290T: The Business of Software
Homework 5 – Kana Communications Case

What are we doing in this course?
We are trying to understand how software business are formed and survived. We are particularly focusing on the unique challenges of software businesses. As a structure for this we are looking at the progression from:
Team=>market/technology=>product concept=>business model=>business plan=>business strategy (although ideally the strategy may occur before the business model).
This is not "start-up centric". Many software corporations essentially require a business plan (or business case) before funding a project.

What are we doing in this particular class?
One of the key elements of a business model is the "sales/distribution model". Forecasting this is a key element of a business case or business plan.
The capital cost of duplicating software is negligible and software can be distributed through a variety of inexpensive means – including electronically. This means that software has unique opportunities for distribution. On the other hand one company's opportunity can become a competitor's challenge. So finding the "right" distribution channel for a product/company is very important.

Why do we keep asking:
-what are the company's core competences?
-what do the company's customer's want?
-what is the company's strategy?
These are important questions to ask before any "strategic" decision. **The sales/distribution channel must meet the customer's needs, employ the core competencies of the corporation and align with the business strategy.**

1. What are Kana's core competencies?

Gabriel Eirea
Software development for online customer communications.

Jennifer Lung
Kana thinks its core competence is software development. Indeed, it has the most comprehensive online communication solution in the market. However I think it has achieved this level of product offering by both developing the product themselves and acquiring suitable companies. So its core competence should not be its research and development ability. Rather, I would say that its core competence is time-to-market. It can always offer the best product fit to the market timely.

Leo de Luna

- Providing high volume email management solutions supporting e-commerce
- As a software development company, not a service company

Tom Chang

Kana's core competencies lie in 3 main areas:

- **Software Development - Kana's core product, Kana Response was widely viewed as the best of breed product on the market and allowed Kana to quickly obtain a blue chip customer base early on. The strength of the product was mainly attributed to a top caliber team of engineers who understood how to build high performance and scalable enterprise software applications.**
- **Sales and Distribution - The Sales Organization was recognized as among the best in the industry. Account managers from large software firms like Oracle and Seibel were drawn to Kana thanks to a lucrative compensation structure and an easy to sell product suite.**
- **Client Services - The Client Services organization which was comprised of Customer Advocacy, Professional Services, and Customer Support were instrumental in ensuring that the customer base was satisfied and referenceable. Throughout the heavy growth period, the company was able to maintain a 90% customer referenceability ratio.**

Niraj Shah

Many people don't have a clear idea of what a "core competence" is. Here's my definition:

core competence: something you do particularly well as compared to your competition

2. What do Kana’s customers want?

Brian Park

All customers were looking for a single supplier for as many services as possible. In general, all customers also want security, quality of service and dependability. Some needs varied based on the segment:

· Smaller ASP customers prefer fast implementation, scalability, and minimal hardware needs

· Large internet sites and global Fortune 500 companies would prefer quality, security, scalability, and dependability over minimal hardware needs.

· The customer call centers would probably prefer ease of integration with their other offerings, scalability, quality and dependability, and were willing to pay more to get those benefits.

Arkadeb Ghosal

2. What do Kana's customers want?

+ effective online customer interaction
+ to effectively manage e-mails to their customer service department
+ interact with customers in easier way and at low cost
+ to respond to their customers as quick and as effective it can be
+ to link online communications products with e-commerce applications

KK: Kana’s market segmentation can be found at the bottom of page 4.

3. What is Kana's corporate strategy?

Jimmy Su

Kana's corporate strategy is to continue enhancing its software through internal development and acquisitions. Kana has tremendous growth rate in terms of the number of customers and revenue. It would like to continue growing at this rate on the road to profitability. The goal is to become the dominant player in the communication segment of e-commerce.

Gabriel Eirea

Kana wants to be the leader in the communications segment of e-commerce. Its strategy is to position itself at the lead before giants like Siebel and Oracle enter in this market. For that, they need to grow fast making aggressive acquisitions.

