July 2005 Issue

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Editor's Cut

During my tenure as a writer at *Technology Marketing* and *Brandweek*, my editors demanded stories about big branding campaigns from big-name brands. Because of that mandate, I rarely covered the nuts and bolts, down and dirty marketing that takes up the majority of a CMO's 12-hour day.

Now that I'm with the CMO Council, I'm learning that smart marketing—especially in today's global 24/7 environment—is far from $10 million TV and print efforts. It's more about utilizing the right resources, putting the right technologies, processes and measurements in place, and setting the optimal mix of a myriad of marketing delivery channels.

I'm also finding out that doing all, or even some, of the above isn't easy. To touch on measurement, the results are in for our "Measures and Metrics: The European Marketing Performance Measurement (MPM) Audit," an extension of the comprehensive North American study fielded last year. We found that Europe is lagging behind North America in MPM—although to be fair, MPM adoption in North America has a long way to go. While 80 percent of European companies surveyed are unhappy with their ability to measure marketing programs, nearly half say they have no MPM system in place. For a detailed presentation on the study, go to http://www.mpmforum.org/PDF/MPMEuro_presentation.pdf.

It's clear that marketers are grappling with these issues on both sides of the pond. Currently I'm in the middle of interviewing marketing executives (and CMO Council members) for an important thought leadership initiative titled "Renovate to Innovate: Building Performance-Driven Marketing Organizations." Unlike the guy at *Time*, I'm not going to reveal who said what, but I can tell you that the top-level marketers from big-name companies are seriously searching for answers on how to raise marketing accountability and yield in their organizations, which in turn will lift marketing's credibility with the CEO and the rest of the management team.

A few of the CMOs I spoke to referred to a "killer app" that will magically enable optimal marketing results. From what I've observed, there's no such thing. The process to transform a marketing organization from a discarded old clunker to a well-oiled machine that plays well in the boardroom requires a roll-up-your-sleeves mentality, incredible patience and a CFO-like, numbers-oriented mindset.

And it can be done. To prove it, at a private roundtable discussion last month—hosted by MarketBridge, our Renovate to Innovate partner—savvy marketers from heavy hitting brands conveyed to a select audience how they rebuilt their organizations from the ground up, in some cases saving millions of dollars while increasing yields by as much as 20 percent. One example: A top software company is rethinking its global agency relationships, cutting the number of agencies from over 10,000 to 300, while implementing a comprehensive set of marketing metrics throughout the group. Estimated savings: $100 million (a number only the C-suite could love).

The goal of our Renovate to Innovate initiative is to help marketers gauge and analyze their own internal processes, people and tools, while developing fresh ideas and best practices that constitute a true Performance-Driven marketing model. Study findings will be previewed at the CMO Council Summit 2005 in Monterey, Calif. Oct. 27-28. We hope you can make it.

In related news, fresh off a successful meeting in Munich this month, our Marketing Performance Measurement (MPM) Forum series heads to New York City on Sept. 7. To register, go to www.mpmforum.org.

Finally, please take a few seconds to take a poll from one of our media partners, eChannelLine. The poll is under “Your View” at this link: http://www.integratedmar.com/advisor/online.cfm. Channel knowledge is another top-of-mind subject for tech marketers, and eChannelLine stays on top of all channel news and developments.

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Want to "Test the Federal Marketing Waters" Before a Major Push?
Washington DC is the ePlace to Be
By Gal S. Borenstein

For suspecting Chief Marketing Officers who are "sitting on the fence" wondering if they can afford a major marketing push toward the federal government, I wanted to offer a piece of sound advice that works: YES YOU CAN. The federal government provides an "almost perfect prospect" for savvy technology marketers who choose to "test the waters" before engaging in full-contact marketing, using online marketing almost exclusively. The reason I say "almost perfect" is that the long prospecting cycle, from contact initiation to contract closing, is certainly made for companies with nerves of steel who have made a strategic commitment to their success in this lucrative but tough-to-crack market.

You might be surprised to know, but a recent study conducted by *Federal Computer Week* showed an impressive 73 percent of readership going online *first* before print, vendor literature, mailings, and conferences to gain insight into news. So, before you're thinking "big budget," why not test your assertions about "value," "mindshare," and "level of interest" with the most measurable part of marketing communications? Online marketing!

There are five "Must-Read/Must-Advertise" government-related Web portals that federal marketers use to reach out and gain electronic mindshare. These are:

1. **Federal Computer Week** www.fcw.com
2. **Washington Technology** www.washingtontechnology.com
3. **Government Executive** www.governmentexecutive.com
4. **Government Computer News** www.gcn.com
5. **AFCEA's Signal Magazine** www.afcea.org/signal/

Once you have identified the proper sections of influence that are relevant to your technology solution, here are three strategies that will surely allow you to paint a solid picture within a defined timeline. One that you can bring to management for review and extrapolation.

1. Create a Downloadable Best Practices White Paper
The Washington technology community uses Web portals extensively to learn about the latest and greatest trends, regulations, policies, and procurement issues that affect their federal agency. Your company can create a substantial thought leadership position by placing your "best practices" white paper for immediate download on some of the most respected news and knowledge portals within the government technology community. These portals are subject-specific, which means it allows an advertiser to gauge the level of interest that prospects have for their solution by using Web analytics and the number of downloads on a particular topic. They vary from Enterprise Architecture Applications, to Information Security, to Wireless Telecommunications and beyond. The Borenstein Group has used this technique for several clients to determine whether the brand message should be shifted from technical to business-speak or vice versa.

2. Sponsor a Direct eNewsletter Link in Your Particular Area of Expertise
We all dread receiving HTML and text-based spam, but it isn't spam if you asked for it. Washington-based media organizations, such as *Federal Computer Week* and Washington Technology, have one of the highest quality e-mail lists in the business. Well-segmented, well-qualified and highly cost-effective, you can easily segment specific government decision makers in an area such as Homeland Security and Information Technology, and reach over 10,000

prospects in the well-branded context of hard news delivered to their mailbox. Best of all, you know for a fact that they received it and can build a mailing campaign to follow up later in your marketing cycle.

3. Buy "Inset White Paper Online Ads" Through Online Networks

For a fair pay-per-performance cost, you can certainly afford testing some of your most daring white paper concepts online with the best possible placement in all of the publications noted above. Online advertising firm Industry Brains (www.industrybrains.com) offers advertisers a guaranteed bid placement right on the homepage of *Federal Computer Week*, *Washington Technology*, *Government Computer News*, and others under sections that vary in name but catch the eye of discerning federal readers. Remember, your white papers will receive little or no clicks unless they are pushing a "strategic topic of interest" as opposed to shameless self-promotion.

