macrovision™

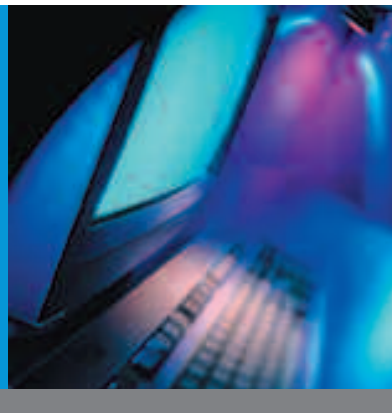
REPORT

KEY TRENDS IN SOFTWARE PRICING AND LICENSING

A SURVEY OF SOFTWARE INDUSTRY EXECUTIVES AND THEIR ENTERPRISE CUSTOMERS

2006

A Study Conducted By SIIA, Macrovision, SoftSummit, and CELUG



KEY TRENDS IN SOFTWARE PRICING AND LICENSING

BACKGROUND

Last fall, Macrovision, SoftSummit, the Software & Information Industry Association (SIIA), and the Centralized Electronic Licensing User Group (CELUG) conducted a survey of pricing and licensing trends and best practices in the software industry among executives at both software vendors and software buyers. The results of the study were published in a report and released at the annual SoftSummit Conference (www.softsummit.com) in October 2004.

After strong industry interest and response to the study and its findings, the same parties have conducted a second annual survey and are releasing the report on October 10, 2005 in conjunction with SoftSummit 2005.

The intent of this report is to provide valuable data and insight into how software vendors and enterprises view pricing and licensing issues, and summarize practices that are in use today and those that will be instituted in the coming years.

METHODOLOGY AND SAMPLE

In total, 484 respondents participated in the survey during August and September 2005, 252 software vendor executives and 232 executives from enterprises. 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 or involved in purchasing and managing their company's 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, SoftSummit, and the Centralized Electronic Licensing User Group (CELUG), Silicon Valley PMA, and CIO Magazine.

SOFTWARE VENDOR: Company Size

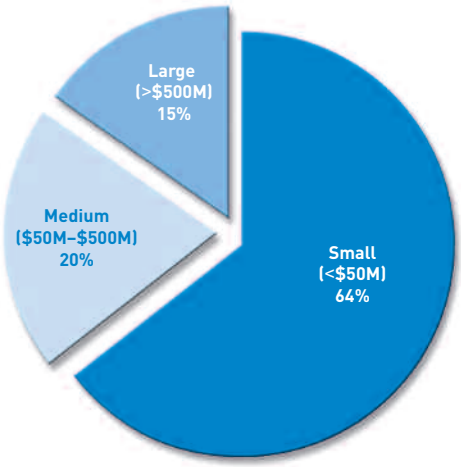


Figure 1

SOFTWARE VENDOR: Software Type

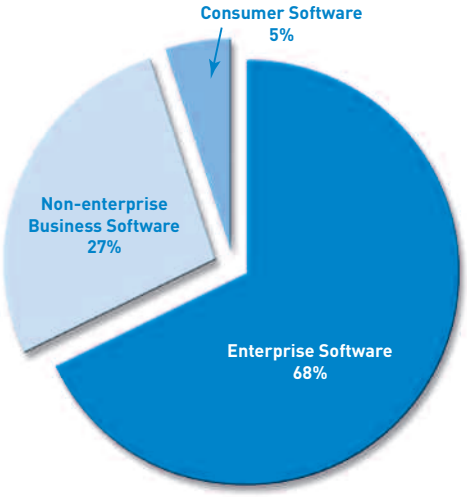


Figure 2

ENTERPRISE: Company Size

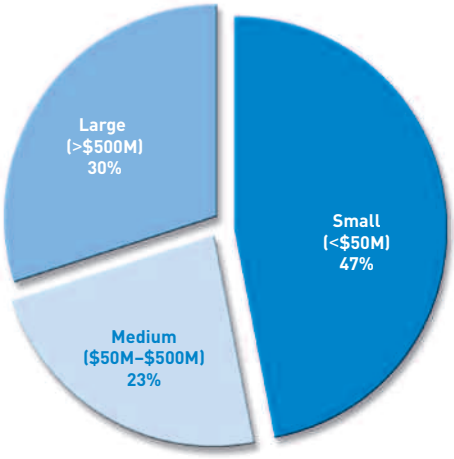


Figure 3

KEY FINDINGS

ISV's Are Not Listening to Their Customers

ISV's tend to be satisfied with their existing pricing and licensing strategy (57%) yet their customers are not. Less than one third of enterprises (28%) are satisfied with their vendor's pricing and licensing strategy, suggesting that ISV's could do a better job of listening to their customers.

