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Game Time Decision for AppDirect

I skate to where the puck is going to be, not to where it has been.

— Wayne Gretzky

It was the beginning of 2011, and AppDirect was coming up on the second anniversary of its founding. Co-founder Daniel Saks walked through the bustling San Francisco financial district on his way to meet his team and contemplated the direction of his company. Some recent events, including a new round of venture capital (VC) funding, media exposure, and a sudden outpour of interest from strategic partners, had spurred excitement and anticipation within his firm. His next steps would be crucial for maintaining this momentum. At the top of Saks's mind was that he and co-founder Nicolas Desmarais would have to lay out AppDirect's launch strategy for entering the web-based application space at a major cloud computing conference presentation just a few months away.

AppDirect was created to bring together small businesses looking for web-based applications ("apps") and the independent software vendors (ISVs) that developed them. AppDirect's web portal would allow customers to easily access and manage all purchased apps. Through the marketplace and portal, small businesses could gain improved integration, ease of use, and security for application management.

The co-founders had forged a relationship with Bell Canada, a channel partner, soon after AppDirect's formation in August 2009 as a way to address the classic two-sided platform "chicken and egg" problem (see **Exhibit 1** for a timeline). Acquiring customers required AppDirect to offer many apps, but to entice developers to create those apps the company had to promise that customers would be available for distribution. The channel strategy was to gain access to a large potential user base—essentially Bell's small business Internet and phone customers—which would then naturally attract developers to sell apps through the AppDirect platform.

Saks reflected on whether AppDirect should continue its strategy of partnering with channel distributors to ensure a user base, or change course altogether by marketing and selling its apps directly to end consumers. The business app store was a fast-growing, competitive space, and choosing the right strategy could mean the difference between becoming the Amazon of small business software and drowning in the waves of online platform competition. Saks had to make deliberate plans for either strategy. If AppDirect chose the direct-to-market strategy, how should it best structure the direct platform? If it chose the channel route, which channels should AppDirect

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approach? Daniel had to figure out which direction the online business-app-store market was trending and how AppDirect would best fit in the story. He remembered his favorite hockey quote and knew it was time for him to decide where the puck was headed . . . and act accordingly.

Industry Background

Software as a service (SaaS) was a technology that had been around since the 1990s and had been first popularized by Salesforce.com. SaaS offered a solution to the frustrations associated with using the dominant Microsoft PC operating system. Maintaining and using Microsoft Office required continuous upgrades of software and funding of information technology (IT) support staff. With SaaS, businesses could buy subscriptions to an online service instead of purchasing software licenses to run various applications. To obtain an enterprise application, such as a customer relations management (CRM) application, a firm could subscribe to Salesforce.com, where it could operate and store its information on servers that Salesforce.com ran. Instead of needing disks to install software, a firm only needed Internet access.¹

SaaS offered many benefits, including better economics, mobility, collaboration, and convenience. SaaS allowed an organization to quickly upgrade its systems for improved technology in real time. Users were not restricted to an office or work laptop; they could access their software from any location with Internet access. Some companies were able to predict costs more accurately because the system did not require in-house IT support. A Gartner industry report concluded that employing CRM through a SaaS model could create between 25% and 40% in cost savings from reduced application expenses and integration.² SaaS had some challenges as well: costs increased with more features, and outsourcing security was a major concern to certain businesses whose information was particularly sensitive. The early adopters of SaaS, however, had found that data could be much more secure on the cloud through SAS70-compliant data centers with biometric security and other protections.³

The term “app” had become widespread with the increased functionality and popularity of the mobile phone. While “app” literally meant “application software” and covered a range of functional purposes, the bite-sized pieces of software available through download on mobile phones or social media sites such as Facebook usually took the form of games.⁴ Apps allowed connections between platforms of different communities and were very useful to businesses as well as individual consumers.

According to Doug Farber, enterprise managing director for Google Asia Pacific, SaaS products could “help small businesses take out cost from their operations. . . . There’s no reason that if you’re a small business you should have to buy servers, software, upgrades, and maintain and manage all the fixes. People are a precious resource for small businesses and you should be able to leverage the cloud to be able to bring your business to the market.”⁵

Company Origins

Daniel Saks and Nicolas Desmarais founded AppDirect in the summer of 2009 with a mission of connecting small businesses with the online tools that would make them prosper. For years, both had noticed through their work that the online industry was moving toward operating in the cloud. They saw great opportunities for small businesses as the SaaS model replaced locally hosted software in many applications.