Why do I like these three techniques? Because The Borenstein Group and other marketing communications agencies and their technology clients can instantly show return on investment through meaningful Web analytics. You can gauge what your competitors are doing. You can gauge the level of interest one has in your specific line of business, and you can certainly customize your own corporate online content to fit and qualify the audience. Who can ask for a lower-risk strategy to enter a market?

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The Truths About Branding

By Patrick Ahern & Gregg Lederman

Building and executing a brand strategy has proven to be the most compelling way to establish a sustainable, profitable point of difference in the market, yet only a very few companies have really figured out how to *brand* successfully. To initiate a comprehensive brand strategy, it is critical for an organization's leaders to be aware of—and work towards—the Truths About Branding.

Truth: Branding is about creating and managing perceptions

Branding is one of today's most overused and misused buzzwords. The term dates back to the Wild West when cattle ranchers would put an indelible mark on their livestock to stake their claim. In today's business world, the meaning of the word has not changed that dramatically. Organizations attempt to brand themselves and their products or services, hoping to leave a lasting impression on customers that will influence their thoughts and actions. In the 1980s, advertising firms took the concept of branding to a whole new level when they recognized that through powerful communications and compelling visuals, organizations could actually drive greater connections with consumers leading to greater loyalty. Over time, it became apparent that consumers did in fact begin to "identify" with brands, thus proving the agency theories correct. However, creating the brand is the easy part. Managing perceptions is considerably more difficult.

Truth: True branding is about being different, not saying different things

Customers don't purchase products or make referrals because they like a brochure or because a marketing slogan grabs their attention. They become loyal to a company and its offering because the uniquely delivered experiences they have with it are relevant to their lives. With the average consumer trying to process more than 3,000 marketing messages a day, getting differentiation across via traditional marketing tactics is nearly impossible.

Truth: A sustainable and profitable brand is built from the inside out

Leaders who execute successful brand strategies embrace two distinct definitions of the word "brand":

- Brand on the inside: A brand is the catalyst for aligning employees and driving a performance-based culture (or non performing culture)
- Brand on the outside: The sum total of every experience a customer has with an organization, including its products and services

Organizations like Jet Blue Airlines, Starbucks and Dell understand building a brand strategy is not simply a marketing discipline. The reality is that operations and human resources play a more significant role in the early stages of launching and maintaining a successful brand strategy. This is not a chicken and egg scenario, as process and people must be thought of first if an organization is going to be able to keep the promises the marketing department will ultimately make.

The purpose of a brand strategy is to close the gap between w*hat an organization tells its employees and customers* and *what their offering actually delivers*, and it takes the collective effort of the entire organization to ensure the gap stays closed.

Contrary to popular opinion, Marketing does not control the internal activities and behaviors that drive brand success. Marketing should not be expected to play the lead in the development of a brand strategy. Rather, in partnership with all other functional disciplines (finance, HR, operations, etc.) throughout the organization, marketing plays just one, albeit a critical, role in brand building success.

Truth: Only leadership has the power to ensure brand success
A brand strategy's success depends on its alignment with the overall business strategy, and this is largely driven by CEOs and leadership teams.

Leadership has two types of power that is absolutely required for brand strategy success:

- *Purchase Power* – both knowledge and money are required to execute a brand strategy. Because a brand strategy is accountable for delivering top and bottom line business results, the buyers must be fully aware of the business plan, its objectives, and strategies.
- *Execute power* – executing a brand strategy requires focus, passion, and persistence. There are a four barriers to optimal execution that leaders are best suited to overcome:
    - Consciousness: Enabling other leaders and employees to become aware of the need for a brand strategy due to existing business realities. Leaders are well positioned to help others overcome their comfort with the status quo.
    - Resources; Reprioritizing energy, commitment and focus. Leaders can take the necessary control to reallocate both people and budgets, ensuring smart investment in the growth of the organization.
    - Motivation: Engaging and inspiring employees to embrace the strategy and deliver it through their attitudes and behaviors. Leaders can assign change agents and create the necessary "buzz" about successes as they occur.
    - Egos: Overcoming internal politics caused by individuals whose beliefs are not aligned with those of the organization or who feel threatened by the brand strategy because of the impact on their role and accountability. Only leadership can ensure a "spirit of execution" where people's hearts and minds are aligned enough to encourage voluntary cooperation to execute the strategy. In addition, leaders are best suited to proactively identify and influence the roles of the supporters and detractors.

Patrick Ahern and Gregg Lederman are partner and managing partner respectively at Brand Integrity, Inc., a Rochester, N.Y.-based firm that specializes in the design, facilitation and implementation of brand strategies. Brand Integrity's client roster includes Hallmark Cards, Inc., Duke Energy Corporation, Wegmans Food Markets, PAETEC Communications, Frito Lay, American Red Cross, and many others.

Optimizing and Predicting Marketing ROI for Alliances, Channels and Business Partnerships
By Bill Davidson

The adage "do more with less" when it is applied to a company's marketing department can lead to "we don't have enough staff to get the job done" and "We will have to make do."

As companies recover from the very recent recession, most companies' strategies include a new marching order that revolves around providing justification for all expenditures. In the marketing department, the new orders mean that marketing program effectiveness will need to be proven in order to receive marketing budget increases. CMOs and marketing executives struggle with how to prove that the cash spent on marketing programs is or will generate revenue and/or increase company value. When analysts ask the CFO to justify expenses or expense projections as they relate to marketing expenditures, the CFO needs supportable answers.

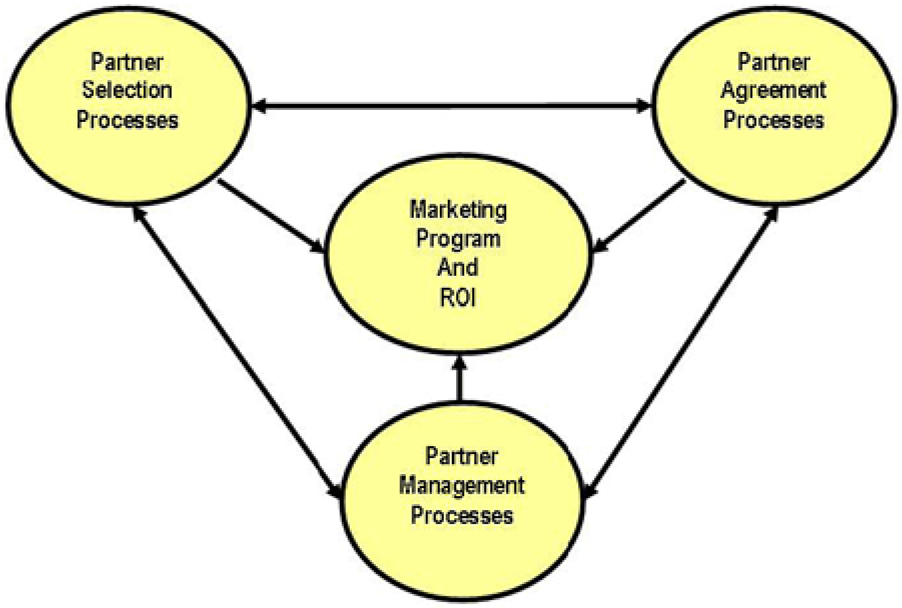
It is even more difficult to justify program effectiveness when it applies to a company's alliances, channels and business partnerships. Even though many of these partnering programs use marketing development funds and co-op dollars, the marketing expenditures need to be justified and the programs need to be measured for effectiveness.

