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Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Rules of Engagement

by Merrill R. (Rick) Chapman, Softletter



Google's operating income per employee numbers are startling and probably make Microsoft's CFO feel a bit gloomy. See pages 5 & 6.

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Softletter has been urging software companies to integrate community into their SaaS products since 2007 and firms are starting to listen. In the latest release of *The Softletter SaaS Report*, 18% of respondents stated they had integrated community creation directly into their SaaS products (the numbers were much higher for larger companies) and 20% stated they planed to add this to their systems. And while it's more difficult for on premise software companies to integrate community directly into their products (it has been tried, but with limited success), more are making the attempt as the power of a leveraged community of customers is too powerful to ignore.

With this in mind, we've recently spent time with Jeff Velis of Publishing Concepts, an "old school" company that has been publishing alumni directories for colleges since 1921. In 1997, the company began to move its business operations onto the Internet and in 2006 started building it Engage system, a SaaS-based system for community creation. While the company's focus is currently on the college and university markets, Jeff shared some of the techniques and methodologies Publishing Concepts is using to create online communities.

Jeff, why did Publishing Concepts decide to create the Engage system?

It was a natural extension of our work with alumni associations which are, as you can easily imagine, natural communities at their core. One thing we've learned from our experiences is that software companies often overlook the power of working with "organic" communities that exist within their industry. Examples of this can be professional trade organizations, online social systems such as exist within Facebook and Linked In, and other contact points, such as schools and universities.

For example, let's assume you're marketing an application aimed at an engineering audience. A smart way to build a community around this type of customer is to reach out to graduates of well-known engineering schools such as Dartmouth's Thayer School of Engineering or perhaps the New Jersey Institute of Technology. Even if these individuals aren't using your system or haven't heard of it, reaching out to appropriate "affinity" points in the market can

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

The **Softletter Social Marketing Survey for Software Companies** was launched in August and closed at the end of October. 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. 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**.

Twitter Usage (cont.)

Do you use a third party application to manage Twitter campaigns?	%
Yes	32%
No	68%

We were a bit surprised at the low number of respondents who said they don't use a third party tool to manage their Twitter messaging; as of this writing, the system is widely acknowledged to have a "Russian truck-style" interface.

Which third party applications do you use for managing Twitter campaigns? (Please pick all that apply)	%
Tweetdeck	81%
Hootsuite	50%
CoTweet	25%
Seismic	25%
Other, please specify	6%

Do you use third party applications to monitor Twitter feeds?	%
Yes	50%
No	50%

What type of tools do you use to monitor and track Twitter? (Please pick all that apply)	%
Free tools (search.twitter.com, topsy, Socialseek)	84%
Paid tools (Scoutlabs, Radian6)	8%
Both paid and free tools	8%

Do you use URL substitution tools in your Tweets?	%
Yes	76%
No	24%

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be an excellent way to reach people and break through marketing noise. We've also been working with the "big three" social systems and have been very impressed with what we've been able to do with Facebook.

That's interesting. Most B2C companies look at Facebook with a certain degree of trepidation given the company's ongoing privacy problems.

We've found Facebook to be a very powerful tool for community building in the Engage system. Engage, as you've already noted, is a SaaS system and we've integrated the system directly into Facebook. A community member using Engage from within Facebook sees the community "wrapped" into Facebook in the center column of the system UI. We did this because increasing numbers of alumni from the schools we work with were requesting this; large numbers of younger alumni are living within Facebook and use it in lieu of other types of Internet communications, including E-mail, chat systems, etc.

Did you use Facebook's own community systems to manage and build the community?

No. While we've wrapped the Facebook UI around Engage, we direct community members to the university URL. This is an interesting question that companies building communities need to ponder. It's easy and cheap to use social network tools for community management but you don't control them. Our customers want to manage their community and not rely on Facebook.

But we quickly discovered that in addition to providing younger alumni with an environment they found comfortable, Facebook was very effective in helping our customers identify graduates from different universities and help increase participation in the various alumni communities managed by Engage. For instance, in the case of one college, we were able to identify 40k graduates and place ads within the Facebook system targeted at these alumni. Facebook is a very cost effective advertising vehicle; the cost of running a two week ad campaign was \$140 a day.