The initial idea spawned when the two friends attended the Web 2.0 conference in San Francisco in March of 2009. There, Jimmy Wales and other Internet gurus discussed the value of crowdsourcing. Saks and Desmarais had considered various business ideas before the conference, but had not come up with anything they could agree on. The talk on crowdsourcing caused them to consider how that concept could be applied to help small businesses. Saks believed that over the last several decades, small businesses had struggled while Fortune 500 firms boomed through superior technology and access to capital. The onset of the financial crisis in 2008 had further aggravated this disparity. The two friends believed SaaS was a catalyst that could create a more level playing field for Main Street entrepreneurs, or small businesses. The friends thought, “Why don’t we provide start-ups and small businesses with the tools they need to grow, but that are difficult to find?”

New ventures and business ideas were areas that the pair knew well. Both founders had grown up with a passion for entrepreneurship and had created small ventures even during childhood. As a teenager, Saks had started his own tour company in Niagara Falls, while Desmarais had started a driveway sealing and asphalt repair business in his neighborhood. Saks’s family closed its long-standing furniture store after 100 years in business due to the recession and competition from “big box” stores. This experience instilled a passion in Saks for helping small businesses become more competitive. Both founders had learned from their experiences that bringing information (content), people (network), and tools (applications) to small businesses would help the businesses thrive. Their goal with AppDirect was to solve a problem that they themselves had experienced and successfully solved while developing businesses: using and optimizing online tools. Tools like Echosign, an e-signature business, were resources that Saks and Desmarais had found online. AppDirect would make it easier for businesses to find and access these tools.

When the two decided to quit their jobs and pursue the idea full time, Saks had been working across the software and clean technology groups of a boutique investment bank and Desmarais was working on technology-related cases at a top-tier consulting firm. With his experience in investment banking and wealth management, Saks naturally gravitated to focusing on sales and marketing, vendor and channel relations, and human resources (HR) within AppDirect. Desmarais’ previous experience in management consulting led him to oversee product development, channel development, and investor relations (see **Exhibit 2** for full team bios).

Over the first 14 months, the pair’s mission and enthusiasm attracted a leading team with over 55 years of collective on-demand e-commerce and software experience from HP, Oracle, Google, VMware, and Salesforce. Andy Sen, senior vice president of engineering, came from Salesforce AppExchange because he believed in offering all types of apps to the business owner, not just to salespeople. Steve Wiess, director of security and data integration, joined because of the opportunity to create open standards around web-based software integration.

By January 2011, AppDirect had 12 employees, \$3 million in funding from venture capital companies, and a three-year contract with the largest Canadian telecommunications company, Bell Canada. The founders’ strategy had been to operate lean, with a smaller team, and focus on generating early cash flow.

AppDirect’s Business Model

As small businesses started up and grew, many struggled to discover and integrate business software into their systems. Employees looked to web solutions for everything from sales, marketing, and CRM to financial and operational software. A typical small business would need, at minimum, administrative functions such as voice mail, e-mail, and group chat. Depending on the industry,

businesses used free or inexpensive apps such as DropBox for file sharing, Survey Monkey for understanding target customers, OggChat for internal communications or as a customer helpline, and FreeAgent for accounting.⁶ AppDirect's value proposition to its small business customers was delivered through two main products: a marketplace and a portal that customers could use to find and manage apps (see **Exhibit 3** for a graphic illustration of AppDirect's model).

AppDirect defined its core business as selling applications and measured its performance on application revenue growth, which depended on customer reach, conversion, and retention. It addressed reach through customer marketing provided by channels or through unique visitors to the site (i.e., through dependent-on-channel or direct-to-market strategies). AppDirect aimed for conversion by actively recommending applications relevant to specific businesses and making it convenient to purchase the apps quickly. The company could retain customers by offering many apps in one place. All these factors affected the other side of the platform: the acquisition of developers.

Marketplace

The AppDirect market enabled customers to search and find apps provided by third-party ISVs. Users could search and browse results in a detailed listing by function or industry (see **Exhibit 4**). Small businesses could compare applications on a range of metrics and try out each app before making a purchase. Through online documents, videos, and demos for each app, users had the opportunity to understand an app's services before purchase. Customers also benefited from user ratings and user reviews. AppDirect provided a customer help line to further explain functionality and integration details. Additionally, AppDirect was developing a recommendation engine to recommend specific apps to companies based on company industry, size, and needs.

Portal

The AppDirect portal provided a unified user experience on a secure platform, enabling customers to manage apps through a single sign-on portal. The portal allowed seamless integration for a user between management and sign-on. Through the portal, a manager could access the payment gateway with one password, view and manage purchases and subscriptions, and assign subscription management to other users. Managers had the option to add new users to specific apps and view the utilization of those apps by other users. As illustrated in **Exhibit 5**, the portal also allowed the management of app subscriptions and upgrades. This type of feature was expected to increase customer retention.⁷

Before its launch in March 2011, AppDirect offered a total of 22 apps developed and categorized into the following groups: office management (8), collaboration (22), financial management (3), customer management (6), marketing (8), sales (1), public relations (5), human resources (4), IT management (3), and R&D (0).

