Commercial Software Licensing

CHAPTER 3:

Software Publisher Sales Strategies & Tactics

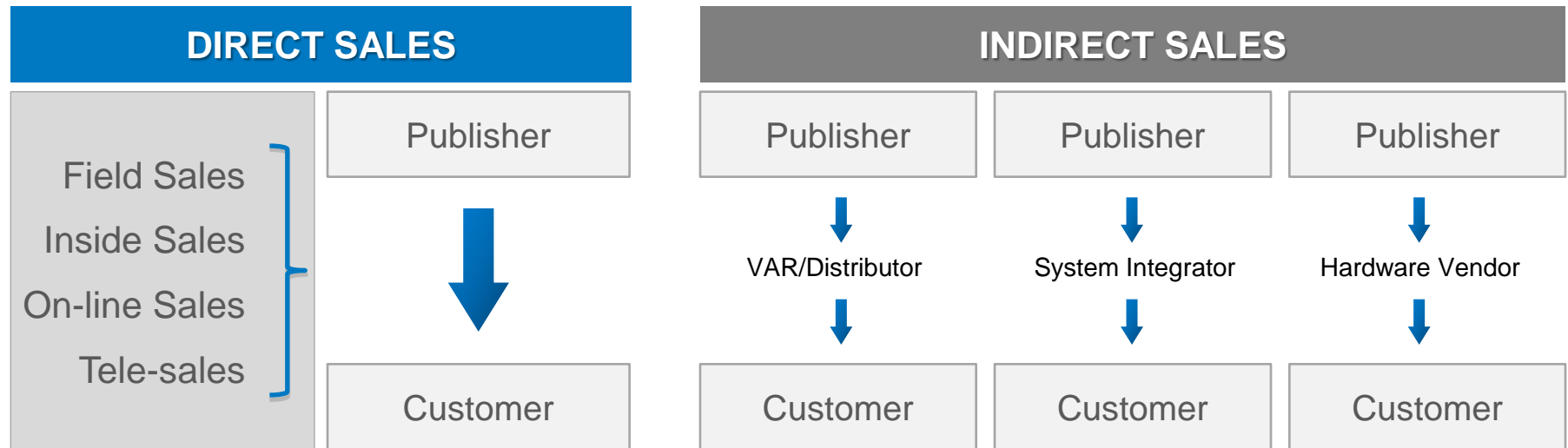Prepared by DoD ESI | January 2013

Chapter Overview

- Publishers sell software products through multiple methods:
    - *Direct sales.*
    - *Indirect sales (also called channel sales).*

- There are a number of sales deployment models.

- Sales outlet management tools and processes include pipeline management, sales forecasting, and the deal closing process.

- Revenue recognition practices can affect sale value and sales motivation in the eyes of the sales person.

- Channel conflict is a significant issue for some Publishers.
    - *Conflict can arise between a Publisher and one (or several) of its channel partners.*
    - *Conflict can also take place among multiple channel partners of a single Publisher.*

Software Publisher Sales Models

As Viewed From the Publisher's Perspective

DIRECT SALES	INDIRECT SALES		

Field Sales	Publisher	Publisher	Publisher	Publisher
Inside Sales		↓	↓	↓
On-line Sales	↓	VAR/Distributor	System Integrator	Hardware Vendor
Tele-sales		↓	↓	↓
	Customer	Customer	Customer	Customer

Direct Sales Roles

Publisher Employees Sell to Customers

Field Sales

- Publisher sales people who sell face-to-face with customers.
- Usually assigned to a geographic territory or a specific market segment *(e.g. by customer size, industry, etc.).*

Inside Sales

- Publisher sales people who sell by means of outbound phone calls.
- Often used to generate leads for field sales follow-up.

Tele-Sales or Internet Sales

- Publisher sales people who sell by responding to inbound inquiries received via the phone or Internet.

Indirect Sales Roles
Publisher Partners Sell to Customers

Resellers

- Resellers are agents of the Publisher authorized to sell the Publisher's products.
- Many Resellers work with multiple Publishers.

Value-Added Resellers (VARs)

- VARs are Resellers who package added value *(i.e. additional products or services)* with a Publisher's products, within limits prescribed by the Publisher.
- VARS typically provide the added products or services themselves, although they can include products/services from other third parties.

Distributors

- Distributors do not sell to end customers, but rather to Resellers in the Value Chain, while taking on delivery, marketing, and other responsibilities.
- Distributors are more likely to be found in Shrink-wrap-software channels than in Enterprise-software channels.

