

V. Marketing & Sales of Software Services & Products

- Selling vs. Marketing
- Corporate Identity and Corporate Image Design
- Product Specifications
- Software Pricing
- Product Migration Strategy
- Products and Markets
- Distribution Channels

V. Marketing & Sales of Software Services & Products (cont'd)

- Promotional Methods Exercise
- Reaching Your Customer
- The Sales Process
- Relationships with Your Customers
- Sales Management and Support
- Crossing the Chasm of Technology Adoption

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

Marketing (as opposed to Selling)

(adapted from Denny Doyle)

- Marketing is “Warfare” (Stu Schuster, Sybase)
- Marketing R&D — Market research, competitive data, product migration data, industry data base, prospect and customer data bases, customer surveys
- Marketing strategy — Positioning and differentiation, product definition, 4 P’s data (price, promotion, place, and product)

Marketing (in support of selling)

- Marketing communications — Advertising, trade shows, product releases, customer newsletter, application notes, brochures, data sheets, promotional material, direct mail campaigns, seminars

Corporate Identity and Corporate Image Design

- *Carefully design your product name, logo, and literature to assert forcefully and consistently who you are and what you do and make. (#33)*
- “Appearances are everything for a software company.” (Scott Welch, SoftArc)
- “Think like a big company while you’re small. Think like a small company when you get big.” (Revett Eldred, Minerva)

The roles of identity and image

- Corporate identity: who you are
- Corporate image: who the world thinks you are (assuming “they” know you exist)
- Step 1: Understand, define, establish your identity (sharp focus, precise objectives, narrow market niche)
- Step 2: Establish an image through good design and promotion
- Step 3: Make sure image = identity, otherwise go back to Step 2

Elements of the corporate identity and image program

- Company name and logo
- Corporate brochure, identity ad, newsletter, etc.
- Elements of the product identity and image program to be described later
- Complexity not necessarily a virtue, e.g., the Lotus 1-2-3 ad
- Imagination a virtue, e.g., Ron Zambonini and Cognos video made just for Peoplesoft

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. (#34)*
- Example: Quantifiable user benefit — reduced tax preparation time, errors via TaxPrep software
- Example: Quantifiable user benefit — reduced maintenance staff via Netron code reuse software

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, and storage requirements
- Development strategy and cost

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)

The tension between marketing and development

- Marketing
 - Where the marketplace “is at”
 - What the customer wants
- Development
 - Elegant conception, 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”

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)*

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: $n \times \text{raw salary}$, $1.5 < n < 5$

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

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%				
	Res. & develop.		14%	11%
15%	12%	Sales & marketing	33%	21%
34%	32%	Gen. & admin.		18%
13%	10%	8%		
		Operating income		9%
13%	14%	23%		

