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Our telesales survey reveals that phone/web-based sales personnel still play in a different league than reps in direct sales. See pages 1, 3, 4-6.

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The 2007 Softletter Telesales Efficiency Survey: Summary Results, Part I of II

Introduction: Methods and Respondent Profiles

Our Telesales Efficiency Survey, conducted in October and November 2007, was sent to approximately 23k companies over a period of three weeks. The survey was conducted entirely via the web and results were processed with the Perseus Web Surveyor system. The survey received 126 valid responses, with the single largest group of respondents reporting that their title was CEO, president, or some variant of the aforementioned: 48 in total. The second largest cohort identified themselves as having a sales title including VP of Sales, director of sales, and other variants: 21. The third largest cohort was participants with a director title: 20. Other titles provided included CFO, CTO, advisor, senior VP of operations, and business development (2). Twenty respondents failed to provide a title.

Summary Results

The survey broke companies down into four basic categories, companies selling Enterprise/Client Server products, SaaS, Desktop/Retail and OEM (which was defined in the survey as product embedded directly within another software product). Numbers of particular interest are bolded. The results were as follows:

Software Category	Totals	%
Enterprise/Client Server	64	50.8%
Desktop/Retail	30	23.8%
SaaS	**24**	**20%**
OEM	8	6.4%

One interesting callout generated by these responses is the relative weakness of SaaS in the telesales area. At Santa Clara's SaaS seminar, we asked Treb Ryan, CEO of OpSource and an advocate of telesales in SaaS, for his reaction to our SaaS survey's finding that almost 60% of SaaS firms rely primarily on direct sales. He responded that he felt our numbers reflected a certain inertia in the market from companies that keep on doing what they know how to do. While we feel the telesales option will pick up strength in next year's surveys, "feet on the

(continued on page three)

Winning Business Models: Evolve or Die (Adobe), Part I of II

by Bruce LaFetra, Rubicon Consulting

*This edition of SoftLetter introduces a new monthly column on **Winning Business Models** written by Bruce La Fetra from Rubicon Consulting. Choosing the right business model is a strategic decision, one that touches the very soul of a software company. New business models allow companies to do entirely new things, not simply charge people a different way. To too many people, the exploding number of business model options is addressed by picking a strategy from "column A" and some tactics from "column B." A winning business model requires that these choices not only be the right ones, they need to be tightly aligned. It is also helpful to examine business models from within a broader mega-trend such as SaaS or Open Source.*

During the coming months, Mr. La Fetra will explore a range of topics related to successful business models as he looks at both new and established software companies. This month he takes a look at a company that has come to dominate several highly profitable application niches, Adobe. Adobe is today a $3 billion company and one of the handful that has thrived in the face of Microsoft's continuous and unrelenting attempt to dominate every application market it does not currently "own." (Disclosure: Adobe Systems is a client of Rubicon Consulting, but has not worked with the Photoshop Express project, which will be discussed in part II of this article.)

You've spent years developing your product and its market. People willingly pay hundreds of dollars to buy it. Everything gets better with each successive version as you add functionality. You've done so well that your product name became a verb. You've successfully fended off Microsoft since the 80s. Your biggest problem is not adoption, but rather piracy. You have a winning business model.

Enter Web 2.0 and SaaS, where a couple of guys with little funding can duplicate the core functionality used for the bulk of actual product usage. Your lock on the retail market means nothing when Web distribution lets upstarts go straight to the user.

Welcome to the world of Adobe Photoshop.

What do you do? Adobe already changed its business model at the high end with Creative Suite, with winning results. This required changes to the development cycle to synchronize product releases on an 18-month cycle, meaning Adobe must work hard to maintain interest toward the end of the cycle when sales sag.

At the low end, Adobe is concerned about free offerings hollowing out the low-end and hobbyist markets. It's not that Adobe won't continue selling upgrades of Photoshop and its related suites in the future. It's that Adobe faces the prospect of Web 2.0 and SaaS stealing future customers and thus its future. The old strategy of adding more functionality is seen now by many users as unnecessary bloat, and new web-based competitors such as Fauxto and Pixoh target non-core users who don't use the extra functionality. A recent study by Rubicon Consulting shows 37% of PC users regularly use at least one Web application and there are few barriers to this going to 70%. The threat is real. While professionals may keep Photoshop viable as a cash cow product, the status quo is no longer a winning business model. Hence PhotoShop Express.

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street" is alive and well regardless of the market sector in which you can compete.