Florian Fuchs

- continue growing explosively
- become the dominant provider of e-commerce application software in the communications segment

Ravi Shanmugam

Kana's strategy is to "grow quickly" as a pre-emptive measure to accomplish the following:

- **gain enough market share to fend off inevitable competition from a large would-be competitor like Microsoft or Siebel.**
- **become one of the major players in the space once an inevitable wave of consolidation hits.**

Niraj Shah

Again, I think there's a definition issue with some of the class. A **strategy** is a plan of action; a **tactic** is how you execute a strategy. So, making acquisitions is a tactic, while maintaining aggressive market growth is a strategy.

The sales/distribution channel must reach the customer, employ the core competencies of the corporation and align with the strategy.

4. **Evaluate the distribution channels considered by Kana and how they can help Kana achieve this strategy.**

Myra Liu
+ Direct Sales
- makes up majority of current sales
- customer base doubling every quarter and growth expected to hold for next years
- can help Kana achieve strategy if their sales force can keep up with growth
+ Business Partners
- System integration partners: Help customers integrate Kana software without Kana having to allocate company resources. Can help to generate demand and contribute to Kana's growth.

- Technology partners: Help make integration easier and may attract more potential customers. However, Kana is depending on other companies to provide the technology that they don't have. In this way they are giving up part of their control to be the dominant provider.

- Outsourcing partners: They help sell Kana's products with other complementary products. Although they are another channel to distribute the software, they risk losing their customers to these outsourcing partners (VARs). These VARs are also direct competitors with their Kana Online.

+ Kana Online
- KOL grew at phenomenal rate and majority customers were small Internet start-ups- KOL represents 25% of customer base and growing
- can help Kana achieve its "get big fast" strategy. Even without much resources allocated to it, KOL has grown at a rapid rate. With more resources, it may gain large market share from its competitors.

David Gelbart
Systems integrators: (The study says they are usually consultants like KPMG and Andersen so I will discuss that type of systems integrators.)
Very good. These "potentially recommend Kana to their customers" which not only gets Kana sales but also builds Kana's reputation because customers learn about Kana (which may not happen with ASP).

Technology partners:
Very good. For same reasons: generates sales, and customers will learn about Kana.

ASP:
Okay. Generates sales but customers may not learn about Kana, if they do, Kana does not have control over the quality. So it fits the first goal but not the second.

Phil Li
Sales cost for realized sale (general) - $75k

Revenue per customer
Direct Sales - $200k
Partnering - (call centers) $300k
Kana Online - $120k
ASP - similar to KOL

To maximize growth, Kana to date has tried to be all things to all customers. However, channel conflict will occur esp as Kana's growth rate slows. Notably, while partnering and direct sales served different segments, KOL and the new ASP business went after the same smaller companies.

Kevin Clugage
(1) Direct Sales. This is the most effective option, but not necessarily the most efficient. The Kana direct sales force does not have near the market reach of the combined indirect channels, but they have the best control over communicating Kana's value proposition and management of the Kana brand.

(2) Business Partners. Business partners have the broadest market reach of all Kana distribution channels, with perhaps better understanding of some market or regional segments. However, Kana loses some control of the Kana marketing messages as communicated to customers.

(3) Kana Online. This has the same properties as direct sales, but with a different delivery mechanism.

5. What is the composition of the customer base for the ASP channel? Is it feasible for Kana to build an ASP channel to reach them?

Brian Park

The ASP channel was a rapidly growing group of customers in many different business including web hosting, customized apps, network management, and many other asp services. This group seemed to be very fragmented, which would make it very difficult to create one channel to reach them all.

Jennifer Lung

There are two kinds of customers in the ASP markets. First, there are small Internet Start-ups that do not have the pocket to invest in heavy IT infrastructure. It is too risky for Kana to invest heavily in ASP serving this market simply because there is no way for Kana to know if these customers will be around soon.

There have been some larger customers showing interests in Kana's hosted applications. These customers are less price sensitive but are willing to try new products and services. They fit in the early technology adopter profile, and it can be a signal that the market begins to take off.