Pricing the product

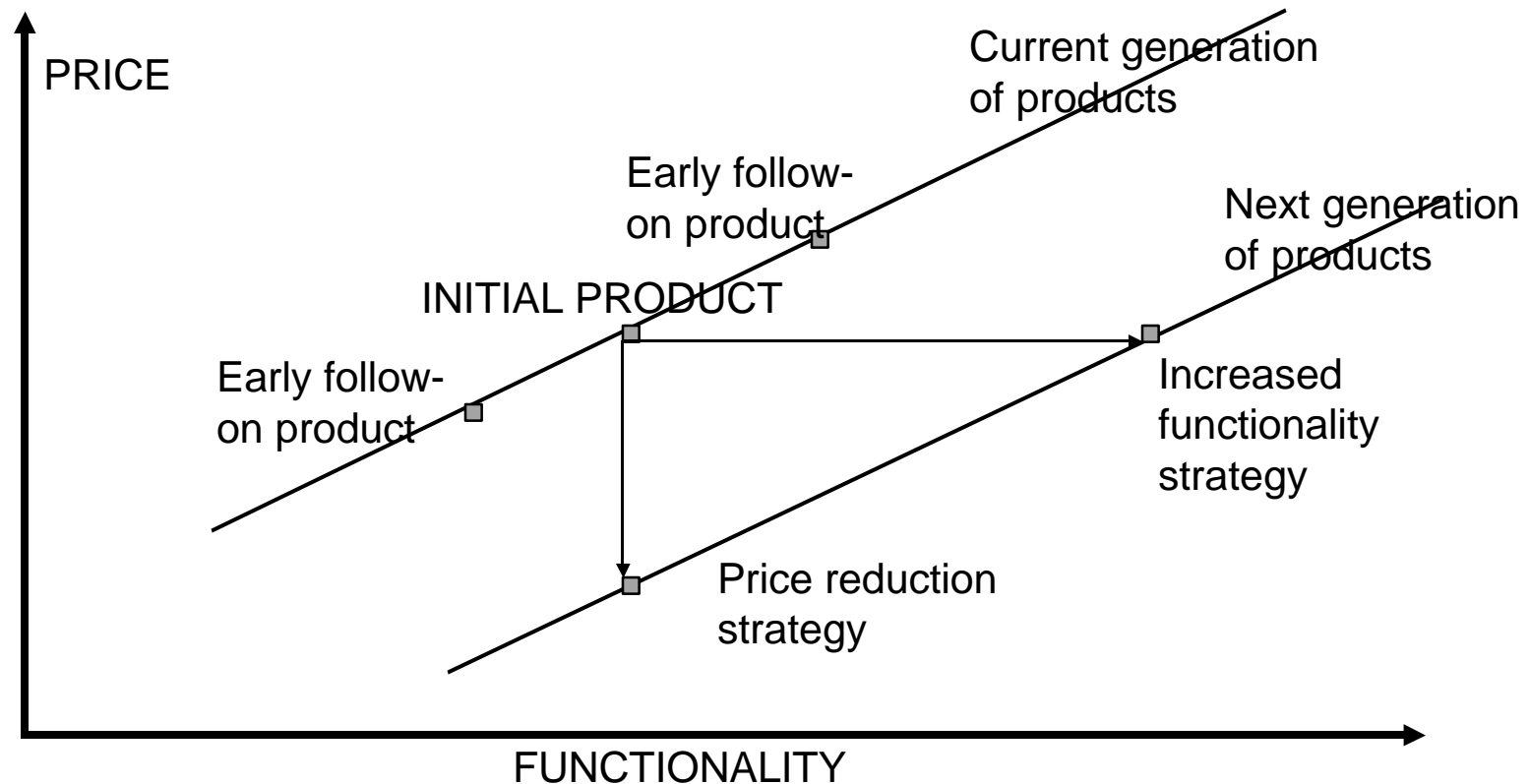
- In relation to your cost structure
- In relation to the competition
- By what the customer will pay
- By value to the customer
- Prices derived by these methods should agree to some extent!

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

Product Migration Strategy (Denny Doyle)

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



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

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 (#36):*

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

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., Systemhouse and J&E: offices in the U.S.

Use of sales representatives

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

Use of sales representatives (cont'd)

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

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)

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

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

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

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

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

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

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

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

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

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”

Promotional Methods Exercise

- Recall a major software promotional campaign with which you were personally involved or with which you are familiar.
- Did the campaign succeed or fail? What were the top three reasons for this? How did you determine and measure success or failure?

Reaching Your Customer

- *Consider carefully various methods of promoting your company and product and reaching your customer, including but not limited to (#37):*
 - Advertising
 - Direct mail
 - Trade shows
 - Seminars
 - Articles and reviews
 - Industry participation
 - Public relations
 - Relationship building and word-of-mouth
 - Uses of the Internet
- Example: Corel spent 49% of rev. on marketing, sales, G&A (FY95)

Advertising

- Advantages
 - Broad exposure
 - Build customer awareness, corporate image
- Disadvantages
 - Cost
 - Hard to do precise targeting
- Issues
 - Must create impetus for action
 - Need for repeated exposure via a series of ads
 - Special issues & positions, advantages of full page ads

Direct mail

- Advantages
 - Easier to target customers with precision
 - Value of demo disks
- Disadvantages
 - People deluged with junk mail — Need to stand out from the crowd — The Carson airline piece
- Issues
 - Buying versus developing lists
 - List quality

