

Customers cool on subscription software

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The software industry is rapidly moving to subscription-based billing, but corporate customers have not warmed up to the model yet, according to a new study.

A survey of nearly 400 software companies and 100 enterprise executives responsible for software purchases found that more than half of software companies expect to offer subscription-based software licensing within two years--a practice used by only one-third of those companies now.

However, the study found that corporate customers aren't buying into the change yet. Sixty-four percent of software buyers prefer buying a license upfront over a subscription model, the survey showed.

The survey, released Monday, was sponsored by [Macrovision](#), which sells software for electronically tracking software licenses; the [Software & Information Industry Association](#); and the [Centralized Electronic Licensing User Group](#). The results of the research were released at the [SoftSummit](#) industry conference on software purchasing in Santa Clara, Calif.

The discrepancy between buyers and sellers on the question of subscription pricing could be a matter of awareness, the study's authors said. About 67 percent of software today is purchased through an upfront license with ongoing maintenance fees.

"The results of the study highlight that while some changes are being embraced by both sides, others are still in a period of flux," Dan Stickel, executive vice president and general manager of Macrovision's software technologies group, said in a statement.

In many cases, software companies favor a subscription-based model because it provides a more steady and predictable revenue, compared with selling larger upfront software licenses.

Sun Microsystems, for example, is aggressively changing its product pricing to reflect a subscription model because of the benefits of recurring revenue. About one-third of its revenue is derived from customers that pay a monthly or yearly fee for software licenses, Sun CEO Scott McNealy said Monday at a press gathering during a [Gartner conference](#) in Florida.

"The bigger that number gets, the happier I am because then I go into the quarter with most of the business done, as opposed to having to do it in the last week because then you are under huge discount pressure," McNealy said.

Software providers are also exploring other ways to charge their customers, including a [utility model](#), where customers pay based on usage of software or the number of transactions performed. But the study found that about 70 percent of customers today favor tradition methods, such as concurrent user and per seat pricing.

The study indicated that electronic tools to track software licenses will grow in the coming years. Today, 46 percent of license enforcement is done digitally, rather than through manual checks. In two years, 62 percent of software purchases are expected to be tracked electronically.

The research also found that 21 percent of software company revenue comes from maintenance fees.

News.com's Mike Ricciuti contributed to this report.

