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# Mitigating Risk through OEM Partnerships

Leveraging OEM to Drive the Bottom Line



## Executive Summary

Incorporating third-party technology to add new capability to existing applications is not a new concept in today's software market. Bitam, a global business intelligence provider, offers a different approach to OEM relationships by providing a risk mitigation strategy that offsets financial and resource investments to allow for increased margins, rapid time to market, and faster time to value.

Traditional OEM relationships require significant upfront investments in the form of financial, resource and time investments to bring a new commercial quality software product to market. These investments include:

- Procurement of development licenses
- Dedicated development resources
- Product training and education
- Third-party license royalties for products sold
- Sales training and pipeline development
- Marketing and sales collateral creation
- Technical support costs
- Ongoing product development for application feature enhancements

At Bitam, we believe the primary risks in entering OEM relationships are found in the timeframe between the decision to add additional capability to the existing product line and the break-even point of investment and revenue generation. Our solitary focus of our OEM program is to mitigate the risks in that timeframe through investment and resource commitments, allowing our OEM partners to bring new solutions to market more quickly, align investment with cash flow, and enjoy higher returns on product sales. We accomplish this by enabling our partners to:

- **Make** solutions leveraging Bitam technology through development license investments, development resource assistance, training and education
- **Sell** the new application at higher margins by offering a royalty-free exemption period, sales enablement training, and co-marketing activities
- **Scale** applications by leveraging additional resources for enhancements and dedicated technical support

The following whitepaper provides an in-depth view of the risk associated with OEM relationships, the value business intelligence brings to an ISV, the benefits and disadvantages of the "Build vs. Buy" approach, and how Bitam is offsetting risk through a unique approach to working with our OEM partners.

In today's rapidly changing software market, acquiring third-party software to provide additional product capabilities and functionality is common. With the adoption of technology comes the proliferation of software vendors to meet end user need. Software markets, like any business market, go through competitive growth cycles consisting of a few early entrants, the explosion and democratization of vendors, with the market fragmentation to be followed by consolidation and survival of the fittest.

The Business Intelligence software market has seen a rapid expansion and adoption, reflected by the prioritization of BI initiatives by CIOs and the abundance of new vendors entering the space. Many independent software companies are looking to incorporate advanced analytics, dashboards, and performance management capabilities into their existing product development cycles. There is a balancing act of risk between developing advanced business intelligence capability in-house and looking to partner with a BI supplier to augment the existing application with deep analytical and reporting capabilities through an OEM relationship.

### **Evaluating the Risk of OEM Relationships**

Incorporating third-party software into an existing application to augment current capabilities is not a new trend in the software market. Microsoft's revolutionary vision pioneered the OEM software model when they sublicensed their DOS application to IBM in 1980, thereby opening up the door to a wider distribution of DOS, and ultimately the beginning of Microsoft's dominance in the marketplace today.

