Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

Santa rewards telesales representatives more richly in percentage terms for better performance than their direct sales counterparts
See pages 2, 3.

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

We resume our analysis of the summary results of our telesales survey. Decimals have been rounded to one level of precision and results may not equal 100%. Numbers of particular interest are bolded.

How many telesales representatives do you currently employ or contract with?

Average   19.7
Median   5

The reason for the large discrepancy between the two numbers is because a small number of respondents reported having a large telemarketing group; once these outliers were accounted for, the median of "**5**" reflects the fact that smaller software firms tend to rely more heavily on telesales.

How often does your company change its sales compensation plan?

Median   10 months

The median reported here of 10 months is slightly lower than the "**12 months**" reported for direct sales forces. The difference between the two numbers can be accounted for by the fact that smaller companies can more quickly adjust compensation plans when faced with sales shortfalls and feedback from telesales personnel.

In our telesales survey, as with our direct sales survey, we asked respondents to tell us how telesales personnel are rewarded if they exceeded quota. Four options were offered, **increase in commission percentage**, **a fixed monetary bonus**, a combination of the aforementioned, and **none**.

If you answered "Increase in commission percentage," please indicate below how much increase in commission a telesales representative receives as compensation for their exceeding quota:

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

by Bruce LaFetra, Rubicon Consulting

Photoshop Express is Adobe's web-based offering designed to compete directly with the growing number of free, web-based applications. The Photoshop Express business model is radically different from traditional applications and is designed to make "Adobe imaging technology accessible to large numbers of people." Adobe is trying to separate Photoshop Express from its cash cow imaging business, but the decision to offer a free application that does many basic tasks undoubtedly twisted a lot of guts at Adobe. However necessary, it's still a bold move from a company unaccustomed to making bold moves.

Photoshop Express targets a new class of users Adobe has little experience in reaching. Success requires rethinking every aspect of Adobe's business—including the very elements that brought success in its traditional markets. Partnerships and services will be key to generating usage and revenue.

Adobe faces an unusual type of competition. Lower-cost software development and practical online distribution allow Fauxto, Pixoh, et. al. to gain a foothold in the currently underserved market for casual photographers. For those used to getting camera store prints, cropping, resizing, red-eye removal and basic image manipulations are enough. While they are eating Photoshop's future, they are not today competing head-to-head with Photoshop, thus I characterize the threat to Adobe as a "hollowing out" of the low-end and hobbyist markets.
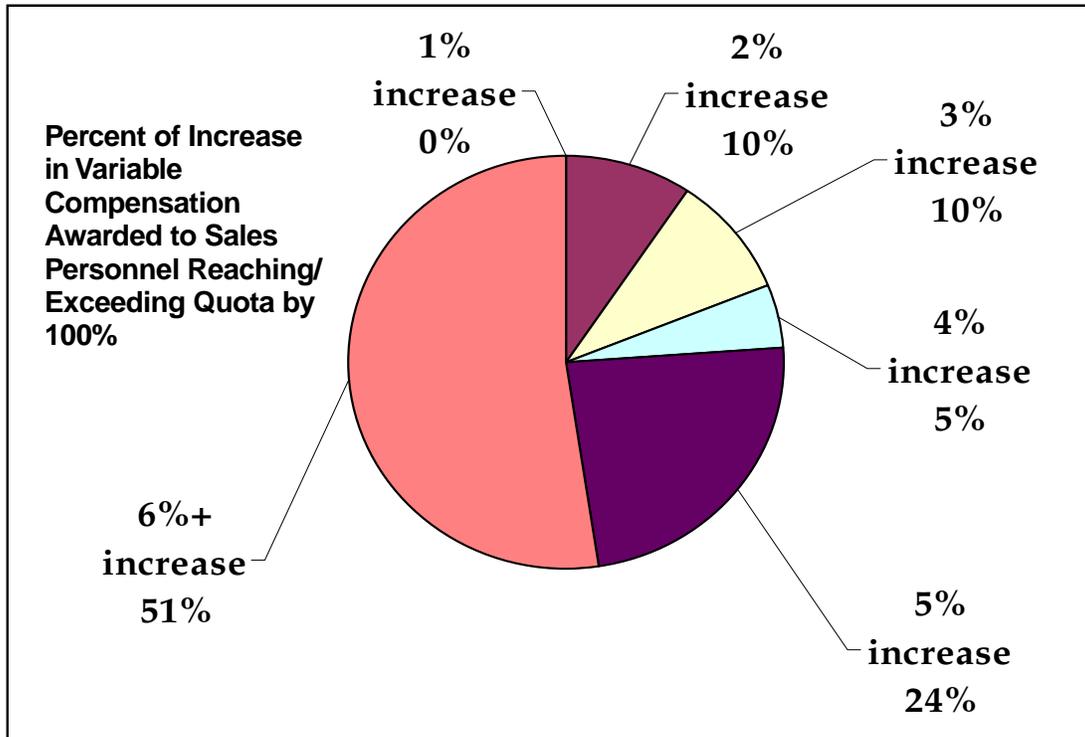
Bundling and embedded technologies present a further challenge to Adobe (and other desktop-based products). Aggressive OEMs are loading increased functionality into their offerings in an attempt to both differentiate their product lines and create embedded value that bypasses the need to use the desktop. The recent introduction of face recognition and optimization into the current generation of digital cameras is a harbinger of things to come.

