Software Vendors

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COSS B03

Agenda

1. Products and vendors
2. Projects vs. product firms
3. Business functions
4. Core business processes
5. The income statement

1. Products and Vendors

The Main Types of Industry Players (Recap)

- **Standard product providers**
  - **(Independent) software vendors (ISVs)**
    - Produce software products ("standard software" or "commercial off-the-shelf software")

  - **Software service providers (e.g. "Internet companies")**
    - Operate any form of software (and hardware)

- Software consulting firms
  - Development services firms
    - Produce custom software

  - Implementation services firms
    - Configure software products for use by customers

- Regulatory bodies

  - Regulate the industry

Core, Basic, and Whole Product (Recap)

- **Core product** =
  - Core software
  - Additional functionality
  - Complementary artifacts
  - Self-help services

- **Basic product** = core product +
  - Fitness for use / certification
  - Indemnification
  - Support services

- **Whole product** = basic product +
  - Training
  - Consulting
  - Operations

2. Product vs. Project Firms

Enterprise Software Products and Projects

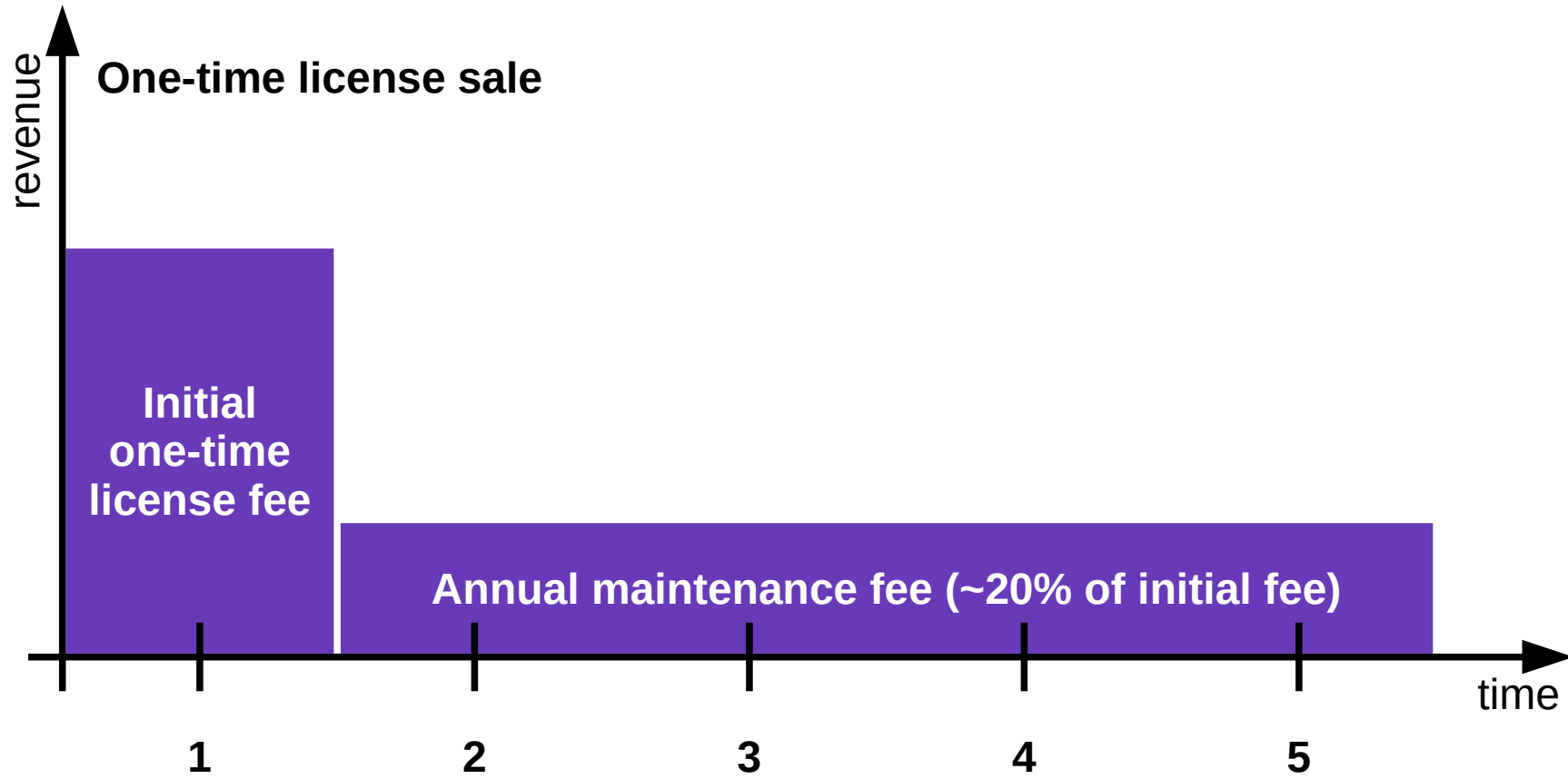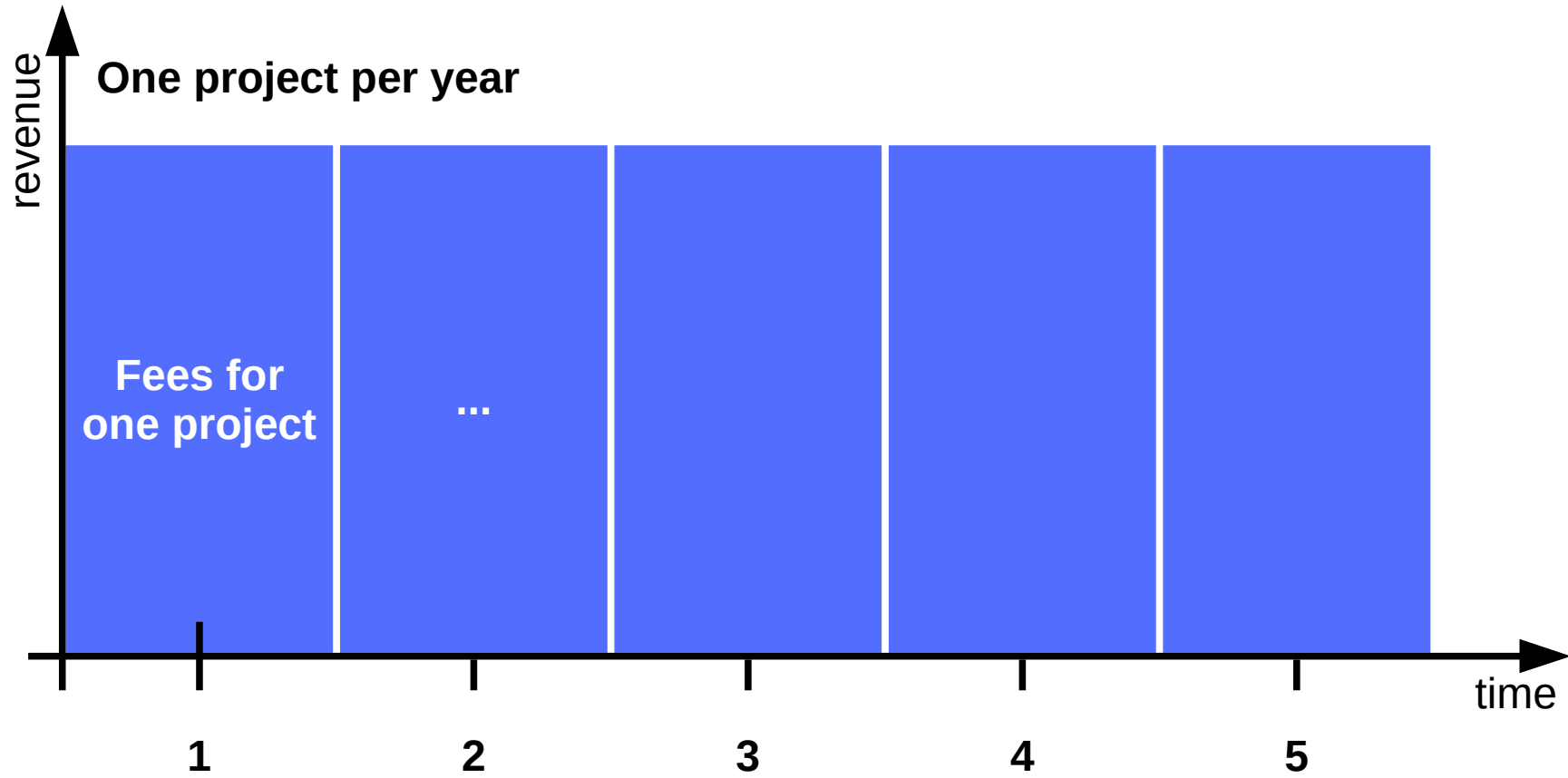| Software Vendor	Product	Consulting Firm	Project
SAP	SAP Business One	accenture *High performance. Delivered.*	**Widget Corp. BI Impl. 2008**
SUGARCRM COMMERCIAL OPEN SOURCE	SUGARCRM COMMERCIAL OPEN SOURCE	it-novum Open-minded Business Solutions	**German SME Sugar 2010**
methodpark	stages	methodpark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

