

## **Wanted: Low Cost Software**

March 1991

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Apple Europe reports that Macintosh unit sales in the first quarter of 1991 were up 100 percent over the year-before quarter, a leap that can be attributed largely to the broad market acceptance of the Classic. In Japan, where overall unit sales are also expected to double this year, the Classic and LC are paving the way for Apple Japan to build a successful "individual market" comprising consumers, home-business users, students, and other first-time buyers. In fact, Apple Japan projects that this market will account for 45 percent of its Macintosh business this year. And in the U.S., of course, the new machines are enjoying tremendous success.

Clearly, the Macintosh Classic and LC are selling well in all of Apple's geographic regions and are having a significant impact on Apple's installed-base numbers. The introduction of the new printers promises more of the same, meaning that developers who act quickly to address the needs of this fast-growing market can put themselves in a very advantageous position.

### **THE LOWDOWN ON SOFTWARE**

Talk to any third-party manager in any of Apple's country-subsidary offices, and they will tell you the same thing: There's a huge opportunity for low-cost software to go with the new machines and printers. In most markets, a limited number of applications are appropriately priced for Classic and LC buyers, but software prices outside the U.S. are generally relatively steep in relation to the cost of the new CPUs.

In the U.S. too, there's a demand for lower-cost third-party products, but the biggest gap exists in 2 European and Pacific Rim countries, where the demands of localization and the patterns of distribution can drive the price up.

Outside the U.S., there's historically also been an acceptance of value pricing that derives from the relative rarity of certain types of localized software. A Dutch or Chinese version of a page-layout program, for instance, might be able to command a premium price because it's really the only one of its kind available. But with lower CPU prices, a high-priced product like that might not sell because the market simply won't bear routine

markups as it has in the past. If a program costs half to two-thirds of what the machine itself costs, then customers will probably look elsewhere for software.

**Repricing or Redesigning?** Leaving aside the issue of distribution costs for a moment, there's another factor that comes into play: products need to have the appropriate feature set for the market. Although restructuring the pricing model for an existing product might give it a major boost in some countries, some products might be too feature-rich to really appeal to the Classic/LC/Stylewriter crowd anyway.

Instead, what may be called for (depending on your existing product line) is a no-frills product that gets the job done in a simple, straightforward manner but doesn't have three-dimensional graphics or a report generator bolted onto the side. (See "What I Don't Need Is Featuritis," elsewhere in this issue.) Keep in mind that at least half of the people buying the new systems are first-time buyers—they won't necessarily be impressed with (and may actually be scared away by) added functionality.

What kinds of products do Apple third-party managers think are in demand? Across the board, from Ireland to Australia, they all say there's plenty of room for entry-level word processors, file-management programs, and spreadsheet programs, with an especially strong interest in low-end integrated software. In some regions, there's a big opportunity for educational software as well. If you're interested in the specific needs for an individual market, be sure to contact the Apple third-party manager in that country for advice.

**Built for Speed** In general, though, the most attractive products will be those that are uncomplicated, have simple documentation, and make efficient use of memory. "We would like to see products with limited function and high speed," says Eikoh Harada, Director of Marketing for Apple Japan. Not only are simpler products appropriate for the market but they're also easier to localize. Smaller manuals mean less translation time and reduced printing costs.

In Japan in particular, there's a desire to see low, low-end software that will appeal to the consumer market. For instance, Catena Corporation, parent company of ComputerLand Japan, is looking for products it can localize and sell for less than ¥10,000 (\$80).

**HOW LOW CAN YOU GO?**

Assuming that you have a product that makes sense for Classic and LC buyers, you are faced with the distribution issues that confront all developers who go beyond their native market. When you're dealing with distributors or republishers in other countries, numerous costs come into play that don't apply when you stick to your local market. The distributor or republisher often acts as your marketing arm by doing promotions, support, training, advertising, and the like and so expects a percentage for those activities. The republisher may also be doing localization for you, which involves a percentage or fee. How then, can the price of low-cost software stay low when all these structural expenses are involved?

