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Soft•letter

BUSINESS INSIGHTS FOR SOFTWARE DEVELOPERS & PUBLISHERS

**Merry Christmas and
Happy Holidays from
Softletter to all our
subscribers!**



*For controllers, Santa's
bag of goodies contains
increased variable pay
See pages 4-5.*

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The ActiveWords Action Man

In the beginning there was ProKey from RoseSoft (well, not really, if you count Emacs, and some rather obscure programs for the Apple II and maybe the TRS-80, but close enough). ProKey offered relief to the suffering masses via "macros," bunches of keystrokes stored in libraries of command keys. Some macro programs work by assigning keystrokes and commands to special and function keys; others look for user assigned abbreviations to work their magic. In any event, ProKey worked very well and the people rejoiced (and ProKey did a nice business) as tons of repetitive keystrokes were replaced by macro libraries. In fact, so well did the market take to the idea that companies such as Borland (SuperKeys) rushed into the market with their own macro programs. For awhile, macro programs were a nice niche in PC software.

The good times came to an end with the advent of Windows 3.X and its successors. Seduced by mice and the graphics interface, people forgot about macro programs for the most part. The niche still exists, but there are literally several dozen "macro" products on the market, some commercial, some shareware, and some even free. In such a market, how does a company distinguish itself and build marketshare and recognition?

*We found when we began to read about a new macro product called "ActiveWords." The first reference I noted was in an article by James Fallows in *The New York Times*. Fallows, former editor-in-chief of *US News and World Reports* and a regular writer for *The Atlantic* and other publications for many years, writes about technology on a regular basis and has a particular interest in products that manage personal information and that ease the man/machine interaction. Fallows doesn't have quite the influence of a Walt Mossberg, but his articles are informative and interesting and a product review or mention by him will almost always move your product's marketing meter (and generate sales).*

Then more references to ActiveWords began to show up in the San Jose Mercury News, in PC Magazine, more mentions by Fallows, more reviews on a wide variety of blogging and software review sites. Someone was doing a lot of work to get the product noticed. We found out who when the relentlessly peripatetic Buzz Bruggeman, CEO of the company as well as its chief fundraiser, contacted us to extol the virtues of ActiveWords. At first we were a bit skeptical, but a few sessions with the product changed our minds; years of hammering on PC keyboards has given us a lively case of repetitive stress injury (RSI) and a macro program is just the thing for those of us who wish to preserve our wrists and digits. (continued on page three)

Building Effective Landing Pages

In the (selling) spirit of the Holidays, we provide some practical advice on developing web-based landing pages. The most effective promos and E-mail campaigns typically direct potential buyers to a special page designed to support your campaigns, but we've seen way too many clumsy and poorly-built landing destinations over the years. An effective landing page incorporates the following elements:

- A strong headline at the top of the page. Typically, the headline should mention the product or service by name, be clear and use proper grammar (though in some cases this rule can be selectively violated) and should provide a compelling reason to act on the promo or offer.
- Tell a story. The best landing pages encapsulate a story within their content. In most cases, the outline will follow the "fairy tale" format. Your story should incorporate these elements:
 - A happy kingdom (the company or industry your wish to sell to).
 - A fair maiden (the potential or actual users of your product).
 - A villain (a problem or obstacle threatening the Fair Maiden's happiness).
 - A knight in shining armor (your product).
 - A battle between the villain and the knight (the product solves the problem).
 - A happy ending (the result(s) of the problem being solved).

Don't be obsessed with copy length; a compelling story will draw people into your copy.

