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LAZYWRITER

Before we get around to an exhaustive study of templates, we can't resist mention of a couple of nifty products we've seen lately. One, Letterform 1000, was presented at Softsel's recent Softeach and the second we found through its ads, which used the magnificent name of GhostWriter -- since changed to EinsteinWriter. There's a third, Gold-Letters, which we haven't actually seen, but which has been promoted in a mass mailing to publications.

All three are designed for the writer of limited imagination or -- to put it more politely -- for those noncreative tasks of requesting an advertised product, condoling a colleague on a loss, complaining to the purveyor of an unsatisfactory service or product, rejecting a job applicant, welcoming a job applicant, and so forth. All three take a simple idea -- one already embodied in books such as "Director's and Officer's Complete Letter Book" from Prentice-Hall -- and offer it on-line. It's about as simple as a safety pin -- and as useful. In the long run, of course, these products will be judged on their style, inventiveness and comprehensiveness, but for now their mere existence is enough. The enterprising user, of course, can extend the collection to form a company library of letters referring to specific company products, services, events and units.

Letterform 1000 consists of 1000-plus documents -- letters and some other boiler-plate -- for $95. It's not a program: It's four standard IBM-format double-sided disks of ASCII text files, readable by most word-processors. Though its vendor, PBL of Wayzata, MN, also sells Personal Investor, resources are a bit limited, so PBL is mounting a clever promotion campaign. Thirty-odd word-processing software vendors have received a copy of the product with an invitation to submit instructions on how to use Letterform with their particular word-processor. These submissions will be included, one to a page, in Letterform's ring-binder manual. The binder also includes various other handy reference items such as UPS and other freight rate tables (updatable), a punctuation guide, a glossary of computer terms, salutations and closings, etc. Letterform 1000 is just now shipping into stores; Letterform Legal -- 500 legal forms and documents, with the appropriate disclaimers -- is due early next year.

EinsteinWriter, by contrast, is a more ambitious venture, a full-fledged word-processor, with the EinsteinLetters as afterthoughts. They come in four sets of between 100 and 150 letters each: "Social & Civic" for $50; "Consumer & Employment" for $70, and "Business Operations" I and II for $150 each. Released September 1, the word-processor is nice, designed by human-factors experts, but not likely

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VIRTUAL INVENTORY: ELECTRONIC DISTRIBUTION OF SOFTWARE

Dear Juan and Alice,

I had a lot of fun at the last Future Computing Forum. Quite apart from the ostensible topic, The Home Computer Market, there was an interesting subtext on electronic distribution of software. Paul Terrell from Romox was there, pr guy in tow, trying to draw as much attention as possible to his new scheme for downloading software to cartridges at retail. Meanwhile, the guys from Xante, a Tulsa outfit that wants to perform before it talks, were trying to look inconspicuous, which is sort of tough if there are five of you and you like to sit together. There was some discussion of the topic by the various panels, too, and I have never heard such a bunch of unenthusiastic, backhanded endorsements: "I guess we'll have to do it, but we're waiting for the other guys," was the tenor of the remarks. They are doing it partly because they hope, partly because they're afraid, that it will work.

Electronic distribution of software seems inevitable now; the only questions are how and when. Electronic distribution makes enormous sense: Why ship bottles of Coke if you can send syrup instead and leave the bulky packaging to local bottlers? Why ship specific boxes, cartridges, disks if you can do most of the work over telephone lines or radio waves? Why carry inventories if you can manufacture them on demand, on site? Clearly, electronic distribution is sensible, feasible, convenient, cost-effective.

But...one man's cost is another man's revenue. Each participant in the software distribution process has a different interest in the procedure, and there are many different approaches. We'll consider some of the issues in the next few pages; profiles of individual ventures start on page 11.

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│                        GOOD NEWS, BAD NEWS                                │
│                                                                           │
│          Good News                              Bad News                  │
│                                                                           │
│   Reduction of inventory costs       Loss of "touchy-feely" sell          │
│   Elimination of returns             Insufficient documentation           │
│   Easy updates, fixes, etc.          Security problems                    │
│   Easier targeting of market         Questionable reliability             │
│   Easier tailoring of product        Lengthy transmission times           │
│   Reuse of media                     Elimination of middlemen*            │
│   Higher unit sales                                                       │
│   Elimination of middlemen                  *from middleman's point of view│
│                                                                           │
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How??