Trade shows

- *Use the trade show not only as an efficient method for reaching your potential customers and talking to your customers, but for building strategic alliances, carrying out corporate intelligence, and building morale and customer awareness within your company. Effective use of trade shows requires careful planning before the show, skillful execution at the show, and systematic follow-up after the show. (#38)*

Trade show advantages

- Focuses attention and effort on achieving significant milestones
- If well targeted, can reach significant numbers of potential customers
- Opportunities for enhancing corporate intelligence, pursuing strategic alliances
- For staff, can be both a learning and an exhilarating experience

Trade show disadvantages

- High cost — space, travel, people, equipment, materials
- Disruption

Effective use of the trade show

- Before the show
 - Planning, e.g., Show Guide
 - Preparation of marketing materials, exhibit, booth
- During the show
 - Give one or more talks
 - Staffing the booth
 - Staff communications and daily debriefings
 - Record keeping and follow-up
- After the show
 - Post mortem
 - Prompt follow-up with suspects and prospects

Seminars

- Advantages
 - Attendees usually seriously interested, qualified as potential customers
 - Low key salesmanship, opportunity to build relationship
- Disadvantages
 - Cost to reach customers, deliver seminar

Seminars (cont'd)

- Example: Q.W.Page NewViews
 - 10-20% of attendees buy within 30 days, then suggest buy to 2.5 others within 90 days
- Example: WK Information Systems
 - Coast-to-coast tours after new release
 - Information more than pitching
 - Mix prospects with existing customers

Articles and reviews

- Advantages
 - Good advertising, because it is not advertising
 - Builds credentials, credibility
 - Low cost
- Disadvantages
 - Hard to get a review — You must be persistent!
 - Make sure you are ready — A bad review can kill a product!

Industry participation

- Advantages
 - Builds connections, credentials, credibility
 - Especially important for service business
 - Example: the late Yuri Rubinsky, SoftQuad
- Disadvantages
 - Can devour time
- Do something dramatic and memorable, e.g., the SoftQuad G7 Web site

Public relations

- Advantages
 - Helps in getting press attention and reviews
 - “1\$ in PR worth \$1000 in ads” (Mike Abramsky)
- Disadvantages
 - Indirect, thus may be or seem to be costly
 - Need persistence and imagination to get the attention of the media
 - Hard to get reviews even with help before you are known and before you have market share
 - Watch your ego!

Relationship building and word-of-mouth

- *The best publicity is that which spreads by word of mouth from satisfied customers and respected industry participants. (#39)*
- Cultivate the “industry infrastructure” of gurus, luminaries, analysts, journalists, distributors, and dealers; try to guarantee that these 10% know the value of your product or service, for they will influence the other 90% via word-of-mouth.

Relationship building and word-of-mouth (cont'd)

- Means to achieve this
 - Reputation for product excellence and good customer support
 - Connections
 - Keep the message simple: “If you can’t tell story in 2 or 3 slides, you can’t tell it.” (Stu Schuster, Sybase)

Uses of the Internet

- Electronic advertising and direct mail
- The potential: some anecdotes
 - Disney Web site doing close to 3M hits a day2 years ago
 - SGI questionnaire: fill it in to win a work- station — Result: many high quality leads
 - Ability to improve and reduce the cost of customer service, e.g., Federal Express

Uses of the Internet (cont'd)

- Issues
 - To stimulate customer awareness and attract readers, still need promotion, e.g., seeding Web indexes and email lists
 - Standing out from the crowd with attractive, interactive, clear, well organized Web pages
 - Large new marketing cost

The Sales Process

- *The sales process must be structured and managed — consider it as a funnel in which leads are systematically and steadily culled and promoted through stages which may be termed suspects, prospects, targets for closing, and customers. (#40)*
- “In a new company, selling is what you do by day, marketing is what you do by night.”
(Denny Doyle)

Managing the sales process

- Promotion
- Generation of leads (booth visits, reply cards)
- Follow up of leads
- Identification of suspects (via effort expended)
- Follow up of suspects
- Identification of prospects (qualified for purchase)
- Follow up of prospects

Managing the sales process (cont'd)

- Identification of targets for closing
- Follow up to a closing
- Closing
- Follow up right after the sale and long term
- The need for being systematic and timely
- Good computer support can help

