

by Dee Kiamy

In last month's Apple Direct, we explored the concept of the site license and some reasons why developers have adopted it as a selling alternative: Customers ask for it, and it can lower delivery costs, increase profit margins, increase your foothold at a customer site, and give you a competitive advantage.

The path to creating a site license is long. It is a complicated and often unwieldy process; the variables are many. You must make several important decisions and a host of smaller ones. Some biggies are: How will a site be defined? Which products will we license? How will we deliver the product and control copying? How much should we charge? How will we support customers? This month we'll explore how some developers have dealt with this process.

The Best Defense Is a Good Offense. At the start, your options are either to create licenses on a customer-by-customer basis or to proactively decide to address the issue—at least explore the options for your business. If it's appropriate, then you should assemble a cohesive, flexible program that can work for more than one customer. Many site licensers recommend a proactive stance, because making decisions case by case (or on the spot) is fraught with peril. Since a site license is a commitment for both the developer and the customer, it warrants the same kid-glove treatment and forethought as establishing any major form of distribution.

A lack of investigation and planning can yield several unpleasant results. In the frenetic world of computer-software sales, “things happen.” Sometimes they happen so fast that we don’t get an opportunity to explore alternatives and are forced to make decisions on the fly. But even in the best circumstances, putting a license together takes time. If you don’t have a program under consideration when that first customer asks for one, you must start the complicated process in a hurry. Yes, it can be done, but it can create lots of headaches for your company. And if you take it on a per-customer basis, you’re likely to end up with many different kinds of agreements, which can be difficult to administer. Michael A. Looney, Director of Market Development at Claris, offers this warning: “If you create too many agreements case by case, you run the risk of not being equitable from one customer to another. And even though we may not want to acknowledge it, customers do talk to one another.”

Defining a Site. One of the toughest decisions is about how to define a site. Most definitions have a geographic component and something that is counted. This challenge has sometimes thwarted the bravest and the best; there are as many ways to define a site as there are people, places, and things. A site can be a company, building, city, county, country, geographic area defined in square miles, or any permutation that fills the bill. Likewise, you can count users, individual computers, servers, and so on—ad infinitum. It depends on your individual situation, how your product is to be distributed (on individual machines or on networks), how users are distributed geographically, and how the product is used (is it a virus-protection utility needed for every machine, or is it an application that can be put onto a server?).

Specific sales objectives may also influence your decision. For example, when selling to large companies, you may opt to define a site as being a smaller unit so that you can sell more than one license to the firm. It's important to keep the customer's needs in mind, though. For example, if a company wants a site license to help manage software across many geographically separate sites, defining a very small site will thwart its need and, likewise, your license.

Claris, which licenses AppleWorks® and AppleWorks gs™ to elementary, junior high, and senior high schools (K–12), wrestled with the problem of how to define a school site: Is it a building? School district? Area containing a certain number of computers, students, or teachers? Or a special program, such as one for gifted students? Karen Billings, Claris, K–12 Sales and Marketing Development Manager, recommends keeping the definition as simple as possible by counting in a way that minimizes changes and variables. Billings suggests counting things that don't change often and that can be consistently used for all, or at least most, customers of a particular kind.

One School, One Site. Claris defines a site as a typical freestanding school building, (except when a single school comprises a small campuslike cluster of buildings with a single administrative unit—in which case the cluster is counted as a single site). Unlimited software copying is allowed.

“This approach has several advantages,” says Billings. “It makes counting easy and consistent across the range of schools. We weren't forced to count the number of students and teachers, which changes from year to year. Furthermore, the size of school buildings, and therefore the number of students and computers that occupy them, is usually self-limiting; there are some restrictions on maximum size, such as those imposed by such things as fire- and health-related occupancy

laws. Also, when a school becomes huge, the tendency is for the district to erect another building.”

The Claris license does carry one rider, however. Some sites are used by “outside” students. For instance, junior-college or other adult-education classes might be conducted at the site after normal school hours. Claris charges an additional flat fee for this “extra” use. The exception is when the classes are part of the district’s K–12 program (for example, when adults take night classes to complete a high school diploma).

It seems straightforward enough, but arriving at that solution took a lot of painstaking research into how schools buy, distribute, and use software, how schools are structured, their budgets, and their needs. It all had to be matched to the developer’s products and marketing objectives—not a simple task.