AppDirect planned to make the majority of its revenues by taking a 30% cut of user app sales. If the company partnered with a channel, that revenue source would be split with the channel partner. A secondary revenue source to AppDirect would come from customers using premium portal services (e.g., custom branding and enhanced security services), although it was undecided whether the ISVs or end customers would be charged for those services. In addition, in a channel partnership agreement, the channel partner would pay AppDirect a platform management fee.

Players in the Market

Independent Software Vendors (ISVs)

Traditionally, ISVs made software that ran on one or more computer hardware or operating system platforms. For example, Adobe Systems made Photoshop, Adobe Reader, and other software that ran on the Microsoft Windows operating system. Many traditional ISVs had begun to offer their applications on a SaaS basis, competing with the newer ISVs who were developing products that were exclusively SaaS. In the SaaS space, consumer and business app stores were primarily run by the providers of the underlying technology platforms, including Apple, BlackBerry, Google, and Salesforce.com.⁸ It took weeks to months of development time for an ISV to integrate an app for each additional platform. AppDirect focused on enabling easy and fast integration. For example, AppDirect provided code libraries to vendors to implement web-based protocols for single sign-on and other integration components.

Customers

In the enterprise SaaS space, customers bought a range of apps that fulfilled different functions. Anecdotal evidence suggested that small businesses that were early adopters of SaaS had, on average, six to eight apps covering web conferencing, CRM, HR (including payroll, recruitment, and time tracking), marketing (including blogging and website management), accounting, and IT management.⁹

AppDirect's customer strategy was to target the two industry segments that extensive focus group studies had indicated would best benefit and adopt its products: small businesses in the technology and creative industries.¹⁰ AppDirect's agreement with Bell Canada gave it access to some customers that landed within this target group of technologically savvy small businesses and also allowed it to experiment with customers who were not likely first adopters.

Competitors

AppDirect faced three main competitor types: branded platforms, custom platforms, and identity management. Branded platforms marketed themselves directly to end consumers, while custom platforms used a channel partner to achieve scale, mostly through white-label agreements (i.e., arrangements under which the platform provided the functionality as an input to the channel partner, who then sold the service under its own brand). Both of these types of platforms competed through their marketplaces, while identity management firms competed with AppDirect's portal services. (**Exhibit 6** compares the various competitors.)

Branded platforms A number of large technology companies had started their own branded business apps platforms. The Salesforce AppExchange, launched in 2006, marketed and delivered apps to Salesforce's 72,000 customers and hosted more than 1,000 apps.¹¹ Google had released the Google Apps Marketplace in March 2010, supplying a wider variety of apps to the 25 million people and two million businesses already using Google Apps (Gmail, Google Docs, Google Groups, and others).¹² (See **Exhibit 7** for a visual example of the Google Apps Marketplace.) Additionally, while it was predominately targeted at consumers, Apple's iPhone app store provided approximately 500 business apps among its over 300,000 applications available for download.¹³

Custom platforms A second group of competitors with comparable business models to AppDirect had decided on a channel distribution strategy. These companies, which included SnappCloud and Etelos, were building and operating white-label platforms that sold apps to the customers of their channel partners, with whom they shared the revenues. SnappCloud was founded in 2006 and focused on building app platforms for original equipment manufacturers (OEMs), Internet service providers (ISPs), and telecommunication operators and equipment manufacturers (telcos). It powered the Toshiba AppPlace and HP Web Services Store. Etelos ran Bank of America's MyBusiness Center Solutions Store¹⁴ (see **Exhibit 8**).

Access and identity management The third set of competitors focused on providing portal services rather than an app marketplace. Okta provided single sign-on, self-service administration, user management, and reporting. The company charged a per-user fee so that businesses could manage all their apps on the Okta portal (see **Exhibit 9**). By March 2011, Okta had integrated 76 apps including box.net, SuccessFactors, Workday, and SurveyMonkey.¹⁵ Other competitors included Symplified and Ping Identity.

Channels

Beyond its agreement with Bell Canada, AppDirect considered a number of potential channel partners that could become app resellers in a variety of industries, including telcos, financial services, payment systems, e-commerce, information providers and publishers, and business services. AppDirect planned to partner with firms that had established a strong small and medium enterprise (SME) base. The reseller would market to end users, while AppDirect would provide the technology, hosting, and support.

One well-known channel partnership agreement was between Google and Optus, an Australian telco. In March 2011, Optus signed an agreement with Google to sell Google Apps to its business customers. In the past Optus had only offered limited SaaS products to businesses, such as memory capacity, processing power, and other infrastructure.¹⁶ This announcement surprised many in the industry who considered Google exclusively a branded platform.

