Software Products

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PROD B01

Software is eating the world

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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 life 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 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

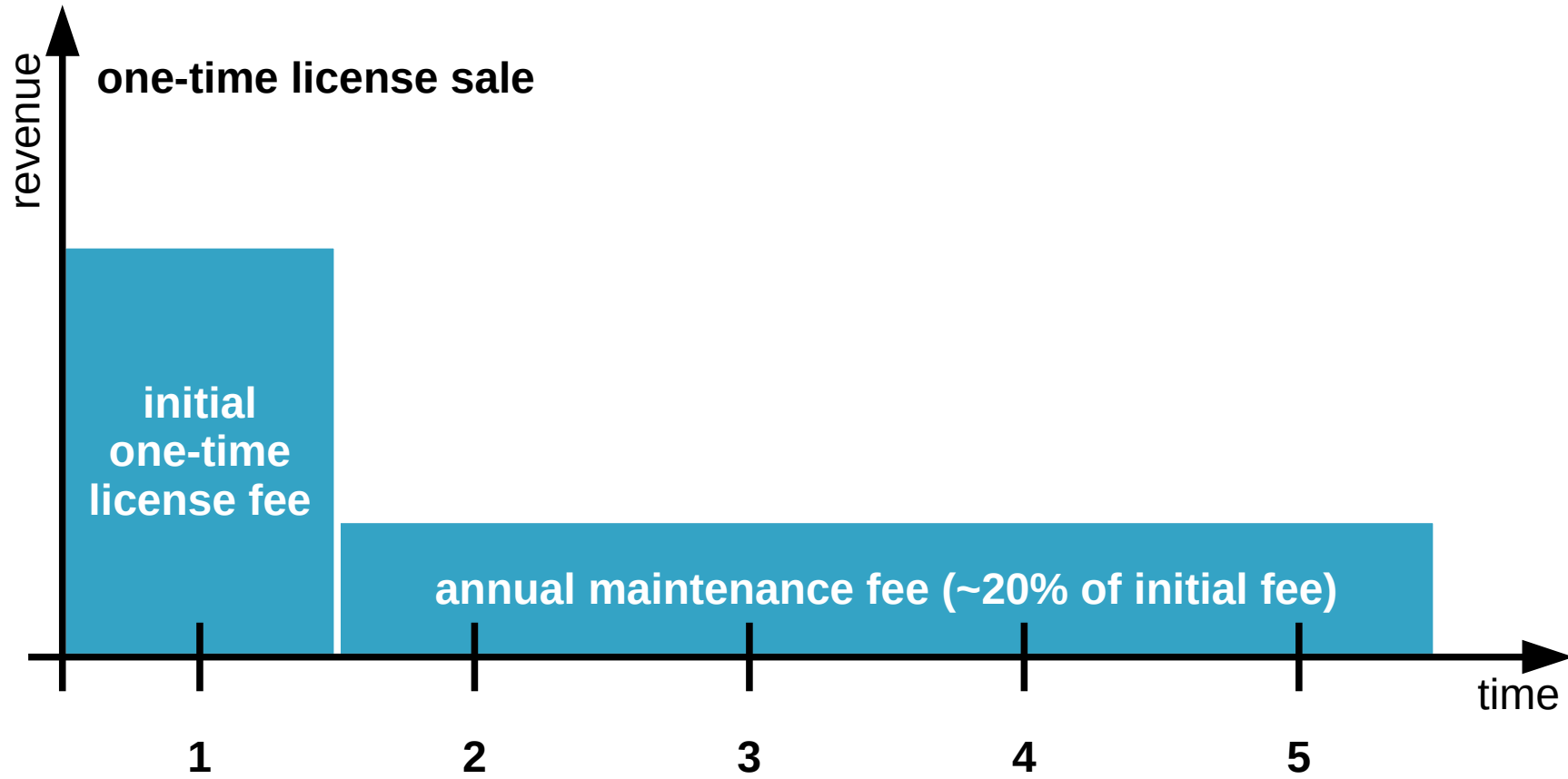| Software Vendor	Product	Consulting Firm	Project
SAP	SAP Business One	accenture *High performance. Delivered.*	**Widget Corp. BI Impl. 2008**
SUGARCRM COMMERCIAL OPEN SOURCE	SUGARCRM COMMERCIAL OPEN SOURCE	it-novum Open-minded Business Solutions	**German SME Sugar 2010**
methodpark	stages	methodpark	**Continental Stages 2010**
Microsoft	Microsoft Office		