Software Product Revenue
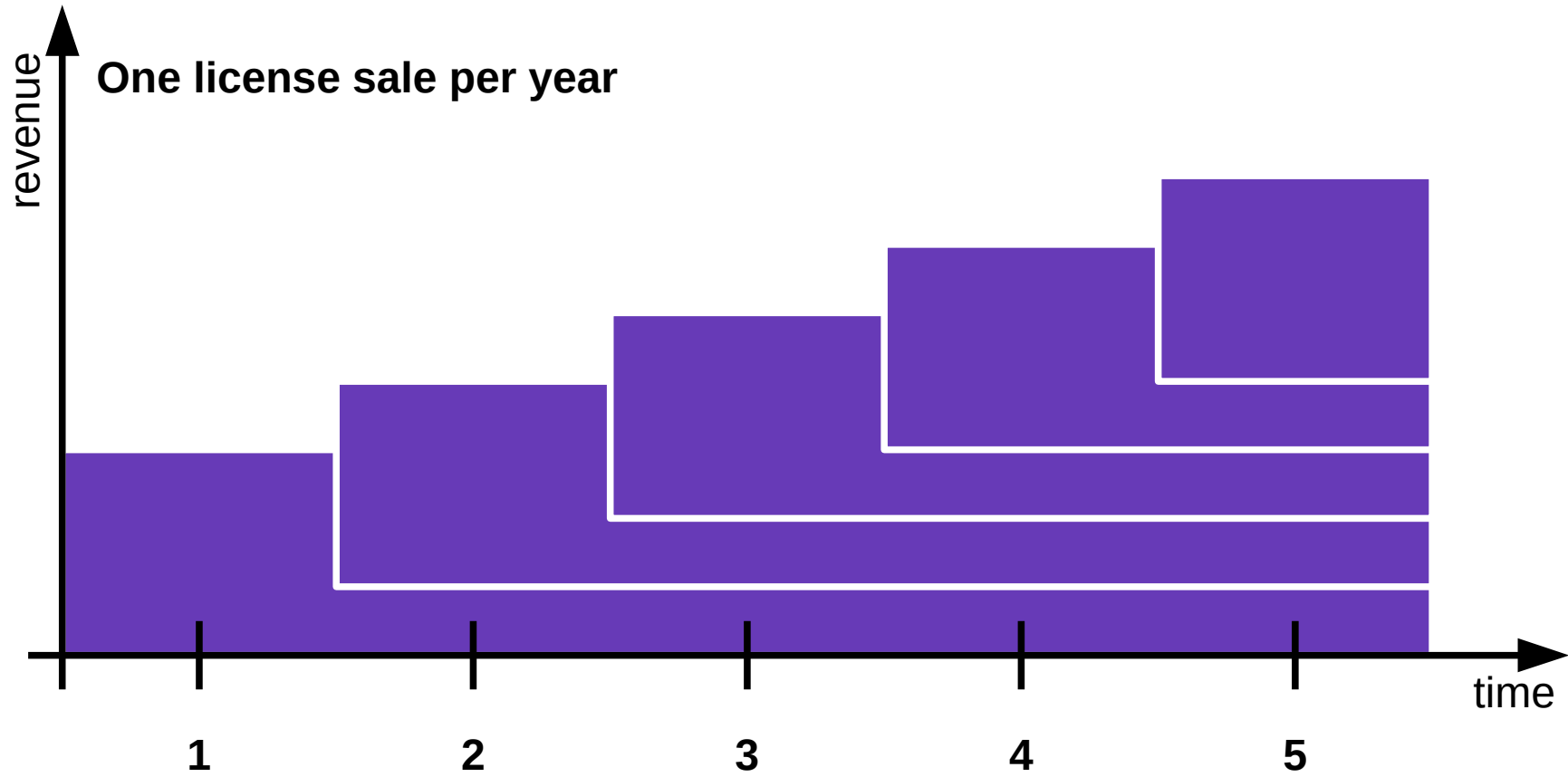
Accumulating Software Subscription Revenue

