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Update: Study shows software vendors, users at odds over licensing

Perpetual models still preferred over subscription pricing

By Paul Krill

October 18, 2004

Software publishers and users are at odds about software licensing, according a study released Monday.

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While software publishers aggressively move to subscription-based pricing, enterprises prefer perpetual licensing, which has been the norm, said the study, sponsored by Macrovision, the Software & Information Industry Association, and the Centralized Electronic Licensing User Group. Results of the study, which was based on a September survey of 396 software industry executives and 100 enterprise users, will be detailed Monday at the SoftSummit conference in Santa Clara, Calif.

Currently, one of every three software companies offers subscription-based models as their primary pricing model, with half of publishing respondents expected to do so by 2006, according to the survey. Meanwhile, enterprise users prefer by a two-to-one margin to stick with the perpetual licensing model. This discrepancy means there could be an expectation gap between vendors and customers in the future, the study reported.

"I think what's happening is the difference between the laggards and the innovators," said Daniel Greenberg, vice president of worldwide marketing at Macrovision, which sells software licensing technologies. While the software publishing and technology industry is quick to adopt new trends, enterprises such as automotive industries and utilities are more resistant to change, he said.

"We do think there will be some friction as the software publishers try to roll out the subscription pricing," Greenberg said.

While perpetual pricing has enabled users to acquire software user rights permanently for a particular release through a single large payment, Greenberg said enterprises still pay ongoing maintenance fees. Subscription-based pricing will spread the payments out more evenly, according to Greenberg.

Although users through a perpetual license can keep on using the same release as long as they want, history has shown they want to upgrade anyway, Greenberg said. "I think history has proven that software quickly becomes obsolete -- computers get faster, demands get greater, and software quickly gets obsoleted in the process," he said.

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"This world of software pricing and packaging has changed entirely," said Bill Hewitt, vice president of the global industry solutions group at **PeopleSoft** ([Profile](#), [Products](#), [Articles](#)). "Customers will demand more of every vendor to provide software functionality in the delivery method that they choose."

As an example of the impact of evolving pricing and delivery models, Hewitt cited online CRM vendor [salesforce.com](#) and its effect on traditional CRM vendor **Siebel Systems** ([Profile](#), [Products](#), [Articles](#)), with [salesforce.com](#) grabbing a lot of business.

Hewitt and Ken Wasch, president of the Software & Information Industry Association, both cited the old timesharing model as a precursor to subscription- or utility-based pricing.

"The idea of utility-based computing is not something [new]. The **IBM** ([Profile](#), [Products](#), [Articles](#)) timeshare [model] in the 1960s existed," said Wasch.

Utility computing, though, faces operational and practical issues on the vendor and customer sides, said analyst Amy Mizoras, program director for software pricing, licensing, and delivery at IDC. Utility computing is being defined on consumption and capacity terms, she said. "I think we'll move in direction toward those consumption models," Mizoras said.

Sun Microsystems' ([Profile](#), [Products](#), [Articles](#)) Java Enterprise System, meanwhile, "is really throwing the gauntlet for desktop applications," with a \$100-per-user-per-year pricing, Wasch said.

The growing use of open source code caused confusion in the industry, Wasch said. "Users are concerned about mixing proprietary code with the GPL license, and they are concerned with having turned what is a proprietary development and opening it up to everyone else," said Wasch.

Also, the study found that while the most prevalent pricing models are per-user- and per-seat-based, metrics-driven models are growing in popularity. Under a metrics model, software is licensed based on factors such as number of users, transactions, or time used. By 2006, half of all software publishers responding expect to offer pricing based on metrics.

Users, though, still prefer traditional per-seat and concurrent-user pricing models. More than 70 percent of enterprise executives maintain this preference, according to the study.

Greenberg said he believes software companies will let users decide on licensing models. "I don't think any software company can impose a paradigm shift on their customers," he said.

The survey also found that licensing enforcement is moving to digital means and away from non-technical, manual forms of licensing enforcement. Also, by 2006, 92 percent of software vendors will have some form of license enforcement in place.

Software buyers do prefer newer enforcement methods such as product activation and network licensing over traditional methods such as serial numbers and dongle/USB keys, according to the study.

The average software maintenance fee that enterprises pay for software is 20 percent, with larger software companies commanding a 22 percent fee.

Others speaking at the event noted the arrival of software licensing models such as utility- or services-based computing, in which users are charged on a pay-as-you-use basis. Growing user sophistication also was noted.

Paul Krill is an InfoWorld editor at large.

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