Software Product Revenue

one-time license sale

initial one-time license fee

annual maintenance fee (~20% of initial fee)

revenue

time

1   2   3   4   5

Accumulating Traditional Software Product Revenue

one license sale per year

revenue

time

1   2   3   4   5
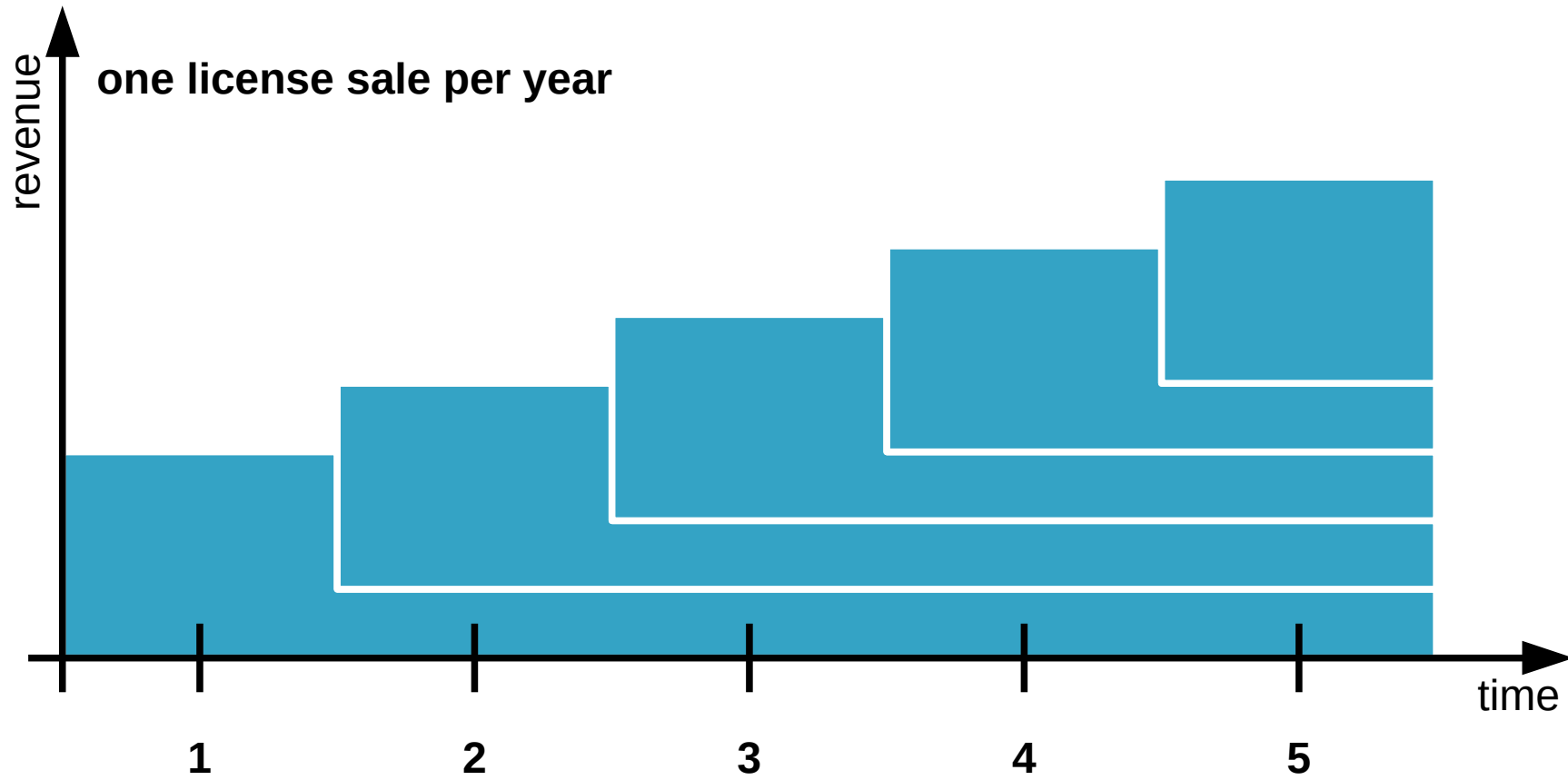
Accumulating Software Subscription Revenue