One subscription sale per year
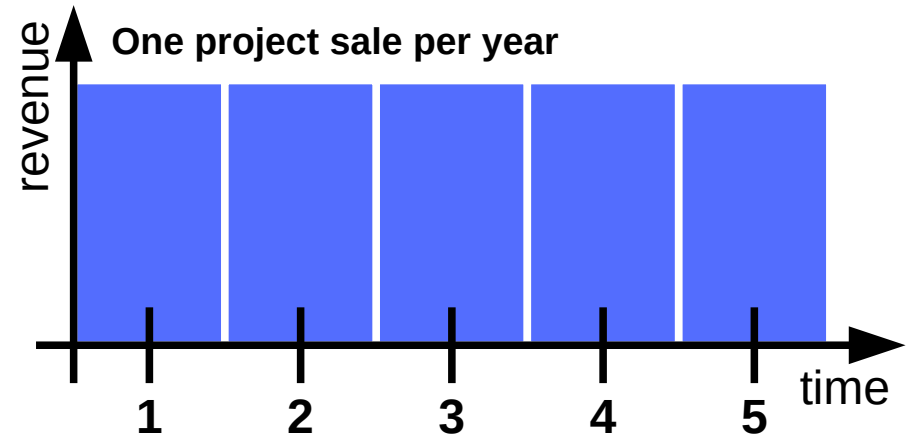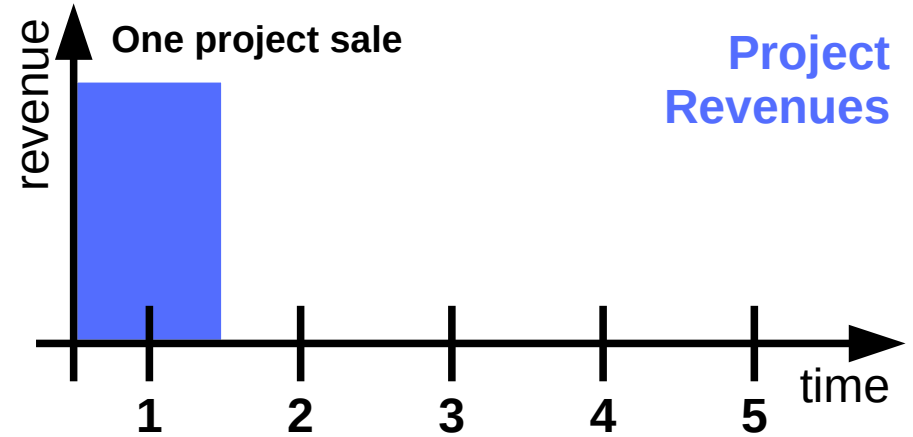
revenue