APDA, which licenses development tools, has chosen a more geographic definition for a site (in keeping with Apple’s overall licensing strategy) and offers three options, each with its own price tag: a limited territory in which only 20 copies of the product can be made, a territory of 25 square miles in which unlimited copies can be made, and a totally unlimited territory in which unlimited copying is allowed. Again, the decision was made by considering the many factors specific to APDA and its customers.

Which Products to License? If you’re a site-licensing novice, you may wish to start small and focus on a single product or group of products that are your best candidates. Another option, especially for a new or smaller company, is to seek out a more established company that sells site licenses to a similar audience;

you can negotiate a co-op agreement in which you receive a cut for each license that includes your product.

On the whole, which products you license depends on what customers ask for and the nature of your offering. A case in point is MECC's education-software site license. MECC has bundled most of its applications into a Membership Collection. Instead of buying these products individually, a school district site-licenses the collection. Each year MECC adds several products to the collection, which are automatically included in the site license. For an annual fee, a school district licenses the right to duplicate both the software and the documentation.

The Master Disk: Keys to the Kingdom? Other important decisions concern putting the product into customers' hands and ways of controlling copying. Here are some questions to consider: Will the application be installed on individual computers or placed on a server? Will the product be used on a network? Who pays for disk duplication: the developer or the customer? How many manuals will be provided, and will the customer be allowed to copy them?

One practice is to give customers a "master" disk that they can copy to whatever extent the contract allows. This is a scary option for developers; many feel they are virtually handing over the keys to the kingdom and (sometimes rightfully) worry about users running amok with copying. Still, facing these fears is a fact of life. "You have to somehow get over the fear caused by the loss of control of software copying," says APDA manager Wendy Tajima. "Depending on how you attempt to control the situation, you should realize that you run the risk of appearing very unfriendly to a good customer. You have to tread softly."

Whereas some developers rely on the honor system, others create disks with a built-in expiration date, making the application unusable after a given time. Some developers, such as MECC, copy-protect the master disk and supply a copy-protection utility to unlock its contents. For server-oriented products, CE Software sometimes provides a serialized master disk that counts the number of “mailboxes” on a system. And CE sometimes tracks the number of legitimate users against the number of manuals supplied: one set of manuals, one copy, one user. APDA’s solution is to print disk labels for customers: one label, one copy.

Most developers don’t allow copying of documentation. They supply only one original set of manuals with each master disk and require customers to purchase additional ones, usually at a very reduced price. (This can be particularly important for education customers with limited budgets; even if they license the rights to copy documentation, educators often don’t have the facilities to cost-effectively copy manuals in quantity.)

The Price Is Right? Putting a price tag on a site license, like product pricing in general, can be very tricky (did you expect otherwise by now?). The price of a site license is usually pegged to a certain amount of time. Some developers have even opted for permanent licenses, and others offer them on a renewable annual basis. Subsequently, many offer upgrades at a discount. The pricing may also depend on the projected number of users, number of copies made, or the machine-to-user ratio. Other factors include, of course, the actual cost to produce and market the product and the perceived value to the user.

“For example,” says APDA’s Tajima, “customers who use products more intensely, whose money-making capacity or way of doing business depends heavily on the application/ computer, can and probably will pay more for a license than would a customer who uses the product in a more cursory way.” So the type of customer and product helps determine the pricing structure.

Claris found that it made sense to offer a permanent arrangement, requiring only a one-time fee for specific versions of applications. Additional charges are incurred for major upgrades. The fee is the same per site, regardless of the number of computers or users. If a district licenses two or more sites, however, it becomes eligible for a kind of volume site-license discount. New licensees also receive credit for purchases made prior to the agreement (with proof of purchase), no matter where it was purchased or what channel it was purchased through. Licensees also receive refunds for unopened packages bought prior to the agreement.

Setting the price was a complicated affair, says Billings. Claris considered several factors; after reviewing the use and spending patterns for the K–12 market, it computed the average number of machines per school building and then factored in the estimated percentage that was likely to be Apple® II machines. In addition, it looked at the price of its single-user packages and ten-packs. By combining that with the number of copies of the application that schools were buying, it arrived at an equitable price that would make it worthwhile for schools to license the product. The final cost: slightly less than the price of two ten-packs.

There are no generic formulas for setting the right price, but don't forget to ask yourself an obvious question that can get lost in the shuffle: Does the license cost more than the customer would pay for individual copies for all current users? If the answer is "yes," then be prepared for a highly charged discussion when you make your proposal.