SOFTWARE VENDOR vs. ENTERPRISE
Satisfaction With Pricing And Licensing Strategy

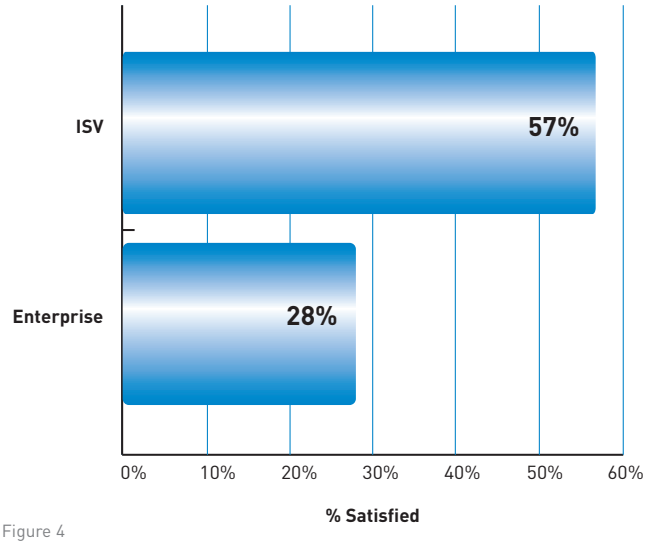


Figure 4

As ISV's get larger, their level of satisfaction with their own pricing and licensing tends to drop. A key driver here could be recalcitrant systems that are developed to scale but inhibit a company's flexibility to adapt to changing market conditions as well as internal changes such as mergers and acquisitions.

ISV's Are Making Their Pricing and Licensing Polices More Flexible to Increase Revenue and Improve Customer Satisfaction

More than two-thirds of software vendors said that they have changed their pricing and/or licensing polices during the past two years. The reasons for those changes varied: 46% of vendors made them in order to improve relationships with their customers, while 45% were looking to generate additional revenue.

SOFTWARE VENDOR: Pricing And Licensing Policies

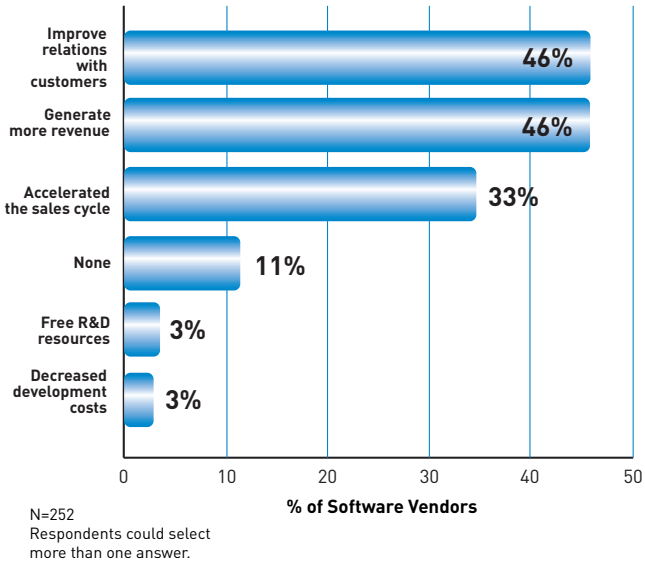


Figure 5

License Compliance A Large Problem That Enterprises Want Solved

72% of enterprises manually track license compliance or do not track it at all. Since manual methods tend to be error-ridden and non-scalable in large enterprises, a large number of enterprises are likely to be out of compliance with their vendors.

