Software Business

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Nambisan (2001) in his article, *"Why Service Businesses are not Product Businesses"*, discusses the differences between service and product businesses. The article was written in early 2001 before cloud software (aka cloud computing) became popular. This essay adds cloud software to the comparison made by Nambisan.

Background

Software businesses are divided into two main types: **software product** and **software service**. Software products businesses aim at selling software to businesses and generate revenue from selling upgrades to the customers. Software services businesses offer services and consulting related to software development. The popularity of **cloud computing** has changed the software service industry and its reliance on sharing of resources achieves coherence and economies of scale.

Key Issues Compared to Cloud Computing

Nambisan (2001) lists five key issues that differ for software products and software services:

Intellectual property rights (IPRs) For cloud computing businesses IPRs are more important than to traditional software service business, and the IPRs are more complicated for cloud computing businesses compared to software product businesses. IPRs company offering cloud computing has to prevent potential intellectual property theft. Also, avoiding patent and copyright infringements can be challenging because the computation and data may be computed and stored in multiple countries with different legislation (Laycock 2011, Cidon (2015)).

Product Complementary Traditionally software products companies were concerned with creating complementary products, but software service companies were less concerned about it. Cloud software changed this drastically and in today's world its expected that cloud software supports and enhances existing software. This is done through APIs, which there are two kinds, first and third party APIs. First party APIs are meant for the company's internal use and third-party APIs are meant for outside developers as a way to access the software and extend them to other applications (Francis 2017). For instance, Google offers multiple cloud software which is all complimentary to one another. Google calendar works in with Google maps and synchronizes with your android phone.

Returns From Scale Traditionally only software product companies were able to obtain higher returns from scale due to fixed-cost structure, but software services were not because of their variable-cost structure. Cloud computing, on the other hand, allows *economics of scale* because cloud computing is distributed over the *cloud* (i.e internet) and scales more like a product with fixed-cost structure while the variable costs are caused mostly by the required computing power.

Abstracting Knowledge and Integrating Technology Because of the *economics of scale*, cloud computing is more like a software product in regards to abstracting Knowledge and integrating technology. It attempts to capture the generic product knowledge

so that it is useful to as many users as possible while offering limited options for customization.

Connections With Users In regard to connections with users, cloud computing is also more like a software product business than traditional software service. Cloud computing businesses have long-term relationships with its customers rather than project-drive relationships.

Bibliography

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