Foreword

Increasing Added Value with Software

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With each passing year, software will likely account for a growing percentage of the products of Fujitsu TEN.

In the computer sector, since early 1975, the unbundling (separate pricing) of hardware and software has been moving forward.

With hardware becoming simpler and software becoming more complex, in this golden age of PCs, even hardware priced as low as 200,000 to 300,000 yen comes with many kinds of software created by software houses. As for the computer I have on my desk, the software-hardware price ratio stands at about 1 to 1, but the value of the software continues to grow.

These circumstances have contributed to the appearance of numerous software houses in the United States, Europe, Japan, India, Israel, and China. Some of these software houses have even begun to earn significant profits. The cost factors involved in the manufacture of software include labor (person- months), paperwork items, and computer facilities for testing. The profit of a software house is calculated using two methods.

(1) Selling price - cost = profit or Cost + profit = selling price

[For package deals for software developed under software development contracts]

(2) Selling price (low unit price) * sold quantity - cost = profit

[For discrete deals for software appropriately priced following development, as is the case with personal computer software]

Profit-making software houses use method (2) above. Under this method, the software business generates huge profits after sales grow beyond the break-even point. However, at the same time, this method also poses great risk for the software developer in terms of investment recovery and sales forecasts. This is typically a high-risk, high-return business.

How is the selling price (the value of a software product) determined? This is a difficult question. We cannot say that a software product is valuable simply because many people went and spent a great deal of time developing a software program that follows a great number of steps. If the same function is realized with a software program that follows a smaller number of steps, the software may be priced higher simply because the hardware required to run it, such as the memory capacity, is reduced. If pricing is independent of the software development period and labor, raising productivity will lead to increased profits.

Current hit software products (especially those for personal computers),however, seem to be priced without consideration given to cost. Microsoft's Windows is selling well because superior operability makes the software handy to use, and many software products run under Windows (the de facto standard). The market price is not low but still reasonable.

Because numerous software products are now available on the market, more people have begun to consider purchasing software products instead of creating them. It is also becoming more important to gather information worldwide about the locations of software houses and the products they sell.

Software products are the outcome of human intelligence. It is my sincere hope that we can all create new and unique products offering high functionality and operability, with high added value, by concentrating all of our intelligence.

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