- Be meticulous about web content preparation. Examine your use of text carefully. For instance, if loading speed is absolutely critical to your site, consider using sans serif fonts such as arial or helvetica; they load more quickly (less dots per inch). Of course, check for spelling mistakes and optimize your graphics. Don't make the mistake of taking large graphic images and resizing them; they may fit, but they'll make your site a performance pig.
- Incorporate testimonials from users of your software in your whenever possible and always fully identify them. Bill Jones, IT manager of Acme, Inc., has credibility. Bill J. from New Jersey has none.
- Think through your E-mail capture strategy carefully. In many cases, particularly when selling enterprise-class software, the goal of a campaign is to capture a contact E-mail address for lead development and further direct sales efforts. Offers for online newsletters, whitepapers, and newsletters are traditionally effective if they are perceived as relevant to your audience and support your offer. For higher-end products, consider refusing G-mail, Hotmail, Yahoo, and similar "junk" addresses when someone signs up for a whitepaper or case study download. For more "retail oriented" products, you can consider being more inclusive (but be prepared to receive a lot of throwaway addresses). Pop-unders have proved to be effective in increasing E-mail sign-up rates.
- Be careful of your use of the color blue. Blue is associated with links. If, for example, your headline is blue there will be a tendency for people to want to click on it. If that's not what you want, use another color. And never, ever underline blue text (unless your goal is to irritate people).

It's now hard to imagine us getting along without the product; the macro habit is addictive. As for ActiveWords, despite being launched in 1999 in the teeth of the dot.bomb meltdown, today the company is cash flow positive, growing, and ActiveWords is still getting great reviews. We asked Buzz to share with us lessons he was learning as he almost single handedly revives a moribund product category.

On ActiveWord's biggest marketing mistakes:

There are three things I'd do differently if I had to do it all over again. The first is not let the inventor of the product be the CEO. The core ideas around ActiveWords were originally developed by Serge Beauregard, our first CEO. But the primary role of a CEO is to sell your company. We found out it's very hard to send a developer out in the world to demonstrate their baby, take the inevitable flak and criticism, and expect them to maintain motivated and upbeat.

The second thing I regret is not getting a professional writer involved in the process of helping us write about and position the product during its initial launch and roll out. We frequently ran into trouble in the terminology and phrases we used to define what ActiveWords is and how it works. For instance, "trigger" and "triggering" seemed to confuse a lot of people. A good writer would have helped us develop a clear, cogent, and "user friendly" story we could have used to support the product launch. But I wouldn't have allowed them to attend the product team meetings; I'd have made them learn the product, then sit down with users and listen to them describe their experience with ActiveWords.

The third thing we did wrong was in the type of fund raising we did. Our initial investment came from individuals, but few of our investors actually use our product. Don't misunderstand me. These people believe in what we're doing and have provided vital support. But I think having at least some of our investors be active users of our product and connected to the technology world would have helped by providing us with "smarter money"; people who would have been able to provide business advice, input and most important connections.

Finally, we misunderstood the initial market for ActiveWords. We thought the product would have corporate and enterprise appeal but we were wrong. A product such as ActiveWords is a bottom-up sale.

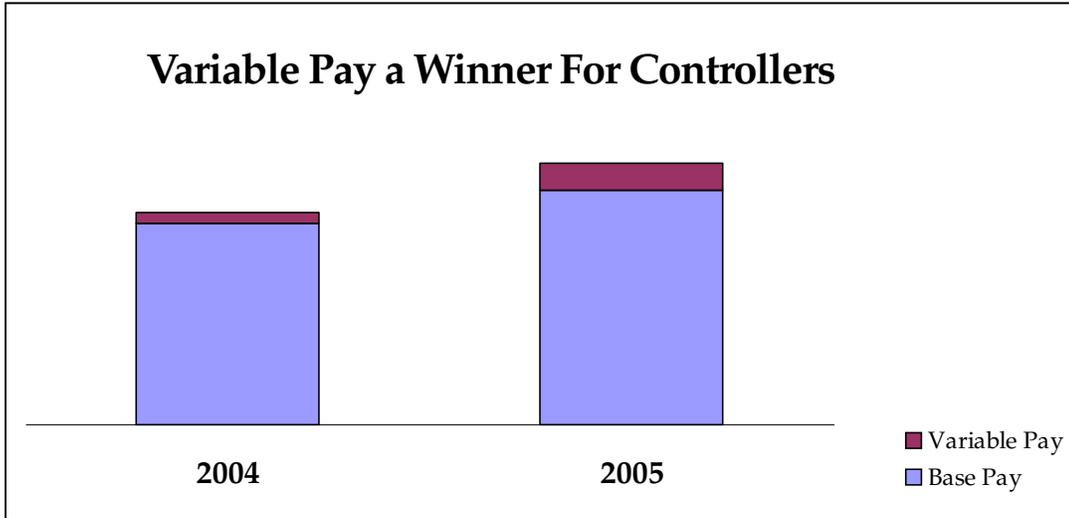
What type of marketing doesn't work for ActiveWords:

- To our surprise, word of mouth. In our analysis of where people found out about ActiveWords, very few people indicated they'd learned about the product from friends, co-workers, etc. We suspect that people don't want to be tech support for their friends (although as we build momentum this shows some sign of changing).

(continued on page six)

"We've arranged a Holidays/ Christmas stocking stuffer for you. Interested in your own free copy of ActiveWords? Call Buzz Bruggeman at 407/894-1177 or E-mail him at buzz@activewords.com and he'll send you one. Tell him Softletter sent you."

*—Rick Chapman
Softletter*



Benchmarks: Controller Compensation

Base Pay for controllers has moved up only slightly since 2002. Median Base Pay that year was \$80,000; this year's \$90,000 is a 12.5% increase from then. The Top 25% of controllers moved up only 7% over three years, and the Bottom 25% fell by 4%. The 18% gain in 2005 over 2004 for the Bottom 25% reflects how difficult recent years have been for them.

The big winners this year are controllers who are receiving Variable Pay for the first time. Even the Bottom 25% is receiving Variable Pay, although they are not yet a majority of this sector. On the whole the tech recovery has boosted Variable Pay considerably, by 150% this year and 125% last year.

Other big winners are controllers in tiny firms (\$1-5m revenue), where Base Pay rose 25% this year. Privately-owned and -funded firms raised their controllers' Base Pay by 19%, and public firms by 16%. Back in 2003 there was no Base Pay growth for those in public firms, and those in Privately-owned and -funded firms saw only a 3% increase. Controllers in private firms funded by venture capitalists received only a 7% increase in Base Pay in 2003. We suspect that with compliance issues becoming so important, CFOs are the primary recipients of the compensation bounty being generated by Sar-Box.

Controllers do the necessary daily work of keeping the financial house in order, while CFOs deal with the financial world beyond the company. As last month's compensation survey for CFOs showed, CFOs received not only generally larger percentage increases in their pay, but received those raises on a Base Pay which exceeds Controllers' by 63%. Even the bottom 25% of each group sees a CFO Base Pay advantage of 34%.

Controllers, however, are reaching Variable Pay parity with CFOs this year. In 2003 controllers received only a 5% increment to their pay as bonuses while CFOs received 13%; this year each group received 11%.

Overall Controller Compensation*	Median	Top 25%	Bottom 25%	Raise
Base Pay—current	\$90,000	\$106,500	\$65,000	16%
Base Pay—last year	\$77,000	\$101,000	\$54,950	
Variable Pay—current	\$10,000	\$22,500	n/m	150%
Variable Pay—last year	\$4,000	\$19,000	n/m	
Total Pay—current	\$95,000	\$122,500	\$76,650	17%
Total Pay—last year	\$81,000	\$122,500	\$63,250	

* Number of respondents = 37

Controller 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	\$65,000	\$5,000	\$80,000	25%
\$1-\$5 million—last year	\$52,000	\$4,000	\$56,000	
\$5-\$10 million—current	\$105,000	\$10,000	\$115,000	5%
\$5-\$10 million—last year	\$100,000	\$10,000	\$112,000	
\$10-\$99 million—current	\$87,500	\$15,000	\$92,500	11%
\$10-\$99 million—last year	\$79,000	\$13,000	\$83,000	
\$100+ million—current	n/m	n/m	n/m	n/m
\$100+ million—last year	n/m	n/m	n/m	

* Number of respondents = 3 for Under \$1 million, 13 for \$1-\$5 million, 7 for \$5-\$10 million, 10 for \$10-\$99 million, and 3 for \$100+ million. Values are medians. n/m = Sample size too small for accurate comparisons. Raise percentage calculated on Base Pay.