Current GSA/ESI Issue
Reseller/Agent Situation

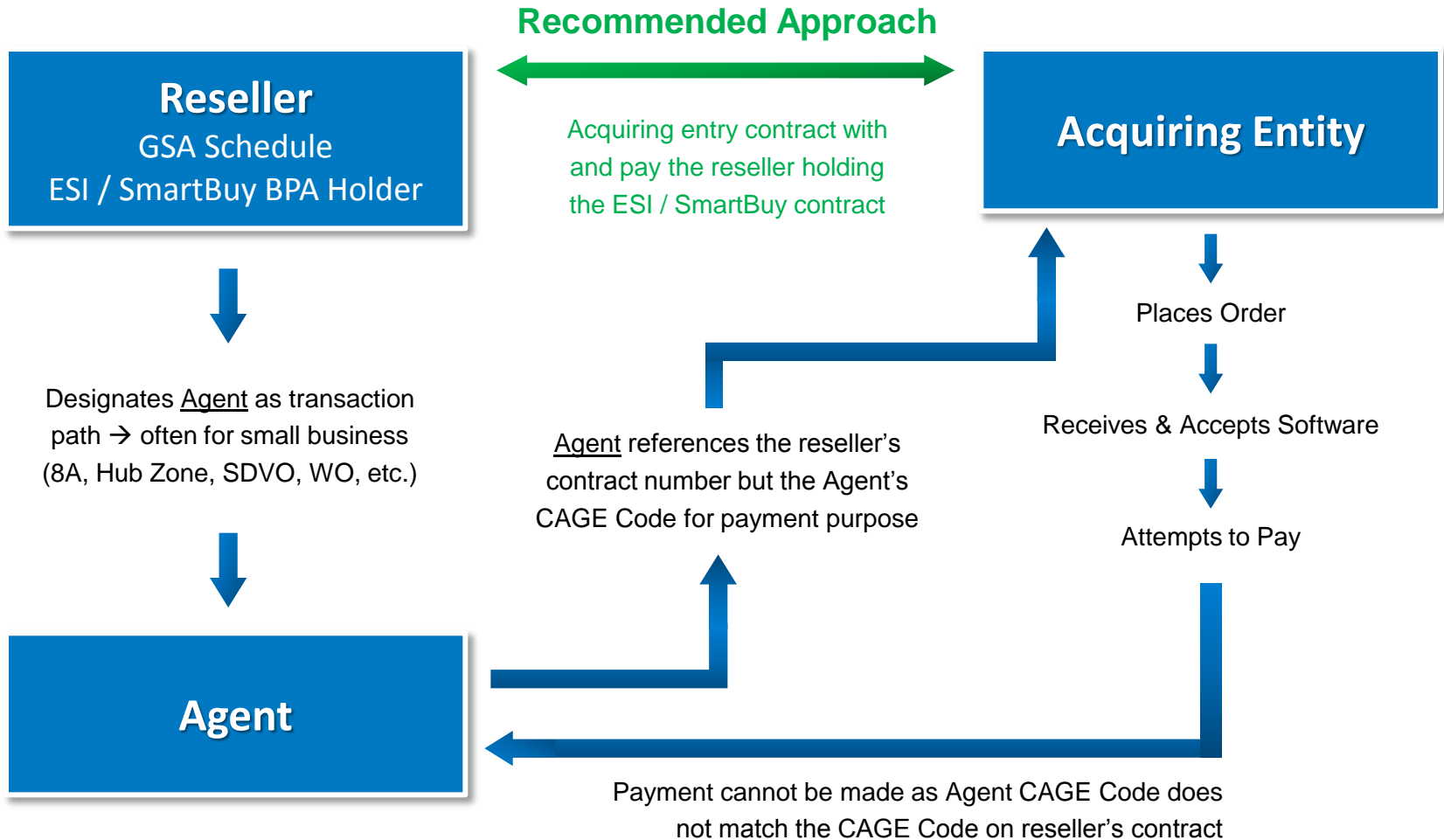## Publisher/Reseller/Agent Perspective

- Publisher grants Reseller authorization to sell publisher SW on GSA Schedule contract.
- Contractor Holder promotes that the Government customer can claim the agents SB (8A, Hub Zone, SDVO, WO, etc.) size status, if applicable.
- GSA Contract Holder (Reseller) allows agents to participate on their contract (reduces administrative burden for invoice and billing purposes) and instructs buyers to write orders directly to the agent (including the agents cage code).

