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How Much a Pound is Albatross?
(Taking on 'the great software rip-off of the 90s')

Macworld Breakthrough

July's Macworld convention was dominated by the introduction of Apple's iBook with its wireless 'Airport' connectivity. Once again, Apple has positioned itself as the industry's innovator by introducing technology that could significantly change the way computers are used in the home and at school. (One could count on no hands the combined number of innovations introduced by Dell, Compaq, or Gateway.)

The introduction of the iBook and the success of the iMac have made the PC industry very uneasy. Chairman Gates almost immediately took a swipe at Apple by sarcastically noting at a business conference that Apple was now limited to "leadership in colors" and that "it won't take long for us to catch up with that." Then there was John Dvorak's PC Magazine column that described the iBook as a 'girly' machine and noted that "No male in his right mind will be seen in public with this notebook."

Gates was overly candid (the way we all are at times) and probably feels a bit aggrieved that Apple is winning the style battle—something so alien to Microsoft that the Chairman dismissed it out of hand. Dvorak, on the other hand, would apparently write anything to attract attention. Embedded somewhere in the Dvorak inanity is inadvertent support for my proposition noted in last month's Mac Factor that there is more than a hint of a macho aura about the current PC paradigm. Dvorak may think that's funny, but I suspect it has influenced billions of dollars worth of technology procurement by mainly male decision-makers.

Though the iBook's importance cannot be overstated, there was another important

breakthrough at Macworld. Microsoft's release of a 'special edition' of Word 98 for $99 was tacit recognition that (a) its software was overpriced; (b) Microsoft Office could not compete with the 'bundled' version of AppleWorks which provides all the integrated software needs for the vast majority of new Mac users; and (c) the falling price of hardware must inevitably have an impact on the way software is marketed and priced.

The Office Crunch

The success of Microsoft Office has destroyed a large part of the Macintosh software industry. Once, there were several word processing programs available for the Macintosh including MacWrite Pro, MacAuthor, Word Perfect, Word Handler, FullWrite Professional, WriteNow, and so on. Today, there are only a few, and Word absolutely dominates. Once, there were several desktop presentation programs available for the Mac, including Aldus Persuasion, Symantec's More, Cricket Presents, and PowerPoint. Now, Microsoft PowerPoint sets the standard. And, alas, once, there were several spreadsheet programs available for this platform including Lotus 1-2-3, Claris Resolve (Wingz), Trapeze, Full Impact, and Excel. Today, almost all the competing spreadsheets have disappeared and Microsoft Excel dominates the market.

It could be that each of the Microsoft programs was so superior that the competition simply wilted, but I don't think so. In fact, Word Perfect was/is competitive with Word; Symantec's More and Aldus Persuasion were in some ways superior to PowerPoint; and Lotus 1-2-3 and Trapeze were certainly in the same ballpark as Excel. That having been said, how did Microsoft virtually destroy the competition?

Bundling Word, Excel, and PowerPoint into a loosely integrated package was an example of brilliant marketing, but doesn't tell the whole story. Perhaps, equally important to the success of Office was Microsoft's decision to maintain high prices for the individual modules. A user had the choice of plunking down $358 for one of the modules or $534 for Office. Thus, if an individual or a company required one of the programs, but wasn't quite sure about future needs, the only logical choice was to purchase the Office suite. Similarly, the lure of non-Microsoft programs was marginalized by the suspicion that Office would eventually have to be procured at some time in the future. The combination effectively killed off the competition.

Though there was nothing legally wrong with Microsoft's strategy, it was more

than a bit heavy-handed. I contend that each individual module was intentionally overpriced. If a user could have purchased Word for $100 a few years ago, Office sales would have declined, and there might still be a vibrant Macintosh software industry.

How, you might ask, can one assess whether a piece of software is overpriced? The rest of this column will discuss issues related to software pricing and I'll give you my own subjective judgement about several of the industry's leading products.

Of Mice and Persons

A while back, I accomplished a software review for one of the popular Macintosh magazines. After I submitted my copy, the editor called and asked how many 'mice' should be assigned to the product. I asked about the criteria and was informed that five mice should be awarded to the best software and one mouse to the worst. Though it seemed an inane system, I nevertheless dutifully picked a mouse number out of my editorial hat. To this day, the magazine's database includes my subjectively assigned mouse rating for that particular program.

It would be convenient if there was some objective set of criteria that could be used to assess the real value of a piece of software. If several programs purport to do the same thing for the same potential audience, then it's easy to compare them to each other and claim that one is a better value. Unfortunately, due to the great software shakeout of the 90s and the 'Office crunch,' there aren't a lot of competitive programs around.

In an attempt to design the Mac Factor Software Evaluator (MFSE), I tried all sorts of formulas that take into consideration a link between hardware prices and software prices, a program's potential market, the cost of research and development, the age of the software, and even a core program which could be used as a multiplier to justify a program's price tag, but in the end there were simply too many variables and too many assumptions to generate any meaningful data. At the end of the day, I decided that, like the magazine, the MFSE would have to rely on my own subjective judgement concerning fair market prices of software.