Controller 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	\$80,000	\$5,000	\$85,500	19%
Privately owned, privately funded—last year	\$67,000	\$4,000	\$76,000	
Privately owned, venture funded—current	105,000	10,000	115,000	12%
Privately owned, venture funded—last year	94,000	n/m	100,000	
Public—current	151,000	33,500	184,500	16%
Public—last year	130,000	21,000	156,000	

* Number of respondents = 0 for No significant customer revenue, 25 for Privately owned, privately funded, 7 for Privately owned, venture funded, and 4 for Public. Values are medians. n/m = Sample size too small for accurate comparisons. Raise percentage calculated on Base Pay.

“Podcasts work. To date, I’ve done five podcasts on software marketing and downloads. About 50 minutes into the presentation, I offer listeners their own free copy of ActiveWords; I figure if they’ve been willing to listen to me that long, they deserve a free copy.”

—Buzz Bruggeman
ActiveWords

- Sadly, user groups. Increasingly, the blogs and online communities are supplanting user groups.
- Print advertising and reviews. There are very few print advertising venues for ActiveWords, but the ones we’ve been able to participate in have been disappointing. For example, when James Fallows wrote about us in the *Times*, we saw 9K downloads but he’s a recognized “celebrity” in the industry. By contrast, we were recently profiled on the front page of the *St. Paul Minnesota Pioneer Press* business section. The paper has a circulation of approximately 250K; we saw five downloads from the article.
- Offers for free tutorials. This is a bit surprising. When you purchase ActiveWords we offer to provide you with a free tutorial but very few people take us up on the offer.

What type of marketing works for ActiveWords:

- Relentless prostelytizing. I’ll go anywhere to discuss ActiveWords. This year I’ve made over 26 personal appearances and presentation on behalf of the product. I’ve lost track of the personal pitches. I’ll go anywhere to talk about ActiveWords and what it can do for you.
- Blogs. I believe in “The Cluetrain Manifesto’s” concept of the market as a conversation. Blogs are increasingly becoming the means by which this conversation takes place, and it allows it to take place in realtime. Blogs allow you to talk to your users and people interested in what you’re up to and allows them to talk back. I maintain a blog (<http://buzzmodo.typepad.com/buzzmodo/>) but I while talk about ActiveWords frequently, I also discuss different aspects of the software business, my personal observations on my travels, etc. A blog that becomes relentlessly commercial turns readers off.
- A longer trialware period and aggressive E-mail followups. Initially, after download you had thirty days to use ActiveWords. When we changed that to sixty days, conversion to sales doubled. When we went to a program of eight follow-up E-mails, conversions doubled again; our conversion to sales rate is between 11% to 12%.
- The Demo and Pop!Tech shows. Both are excellent networking and get the word out opportunities.
- Partnering via APIs. We want to “AW-enable” the world. For example, when you purchase ClearContext, a company developing an Outlook add-in for E-mail management, you also obtain a set of complex macros built up front for ActiveWords. We’re pursuing this strategy with over half a dozen other software companies.
- Personal relationships, particularly when providing complimentary copies of ActiveWords. On average, a personal giveaway of ActiveWords leads to 10 additional sales.

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M &A: A Global Process

By Miro Parizek, Corum Group

The globalization of business over the past decade has spawned a search for competitive advantages that scale worldwide, with cross-border acquisitions driven by international growth strategies. But when I discuss M&A and exit strategies with CEO's, it's interesting to see how many believe they know who their future buyer will be, or at least where their acquirer will be located, even with current globalization trends. For example, most CEOs of US-based companies believe their acquirer will be an American company. Similarly, German executives believe a German company will buy their firm and their contemporaries in the UK and in France also believe their acquirer is more likely to be domestic. The more developed a country's own economy, the more often the executives tend to think in this direction. I always urge my clients to stay open to all possibilities and to think globally when considering their exit and partnering options.