**The Big-Profit, Low-Volume Model** The first recommendation third-party managers make is that you examine your pricing structure and your business objectives for an individual country. The phenomenon of value pricing, as described above, has meant that some developers have priced their products at the maximum the market will bear. This means that these developers are sometimes setting suggested retail prices at 50–200 percent more than their home-market suggested price and are actually making more money per unit, even though the distributor/republisher is getting a bigger cut (see Table 1, page 20).

In our fictitious example, Everyware, Inc., sells its spreadsheet program in the U.S. for a suggested retail price of \$250 and in Sweden for 2300 SEK (or about \$400 U.S.). Even though Everyware gives its distributor/republisher a bigger margin in Sweden, Everyware actually brings in 28 percent more in revenues from each sale of MondoCalc in Sweden than it does in the U.S.

**The Ramifications of Repricing** Of course, you can justify the economics, saying that higher per-unit revenues make up for lower volume. However, in the case of the Classic, LC, and new printers, we're talking about high volume, and it might be worthwhile to reexamine your volume/pricing model if you want to capitalize on the success of these systems.

In our example above, Everyware could reduce its suggested Swedish price to more closely approximate the suggested U.S. price (say, \$300). If the current margin structure were maintained, then Everyware would make about \$120 from each unit sold in Sweden (about the same as what the company gets from a U.S. sale) and the republisher would

get about \$75 (a 25-percent drop in gross dollars). In order to get the republisher to agree to this reduction, Everyware might have to give up some additional percentage points or offer a volume-performance reward for the republisher. Because of the potential increase in volume, it might be in Everyware's best interest to make less per unit on this product.

**Scaling It Down to Size** Making such adjustments can be a challenging process, but it can be done and it can make good business sense. Apple itself had to make a pricing-paradigm shift when coming out with its lower-priced products. We had to adjust our business model to account for lower margins on products we believed would create high volume. We based it on (correctly) perceived demand and the long-term benefits we expect it will bring to Apple.

**Localize Locally** Adjusting the margin structure is one way to cut down on the "middleman dollars" in your international-pricing equation. Another way is to eliminate some of the costs distributors and republishers require. Localization, for instance, is often handled by a distributor or a republisher but can actually be handled more economically in your own country. If you can localize your product and translate your manual before handing it off to distribution partners in other countries, you can avoid giving them the points they would normally get for localization services. (An additional benefit of localizing the product locally is that you then own the translation of the product—which is often *not* the case when your distributor or republisher localizes for you.) See last month's *Apple Direct* for a list of localization services, many of which specialize in particular languages.

Establishing better pricing parity around the globe does more than produce higher volume. For instance, the better the price and the easier your product is to obtain (legitimately) in international markets, the less it will be subject to piracy. Also, if your pricing is attractive in a particular market, it may dissuade more-savvy customers from buying through mail order and other "gray" sources, thereby undermining the local channels or local presence you're trying to build. These ideas apply, of course, whether you're selling low-cost or high-priced products, but the Classic/LC/StyleWriter buyer is going to be an especially price-sensitive one and will be looking for a good deal. □

## Tables & Sidebars

### Table 1: One Company's Pricing Model

- MondoCalc by Everyware, Inc.

2 In the U.S. (Suggested Retail Price=\$250)

	PERCENT OF RETAIL PRICE	REVENUES PER UNIT (IN DOLLARS)
Everyware	50%	\$125
U.S. distributor	20%	\$ 50
Dealer	30%	\$ 75*
Total	100%	\$250

*(\*Actually, the dealer probably sells at a discounted "street price" for about \$200 and so receives only \$25 in profit.)*

2 In Sweden (SRP=2300 SEK) (or about \$400 U.S.)

	PERCENT OF RETAIL	REVENUES (SEK)	REVENUES (\$)
Everyware	40%	920	\$160
Swedish republisher	25%	575	\$100
Dealer	35%	805	\$140**
Total	100%	2300 SEK	\$400

\*\* *No dealer discounting*

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