Development Stage	**Totals**	**%**
No significant customer revenue	0	0%
Privately owned, venture funded	12	9.5%
Privately owned, privately funded	**95**	**76.2%**
Public	19	14.3%

Current Revenues	**Totals**	**%**
Under $1 million	12	9.5%
$1 to $5 million	**54**	**42.9%**
$5 to $10 million	14	11.1%
$10 to $99 million	**34**	**27%**
$100 million+	12	9.5%

Unlike with our direct sales survey, there are two distinct cohorts of companies that rely on telesales that stand out. The first is the **$1 to $5 million,** the second the **$10 to $99 million.** In the aggregate, 63.5% of the companies reporting are $10m and under in revenue. This tracks well with the profile of companies that traditionally rely on telesales forces. These are smaller firms offering vertical products/solutions that are often priced between $1.5k to $15k, numbers that take the software out of the Desktop/Retail market but are too small to support a direct sales force.

An analysis of the $10 to $99 million group reflects a series of companies that dominate their particular markets. By category, this group is dominated by Enterprise/Client Server and SaaS firms.

Average Yearly Sales Quota	**Totals**	**%**
Less than $100,000	6	4.8%
$100,000 to $250,000	9	7.9%
$250,000 to $500,000	**26**	**20.6%**
$500,000 to $1,000,000	**59**	**46%**
$1,500,000 to $2,000,0000	24	19%
$2,500,000 to $3,000,000	1	1.59%
$3,000,000+	0	0%

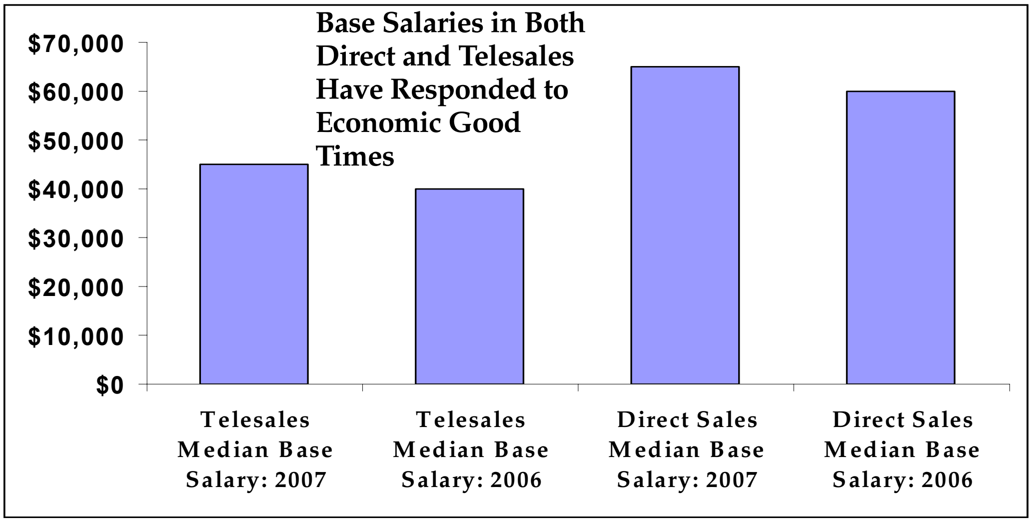
Average Yearly Salary (both fixed and variable)	**Totals**	**%**
Less than $50	8	6.4%
$50,000 to $75,000	**41**	**32%**
$75,000 to $100,000	**47**	**38%**
$125,00 to $150,000	20	16%

(continued on page four)

"Over the last 18 months we're seen many commentaries and predictions that the Internet, Web 2.0, and SaaS spell doom for the direct sales model. But our direct and telesales surveys do not provide blanket support for these assumptions, even in the SaaS market sector. Software companies should carefully assess their market segments and competitive environment when configuring their sales forces and make no hasty assumptions about the type of sales personnel they need to employ."

—Rick Chapman Softletter

Benchmarks



Base Salary	Totals
Base salary this year (average)	$43,197
Base salary this year (median)	**$45,000**
Base salary last year (average)	$39,676
Base salary last year (median	**$40,000**

As in our direct sales survey, we focus on the medians as they tend to eliminate outliers; averages are included in the interest of providing further insight. And, as with direct sales compensation, competition for telesales personnel has driven up base salaries significantly. This reflects the recovering health of software companies from the dot.com collapse, the increasing competition for high-quality sales personnel, and the continued strength of the US economy (when the unemployment rate drops below 5.5%, the economy has reached technical “full employment”).