I can share with you the results from three campaigns we ran in Facebook on behalf of universities who were looking to boost participation in their online alumni communities

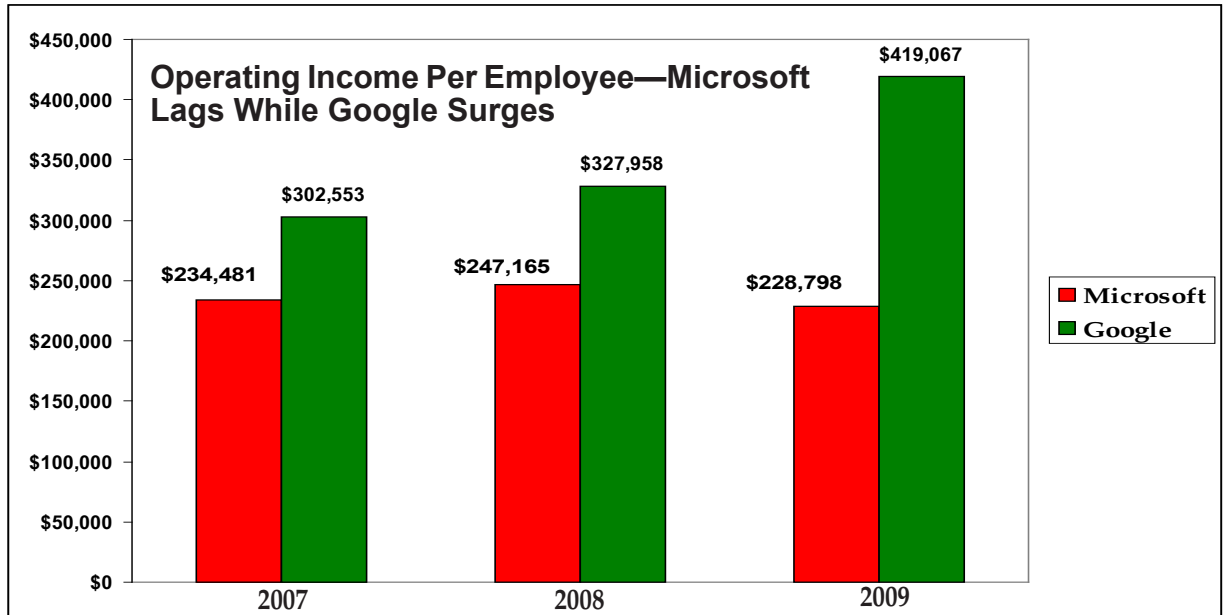
- College A: An 83% percent increase in click-throughs to the community website.
- College B: A 137% increase in click-throughs.
- College C: An 81% in click-throughs.

What other lessons have you learned in helping your customers build communities?

"In respect to the other social systems, we've not had much success in building communities via Twitter and Linked In. Linked In advertising is much more expensive than Facebook and lacks Facebook's ability to do precise targeting based on profile information. Google also lags far behind Facebook in its targeting ability."

— Jeff Velis
Publishing Concepts

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Benchmarks: Operating Income Per Employee, 2009

Operating income per employee (OIPE) measures efficiency in use of personnel; the figure is the result of subtracting operating costs from revenues, and does not count payments for taxes or interest on debt. It's one of the industry's favorite metrics (along with operating income, revenue per employee, and operating profit per employee) because it's easy to comprehend and use as a point of comparison.

Let's begin our analysis with a look at the contrast between Microsoft's and Google's numbers. Despite a slight drop in employees (2008—20,222, 2009—19,835), Google's OIPE soared from \$327,958 to \$419,067, a **28% increase**, a sterling performance given the economic climate. By contrast, Microsoft's OIPE numbers dropped from \$247,165 to \$228,798, an **8% decline**. In 2009, Google enjoyed a **46% advantage** in OIPE over Microsoft. In the three year average from 2007 to 2009, Google's advantage is 33%. And note that Microsoft's OIPE woe only increased while it was losing head count (2008—91,000, 2009—89,000).

Looking at other sectors we see some interesting turnarounds. The education sector swung wildly from 2008's \$20,829 to 2009's \$25,468 a complete turn around. What accounts for such volatility in this market sector? Education is particularly sensitive to economic downturns; at the first sign of economic hard times, school districts stop spending on software and other discretionary expenditures. Last year, buoyed by federal dollars, the schools returned to their normal buying patterns. However, we anticipate that the flow of federal dollars to education will be far more constrained over the next two years; OIPE numbers may suffer accordingly.

SaaS likewise saw a dramatic swing from the negative in 2008 (-\$6,302 to \$5,938), a reflection of the increasing strength of this sector. Yes, OIPE is the lowest sector in our **Benchmark 50**, but several companies in this group are spending aggressively in their attempts to build dominant positions in their market segments a la the (successful) Salesforce.com model.

