

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



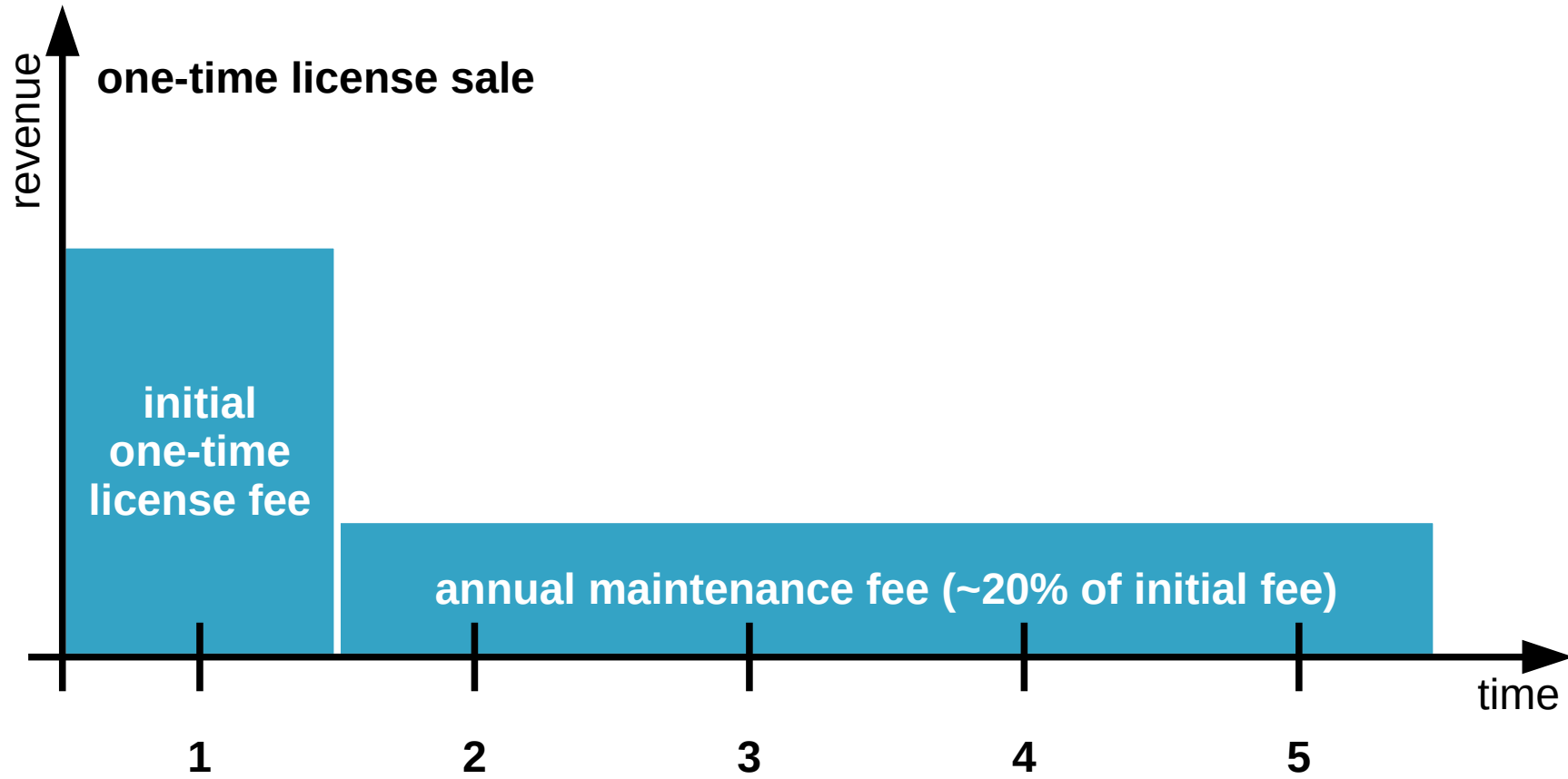
German SME
Sugar 2010



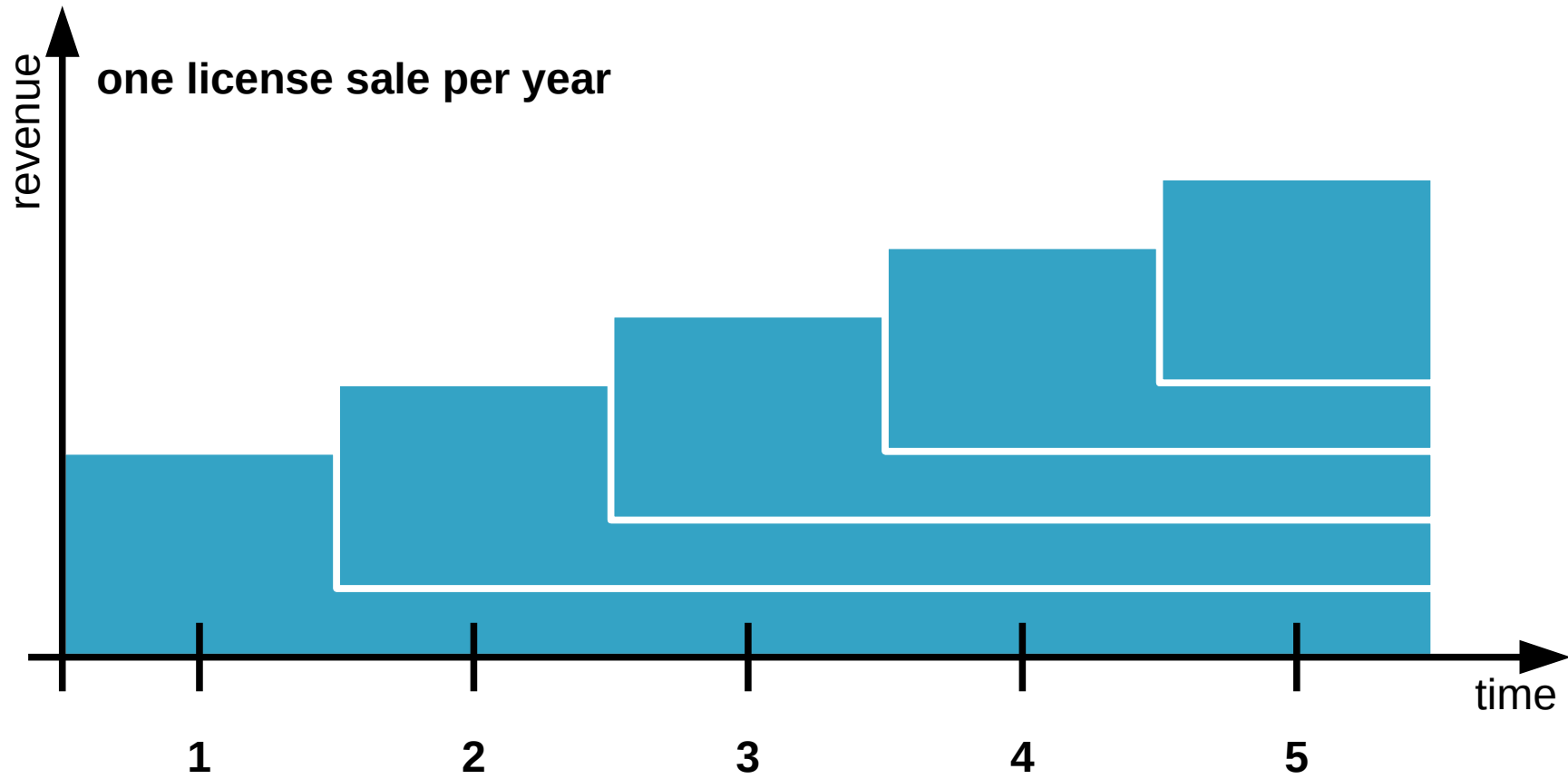
Continental
Stages 2010



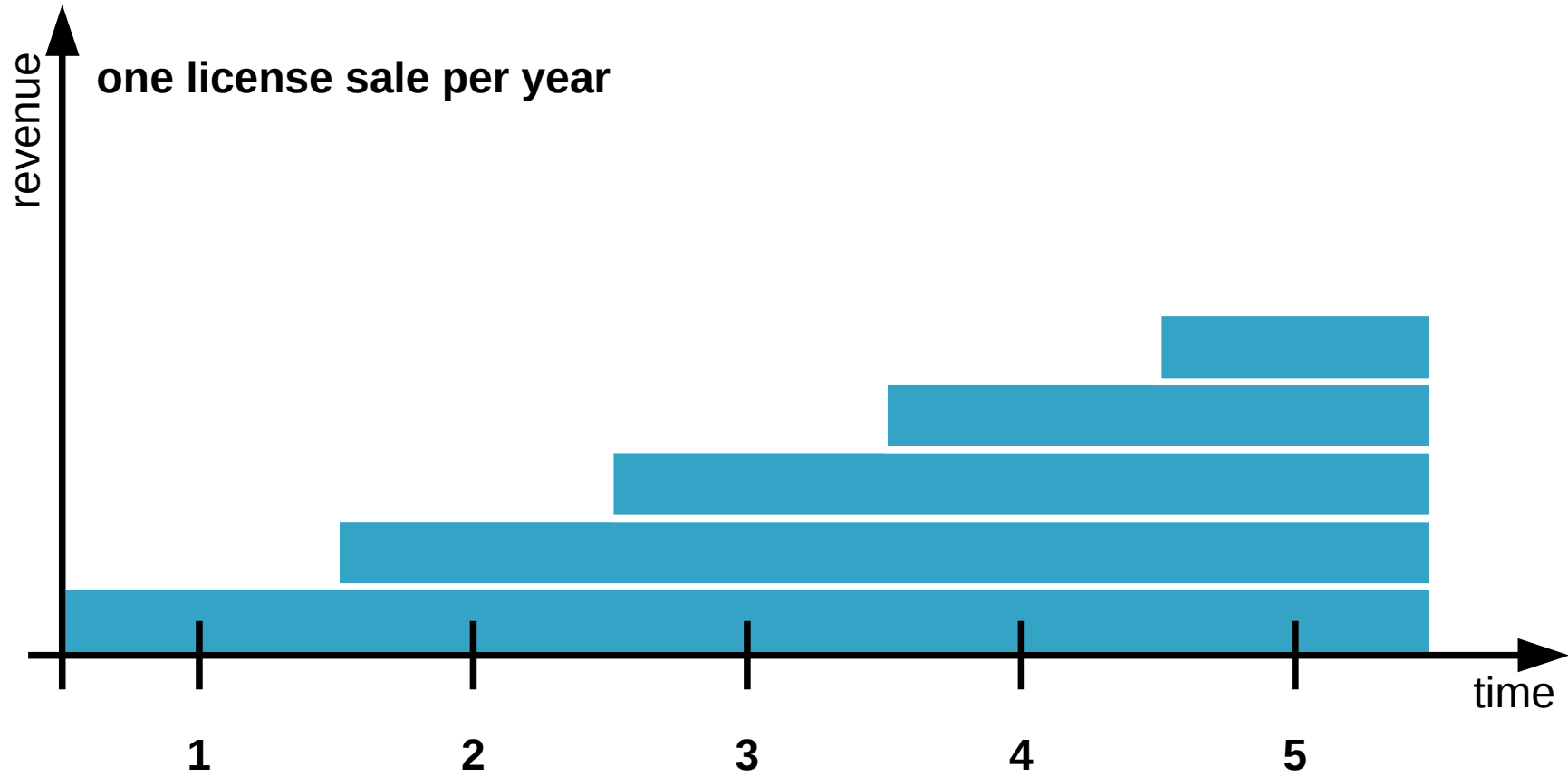
Software Product Revenue



Accumulating Traditional Software Product Revenue

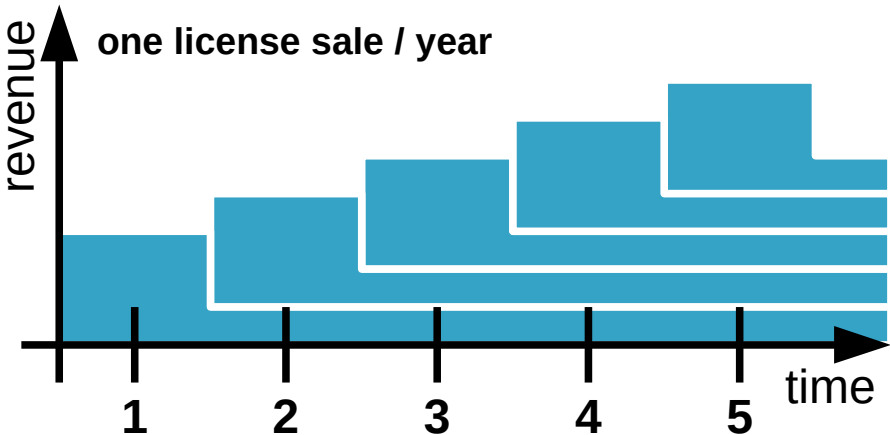