The Decision

Daniel walked into AppDirect's new offices and sighed deeply but with a smile. The actual office space for him and his team was a welcome change after spending months crammed in a windowless warehouse space. He could not help but feel both excitement and nervousness about the months to come. AppDirect had made enormous progress over the past year and a half but had reached a pivotal point. The company had found it challenging to communicate its value proposition to both small businesses and ISVs, since it was different from all of its competitors. AppDirect offered customers search and discovery services through its marketplace and app management capabilities through the portal. Saks was encouraged by the recent demonstration of partnership interest from various industry channel resellers that had been calling him over the past several weeks. But were they absolutely necessary? Could AppDirect attract sufficient numbers of end customers and ISVs to carve out a sustainable market position?

The Google Apps Marketplace had launched in 2010 with a lot of initial momentum, but its continued focus on large enterprises had prevented it from gaining the traction everyone expected for small businesses.¹⁷ Saks believed that the SME group was still severely underserved, and therefore AppDirect had a window of opportunity to deliver. He and his team had initially targeted small businesses in the technology and creative spaces as early adopters, but if AppDirect chose to continue

pursuing channel partners, was the telco industry the right channel to reach these target customers? If not, where should AppDirect set its sights? Saks knew that once AppDirect launched, it would be more difficult for it to change its course given the aggressive growth necessary to pursue any strategy. He and his team would have to make key strategic decisions on AppDirect's launch in the next several weeks before the cloud computing conference. Saks could not help but enjoy his quandary; it was exactly why he had chosen to become an entrepreneur.

Exhibit 1 AppDirect Formation Timeline

Date	Event
March 2009	Web 2.0 conference; founders decide to launch start-up
July 2009	Incorporated as Origio Networks Corporation, a Delaware corporation
August 2009	Initial discussions to partner with Bell Canada Received angel funding (\$0.5 million)
September 2009	Growing team, Andy Sen hired
January–December 2010	Development
January 2011	Received first round of VC funding (\$2.75 million)
March 2011	Soft launch of Bell portal
April 2011	AppDirect announces launch strategy at Under the Radar Conference

Source: AppDirect.

Exhibit 2 Founder and Team Biographies

Daniel Saks, co-founder, graduated with a BA from McGill University and a Master of Liberal Arts in Management from Harvard University. Daniel has experience in investment banking from Viant Group in San Francisco and in wealth management from RBC in Toronto. Daniel oversees sales and marketing, vendor and channel relations, and HR.

Nicolas Desmarais, co-founder, worked at Bain & Company as a management consultant. Nick holds a BA in Economics and Political Science from Amherst College. At AppDirect, Nicolas oversees product development, channel development, and investor relations.

Andy Sen, SVP of engineering, brings over 10 years of software experience with a focus in e-commerce. He was product manager at Salesforce, responsible for the AppExchange, a SaaS e-Commerce platform distributing over 500 applications. Prior to Salesforce, Andy led a team responsible for defining Wal-Mart's Global eCommerce platform. Andy graduated with high honors from Georgia Tech.

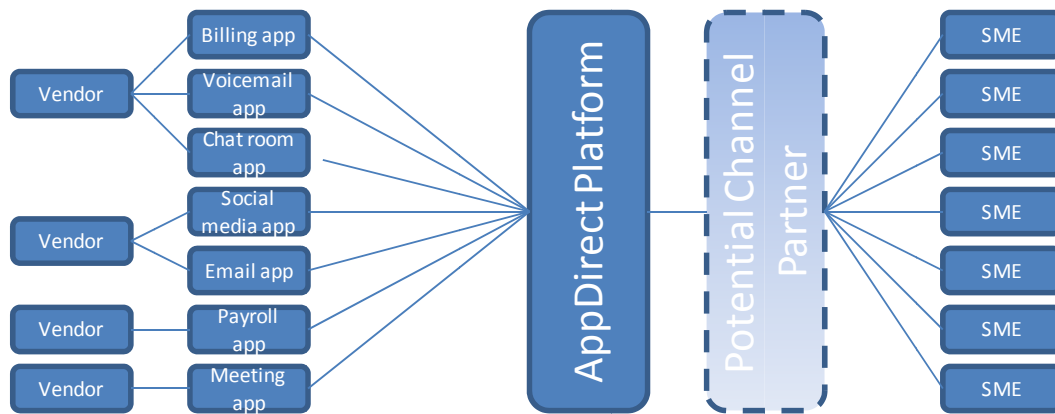
Christophe Levesque, Director of Federation and Provisioning, received his engineering degree from the Ecole Polytechnique in France, and his Master of Science from Stanford University. Before joining AppDirect, Christophe held technical leadership positions at Oracle, Mercury Interactive, and more recently Hewlett-Packard, where he was a technical lead working on the architecture and implementation of a large scalable Enterprise web application.