ESI/GSA Perspective

- No privity of contract exists between Government and Agent .
- Orders are to be written to the Contract Holder with their cage code (in care of Agent).
- FPDS-NG reflects the Contract Holder's name, cage code, address and business size, even if an order is improperly written directly to the Agent.   An Agent's business size is not a consideration.
- Order's written to the Contract Holder (in care of Agent) does not allow DFAS to make payments directly to an Agent.
- GSA has reviewed ESI's perspective and ESI has requested they provide official GSA clarification and guidance.

Reseller Directed use of Agent for Software Acquisition

Recommended Approach

Reseller
GSA Schedule
ESI / SmartBuy BPA Holder

Acquiring entry contract with and pay the reseller holding the ESI / SmartBuy contract

Acquiring Entity

Designates Agent as transaction path → often for small business (8A, Hub Zone, SDVO, WO, etc.)

Places Order

Receives & Accepts Software

Agent references the reseller's contract number but the Agent's CAGE Code for payment purpose

Attempts to Pay

Agent

Payment cannot be made as Agent CAGE Code does not match the CAGE Code on reseller's contract

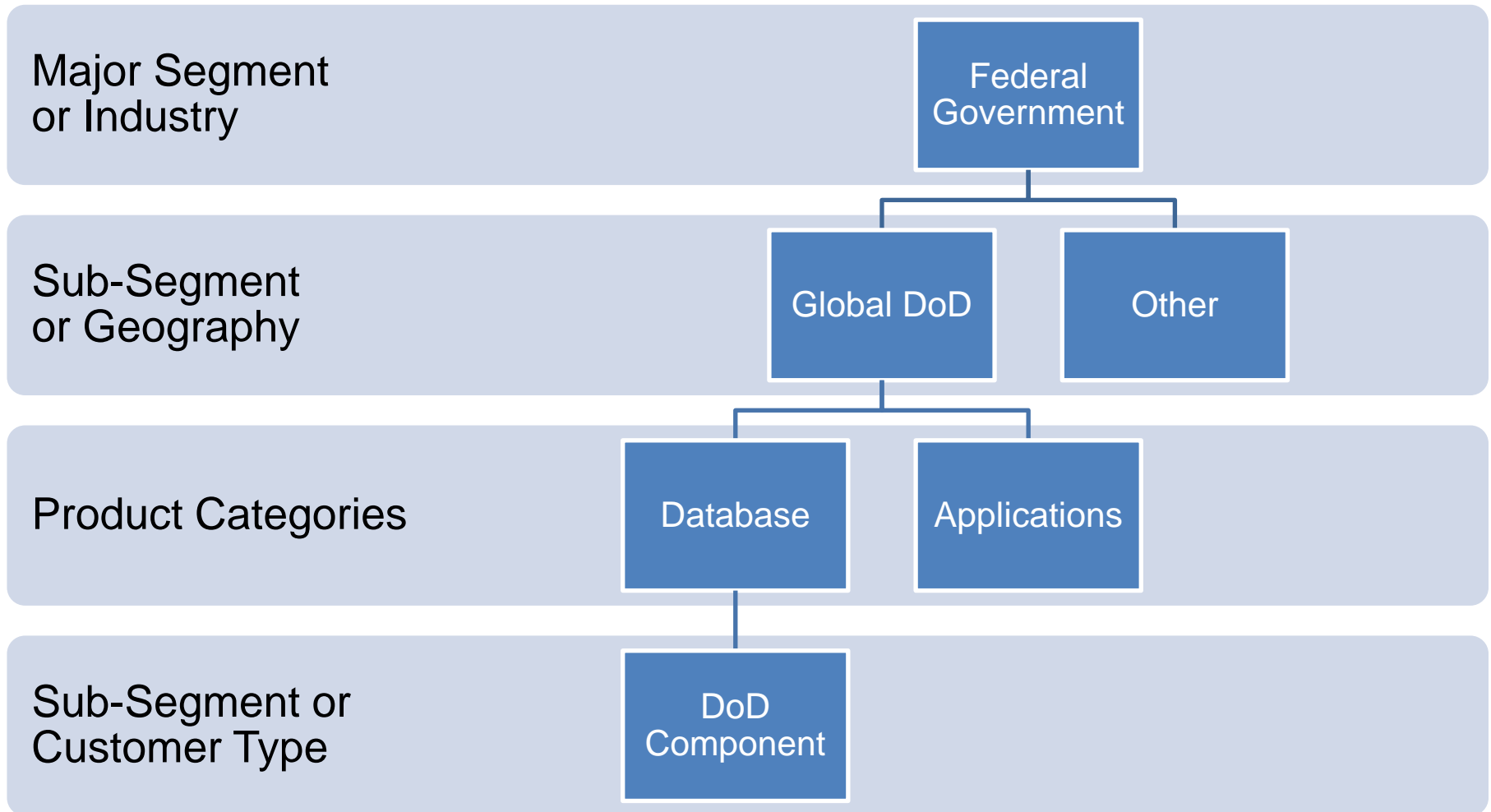# GSA has Indicated the Instructions are Forthcoming