Marketing development fund dollars for committed programs are carried as liabilities on the balance sheet. Companies create co-op marketing programs that are jointly paid for by both the vendor and the partner. These marketing expenditures also need to be justified and measured for effectiveness. Companies also create marketing programs for the direct sales organization. Some of the leads generated may be passed to partner organizations. When this happens, the leads must be tracked and the marketing program's effectiveness must also be measured.

When measuring marketing program effectiveness and determining ROI as it applies to a company's business partnerships, numerous cross-functional and partnership lifecycle components must be measured to generate accurate measurements.

So what are the factors that can impact marketing programs done with and on behalf of a company's partnerships?

Since business partnerships, alliances and channels are out of the vendor company's direct control, all of the processes can impact a marketing program's effectives. As the importance of partnerships will increase by 65 percent over the next three years, being able to accurately measure marketing program effectiveness will also be increasingly important. The model 1 below demonstrates the potential functional and cross functional relationships that can impact marketing program effectiveness.

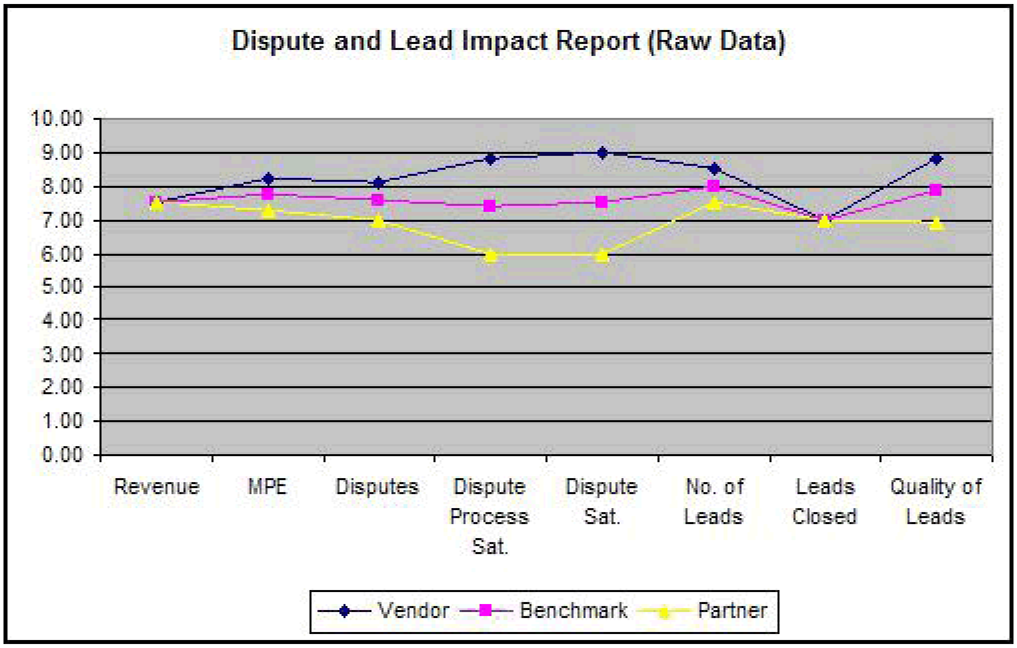


The model considers that for every action or change in a partnership lifecycle, there will be an equal reaction to the action or change somewhere else in the lifecycle or the results generated in the lifecycle.

In the following example, please replace the text in the middle circle of the model from Marketing Program and ROI to Partner Revenue. Now, if a company replaces an alliance manager that a company's partners deem to be more effective, revenues generated by those partners may increase. On the other hand, if other partners deem that the new alliance manager is ineffective, those partners' revenues may decrease.

Another example is when some partners are unsatisfied with the resolution of a sale's dispute and the sales dispute process that was used: revenues by those partners may decrease. As a result, the company may change the dispute process so that the effected partners may be more satisfied and in turn, revenues begin to increase.

When placing Marketing Program and ROI back in the middle circle and using either previous example and adding leads given, leads sold and were leads qualified as additional measurements for some partners, one may see that qualified leads may go down in rating even though other partners rated quality of leads as higher than the previous measurement. Revenue may still have decreased.



The above chart provides information regarding disputes and leads against revenue and marketing effectiveness. It demonstrates that there could be numerous relationships and conclusions drawn from the data. It also shows that there are significant differences between the vendor's point of view and the partner's point of view.

A few of the questions answered by Partner Value Optimizer's data analysis as it relates to marketing ROI are:

- What is the value of the relationship between marketing effectiveness and revenue?
- What is the value of the relationship between marketing effectiveness and the number of leads generated, leads closed and quality of leads?
- What is the value of the relationship between marketing effectiveness and number of disputes, dispute satisfaction and dispute resolution satisfaction?
- What is the value of the relationship between revenue and number of leads generated, leads closed and quality of leads.
- What is the value of the relationship between revenue and number of disputes, dispute satisfaction and dispute resolution satisfaction?
- What is the value of the relationship between revenue and number of disputes and quality of leads?
- What is the value of the relationship between marketing effectiveness and number of disputes and quality of leads?
- Once the reported alliance, channel and business partnership data is understood and relationships between the variables are established, the continuous collection of data will generate predictive analytics that can be used to determine future marketing program effectiveness, marketing ROI and revenue generation.

Can PVO analysis be relied upon as an accurate reflection of a company's marketing program effectiveness? Yes, as long as all of the impacting criteria can be captured as it relates to alliance and business partnership policy, programs, processes, people and behaviors and that it can be compared to quantitative performance data.

The task is not as daunting as it seems. It does require improved and effective communications between a vendor organization and the partner organization. What is working and what is not needs to be discussed and agreed upon. Program changes and their impacts will need to be tracked to understand what changes occur in other areas as a result.

Marketing ROI and effectiveness are predictable based on historical performance, current market trends and relationship performance analytics and analysis.

