2009 Key Trends in Software Pricing and Licensing Survey

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2009 Key Trends in Software Pricing and Licensing Survey

OVERVIEW OF SURVEY FINDINGS

The *2009 Key Trends in Software Pricing and Licensing Survey* finds software vendors and high-tech manufacturers coming closer together with enterprise IT customers as the stakeholders in the software industry seek greater flexibility in pricing and licensing models. A key driver has been the global economic downturn, which compels both producers and enterprises to rethink, retool, and restructure the way they do business, control costs, and ensure compliance. Just as producers see the need to be responsive to customers through innovation in pricing and licensing, enterprise IT and procurement teams have been forced to deal with cost cutting at an unprecedented level, requiring more innovation and flexibility in what they demand of their vendors.

Usage-Based Licensing Models on the Rise

The 2009 survey reveals some key areas of convergence and divergence. This year's survey shows an evolution in usage based licensing and entitlement tracking. While 58% of producers report monitoring customer software usage—18% growth over 2008—the majority of these have only rudimentary tools to track usage with just 28% using home grown tools and just 6% using robust third-party tools.

While 61% of enterprise IT managers believe that tracking software usage is important or very important to reduce costs, minimize shelfware, and ensure compliance, most lack the appropriate tools (most do so manually today). Additionally, 34% of producers have no system in place or tools to determine what product/versions their customers are using, a surprising decline from 48% reported in 2008.

More Flexible Licensing and Pricing

In addition, the survey shows that producers have recognized the need to offer more flexible software pricing and licensing strategies. The survey shows that 43% of software vendor/manufacturer respondents have adapted their licensing approaches in the last year to make them more flexible. Producers cite a number of compelling reasons, chiefly improving customer relations, generating more revenues, and accelerating the sales cycle. But respondents also say they lack the tools to support these flexible strategies.

Software producers show a preference to offering concurrent user and seat pricing models, while enterprises prefer concurrent user pricing but not seat pricing. By 2011, 35% of software vendors expect to offer a usage-based pricing model. Along those same lines, as pricing has changed, so has the preferred delivery model. Nearly 50% of enterprises now prefer electronic delivery for initial and all software, and just over 50% of software vendors say that electronic delivery will be their primary delivery strategy one year from now.

These growing trends result from economic conditions that require producers to be able to accommodate changing customer requirements while budget-starved enterprises must rethink how they manage their high-value software application investments, such as engineering applications, SAP Business Suite, and Oracle databases and eBusiness Suite.

"A key driver has been the global economic downturn, which compels both producers and enterprises to rethink, retool, and restructure the way they do business, control costs, and ensure compliance."

Growing Enforcement Disconnect

The 2009 survey shows a growing disconnect over license enforcement methods. While producers prefer the traditional enforcement models, such as serial number validation, enterprises prefer network-based enforcement models and want to see this type of enforcement increase over the next two years.

Why the disconnect? With reduced resources, enterprise IT prefers the network enforcement model as it requires less manual labor to gather the information. Producers much prefer the more accurate serial number method. There appears to be hope for change, however. Producers rank network-based enforcement as one of the top three enforcement models. They will continue to offer it, indeed 70% plan to increase the use of this method, but respondents indicate they will emphasize serial number validation more as a key enforcement method. However, there appears to be a a die-hard segment of producers (28%) who still have no means of license enforcement and do not appear to want to add this capability.

Ready for an Audit... or Not

Just as enforcement has become a hot topic in the media, so has the increasing likelihood of software audits. Some see software audits as a way for the producer side to improve revenues in a tight economy. While 50% of enterprise IT respondents claim they are confident they could survive a software audit successfully, that leaves half of respondents who believe they would fail an audit. The high confidence number is undermined slightly by the 53% of the same respondents who indicate that there is software over-use in organizations today. Again, best practice would indicate that understanding usage patterns and comparing them to license and entitlement specifications can uncover and help eliminate these discrepancies.