Desktop retail doesn't show terribly well in OIPE breakouts, but this sector is very much a mixed bag, with the large companies performing well and smaller companies struggling to survive in a rapidly changing world.

The Benchmark 50: Operating Income Per Employee, 2009

	Employees			Oper. Income Per Employee			Avg. '07-'09
	2007	2008	2009	2007	2008	2009	
Microsoft	79000	91000	89000	\$234,481	\$247,165	\$228,798	\$236,815
Google	16805	20222	19835	\$302,553	\$327,958	\$419,067	\$349,859
Desktop Application				\$24,639	\$22,522	\$10,320	\$19,160
Adobe	5734	6082	8660	\$149,561	\$169,068	\$79,736	\$132,788
Corel	608	1110	*	\$11,365	\$21,095	*	\$16,230
Intuit	7500	8200	7800	\$85,009	\$79,362	\$110,641	\$91,671
Smith Micro	225	359	486	\$18,884	\$7,524	\$22,858	\$16,422
Symantec	17100	17,400	17400	\$30,394	\$34,614	-\$372	\$21,545
Bitstream	67	96	97	\$51,373	\$23,948	\$10,320	\$28,547
Nuance Commo. (Scansoft)	3900	6100	5800	\$9,994	\$5,347	\$9,927	\$8,422
Vertical Market Applications				\$17,202	\$17,692	\$18,918	\$17,937
Ansys	410	1750	1600	\$309,193	\$96,989	\$114,673	\$173,618
Autodesk	5169	7800	6800	\$86,206	\$31,346	\$9,647	\$42,400
Unica	501	519	440	-\$4,928	-\$6,538	-\$51,132	-\$20,866
Allscripts	1155	2369	2428	\$17,202	\$16,982	\$18,918	\$17,701
Advent	946	1068	998	\$13,033	\$17,692	\$27,935	\$19,553
Micros	4360	4619	4757	\$32,302	\$30,069	\$23,247	\$28,539
Enterprise Applications				\$19,024	\$23,078	\$28,609	\$23,570
Sapient	6217	6,300	7052	\$2,940	\$10,259	\$5,732	\$6,310
SPSS	1246	1,023	*	\$39,693	\$47,936	*	\$43,815
Manhattan Associates	2241	2084	1819	\$19,214	\$12,458	\$11,623	\$14,432
Concur Technologies	575	932	1100	\$23,743	\$28,605	\$35,653	\$29,333
Pegasystems	657	825	1076	\$2,970	\$17,550	\$38,865	\$19,795
Lawson	3800	3700	3900	-\$4,906	\$13,805	\$11,470	\$6,790
Open Text	2704	2915	\$3,411	\$18,834	\$34,435	\$28,609	\$27,293
SaaS				-\$10,546	-\$6,302	\$5,938	-\$3,637
Blackbaud	1655	1977	1956	\$31,666	\$23,976	\$23,411	\$26,351
Callidus	382	424	284	-\$42,521	-\$33,894	-\$62,972	-\$46,462
Omniture	713	1189	*	-\$18,684	-\$6,849	*	-\$12,767
salesforce.com	2070	3566	3969	\$13,756	\$17,875	\$29,043	\$20,225
RightNow Technologies	686	737	797	-\$32,140	-\$13,483	\$5,465	-\$13,386
Savvis	2233	2228	2167	\$151,366	\$11,909	\$18,490	\$60,588
Vocus	341	463	518	-\$2,408	-\$5,756	\$5,938	-\$742
Network Tools				\$29,006	\$28,561	\$34,795	\$30,787
Novell	4100	4000	3600	-\$13,602	\$1,194	-\$57,359	-\$23,256
Citrix Systems	4620	5040	4816	\$43,811	\$33,730	\$37,101	\$38,214
McAfee (Network Associates)	4250	5,600	6100	\$37,603	\$33,852	\$36,444	\$35,966
iPass	504	508	389	-\$28,462	-\$183,856	-\$36,499	-\$82,939
VMWare	5000	6700	7100	\$47,068	\$46,646	\$33,147	\$42,287
NetScout	364	788	791	\$20,242	-\$6,779	\$45,990	\$19,817
Quest Software	3346	3477	3365	\$20,408	\$23,391	\$24,811	\$22,870
Developer Tools				\$29,049	\$25,133	\$29,498	\$27,893
Magic Software	NA	NA	397	NA	NA	\$15,693	\$15,693
Red Hat	1800	2800	3200	\$29,049	\$25,133	\$25,788	\$26,657
Sybase	4067	3995	3819	\$41,447	\$52,580	\$75,860	\$56,629
Progress Software	1662	1926	1821	\$34,426	\$33,428	\$28,079	\$31,978
Pervasive Software	178	219	217	\$12,360	\$12,584	\$30,917	\$18,620
TigerLogic Corp.	100	102	98	-\$20,990	-\$5,127	-\$35,837	-\$20,651
MicroFocus	NA	NA	1400	NA	NA	\$65,151	\$65,151
Education				-\$7,315	-\$20,829	\$25,468	-\$892
Apollo Group	36418	17736	21514	\$17,181	\$42,257	\$49,546	\$36,328
Renaissance Learning	1059	985	888	\$10,321	-\$29,859	\$34,375	\$4,946
Scientific Learning	215	223	201	-\$5,553	-\$11,798	\$25,468	\$2,705
Skillssoft	999	1124	1085	\$32,200	\$32,498	\$72,833	\$45,844
Saba Software	573	577	598	-\$12,768	-\$4,615	-\$875	-\$6,086
SumTotalSystems	806	832	*	-\$9,077	-\$84,322	*	-\$46,700
Plato Learning	480	384	300	-\$32,140	-\$248,146	\$3,603	-\$92,227
All companies (median)	1,451	1,952	1,889	\$18,884	\$17,875	\$25,468	\$19,817