As software and IT companies compete in the global market, any serious effort to find a suitable partner must include careful consideration of foreign companies. Business leaders with an eye towards international growth know how difficult it is to build a customer base and distribution channel in a foreign country and are willing to pay a premium for accelerating their international expansion.

According to an analysis report I saw by Mergerstat, the number of non-US deals in the first quarter of 2005 exceeded the number of US deals by more than 50%. That is a significant change from as recently as 2002 where the number of deals was similar. The globalization of consolidation is reflected in our own transaction experience of which one-third are now cross-border. Although the international nature of consolidation translates to greater deal complexity and the need for a more comprehensive and global M&A process, the increased number of targets and interested parties can be leveraged in negotiations for a higher valuation—even when the acquirer ends up being domestic.

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Company/Description	Acquired by	Price/Terms	Revenues	Multiple
nMatrix • Legal Case Management/Document Management	EPIQ Systems (EPIQ)	\$125,000,000 <i>Terms: Cash and stock</i>	\$20,000,000	6.25
Scientific-Atlanta (SFA) • Set-top Boxes	Cisco Systems (CSCO)	\$5,300,000,000 <i>Terms: Cash and debt</i>	\$1,950,000,000	2.72
PurFusion Inc. • Online Marketing Tools	Seamless Tech. (SLSX.PK)	\$2,000,000 <i>Terms: Cash and stock</i>	\$1,400,000	1.43
Cyota, Inc. • Online Security and Anti-Fraud Solutions	RSA Security Inc. (RSAS)	\$145,000,000 <i>Terms: All cash</i>	\$22,000,000	6.59

Open Hardware Resources

(The Open Hardware movement currently has that 1975 "Homebrew Computer Club" feel. Sun's recent "OpenSparc" initiative has increased interest in the concept.

- **Freedom CPU** (www.f-cpu.org): Site focusing on the development of an Open Source, copyleft CPU.
- **Openhardware.net** (<http://.openhardware.net>): Site dedicated to information on embedded systems developed under the GPL and Open Hardware concept.
- **Opencollector** (www.opencollector.com): Site with disparate links on various Open Hardware projects, computers, design, etc.
- **Opencores** (www.opencores.org): Site focuses on the design of published core designs licensed under the Lesser General Public License (LGPL).
- **OpenSparc** (www.sun.com/processors/opensparc): Site contains information on Sun's Open Sparc project.

SUN MICROSYSTEM'S CHIEF OPEN SOURCE OFFICER SIMON PHIPPS ON "OPEN HARDWARE": "Of course, open source hardware doesn't work the same way open source software does. Because the "compilation" process is so heavy, the community won't be working on a single rapidly-iterated shared tree of source. It's likely to work more like the Jini community, with many co-operating community participants doing their own thing with a common baseline and then contributing back innovations and fixes based on their experience." (Quoted on http://blogs.sun.com/roller/page/webmink?entry=open_source_hardware, 12/06/2005)

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FORTUNE MAGAZINE REPORTER FRED VOGELSTEIN ON MICROSOFT AND GOOGLE: "Perhaps worst of all, Google is building programs that people at Microsoft prefer to their own. Microsofties have always been voracious samplers of competitors' products; many used the Netscape browser for years until Microsoft's Internet Explorer was good enough. But today, stop almost anyone on campus and ask which e-mail or photo or blogging program he uses, and the answer will invariably be Google's." (Quoted in *Fortune Magazine*, 04/18/2005)

NOVELL PRESIDENT RON HOVSEPIAN ON CUSTOMER ATTITUDES TOWARDS OPEN SOURCE: "There's a wait-and-see attitude from customers. Right now, [a company's IT department] has to be the systems integrator and is responsible for articulating the value back to the business." (Quoted in *Computerworld*, 11/30/2005)

GARBAN SOFTWARE ANALYST RICHARD WILLIAMS ON MICROSOFT'S ONECARE PRODUCT: "The market currently occupied by McAfee and Symantec will shrink significantly. Much like Apple, they will still have a business but their market share will be permanently small." (Quoted on www.siliconvalley.com, 12/02/2005)