time

1 2 3 4 5
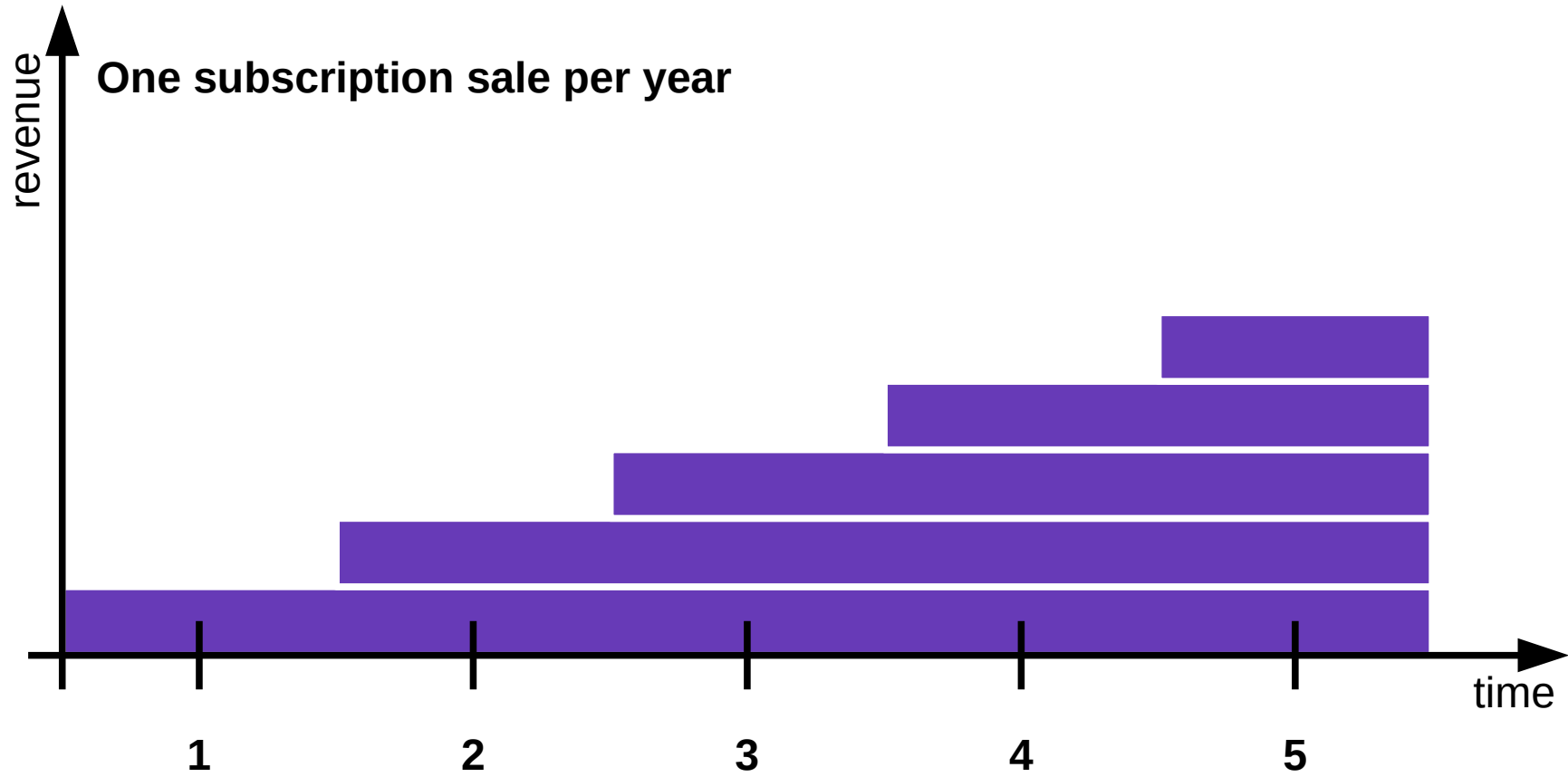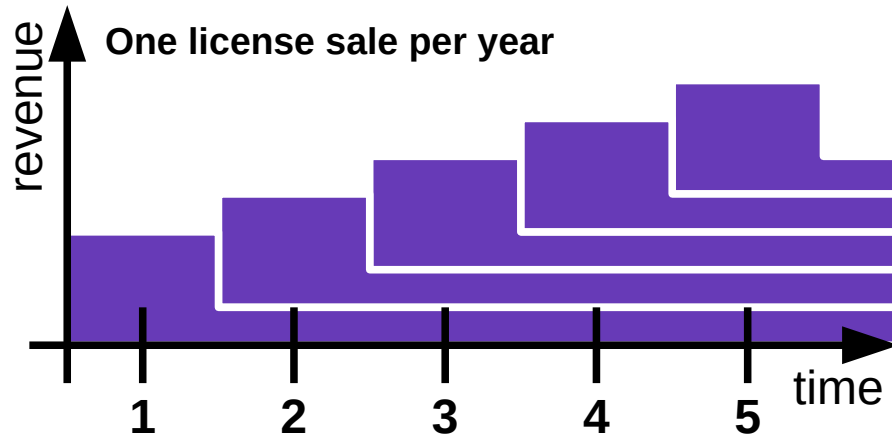
Software Projects

- A **project** is an undertaking that
    - Has a process with a defined start and a defined end

- A **software project** is a project where
    - Revenues correlate with performed labor
        - Fixed price vs. actual labor

    - Accounted for as revenue and expenses

- Some examples projects
    - Bachelor and Master theses
    - Customizing SAP for a customer

One project per year

Fees for one project

...

revenue

time

1   2   3   4   5

Software Product vs. Project Revenue
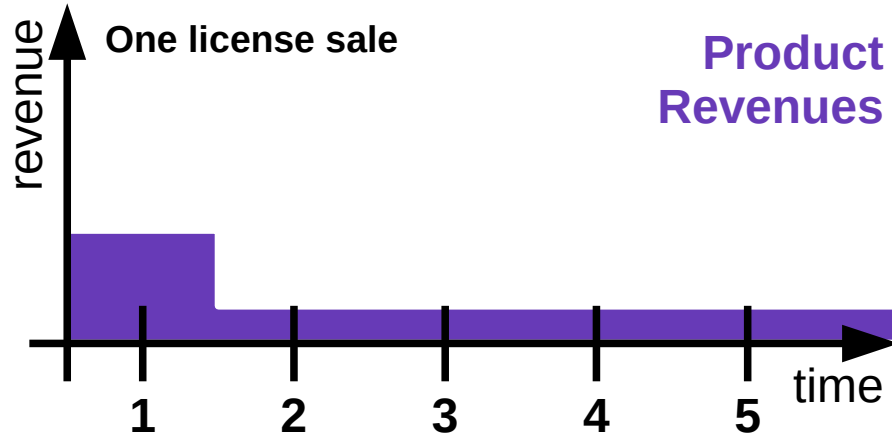
Software Product vs. Project Firms

	Software vendor	Consulting firm
Advantages	• Stable revenue • High multiples	• Not capital intensive • Can be started easily
Disadvantages	• Hard to get started • Requires investment • May be slow to react • Most fail, few survive	• Somewhat fragile revenue • Less long-term stability • High business volatility • Limited scalability