6. What are the advantages and disadvantages of online distribution?

3-Ashley Tan
Advantages:

1. **Exhibited important economies of scale**
2. **Opportunities to distribute other applications**
3. **Make it easier for the customers to sign up**

Disadvantages:

1. **Harder to execute quality control of the software**
2. **Harder to get the awareness of the software brand and application from the end customers**
3. **ISVs and the online distributors need to find a productive ways to work together**

1-Lauren Wilkinson
Advantages of online distribution:
(1) It expands the customer base, by including customers who would otherwise be unwilling to invest high up-front cash in infrastructure.(2) It's easier to hook customers because their commitment is relatively lower.(3) Upgrades are easier to implement.

Key Disadvantage of online distribution:
(1) Kana is not a services company! Online distribution forces a corporate strategy shift to services rather than software development.

Egan Lau
Advantages:
· They prefer solution to product. It can help ensure the customer can use the products successfully. Kana can know the usage pattern to help them develop software that customers want.
· Once you sign up a few customers, it is much more scalable to serve many customers with decreasing marginal cost.
· Much easier software upgrades
· More steady revenue stream

Disadvantages:
· Higher upfront cost to invest in the infrastructure.
· Distraction from their core competency in software development.
· They have to be a service company even though they don't want to.
· Usually less upfront revenue.

2-Tom Chang
The advantages of online distribution:

- **Easier to support/troubleshoot**
- **Easy to maintain/upgrade**
- **Easier sell to customer that is reluctant to make a big upfront investment**

Disadvantages of online distribution:

- **Difficult to integrate/customize the application for one particular customer**
- **Smaller revenue opportunity (transaction based billing and less professional services revenues)**
- **Kana bears risk of loss of service or data**
- **Requires a significant additional support staff to manage hosted service**

7. Which option should Kana choose?

KOL-Albert Lee

- Kana should pursue the strategy to build out KOL
  a. continue to build brand and gain share
  b. control the customer relationship (key to fending off future competition)
  c. quickly gain access to lots of customers through online distribution channel
  d. better able to provide quality service to customers

ISV-Brian Park

I think the company should pursue a two-pronged strategy. They should focus on the direct sales strategy, but they should offer their product in both an ASP and a licensed software version.

The company's strength is in developing software that meets its customer needs and delivering that software directly to its customers. It should therefore avoid investing in indirect channels where it can not own the customer. It should invest in building the product and growing the sales force over customizing the product to meet the needs of business partners.

ISV-David Gelbart

VARs do not go as well as the other options with Kana's strategy.
position in the marketplace as the other two options. By using VARs Kana gives up some influence and power: (1) VARs remove the direct link between Kana and the final customers; (2) Very large VARs (if they emerge) will have some power over Kana: if a major VAR decided to replace Kana's software with a competitor's, Kana could lose significant market share instantly, or be forced to cut prices to keep the VAR's business.

Kana should continue selling software directly to customers and increase their commitment to the Kana Online business. Keep the first because it is their core competency and their main source of revenue, keep the second because customers want it and are signing up in large numbers.

VAR-Leo de Luna

Choose the VAR option that because companies need help installing Kana solutions

- Allows greater access to new markets and more customers translating to larger opportunity to achieve scale.
- VARs usually target larger customers that are more stable in the long run and can sign bigger contracts
- Requires less investment in a Kana sales force or in-house infrastructure investment

ISV-Laheem Jordan

Kana should keep going as they have been, focusing more on software and growing its internal sales team. It should be open to expanding its KOL offering if it proved to be especially lucrative, but switching to a new business model before they were profitable is not a good idea.

KOL-Tom Chang

Kana should keep KOL to meet the needs of smaller customers with less need for the full functionality of Kana's software. Meanwhile, Kana should focus its efforts on development and integration of its core applications to ensure that the technologies recently purchased can be cohesively integrated into a world-class Enterprise Relationship Management application. If this is achieved, Kana can compete in the marketplace with similarly positioned software companies. As for the VARs, Kana should continue to sell to willing buyers, but should not focus much attention on growing this segment as there is very little upside to this strategy. Instead, Kana should continue to partner with large systems integrators that can help to push Kana as the preferred CRM solution for Fortune 500 companies.