one license sale per year

revenue

time

1   2   3   4   5
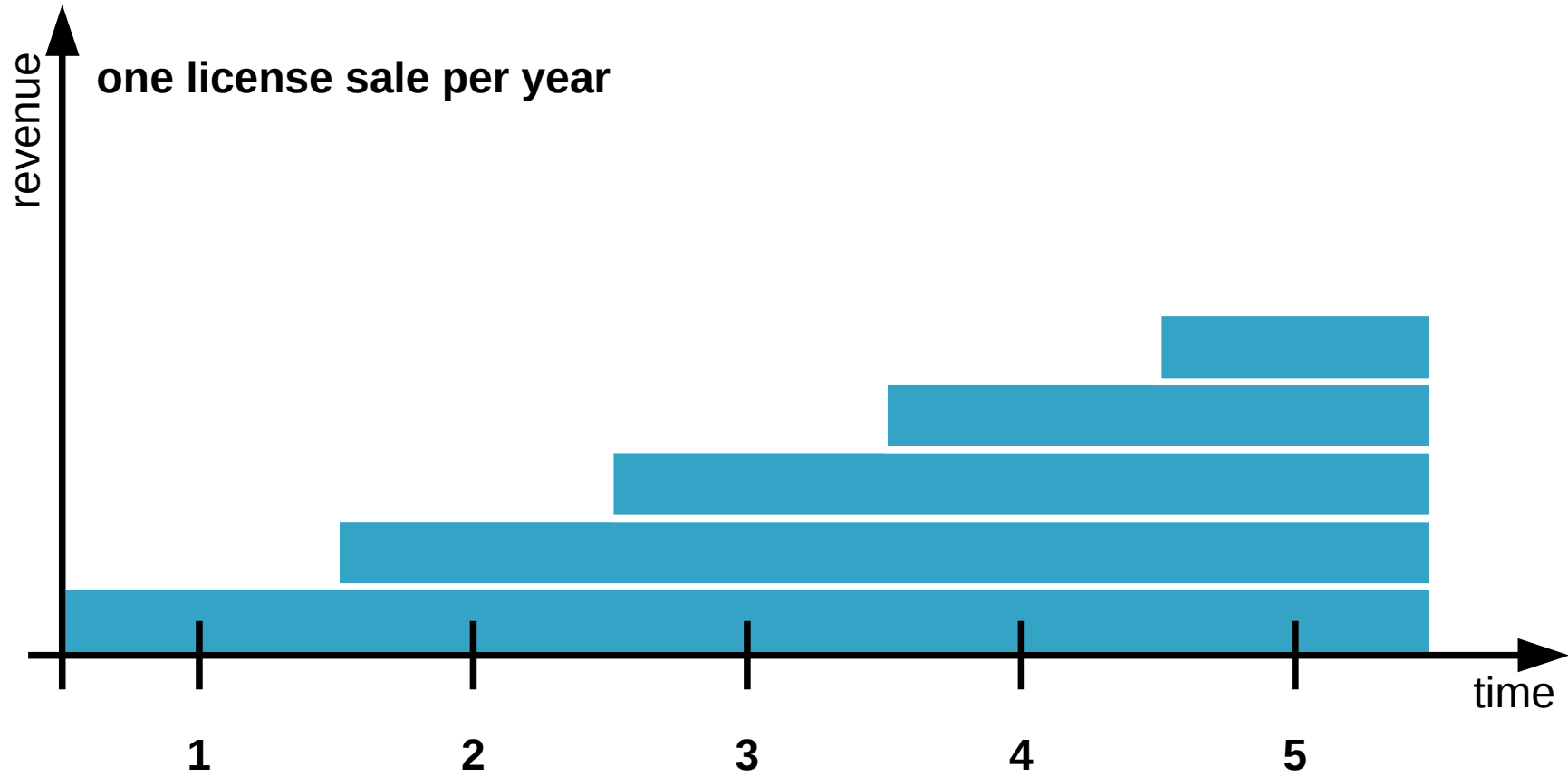
Software Product vs. Project Revenue