3. Business Functions

Organizational Hierarchy

Management					
Sales and Marketing		Product Management (Inbound Marketing)	Engineering		Other (HR, Office, Finances, ...)
Sales	(Outbound) Marketing		Development	Support	

Profit Center vs. Cost Center

- Profit center
  - Generates revenue ("makes money")
  - Reason why company exists

- Cost center
  - Costs money
  - Hygiene factor

Product Management (Business Functions 1 / 5)

- Roles / titles
  - Strategic product manager
  - Technical product manager (e.g. Scrum product owner)

- Responsibilities
  - Identify and justify new business opportunities
  - Define product vision, roadmap, features

Development (Business Functions 2 / 5)

- Roles / titles
  - Developer
  - Software architect [1]
  - Engineering manager

- Responsibilities
  - Design, implement, and evolve product
    - May also operate product

  - Provide third-level support

Support (Business Functions 3 / 5)

- Roles / titles
  - Support engineer
  - Support manager

- Responsibilities
  - Respond to support requests

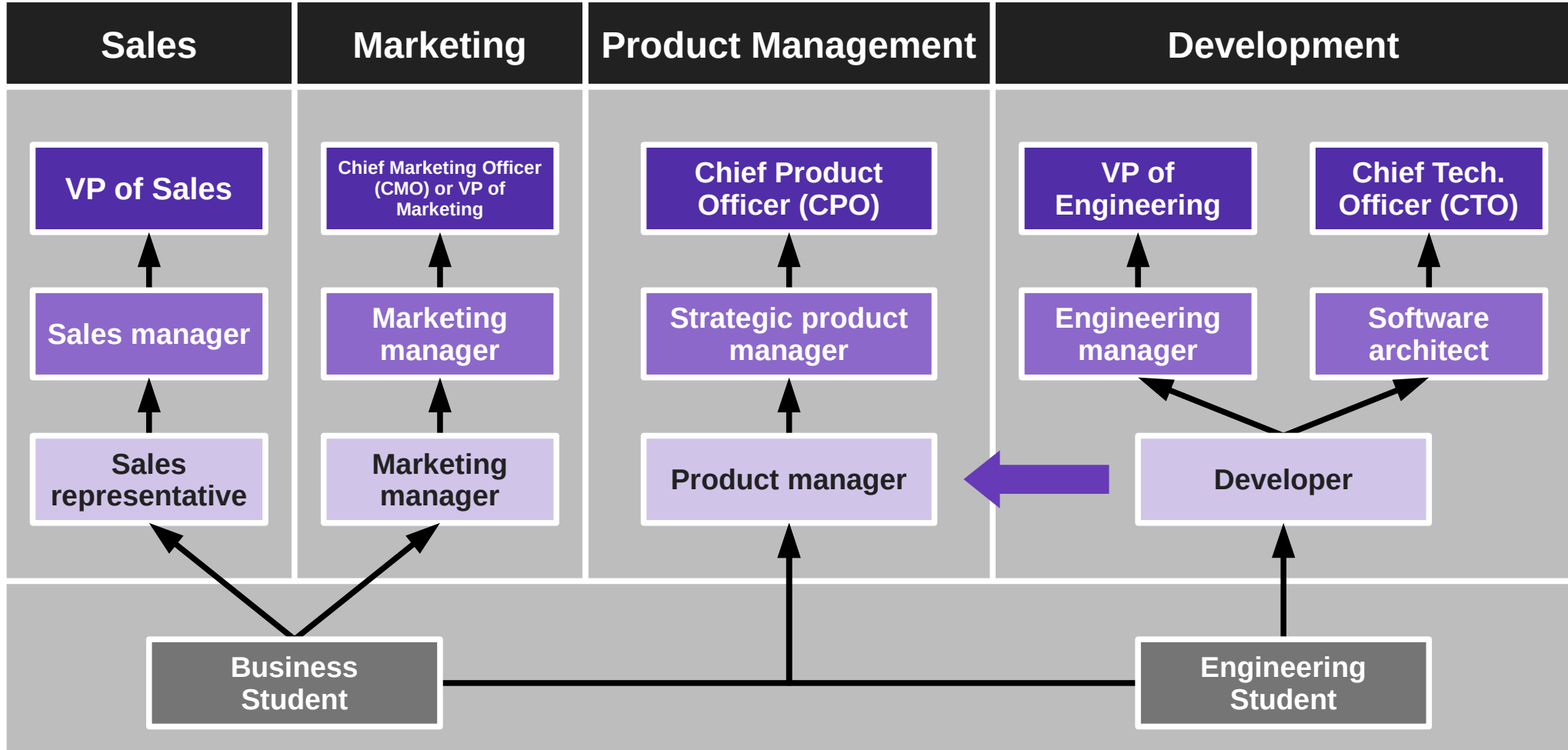# Marketing (Business Functions 4 / 5)

- Roles / titles
  - (Marketeer)
  - Marketing manager

- Responsibilities
  - Generate leads, qualify them
  - Make product known (campaigns, webinars, etc.)

