

# Software Products

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# Software is eating the world

WSJ, 2011-08-20



# Software as a Product

- **Product**
  - A man-made artifact sold to customers in a market
- **Software**
  - Has an open-ended life-cycle: Is born, may live forever
  - Typically requires upfront capital investment (development)
  - Is cheap and easy to reproduce perfectly
- **Software as a product**
  - A product sold to either enterprise or retail customers
  - What is sold is typically a usage right plus services

# Core, Basic, and Whole Product

- **Core product** =
  - Core software
- **Basic product** = bundle of
  - Software + complementary materials + self-help services
  - Guarantees about fitness for use + indemnification
  - Support services
- **Whole product** = basic product +
  - Training
  - Consulting
  - Operations

# Enterprise vs. Retail Customers 1 / 2

- Enterprise customers (B2B)
  - Are willing to trade money for time
- Retail customers (B2C)
  - Are willing to trade time for money

**“Some people spend time to save money,  
some spend money to save time.” [M10]**

# Software Products, Projects, and Services

- Software products are provided by a software vendor
  - Commercial off-the-shelf software (COTS) (“Standardsoftware”)
- Software products can be operated by service providers
  - Service providers specialize in specific products
- Software projects are performed by consulting firms
  - Custom software (“Individualsoftware”)
- Many companies do all of the above



# Software Projects

- **Projects**
  - A process with a defined start and a defined end
- **Software projects**
  - Revenues correlate with performed labor
    - Fixed price vs. actual labor
  - Accounted for as revenue and expenses

