

REAL WORLD CASE 3

Shareware Grows Up: CIOs Are Saving Money by Pooling Resources and Software

In July 2001, Andrew Black and Scott R. Lien were having a drink after work and commiserating about the high cost of software and intellectual property development. Lien, then vice president of information services for customer-facing systems at Best Buy Inc., had just been burned by a vendor that decided to take its software in a different direction—leaving Lien high and dry for future updates. He and Black, CIO at Jostens Inc., knew from years of experience that they were both purchasing the same software and coding the same integration functions. They decided there had to be a better way.

In yet another after-work conversation, they enlisted the help of Elmer Baldwin, CEO of consulting firm, Born Information Services Inc. The plan: Form a member organization to share resources such as software, utilities, and IT planning tools.

“Initially,” Baldwin said, “I thought they were nuts!” But he took on the project, began to investigate, and soon was hearing a litany of complaints from CIOs about the cost of duplicated development efforts.

Meanwhile, Baldwin, Black, and Lien met monthly. They hired Minneapolis-based Dorsey & Whitney LLP to work through the legal issues, consulted with prospective members, and developed a business charter. Last fall, they formalized the structure as Avalanche Technology Corp., a for-profit Minneapolis-based cooperative, and hired Jay Hansen, formerly general manager of Asia-Pacific operations at Retek Inc., as CEO.

Companies pay \$30,000 a year for an Avalanche membership, which entitles them to use any of the intellectual property that has been donated to the cooperative by other members. Members log onto www.avalanche.coop, where they can review and download intellectual property or upload property they wish to donate.

Intellectual property assets can be integration applets, application add-ons, best-practice documentation, templates, project plans, user interfaces, software coding, or schemas. “Anything that makes it easier to implement software,” Baldwin says. “The financial models project a 20 percent to 40 percent decrease in the total cost of ownership of software at member companies,” he adds.

Lien explains the Avalanche mission: “We want to take the friction out of collaboration,” he says. “We are all under tremendous cost pressure to save money, and through Avalanche we can save each other money.”

“Software cooperatives are a great idea,” says Bob Lewis, president of IT Catalysts Inc., a consulting firm in Eden Prairie, Minnesota. “I’m surprised that it took so long to happen. It really legitimizes the open-source model.”

Lien says the co-op model is similar to that of open-source but takes the concept further. “This is the next level beyond open-source,” he explains. “With open-source, there is too much risk. You are stuck maintaining and supporting anything you develop. That can get resource intensive.”

With Avalanche, Lien says, the co-op becomes responsible for the asset and also ensures that there’s a clear title so member companies can’t be sued later. “It is great for the donating companies,” he says. “The larger the installation base, the lower the cost of ongoing maintenance.”

John Schmidt, vice president of integration at Best Buy, echoes that idea. “It’s easy to informally collaborate with just one or two developers; companies do it all the time. But beyond that, you begin to run into risks,” he says. For example, Best Buy was using an open-source framework available at www.openadaptor.org, but the original developers stopped supporting it, leaving Schmidt hanging. Later, when Best Buy developed its own framework for coding integration adapters, the company donated it to Avalanche.

The charter members of Avalanche are Jostens, a provider of affiliation products such as yearbooks; ePredix Inc., an employee assessment firm, where Lien is now CIO; Born Information Services; and Integral Business Solutions. All four are based in the Minneapolis area. As technology service providers, Born and Integral are obligated to donate services in addition to paying the membership fee.

Hansen says that competition among members shouldn’t be an issue because the shared assets don’t bring competitive advantage. “We fully expect competing companies to join and share,” he says. But he acknowledges that getting members to really collaborate is a challenge.

Baldwin agrees. “We are looking for more than just money,” he says. “We want member companies to get involved, to participate.” They hope member companies will donate intellectual property, cooperate in adapting it for other companies, help troubleshoot problems and form subgroups to develop needed niche software for the library.

As of June 2004, a discussion board on the Avalanche site had been discontinued because of underuse, but Schmidt is still optimistic. “Six months from now, the site will be very active,” he says. “The idea hasn’t been proven yet. It’s a leap of faith. But I think it will work.”

Case Study Questions

1. Organizations are constantly striving to achieve competitive advantage, often through their information technologies. Given this constant, why does Hansen suggest that competition among members shouldn’t be an issue because the shared assets don’t bring competitive advantage? Explain.
2. What do you see as the potential risks associated with the Avalanche approach? Provide some examples.
3. How could other companies apply the cooperative model used by Avalanche to achieve efficiencies in areas other than software support? Explain.

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