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Business's Digital Black Cloud

New, faster computer chips are challenging the traditional structure of the huge business-software industry

From *The Economist*

For the past 40 years, companies around the world have grown accustomed to a doubling in computing power every 18 months to two years—fulfilling a remarkable forecast made in 1965 by Gordon Moore, one of the founders of Intel, a semiconductor powerhouse based in Silicon Valley. As their businesses have expanded, managers have been able to sleep easy in the knowledge that next year's computers would be more than able to keep pace with their needs and probably cost no more than last year's models.

Alternatively, slowpokes with steady workloads have been able to replace ageing computers with flashier models costing half as much. The declining real cost of computing has been an economic boon.

Even as millions more transistors are crammed on to slivers of silicon, Moore's law continues to deliver the goods. But the tricks chipmakers such as Intel and AMD are exploiting to achieve this miracle are changing the whole approach to enterprise computing. In the process they are unleashing powerful disruptive forces. New chip architecture is allowing them to roll out ever more heavy-duty hardware at competitive prices.

The real losers in the pending upheaval could well be software suppliers. Firms such as Oracle, SAP and IBM, whose bedrock of business, could be badly bruised in the process. But inevitably, end-users—companies big and small that depend on enterprise software to do their various business transactions—are going to be feeling pressure as well.

Over the coming year, they will have to keep their wits about them if they are to prevent their licensing costs from escalating out of control. For many, the choice could come down starkly to accepting costlier new ways of being billed for the corporate software they depend upon for their livelihoods, or biting the bullet and switching to “open source” programs that may be free to license but have plenty of hidden costs.

The current brouhaha over software licensing has been set off by the arrival this month of large quantities of chips containing two central-processing brains (or “cores”) on the same device. Chipmakers have known for some time that merely cranking up the internal speed of their computational engines was delivering diminishing returns. Today, the coordinating internal clocks on some of the fastest chips beat at four billion times a second (4GHz in geek-speak). This furious internal activity gobbles up electrical power. In turn, that makes the chips scorching hot. Cooling them down so they can do their job properly has become a costly nightmare, especially when such chips are used in cheap, but poorly ventilated, “blade” computers (so-called because they are wafer-thin and plugged together in racks like packs of disposable razor blades).

The answer has been to put two or more smaller cores on a single chip. By sharing the workload, the separate cores produce less heat. But being on the same tiny piece of silicon, they still have the speed advantages that come from having all the core's ancillary components within easy reach on the same device.

Actually, dual-core processing is nothing new. IBM and Sun Microsystems have been supplying processors with two or more cores built into them for several years. But these have been thoroughbred chips for powerful Unix workstations used by scientists and engineers for cutting-edge research.

The difference today is that the dual-core approach is now being applied to the workaday processors that run the vast majority of Microsoft Windows, Linux and other popular programs designed to exploit the internal instructions used by Intel's ubiquitous Pentium processor. Such chips power not only hundreds of millions of personal computers, but also the tens of thousands of back-office servers that dish out data over computer networks to employees throughout an enterprise. It is the latter that are the mainstay of companies' IT departments everywhere.

In April, Intel and AMD announced separately that they would be delivering dual-core versions of their high-end processors later this year. AMD has been the first to ramp up production of its new device and has now started delivering its dual-core Opteron processor in commercial quantities for $2,650 apiece. Intel is expected to start shipping dual-core versions of its Xeon and Itanium server chips in volume later this year.

Meanwhile, the leading server manufacturers, including Hewlett-Packard, Sun Microsystems and IBM, have begun taking orders for their new dual-core computer systems.

With the wholesale switch to dual-core processing, some software firms feel they are about to be short-changed. If two cores on a single chip can do twice the work of a single processor, they argue, then customers paying licence fees based on the number of processors running their software (one of the most common forms of software licensing) will be getting a free ride on half the new cores being deployed. Actually, because of internal losses and design restrictions, dual-core chips tend to do the work of anything from 1.3-1.8 comparable single-core processors, depending on the applications they are running. But the free-ride argument still stands.

The core of the matter

As the dominant supplier of database software, Oracle has expressed its concern about the shift to multi-core processing and is adamant: customers will be charged by the core rather than the processor. The firm actually uses two different forms of software licence.

One is based on named users and is for customers with a more or less fixed number of defined users. The other is for firms with populations of users that are hard to define, and is based on the number of processors within an enterprise that are running Oracle software. Customers can choose one or the other. Behind the scenes, however, Oracle is actually more flexible than the image it presents. In the past it has used other means to price its software—concurrent user, named user on a single server, named user on multiple servers, processor, you name it. Some years ago, when Oracle based its pricing on the performance of the underlying hardware, licensing fees leapt in line with soaring chip speed. Faced with a customer rebellion, Oracle dropped its power-based metric in favour of a simple processor-based policy. “We've found that our customers are more satisfied when they can easily identify and predict what their licensing fees will be,” says Jacqueline Woods, vice-president of global pricing and licensing strategy.

That is the official line. But when customers complain to Oracle's sales representatives about the firm's aggressive pricing, they are quietly advised to talk directly to customer support. The company does not admit to any backdoor deals, saying only that it is “committed to providing customers with simple, flexible and transparent pricing.”

IBM has been even more circumspect, announcing that its software licences for computers running single-core or dual-core versions of the Opteron or Xeon processors will cost the same. But IBM has yet to announce what its licensing policy will be for running its big software suites, such as DB2 and WebSphere, on computers powered by Intel's more advanced Itanium multi-core processor. Even so, the announcement on Opteron and Xeon licensing was a big turnaround for the firm: it has charged customers on a per-core basis for running its software on the powerful dual-core Power5 processor it makes in house.

IBM says the boost in power that customers will get from the new dual-core chips from AMD and Intel will be only incremental. Its own dual-core Power5 is a third-generation processor for top-of-the-range servers, which deliver double the value in the highly tuned applications they are bought for. But insiders suspect that IBM's change of heart—at least where the more popular dual-core processors from AMD and Intel are concerned—was a ploy to cast Oracle in an unfavourable light, and try to steal market share.

Another software firm that is seeking to capitalise on the computer industry's current turmoil is Microsoft. When the licensing issue was first broached publicly last October, Microsoft came out uncharacteristically on the side of customers. In a move calculated to win users over, the Redmond-based company announced that it would be licensing its server software on a per-processor basis. That meant only one Microsoft licence would be needed for any dual-core Opteron or Xeon server. The same would apply to Itanium systems when they arrived, too.

Altruism played no part in Microsoft's commitment to processor-based licensing. By ensuring that customers using its Windows Server family of products (such as Microsoft SQL and Microsoft BizTalk) would not have to pay any more when they upgraded to multi-core processors, Microsoft very effectively seized at least the low ground in ongoing debates about total cost of ownership (TCO) and return on investment (ROI) of computer purchases. (These abbreviations have become standard parlance among IT managers since the bursting of the dotcom bubble.)