# Software Products and Projects

Software  
Vendor

Product

Consulting  
Firm

Project



Widget Corp.  
BI Impl. 2008



German SME  
Sugar 2010

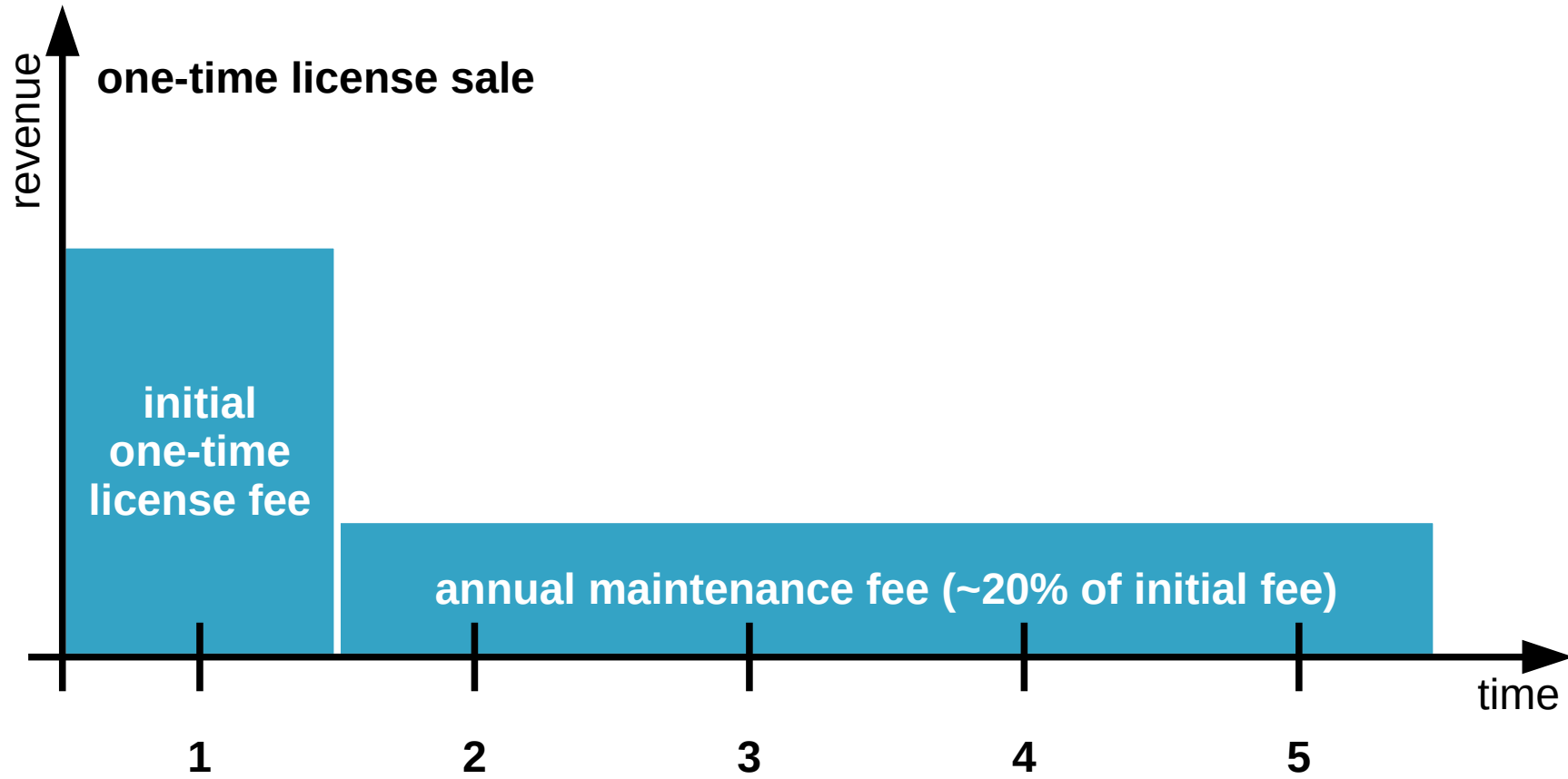


Continental  
Stages 2010

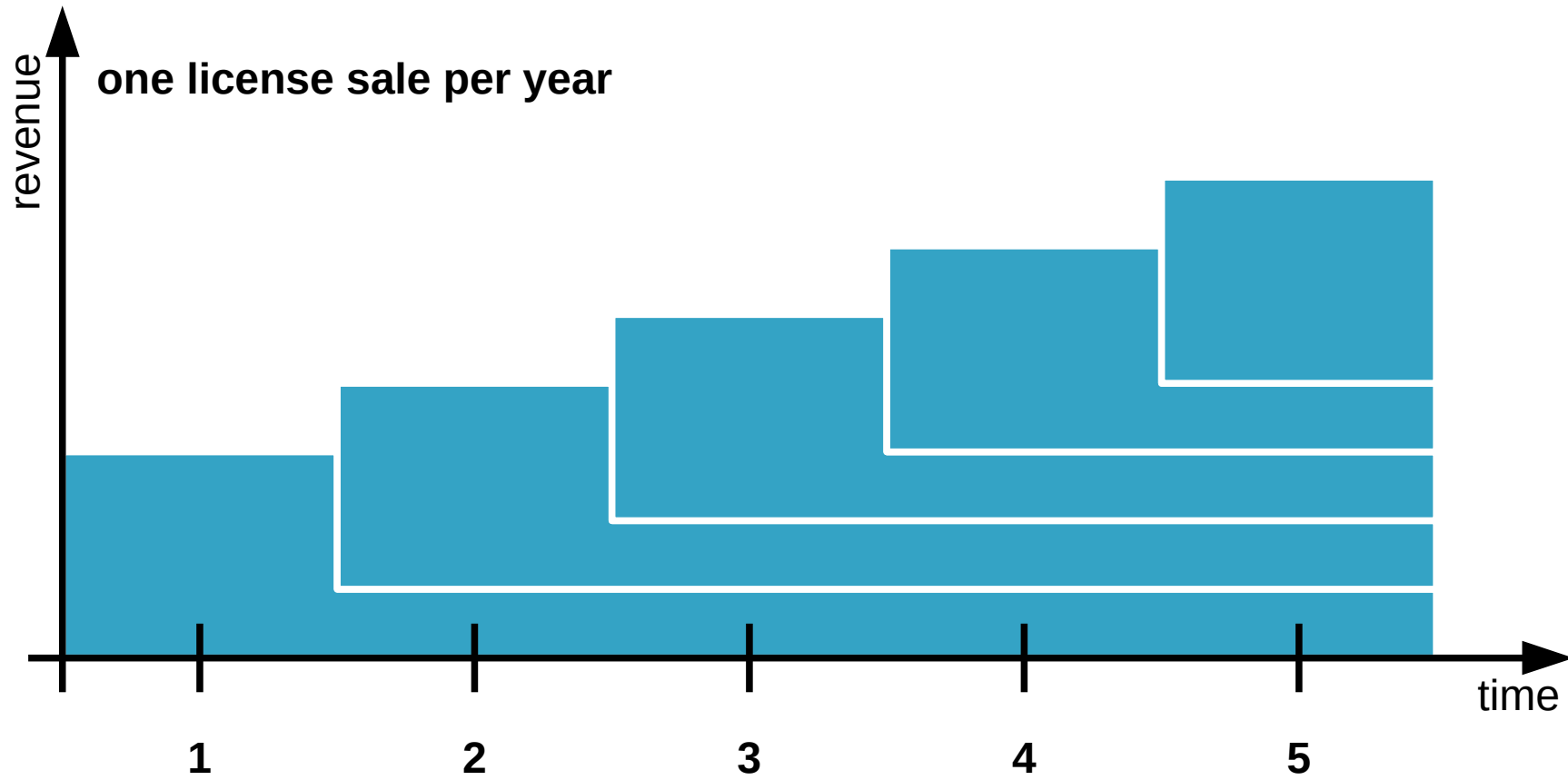
**Microsoft**



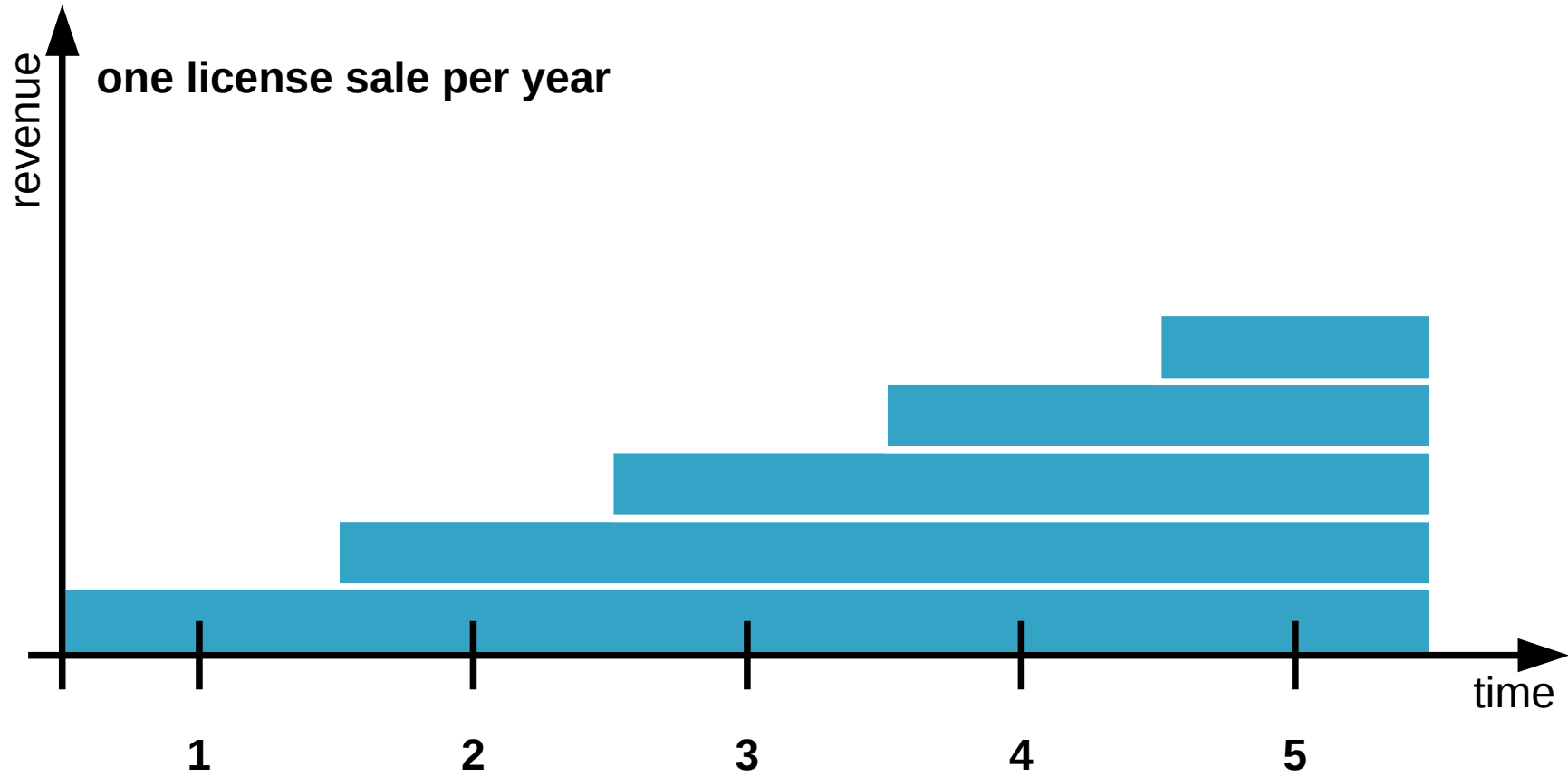