Continuing Over/Under Licensing Conundrum

The 2009 survey asked a number of questions of both producers and enterprise IT around the over- and under-licensing (shelfware). While 53% of enterprises admit some software license spend is associated with application over-use, 76% also identify a level of under-use (shelfware) in the organization that ranges from 1-10% of license spend. For some types of high-value enterprise applications in the largest global enterprises, the cost of even 1% under utilized software could be well above six figures. The high percentage of enterprises who believe they are sitting on top of at least some level of shelfware would appear to be an opportunity for producers who want to improve customer relationships and reduce friction. Surprisingly, though, 77% of producers believe their customers know what they are entitled to use and what they are using, a vote of confidence for their customers that may or may not be warranted.

Value of Software versus Price in Question

The 2009 survey shows that only 45% of producers believe their company's pricing and licensing strategies are effective or very effective at capturing the value that the software provides to customers. This could mean that the producers have not yet developed a pricing model that has fully captured the complete solution they offer, or that a sizable portion of respondents think they are under-pricing the total delivered value of their offerings. This area will require further study to determine some possible hidden nuances. Meanwhile, most enterprise customers are satisfied with the value they are receiving for the price for major application categories.

"While 53% of enterprises admit some software license spend is associated with application over-use, 76% also identify a level of under-use (shelfware) in the organization that ranges from 1-10% of license spend."

SURVEY BACKGROUND

The *2009 Key Trends in Software Licensing and Pricing* survey was conducted by Flexera Software and IDC's Software Pricing and Licensing Research division, under the direction of Amy Konary**.** This annual research project looks at the software licensing, pricing, and enforcement trends and best practices around the licensing of software. The survey reaches out to executives at software vendor firms, high-tech manufacturers, and enterprise customers who use and manage software and devices. Now in its fifth year, the survey is previewed at the annual SoftSummit Conference and made available to the industry at large each year.

METHODOLOGY AND SAMPLING

In total, 306 respondents participated in the survey. 122 were enterprise executives, and 184 were Software Vendor executives.

Enterprise Demographics

Enterprise respondents were mostly from larger enterprises of more than $500 million in revenues. 71% were from North America, 17% were from Europe, and 9% were from Asia Pacific.
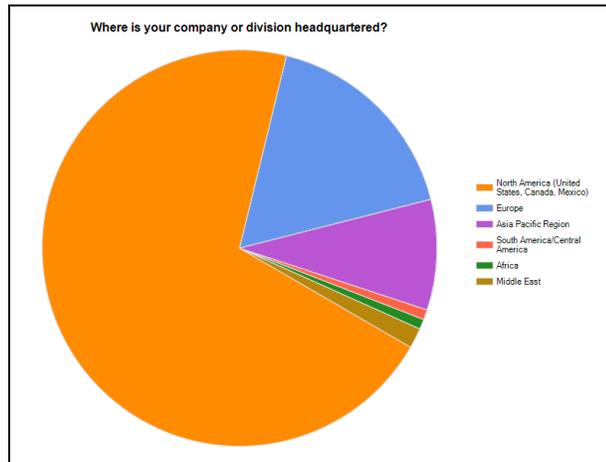
Software Vendor and High-Tech Device Manufacturer Demographics

Software vendor respondents came from companies with a range of revenues, including a large population of small vendors with under $100 million in revenue. 74% were from North America, 16% were from Europe, and 7% were from Asia Pacific.
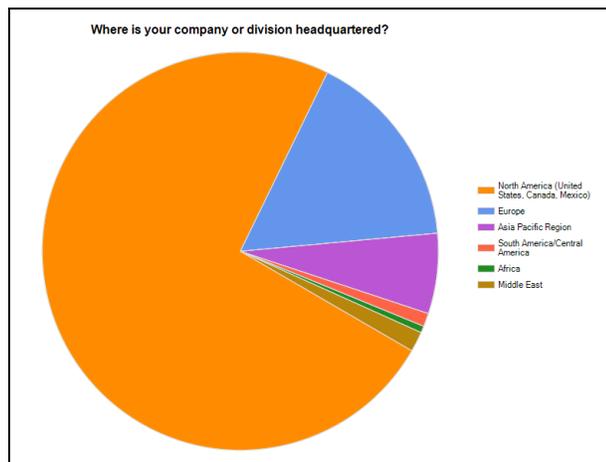
INDIVIDUAL FINDINGS