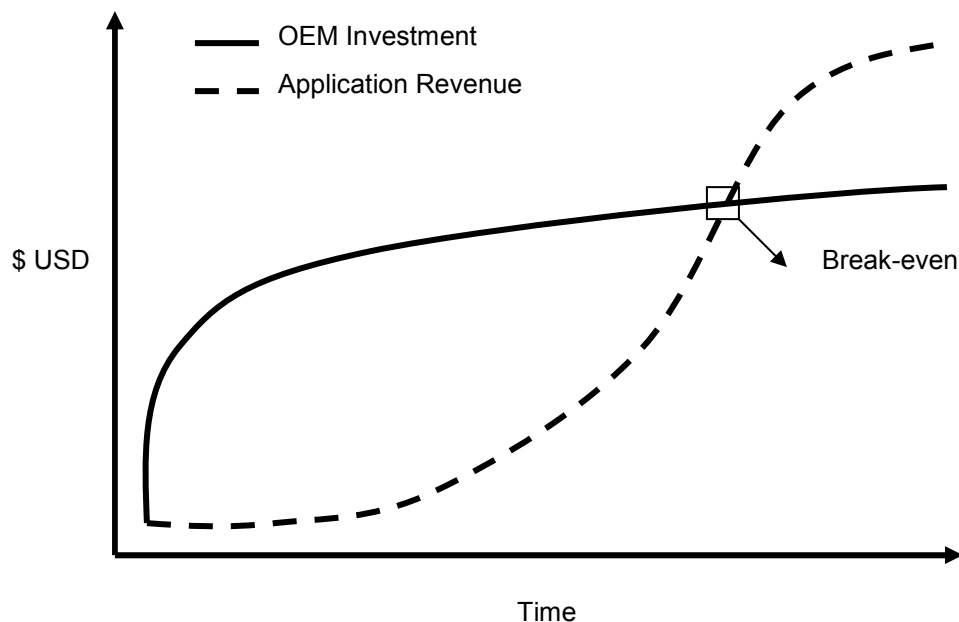
However, entering into an OEM relationship requires both financial and resource investments. Return on that investment varies from ISV to ISV, depending on the business objectives that prompted the OEM relationship onset. For example, some ISVs embed third-party technology to meet specific customer demands, translating into a relatively fast ROI due to the ability to rapidly bring new capability to the market. Other software manufacturers make investments in third-party technologies for competitive reasons, whether it is to stay ahead of or play catch up to the competition.

From procurement of the development software to recognition of revenue as the new application or module is shipped, ISVs should evaluate all of the investment required to deliver a new application to the market. Before entering into a relationship, ISVs should consider the following risk factors:

- Technology Investment – what initial investments are needed to procure development software, maintenance and other ancillary software or hardware required to support the new application?
- Development Investment – how many resources and how long will it take to design, develop and test the new application?
- Resource skills – does my product development team have the right skills sets and experience to deliver a stable version 1 release?

- Business model – what level of commitment should our company make to the OEM vendor to garner the best long-term deal for our customers?
- Sales and Marketing – How long will it take my sales and marketing team to develop the appropriate materials to quickly generate and close on a pipeline of opportunity for the new application?
- Ongoing support – When a customer logs a technical support case that our company cannot resolve, how can we be sure we get the same prompt support and resolution from our OEM vendor that we offer to our customers?

Typically, the answers to the above questions are tied to the level of integration and commitment an ISV makes to a software supplier. For example, for ISVs who are willing to embed a third-party application into the primary platform, the supplier is generally more willing to offer greater price discounts and support than those who wish to create an optional add-on module. Similarly, OEM vendors frequently use contractual minimums on a term basis to guarantee higher levels of discounted pricing that bind the ISV to payment commitments, regardless of whether the product was actually shipped.



Unless an ISV is willing to make long-term contractual commitments to the OEM vendor, the resulting business arrangements typically result in lower margins to the ISV and a decrease in time to a positive ROI on the new application as a result of paying supplier sublicense fees for each transaction. A typical OEM deal can have a significant impact on cash flow, as there are upfront technology investments in the form of test and development licenses, training needs, and resource requirements to create a new commercialized software package.

### **The Value of Business Intelligence to ISVs**

How many times have you sat through a software demonstration that lasts over 30 minutes, with the presales engineer providing excruciating detail as to the minute feature and functions associated with each screen? How often during these meetings have you noted that you have lost the attention of the executives due to the amount of detail provided? How many executives have already experienced these types of meetings, and as a result, push product demonstrations down to their subordinates to report back their impressions of the software package? Adding business intelligence capabilities to your existing application brings the value proposition of the application to the forefront.

By virtue of presenting the application through salient business terms and easy to understand graphical illustrations, ISVs who leverage BI capabilities can transform their current product demonstrations into high impact, 15 minute presentations that focus on the underlying value the applications provides to the market. For example, rather than demonstrating how a line manager inputs data into the application, ISVs can demonstrate to the manufacturing executive the complete picture of shop floor, and specific areas that require his attention, such as a high scrap rate or an unbalanced demand chain.