Steve Weis, Director of Technical Integration, is a software engineer at AppDirect. His background is in information security with a focus on cryptography and authentication systems. Previously, Steve was a member of Google's applied security group. He received a PhD in computer science from MIT, where he was advised by Ron Rivest.

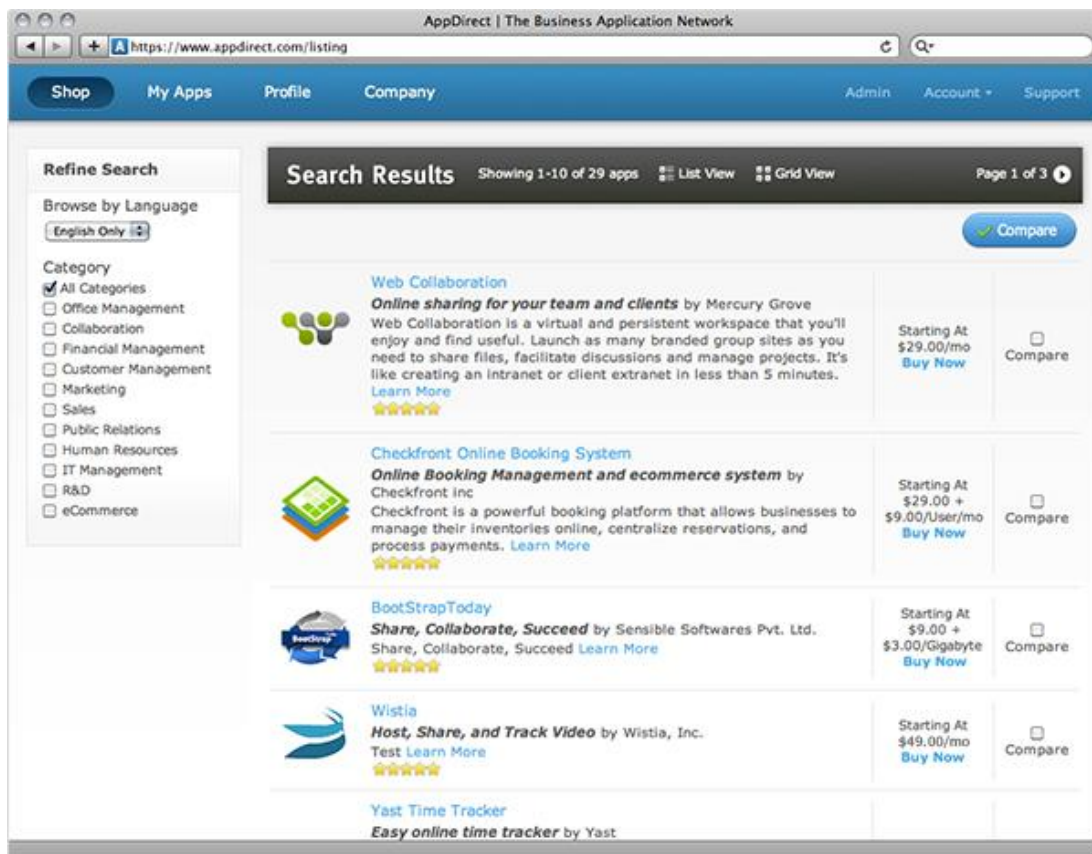
Fivos Constantinou, Director of Portals and Market, graduated with a BSc and MEng from MIT, where he was also a member of the track and cross-country teams. He spent the next three years working at Oracle, where he architected and implemented a sales management application. He currently has multiple patents pending based on his work at Oracle.

Pat McBride, Director of Development Operations, brings extensive experience to the discipline of technical operations ranging from the very regulated pharmaceutical industry with Roche and retail companies like Gymboree to the dynamic startup environments of companies like Asera and SignalDemand.

Source: AppDirect.

