



Challenges Persist Over Software Licensing

Software industry executives gathered at the SoftSummit conference are told to expect struggles over the next few years as they evolve their licensing models to contend with an expanding assortment of emerging market pressures.

By Tony Kontzer, [InformationWeek](#)

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It's hard to tell which is harder these days--buying software or selling it.

Software industry executives gathered at the SoftSummit conference in Santa Clara, Calif., were told to expect struggles over the next few years as they evolve their licensing models to contend with an expanding assortment of emerging market pressures. Those pressures include the growth of subscription-based pricing, software as a service, and the threat of cheaper open-source software alternatives. "It's becoming harder and harder to make money as a software provider today," IDC analyst Amy Konary said during a conference presentation.

But as more traditional software vendors create subscription-based pricing models to accommodate expected demand--and as a way to fend off smaller competitors gaining ground with small- and midsize customers--they're engaging in practices that could be alienating some customers. Some big vendors try to keep their largest customers from being exposed to their subscription offerings out of fear that they'll lose a lot of up-front revenue in exchange for the deferred nature of recurring revenue, Konary said.

In his keynote address, Bill Hewitt, group VP of global industry solutions for PeopleSoft Inc., cautioned vendors that new subscription models should be marketed as complements to traditional perpetual-license models. "Software suppliers will have to learn that supplying license-based and subscription-based pricing is not two businesses," Hewitt said.

The growing pains software vendors experience as they adapt to a market in flux aren't creating the rosier of pictures for customers, either. As IT executives make software purchases, they'll be confronted at least temporarily with rising complexity and cutthroat sales tactics. Software sales teams frequently offer discounts based on prices well above list, and as a result, customers jump at what appears to be attractive prices for software bundles that often are mismatched with their business requirements, Konary said. "Customers aren't getting what they need," she said. "They're getting more, or they're getting something that doesn't fit their needs."

The rising tension between software buyers and sellers is further illustrated by the findings of a study, conducted by the Software & Information Industry Association and software license-management vendor Macrovision, released Monday in conjunction with the conference. The study--in which researchers asked 400 vendors and 100 IT executives about their software-pricing strategies--reveals that two-thirds of their customers prefer perpetual licenses even as vendors rapidly adopt subscription pricing. Whether customers will convert to subscription models at the pace vendors are expecting remains unclear.

But Konary reported that vendors and customers appear to be in sync in one key area: Both increasingly emphasize software maintenance, which is seen as a way of moving toward subscription-type benefits without the upheaval. Vendors, she said, plan to exert more effort getting customers to sign up for maintenance plans as a way of generating recurring revenue, while customers see maintenance plans as a logical substitute for new licenses and costly upgrades. Konary predicts that maintenance revenue, which accounts for 41% of all software industry revenue, will make up about half of all software sales by 2008.



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