KEY TRENDS IN SOFTWARE PRICING AND LICENSING
A SURVEY OF SOFTWARE INDUSTRY EXECUTIVES AND THEIR ENTERPRISE CUSTOMERS
October 2004
Sponsored by Macrovision, SoftSummit, SIIA and CELUG
SUMMARY AND CONCLUSIONS
According to the survey, software vendors are moving aggressively to the subscription model while enterprises prefer perpetuals to subscriptions 2 to 1. This is surprising given that enterprises have been decrying the high upfront costs of software and asking vendors to better align software pricing with value. By 2006, 92% of software vendors surveyed will have some form of license enforcement in place, with the vast majority being electronically enforced. Interestingly, half of enterprises surveyed preferred electronic enforcement, perhaps to address contract compliance within the context of Sarbanes-Oxley.

The average maintenance fee that enterprises pay for software is 20%, with large software companies commanding a premium at 22%. The most popular pricing models in use today are “Per Concurrent User” and “Per Seat”, but new pricing models based on metrics are rapidly gaining popularity. By 2006, roughly half of all software companies surveyed expect to offer pricing based on metrics (such as ‘number of uses’, ‘transactions’, or ‘time used’). The most prevalent forms of enforcing these pricing models over the next two years are “Product Activation” and “Network Licensing”. Enterprises express a strong preference for “Network Licensing”. 
BACKGROUND
In September, Macrovision, SoftSummit, the Software & Information Industry Association (SIIA), and the Centralized Electronic Licensing User Group (CELUG), conducted a survey of pricing and licensing best practices in the software industry among executives at both software vendors and software buyers. The goal of the survey was to gather the opinions of these executives to gauge major trends and prognosticate what the future holds in the fast-changing software industry.

The report is being publicly released on October 18, in Santa Clara, California at SoftSummit (www.softsummit.com).

METHODOLOGY
In total, 396 software vendor executives and 100 enterprise executives from enterprises responded to this survey. Respondents from software companies were individuals responsible for their company’s pricing and licensing. Typical titles were CEO, CMO, VP Product Marketing, and VP Product Management. Respondents from enterprises were individuals responsible for purchasing and managing their companies’ software. Typical titles were CTO, VP Development, and IT Director. The respondents answered questions related to their company’s software pricing and licensing plans and practices. [Note: see appendix for survey questions.]

The executives surveyed were selected from a combination of lists from Macrovision, the SIIA (the principal trade association for the software and digital content industry), InformationWeek (a weekly magazine read by business technology professionals whose titles span the IT spectrum), and a collection of other third-party sources.

Survey Method And Timing
This study was delivered via email during the month of September 2004.

The Sample
396 software vendor executives and 100 enterprises responded to the survey. The following charts provide more information about the sample:
KEY FINDINGS
Software Vendors Moving Aggressively to Subscription Model

The data clearly suggests that software vendors are quickly moving their primary licensing model from perpetual to subscription. As major trends such as utility computing, software on demand, and software as a service have emerged in recent years, software vendors have been shifting their strategies to adapt to these models and meet the more sophisticated needs of their customers.

The survey shows that one out of three software vendors are already offering subscription-based models as their primary pricing model today. More impressively, 52% of the respondents expect to be offering subscription models as their primary sales model within two years. This suggests that over the next two years over half of software publishers will be licensing through subscriptions.

...But Enterprises Prefer Perpetual to Subscription Pricing Models 2 to 1

64% of enterprise customers prefer the perpetual model. This could be a reflection of current market norms, where 67% of software is sold on a perpetual license. Nevertheless this discrepancy between software vendors and their customers means that there will be some friction in the future.

Interestingly, larger enterprises are the ones more quickly adopting subscription-based pricing models. 44% of companies with more than $500M in revenues prefer subscription terms over perpetual, while only 33% of companies with less than $50M do.
New Licensing Models Based on Metrics Are Gaining Popularity...

The two most prevalent license models in 2004 are “Per Seat” and “Per Concurrent User”. In 2006 software vendors expect to expand the number of license models to include pricing based on usage metrics and financial metrics. Usage metrics are defined as “# of uses of a software application”, “time used”, or “# of transactions”. Financial metrics are defined as pricing based on “revenue”, “cost”, or “royalties”. These last two categories show explosive growth over the next two years effectively doubling in popularity to 45.7% incidence and 23% incidence respectively.