Product Revenue — one license sale / one license sale / year

Project Revenue — one project sale / one project sale / year

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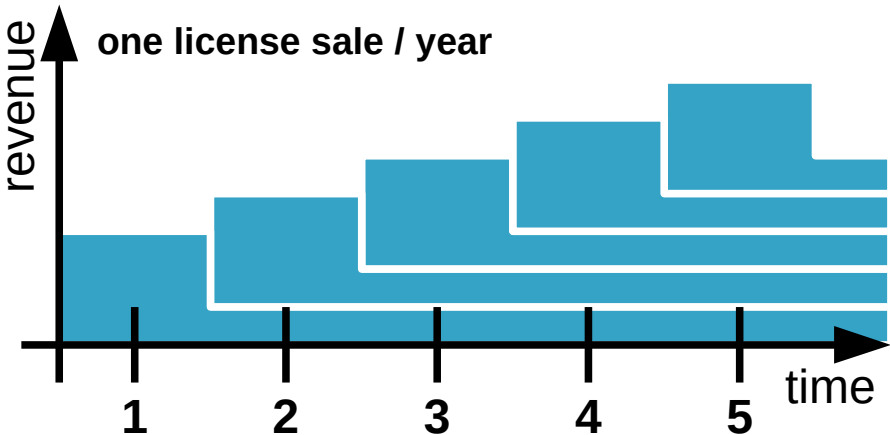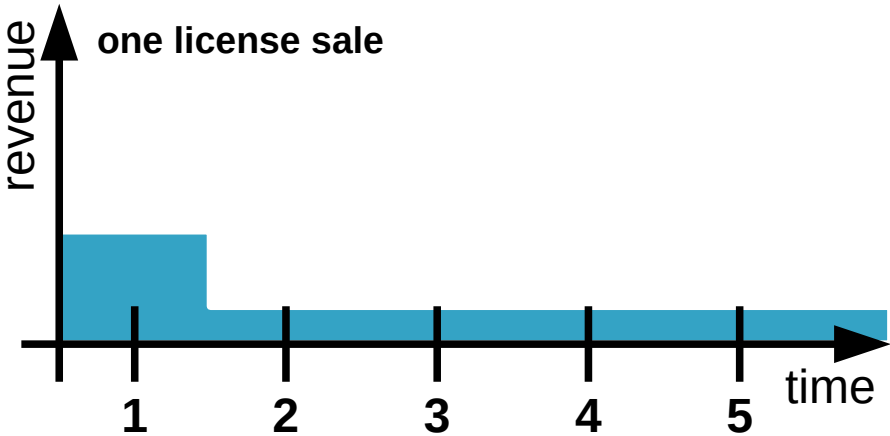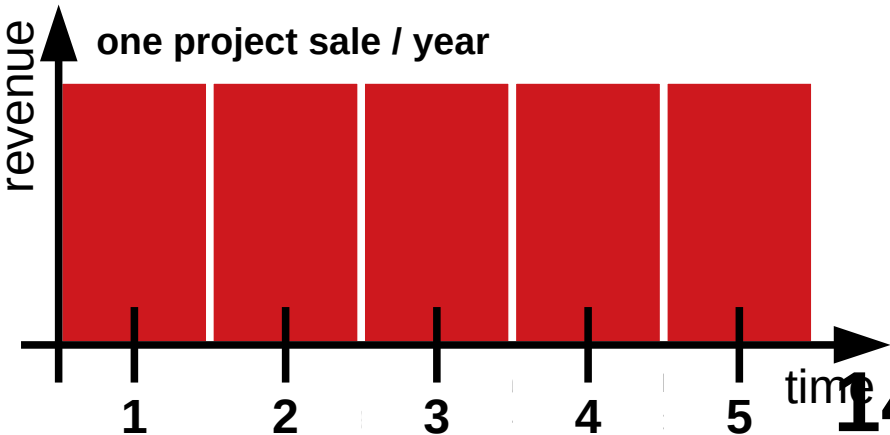
Software Product vs. Project Companies

	Consulting Firms (Custom Development)	Software Vendors (COTS Development)
Advantages	• Not capital intensive • Can be started easily	• Stable maintenance revenue • High market capitalization
Disadvantages	• Somewhat fragile revenue • Little long-term stability • High business volatility • Limited scalability	• 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 utiltiies, 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	
Enterprise Customers		LIC UPD UTIL / DOC TRN 24x7
ISV / OEM		LIC UTIL / DOC TRN 24x7

DOC documentation

INC incident-based support

UTIL utilities

LIC commercial license

UPD update service

TRN training

...

24x7 24x7 hotline

Review / Summary of Session

- Software products

- Core, basic, whole product

- Products vs. projects

Thank you! Questions?

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DR

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