By addressing these concerns with a cheap and easy route to multi-core computing, Microsoft is positioning itself to grab more of the lucrative market for enterprise software, where, unlike the desktop market, it has faced tough competitors with beefier products and well-entrenched positions in customers' premises. But if they do not respond in kind, Oracle, SAP, IBM, BEA, Siebel and Veritas could find themselves losing out to Microsoft's budding family of server software and its processor-based licensing. On top of that, users will not be amused by software suppliers that raise licensing fees for applications that run on top of a Windows server, especially when Microsoft has not changed the licence for the underlying platform.

Hard to be soft

Users have lots of other grouses. With some justification, they argue that software suppliers—at least the vast majority that license their products on a user or processor basis—did not raise prices during the megahertz race when computers became faster and more efficient. Likewise, they say, dual-core architecture is just another way for the hardware-makers to boost the speed of their machines, and should thus be treated the same as raising clock speed.

In short, users feel it is grossly unfair for software firms to charge more for improvements that stem entirely from buying better hardware. It is not as though IBM, Oracle and others have had to rewrite their big database or transaction programs so they can run on the new processors. In fact, the software will not even notice the difference.

Some customers have likened Oracle's insistence on core-based licensing to a form of double taxation. But users admit that change is probably inevitable. Dual-core Opterons and Xeons are only the beginning. Computers with processors that use four or more Pentium-like cores will start arriving in 2006. And industry watchers expect the trend to ever greater numbers of cores to accelerate. For instance, the New York office of Ogilvy & Mather, an advertising agency, is currently testing a computer appliance built by a small computer maker called Azul Systems that uses 24 cores per chip.

Complicating matters even further, servers these days tend to have more than one processor inside them. The wholesale endorsement of Linux, the open-source operating system for Pentium-style processors, by the world's leading hardware and software firms (with the exception of Microsoft) has turned it into a formidable platform for enterprise servers capable of ganging dozens, even hundreds, of internal processors together into a giant “symmetric multiprocessing” unit that behaves as a single entity. Add multi-cores to multiprocessors, and today's software licensing policies quickly become untenable.

The software industry's licensing dilemma does not even end there. There are two other developments in computer design that could cause licensing anarchy. One is known as “partitioning and virtualization.” Broadly, this involves using a single computer to create the illusion of having multiple computers, each with its own operating system such as Unix, Linux, NetWare or Windows; and each acting as if it had exclusive access to all the real computer's resources (eg, memory, drives, network adapters, communications ports, etc), without regard for all the other operating systems installed that think likewise.

Slice and dice

Virtualisation is actually an old computer trick, stemming from IBM's mainframe computers of the 1970s. It resurfaced in the late 1990s thanks to some nifty software developed by a company called VMware that lets users slice up a Pentium-style computer as if it were many different machines running different operating systems and software.

That started off as being a handy way for IT managers to test new software configurations before installing them company-wide. By 2002, however, customers had began to realise that a lot of the servers they had hurriedly acquired during the great Y2K panic at the turn of the millennium “were running with no more than 5% to 10% utilisation,” says Raghu Raghuram, senior director for strategy and market development at VMware.

Today, VMware's ESX and GSX servers and Microsoft's Virtual Server are being used to get more out of users' hardware investments, by allowing existing machines to run bestof- breed software, no matter what operating system it was designed for. While virtualisation may be great for hardware ROI, it wreaks havoc on software licensing policies.

Then there is the industry-wide trend to “rapid provisioning”. This is a way of providing capacity-on-demand, explains Amy Konary, director of software pricing and licensing at IDC, a computer consultancy. The idea is to make whole computers, parts of hard-drives (ie, partitions) or even individual cores instantly available, along with an operating system and entire stack of software applications, for a particular task that has cropped up and needs urgent attention.

Hewlett-Packard and IBM have developed new types of licences that allow some software to be used in such an intermittent manner. But the rest of the industry is still agonizing over how to license rapidly provisioned machines. One thing is for sure, says Ms Konary: users are unlikely to accept any requirement that makes them pay for a full software licence for such momentary use.

Clearly, the days of licensing software on a simple one licence per installation or on a straight per-user or per-processor basis are ending. A recent survey* conducted by a handful of software firms and trade associations in Silicon Valley found that while software suppliers were pushing for licensing models based on annual subscriptions, companies overwhelmingly preferred single, one-time payment methods, be they on a per-user or preprocessor basis (see chart). This was surprising because users have been decrying the high upfront cost of software and have been urging suppliers to provide much better value for money.

But given all the imponderables, it has become extremely hard, if not impossible, to quantify what the value of any given piece of software is.

What is known is that negotiating licences is not a trivial exercise. John Fowler, executive vice president of Sun's network systems group, finds that companies spend typically between eight and 12 weeks planning and discussing software licences with their suppliers. In its bid to answer the value conundrum, Fowler's firm has adopted the simplest of financial metrics. It charges firms a straight $140 times the number of employees on the customer's payroll for using its proprietary software.

Why $140? Because it seems to correlate with the price that the company and its customers think is good value for having no hassles. The simple subscription gives customers the unrestricted right to run Sun's software on as many computers, by as many people, and as often, as they like.

Others think that a better way of delivering value is to adopt some kind of utility model for software pricing—allowing users to pay only for what they use. Macrovision likens computer upgrades to a city upgrading its water supply system (hardware) to allow residents to use more water (software). The question, then, is should residents who do not want to use more water pay more for at least having the opportunity to do so?

Opinion is divided.

The maintenance model
But if Margaret Lewis, AMD's senior software strategist, is right, software pricing could be in for some radical rethinking. In her view, the open-source model of software licensing looks like being surprisingly attractive. This involves software firms licensing their products for nothing, while earning their keep from maintenance and support. Software firms such as Red Hat, Novell, Mandriva and a host of other Linux distributors already make their living that way.

Indeed, more and more suppliers of proprietary software are beginning to think along similar lines. Sun has recently made its flagship product, the rock-solid Solaris operating system, available with a form of open-source licence that permits it to be downloaded free of charge. Meanwhile, IBM has re-invented itself as a successful service company thanks to the way it has embraced open-source Linux and J2EE (Java 2 Enterprise Edition).

The clincher is that if software firms continue to think they can cash in on every new increase in computer performance, they will only encourage more and more customers to defect. And today, unlike a decade ago, open-source software has become just too good to be ignored. MySQL or PostgreSQL, two powerful open-source databases running on Linux, have become attractive alternatives to commercial products such as Oracle 9 or DB2 running on some proprietary flavour of Unix from Hewlett-Packard, Sun or IBM. The same goes for open-source servers such as Apache, JBoss and Samba.