While software vendors are adding additional license models to offer customers, those surveyed tend to be abandoning “CPU” and “Per Server” licensing models.

...But Enterprises Still Prefer Concurrent and Per User Pricing Models

Contrary to software vendors fairly substantial acceptance of more modern licensing models based on usage and/or financial-based metrics, enterprises seem to be less enthusiastic about these newer methods. Whereas 25% of software vendors surveyed prefer usage-based pricing and 12.6% prefer using financial metrics, only one out of ten enterprises prefer either system. More than 70% of enterprise executives still maintain a preference of more traditional pricing methods such as concurrent user and per seat.

Similar to prior responses, larger enterprises are favoring the newer business models; 20% prefer usage-based pricing, whereas only 5 out of 75 (6.7%) respondents from the mid-size and small segments preferred either usage or financial-metric pricing.
Licensing Enforcement Is Going Digital…
According to the survey, software vendors are also moving aggressively away from non-technical, manual forms of licensing enforcement and towards electronic, digital, and Internet-based processes. Today, 45.5% of software providers are enforcing licensing primarily through electronic means; in two years that number is expected to leap to 61.9%. These responses suggest there will be a 35% increase over the next two years in the number of software vendors who are primarily enforcing licenses through electronic/digital technologies.

Interestingly, two out of three of the largest software providers (those with more than $500 million in annual revenues) are already using more modern methods of license enforcement, while only four out of ten of the publishers with less than $50 million in revenues do.

...And Enterprises Are Not Likely to Rebel
A surprisingly high number of enterprises actually prefer that their software licensing terms be electronically enforced. 44% of enterprises prefer some form of automatic software compliance (either “Electronic/Digital Enforcement” or “Online Login/ASP”).

Smaller enterprises are more inclined to prefer automatic license enforcement (48%) vs. larger enterprises (36%)
By 2006, 92% of Software Vendors Will Have Some Form of License Enforcement in Place. The Most Popular Methods Will Be Product Activation and Network Licensing...

Software vendors are continuing to integrate savvier and more efficient technologies to enforce licenses with their customers. Already today, 40.5% use product activation technology while 35.2% are using network licensing processes. "Product activation" means that a software program can only be used after it receives the "OK" from the vendor’s server, outside of the enterprise. "Network licensing", otherwise known as "floating licensing" or "concurrent licensing", involves a secure license server, hosted within an enterprise’s network, that automatically maintains license compliance. Only 18% of software vendors have no means of license enforcement in place and a surprising 15% rely upon manual audits of their customers to ensure compliance.

The numbers in two years jump considerably. Most software vendors are pursuing product activation and network licensing, 57% and 51%, respectively. These gains are coming at the expense of Serial number’s, dongle, and USB key use. These methods are expected to see declines over the next two years.

These responses suggest there will be a 42% increase over the next two years in the number of software vendors who enforce licensing with product activation and/or network licensing. In addition, there will be a 54% decrease over the next two years in the number of software vendors who are not enforcing licenses at all.

The data also suggests that the larger software vendors are more quickly adopting these newer methods of enforcement. According to the survey, well over half of publishers with annual revenues of more than $500 million have already integrated product activation into their software licensing; just under half are already using network licensing as well.

...And Enterprises Like Where Software Vendors Are Heading, Preferring Network Licensing

Contrary to enterprises’ skepticism towards newer licensing models, software buyers actually prefer newer enforcement methods such as product activation and network licensing. Almost two thirds of enterprise executives surveyed prefer these two enforcement tools over more traditional methods such as serial numbers and dongle/USB keys. In fact, only two out of 100 respondents selected dongle/USB keys as a preferred method.

Again, the larger companies are adapting to these newer technologies more quickly. Where 60% of enterprises with less than $500 million in annual revenues prefer product activation or network licensing, 72% of those with more than $500 million do. When comparing product activation versus network licensing, the latter has more overall support, especially among larger companies.
About 20% of Revenues for Publishers Are Maintenance Fees

One of the major issues in the software industry today is related to how much money enterprises are spending on software maintenance fees, especially in comparison to actual licensing and usage costs. Our survey has concluded that 20.6% of revenues for software vendors today is from maintenance fees. The responses also suggest that larger publishers are charging higher maintenance fees overall as a percentage of total revenue.

