

Va. Marketing of Software Services and Products

- Selling vs. Marketing
- Product Specifications
- Product Migration Strategy
- Crossing the Chasm of Technology Adoption
- Software Pricing
- Distribution Channels

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Selling (as opposed to Marketing)

(adapted from Denny Doyle)

- Selling
 - Networking, prospecting, qualifying prospects, getting orders, forecasting orders, managing accounts, managing a territory, managing a distribution channel
- Contrast with marketing

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Marketing (as opposed to Selling)

(adapted from Denny Doyle)

- Marketing R&D
 - Market research and customer surveys; data bases on industry, competitors, prospects, and customers
- Marketing strategy
 - Positioning and differentiation, product definition; data on 4 P's (product, "place", price, promotion)
- Marketing is "warfare" (Stu Schuster, Sybase)
- Marketing communications (supporting sales)
 - Product data sheets, application notes, promotional material, customer newsletters ... for advertising, trade shows, direct mail campaigns, seminars

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Product Specifications

- *Specify your product in terms of what a customer wants and needs, and what the user benefit will be, rather than in terms of what its features are. (#33)*
- Example: Quantifiable user benefit — reduced tax preparation time, errors via TaxPrep software
- Example: Quantifiable user benefit — reduced maintenance staff via Netron code reuse software

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Defining the product

- What the customer needs
- User benefit and payback period (The key is benefits, not features!!!)
- What the product will do now
- Features of the product
- Features it will not have
- Performance, hardware, storage requirements
- Development strategy and cost

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Defining the product (cont'd)

- What is profitable
 - Example: Taxprep buying forms for \$0.25, selling for \$1 — an annuity!
- What the product can become, i.e., software migration strategy (to follow)

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The tension between marketing and development

- Marketing
 - Where the marketplace “is at”
 - What the customer wants
- Development
 - Elegant concept, architecture, design, implementation
 - Advanced features
 - Ease of implementation
- Resolving the tension
 - Make sure you know what the product is
 - Make sure this is what “the customer” “wants”

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Products and Markets

(Denny Doyle)

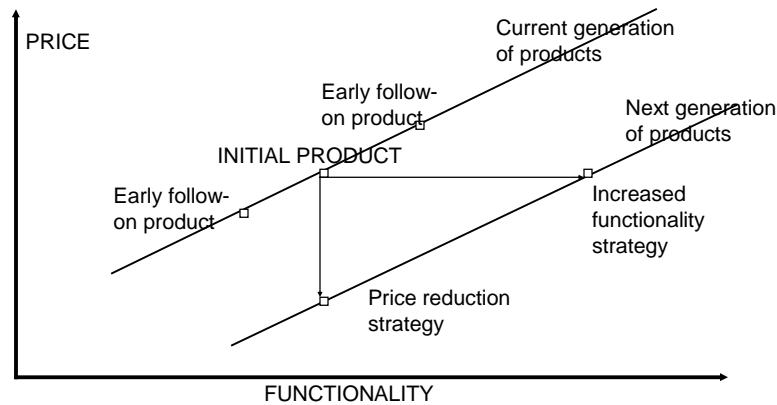
- Many Canadian companies
 - Many technologies
 - A few products
 - One customer (the Canadian government)
- The ideal situation
 - One core technology
 - Several products
 - Many markets

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Product Migration Strategy

(Denny Doyle)

- CorelDraw as an example
- But beware of potential support problems



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Crossing the Chasm of Technology Adoption

- *Understand the Technology Adoption Life Cycle; do not overvalue early sales success or underestimate the difficulty of crossing the chasm between “early adopters” and the “early majority.” (#34)*
- Marketing strategy designed to cross the chasm critical to sales success

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Technology adoption life cycle

- Characterize buyers into 5 psychographic groups
 - Innovators: The technology enthusiasts ($\approx 2\%$)
 - Early adopters: The visionaries ($\approx 8\%$)
 - Early majority: The pragmatists ($\approx 40\%$)
 - Late majority: The conservatives ($\approx 40\%$)
 - Laggards: The skeptics ($\approx 10\%$)
- Difficulties in moving sales from one group to the next, characterized as gaps
- Biggest gap (chasm) between early adopters and early majority

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The chasm

- The early adopters
 - Want a change agent
 - Want radical discontinuity
 - Concerned about getting the project done
 - Not very price sensitive
- The early majority
 - Want a productivity improvement
 - Want evolution, not revolution
 - Want to buy from the market leader
 - Reasonably price sensitive

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Crossing the chasm

- Choose very small niche market (beachhead), defined w.r.t. application (e.g., Apple: desktop publishing) or theme (e.g., Sun: open systems)
- Avoid distractions of sales not in niche market
- Establish credibility, cultivate word-of-mouth in the niche
- Dominate niche market
- Move on to related niches (the initial niche must be chosen strategically)
- See books by Moore

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Software Pricing

- *Think about software pricing in terms of value to your customer, what the customer will pay, what your competitors are charging, and your cost structure; ideally, these methods will result in similar recommendations and help you set your pricing. Then, pay attention to the marketplace and be willing to make changes. (#35)*

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Software Pricing (cont'd)

- Because of the severe downward pressure on PC software product prices, look for auxiliary sources of income — add-on products, documentation, training, and support contracts & other annuities.
- Service pricing: $n \times$ raw salary, $1.5 < n < 5$