Pricing Flexibility and Value

Software Vendors Continue to Increase Pricing Flexibility to Generate Revenue, Accelerate the Sales Cycle, and Improve Customer Relations
Over the last two years, 43% of software vendors have changed their pricing and licensing policies to make them more flexible. This is down from 59% in 2008.

Software Vendors Reasons for Flexibility
Of those changing their pricing and licensing policies, 48% cited the need to generate more revenue, 57% cited the need to improve customer relationships, and 43% cited the need to accelerate the sales cycle.
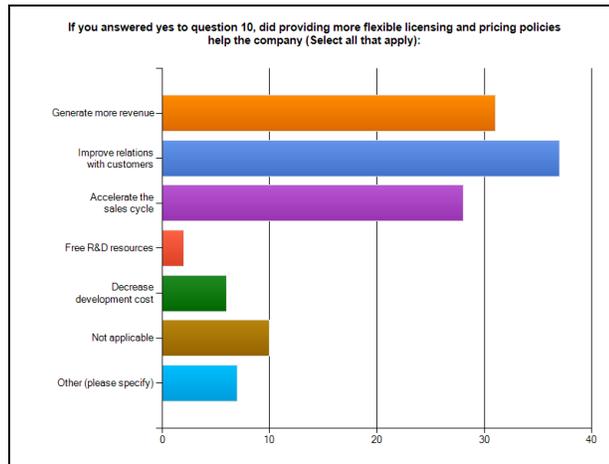
A Disconnect in Assessing the Value of Software
Only 45% of publishers believe their company's pricing and licensing strategies are effective or very effective at capturing the value the software provides to customers. Meanwhile, most customers are satisfied with the value they are receiving for the price for major application categories.
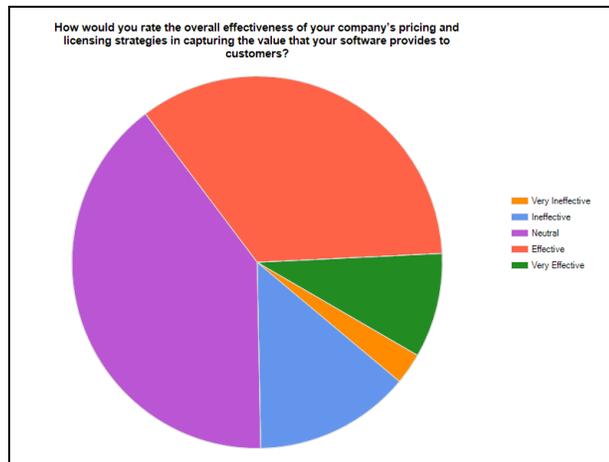
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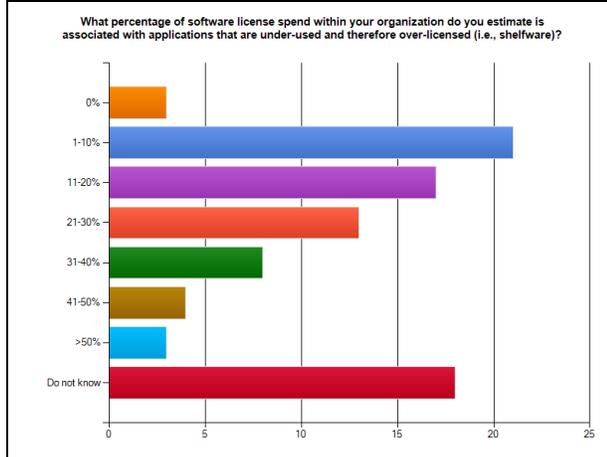
Software Usage