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

* 2009 filings not yet available.

“For the next five years I don’t expect Facebook to be the dominant social and communication system but after five years, I don’t know. Facebook’s penetration among Gen Y members is startling and is beginning to challenge Google as the primary ‘residence’ of this demographic.”

— Jeff Velis
Publishing Concepts

“If you’re going to try to build customer communities by encouraging participation based on affinity relationships such as schools, professional associations, hobbies, and specialized interests, community integration with the social networks can be very useful.”

— Jeff Velis
Publishing Concepts

The importance of building a services team in your organization that can assist customers to build communities. It’s true that SaaS applications naturally create affinity points but I don’t think that’s enough in many cases, even if the application has integrated community creation tools. We’ve found that you need to work closely with your customers to help them establish participation metrics (in our case a community member needs to visit the community site or section at least once a month to be considered active), develop community building campaigns, and spark participation. For example, it’s not a good idea to open up a community system with empty forums and discussion sections. Instead, we help our customers recruit regular participants and populate the discussion sessions with topics and discussions.

We’ve also found that launching themed campaigns to customers helps drive participation. It’s important to remember that communities will have a wide variety of interests. For example, in our market, career development, shared affiliations, and “find a lost love” have all been effective (I suspect “lost love” won’t be that useful for many companies, but consider “contact a former colleague.”

What kind of community building services does Publishing Concepts offer? And how long does it take to build a functioning online community?

We provide a full range of services, including the ability to develop E-mails, articles for both online and print publications, agreed upon themes for appropriate channels, and work with the social networking systems. One tip I’d like to pass along is that we’ve found that print can still be useful in sparking interest in joining a community—it stands out. Usage will depend on your market and number of potential community members you need to contact, but for enterprise sales I’d suggest experimenting with a post card mailing to new customers urging them to engage with your community system.

As for how long it takes to create an actively functioning customer community, that obviously varies from industry to industry, but assuming you’re starting from scratch, I’d establish six month and one year milestones. You’re certainly going to aim for at least 5% active customer participation by your customer base at six months and 10% by 12; your industry may drive much higher percentages.

We’re also finding that providing predictive analysis on best practices to our clients is becoming an increasingly powerful draw. While we’ve found many things to like about Facebook, one drawback is that they “keep” all the data on community interaction within their system. This ties back to helping customers build their community; as you do this, you begin to develop a very deep understanding of the dynamics of your customers and become a consultative expert.

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Please tell us the URL substitution service you use	
60% of respondents reported using bit.ly, followed by Tiny URL at 8% and Others at 21%	

On a monthly basis, how many customer service issues are resolved via your business Twitter account?	%
1 to 5	31%
6 to 10	6%
11 to 20	2%
21 to 40	0%
41 to 60	4%
61+	0%
75+	2%
100+	2%
We don't use Twitter for customer service	48%
Other, please specify (significant answer was "We use this more as a means of customer information support rather than issue resolution")	4%

It's not surprising that Twitter is not regarded as a strong customer service tool; there's a limit on what you can do with 140 character messages.