Maintenance Fee by Size of Company

Maintenance Fee by Type of Software
APPENDIX A

Software Vendor Questionnaire

1. What is your primarily licensing model for most of your products today?
   A. Perpetual
   B. Subscription [e.g. annual, monthly, term limited]

2. In two years, which pricing model will you primarily offer?
   A. Perpetual
   B. Subscription [e.g. annual, monthly, term limited]

3. Which pricing models do you offer for your software today? (Check all that apply).
   A. Seat (per machine/per server)
   B. Seat [named user]
   C. Concurrent User
   D. CPU
   E. Usage metric [number, time, transactions]
   F. Financial metric [revenue, cost, royalty]
   G. Other [please specify]

4. In two years, which pricing models do you expect to offer? (Check all that apply).
   A. Seat (per machine/per server)
   B. Seat [named user]
   C. Concurrent User
   D. CPU
   E. Usage metric [number, time, transactions]
   F. Financial metric [revenue, cost, royalty]
   G. Other [please specify]

5. How do you primarily enforce the licensing of your products today?
   A. Legal Contract [Paper/Clickwrap/EULA]
   B. Electronic/Digital Enforcement
   C. Online Login [Software Service Provider]

6. In two years, how do you expect to enforce the licensing of your products?
   A. Legal Contract [Paper/Clickwrap/EULA]
   B. Electronic/Digital Enforcement
   C. Online Login [Software Service Provider]

7. Which of the following means of enforcement does your company use today? (Check all that apply).
   A. None
   B. Serial #
   C. Dongle/USB Key
   D. Product Activation
   E. Network Licensing
   F. Compliance audit team that visits customers

8. In two years, which of the following means of enforcement do you expect your company to use? (Check all that apply).
   A. None
   B. Serial #
   C. Dongle/USB Key
   D. Product Activation
   E. Network Licensing
   F. Compliance audit team that visits customers

9. On a scale of 0 to 100%, what percentage of your software purchase price is maintenance?

10. Please give us a bold prediction about how software industry PRICING & LICENSING will change in the next 1-2 years.

11. How would you characterize your software?
   A. Enterprise software
   B. Non-Enterprise business software
   C. Consumer software

12. Which of the following best represents your annual revenues?
   A. Less than $50 million
   B. $50 - $500 million
   C. $501 million +
Enterprise Questionnaire

1. Which form of software licensing does your company prefer when buying enterprise software?
   A. Legal Contract (Paper/Clickwrap/EULA) that you manually track for compliance
   B. Electronic/Digital Enforcement
   C. Online Login (Software Service Provider)

2. Which licensing model does your company prefer when buying enterprise software?
   A. Perpetual
   B. Subscription (e.g. annual, monthly, term limited)

3. Which software pricing model do you prefer? Software that is priced per...
   A. Seat/per machine/per server
   B. Processor
   C. Named user
   D. Concurrent user (floating/network)
   E. Usage metric (# of uses, time used, # of transactions)
   F. Financial metric (revenue, cost, royalty)
   G. Other (please specify)

4. If a software vendor gave you a choice, which of the following means of software license enforcement would you prefer?
   A. Serial #
   B. Dongle/USB Key
   C. Product Activation
   D. Network Licensing
   E. Compliance audit team that visits customers

5. Please give us a bold prediction about how the software industry PRICING & LICENSING will change in the next 1-2 years.

6. Which of the following best represents your annual revenues?
   A. Less than $50 million
   B. $50 - $500 million
   C. $501 million +

APPENDIX B

About SIIA
The Software & Information Industry Association (SIIA) is the principal trade association for the software and digital content industry. SIIA provides global services in government relations, business development, corporate education and intellectual property protection to more than 600 leading software and information companies. For more information, visit www.siia.net

Software & Information Industry Association (SIIA)
1090 Vermont Avenue, NW, Sixth Floor
Washington, DC 20005
+1.202.289.7442
Contact: Fred Hoch, Vice President, Software Programs at fhoch@siia.net
www.siia.net

About Macrovision
Macrovision is the world’s leading provider of Software Value Management solutions for both software publishers and their enterprise customers.

