

## *Gerald's Column* *by Gerald Fitton*

The series of articles which I have written during the last few months has generated more correspondence than anything I've written before. During the last month or so I have received a massive amount of feedback, so much so that I've decided that this month I shall write about something different in order to give myself time to digest the information contained in your letters and emails before formulating my reply.

This month I shall introduce a new subject and ask you for your comments.

### **Life Cycles**

I have mentioned the Life Cycle of products in this column before but, for those of you who have misplaced my article and those who have joined the Archive readership only recently, here is a summary.

In classic marketing terms a product has a life cycle which consists of an Introduction (sometimes called Launch), then a Development (or Growth) phase which is followed by Maturity (in some text books this phase is merged with one called Saturation). After this phase the product enters its Decline and, rarely mentioned in text books, Extinction!

Maximum Sales volume (number of units sold) usually occurs after the Growth phase has been completed and well into the Maturity phase (but before complete Saturation). Profit from Sales peaks earlier than this, towards the end of the Growth phase. It is when the market becomes Saturated (Prices fall) and then later when Sales are in Decline that the profitability of the product falls rapidly.

### **Diversification**

In classic marketing terms what a company must do is use the revenues from the highly profitable Growth period to modify (develop) the product so that, as the early version goes into Decline, the new version enters its profitable Growth phase.

An alternative or complementary strategy is to work on completely new products which can be Introduced and which enter the Growth phase as the earlier product Declines.

### **Manufacturing or Service Industry**

Now to my theme for this month. Let me phrase it as a question. "Is the Software Industry a Manufacturing or a Service Industry?" Now before you write to me complaining that all industries are always a mixture of both and accuse me rightly of oversimplification again let me reassure you that I do know that. What I'm trying to do is to get you to think about the way in which the Software Industry operates.

The principal difference between the Manufacturing and Service Industries is that in the former the revenues and profit arise on the initial sale of the product.

I would classify an industry as a Service Industry if the major revenues occur whilst the customer has ownership of the product.

## **Software as a Manufacturing Industry**

Traditionally software houses have made their profit by designing and then selling a software package at a substantial price. Yes! I know that in the Acorn World the prices charged have been low when compared with similar specification packages for the Microsoft Type of computer. Nevertheless bear with me. My point is this. In the Acorn World upgrades are generally provided free of charge to registered users.

Software houses have had to charge enough for the original sale of their package to cover the supply of free of charge upgrades. Again, I plead guilty to over simplification; I do know that 'bug fixes' should be free of charge and that many of you would be willing to pay and often do pay for those upgrades which enhance the software in ways which allow you to use it more efficiently or which enable you to do things which the earlier version wouldn't do.

## **Product Development**

Let me take as my example PipeDream. From the time the Archimedes was launched in 1988 and into the early 1990s PipeDream was the market leader in spreadsheets. During those years Sales increases month on month and cash was flowing into Colton Software at a wonderful rate. Much of this revenue was ploughed back into further product development. PipeDream 2 became PipeDream 3 at the time Acorn's operating system became multi tasking. At the end of 1991 PipeDream 4 with its Charts and Custom functions was Launched.

It was the revenue from PipeDream which allowed Colton Software to undertake the initial development of Fireworkz and Launch it at the end of 1992.

During those golden years the revenue from PipeDream was substantial and 'bugs' were fixed with great rapidity by the large team of programmers. The sales of Fireworkz never matched those of PipeDream for many reasons. I must simplify greatly. One was that Schema and Eureka had appeared as competitors signifying the end of the Development phase; another was that many users were more than happy to continue using PipeDream indicating Saturation; yet another was that, in the Mature market of 1993 onwards, Fireworkz seemed overpriced.

Fireworkz never received the funding which PipeDream enjoyed so that 'bugs' persisted for longer. Development and improvement of its usability was much slower than PipeDream. A serious problem was that the database section, Recordz, turned out to be much harder to program than anyone at Colton Software anticipated. Recordz consumed programming time (and revenues) which should have been spent on improving Resultz (the spreadsheet section) and its integration with Wordz (the word processing section).

By 1995 the spreadsheet market was Saturated. Colton Software failed to recognise that this was the case. They reduced their prices too late to stem the competition. Then, with the loss of the Marketing Director, Robert Macmillan, from the team and the untimely

death of their most senior programmer, Mark Colton, revenues fell steeply. The loss of revenue put a serious brake on further program development. Two years ago it looked as though Decline would be followed by Extinction.

## **Software as a Service Industry**

It is my belief that the Software Industry is moving away from earning most of its revenues from the initial sale of the software and more towards earning revenues by supporting customers in their use of the product.

I think it was in 1989 that I offered to write a monthly PipeLine column for Paul's Archive magazine which supported users of PipeDream. Paul took me up on that and I have supplied him with copy nearly every month since then – but the content has developed to include many more topics and is now called Gerald's Column. It was from those beginnings in Archive that the PipeLine the User Group emerged. This User Group still exists and is a financially healthy operation; it has been developed into GoldLine. I mustn't dwell on this too much or I shall be subjected to the Editor's red pen!

I see that David Pilling is running a sort of user group for Ovation Pro on the Internet. Of course there is no revenue to David for that service but it is his hope that the existence of the Internet user group will encourage new customers and hence revenues to David through his Royalty on new Sales. I am not convinced of the validity of this reasoning since those who write in tend to highlight their problems and this discourages some of those who read the correspondence from buying this product.

## **The Future**

I see the day coming, and it's not far off, when the revenues from the initial purchase of software forms only a small part of the total revenue for the product. There are many ways of implementing this. Let me put one suggestion to you and see what your reaction is.

In the past the Source Code for a software package has been guarded as a company secret and users have had no access to it. The software house compiles the user version of the program from this source code and the customer buys the compiled version.

Now let's look at an alternative. Suppose the Source Code for, let's say, PipeDream was made available to users for some relatively small fee. The purchasers would not be allowed to give away copies of this source code software nor produce compiled versions except for their own use any more than they are allowed to make copies of the compiled (user) version at present. They will hold a limited licence. I believe that what we would find is that those who were enthusiastic enough would 'tweak' up the source code and will take great pleasure from using the version which they have developed. I am sure that many non programming users of PipeDream would like to hear of such developments and, if the developments are of use to them, they would willingly pay for the enhancements.

Of course the revenues from the non programming users has to flow to those who have earned and deserve them. The logistics are not simple but, with the good will and trust which exists in the Acorn World, I am sure that a system fair to all can be worked out.

As I said, this is only one suggestion. I have many more but I'll await your comments on this one before I tell you of my other ideas. Let me return briefly to my main point which is that in the future revenues for software will flow from established users rather than from new customers.

## **Finally**

So that you'll see that I have an interest in this I'm sure that Paul will allow me a small commercial. Abacus Training has acquired all the rights to Colton Software products, in particular PipeDream and Fireworkz, with effect from the 1st August 1998. It is my intention that users of these products will continue to receive support and that the packages will continue to be developed to the advantage of all of us. Whilst I would not say "No!" to new customers it is existing users who are likely to receive the greatest benefit.

Please write to me at the Abacus Training address which you'll find in Paul's Fact File at the back of Archive. That Fact File includes email and fax addresses. I would prefer that you don't telephone. If you have anything of more substance than a few lines I would like a disc copy particularly if you are having a problem. A disc with an example file is so much easier for me than a description in words which I might misunderstand. Please include return postage if you want a reply.