Customer Service and Support. To what extent will you support the customer after the sale? This issue can determine the ongoing relationship with your customers. Claris' Michael Looney points out, "How you service a contract depends on how you've positioned it to the customer and what drove the customer to accept the site license. If a customer has an in-house support organization or for some other reason plainly doesn't need much support, that's one thing. But, for example, if you are positioning the license as a means for a customer to manage a site, then it becomes a customer-service issue that very appropriately requires the developer's attention." The level of service a customer needs can also depend on how much experience users have with the product. Depending on their size and in-house resources, some customers may want more support than others.

Customers will also want to know what support they can expect if you go out of business or discontinue the product(s) they have licensed. Your support plan should include contingencies for these possibilities.

The hidden cost of support can be significant. A developer should plan resources accordingly or make customer-support arrangements with a third party. One way to minimize the draw on your resources is to designate a support contact at a customer site through which all help requests are funneled. Similarly, a

designated customer contact who is responsible for updates can reduce your potential headaches as well.

Site licensing can meet both your needs and those of your customer—if it's thoroughly evaluated and approached with caution. There's nothing simple about it, and it's not for everyone. But if you enter with your eyes wide open, you'll probably be well ahead of the game and be better equipped to navigate the maze. □

SIDEBARS

Negotiating the Contract:

Stock Up on the Aspirin

A site license is a written agreement, a legally binding contract. Books have been written about negotiating contracts, and covering that subject here would be impossible. But a few words should at least give you a developer's perspective—at least an inkling—on the effect that the negotiating process can have on your bank account, resources, and relationship with your customer.

Negotiating a contract is a very time-consuming (often four to six months—or more) and sometimes frustrating process, for several reasons. The developer is but one side of what is essentially a triangle: the person responsible for filling customers' needs (the developer), the people responsible for protecting and limiting liabilities (both parties' lawyers), and the person responsible for making the customer company more productive (the customer contact/ advocate). You

not only have to cope with your needs and frustrations, but you might also have to encourage the customer advocate.

“Hire a good lawyer,” insists Richard A. Skeie, President of CE Software, Inc. This advice is echoed by almost every developer who has taken the plunge. “Get some sample contracts that have worked well, and pull them apart to find out what made them work and what pieces can work well for you,” he says. Skeie, who has been through the process several times (and lived to tell about it), says, “Aligning everyone’s interests can be a Herculean feat. Often the lawyers are trying to get rid of the liabilities, the developer is trying to put them back in, and the advocate at the customer site ends up being frustrated because time is passing and no product has been installed.” He adds, “During the negotiation process, it helps if you are aware of each party’s role; in particular, remember that the agenda of the customer’s legal department is not to help their users be satisfied with software but instead to limit the exposure and liabilities of their company.”

Developers experienced in this process often recommend creating a boilerplate contract, if at all possible: Eighty to ninety-five percent of the contract should be standard for most situations, and the balance can be customized to meet the special circumstances of a particular transaction. “Also, although your contract draft may be somewhat flexible and modifiable, don’t present it that way,” suggests Skeie. “But if you are totally intractable, you may send up red flags to the customer’s legal department. The result could be that during the inevitable modification process, you may spend most of your profits in legal fees,” he explains. “This is a tough process, no matter how you approach it.”

The Dealer Connection

Can a site license put a strain on your relationship with resellers? You bet it can, if inappropriately handled. Most site licensers with established sales channels have recognized the impact a site license can have and the importance of not alienating their resellers. Many offer a commission of some sort for every site license negotiated with a reseller's customer or potential customer.

Claris, for example, asks a school to designate an "installing dealer," usually the dealer the school uses for support or other software purchases. The dealer receives a one-time fee (since a Claris license is a permanent, one-time contract per licensee) based on the amount the school is paying for the license—regardless of whether the dealer is actively selling to or supporting that school. "Dealers are useful support mechanisms for schools," says Karen Billings, Claris' K-12 Sales and Marketing Development Manager. "The installing dealers also become excellent sources for referrals. We get a new customer, and the dealer gets another compensation fee. For us, it's a win-win situation."

Symantec sometimes works with resellers on site licenses when the reseller brings the company one. Symantec then negotiates the terms and conditions directly with the customer and gives the reseller a commission. In any case, experienced developers say that it's essential to include resellers in the site-license process.

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