On the software publisher side, Macrovision solutions help software publishers maximize the value of their software through all phases of the post-development lifecycle – packaging, installation, licensing, and updating. These robust and reliable solutions give publishers the ability to grow revenues and increase customer satisfaction across product lines.

Macrovision’s SVM solutions for software publishers include:

- **FLEXnet Publisher** enables software publishers to price, package, and protect their software in a variety of flexible ways. Using FLEXnet Publisher, they can electronically generate, track, and enforce their software licenses – eliminating ineffective paper licenses – and guard against unauthorized use by implementing product activation or copy protection. FLEXnet Publisher also enables software publishers to generate additional revenue by selling software any way customers want to buy it, including subscription- and usage-based models.
• **InstallShield™** is the industry standard in software installations for every platform, operating system, and device. InstallShield makes it easy to create higher-quality, bulletproof software installations in far less time, enabling software vendors to get their products to market faster and reduce their support costs.

• **Update Service** provides software vendors with the most comprehensive solution for electronically delivering software and data updates, patches, and HTML messages to every customer. With Update Service, software vendors will immediately simplify their update distribution while improving customer relations and reducing support costs.

On the enterprise side, Macrovision’s Software Value Management solutions help organizations dramatically reduce costs by maximizing the license value and reliability of the software they purchase. Macrovision’s solutions help ensure organizations only buy the software they actually need, and that software they buy deploys flawlessly to optimize user productivity.

Macrovision’s SVM solutions for enterprises include:

• **FLEXnet Manager** is a complete software asset management system that provides enterprises with a powerful set of administrative and reporting tools to optimize the business value of their software licenses. FLEXnet Manager enables corporate IT departments to simplify license administration and increase productivity by consolidating license servers and using one administrator to manage multiple systems. Plus, FLEXnet Manager provides enterprises with accurate usage information on their software, allowing them to purchase software based on actual requirements instead of estimated needs – saving enterprises thousands or even millions of dollars.

• **AdminStudio** provides systems administrators and software packaging teams with the fastest and easiest solution for preparing reliable applications and patches for enterprise use. Using AdminStudio’s complete suite of automated packaging, customization, conflict resolution, and quality assurance tools to prepare software packages for rollout lets enterprises achieve reliable, repeatable deployment results that translate into easier-to-manage applications, reduced rollout times and maximum productivity of corporate end users.

• **AMS** is a customizable Web-based application management system that provides enterprises with a centralized solution for facilitating and streamlining their entire application management process. AMS enables an enterprise’s entire organization to institute a standard, consistent application request, approval, and deployment process that maximizes IT’s collaborative teaming, enforces best practices, and ensures faster, more successful software rollouts.

• **Patch Impact Manager** provides systems administrators managing patches with the exclusive ability to detect – without actually deploying the patch – if a patch will impact the runtime dependencies of any application in their operating environment. With Patch Impact Manager, enterprises can deploy patches confidently, knowing they won’t negatively impact your mission-critical applications.

For more information on Software Value Management and how to maximize the value of your software, visit www.macrovision.com.

---

About SoftSummit

SoftSummit is the software industry’s premier conference on software pricing, purchasing and licensing. This annual two-day event is the industry’s only forum for executives from the world’s top software companies and their customers to network and share insights on the major trends, latest innovations and proven best practices driving the software industry.

Each year top software industry leaders speak on topics such as pricing strategies, purchasing strategies, utility pricing, grid computing, license compliance, product activation, software protection, licensing best practices, replacing homegrown licensing and much more.

Previous speakers have included CEOs, Presidents, CTO’s and VP’s from companies such as Adobe, Agilent, Borland, Citrix, HP, IBM, IDC, Infineon, Macromedia, Macrovision, McKinsey & Co., Microsoft, Motorola, Northrop Grumman, Oracle, Palm, PeopleSoft, The Chasm Group, SAP, Siebel and Veritas.

www.SoftSummit.com