Pragmatically speaking, there are simple reasons why the business intelligence software sector continues to see compounded growth. The core capability of business intelligence is to extract and present business information in such a way as to be able to act on it, or make a well-informed business decision. Over the past two decades, companies have invested heavily in process automation through enterprise resource planning (ERP), customer relationship management (CRM) and financial accounting systems. Business intelligence and data warehousing software provide a common thread across those systems, creating aggregate data elements from disparate systems to provide a holistic view. Simply put, business intelligence allows the business user to extract the value of the data locked within the various systems by presenting insight and visualizations into that data that impact business decisions.

ISVs looking to augment their existing reporting capabilities with more robust business intelligence capabilities, such as management dashboards, performance management scorecards, and self service analysis, will find that the addition of these capabilities can have a dramatic effect on their sales cycles and perceived value by the customers of their application.

Armed with business intelligence capabilities, sales representatives can gain mindshare with higher levels within an organization and transform the product-sell into a solution-sell focused on business problems. This allows sales representatives to call higher into their prospect accounts and to articulate the value justification of the application, resulting in a faster sales cycle.

### **Build vs. Buy**

Business Intelligence is dependent on the comprehensiveness and accuracy of the data that is being presented. When evaluating business intelligence capability to augment existing software applications, many companies underestimate the impact on restructuring their existing transactional and data warehouse architecture. In addition, rarely does any third-party

software application integrate easily into an existing architecture without some level of customization.

As such, some software manufacturers may choose to develop their own business intelligence capability that takes advantage of the datasets and architectural decisions that currently exist within their application. Product development teams get organized around the initiative, and the requirements gathering and design phases begin, as with any software development lifecycle. Depending on the scope of the functionality to be added, simple reporting capabilities can usually be made available to users within a few months, while more elaborate dashboards and ad-hoc analysis capability is delivered over a longer period of time. Product development teams, while burdened with the task of developing and enhancing new capabilities over time, can usually be confident their solutions are consistent with the underlying code of the overall application. Since the development team is already carried under the cost structures of the software manufacturer, it is easy for executives to perceive in-house development as the most cost-effective route to adding business intelligence capability to the current software suite.

However, what many fail to consider is what happens when the market changes relative to the “baseline” business intelligence capability. Is that same development team, having recently completed its initial BI capability, analyzing industry trends and incorporating these features into the next version of the product? Are they connected to the user community to ensure they are architecting solutions to meet specific needs? Is it justifiable for the development team to stray away from the core capabilities of the solution and be spending time focused on another market segment altogether?

With the proliferation of business intelligence comes the assurance - and end-user expectation - of a broad spectrum of capability and feature sets that have become “must-haves” to core capabilities. Speed to market and technology evolution are common pressures felt within the software industry. With standard BI capability readily available in the marketplace and the need to continuously meet growing customer demands for new technology, business intelligence continues to be an excellent candidate for OEM technology.

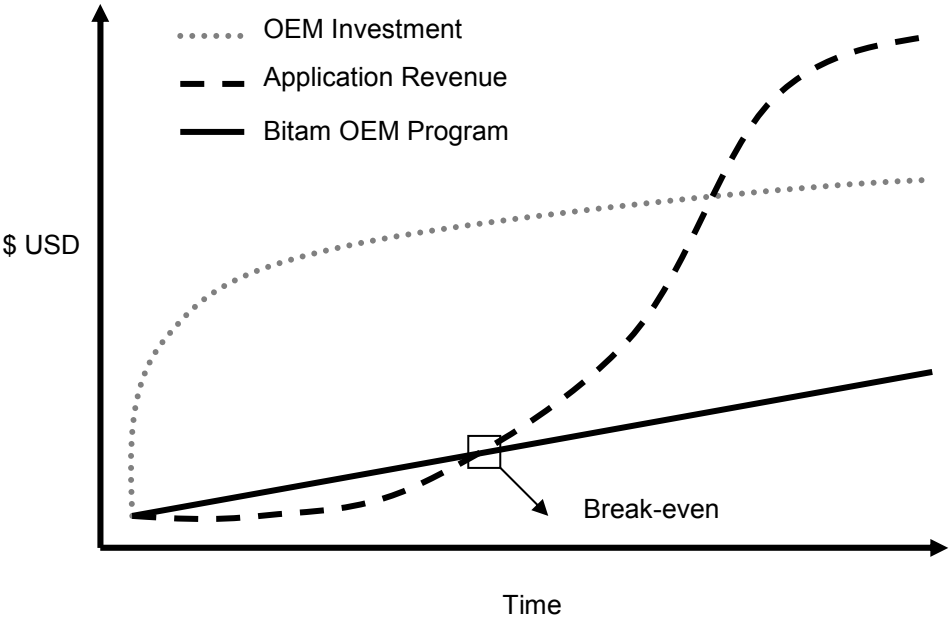
As with any technology addition, ISVs should expect some level of customization into the existing application. When acquiring a business intelligence capability from a third-party vendor, thorough consideration and evaluation should be given to the extent of customization required. In addition, software manufacturers should look to the future and understand how business intelligence fits within their overall product strategy and vision. Will it be an evolutionary step into the BI sector, or are current customers demanding the full spectrum of capability today?