Sales (Business Functions 5 / 5)

- Roles / titles
  - Sales person / representative
  - Sales manager
  - Account manager

- Responsibilities
  - Turn leads into customers
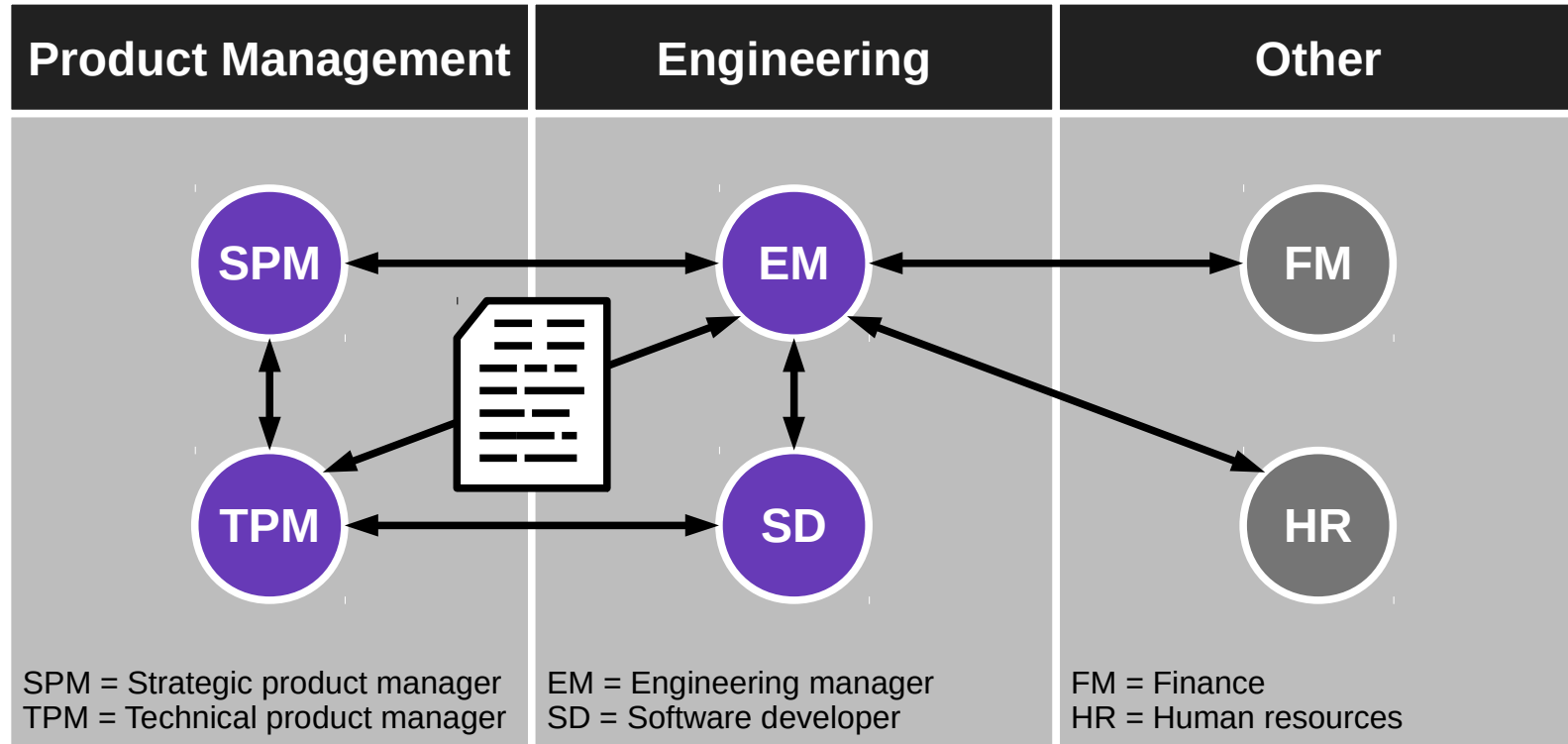
4. Core Business Processes

Core Business Processes

1. Product development
2. Customer acquisition
3. Product operations
4. Product support

Product Management	Engineering	Other
SPM	EM	FM
TPM	SD	HR

SPM = Strategic product manager
TPM = Technical product manager
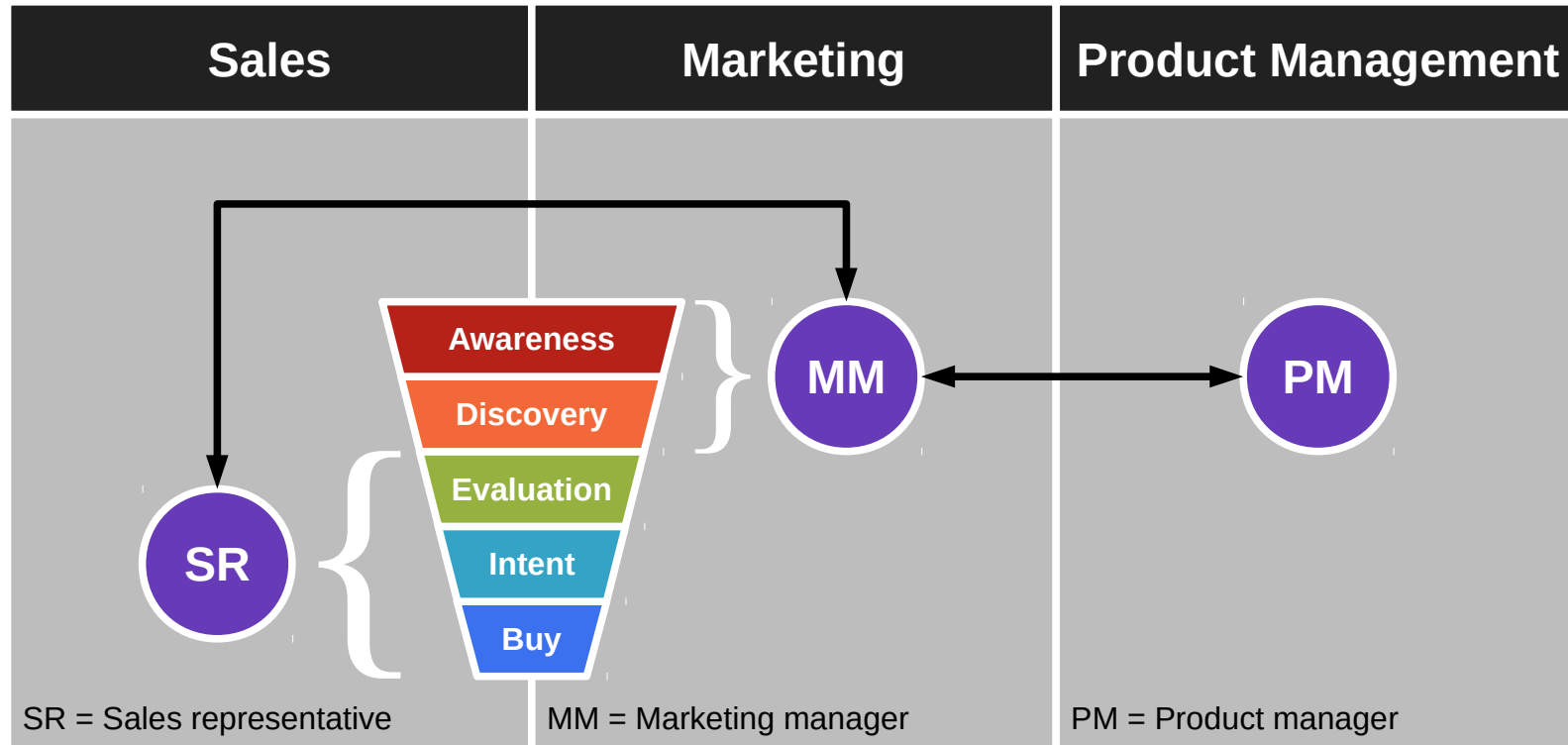
EM = Engineering manager
SD = Software developer

