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Software Licensing Moving Toward Utility Models

October 20, 2004

By Matt Hicks

SANTA CLARA, Calif.—The software industry is due for major shifts in licensing models, but vendors and customers could find that breaking the perpetual-license habit is hard to do.

A software-industry panel gathered Tuesday at the [SoftSummit conference](#) here concluded that subscription and utility models will increasingly replace the traditional perpetual license. The open question is when and how it will occur.

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Large software makers are wedded to perpetual licensing and a selling cycle where large deals, with big discounts, are closed at the end of fiscal quarters, said Jason Maynard, a software analyst at Merrill Lynch & Co. Inc.

"If you look at some of the large vendors, this is still an industry hooked on the crack of the upfront licensing model," Maynard said. "The notion of the software business model is broken. These software vendors discount until you can't eat anymore."

He expects licensing shifts to start among smaller vendors who build their businesses on new licensing models. Already, companies such as Salesforce.com Inc. have built businesses solely on software subscriptions.

Utility pricing, where customers pay for actual use of software, also will require startups that have the flexibility to push that approach, Maynard said.

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Subscription pricing already is beginning to make headway among software publishers. A study released Monday at SoftSummit found that one-third of the software industry executives surveyed is offering subscription options.

Macrovision Corp., the organizer of SoftSummit, conducted the study along with the Software & Information Industry Association and the Centralized Electronic Licensing User Group. It is based on a survey of about 500 software executives and corporate customers.

Enterprises, though, have yet to fully embrace subscription pricing. The study found that 64 percent of corporate customers still prefer perpetual licensing.

Speaking during the panel, David Rowley, Macrovision's vice president of business development, said the trends don't point to the death of perpetual licenses but an increasing number of licensing options from vendors.

"What we'll see over time is different market segments gravitate to different models," Rowley said. "But I hope in five years I still have a perpetual license to my e-mail client."

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Freescale Semiconductor Inc. is one enterprise customer pushing for alternatives to basic perpetual licenses. The Austin, Texas, company is interested in a hybrid model where it commits to using so much software under a more traditional license but then can turn to utility pricing to quickly meet demand spikes from engineers and other users, said Dan Griffith, who is part of the company's comprehensive software asset management team.

To work well, utility licensing also must include safeguards to prevent users from adding unnecessary and costly licenses, he said.

"From a Freescale standpoint, engineers are still like teenagers. If left alone, they'll have lights on and the TV on in every room," Griffith said, drawing an analogy to software. "We have to learn how to control engineering. ... Vendors need to learn how to amortize revenue over the life of the contract and move to a more variable pricing model."

Even as hurdles remain in moving toward new licensing models, many software vendors see advantages in moving to new approaches. Erik Larson, director of product management at Macromedia Inc., said that vendors and customers have an opportunity to work more collaboratively under emerging licensing models.

"Subscriptions in general and utility models will bring product development and customer needs closer together because [vendors] will get paid for use," Larson said.

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