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Cost profiles for a typical software product

- Income statement analysis for profitable software publishers (SPA, November 1995)
- Columns are medians and upper quartiles of 12(36) firms with $<(>)$ \$5 million annual revenue
 - Cost of goods sold includes product royalties, manufacturing and materials
 - R&D includes documentation & QA
 - Sales and marketing includes technical and customer support

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Cost profiles for a typical software product (cont'd)

	< \$5M Rev.		> \$5M Rev.	
	Med*	UQ**	Med	UQ
Net revenue	100%	100%	100%	100%
Cost of goods sold	17%	10%	19%	14%
Gross margin	83%	90%	81%	86%
R&D	14%	11%	15%	12%
Sales & marketing	33%	21%	34%	32%
General & admin.	18%	13%	10%	8%
Operating income	9%	13%	14%	23%

*Med = Median **UQ = Upper quartile

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Pricing the product

- In relation to your cost structure
- In relation to the competition
- By what the customer will pay
- By value to the customer
- Prices derived by these methods should agree to some extent!

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Pricing for sale through distribution channels

- Pricing to VARs roughly 40% off
- Pricing to dealers roughly 40% off
- Pricing to distributors roughly 60% off
- Pricing to OEMs 80-99% off
- Royalty from publishers 2-10% of list price
- Volume pricing for companies, sites, networks

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Shareware

- Software that is given away
- Plan for eventual revenue
 - Voluntary contributions
 - Contributions to unlock functionality, enhance scope, or continue after some trial period
- OK for small company, hobby programming
- Otherwise, usually a desperate attempt to gain some market share, must be accompanied by a migration path to revenue generation

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Distribution Channels

- *There are many ways to distribute products and reach customers. Considering your company's strengths and weaknesses, the nature of your customers and how they can be reached, and the nature and price of the product, pick methods that are most appropriate from among the following list. (#36)*

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Distribution Channels (cont'd)

- Direct sales
- Use of sales representatives
- Original equipment manufacturers (OEMs)
- Distributors
- Value added resellers (VARs)
- Dealers and retail outlets
- Mail order via magazine and catalog sales
- Selling over the Internet

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Direct sales

- Large ticket items
 - Contracts
 - Mainframe software products
 - Large volume sales for organizations, sites
- Advantages
 - Maximize revenue and control
- Disadvantages
 - Expense for many offices, e.g., SHL Systemhouse and J&E: offices in the U.S.

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Use of sales representatives

- Large ticket items
- Advantages
 - Access to geographic territories, e.g., abroad
 - Minimize permanent sales head count
- Disadvantages
 - Focus
 - Control

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Use of sales representatives (cont'd)

- Issues
 - Commissions
 - Territory
 - Exclusivity
 - Performance
 - Continuation versus termination

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Original equipment manufacturers (OEMs)

- Established company with its own distribution channels bundles your product with its own
- Advantage
 - Inherit existing channels
 - Cost-effective way of reaching market
- Disadvantage
 - Reduced visibility for name and possibly also product
 - Low revenue now (upgrade potential later)

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OEMs (cont'd)

- Example: Fulcrum Technologies FulText
 - Key accounts in key markets, e.g., in office automation, CD-ROM, newspapers, libraries, PCs/LANs/terminals, mainframes
- Example: Delrina's forms, fax software
 - Latter bundled with essentially all fax boards, very successful
- Example: MGI's digital photography software
 - Bundled with many digital cameras and lots of PCs, but insufficient revenue for survival

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Distributors

- Small ticket items, e.g., PC software
- Intermediaries between producers/publishers and dealer/retail outlets
- Discounts (as above)
- Advantage
 - Broad access to dealers, stores
- Disadvantage
 - Clogging of distribution channels by name brands

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Value added resellers (VARs)

- Resellers of software and sometimes also hardware with their own specialty software, training, and support
- Specializations
 - Vertical market in an industry or profession
 - Geography
 - Hardware or software environment

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VARs (cont'd)

- Example: J&E (Geac), Minicom, Computer Methods in property management
- Example: Columbia Computing, Chancery in educational administration
- Example: Geac — Transaction processing in a dozen different vertical markets

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Dealers and retail outlets

- Obtain product from distributors, sell direct to end-users
- Horizontal market software
- Issues
 - Limited product availability
 - Limited shelf space
 - Shrinking margins
 - Stores dominated by chains

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Mail order via magazine and catalog sales

- Method for bypassing clogged distribution channels, limited shelf space
- Lack of brand name recognition not as great an obstacle
- Issues
 - High cost of ad space
 - Severe price erosion
 - Greater need for media coverage, e.g., product reviews, and word-of-mouth

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Mail order via magazine and catalog sales (cont'd)

- Example: SoftKey
 - Avoid large development & marketing costs
 - Buy rights to repackage low-cost versions of existing software for royalty on sales
 - Catalog space for royalty on sales

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Selling over the Internet

- Method for bypassing clogged distribution channels, limited shelf space
- Lack of brand name recognition not as great an obstacle
- Opportunities
 - Zero manufacturing cost
 - Uniform method for distributing sales literature, demo copies, production copies, support

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Selling over the Internet (cont'd)

- Issues
 - Need for robust electronic commerce system, fulfillment system, etc.
 - Still need promotional methods to enhance customer awareness and stimulate demand
 - Increasingly crowded space for access to “eyeballs”