FM = Finance
HR = Human resources

Problems and Solutions to Product Development

- Technical product managers are nowhere to be found
    - The engineering manager usually takes this role

- The IT department gets stuck to product development
    - Just say no (you can't be both a cost and a profit center)

Sales	Marketing	Product Management

Funnel stages: Awareness, Discovery, Evaluation, Intent, Buy

SR → { Evaluation, Intent, Buy }

MM → { Awareness, Discovery }

MM ↔ PM

SR = Sales representative
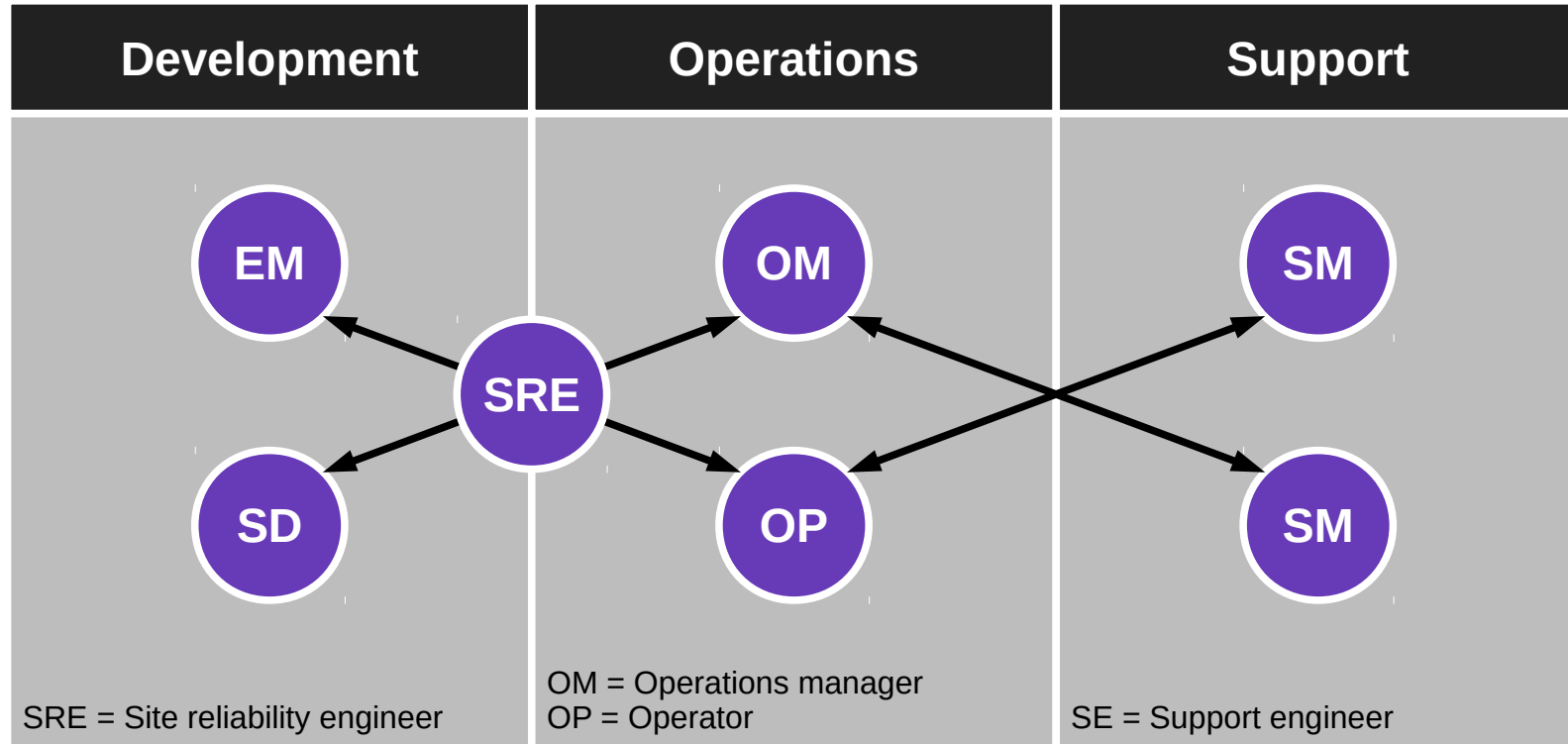
MM = Marketing manager