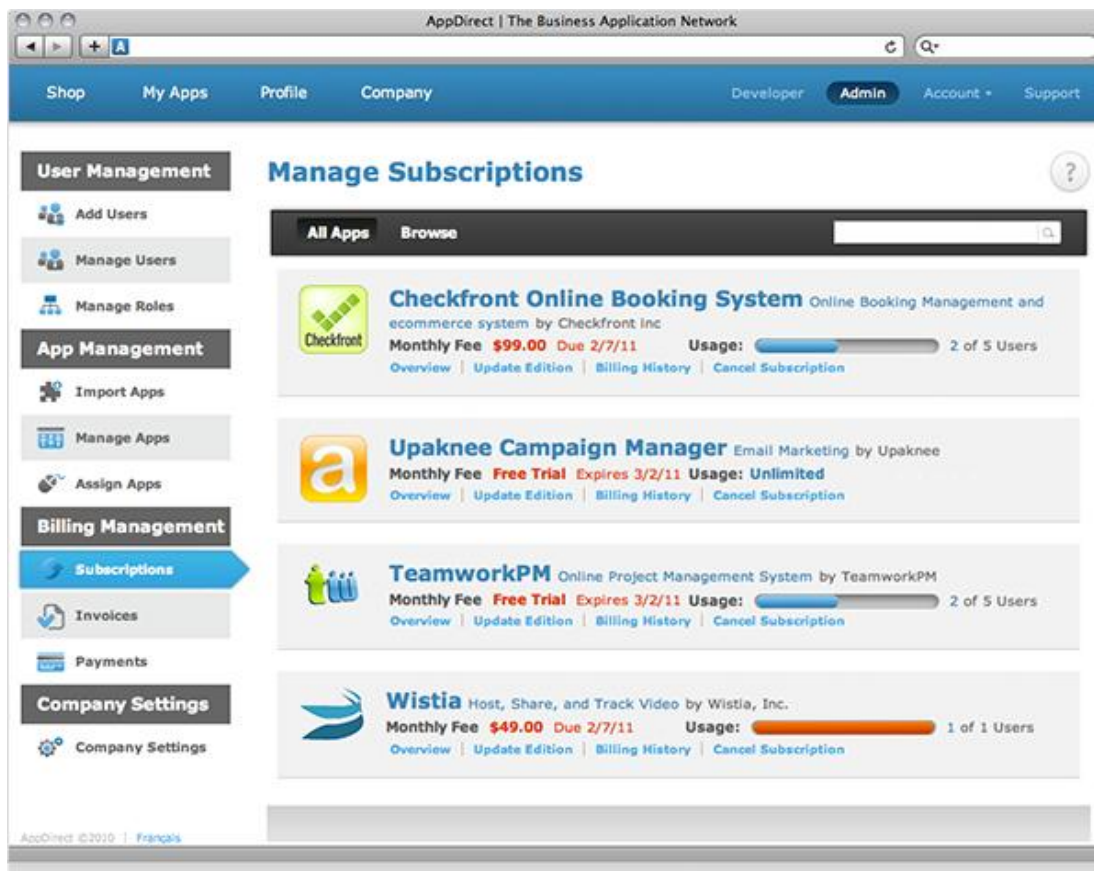
Exhibit 3 AppDirect Business Model

Source: AppDirect and casewriters.

Exhibit 4 AppDirect User Marketplace Search Results

Source: AppDirect.

Exhibit 5 AppDirect User Portal



Source: AppDirect.

Exhibit 6 AppDirect Competitors

Branded Platforms		
<p>Google Apps Marketplace</p> <p>The Google Apps Marketplace offers web-based applications that work seamlessly with Google Apps. Whether you need a CRM, accounting or project management app, the Apps Marketplace helps you discover, purchase and deploy top web apps that integrate with Google Apps. Every Marketplace app provides single sign-on to make adoption easy and additional integrations such as data syncing with Apps and gadgets to further extend functionality. Apps admins can manage a single directory of both users and applications from the same unified interface as Google Apps, reducing overhead and improving security. Marketplace apps are only available to Google Apps customers.</p> <p>Launched March 2010</p> <p>Primarily direct strategy, channel partner - 50 apps at launch, 100+ March 2011</p> <p>Gmail, Google Docs, Google Groups, Google Calendar, Google Cloud Connect, Concur, Intuit, SAP, Fresh Books, Mail Chimps</p> <p>Source: www.google.com/apps/intl/en/business (accessed 04/2011)</p>	<p>Salesforce AppExchange</p> <p>AppExchange is the trusted cloud computing marketplace. Extend your success in the cloud with the AppExchange, salesforce.com's marketplace of business applications and services. Find, evaluate and install solutions for every department and industry. Browse hundreds of applications for CRM and beyond. Find system integrators and custom app developers that can help. Learn how to deliver and market your app or service on the AppExchange.</p> <p>Launched January 2007</p> <p>Direct strategy</p> <p>430 apps at launch, 1150 apps March 2011</p> <p>Salesforce for Twitter & Facebook, Milestones Project & Task Management, Outlook Integration, DupeCatcher, Timba Surveys,</p> <p>Source: http://appexchange.salesforce.com (accessed 04/2011)</p>	<p>Apple App Store</p> <p>The Apple App Store has over 350,000 apps, the majority of the apps are consumer focused with a limited number of business apps in the store. The app store runs on the Apple iOS, its proprietary mobile operating system. Apple iOS comes preinstalled on the iPhone, iPod Touch, and iPad. Users can also browse and download apps from the iTunes store, on any devices where iTunes is provided.</p> <p>Launched in 2008</p> <p>Direct strategy</p> <p>350,000 apps, ~500 business apps</p> <p>Square, LinkedIn, Salesforce mobile, Bento, FedEx, Cisco WebEx, iTimesheet</p> <p>Source: www.apple.com/iphone (accessed 04/2011)</p>