Enterprises Believe They Have Issues with both Over-Licensing and Under-Licensing

53% of enterprise respondents said some portion of their software license spend was associated with applications that are over-used and, therefore, out of compliance. 28% said only 1-10% of their software license budget met this criteria; however, since software compliance is a highly sensitive topic, these numbers may under-estimate actual enterprise compliance levels.
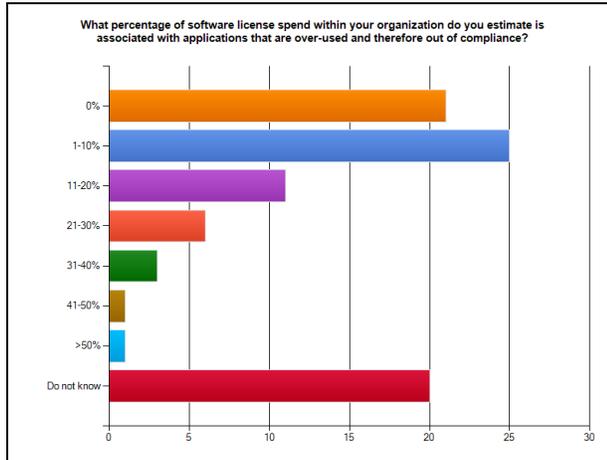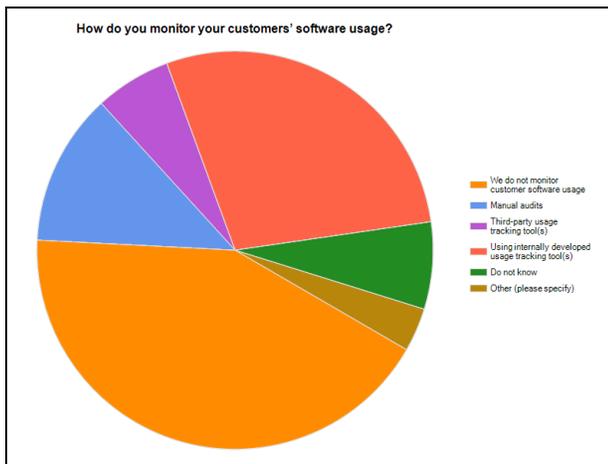

76% of enterprises indicated there is some level of application under-use, exposing the widespread issue of shelfware.

"53% of enterprise respondents said some portion of their software license spend was associated with applications that are over-used and, therefore, out of compliance."

More Vendors are Monitoring Customer Software Usage, Most Believe Their Customers Know What They Are Using

58% of software vendors are monitoring customer software usage, up from 40% in 2008. Only 12% are monitoring manually, down from 15% last year, and only 6% are using 3rd-party tracking tools, down from 12%. 28% are using internally developed tools. 77% of software vendors believe their customers know what they are entitled to use and what they are actually using.

How do you monitor your customers' software usage?

- We do not monitor customer software usage
- Manual audits
- Third-party usage tracking tool(s)
- Using internally developed usage tracking tool(s)
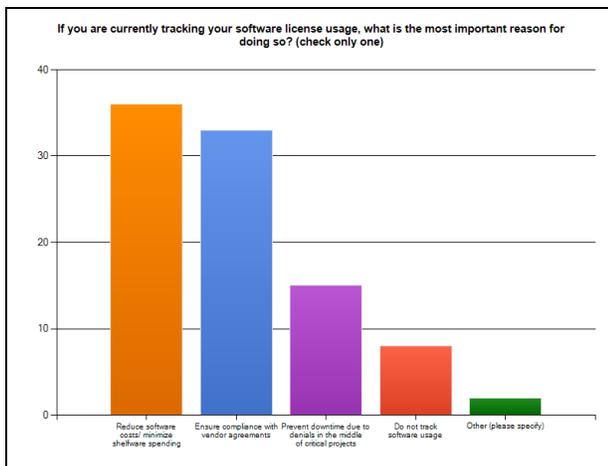- Do not know
- Other (please specify)

About One-Third of Software Vendors Have No System in Place

34% of software vendors have no tools to determine what product/versions their customers are using, down from 48% in 2008.