The economics of the sales process

- The size of the software sale
 - The \$500,000 contract sale
 - The \$50,000 contract or product sale
 - The \$5,000 contract or product sale
 - The \$500 product sale
 - The \$50 product sale
- As size of sale decreases...
 - Increasing use of channels
 - Increasing need for sale in volume to the “right” customer

Relationships with Your Customers

- *View your relationship with your customer, in Levitt's words, as "a marriage, not as a one-night stand." Thoughtful and attentive concern for your customers' well being will often lead to the desirable goals of repeat business, good word of mouth, and new product ideas. (#41)*
- "Customers don't leave because of price, or service, but because of neglect." (Martin Waters, Locus Computing, now Platinum Solutions, claiming 90% repeat business)

Relationship management

- Things to do
 - Make sure deal doesn't go sour; monitor it through phases, milestones, and shipments
 - Avoid misunderstandings
 - Support the customer by hearing problems, providing sources of expertise and assistance
- Likely results
 - Forestalling product returns
 - Getting reputation, reference accounts, repeat business, potential new customers

Customers and new products

- Statistics Canada 1989 survey of almost 1,500 companies w. average sales of \$6.6M re sources of product innovation, on a scale of 0 to 5
 - 3.51 — customers
 - 3.14 — own managers
 - 2.84 — suppliers
 - Less than 2.5 — marketing, competitors, production, gov. contracts, R&D dept., ...

Customers and new products (cont'd)

- Example: Delrina
 - As a VAR, got idea for business forms software from customers
 - At Comdex'90, realized how big fax software would be because of huge show response

Sales Management and Support

- *Pay careful attention to the management of sales personnel and sales managers; structure thoughtfully a system of financial incentives and rewards keyed to agreed-upon performance objectives, backed up by an infrastructure of effective administration, sales training, and technical support. (#42)*

Management of sales personnel

- Setting priorities, targets, and quotas
- Assigning territories
- Advising on timing, when to follow up, when to give up
- Providing support — people, resources

Compensation of sales personnel

- Incentive-based: base salary + incentive
- Base — typically 1/2 to 3/4 of target income
- Incentive component — Achieve target income if quota is met
- Non-linearity for performance above quota
- Issues — draws, expenses

Sales representatives and distributors

- Advantages
 - Low up-front cost
 - Avoids setting up office, legal steps, etc.
 - Allows penetration of new geographic areas
- Disadvantages
 - Low commitment to company and products
 - Time split in many ways
 - Lack of good product knowledge

Sales representatives and distributors (cont'd)

- Issues
 - “Exclusivity” (product, territory, channel)
 - Non-competition by you, channel conflict
 - Performance guarantees
 - Duration — renewal or disengagement

Sales training and support

- The need for sales training (Example: IBM)
- Sales aids
 - Corporate and product literature
 - Demos and video tapes
 - Testimonials and demos from reference accounts
 - Confidential product plans, competitive analyses
- Pre-sales support
- Post-sales support

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.” (#43)*

Technology adoption life cycle

- Characterize buyers into five psychographic groups
- Innovators: The technology enthusiasts (2%)
- Early adopters: The visionaries (8%)
- Early majority: The pragmatists (40%)
- Late majority: The conservatives (40%)
- Laggards: The skeptics (10%)
- Difficulties in moving sales from one group to the next, characterized as gaps

The chasm

- Surprisingly, although in both cases customers are in Fortune 500 to 2000, biggest gap is between early adopters and early majority — a chasm
- The early adopters
 - Want a change agent
 - Want radical discontinuity
 - Concerned about getting the project done
 - Not very price sensitive

The chasm (cont'd)

- The early majority
 - Want a productivity improvement
 - Want evolution, not revolution
 - Want to buy from the market leader
 - Reasonably price sensitive

Crossing the chasm

- Choose a very small niche market (a beachhead), defined in terms of an application (e.g., Apple in desktop publishing) or a theme (e.g., Sun in open systems)
- Avoid distractions of sales that are not in the niche market
- Establish credibility, cultivate the word-of-mouth in the niche market

Crossing the chasm (cont'd)

- Dominate the niche market
- Move on to related niches (the initial niche must be chosen strategically)
- See books by Moore