Build vs. Buy is a balancing act predicated on speed to release new software and the iterative development cycle associated with in-house development, customization, enhancements and new versions. Many companies leverage the strengths of third-party applications as a way to mitigate their risk and investment in new product releases, allowing their development team to concentrate on their core application, while the OEM vendor focuses on its specific contribution to the overall solution.

**The Bitam Approach**

Bitam offers a unique approach to partnering with ISVs who elect to OEM Bitam’s business intelligence capability as a part of their application offering. In working with OEM partners, Bitam’s objective is to mitigate the traditional risks of entering into an OEM relationship through strategic investment and tight collaboration with our OEM partners. Unlike many software providers who scale their soft dollar investments and commitments to partners based on contractual commitments, Bitam invests in the long-term success of the relationship with hard dollars to reduce development costs and align cash flow to allow for increased margins on ISV revenue.

As ISVs evaluate the potential risk associated with augmenting their current application capability by integrating a third-party provider, the risk falls into several categories over a defined period of time – the time from which an ISV formalizes a relationship with a software provider to the point at which application revenue generated from the new product offering offsets the investment.



Bitam’s approach to OEM relationships is focused on mitigation of risk during this timeframe through investments that enable our partners to Make, Sell and Scale applications using Bitam technology.

<b>MAKE</b>	<b>Development Support</b> <ul style="list-style-type: none"> <li>• Development and test licenses</li> <li>• Development resource assistance</li> <li>• On-site product training</li> </ul>
<b>SELL</b>	<b>Sales Support</b> <ul style="list-style-type: none"> <li>• Deferred-period royalty exemption</li> <li>• Sales enablement and training</li> <li>• Co-marketing activities</li> </ul>
<b>SCALE</b>	<b>Technical and Ongoing Support</b> <ul style="list-style-type: none"> <li>• Dedicated technical support</li> <li>• Assistance for ongoing enhancements</li> </ul>

### **Make**

The sooner a new application is developed and tested, the sooner it can be deployed into the market and become a source of revenue. With our focus on the long-term benefits of the relationship, our primary objective during the MAKE stage of working with OEM partners is to provide resources and technology that expedite time to market in the following areas:

1. *Development and test licenses*

Integration requires design, development and testing. As part of our OEM program, Bitam will provide development and test licenses to ISVs wishing to integrate our technology into their existing applications.

2. *Development resource assistance*

Leveraging our near shore delivery capability in Mexico, Bitam will provide consulting services to assist with the development of the new application, allowing both the ISV and Bitam teams to leverage their core technical capabilities and experience during the development lifecycle.

3. *On-site product training*

To further ensure that all ISV developers are properly trained on the Bitam BI platform and can support the resulting application over time, Bitam will invest in providing on-site training for the development and technical support staff.