Electronic distribution of software is easy enough. The basic technology is already in place, with phone lines covering the country. Other possible media include the vertical blanking interval in television broadcasts, radio channels, and cable television, which can broadcast digital information for capture by appropriately programmed receivers. Thousands of remote time-sharing vendors and "information utilities" around the country are already practicing a modified,

customized form of software distribution. Modems are getting faster and cheaper, and security systems are getting more effective (as are security-breakers). The sticking points for mass distribution are transmission time, reliability, security, and billing procedures -- to say nothing of supplier, reseller, and customer resistance. Each entrant has its own ways of addressing these problems, some so complicated that they may doom the whole effort; others simple and almost foolproof. To address the transmission time problem for retailers, for example, the software is usually stored on-site in encrypted form in a point-of-sale kiosk and copied to the buyer's disk or cartridge on demand; programs are downloaded from a central site on a weekly or other schedule. In the home-delivery schemes, software is generally downloaded in real, slow time -- but the programs are usually smaller.

To whom??   Through whom??

Electronic distribution as a means of reaching the retailer and solving some of his inventory problems is a different matter -- especially to the retailer -- from electronic distribution directly to consumers. Both make intuitive sense, but consumers don't seem to be ready yet. The base of sophisticated users who feel comfortable with modems, telephone dial-up and the like is probably smaller and more saturated than we suspect (despite the well-publicized adventures of some hundreds or thousands of roaming computer hackers who find invading a mainframe computer site more challenging than Space Invaders or Pac-Man could ever be). There are a lot of people out there who still have the phone company hook up their telephones. (Just ask THE SOURCE, which still has only 40,000 subscribers for its data and communications services after four years of trying.)

Consumer reluctance will change over time, but we think it will be slower than Control Video, for one, anticipates; Control Video requires the user to purchase a special volatile-memory modem that's usable only for CVC transmissions. For the moment, the ideal channel to homes is probably through cable television companies -- organizations that sell a service, not a product, and that make a habit of installing equipment. Other candidates are the newly venturesome local phone companies. And of course there's AT&T itself, which has just announced a joint effort with Coleco.

In the long run, home distribution will surely succeed in a big way (see page 8), but the tough question now -- one that also faces THE SOURCE -- is how to get the customer to buy and then sign on with his equipment in the first place. Retailers legitimately claim that they don't just make product available; they **sell** it. To-home services can advertise, of course, but many software publishers aren't completely comfortable with leaving too much of the advertising to such distributors -- or with the risk of annoying their traditional distributors.

Going through retailers makes a lot more sense in the short term -- except in terms of pure efficiency. Retailers have fewer emotional hang-ups about equipment and hookups, and more concern for economics, than consumers. Retailers are easier to reach and control than thousands or ultimately millions of pesky, transient, even larcenous consumers. Indeed, distribution through a retailer makes solving most of the sticking points noted above relatively easy.

Virtual inventory

Moreover, electronic distribution, especially of low-end software, could not have arrived at a more appropriate time. Both publishers and retailers have recently discovered the problem with inventory: It's either too little, in the case of a hit, or too much, in the case of a fading hit or a non-hit. (The recent popularity, among retailers at least, of "rack-jobbing" relates not to the physical service of putting software in racks, but the ancillary commitment of the distributor to take back product that doesn't sell, no questions asked.) Carrying costs, markdowns, shipping costs are huge. ROM production leadtimes can easily extend beyond the end of a selling season. Only 20 of each 100 titles provide 80 percent of the business, but which 20? Most of the electronic distribution systems enable the retailer to carry a wide inventory with no inventory costs beyond the leasing of a machine from the distributor. Prices overall are a little lower, but retail margins are good (especially considering they won't later be reduced by markdowns) -- up to 35%. (Royalties to publishers, as with traditional distribution, are negotiable.)