 This is very different from what Microsoft Office faces in Google Office or what Oracle faces from new SaaS-based competitors in the enterprise applications market. Such incumbent applications face a more direct threat. While few of us use all the functionality of Microsoft Word, we all have it available. Exiting the novelty stage, a replacement must compete head-to-head with a full set of features in order to be viable in the longer term because we are unlikely to give up a feature we use now. While you may only create a document index once a year, you'll insist on any subsequent word processor you buy/rent having it.

The hardest decisions will come when the new and old collide. Does Adobe see Express solely as a feeder to traditional versions of Photoshop or will it allow Express to thrive and grow in its own right, guiding Adobe into a new world of software applications with new and unproven methods of monetization?

The upcoming choices will reveal which cultural, financial and product path Adobe chooses.

Bruce LaFetra, senior marketing consulting, Rubicon Consulting, 101 Church Street, Suite 22, Los Gatos, Calif. 95030; 408/395-3910. E-mail: bruce@rubiconconsulting.com.

Percent of Increase in Variable Compensation Awarded to Sales Personnel Reaching/ Exceeding Quota by 100%

1% increase 0%

2% increase 10%

3% increase 10%

4% increase 5%

5% increase 24%

6%+ increase 51%

Percentage Over Quota	Increase in Commission (added to standard commission rate)					
	1%	2%	3%	4%	5%	6+%
1 to 10%	35.7%	25%	14.3%	NA	7.1%	17.9%
11 to 25%	15%	35%	15%	10%	5%	20%
26 to 50%	NA	25%	30%	5%	15%	25%
51 to 75%	NA	10.5%	21%	10.5%	15.8%	42.1%
76 to 100%	NA	10%	10%	20%	15%	**45%**
100%+	NA	9.5%	9.5%	4.8%	23.8%	**52.4%**

Question 10 in our survey was designed to extract a sense of how generously software companies reward their sales people for exemplary performance. The chart above provides a better visual look at how software companies reward their highest performers, individuals who exceed quota by 100%+. Assuming a 5% to 6.5% base, the largest cohort in our study (though not as dominant as found in our direct sales survey), the addition of 6%+ in additional quota represents in many cases a doubling in variable compensation. Our analysis shows that **76.2%** of software companies reward telesales representatives who reach 100% of quota with at least a doubling of their variable compensation; this represents a significant increase over the **51%** provided by companies who rely primarily on direct sales forces.

 Also contrast the **52.4%** who award 6%+ commission rates for telesales representatives reaching 100%+ of quota in contrast with the far more parsimonious **30%** awarded direct sales personnel achieving the same results. CEOs seeking to incent their sales forces should also note the rapid ramp up in commission acceleration as sales performance increases.

Product Management and SaaS

We complete our analysis of the results of our 2007 SaaS survey.

Does your company implement "agile"
methodologies in its R&D?   **Total**   **%**

Yes   65   57%
No   **49**   **43%**

The closeness of this number is a bit of a surprise; many SaaS commentators have stated that because of the rapidity of SaaS development cycles, agile development and SaaS are natural partners. It appears that a significant number of companies feel that they can develop SaaS products the "old fashioned" way.

Does your company employ product managers?

                                              Total   **%**

Yes   70   61.4%
No   44   38.6%

A quick drill down into this response shows that a "Yes" answer strongly corresponds to company size. With few exceptions, as a company grows it finds it will, of necessity, begin to add product management to its organizational mix. A useful seat-of-the pants benchmark is that once you reach 25 employees plus, you'll need to implement a product management system; prior to that, the company CEO and/or an ad hoc mixture of employees will serve as a virtual product manager.

