercise of stock options.
Source: Company proxy statements for most recent fiscal years.

Benchmarks: COO Compensation (cont.)

It may well be that the idea of a COO is better suited to manufacturing than to software. In manufacturing, running the plant and producing the products consumes the lion's share of capital and effort. In software, the product and its production are minimal compared to the enormous sums and effort spent marketing the product and servicing customers. For those reasons we see titles such as Field Operations or Sales Operations, for these are the core of the business enterprise. Also, the consolidation taking place in the industry amongst "old line" software firms may also be having an impact on the title.

The more common pattern seems to be a group of vice presidents roughly equal in pay under the direction of a CEO. Sometimes these are presidents of parallel divisions. And sometimes they are called operating officers. But a central figure, under the CEO but exercising oversight over the various chiefs below, is usually lacking.

Equities

Accounting Problems: Don't Let Them Stop Your Deal, Part II of II

By Gregg Galliford, Corum Group

As I mentioned previously, surprises in mergers and acquisitions are almost never positive, particularly when they are related to accounting. In the first half of this article we talked about revenue recognition, capitalized expenses, and calculating EBITDA. Other issues include:

- **Increased Governance.** Acquiring companies are expanding due diligence as a way to make sure the new, combined business will comply with Sarbanes-Oxley (SOX) Section 404 and other mandates. These include requirements for assessing disclosure controls and procedures as well as internal controls over financial reporting. If you expect to be acquired by a public firm, you will be held to the same level of standards that the public buyer is held to. This means that the quality of your financial statements and corporate governance must conform to these standards.

- **Intercompany revenue.** It is not unusual for even small companies to have multiple entities, which need to be rolled up into a single set of financials. Measuring consolidated revenue is not as simple as just adding together the revenue. If one company of the group sells to another, that revenue must be eliminated. Improper consolidations are a common cause of overstated revenue numbers.

- **Bonus, commission, and vacation accruals.** Another area that is often overlooked is accruals related to bonuses, commissions, and vacations. Vacation, if there is no "use it or lose it" policy, can be a surprisingly large and complicated calculation.

CORUM
MERGERS & ACQUISITIONS

There are many other areas where problems can arise, however those listed above seem to most often. To avoid them, start by taking a comprehensive view of potential problems across your entire organization. Accounting problems disclosed early can be corrected and the corrections factored into valuations. Investing a little time in advance can prevent embarrassment, or worse, during a strategic transaction.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
Geac Computer Corp. (GEAC)	Golden Gate Cap.	$1,000,000,000	$444,400,000	**2.25**
• Enterprise systems		*Terms: All Cash*		
Adonix SA	Sage Group (SGGEF.PK)	$137,100,000	$74,400,00	**1.84**
• French ERP systems provider		*Terms: All Cash*		
Serena Software (SRNA)	Silver Lake Partners	$1,200,000,000	$243,100,000	**4.94**
• Change governance software		*Terms: All Cash*		
Intellisync (SYNC)	Nokia (NOK)	$430,000,000	$59,500,000	**7.23**
• Wireless messaging and applications for mobile devices		*Terms: All Cash*		

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SOA (Service-oriented architecture) Resources

- **Cape Clear Software** (www.capeclear.com): Eclipse-based development environment for SOA-based systems. Incorporates WSDL and schema editors, integrates with Eclipse and ANT IDE tools.
- **ITtoolbox Blogs** (http://blogs.ittoolbox.com/eai/cto/): Very interesting blog run by CEO David S. Linthicum of Bridgewerx (an SOA provider). Site includes podcasts, links, articles.
- **Enterprise SOA: Service-Oriented Architecture Best Practices** by Dirk Krafzig, Karl Banke and Dirk Slama. Prentice Hall. Interesting read for IT on a dry subject; at 408 pages, not for the person who wants a quick lesson on the topic.
- **Find Whitepapers** (www.findwhitepapers.com): Whitepaper site offers a nice selection of different reports on SOA, XML, etc.
- **Service-Oriented Architecture: Concepts, Technology, and Design by** Thomas Erl. One of the definitive texts on the topic of SOA. Covers SOA, WS extensions, SOA design, etc.

SONY GLOBAL DIGITAL BUSINESS CEO THOMAS HESSE ON ROOTKITS: "Most people, I think, don't even know what a rootkit is, so why should they care about it?" (Quoted on www.theregister.com, 11/20/2005)

ZDNET BLOGGER GEORGE OU ON GARTNER'S VISTA PRONOUNCEMENTS: "When I read saw this story on Gartner selling advice on 'Why you don't need Vista until 2008', it had me scratching my head wondering how anyone could come up with an arbitrary date like this. I'm the type of person that would prefer to run on the latest version of FreeBSD, Linux Kernel, or Windows because of all the improvements that come with the latest software, so I just can't understand Gartner's reasoning. It's probably the same kind of reasoning that lead Gartner to declare the death of Signature based virus detection four years ago and we all know how that prediction turned out." (Quoted on http://blogs.zdnet.com, 11/15/2005)

THREE MICROSOFT EMPLOYEES ON THE FIRM'S FUTURE PLANS: "As Web advertising grows and consumer revenues shrink, we need to consider creating ad-supported versions of our software." *Editors note: Microsoft has stated these comments are accurate.* (Quoted on WindowsITPro, 11/15/2005)

SAP'S HEAD OF PRODUCT DEVELOPMENT AND TECHNOLOGY SHAH AGASSI ON IP SOCIALISM: "IP socialism is the worst that can happen to any IP-based society, and we are an IP-based society. If there is no way to defend IP, there is no reason to invest in IP. If there is no reason to invest in IP, we don't get focused efforts going in any direction at all. If you look at what is the most innovative desktop today, if you look at what Vista is copying, they're copying Aqua." (Quoted on www.techworld.com, 11/14/2005)

Soft•letter is published 24 times per year;

ISSN: 0882-3499.

Subscription rates: $395 worldwide. Subscription office: United Communications Group, 11300 Rockville Pike, #1100, Rockville, Md. 20852-3030; tel 301/287-2718 866/313-0973 customer@softletter.com

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