Compliance

Compliance Tracking Remains Important to Enterprises

70% of enterprises say that tracking software license usage is important or very important. Reducing software costs, minimizing shelfware spending, and ensuring compliance with vendor agreements are the primary reasons.

If you are currently tracking your software license usage, what is the most important reason for doing so? (check only one)

- Reduce software costs/ minimize shelfware spending
- Ensure compliance with vendor agreements
- Prevent downtime due to denials in the middle of critical projects
- Do not track software usage
- Other (please specify)

"70% of enterprises say that tracking software license usage is important or very important."

Automated Tools of Increasing Importance

Enterprises are increasingly using automated tools for license compliance tracking (62%, up from 58% in 2008), but 35% still manually track or do not

track compliance. 61% feel it's important or very important to track compliance, and 38% state reducing software costs as the top reason for it.
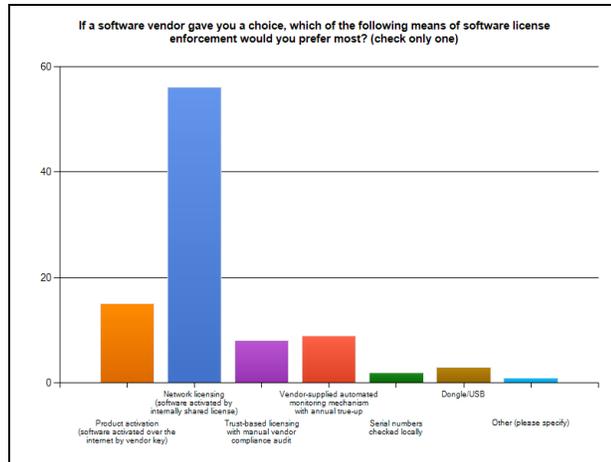
Confidence in Compliance

If audited today, 50% of enterprises are confident to very confident that they would be in total compliance with all licenses. However, the other half of responding organizations lack confidence that they are in total compliance. As the figures on software over-use indicate there is a lack of knowledge about usage and entitlements that may impact the respondents here.
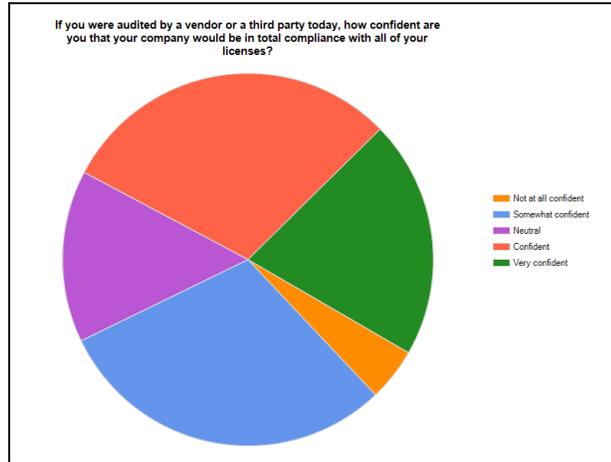
Enforcement
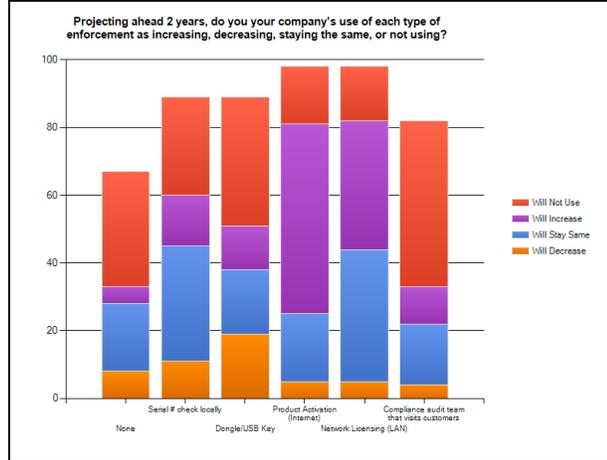
Differences in Enforcement Model Preference