MFSE Considerations

In making these judgements, I've taken the following factors into consideration:

Cheaper is as Cheaper Does

First and perhaps most controversial, there is a marketing price cap for 'main stream' software that is at least loosely linked to the price of the cheapest computer required to run it. That is, if a general-purpose graphics program was priced at $500 per license when a suitable Macintosh cost $3000, the same software should drop in price with the introduction of the iMac at $1199. Though it might not seem appropriate to link this cap to an actual percentage (software/hardware), there certainly must be a marketing comfort zone that should be adjusted as hardware prices decline. I know that as a consumer, I would feel much more comfortable spending $99 on Word for my iMac than $354—not just because it's cheaper, but also because it seems more consistent with the price of the iMac. Similarly, it would be a rare consumer who would plunk down $949 for MacroMind Director for an iMac.

Up Stream or Down Stream

You'll note that I referred to 'main stream' software in postulating a marketing cap linked to the cost of hardware. That leads me to my second assumption: software prices to some extent should depend on the potential market. Clearly, there are more users interested in purchasing a full-featured word processor like Word 98 than there are in procuring database software like FileMaker.

Defying the traditional laws of supply and demand, the greater demand for main stream software should result in a lower price. Supply of an intellectual property like software is virtually unlimited and more orders means a company can afford to sell at lower prices while generating the same revenue stream as a high-priced special purpose program.

Advertising
Companies somehow have to get the word out to their target market that they exist and that they have a piece of software that should be of interest. This can cost a considerable chunk of change to a small startup, but should decrease as the company and its products become known. Though larger software houses like Adobe and Microsoft have to pay for their glossy magazine ads and their convention booths, advertising costs should decline as they increase their stranglehold on the marketplace.

Cost of Goods
Not too long ago, major applications software shipped with multiple sets of diskettes accompanied by thick, sometimes expensively produced user and

reference manuals. Compact discs are a much cheaper medium for companies to produce, error test, and ship, and on-line documentation has replaced many of the traditional tomes. On-line documentation, however, remains a legitimate cost as it remains a complex task to write simply and understandably about feature laden software.

Research and Development

Another factor that must be rolled into the price of software is the cost of research and development. If it takes a team of a hundred programmers to develop a new version of Quark Xpress, then that program should at least initially cost more than a program requiring less development. To some extent, you can assess the R&D cost by examining a program's level of 'sophistication' and 'feature list.'

Maintenance and Support

Every time there's a new version of the operating system released, the company must ensure that the current version of their software is compatible. If incompatibilities are introduced, then a maintenance upgrade must be released. In addition, technical support is a cost factor that varies with the size of the market and the complexity of the software.

Oldies but Goodies

Once a company sells enough programs to cover the initial cost of research and development, the price of software should be adjusted downwards. Right! How many times should consumers pay Microsoft for the basics of Excel? To some extent, upgrade prices help, but the first time buyer should not be expected to pay for R&D that was completed years ago and already paid for again and again. The larger software houses like Microsoft and Adobe are exceptional to a point in that there's a lot of development that may or may not actually make it into a product, but generally, as their software ages, it should decline in price like the rest of the industry's.

My friend (everyone's friend) Bill Gates might suggest that the consumer must pay for continued innovation and there's some truth to that argument. Still, the cost of innovation can hardly compare to the cost of the long-term development of a program.

The Core Conundrum

In addition to all these other factors, how should a consumer determine a fair retail price for a piece of software? If you accept that Word 98 or AppleWorks each at around $100 retail is a realistic price for these mid-range programs, then perhaps all software pricing could be determined by using these as a kind of basis. Thus, since Adobe Photoshop appeals to a much smaller market, it should cost twice what AppleWorks costs. Since it is rated as 'high' in terms of sophistication, perhaps an additional multiple of the 'core' software would be justified. Finally, because much of the code has been around for years, we should knock off about 50% of the core. That brings us to the core + another core for the target market + another core for development - .5 of the core for age or a total of $250 for a full retail version of the program. Since the actual retail price is $395 and the difference is $145 that leaves us with 145//100 or a 1.45 rating.

You see the problem. By the time you get to the 1.45 rating we've made so many assumptions, that it becomes meaningless.

The Mac Factor Software Evaluator

I won't pursue the 'objective' MFSE any further. The point of the exercise was to demonstrate that there are factors that should pressure publishers to lower prices. There are some products on the market that are vastly overpriced, some fairly priced, and even a few underpriced. Rather than apply some bogus formula, I'll list my choices and the reasons why I feel the way I do.

The 'subjective' MFSE employs five sad mice to indicate a program is vastly overpriced and five happy mice to show it's a steal. The more sad mice a program is assigned the more of a consumer rip-off it represents, while the more happy mice, the better the value of the package. The increased range doesn't necessarily mean the MFSE rating is more accurate, but rather it provides the Mac Factor staff (me) more flexibility in assigning a rating.