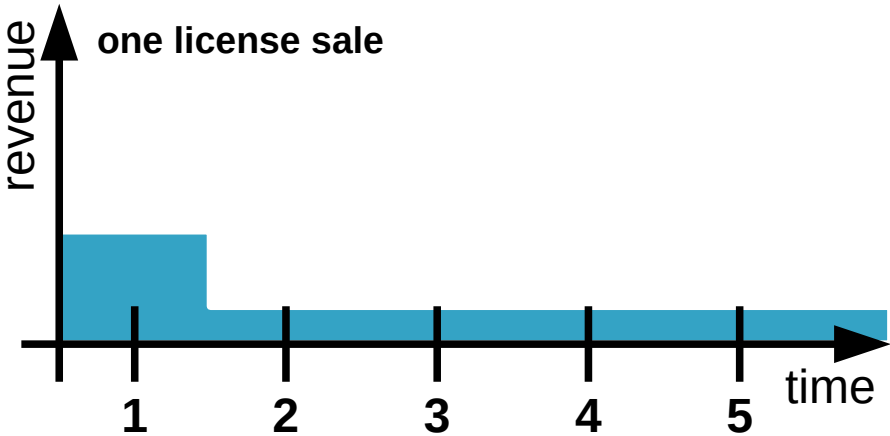


Accumulating Software Subscription Revenue

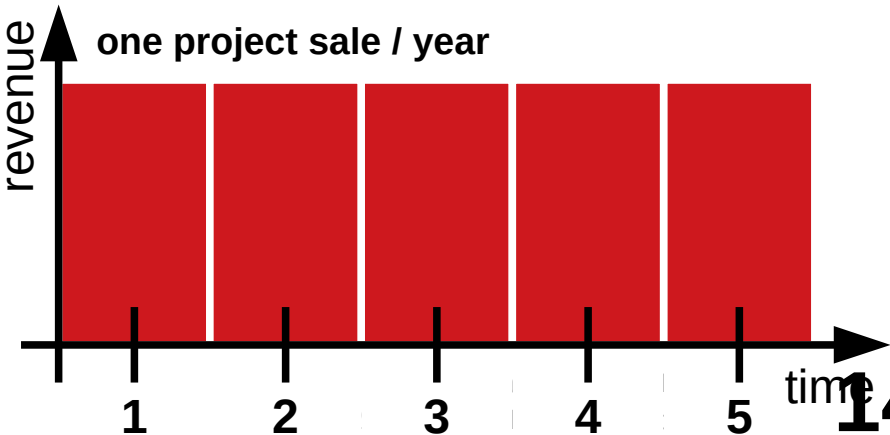


Software Product vs. Project Revenue

Product Revenue



Project Revenue



Software Product vs. Project Companies

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

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	<div>DOC</div> <div>INC</div> <div>UTIL</div>		<div>DOC</div> documentation
Enterprise Customers		<div>LIC</div> <div>UPD</div> <div>UTIL</div> <div>DOC</div> <div>TRN</div> <div>24x7</div>	<div>INC</div> incident-based support
ISV / OEM		<div>LIC</div> <div>UTIL</div> <div>DOC</div> <div>TRN</div> <div>24x7</div>	<div>UTIL</div> utilities
			<div>LIC</div> commercial license
			<div>UPD</div> update service
			<div>TRN</div> training
			...
			<div>24x7</div> 24x7 hotline

Review / Summary of Session

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

Thank you! Questions?

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