Today, customers have a plethora of alternatives that should give enterprise-software firms pause for thought. Finally, of course, there is Microsoft. No one in the enterprise software business should underestimate its determination to own their market as well as the desktop business it already dominates.

Look for The Economist’*s next Technology Quarterly in September.*

Channel Chat: Be a "Wiz" With Channel Partners
Three Ways Marketing Leaders Can Improve Partner Communications

By Toni Clayton Hine

Despite what some technology manufacturers may want to believe, information about your products or your channel program is not the most important thing a Solution Provider will hear about during an average day. Solution providers are businesses, and they are most concerned with running those businesses successfully and profitably. If selling your products contributes to those goals, then the Solution Provider is likely to listen to your information – if it's presented in a format that sounds like it's focused on them instead of you.

Here are three suggestions for breaking through the noise to get your partner communications in sync:

1. Event management "wizard"

A successful marketing campaign is built of multiple touch points, with consistent messaging, orchestrated to deliver multiple contacts to targeted prospects in a concentrated period of time. Not only do each of these tactics have to be successfully executed to get good campaign performance, but the tactics need to be coordinated and managed in relation to the other tactics – which adds a layer of complexity to the marketing management process. For example, a customer education seminar – while proven to be a very effective market tactic – involves a series of activities that must be carefully coordinated: direct-mail invitations, telesales follow up for recruiting, e-mail invitations and confirmations, collateral materials, on-site materials, presentation materials, follow-up communications, etc.

When implementing channel marketing programs, it's important to remember that more than 60 percent of Solution Provider organizations don't have a marketing manager on staff, and those that do are often tasked with other operations, finance or sales responsibilities. As a result, many channel marketers find that getting a single tactic executed effectively with partners is a challenge, and delivering an integrated campaign of multiple tactics is a hit-and-miss process at best.

A leading-edge answer to this challenge is to provide partners with an integrated "event management wizard" that keeps track of campaign information, provides prompts for "next steps," and notifies partners of coming deadlines and important campaign milestones. This way you can provide extensive management oversight to a larger number of partners without generating too much manual labor.

2. Face-to-face workshops for developing a "services" practice

While your most important objective is to empower Solution Providers to sell your products more effectively, the process of getting them to agree and to aggressively engage their customers on your behalf is one step removed from talking about your products. In other words, to get a Solution Provider to sell more of your product, you need to talk to them less about your products and more about how they can build a business around your products. Building a business, with consistent, repeatable revenue, requires a combination of product sales and services sales – a mix of a traditional reseller business model and a pure professional services model.

While this logic may seem obvious to you, the mechanics of making it happen are far more complex. The truth is, building a business practice for services is more difficult than managing a pure product sales business and most traditional reseller companies aren't prepared to build that kind of practice on their own.

So to achieve your objectives, focus your outbound messages to partners on the topics most important to them: building a viable services practice, protecting margins on product sales, and increasing overall profitability. One way to do this is to provide training and counseling services to Solution Provider executives about the process of running a successful business.

3. Regularly scheduled Web meetings with extensive Q&A time

One of the most common complaints heard from Solution Providers about the communications they receive from vendor partners is that the information only flows one direction: from the vendor to the Solution Provider. Meetings, announcements, Web meetings, mailings and more are seen as a way for the vendor to talk to the Solution Provider, but they don't present an opportunity for listening.

While there is certainly an unlimited amount of information you want to communicate to your partners, it is important to provide them with an equal and perhaps even more urgent opportunity to share information or thoughts or experiences with you.

One way to accomplish this goal without adding even more layers of communication to an already noisy business relationship with your partners, consider re-balancing the proportion of your existing communication vehicles to favor inbound communications. For example, when a vendor hosts a Web meeting, the typical division of time in a one-hour meeting might look like 50 minutes of outbound content presented by the vendor and only 10 minutes of Q&A time reserved for the partners. The unintentional message communicated by this kind of allocation is that your messages are much more important than your partners' questions.

Certainly there will be times when you need to send important information out to your partners, but you need to ensure that you also include not just the opportunity for them to respond, but a deliberate request that they do respond. Consider hosting Web meetings on a regular basis that have an even split in time allocation: 30 minutes for you, 30 minutes for your partners.

Toni Clayton Hine is the Managing Director of the IPED, a division of the CMP Channel Group that leverages over one million data points and 20 years of experience to deliver customized channel education and market intelligence to the technology community. She can be reached at tclayton@cmp.com or 212 600 3113.

The Customer's Point of View

By Martyn Etherington & Thompson Morrison

When we talk about customer-centric marketing, we're usually talking about efforts that focus on building systems around customer data: our vaunted CRM initiatives. But customer-centric marketing goes well beyond becoming "customer-focused" and keeping good customer profiles. It requires a subtle yet profound shift in thinking and behavior.

To be convinced that profiling isn't enough, look at the numbers: about 40 percent of CRM deployments are considered failures. Many of these deployments actually diminish the customer experience. Indeed, a complaint about bad, inefficient or incomprehensible customer service is often nothing but an unwitting complaint about a poor CRM system.

The problem isn't that CRM systems are wrong. They are just not customer-centric marketing, and shouldn't be mistaken for it.

True customer-centric marketing emphasizes the customer *experience*, not the customer *management* system. You have not shifted to a customer-centric model unless you have changed your behavior toward customers. And that doesn't happen till your organization changes its thinking.

To illustrate what we mean by changing thinking, let's look at the traditional approach. In the past, when a new product at Tektronix was introduced, we would launch direct mail and email campaigns announcing the product and highlighting the features. Naturally we were excited about the product, and we wanted our customers to share in that excitement. Telling people about our product was, we hoped, the way to generate new leads.

Customers have a very different perspective from ours. They really don't care about our products; they care about their *problems, needs and goals.* They are only interested in our release insofar as it offers a potential solution to solve their problem, satisfy a particular need or achieve a goal.

We eventually realized that, for true customer-centric marketing, we needed to start with an empathetic understanding of our customer's problem, and understand what outcomes they are driving towards and what tasks they are performing, and speak to that in all of our communication.

So what did we do? Simply put, we stopped pushing out messages about our equipment. Instead, we developed application notes that enabled our customers to use our equipment to solve the specific problems they were facing every day. We changed the vocabulary we used moving from "us, we, ours…." to "you" and "yours," our other collective nouns. These application notes became the offers we used in our marketing campaigns. They were written in the voice of the customer, and focused on enabling our customers to solve problems, achieve goals or satisfy needs. The result: we were able increase response rates by over 50 percent.

