

Capital

> Industries

Biosciences
Communications
Computing
Energy
Entertainment & Media
Internet & Services
Security & Defense
Venture Capital

Profiles

Q&A

Regions

Briefings

Metrics

Letters

Opinions

Get 4 FREE Issues! **RED HERRING** WE'RE BACK!

- MARKETS -

NYSE NASD S&P 500



NYSE	6520.90	-0.42
NASD	1914.04	-1.10
S&P	1094.80	-0.94

Delayed 20 mins.

Financial CONTENT

MANAGED HOSTING PROVIDER

MARSYS MARINER SYSTEMS

INDUSTRIES

Email this article | Printable format | Letter to the editor

Growing pains in software pricing

A study says customers don't want to become subscribers.

October 18, 2004

Software publishers and their customers are headed for a clash over pricing. A study released Monday in a kickoff to SoftSummit 2004 in Santa Clara, California, shows software buyers have not been convinced by the vendors who want to switch them to "software subscriptions" that are renewable each year. However, the study says 64 percent of customers want to stick with the old model of paying once for software, or as the lawyers call it, a "perpetual license."

Some 496 respondents, both vendor executives and enterprises, were surveyed in the September study, *Key Trends in Software Pricing and Licensing*. Licensing company Macrovision, the Software & Information Industry Association (SIIA), Centralized Electronic Licensing User Group (CELUG), and SoftSummit jointly conducted the survey.

The software industry has been pushing subscriptions on the grounds that they will be cheaper for enterprises and encourage more personalized products tailored to the specific needs of companies.

But analyst Joe McKendrick of Evans Data Corporation thinks the real benefit is to the vendors. "Subscription-based software licensing serves as a lever. Vendors can not only ensure more long-term revenues - requiring renewals every year and upgrades - but they can, if they sense a great deal of competition, offer volume discounts on future upgrades if the end user agrees to be locked into a subscription-based plan," says Mr. McKendrick.

And that competition is not only from other software companies, but also open-source companies. "[The subscription model is] an approach Microsoft has been using quite effectively in its battle against Linux and open-source competitors," says Mr. McKendrick.

Daniel Greenberg, vice president of worldwide marketing at Macrovision, does not see Mr. McKendrick's correlation to open source. "The focus of the study was on pricing and licensing trends...open source is free," says Mr. Greenberg.

Open source or not, Mr. Greenberg admits the industry-wide change to a subscription model will not be easy. "I suspect that enterprises are less inclined to change and it's technology vendors that are forcing the change on them," he says.

However, Mr. Greenberg touts customer benefits, including lower maintenance fees and more customization - a move away from the "one size fits all" software packages sold to companies now.

"Over the next two years vendors will start selling software on a subscription basis," says Mr. Greenberg, which will minimize up-front costs to companies.

"I think it's interesting to see software vendors moving to a diverse suite of licensing models," he adds.

- ADVERTISEMENT -

Pricing models based on metrics is also a trend named in the study, which says pricing is shifting from “per concurrent user” and “per seat” to pricing based on usage and/or financial-based metrics.

Improvements in licensing enforcement were welcomed by both vendors and customers, according to the study. Almost two-thirds of software buyers who responded said they welcome enforcement, which is going to become electronic, digital, and Internet-based.

“There has been a lot of tension there,” says Mr. Greenberg, who points out that enterprises can be randomly audited by vendors who “found over the years plenty of companies out of compliance.” If there’s an automated system in place, CIOs will know for a fact that they are not exposed, he adds.

RELATED ARTICLES

Stocks to watch

Red Herring rates Macrovision and OpenTV.

Closing the gaps in open source

Startup SourceLabs hopes to fill a pothole in the road to open-source software.

RECENT ARTICLES >>

- [Need to Know: Red Herring's weekly news roundup](#)
- [Pirated Halo 2 won't stop sales](#)
- [AMD kicks Intel when it's down](#)
- [Fast Stats: Sweet song for online music...](#)
- [To be Wyse is to be thin](#)
- [Need to Know: Red Herring's weekly news roundup](#)

RED HERRING Sponsors



[Articles](#) | [Blog](#) | [Research](#) | [Newsletters](#) | [Events](#)

[New User Registration](#) | [Search](#) | [About Us](#) | [Letter from the Editor](#) | [Press Room](#) | [Contact Us](#) | [Careers](#) | [RSS](#) RSS feeds

© 1993-2004 Red Herring, Inc. All rights reserved.