
How to Sell More through Your E-Business

A White Paper from Plimus, Inc.

Introduction

The greatest challenge faced by most independent software publishers is to grow revenue. With billions of pages, and millions of e-commerce outlets on the Internet, often publishers find themselves engaged in a fight to the bottom. They fight price war after price war until there is very little revenue left with which to fund the next stage of business evolution. As the unit cost of items shrinks, the size of the market dwindles and intense battles break out over share of a shrinking market.

Meanwhile, successful technology companies continue to expand. What is it that they are doing that allows them to grow revenues even as the lifecycle of innovative products seems to shorten on a daily basis?

Successful innovative technology businesses know how to expand their market reach, offsetting shrinking prices by expanding their reach; and extending the lifecycle of their products by reaching out to markets that are still underserved. Such a strategy not only slows the race to the price floor, but also provides valuable breathing room for developing next-generation products, which as a result have higher quality and therefore greater competitiveness in the next product cycle.

The process of extending the lifecycle of a digital product has several dimensions. Increasing geographical expansion by making the product available globally is often the first dimension pursued. Secondly, software publishers look to different licensing models that limit economic barriers to purchasing – this will include, for instance, selling different versions of the product, or providing a lease-to-own option. The third and most exciting innovation in the market is to implement dynamic licensing: erasing economic barriers to purchase by offering to license the product in whatever manner is compelling to the customer.

This White Paper examines the barriers to maintaining and expanding a marketplace; the strategies available today to extend and expand its boundaries; and future developments that will make this strategy available to independent software publishers seeking to establish themselves as strong competitors.

Barriers to E-Business Growth

In principle, the Internet removes most barriers to entry in the software business: simply launch a site, do a little marketing, and wait for the revenues to flow. The reality, of course, is anything but simple.

As the Internet grows beyond terabytes of information, simply getting one's site found can be challenging. And once prospects find your site, there is absolutely no guarantee that they will actually transact any business – nor, in our imperfect world, that you will even know they have stopped by to visit.

Despite the global pervasiveness of the Internet itself, transacting business worldwide can be a true challenge for an e-business, primarily due to the reach of the business itself. Prospects from around the world may be able to find your site – but there is no guarantee they speak the same languages, use the same currencies, or find your preferred payment method appealing. Failing to deliver a comfortable experience may doom you to miss out on sales.

Moreover, different slices of your market – whether segmented by geography, by industry or by job description – may not agree on the value of your offering. An innovative software offering may be well worth its face price to a power user, but may seem overpriced to a regular worker who really wants to use only 60% of its capabilities – or perhaps even use it just once, rather than keeping it available at all times.

Broadly speaking, then, we can look at the barriers as comprising three general categories:

- **Transactional:** The preference of the customer to do business in a manner that is not taken into account by the e-business;
- **Linguistic/Cultural:** The preference of the customer to do business in a language that is not taken into account by the e-business
- **Financial:** The preference of the customer to license software in a manner that is not taken into account by the e-business

In the next three sections, we will take a close look at these three categories of barrier.

Transactional Barriers

For independent software publishers, regardless of their industry focus, the greatest challenge to growing and maintaining a book of business is identifying and reaching customers wherever they may be – customers who don't know about a product certainly won't buy it. In an ever-shrinking world, the worst possible scenario is customers finding out about your product online but being unable to make a purchase due to your inability to process their order.

Processing orders from an almost infinite array of different customer types can be a challenge for any small e-business, because of the volume of variables that have to be in place. Pages must be presented in a style that gives the prospect confidence that they are dealing with a legitimate vendor; the e-business must accept the currencies in which prospects do business, introducing all manner of complexities in the area of taxes and levies; and prospects must be offered a full range of payment options, including not only simple credit card transactions but also more complex approaches including the use of purchase orders or international wire transfers. Even for e-businesses that transact business primarily domestically (i.e. in their own country of origin), the need to provide payment options can be a substantial challenge; many enterprises, for instance, will only buy with Purchase Orders, and will not allow the use of credit cards.

These tend to be challenges that make their most immediate appearance only after an e-business has had a measure of success: once the first several transactions have been completed using a relatively restrictive e-commerce model, the e-business starts to seek ways in which to expand revenues. At this stage, analysis will often reveal that a primary barrier to incremental sales is the inability of the e-commerce system to meet the needs and requirements of prospects.

Linguistic/Cultural Barriers

To state that, in general, people prefer to do business in their native language is something of a truism. There are few consumers who are as likely to place their trust in a website whose words they don't understand as in one that they can fully read and comprehend. While they may be comfortable with gathering information in a second language (particularly if it is a commonly-understood one, such as English or French), they will shy away from making financial commitments if they are not 100% confident about the terms to which they are agreeing.

Indeed, this requirement to communicate in a common language may be not only desirable, but required. Canada, for instance, requires all businesses to have their information available in both English and French. Failure to provide this accommodation can result in very real penalties.