# Software Product Revenue



# Accumulating Traditional Software Product Revenue

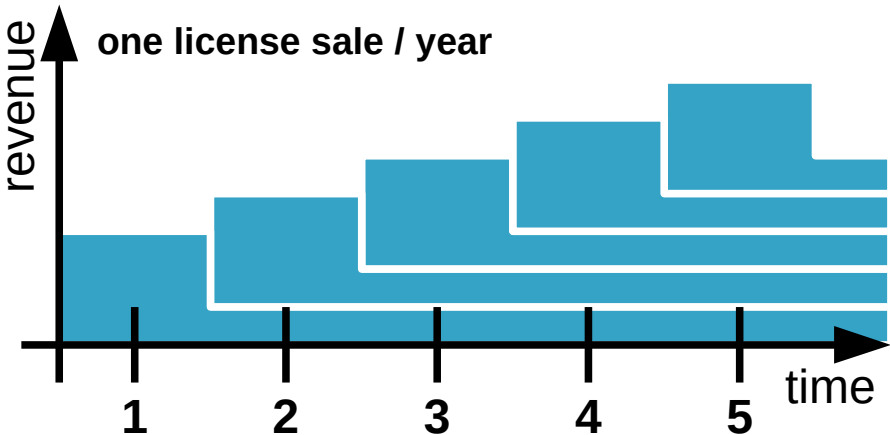
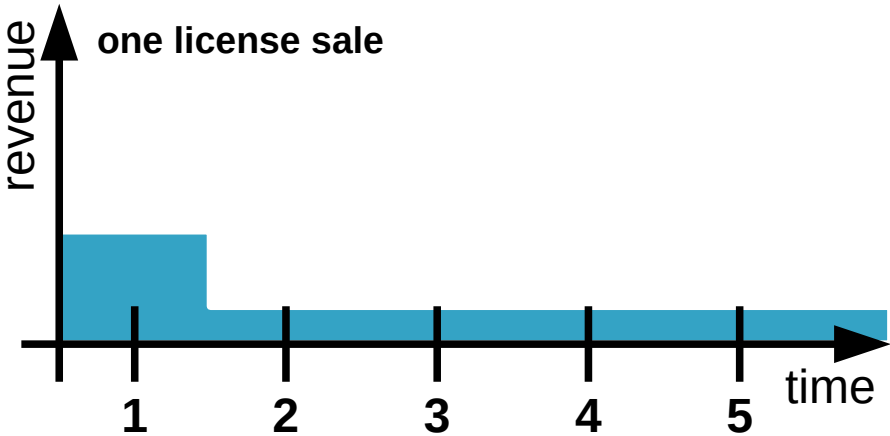