ENTERPRISE: License Compliance Model

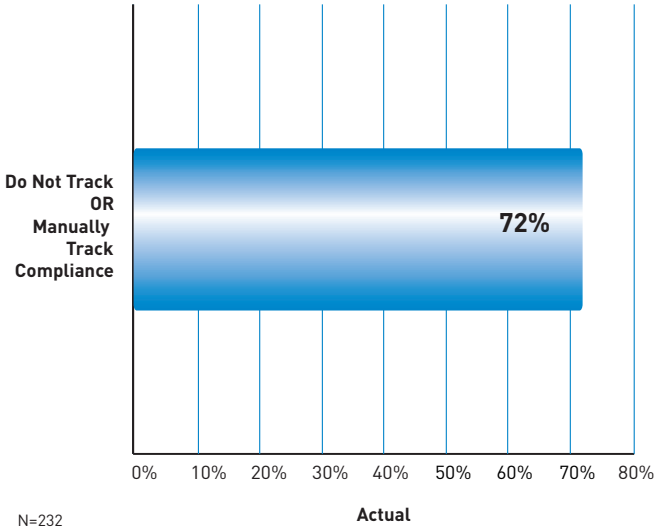


Figure 6

Enterprises are showing an increasing preference for digital licensing methods. Virtually half of companies today want their licensing automatically enforced, an increase of 6% over last year's data. Electronic and digital enforcement is more accepted today by software customers than software as a service.

ENTERPRISE: Most Preferred Enforcement Model

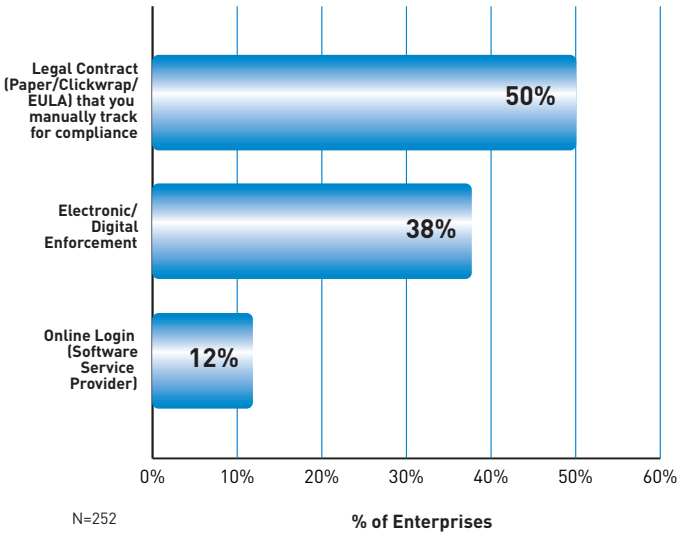


Figure 7

ENTERPRISE: Most Preferred Enforcement Model 2004 vs. 2005

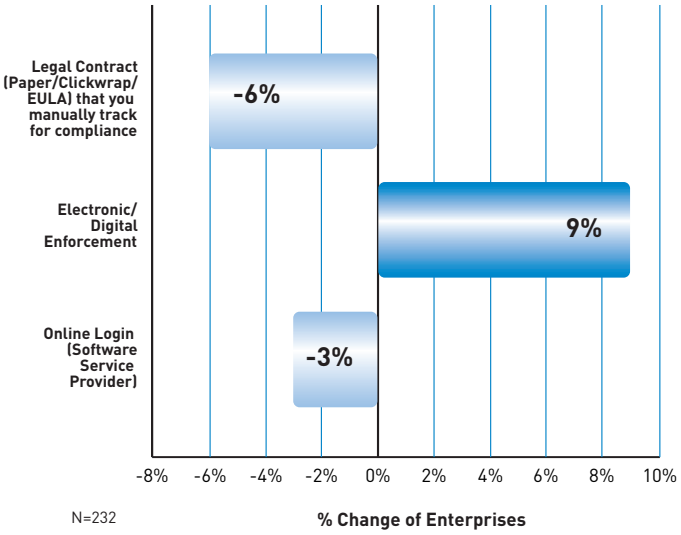


Figure 8

Software Vendors and Enterprises Continue to Move Toward Subscription-Based Business Models

For the second year in a row, the data clearly suggests that software vendors are moving aggressively towards subscription-based licensing models and away from the more traditional perpetual licensing* model. The continuing market acceptance and understanding of emerging trends such as hosted software and on-demand and utility computing have shown vendors that these new methods deliver improved value and satisfaction to their customers, while providing greater revenue predictability.

* Note: terms highlighted in blue are defined in the Glossary on page 14.