- Orders utilizing an underlying GSA Contract (GSA Schedule 70, etc.) must be placed against that contract number and reference the contract holder's CAGE Code.

- An order to an Agent or other firm (whether an attempt to capture small business credit or for other reasons) can not be placed unless the Agent has their own GSA Schedule and matching CAGE Code.

- It is up to the Reseller and their Agents to adapt their business practices as they see fit, not attempt to satisfy their objectives by having an Agent place an order where there is no privity of contract between the Agent and the Government.

Sales Force Deployment Models
Direct or Indirect Sales

Major Segment or Industry — Federal Government

Sub-Segment or Geography — Global DoD, Other

Product Categories — Database, Applications

Sub-Segment or Customer Type — DoD Component

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Sales Tools & Processes
Direct or Indirect Sales

Pipeline Management

- Sales people enter the potential new deals.
- Each deal has a probability of close with a weighted value and an expected close date.

Forecasting

- Publishers use pipelines and other mechanisms to forecast sales.
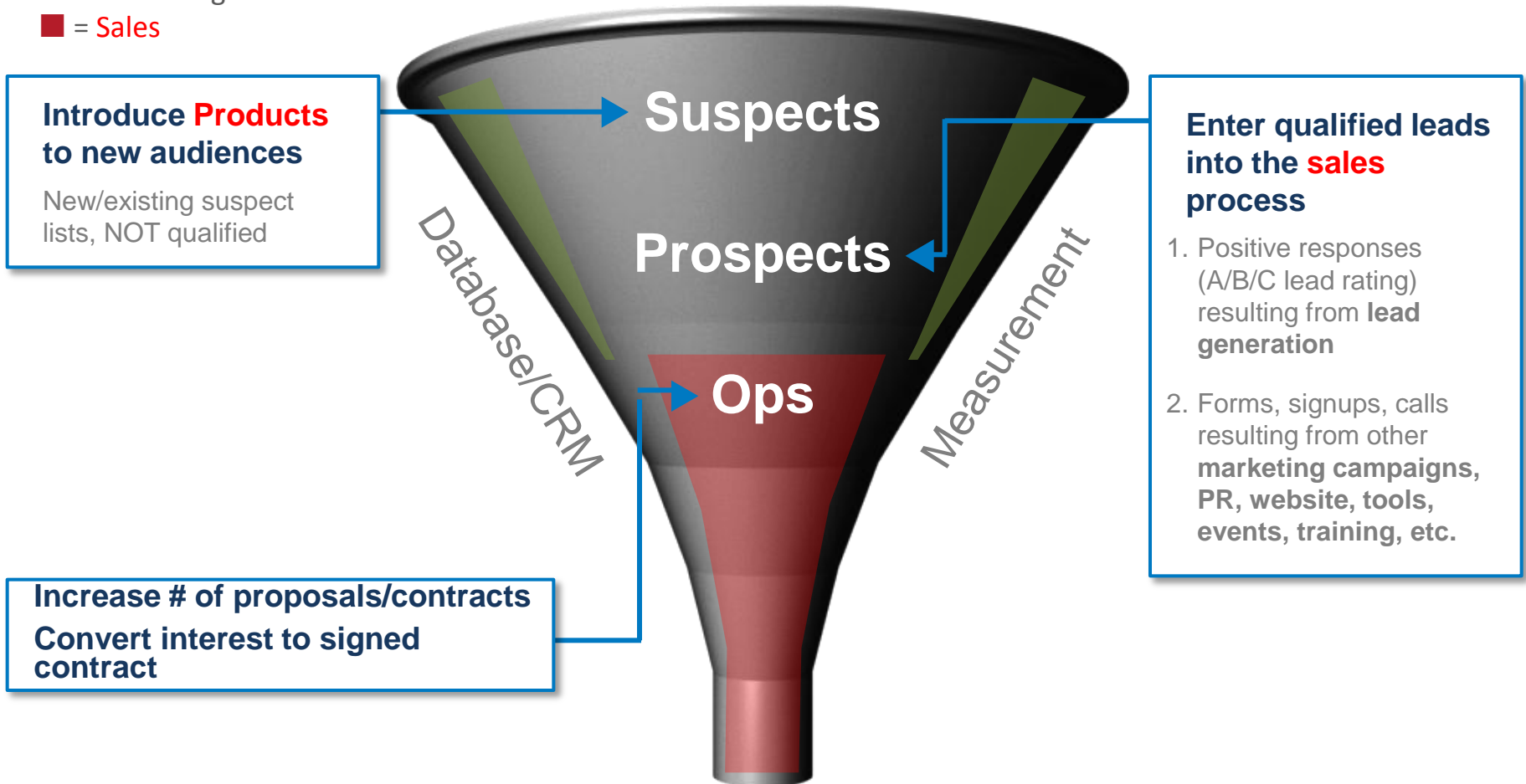- Forecasting revenue is critical to Publishers, especially those that are publicly traded companies.