On a monthly basis, how many sales leads are generated by your Twitter programs?	%
1 to 5	42%
6 to 10	8%
11 to 20	6%
21 to 40	0%
41 to 60	4%
61+	0%
75+	2%
100+	6%
We don't use Twitter for sales lead generation	27%
Other (answers resolved to "we don't track this")	6%

As a sales lead tool, Twitter is decidedly unimpressive.

Do you use Twitter to build brand awareness of your company and its products/services?	%
Yes	96%
No	4%

Please rate the effectiveness of Twitter in improving these brand components	Very ineffective	Somewhat ineffective	Somewhat effective	Very effective	We don't track this
Increased favorable mentions from customers because of real-time Twitter support	15%	9%	43%	9%	26%
Increased requests for and downloads of marketing material from our website	6%	23%	28%	15%	28%
Increased attendance at lead generation events such as webinars, videocasts, and local tradeshows and presentations by our management	6%	15%	30%	23%	26%

What is your primary means of managing your Twitter programs?	%
Dedicated individual	39%
Dedicated team	20%
External agency	4%
Individuals in the company do it on their own	33%
Other (answers resolved to "we don't track this")	4%

We found it interesting that so many software companies allow individuals in their company to "freelance" with Twitter.

What % of your overall marketing budget do your Twitter programs represent?	%
<1%	51%
1% to 5%	32%
6% to 10%	11%
11% to 15%	0%
16% to 20%	2%
20%+	4%

How much did your company spend on Twitter programs over the last 12 months? (If you're the company CEO and handle this program personally, multiply the number of hours per month you spend managing Twitter by \$100. If an employee manages your Twitter program, multiply the number of hours by \$50. If your Twitter program is managed by a third party, please include their fees. (No currency signs or decimals, please)	%
Median	\$3,500

The amount of money spent on Twitter marketing is in line with our previous research on this social system. Of the "Big Three" systems, Twitter is, in our estimation, the one that puzzles software marketers the most. As an E-mail tool, its 140 character limitation makes it useful as a direct response tool in a limited number of situations (quick consumer promotions, for examples). Writing interesting "Tweets" is something of an art form. But approval ratings for the system are fairly good.

Over the next 12 months, please indicate your company's budgetary plans for its Twitter programs	%
We are expanding our Twitter marketing budget	55%
We are decreasing our Twitter marketing budget	4%
Our Twitter marketing budget will remain the same	40%

Please rank the overall effectiveness of your Twitter programs	%
Very effective	23%
Somewhat effective	49%
Somewhat ineffective	17%
Very ineffective	11%

A combined "Very effective" and "Somewhat effective" score of 72% is fairly impressive.

Linked In Usage

Do you use Linked In for business purposes?	%
Yes	86%
No	12%
No, but we are exploring its use to support our business	2%

What is your primary business use of Linked In	%
Brand visibility	47%
Lead generation	18%
Promotions/advertising	10%
Customer service	0%
Personnel recruiting	12%
Other, please specify (Significant answers included "networking," "join focus or interest groups and watch the dialog to learn in depth knowledge," and "user community/customers")	12%

What other business purposes do you use Linked In for? (Please pick all that apply)	%
Brand visibility	43%
Lead generation	43%
Promotions/advertising	43%
Customer service	10%
Personnel recruiting	33%
Other, please specify (Significant answers were "community discussion; event information," "Finding detail about specific individuals in target accounts")	6%

Which Linked In services do you use to support your business and marketing programs? (Please pick all that apply)	%
Linked In Answers	29%
Linked In Blog Link	27%
Linked In Group	81%
Slideshare	31%
Other, please specify	2%
Other, please specify (Significant answers included "networking," "join focus or interest groups and watch the dialog to learn in depth knowledge," and "user community/customers")	12%

It's not surprising that Linked In's most popular service is its **Group** service; the system can act as an inexpensive and fairly full featured forum/community and setup is fast and easy. But Linked In provides little in the way of analytics that would assist you in understanding your community's dynamics and your group can be closed by the firm at any time.

How many members have visited your blog using Linked In's Blog Link application?	%
Less than 100	22%
100 to 500	16%
500+	8%
Not applicable	49%
Other, please specify	4%

How many members have viewed your product slides using the Linked In Slideshare application?	%
Less than 100	27%
100 to 500	10%
500+	2%
Not applicable	59%
Other, please specify (No significant answers)	2%

What is the average response to sales-oriented questions you post on Linked In Answers?	%
0 to 5	39%
6 to 10	6%
11 to 20	6%
21 to 40	4%
41 to 50	0%
51+	2%
Not applicable	41%
Other, please specify (No significant answer)	2%

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