## **Sell**

Typically, an ISV enters an OEM relationship to fill a functionality gap and drive incremental revenue from its existing application. Bitam's sales enablement program is focused on assisting our OEM partners to maximize revenue associated with our applications through three simple steps:

1. *Deferred-period royalty exemption*

Defined at the onset of the relationship, and ranging between one and two years, Bitam will offer an exemption period on royalties for qualifying partners. The purpose of this exemption period is to allow ISVs to capture and retain all revenue associated with the sale of Bitam applications.

2. *Sales enablement and training*

Selling business intelligence, analytics and performance management may be new concepts for ISV sales representatives and sales engineers. As part of the sales enablement program, Bitam will facilitate a session to train sales representatives on important messaging and value propositions that will allow them to call higher within accounts and gain the mindshare of senior executives. In addition, Bitam will work with the ISV to create a best practice product demonstration and train the appropriate sales support staff on how to deliver a high-value business intelligence demonstration.

3. *Co-marketing activities*

With its sales enablement program, Bitam offers marketing dollars that can be applied towards the development of sales collateral, joint case studies, event participation, and press releases. Unlike other software providers where these funds are allocated on a case by case basis, Bitam allocates hard dollars for each participating ISV, and the Bitam partner managers work with our partners to ensure these funds are utilized to impact the strategic initiatives of the ISV.

## **Scale**

Once the product has been developed and a pipeline of opportunity has been generated by the sales and marketing teams, Bitam will provide ongoing assistance in supporting the ISV application and development of future enhancements and releases.

1. *Dedicated Technical Support*

For our OEM partners, Bitam provides a dedicated technical resource to assist with any development or customer-related support issues, resulting in a faster time to case resolution. OEM partners are assigned a senior level support engineer that they can contact directly, via email or phone, for product assistance or even the simplest question. All participating OEM partners are assigned top priority for case resolution, ensuring that any case is placed at the top of the queue and addressed immediately.

**2. Assistance for ongoing enhancements**

As Bitam participates in the initial development effort, we are available at a pre-negotiated service rate to deliver additional development support for enhancements or additional business intelligence capabilities to the ISV application. Using our near shore delivery capability in Mexico, Bitam's consulting services rates are roughly one-third the cost of US consulting rates.

**Cash Flow Alignment**

To offset the impact to cash flow and investment in our OEM program, Bitam offers financing options for participating ISVs that allows for periodic payments over the term of the relationship. As part of the program, Bitam incurs all interest charges with financing, and the ISV has the benefit of aligning its cash flow and investment with its sales and revenue generation activities. The combination of a royalty exemption period and financing allows for ISVs to dramatically reduce the time to value of the investment, with a break-even point in significantly shorter timeframe than traditional OEM relationships.

**Conclusion**

With the adoption of business intelligence across all horizontal and industry applications in the software industry, ISVs have many options among BI suppliers to augment their existing application with new analytical capabilities. The decision to engage with a third-party software manufacturer requires careful consideration of the benefits and risk, in terms of financial, development and resource investments. Bitam's objective for our OEM program is to offer a risk-mitigation strategy for ISVs who are looking to add a business intelligence platform. Unlike other BI vendors in the marketplace, Bitam offers qualifying partners significant resource and financial benefits to offset the traditional risks of OEM relationships, allowing ISVs to confidently and rapidly bring to market new capabilities that deliver immediate business value and drive both short-term and long-term revenue growth.



#### **About Bitam**

Bitam is a global provider of business intelligence and performance management software solutions with one focus: providing companies of any size with greater capability and insight for less investment and risk.

Built on an integrated platform, Bitam's highly focused product suite can be deployed and installed in days rather than weeks – resulting in less upfront investment and ongoing costs. Bitam products are easier to learn and use than other solutions, resulting in widespread adoption with minimal training. In addition, Bitam's entire team embraces a collaborative approach that ensures the Bitam solutions are structured to best meet the unique needs of every client.

Privately held and founded in Mexico, Bitam has offices and subsidiaries in North, Central and South America and Europe and serves more than 850 customers in 18 countries such as Pfizer, Coca-Cola, Home Depot, Johnson Controls, Pemex, GNC, Black & Decker, Janssen and the Mexican Government. To learn more about Bitam, visit [www.bitam.com](http://www.bitam.com).

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