Beyond the simple question of language, it may also be necessary to adjust the manner in which a product is offered. This includes not only the visual (such as picking a different color palette to suit a particular set of cultural mores), but also grammatical and semantic – different cultures respond to different types of positioning, with some preferring a more aggressive message and others leaning more toward the humble. A single language site will invariably run the risk of alienating a good portion of its potential audience simply by pitching its offerings wrong.

Financial Barriers

If there is one decision over which companies always struggle, it's pricing their offering. Do you price it at a little less than your competitor? Maybe a little more to reflect your brand strength? Even base the price on the needs you have to recoup your investment and move on to the next release? Ultimately, however, the price assigned to your offerings will have a very real impact on the total available revenue.

For software companies especially, a delicate dance soon develops, in which features and cost must be balanced – delivering the right capabilities to demonstrate comprehensive innovation, but without pricing the product out of its market.

Unfortunately, the pricing process is almost inevitably complete by the time the product hits the market. Certainly, extensive research and studies are often completed to ensure that the proffered product has a price set to a level that potential prospects agree is fair. However, it is rare indeed for any software publisher to work out how they might 'slice and dice' the capabilities of the product to come up with different varieties at different price points to appeal to a broader market. In instances where this process is followed (think of the different packaging for Microsoft Office, from Home through Small Business to Enterprise), the potential marketplace for a single product is exponentially expanded.

Strategies for Crossing These Barriers Safely

The essence of expanding a market is scale – the ability to offer ease-of-transaction to as many prospects as possible, without creating an impenetrable barrier to any.

For very large organizations, of course, this is simply a matter of staffing up in the e-commerce division, applying crews of developers to building out solutions for different market characteristics, and employing a strong maintenance team. While this represents a relatively large cost, maintaining an expansive set of capabilities can represent only a small portion of revenues generated when the volume of revenues is high.

For smaller organizations, however, the cost of maintaining a broad set of capabilities internally is prohibitive. If the e-commerce platform requires even a single full-time employee, a company can easily be looking at a six figure annual cost – which must be paid for through a percentage of the revenues generated. Except for sole proprietorships, then, maintenance costs can very swiftly offset any incremental revenues.

Instead, organizations often look to outsourced e-commerce solutions, in which the transaction platform and back-end capabilities are provided for a fee. This is a powerful option, allowing a relatively small organization to deploy the same resources as the largest of their competitors. Indeed, in many cases, the capabilities provided exceed those of other market players, and can allow a small organization to compete at a scale that is not reflective of their actual size.

However, e-commerce outsourcers are businesses, just like the vendors with whom they do business. As such, they too are prisoners of their own strategies and capacity to execute. In order to surmount the barriers described above, vendors must ensure that their e-commerce outsourcer:

- Accepts orders via fax and telephone as well as online
- Accepts multiple payment types, including wire transfers and purchase orders
- Provides 24/7/365 support, to ensure customers are properly tended and served
- Provides the capacity to deliver sales pages in multiple languages, and with choices of look-and-feel

- Provides a transparent experience, giving customers confidence that they are doing business with one vendor, not two
- Is able to accept multiple currencies
- Automatically calculates and pays necessary local taxes and fees, where applicable
- Delivers license management capabilities
- Can deliver dynamic licensing, e.g. subscription models, try-and-buy licensing, and beyond.

These elements are necessary but, in and of themselves, insufficient. When an organization considers contracting with an outsourced e-commerce provider, there is an inherent challenge in making a decision: balancing cost against value.

Balancing Cost and Value

When a commercial enterprise enters into any contractual relationship, the goal is always to gain the best return for the least investment; this is the essence of business. However, in selecting an outsourced e-commerce provider, the decision-making process can be challenging, as not all providers offer the same services. As a result, the costs can be difficult to compare.

Organizations must decide on their own metrics for balancing those features that increase the likelihood of additional revenue. In other words, a service that accepts only Paypal will likely be able to drive lower revenues than one that offers other alternatives, such as wire transfers or purchase order payments; however, the dollar value assigned to this additional revenue must be assessed by each individual organization. There are many different elements that should be considered, including the following: affiliate management programs; marketing of vendor products; accepted currencies and page localization; and license management capabilities for protecting IP.