Please rank the impact SaaS has on established product management practices and methodologies

Develop MRDs
(marketing requirements documents)   **Totals**   **%**

Increased importance   **29**   **40.9%**
The same importance   37   52.1%
Less importance   5   7%

The 40.9% of survey respondents reporting that they will be spending more time on MRDs is mildly surprising. In an earlier, informal article/survey on the impact of SaaS on product management, several people we spoke with indicated that because of the rapid tempo of product development in SaaS, they were spending less time on MRD development and more on business process and domain requirements.

Develop PRDs (product requirements documents)

                                              Totals   **%**

Increased importance   **28**   **38.9%**
The same importance   **41**   **56.9%**
Less importance   3   4.2%   *(continued on page five)*

Increased importance	**28**	**38.9%**
The same importance	41	56.9%
Less importance	3	4.2%

The 38.9% number tracks more closely with our expectations; in our conversations with product managers, we've often heard that product managers spend more time on feature implementation schedules because of the current rapid pace of SaaS development.

Requirements development	**Totals**	**%**
Increased importance	**24**	**33.8%**
The same importance	45	63.4%
Less importance	2	2.8%

The relatively high number of respondents reporting "increased impact" to this question tracks with the increased importance given to this aspect of a product manager's job. Requirements management over the years has grown from simple "tick list" management to a subspecialty within product management. (In recognition of this, *Softletter* began tracking requirements manager compensation last year).

Understanding customer's business processes	**Totals**	**%**
Increased importance	**35**	**49.3%**
The same importance	34	47.9%
Less importance	2	2.8%

The **49.3%** figure for "Increased importance" is the highest percentage given to this category across all our questions. We believe the reason for this is that SaaS requires that product managers become far more "customer facing." While over the years a great deal of lip service has been given to the idea of the product manager becoming "the voice of the customer" in lieu of having customers actually participate in the development process, the reality is that in most software companies, product managers spend the bulk of their time wrestling with internal conflicts and processes.

The SaaS model, however, robs software companies of most of the maintenance and deployment revenue traditionally associated with a major enterprise/client server sale. To replace it, SaaS companies must focus much more heavily on offering services that directly address customer success and how to adapt their SaaS systems to a firm's business processes. Product managers, who are expected to be information sources, will increasingly be expected to provide their firms with a deep understanding of their customers' business, procedures and practices.

Regular customer contact	**Totals**	**%**
Increased importance	**26**	**36.1%**
The same importance	42	58.3%
Less importance	4	5.6%

Regular contact with development	Totals	%
Increased importance	30	41.6%
The same importance	41	56.9%
Less importance	4	5.6%

Regular contact with Marcom	Totals	%
Increased importance	13	19.4%
The same importance	45	67.2%
Less importance	9	13.4%

Regular contact with the press	Totals	%
Increased importance	10	14.5%
The same importance	46	66.7%
Less importance	13	18.8%

Regular contact with QA	Totals	%
Increased importance	23	32.4%
The same importance	45	66.7%
Less importance	3	4.2%

Regular contact with customer service	Totals	%
Increased importance	25	34.7%
The same importance	43	59.7%
Less importance	4	5.7%

"The survey numbers reveal that product managers can expect the greatest changes in their day-to-day responsibilities will revolve around increased understanding of customer business processes, increased contact with development, and increased attention paid to MRDs and PRDs."

—Softletter

Softletter believes product managers and software companies need to pay close attention to the relatively high number of respondents reporting that contact with customer service is of increased importance. In a normal licensed software environment, product management spends little to no time working with customer service.

However, because of the 24/7/365 customer contact environment created by SaaS, product managers are finding that customer service groups are increasingly valuable in-house repositories of knowledge of buyer reactions to product pricing, upgrades, and changes. If a new product feature or release does not work correctly or breaks integration with an existing environment, customer service phones and E-mail boxes light up instantly with user complaints and information.

Regular contact with sales	Totals	%
Increased importance	19	26.8%
The same importance	46	64.8%
Less importance	6	8.5%

Protecting Your IP from Outsider (or Insider) Claims When You Sell Your Company

By Bill Montgomery, Corum Group

Intellectual Property (IP) is an umbrella term for the various legal entitlements which attach to the trade secrets, copyrights, trademarks and patents (software) owned by the business. All businesses have IP, but in the software business, IP may represent virtually all the company's value. However, not all IP is equal in value to the buyer and only some of it is of serious concern during due diligence and the definitive agreement negotiation process.