Closing the Deal

- Many Publishers use specific processes and guidelines to create a "close plan" for each deal.

Sales & Marketing Alignment

■ = Marketing
■ = Sales

Introduce Products to new audiences

New/existing suspect lists, NOT qualified

Suspects

Prospects

Ops

Database/CRM

Measurement

Enter qualified leads into the sales process

1. Positive responses (A/B/C lead rating) resulting from **lead generation**

2. Forms, signups, calls resulting from other **marketing campaigns, PR, website, tools, events, training, etc.**

Increase # of proposals/contracts
Convert interest to signed contract

Licensees/Subscribers

Activate: delivery | signed contracts | invoicing

Commercial Sales Forecasting

What Contracting Officers (KOs) and
Software Program Managers (SPMs) Need to Know

Accountability

- Sales management/sales people are each strictly accountable for their pipeline of deals.

Forecasting

- Forecasts of closed deals *(i.e. revenue)* are closely scrutinized—especially in publicly traded companies.
- Forecasts are usually weekly, *(but daily in the last week or two of a quarter)*.
- Forecast accuracy is critical—exceeding forecast by more than a few percentage points can be a problem for the sales person.

Reliable Relationships

- Keeping sales person advised of sales timing or delays is critical.
- Reliable relationships are advantageous for negotiating discounts and Terms and Conditions (Ts and Cs).

Software Sales Process
As Aligned to DoD Acquisition Process

Software Sales Process	DoD Acquisition Process
• Identify Customer Requirement • Provide Product Data • "Sell" the Customer on Products • Determine How Much Customer Can/Will Pay • Identify and Work any $ or Terms Issues • Determine Acquisition Vehicle • Negotiate Price and Ts & Cs • Execute Order • Ensure all Programs Delivered	• Determine Requirement Exists • Gather Data on Requirements Fit and Products • Establish Best Solution for Requirement • Establish Budget and Funding Sources • Establish "Must Have" Ts & Cs and $ Ceiling • Determine Contract to be Used • Negotiate Price and Ts & Cs • Obtain Approvals and Sign Contract Order • Accept Products

Note: There are hundreds of variables in each Process

Software Sales Conditions

Conditions to Recognize Sales Revenue

- For a Software Publisher to recognize revenue immediately upon sale *(and not ratably over time)* certain conditions must be met.
- Signed contract or formal agreement, with a fixed price, non-refundable provisions, and a high probability of collection.
- Software must be delivered in usable format, accessible to end user.
- No significant modifications required, no promise of future functionality, no promise of future products, and no deal-altering contingencies.
- Software performance guarantee limited to standard warranty and acceptance that software will perform according to Publisher's documentation.
- Implementation and consulting service performance cannot be tied to acceptance, return, or payment for the software licenses.

Sales Compensation

Compensation Based on Commission

- Most U.S. sales people paid "on commission" *(base salary plus a percentage of sales)*.
- If you don't sell, you don't eat.
- Software firms attract top sales personnel by offering significant compensation based largely on performance.