# Accumulating Software Subscription Revenue

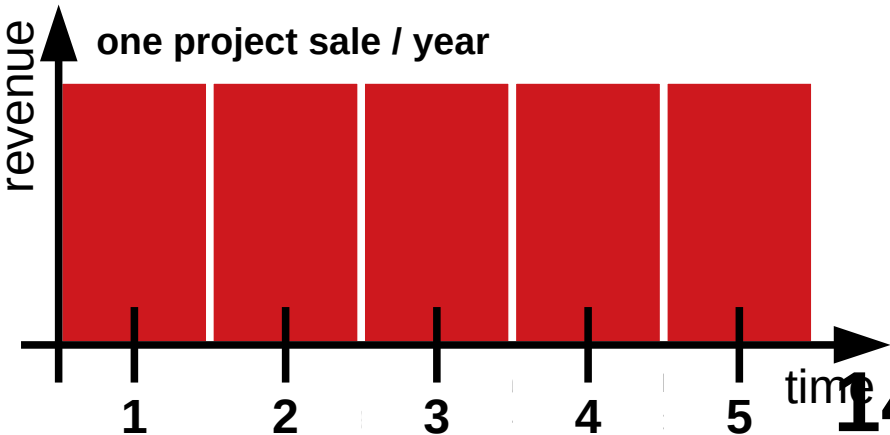


# Software Product vs. Project Revenue

## Product Revenue



## Project Revenue



# Software Product vs. Project Companies

	Consulting Firms (Custom Development)	Software Vendors (COTS Development)
Advantages	<ul style="list-style-type: none"><li>• Not capital intensive</li><li>• Can be started easily</li></ul>	<ul style="list-style-type: none"><li>• Stable maintenance revenue</li><li>• High market capitalization</li></ul>
Disadvantages	<ul style="list-style-type: none"><li>• Somewhat fragile revenue</li><li>• Little long-term stability</li><li>• High business volatility</li><li>• Limited scalability</li></ul>	<ul style="list-style-type: none"><li>• Hard to get started</li><li>• Requires upfront investment</li><li>• May be slow to react</li><li>• Most fail, few survive</li></ul>

Whole product

Basic product

Usage rights

Software (core product)

- Core software
- Additional software (extensions + plug-ins, tools and utilities, integrations)

Complementary materials

- Documentation
- Training materials

Self-help services

- Forums, mailing lists
- Help and chat agents
- On-line tutorials

Pricing of usage rights

- Quantity: User, machine, time, ...
- Duration: Perpetual, time-limited, ...
- Structured: Initial license fee, regular maintenance fee

Guarantees (“insurance”)

- Fitness for use, certification
- Indemnification

Pricing of guarantees

- By damage: Loss of business, fines received
- Structured: Levels / bands, formula

Support services

- Hot-line support
- On-site servicing

Pricing of support services (SLAs)

- By availability: Incident-based, 9x5, 24x7
- By quality: First-level, second-level, third-level

Training

- In-house training
- Off-site training

Pricing of training

- Fixed fee
- Per participating person

Consulting

- Technical implementation services
- Strategic solution consulting

Pricing of consulting

- Fixed fee
- Time and materials

Operations

- Provision of SaaS (managed service)

Pricing of operations

- Quantity: Users, resources, ...
- Duration: Always time-limited
- Structured: Set-up, subscription



# Matching the Market

- Bundling of product features
- Addressing different markets
- Utilizing different channels

# Commercial Open Source Products [WR13]

	Web Store	Direct Sales	
Open Source Community	DOC INC UTIL		<b>DOC</b> documentation <b>INC</b> incident-based support <b>UTIL</b> utilities
Enterprise Customers		LIC UPD UTIL DOC TRN 24x7	<b>LIC</b> commercial license <b>UPD</b> update service <b>TRN</b> training ... <b>24x7</b> 24x7 hotline
ISV / OEM		LIC UTIL DOC TRN 24x7	

# Review / Summary of Session

- Software products
- Core, basic, whole product
- Products vs. projects

# Thank you! Questions?

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