PM = Product manager

Problems and Solutions to Customer Acquisition

- Marketing people don't generate leads
  - Strategic product manager reviews segments and channels

- Sales people don't understand the new product
  - Explain better, provide stronger incentives, split org. unit

- Sales people keep selling the old product
  - Change incentives, split org. unit

| Development	Operations	Support
EM	OM	SM
SRE		
SD	OP	SM

SRE = Site reliability engineer

OM = Operations manager
OP = Operator

SE = Support engineer

Problems and Solutions to Product Operations

- Your service simply does not meet reliability requirements
  - In engineering, hire differently
    - Hire for cloud computing skill set
    - Hire for site reliability engineering skill set

Product Support (Business Processes 4 / 4)

Product Management	Support	Dev Ops

SPM ⟷ SM ⟷ EM

SPM ↕ TPM

SM ↕ SE

TPM ⟷ SE ⟷ OP
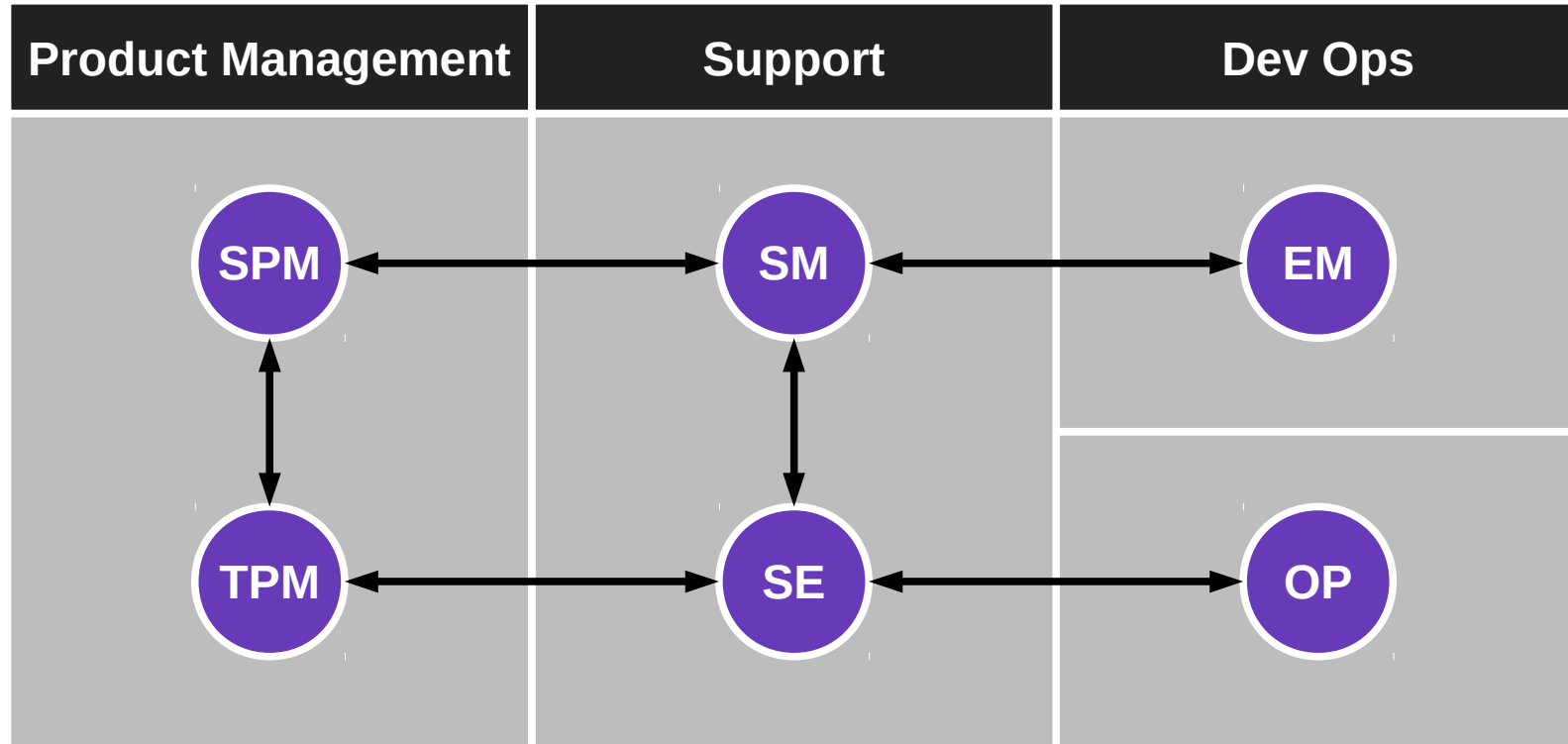
5. The Income Statement

The Three Statements of Financial Accounting

- Balance sheet
  - A summary (annual) statement of assets, liabilities, and equity

- Income statement
  - A summary (annual) statement of revenues and expenses

- Cash-flow statement
  - A summary (annual) of flow of cash (and cash equivalents)

The Income Statement

- Basic vocabulary
  - Revenues = income
  - Expenses = costs
  - Profit = revenues - expenses
  - Loss = negative profits

	2011 ($m)	Percentage
Revenues	$1.657	100%
Subscription and Support	$1.551	94%
Professional Services etc.	$106	6%
Cost of Revenues	$324	20%
Subscription and Support	$208	13%
Professional Services etc.	$116	7%
Gross Profit (and Gross Margin)	$1.333	80%
Operating Expenses		
Research and Development	$188	11%
Sales and Marketing	$792	48%
General and Administrative	$256	15%
Total Operating Costs	$1.236	74%
Operating Profit (and Operating Margin)	$97	6%

Source: Michael A. Cusumano. Reflecting on the Facebook IPO. CACM 10, 2012.

Summary

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2. Projects vs. product firms
3. Business functions
4. Core business processes
5. The income statement

Thank you! Questions?

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