Sales Compensation Plan Incentives

- Sales people are incented to be more aggressive based on compensation plans.
- Leverage is associated with sales aggressiveness.
- Low base pay/high sales compensation = highly leveraged. (Example)
- High base pay/low sales compensation = not highly leveraged. (Example)

Sales Compensation (cont.)
Highly Leveraged

		Actual Sales		
Base Salary	**$65,000**			
Quota	$2,000,000	$500,000	$2,000,000	$4,000,000
0 % - 50%	3.0%	$15,000	$30,000	$30,000
51% - 75%	4.5%		$22,500	$22,500
76% - 100%	5.5%		$27,500	$27,500
100% +	7.5%			$150,000
Total Compensation		**$80,000**	**$145,000**	**$295,000**

Sales Compensation (cont.)
Not Highly Leveraged

		Actual Sales		
Base Salary	**$107,500**			
Quota	$2,000,000	$500,000	$2,000,000	$4,000,000
0 % - 50%	1.5%	$7,500	$15,000	$15,000
51% - 75%	2.0%		$10,000	$10,000
76% - 100%	2.5%		$12,500	$12,500
100% +	3.0%			$60,000
Total Compensation		**$115,000**	**$145,000**	**$205,000**

Continue

Pricing Between Publisher/Reseller

Commercial Software Licensing:
Software Publisher Sales Strategies & Tactics

Publisher Pricing/Discounts

- Publisher typically offers same discounts to all resellers.
- Tries to be consistent and level the playing field.
- Rewards the Reseller with the best sales execution.
- Resellers usually compete on their "pass-through."
- Publisher might offer volume discounts to top resellers.
- Large deals are "one-off" deals and reseller gets additional discount.
- When a reseller "finds" the sale, they are the only reseller in negotiations.
- In response to RFP, multiple resellers are generally at same price to all.

Examples:

- Assume all resellers get a 40% discount.
- A $10,000 list order is offered to all resellers at $6,000 cost.
- Reseller A adds 20%, sells at $7,200; Reseller B adds 15%, sells at $6,900.
- If Reseller C qualifies for a volume discount, may get an additional 5% discount.
- Reseller C with $5,500 purchase cost can sell at $6,600 and still make 20%.

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Software Publisher Issues
Managing Channel Conflict

Channel Conflict Defined

- A Publisher's direct sales teams can call on the same customers or prospects as that Publisher's indirect *(channel)* sales teams.

Strategies to Manage Channel Conflict

- A Publisher's best approach is to use market segmentation.
- They can also use special sales compensation plans *(e.g. shared or overlapping sales compensation)*.
- Some Publishers allow conflict, to encourage competition among sales teams.

Pricing and Channel Conflict
Why They Matter to KOs & SPMs

Pricing

- Understanding pricing models can be advantageous for negotiating favorable prices.
- Familiarity with pricing models can also help in evaluating competitive bids from multiple sources.

Channel Conflict Pros & Cons

- Channel conflict can present KOs with opportunities for more leverage in negotiations.
- It can also cause problems for KOs *(e.g. at a minimum it can cause delays in closing a contract)*.

How To Maximize the Buying Event

Opportunity Specific

- Execute Largest Deal Possible Using TCO Methodology
- Negotiate Best Terms and Current and Future Discounts on License, Services, Maintenance, and Education

Vendor Specific

- Time the Order at end of Publisher Fiscal Quarter/Year
- Significant Impact for Public Companies
- Lesser impact, but still worthwhile for Private Companies
- Commercial Best Practice is to Standardize on Single Publisher as much as Practicable

Discussion Guide

Discuss the two primary sales methods used by Publishers to sell their products and services.

List major roles used in each of the two sales methods and discuss how each role is used.

Discuss the various physical models for deploying a sales team.

List the sales tools and processes used by Publishers to manage their sales forces.

Describe some of the major issues Publishers face with their indirect sales channels.

Relate how your knowledge of Publisher sales methods, sales roles, deployment models, sales processes, and channel issues can help you in your purchasing role.

The VP of Sales Dilemma
A Role-Playing Exercise

You Have a Set of Three Software Products to Sell

- Select one person as the VP of Sales.
- Have the VP of Sales assign other members of the class to run various parts of the sales organization.
- What are the pros and cons of each of the following scenarios?

What's the Best Option?

- To have three global Sales Directors—one for each of the three products?
- To have many Sales Directors—one for each country, each selling all three products?
- To divide the world into regions and in each region have one person sell all three products to larger users and another person sell all three products to smaller users?