Custom Platforms	
<p>SnappCloud</p> <p>SnappCloud provides a simple, complete, secure solution to effectively promote, provide, bill, and manage bundles of consumer cloud services through white-labeled app stores.</p> <p>Founded in 2006</p> <p>Channel partner strategy - Toshiba & HP</p> <p>40 apps</p> <p>Expensify, Yola, Support.com, Small Biz Builder</p> <p>Source: http://www.snappcloud.com/about (accessed 04/2011)</p>	<p>Etelos</p> <p>Etelos is a technology-driven platform that enables the distribution of Web-based business applications. For traditional software manufacturers, Etelos represents a cost-effective, one-stop shop to seamlessly migrate software applications to the user, by offering services for architecting, packaging, distributing, hosting, billing and supporting their SaaS applications. Businesses and organizations can buy applications from Web App Marketplaces distributed by Etelos channel partners, and powered by the Etelos Platform.</p> <p>Founded 1999</p> <p>Channel partner strategy - Bank of America</p> <p>16 apps on the Bank of America store</p> <p>TekScout, Sales Navigator Pro, Google Apps for Business, Huddle, eTouch System</p> <p>Source: http://www.etelos.com/etelos (accessed 04/2011)</p>

Exhibit 6 (continued)

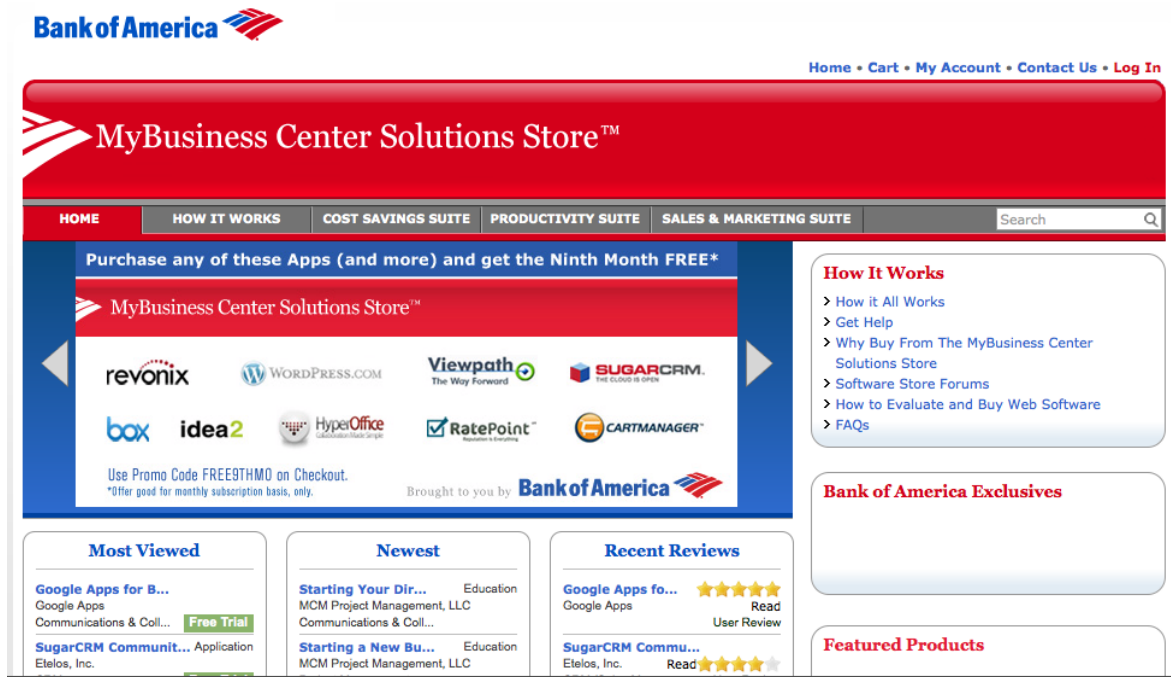
Access / Identity Management		
Okta	Symplified	Ping Identity
Okta, Inc. provides cloud application management service. Its service allows companies to transform their various cloud applications into Cloud Area Network to get control of their users, applications, and data in the cloud and behind the firewall. The company serves customers ranging from small businesses to large enterprises.	Symplified, Inc., an on demand identity company, offers identity infrastructure for the on demand market. It provides KeyChain, which provides pre-integrated secure single sign-on for SaaS and enterprise applications; Access, an identity and access management product for SaaS and Web applications; and Identity Cloud, which enables users to deploy identity infrastructure. The company also offers Identity Router that connects identity systems with relying applications.	Ping Identity Corporation provides federated identity management technology through a federated identity management software for Internet single sign-on (SSO) for external partner connections and integration kits that enable first-mile integration, leverage existing identity management infrastructure, and last-mile integration for scalable target application connections. The company provides an identity service that leverages identity technologies to streamline and secure the login and registration process to commonly used Websites. It serves business services, healthcare, financial services, technology, SaaS, manufacturing, government, communications, HR and benefit providers, and education sectors.
Founded in 2008	Founded in 2007	Founded in 2002
Direct strategy	Channel partner - Amazon Web Services	Direct strategy
76 apps	1 million licensed users January 2011	Apps from over 80 vendors
Box.net, SuccessFactors, Workday, Survey Monkey	Google apps, Workday apps, Salesforce.com apps, Taleo apps, Xactly apps	Box.net, Communisphere, Google Apps, NetSuite, SuccessFactors, Salary.com, Cisco Webex, Workday, Yammer, Zoho
Source: Okta, Capital IQ Inc., a division of Standard & Poor's (accessed 04/2011)	Source: Symplified, Capital IQ Inc., a division of Standard & Poor's (accessed 04/2011)	Source: Ping Identity, Capital IQ Inc., a division of Standard & Poor's (accessed 04/2011)