Enterprise respondents overwhelmingly selected network licensing as their preferred enforcement model (59%), while only 28% of software vendors currently use this method. Checking serial numbers locally is currently the most common means of enforcement at 36% but on 2% of enterprises prefer this method. Product activation over the internet stands at 27%.

"If audited today, 50% of enterprises are confident to very confident that they would be in total compliance with all licenses. However, the other half of responding organizations lack confidence that they are in total compliance."

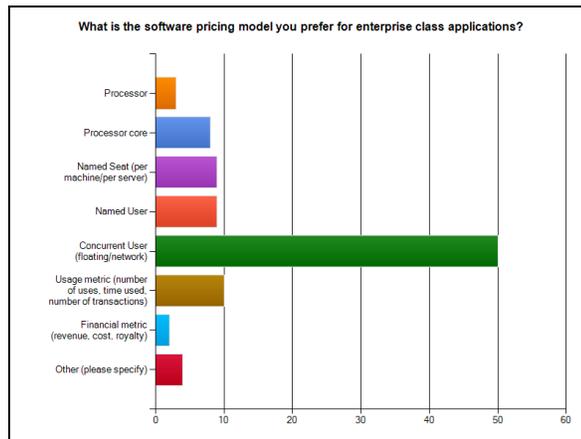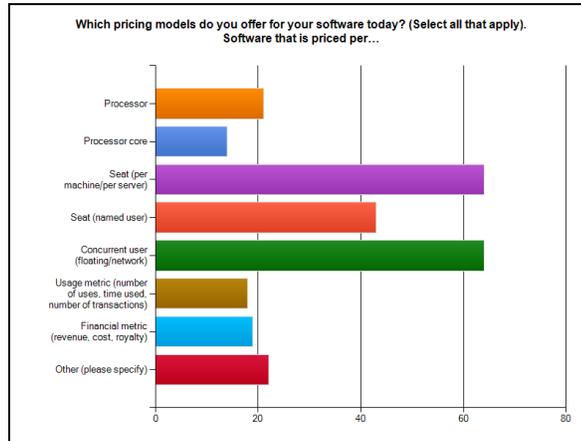*Enforcement Expectations over the Next Two Years*
55% of software vendors expect the use of checking serial numbers locally to stay the same or increase over the next two years, while nearly 79% expect the use of network licensing to stay the same or increase in the same period. More than 77% expect the use of product activation over the internet to stay the same or increase over the same period.

Projecting ahead 2 years, do you your company's use of each type of enforcement as increasing, decreasing, staying the same, or not using?

Software Vendor and Enterprise Pricing Preferences
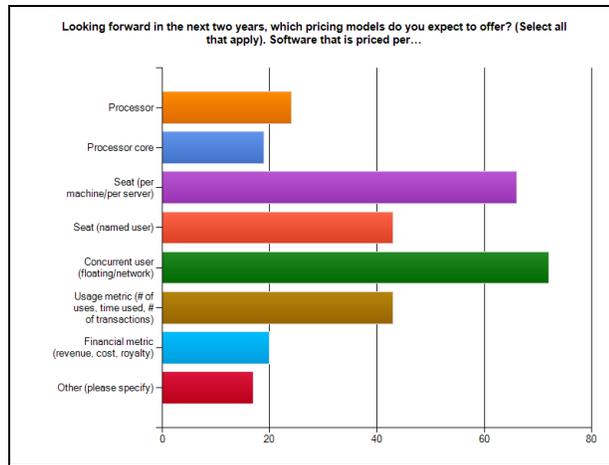
Some Similarities in Pricing Model Preference
Software vendors prefer concurrent user (53%) and seat (53%) pricing. Enterprises prefer concurrent user pricing over seat pricing (10%).