Average Variable Commission Paid	Totals	%
Less than 3%	18	14.3%
3% to 5%	12	9.5%
5% to 6.5%	21	17.5%
6.5% to 7.5%	17	12.7%
7.5% to 8.5%	6	4.8%
8.5% to 10%	16	12.7%
10% to 15%	12	9.5%
15% to %25%	8	6.4%
25%+	**16**	**12.7%**

The standout data point in the responses is the high number of companies offering **25%+** commission rates. A quick drill down into this data point does not indicate that this is a SaaS phenonemna, where in some cases companies are paying high commission rates (in some cases, as high as 30%) to offset the lower volume of sales dollars generated by a recurring revenue model. These compensation rates span all four categories we measured.

(continued on page five)

Average Yearly Salary (both fixed and variable, cont.)	**Totals**	**%**
$150,000 to $175,000	4	3.2%
$175,000 to $200,000	6	4.8%
$200,000 to $250,000	0	0%
$250,000 to $300,000	0	0%
$300,000+	0	0%

These numbers reveal several interesting things. For one, despite talk we've recently heard about telesales personnel racking up $200k+ salaries, our data demonstrates a much more prosaic reality. The lofty figures that top direct sales personnel command are still distinct from those paid even the most generously compensated telesales reps.

Average Time to Close	**Totals**	**%**
Less than three months	**36**	**28.6%**
Three to six months	**50**	**39.7%**
Six to nine months	**30**	**23.8%**
Nine months to a year	10	7.9%
A year to 18 months	0	0%
18 months+	0	0%

These numbers reflect the fact that companies doing business via telesales enjoy a strong advantage in time to close; it is notable that no companies reported that major sales take more than a year to close. Of course, as our **Size of the Average Sale** median demonstrates, many of these firms are selling software products that do not require the exhaustive vetting and corporate approval that higher ticket products require.

Reward for Exceeding Quota	**Totals**	**%**
Increase in commission percentage	**50**	**39.7%**
Fixed monetary bonus	24	20%
A combination of an increase in commission and a fixed monetary bonus	18	14.3%
They do not receive any extra compensation	34	27%

How Soon Do Sales Personnel Receive Their Variable Pay?	**Totals**	**%**
Immediately	8	6.5%
Within a month	**64**	**51.6%**
Within 45 days	**16**	**21%**
Within three months	20	16.1%
More than three month	3	4.8%

Astute company CEOs will note the relative speed with which telesales personnel receive their variable pay. Since our numbers reflect the fact that telesales firms are smaller and tend to play in smaller markets, cash flow concerns and the desire to economize often leads

(continued on page six)

to upper management making the decision to fund their company on the backs of their telesales force, a temptation it almost always wise to avoid. We can tell you from personal experience and observation that pushing payments out more than 45 days leads to demoralization and high turnover among your telesales group (and playing Scrooge during the Christmas/New Year's nexus only compounds the effect). Over time, the amount of money saved by these tactics is more than eaten up by lost opportunities in your sales process and the costs involved in training new telesales personnel and filling up sales pipelines.

Size of the Average Sale	**Total**
Average	$23,163
Median	**$10,000**

There is a considerable difference between the medians for companies selling via a telesales model and those selling via direct sales. In our direct sales survey, the average size of sale median was $50k; clearly, companies relying primarily on a telesales model are playing in smaller markets with lower volumes of dollars attached to their sales opportunities. In the numbers below, we've included medians from our direct sales survey to provide an "at a glance" view of the performance contrasts between the two models; note that in contrast to direct sales, telesales forces **are** able to exceed historic performance norms.

Percentage of Sales Personnel Achieving Quota (Telesales)?

Median	**60%**

Percentage of Sales Personnel Achieving Quota (Direct sales)?

Median	50%

Percentage of Sales Personnel Exceeding Quota (Telesales)?

Median	**40%**

Percentage of Sales Personnel Exceeding Quota (Direct sales)?

Median	25%

Average Percentage Quota Exceeded (Telesales)?

Median	**12%**

Average Percentage Quota Exceeded (Direct sales)?

Median	10%

Equities

M&A vs. IPO

By Marshall Warwaruk, Corum Group

Let's be clear about the real objectives and differences between an IPO and an M&A transaction. While shareholders may be able to obtain some small liquidity from the initial public offering, an IPO's primary purpose is to raise working capital and fund corporate growth strategies. But IPOs are not for everyone; that's why we see 10 to 20 times more M&A transaction than IPOs each and every year.