The Beginning of the End

If you peruse the ratings of the MFSE, you'll quickly discover a pattern. That is, most software developers have not adjusted to the new PC marketplace and employ a price structure that cannot be maintained for much longer. Microsoft's cave-in on the retail price of Word 98 and Apple's bundling of AppleWorks with millions of their systems are just the first signs that we've reached the beginning of the end of the 'great software rip-off of the 90's.'

Software Ratings

(Note all prices are approximate and are based on a recent MacMall catalog.)

Adobe PageMaker 6.5 Plus ($499 retail, $99.99 upgrade) ($699.99 retail)

uark Xpress 4.0

hese programs have been around since the advent of desktop publishing and, over the years, I've written detailed feature reviews of each. Both packages are targeted at limited audiences and are very sophisticated from a developer and user's point of view. The retail price of each, however, far exceeds the comfort zone for an iMac or even a Blue G3 user. With a little imagination from the marketing folks, PageMaker could have been as ubiquitous on the PC as is Word or PowerPoint. Alas, the marketing folks at Quark are renowned for their lack of imagination.

Adobe InDesign ($699.99 retail, $299.99 limited time offer)

ecognizing that PageMaker is getting long in the tooth, Adobe will soon release InDesign, their new flagship desktop publishing software. If the company is really interested in this program becoming a 'Quark killer,' it should make the $299.99 the retail price instead of just a limited time offer. My friends at Quark would no doubt go into deep shock and be paralyzed for months, while InDesign would probably sell like hotcakes!

Microsoft Office ($448 retail, $358 'Gold' upgrade, $354 (PowerPoint and Excel))

Office on the Mac is either dynamite or a bomb, depending on your perspective. For me this software suite is an essential tool that has no real competitor. For the Microsoft bashers, it is slow, unwieldy, overly complex, error prone, and so on. The software has a large potential market and is very sophisticated. Despite major advances in the interface and features list, I still have the feeling that we've already paid for much of the Office Code and, at a suggested retail price of $448, the software is way overpriced. I propose that Microsoft scrap the unnaturally retarded

Works suite, and reposition Office down in the $200 range. At the same time the company should lower the price of Excel and PowerPoint to the $99 Word 98 SE level.

Word 98 Special Edition ($99 retail)

t times I've been so effusive in my praise of Word 98 that I've been accused of being in Microsoft's 'corner.' I stand by my extensive review of Word 98 that appeared in the July 98 issue of My Mac. At the special edition price, this software rates as a very good buy.

AppleWorks 5.0 ($89.99 retail, free for iMac and iBook buyers)

on't get me going on this program as I could write for days. This is simply the finest integrated software on the market. The average AppleWorks user can accomplish most of what an Office user can accomplish, but can also access drawing, paint, and database modules that blow Office away. From my perspective this program is under-marketed and underpriced. I also suspect that Microsoft is not pleased that AppleWorks comes free to all iMac and iBook purchasers.

Quicken Deluxe 98 ($39.99 retail)

hat can you say about Quicken Deluxe on the Mac? Well, one thing is that it's no Quicken 99. In fact, Intuit never released a Quicken 99 on the Mac and the 98 version seriously lags behind the 99 PC version—particularly in terms of automatically tracking stock and bonds transactions for tax purposes. This deficiency was almost important enough to deter a friend from purchasing an iMac. The program seems reasonably priced, though a full-featured program would be even more reasonable.

RagTime ($499 retail)

I've looked closely at RagTime and I've used it to accomplish several tasks. I have to admit that originally I was more than skeptical, but I discovered it is a complete package with a unique approach to document processing. It's difficult to pin its

functionality down, as it seems to draw from desktop publishing, word processing, and spreadsheets with a unique frame approach similar in some ways to MacAuthor, one of the original Macintosh word processing programs. This European software has been around a long time but never seems to have been fully marketed in the US, and thus has little name recognition. I suspect you can accomplish much of what RagTime offers with a judicious use of AppleWorks and so I find the retail price tag way out of line.

MacroMind Director 7 Shockwave Internet Studio ($949 retail, $448 upgrade)

he theory is that the more nouns you throw in the title of a software title, the more you can charge. Though the software is sophisticated and the potential market may be small, the retail price is preposterous and the upgrade price closer to what the retail should be, but would still too high.

PhotoDisc CD ROM Collection ($279.99)

ou get 336 for 10 MB of professional photographs. Do these people think we are stupid or what? These are no-brainer discs that must pay for themselves after two or three sales. Though the photos will undoubtedly come in handy, the price is out of this world.

Photoshop ($615 retail, $179.99 upgrade)

hat is the premier photo design tool worth? With virtually no competitors, Adobe thinks it's worth too much. Though industry-leading software like Photoshop should undoubtedly be priced at the high end, it is still far too expensive for the average consumer. Ah, you say, but the company targets Adobe Photo Deluxe 2.0 for a mere $42 at the iMac audience. There's such an enormous difference in functionality that Photo Deluxe pales in comparison to Photoshop. The company seems content to ride the Photoshop cash cow into the sunset, coins jingling in hand.

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