Exhibit 7 Google Apps Marketplace

The screenshot shows the Google Apps Marketplace interface. At the top, there's a search bar and links for 'Help' and 'Sign in'. The main content area is divided into several sections: a sidebar on the left with category lists, a central 'Featured Apps' carousel featuring 'Solve360', and a 'Tops in Google Apps' section on the right listing popular apps like MailChimp, Mavenlink, and Insightly. The 'Featured Apps' section includes a video player and a description of Solve360 as a CRM and project management tool.

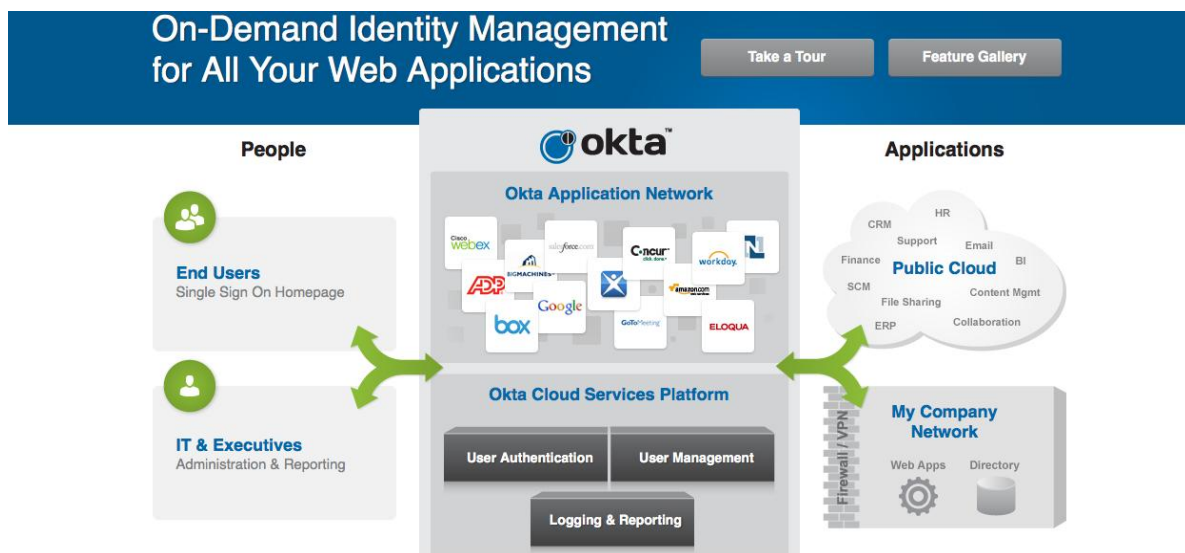
Source: www.google.com/enterprise/marketplace, accessed April 2011.

Exhibit 8 Bank of America MyBusiness Center Solutions Store, Powered by Etelos



Source: <http://www.mybusinesssolutionsstore.com>, accessed April 2011.

Exhibit 9 Okta



Source: www.okta.com/products, accessed April 2011.

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⁹ Based on interviews conducted by the casewriters in February and March of 2011 with several developers and users of apps in this market.

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¹⁴ <http://www.etelos.com/etelos>, accessed March 2011.

¹⁵ <http://www.okta.com> accessed March 2011.

¹⁶ Medders, "Google Inc. Apps Gets a Leg Up."

¹⁷ Based on interviews conducted by the casewriters in February and March of 2011 with several developers and users of apps in this market.