By contrast, there are elements to a service that may be assigned very real values. These include:

- **Setup or Periodic Fees:** If setup or periodic fees are charged, then they must be taken into account when comparing services
- **Marketing Features:** An email marketing engine, for instance, is worth in the range of \$100 per month, depending on the size of an organization's mailing list, and can be easily compared to commercially-offered services
- **License Management:** License management capabilities that do not need to be managed by the vendor organization, and which may expand the market for a given product, have a very real value in the hundreds of dollars or more, which can be easily compared with commercially-offered products
- **Support:** The value of customer support can be easily measured by calculating the cost to the organization of hiring sufficient resources to man the phones. For organizations that wish to serve customers 24/7, but are only open 40 hours a week, this has a value equal to 128 hours of an individual's salary rate per week.
- **Live Chat:** Live chat support has a monthly value in the range of \$50 to \$100 per user, and can be easily compared with commercially-offered products
- **Unit-Based Fees:** Different services measure their costs differently. While some charge commissions on each order, others charge on each line item of an order; this has a real economic impact that is easily modeled for those companies that often have more than one line item per order

- **Surcharges:** Different services charge differently for services beyond the basic package. These include: chargebacks, payment to vendor in non-standard ways (e.g. by check), refunds, bandwidth used for ESD delivery, faxes, processing premium cards (e.g. American Express) and others. Each should be taken into account when comparing the likely long-term cost of the contract.

Organizations seeking to surmount the barriers to growth should evaluate, therefore, not only the stated cost of an e-commerce partner's service, but also the total cost anticipated. They should also evaluate the expected impact on their growth of the total package – if one vendor provides a solution more likely to deliver greater revenues, then the value returned may be higher. In other words, a budget provider may maintain revenues and take only 5% of a \$5,000 monthly revenue (leaving a vendor payment of \$4,750). But a stronger player may increase revenues immediately by 50%, in which case a 7% fee still leaves the vendor in stronger position (a vendor payment of \$6975).

Future Developments

The near future holds great promise for independent software publishers, as the strong Intellectual Property Right (IPR) management that is enjoyed by the larger players is almost entirely now available. More importantly, the promise of dynamic licensing is close to being realized.

In a dynamic licensing environment, the software publisher makes a single version of their software available; but allows the customer to purchase, on-the-fly, any of a number of different classes of licenses to use that software. For example, a publisher may post their software on their site, and provide a 30-day trial license; at the conclusion of those 30 days, the user may choose to (1) buy the software outright for \$50; (2) buy another 30 days' use for \$10; (3) buy the software on a per-use basis, paying \$1 each time they use it; or (4) buy only a limited set of the software's features for \$7.50. The publisher, however, can also monitor the comments and requests of their customers and release new license types in order to meet customer demand. This would mean that substantially no potential customer should fail to make a purchase based solely on cost – so long as each license variant is fairly priced.

By the same token, a publisher of games software may choose to license their game by the level, by avatars available to the user, or, again, on a timed basis.

Dynamic licensing holds the potential to up-end the software market, as independent publishers will be able to monetize their intellectual property, while dominant publishers who are accustomed to substantial upfront payments must adjust their business models to compete. In this sense, not only does the market for an independent publisher's software grow due to the availability of licensing models; it also may start to absorb some of the dominant players' market space, as customers seek licensing terms in line with their business goals.

How Dynamic Licensing Changes the Landscape

Dynamic licensing is not available from every e-commerce provider. In fact, at the time of going to press, the only vendor with this option firmly on their product roadmap is Plimus, Inc. The new product, PlimWare™, offers vendors the very real opportunity to make dynamic licensing a key element of their future development and marketing strategies, and to ensure that their revenue generation is unlimited.

As dynamic licensing becomes a standard element of the software marketplace, not offering different methods for licensing software will become its own barrier for all software publishers – customers will quickly become accustomed to paying for only what they use, and are unlikely to pay high upfront fees for software they do not anticipate using to its fullest extent. In this regard, the process of selecting an e-commerce partner today should not only incorporate the analysis

already considered in this paper, but should also include a review of the provider's product roadmap to ensure that dynamic licensing will be part of the available package in the very near future.

Conclusion

In an increasingly global market, independent software publishers cannot afford to limit the market they can serve, if they wish to maximize the revenue their products generate. For many organizations, this will mean contracting with an outsourced e-commerce provider. Such a provider must deliver access to multiple countries, providing localization capabilities, accepting multiple payment types and currencies, and automatically calculating and paying all taxes and fees. While choosing between providers can be challenging, owing to the different services and price lists offered, a number of system elements can quickly be valued, including email marketing capabilities, surcharges and 24/7/365 customer support. Beyond these easily-measured items, organizations must evaluate the impact the total provided solution will have on their business, and make a reasonable estimate of the extent to which the provider will help to grow revenues – rather than simply sitting back and collecting a portion of revenues generated.

As the widespread acceptance of license management and activation has shown, customers are ready for more sophisticated IPR management, and the very near future will likely see the growth of dynamic licensing. Dynamic licensing will allow even customers who do not wish to pay full face price to make purchases, greatly expanding the market for many independent software publishers. When selecting an e-commerce partner, therefore, it will be important to ensure they have dynamic licensing on their product roadmap.

Generating more revenue is a very real possibility for any independent software publisher – it simply takes breaking down the barriers between the vendor and the customer. The right e-commerce provider will help leading organizations to increase their revenue and grow quickly.