It should go without saying that trade secrets should be protected and good employee and contractor agreements can protect you from greed or malice. Trademarks and copyrights are relatively easy and inexpensive to get and you should obtain them. As time goes by and your company and products become successful and gain market visibility, they grow in value. However, relatively few buyers will care about trademarks in particular because they usually don't carry forward the company or product names associated with their acquisitions. Patents are occasionally very valuable, but more often not. We find few patents that can generate serious cash, particularly if a firm's products haven't demonstrated market acceptance. Few small software companies have the financial resources to defend them in any event. Nonetheless, buyers will want documentation on these aspects of IP to attach to the definitive agreement.

As a seller, you have to convince a buyer that you own the assets you're selling and it's unlikely a third party can make a claim to the contrary. Further, the representations and warranties you must agree to in the definitive agreement will largely focus on problems that might result from challenges to your ownership of the core software assets and specify the consequences to you if that happens. The reps and warranties negotiations are typically the most contentious part of the selling process and good planning and execution on the basics long before you decide to sell will make your life a lot easier. If you do nothing else, make sure you have documentation to establish clear ownership of the ideas and code in your software; this is a critical point. You must have written agreements with employee and contract developers that clearly state that your company owns their work product. If you don't, you are making a dangerous mistake.

Bill Montgomery, vice president, Corum Group, 10500 NE Eighth St., Bellevue, Wash. 98004; 425/455-8281. E-mail: billm@corumgroup.com.

Company/Description	Acquired by	Price/Terms		Revenues	Multiple
KnowledgeStorm	TechTarget (TTGT)	$58,200,000		$12,000,000	**4.85**
• Internet search engine services		*Terms: Cash and stock*			
Cognos (COGN)	IBM (IBM)	$5,000,000,000		$1,020,000,000	**4.90**
• Business intelligence solutions		*Terms: Cash and stock*			
ePairs	Perficient (PRFT)	$5,000,000		$6,000,000	**0.83**
• Oracle-Siebel IT consulting		*Terms: Cash and stock*			
one45 Software	Cytiva Software (CRXFF.PK)	$1,430,000		$1,200,000	**1.19**
• Medical education software		*Terms: Cash and stock*			

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Video Development and Deployment Resources

- **Benchmark** (www.benchmark.com): System allows you to embed video into E-mail campaigns. Allows you to upload MPEG, AVI or QuickTime video clips or use stock clips.
- **Chanimal** (www.chanimal.com): Chanimal CEO Ted Finch, in addition to his expertise in software channel development, also runs a professional video development service for software firms. Cost effective and highly recommended.
- **InstantVideoGenerator** (www.instantvideogenerator.com): Service similar to Benchmark.
- **Top 10 YouTube Utilities** (http://www.technospot.net/blogs/10-must-have-you-tube-utilities/): Link lists 10 popular YouTube utilities; several Softletter firms report videos uploaded to YouTube can generate a powerful viral effect.
- **Vidvite** (www.vidvite.com): Cost-effective video development service.

COMPUTERWORLD EDITOR MARK HALL ON APPLE: "Apple's great success on Wall Street has little to do with its Mac market-share growth and nothing to do with its solid tools for enterprise computing. No, as we all know, Apple is today worth more than IBM because of the momentum behind the iPod and the iPhone. And it's the profits from those wonderful gadgets that have given Apple the excess cash to invest in those new tools for IT. But corporate computing remains an afterthought at Apple, whereas at IBM, it's practically the only thought." Quoted in *Computerworld*, 11/06/2007)

EWEEK EDITOR STEVEN VAUGHAN-NICHOLS ON VISTA AND LAPTOPS: "It doesn't come as any surprise to me that Acer and Dell would both rather have you buy XP than Vista. Oh, I know, you'll find those "Acer recommends Windows Vista Business for Business Computing" labels and the like on their Web pages. But talk to the salespeople. You'll find it fascinating how happy they are to direct you to XP.

After all, it's in their best interests to point you toward XP. XP is more stable and works with more software and equipment than Vista does, so it costs the companies less in technical support. In addition, they make a bit more money if they sell you XP." Quoted on http://www.eweek.com/article2/0,1895,2222303,00.asp, 11/26/2007)

THE NEW YORK TIMES EDITORIAL BOARD ON GOOGLE, YAHOO, AND CHINA: "These companies argue that it is better for the Chinese people to have a censored Internet than no Internet. They say that they must abide by the laws of the countries they operate in. But the Chinese Constitution guarantees freedom of speech, the press, association and assembly. Those guarantees may be purely symbolic, but these companies — which loudly protest Chinese piracy of their intellectual property — have not tried to resist. What they are resisting are efforts in Congress that could help them stand against repressive governments." Quoted in *The New York Times*, 12/02/2007)