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# Software Business

## CS-C3150 Software Engineering

The software business is one of the largest businesses in today's technological world. Thus, it is important to know the differences between software service businesses and software product business and upcoming cloud business.

To put it simply, software product business refers to the companies that build software as a product only to sell it into the market as a user product. On the other hand, software business refers to the companies that do not build software as a product to be directly used by customers, but as a service which can be used by other companies to build their software. According to Nambisan(2001), there are five key issues which differs software products from software services - returns from scale, product complementarity, intellectual property rights, abstracting knowledge, connections with users and integrating technology. For software product businesses the intellectual property rights are very important as compared to the others. In addition to intellectual property right, software product companies put a lot of effort to develop products which are compatible with existing and established software. Thus, product complimentary is also important for software product companies as compared to others. Since fixed cost predominates in the development of products, the returns received in the case of software product business is often much more as compared to the others where a variable cost structure make increases return for scale rare. In software product business companies has a long term relationship with the customers which makes it necessary to keep a good relationship and connections with them. On the other hand, the software service business has a more project-driven relationship which makes the relationship between companies and customers more formal and short-termed. (Nambisan, 2001)

Companies can decide to shift from one business to another. This is not a simple thing to do and sometimes this shift can bring failures. This decision completely depends upon how much you have assessed the market and if you are ready for the change. For example, when a service company transfers its business to products, it may end up developing a product with limited design flexibility which would be problematic for long-term product support. Service companies are in a different situation. Because their primary objective is to develop a system that is uniquely suited to the idiosyncrasies of the client's business, abstracting knowledge is

not emphasized. Also, they have to shift from transaction orientation to a development orientation. (Nambisan, 2001)

Another blooming sector is the cloud business sector. In this class of business, there is no need to install the software on the customer's hardware, but the software runs on a server and is accessible to the customers through a web browser or special-purpose client program. Unlike other businesses, in the cloud business sector, you don't need to take care of the software and its infrastructural requirements and cost, but you may have to pay a bit higher rent. Also, in the cloud software business, the same software is used by multiple customers which make it difficult for a particular customer to tailor it according to his/her needs. The advantage of this kind of software business is that the users don't have to worry about their system-specific installations. The users get rid of investment costs and don't have to pay for servers or infrastructure. For example, google docs, where we can use it on any device and all the data is stored on the servers. With respect to the provider, this business concept benefits him/her by getting rid of the distribution, maintenance cost and receiving happier feedbacks from customers due to a reduction in bug resolving time. However, there are disadvantages too. You, as a customer, don't have absolute privacy and security over your data. A very recent example would be of the Cambridge Analytica scam where data from a million Facebook profiles were used for political campaigns. Also, cloud software can be problematic if the service provider is not able to provide the services. How would you use google docs if one day the servers crash? Also, the servers may be offshore which could make large organization a little bit hesitant to provide their data outside the country. (Tyrväinen, no date)

## References

NAMBISAN, S., 2001. Why Service Businesses are not Product Businesses. *MIT Sloan Management Review* [online]. Summer, pp. 72-80. [viewed 7 December 2019] Available from: [https://mycourses.aalto.fi/pluginfile.php/1088106/mod\\_resource/content/7/Nambisan.pdf](https://mycourses.aalto.fi/pluginfile.php/1088106/mod_resource/content/7/Nambisan.pdf)

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