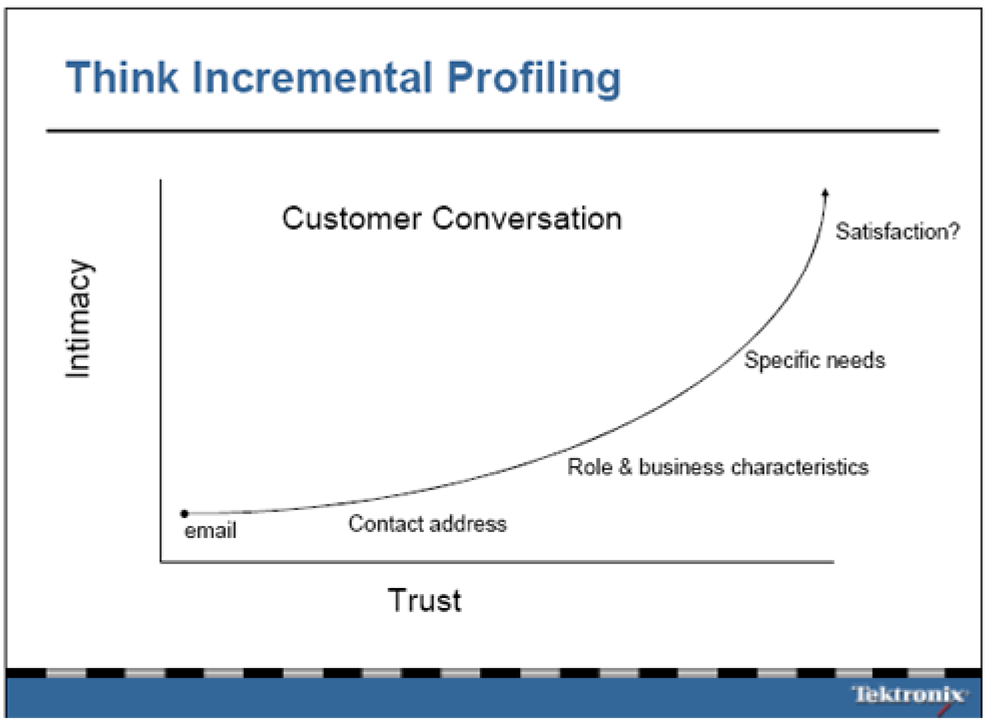
A subtle but fundamental change in thinking sounds simple but is not easy to change behaviors or thinking—it required a lot of thought and careful deployment. Yet it's astonishing how many companies never get that far in their marketing efforts. They remain stuck in the "here's my product, isn't it great" mode of communication. They espouse the virtues of themselves i.e. "our product does this, we are the leaders..."

This shift to focusing on the customer's problem was only the start. We also found that, to employ a true customer-centric marketing strategy, we needed to consciously design a coherent customer experience that flows from that first point of contact through to the sales team: a customer experience that increases intimacy and trust.

We needed to adopt a new philosophy of “selling,” moving from the old school of sales that focuses on convincing a customer to purchase to one which focuses on understanding our customers’ wants, needs, and specific interests. We have to learn about the distinct psychological steps our customers take when purchasing, and how to empower them to move through these steps.

So what did we do next? We created a much more engaging customer experience by replacing the dull, static HTML forms, which everyone dreads, with conversational forms. Now, when one of our customers requests our application note, they’re directed to a Web page that contains a personalized conversational form that asks them questions, one at a time, mirroring the type of experience they’d have if they were actually speaking with one of our sales reps. We ask them which area they’re involved in, explore their challenges, and validate our value propositions with them. At the end of this brief engagement, we email back to them the application note they requested.

We found that using this type of dynamic conversational form not only increased the number of people who completed the request form; it also doubled the number of people who told us their purchase intention. Purchase intention, is, after all, the first key "intimacy" question. The forms helped us create an experience of active listening: every time customers completed their request form, we opened the door to them a little more, creating a greater willingness for them to reveal when they were intending to buy. This customer centric approach translates into more than double the number of leads from each activity.



This dialog also allows us to take another crucial step: creating a needs profile for each lead. A standard CRM profile—with name, contact details, and purchase intention—doesn’t do the job for us, and certainly isn’t customer centric. This needs profile records the areas the customer is working in, the problems needing a solution, and the challenges he or she faces.

This needs profile is sent to our telemarketing team for follow-up. With it, they can continue the conversation we started, by further exploring the customer's issues, concerns and aspirations.

We make two important gains from this deeper exploration: first, we further establish Tektronix as a solution provider. Second, we find that customers are more willing to tell us if they have a budget for their purchase; that's the next big "intimacy" question. Then, and only then, do we turn the leads over to our sales team.

And people still think a good CRM system will solve their problems.

Customer-centric marketing is more than a concept. It is a way of thinking, in which we design all customer experiences from the customer's perspective. The experiences are engaging, pleasant, and informative—even empowering. They are about solving customers' problems, not selling our products. That is the way to build trust and intimacy. If this seems warm and fuzzy, remember that the true customer-centric approach has proven, time and time again, to generate better results. And that is the name of the game.

Martyn Etherington is VP, Worldwide Marketing at test, measurement and monitoring company Tektronix. Thompson Morrison is President of i-OP, a marketing firm that offers customer-centric lead generation programs. He can be reached at thompson.morrison@i-op.com.

KnowledgeStorm Data Slice

The CMO Council has recently teamed with KnowledgeStorm, the Internet's top-ranked technology content and search site, to conduct a study of technology buyers' online content consumption patterns. In tandem with this study, KnowledgeStorm will be sharing findings from online activity of technology vendors and buyers utilizing the KnowledgeStorm Network.

The KnowledgeStorm Network is a content syndication model that includes over 150 business and technology Web sites, including InformationWeek and TechWeb. Technology vendors publish product and solution information in over 900 technology-specific categories on KnowledgeStorm. This content is then distributed throughout the entire network of sites, creating extraordinary visibility and access to an audience in excess of one million users. By carefully gathering and analyzing the input, distribution and consumption of content within the network, KnowledgeStorm is able to report on trends and patterns within specific technology topic areas.

Below is a sampling of some significant changes from Q1 to Q2 of this year. The percentages represent the increase of a particular category's overall KnowledgeStorm audience share. The increase is attributed to the combination of an increase in content published in a particular category as well as content accessed by users within that category.