Tangibles

What worries retailers and publishers is the loss of the touchy-feely sell. If the retailer uses a Super Software Box just like the one in the store down the street, what's to distinguish him? And what's to sell one piece of software over another without distinguishing boxes? So far most of the electronic distributors intend to use their own packaging -- fancy Romox rainbow boxes or Renaissance dwarfs and wizards or Xante stripes -- but we expect that fairly soon they may discover that kids, or at least gift-giving parents, want to take the thing home in the appropriate box. (Remember the Christmas-time practice -- in the good old days -- of filling a Simon box with a raincheck? The box does matter.) There are certainly answers to some of these problems for the retailer. There's no reason there can't still be software demos -- and an "inventory" of empty boxes or display cards which display the back and front panels of the missing boxes. Indeed, Renaissance's offering includes a stand-alone pillar that encourages the user to demo the software before making up his mind. (An "inventory" of boxes that runs out is no problem because the item in question is clearly a hit anyway and doesn't need to be sold.)

At the higher end, the issue is documentation. The whole point of buying a software package is to get away from those dreadful Xeroxed™, stapled reference materials, isn't it? And the whole point of the last two years of bringing in soap merchants is to move from messy typescript to neatly typeset manuals with colors, pictures of screens and other "friendly" innovations. One solution is to print out the documentation -- with a laser printer, maybe, if you're the kind of store that sells Lisas, or a plain old dot matrix if you're a little less high-rent. Of course, there's always UPS or Federal Express Standard Air to send the documentation on demand -- while the retailer stocks just a few of the increasingly popular QuickGuides, EasyStarts and other reference materials. Even games need some documentation, which can be provided either by a printout (games players aren't so picky) or from a supply of prepared leaflets. Indeed, electronic distribution may be an important impetus to the trend towards better, briefer or alternatively, on-line documentation and tutorials.

Which products??   Which customers??

Given the problems with documentation, the need for sales support with high-end programs, and the longer life cycle of business software, most of the early experiments with electronic distribution to retailers -- with the notable exceptions of Softyme and Xante -- will handle primarily ROM-based game software. Another reason is that the inventory problem is worst with ROM cartridges: Disks have shorter leadtimes and at least can be reused, although financing or marking down an inventory of disk software is no less painful than financing or clearing out cartridges.

Most of the publishers signing on to one or more of these services are doing so only reluctantly, more for protection than with enthusiasm. Most seem to regard it as a fine way to make some incremental revenues off old, tired software: If someone wants to resell Hula Hoop Invaders, long out of production, and remit royalties for it, Well, why not? The dogs are selling at discounted prices around $10 anyway, so what's to lose? The publisher gets royalties with no outlay.

But for hits, the feeling is, We'd rather sell it in the old, expensive form (even though that sometimes means out-of-stocks and lost sales in the first throes of popularity). Accordingly, Romox's initial list of items includes a lot of second-tier suppliers and third-tier products. Their publishers see Romox as a good way to achieve "shelf" (or kiosk) space they wouldn't otherwise merit. Announced suppliers include the likes of Creative, Navarone, Mattel (with some of its older items only), 20th Century-Fox, Epyx. No Atari, no Activision, no Imagic. (Imagine the allure of HBO with only the kind of movies you can see on American Airlines.) As usual, the weaker ones are those who will deal, while the stronger ones like things the way they are.

Pricing

Electronic distribution will accelerate (or at least provide an excuse for) the trend to lower prices. First of all, electronic distribution makes it apparent to the user exactly how small the marginal cost of his product is, especially if the documentation is as makeshift as many of the distributors seem to think will suffice. That's on the demand side. On the supply side, electronic distribution will indeed make software cheaper, eliminating some costs of cartridge production, shipment, stocking, returns, shrinkage and possibly printed documentation. (More expensive, reusable EPROMs and E²ROMs will replace ROMs in cartridges, but in smaller numbers.) For a $200 piece of disk software, the savings could amount to $20 to $30. For a $40 piece of ROM software, it could be anywhere from $10 for a hit to more than $40 for a product that doesn't sell and that generates heavy returns.

What happens to those eliminated costs? Given competitive pressures, it's unlikely they'll improve anyone's margins much. Instead, they'll show up as reduced prices. In to-home distribution, distributors and retailers will handle only the occasional pieces of related hardware or media, losing software revenues altogether. Margins may be the same, but there will be less revenue to divide up. In part, lower prices will be made up by higher sales of games. In the business market, the pricing impact will be smaller and the forgone revenues will more likely disappear without compensating unit sales increases, leading the software publisher or retailer to make them up by charging for support (see our July 14 issue) or simply swallowing the loss. An alternative is Softyme's fee-paid-

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