Reflexions on the Software Business

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There are basically two things you can do to earn a living when you write code:

- Consulting
- Products

When doing consulting, you write code, and somebody else owns it; you are blamed for its bugs, rarely praised for its benefits, and usually you only sell one copy of your work. When working on products, you write code, and you actually own it; you can brag about it on your blog without pissing anyone, and if you are lucky you sell as many copies of it as you want, all for basically the same production cost.

Now, here's an insider tip: if your objective is living a nightmare, tearing yourself apart and swear never touching a keyboard again, choose option 1. If your objective is enjoying a healthy life, making money and living long and prosper, choose option 2.

This fact is explained by economists as a "diseconomy of scale": this means that fixed costs are very low relative to variable costs, which means that the cost of creating a new copy of your finished product is virtually zero. You only have to invest in the building, not on the replication. Actually this is not 100% true, because you should spend on marketing anyway, and you might as well add new features on the way, but the truth is that well-run software companies make more money than drug dealers, and guess what: software is an activity usually considered legal.

However, there is a tacit consensus in Switzerland, apparently, by which there can't be successful companies doing software in this side of the world. And most companies choose option 1 above. Which has interesting side effects.

Consulting

Consulting, just like the airline industry, succeeds in one particular point: it pisses off everyone involved in it. Let's be frank; clients are seldom happy of the end result, while consultants have to deal with horrible working environments (read: open spaces). The only ones actually enjoying this market are the (usually non-technical) owners of consulting companies, who take pride in the fact of

selling an "expert" to a company for around CHF 1000 per day (much more in the case of SAP), while they pay less than CHF 300 to the same consultant. The remaining 700 go to "operational costs", of course, including the bonuses paid to managers of these companies on the backs of the workers.

Welcome to "Capitalism 101". You have to afford that new Porsche somehow.

Not only are consultants screwed from day one, with the typical speech of "we are a human company, people is our first priority", they also get fired first whenever the market shrinks. They have to beg for training and to be sent to conferences, while their managers go to corporate retreats in Davos or Zermatt. Heck, sometimes consultants even have to ask for a proper computer to do their jobs, or are cynically asked to use their own personal equipment.

Oh, and consultants have to fill timesheets, and get punished if they don't do it. Timesheets are worth an article of their own, in the sense that they are only used as command-and-control tools, and not, as one would think, as the basis for future estimations of upcoming projects. Timesheets are just black holes of information, where you might as well log 8 hours in the "whatever" category and nobody would really care. And estimations are usually done by your non-technical boss, anyway, so screw those historical data.

(Sometimes consultants not only have to fill their employer's timesheet, but also the customer's. I remember that at one time I had to fill 3 different timesheets. I could easily spend 2 hours a week making sure everything was right and coherent. And no, there wasn't any "timesheet filling" entry in the timesheet software. And even worse, timesheet software - web based or not - usually sucks big time.)

OK, I'm probably being unfair here. There are a couple of benefits to being a consultant. I suppose. I hope. But this is not my point.

Products

As shown, the consulting landscape does not look very promising; on one side, many companies try to eat a small consulting market using the same shitty practices. On the other side, thankfully, there are companies who have understood that you can earn a very decent living by creating a nice product and selling licenses (or subscriptions) of it.

As previously, there are interesting side effects to choosing this strategy:

- Creating products has the ultimate goal of generating a steady income stream. This frees up energy and resources in your team to build new products, which generate more revenue, which you can spend creating new products… and so on and so forth. You get the idea.
- Having to maintain a few products means that you can afford knowing its quirks by heart; you don't have to context switch from project to project like most consultants do, and you can continuously fix bugs and add new

features to it. You feel like the product is your child, and you help it grow and become stronger, more resilient, more powerful. Which helps you sell more copies, etc, etc (see the previous point).

- Google's much touted "20% project time" becomes, in the case of owning your own products, a "100% project time". You enter a state of continuous creation. You don't have to explain your choices to a non-technical (read: incompetent) boss: you respond, at most, to what your market demands (read: your customers).
- You can create a product suite; the synergy created from one product to the other might suffice to drive sales up of both products all by itself.
- You can have a direct contact with your clients, answering their requests and problems, instead of relying on a (usually non-technical) man-in-the-middle strategy.
- You acknowledge the fact that 8 hours of coding work is an illusion. I know no developer capable of sitting for 8 hours in front of a computer and writing coherent code, which is what most consultants are expected to get for CHF 1000 per day (the customer doesn't usually know that a consultant only gets 30% of that sum). A maximum of 5 or 6 hours of pure concentration is already a big win, and the rest should be spent doing paperwork, playing Wii Sports or doing the groceries. Freeing your mind helps you have more ideas, which in turn become products that generate new revenue streams. When you are in consulting mode, you cannot have this liberty. Actually you have no liberty at all.
- You can have a real quality strategy. I know no consulting firm which really pays attention to quality (even if most fill their mouths with the Q word). Refactoring, unit testing, user testing, writing requirements and specs are just nonexistent tasks in most consulting companies. When you are creating products, you can take time to do them with the depth that you want; and actually, you do it, and you enjoy it.

Again, I'm really being unfair here. I am concentrating maybe too much into this "circle of virtue" called "product -> revenue -> freedom -> product -> rinse and repeat". Things are never that easy; when you create a product, you have to choose a platform, find a market for it, invest in the creation part, advertise it, maintain it, support your customers, update your website, burn the CD-ROMs, write in your blog, test your product in the next version of the operating system (or browser), fix that weird Unicode bug, set up the eShop for selling your product, troubleshoot PayPal issues, add entries to the FAQ, participate in trade shows, send demos to magazines, fix the damn coffee machine, and many, many other things.

However hard it might seem, the underlying truths are fundamental: when you own the product, your commitment to quality and your enthusiasm will be unparalleled. And your code will be better just because of that.

Conclusion

I would say that consulting is a viable option to start up, as a short term strategy. There's a lot of demand for custom software out there, and using your brain to generate cash that way can be used as a quick entry point to bootstrap your own company.

However, in the medium and long term, the only viable strategy for sustained growth in the software industry is the creation and sale of software products. This is the only way to create true value in your own company, helping you create a healthy environment for your staff, fostering creativity, engaging customers with a real experience, and creating a win-win situation for you and your customers.

Of course, creating and managing a product requires skills and objectives which are not the same as your usual consulting project; this is the reason why most consulting companies fail when trying to jump on a product mindset. This will be the subject of a future article.