In an IPO, firms look to improve their financial position and balance sheet, achieve public company status and hopefully increase the probability of being able to sell shares at some future time, at an unknown price (though with expectations of a much higher value). Not all companies are in a position to go public and must demonstrate certain characteristics such as: strong operating performance and a track record of consistent revenue growth; sustainable profitability and above-average prospects for even higher performance; an experienced and credible management team led by a seasoned professional ready, willing and able to deal with the analyst community; and increased shareholder scrutiny.

Moreover, in an IPO situation there are great expectations and demands placed on the company, including: (1) increased pressure to accelerate growth and sustain profit margins; (2) enormous scrutiny by regulatory bodies, greater disclosure requirements, and added compliance costs and requirements; (3) significant dilution; (4) loss of control by management.

Contrast that with an M&A transaction, where you give up control of your business in return for a substantial amount of cash. While there are a variety of reasons to consider M&A, it's first and foremost a true liquidity event, an action that could fund your transition into retirement or the start of a new venture. Most deal consideration is paid in cash at closing and in the process reduces most risks and threats to your financial security. Additionally, you can improve the likelihood of the longer term viability and success of your business just by being part of a larger, more competitive, global entity. **If** structured right, this may provide additional financial upside beyond the initial cash consideration.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
BravoSolution, S.p.A.	Verticalnet (Vert)	$15,200,000	$12,000,000	**$1.27**
• *SaaS supply management*		*Terms: Cash and stock*		
Visual Sciences (VSCN)	Omniture (OMTR)	$415,100,000	$76,040,000	**5.46**
• *Real time analytics platform*		*Terms: Cash and stock*		
CoCreate Software GmbH	Parametric Technology (PMTC)	$250,000,000	$80,000,000	**3.13**
• *PLM/CAD modeling*		*Terms: Cash and debt*		
First Consulting Group (FCGI)	Computer Sci. Corp. (CSC)	$365,000,000	$264,100,000	**1.38**
• *IT services*		*Terms: Cash*		

CardFile

Useful Marketing Blogs

- **Marketing Apple** (www.marketingapple.com): Interesting blog that focuses on Apple's marketing tactics and successes. Bit of a fan boy tone to the blog, but a worthy read.
- **Rubicon Consulting** (ww.rubiconconsulting.com/insight/winmarkets/index.html): Marketing blog focusing on software business models; strategic and very insightful.
- **Web Ink** (www.webinknow.com): PR and social marketing blog by David Meerman, author of ***The New Rules of Marketing and PR***. Focus on integration of PR with social marketing techniques.
- **Bad Marketing** (http://toddebert.typepad.com/): Blog by Todd Ebert focusing on B2B marketing; interesting reading on PR issues and social bookmarking. However, a recent post on the Vista launch makes inadvertently funny reading (IOHO). Ebert thinks the Vista launch was some sort of triumph and we strongly disagree; read his entry for a take completely at odds with our own.

INFOWORLD CONTRIBUTING EDITOR RANDALL C. KENNEDY ON MICROSOFT'S "FAT SAAS" MODEL: "True to form, Microsoft is extending these Office Live and Windows Live services by tying each new offering into its traditional desktop OS and application platforms. Windows Live Mail, Office Live Workspaces, and Windows Live Writer are all targeted at the rapidly expanding market for applications that live within the cloud. All are very much Windows-specific, with hybrid architectures that tightly integrate Web and desktop in a decidedly Microsoft fashion.

Still, Office Live is at best just a placeholder for an even more ambitious endgame. Through application virtualization (SoftGrid, et al.), Microsoft could very well leverage the very same forces of ubiquitous connectivity that are enabling thin client Web apps to deliver the "real" versions of Word, Excel, PowerPoint, and the rest in their full, feature-rich, fat client glory through a massive, distributed network of streaming servers." (Quoted on http://www.infoworld.com/article/07/11/19/47FE-microsoft-office-google-apps_3.html, 11/19/2007)

COLUMNIST JOHN DVORAK ON MICROSOFT AND VISTA: "Until now, Microsoft could sell code better than anyone, but it seems the company would rather sell services: software as a service, ads, search engine results—you name it. This is like the local storefront that opens as a knife-sharpening business and is soon selling junk jewelry, moose heads, toaster repair, and cheap chocolate. In the meantime, the knife-sharpening business goes by the wayside....

I'm certainly not going to be a happy camper if I have to switch to a Mac or Linux system full-time, yet that is exactly where this scatterbrained company seems to be sending me. Microsoft, and Vista is the result." (Quoted in ***PC Magazine***, 10/31/2007)

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