Which pricing models do you offer for your software today? (Select all that apply). Software that is priced per...

What is the software pricing model you prefer for enterprise class applications?
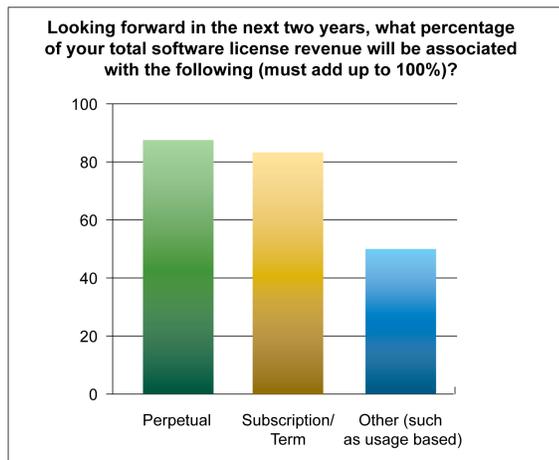
Concurrent User, Seat, and Usage Will Dominate Over the Next Two Years
Software vendors expect to continue to rely on concurrent user pricing (60%), seat – per machine/per server (55%), and seat – named user (36%). Currently, only 15% of software vendors offer a usage-based model, but by 2011, 36% expect to do so, making it one of the top three fastest growing licensing options.

Looking forward in the next two years, which pricing models do you expect to offer? (Select all that apply). Software that is priced per…

Subscription Models Continue their Growth
Perpetual license models will continue to lose ground to subscription models as enterprises look for ways to move capital expense line items to operations expense budgets and gain tighter control over spend. Today 79% of respondents indicate some level of revenue coming from subscription pricing models. In two years that number will grow to 88%. In general there will continue to be a mix of perpetual, subscription, and other licensing models in the years ahead—again a sign that more options rather than fewer will become the norm.

Looking forward in the next two years, what percentage of your total software license revenue will be associated with the following (must add up to 100%)?

"In general there will continue to be a mix of perpetual, subscription, and other licensing models in the years ahead—again a sign that more options rather than fewer will become the norm."

SOFTWARE PRICING AND LICENSING RESEARCH AT IDC

IDC's global Software Pricing and Licensing research practice is directed by Amy Konary. In this role, Ms. Konary is responsible for providing coverage of software go-to-market trends including volume license programs, evolving license models, global price management, and licensing technologies through market analysis, research and consulting. In her coverage of software maintenance, subscription, electronic software distribution and licensing technologies, Ms. Konary has been instrumental in forecasting future market size and growth. Ms. Konary was also the lead analyst for IDC's coverage of software as a service (SaaS) for eight years prior to focusing exclusively on pricing, licensing, and delivery.

For more information about IDC, please see www.idc.com

ABOUT FLEXERA SOFTWARE, INC.

Flexera Software maximizes the value of the software the world develops and uses. The leading provider of software licensing, entitlement, installation, and application readiness, Flexera Software is trusted by more than 80,000 customers who use our solutions to drive cost and time from the software supply chain—from software vendors and high-tech manufacturers to enterprise IT and government.

One of the top 200 software companies, Flexera Software built its reputation on proven brands, including InstallShield, FlexNet, and AdminStudio. We have been transforming the software industry for more than 20 years helping software vendors and high-tech manufacturers innovate licensing models and control entitlements and compliance, while helping enterprises use, manage, and optimize software solutions more effectively to reduce costs. See www.flexerasoftware.com

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