Hot KnowledgeStorm Topic Areas for Q2 2005*	Q1 to Q2 Category Growth
Database Solutions	52%
Networking and Communications Solutions	43%
Business Intelligence	20%
Application Planning and Implementation	17%
Banking and Finance	14%
Customer Service	11%
Security Solutions	10%
Knowledge Management	6%
Manufacturing and Process Management	5%
Insurance	3%
*determined by percentage of overall KnowledgeStorm audience share	

A Closer Look:
The broad category of *Networking and Communications Solutions* continues to see more interest from both vendors promoting content and users consuming that content. This category showed an increase in audience share of 43%[†] from Q1 to Q2 in 2005. Much of that increase can be attributed to the following specific categories:

- *Wireless Technologies and Mobile Computing* +70%
- *Network Management* +64%
- *Telephony/CTI/VoIP* +28%

Business Intelligence (BI) was another broad area that showed significant growth, increasing 20%. This increase is largely due to the following focus areas:

- *Business Process Outsourcing* +94%
- *Modeling and Visualization* +34%
- *Enterprise Performance Management/Balanced Scorecard* +26%

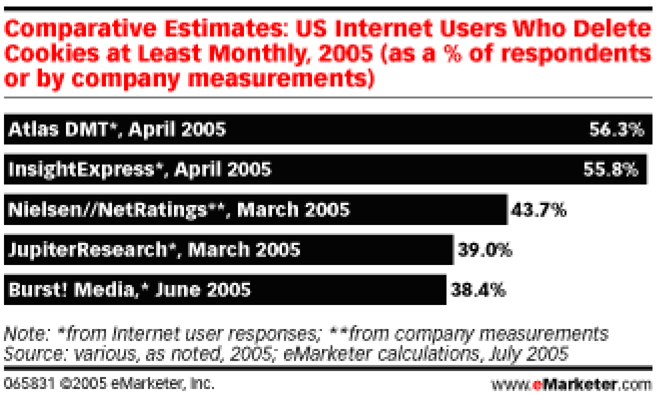
[†]Percentages represent the period change within a category from Q1 to Q2 of 2005. The increase is attributed to the combination of an increase in content published in a particular category, as well as content accessed by users within that category.

The Download

From eMarketer: The Confusion Over Cookies

A new eMarketer report offers an in-depth look at consumers' use of cookies, and recommends a concerted industry effort to clear up user confusion.

"In the past four months there have been numerous reports indicating that users delete or block Internet cookies, or at least believe they do," says David Hallerman, Senior Analyst at eMarketer and author of " The Cookie Report."



"A key promise of online advertising has always been its greater accountability, because it's more readily measured," says Mr. Hallerman. "Since that measurement often relies on cookies, online marketers have a problem—a big problem."

Consumers have long been concerned about cookies. The issue flared up in 1999, when DoubleClick hoped to merge cookie-derived details with offline database information. In 2001, the European Union moved to eliminate cookies, an attempt that was blocked through a lobbying effort spearheaded by the Interactive Advertising Bureau UK.

"What's new in today's cookie debate is being driven by two different trends," says Mr. Hallerman. "First, consumers are growing increasingly alarmed about online security. Second, marketers are demanding more detailed ad measurement and delivery, comprehensive user tracking through various stages of Internet encounters, and proof of the effectiveness of ad targeting based on user behavior—all of which involve cookies."

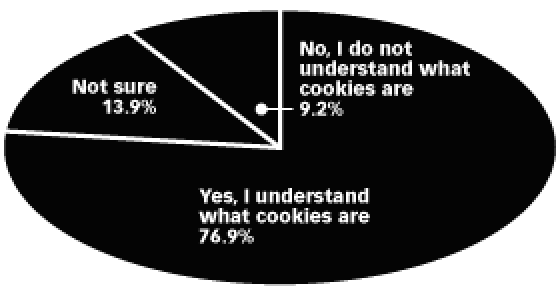
Consumer deletion and rejection of cookies undermines confidence in a host of online performance measurements, including the number of unique visitors, customer retention and conversion rates.

Meanwhile, consumer perceptions of what cookies are—and what they do—are all over the map.

Self-reported comprehension of cookies varies considerably. In a recent spyware study, the Pew Internet & American Life Project reported that 68% of Internet users say they have a good idea of what "Internet cookies" means, which is a sharp jump from the 43% of users in 2000 claiming the same level of understanding.

According to InsightExpress, 76.9% of U.S. Internet users claim that they understand what cookies are, whereas 55% of respondents told Dynamic Logic that they definitely know what cookies are.

US Internet Users' Self-Reported Understanding of Cookies, April 2005 (as a % of respondents)



Source: InsightExpress, April 2005

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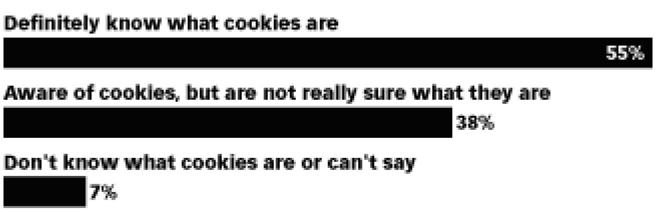
US Consumers' Level of Knowledge about Internet Cookies, April-May 2005 (as a % of respondents)



Note: n=2,984
Source: Dynamic Logic, July 2005

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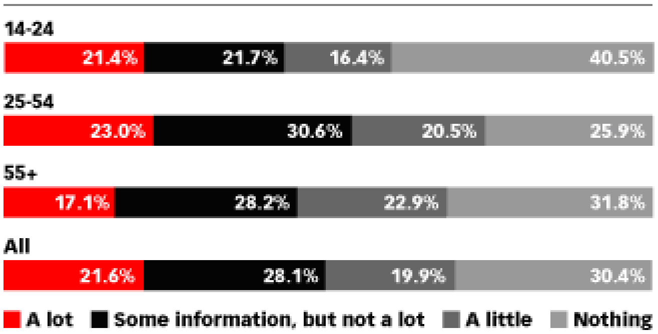
Compare those results to the 50.3% of Internet users in a Burst! Media survey (of all ages) who either have a small level of knowledge about cookies (19.9%) or admit to knowing nothing about them (30.4%).

US Internet Users' Level of Knowledge about Cookies, by Age, May 2005 (as a % of respondents)



Note: n=10,020
Source: BurstMedia and eMarketer calculations, June 2005

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"While the debate rages on over whether cookies are harmful or beneficial," says Mr. Hallerman, "many users are taking the decision into their own hands—and leaving marketers out of it."

If Web advertisers and publishers are to maintain effective measurement of online advertising, Mr. Hallerman says, it is vitally important to persuade consumers that cookies are harmless, that they don't violate privacy and that they are not a type of spyware. "Marketers must cajole consumers into accepting cookies," he says. "They must express the benefits of cookies, such as free online content online and easier Web browsing."

A key step, Mr. Hallerman argues, is a full-blown ad campaign promoting all the ways cookies benefit consumers, a "Cookie Campaign."

Roughly half of all Internet users are unconvinced about the benefits of cookies, Mr. Hallerman notes. "That's the target audience for the 'Cookie Campaign.' The Internet industry as a whole needs to focus on delivering a persuasive message about personalization, free content, ease of shopping and navigation, and relevant advertising."

" The Cookie Report" can be downloaded at the eMarketer site, *www.emarketer.com*.