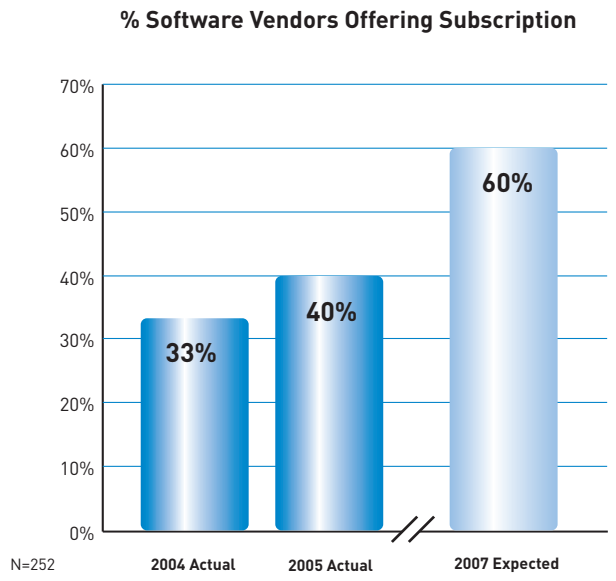


Figure 9

The primary reason why ISV's are moving to the subscription model is to enjoy greater predictability of revenues (43%). The second most popular reason is to foster customer adoption by offering a lower upfront price for their software. This was cited by enterprises as being one of their top reasons for embracing the subscription model.

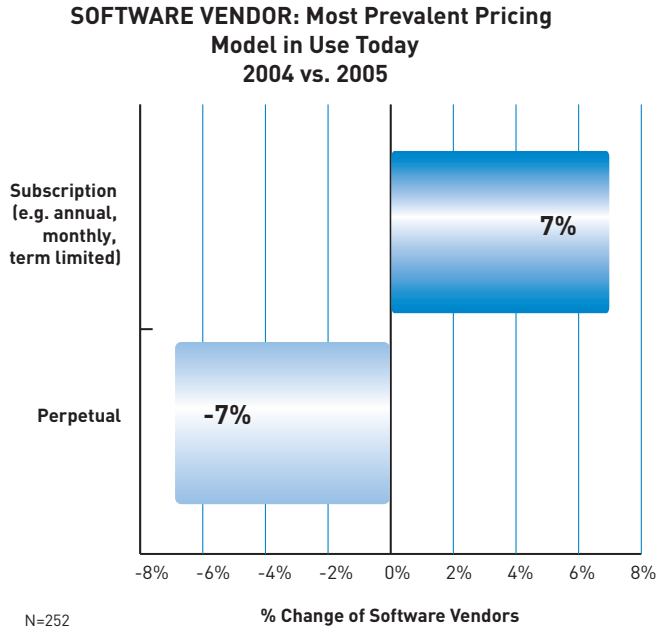


Figure 10

Last year, one in three vendors were offering subscription models as their primary pricing method; that number has risen 7% this year to 40%. By 2007, an additional 20% of vendors expect to use subscriptions as their primary licensing model. The data suggests that the perpetual licensing strategy will continue its gradual decline and subscription-based methods will likely soon become the pervasive model in place.

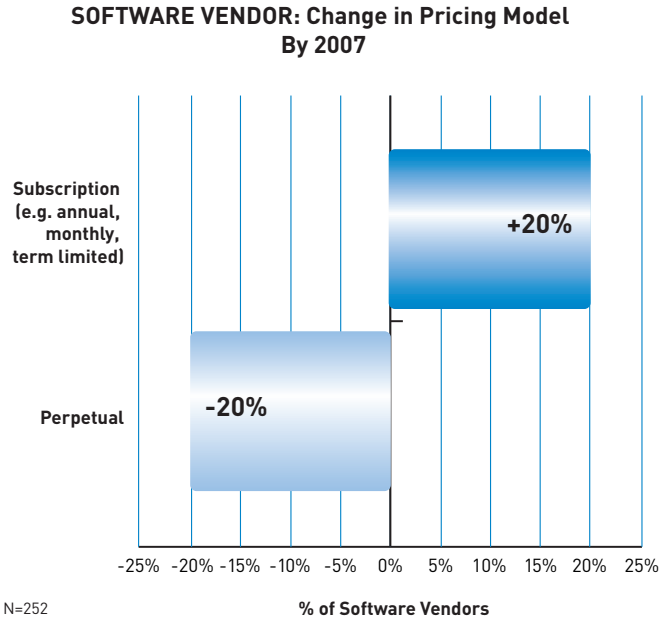


Figure 11

At the same time, while the majority of enterprises still prefer to purchase software through perpetual licensing, they seem to be softening their resistance to subscription pricing, with 43% now preferring that model, an increase of 7% over last year.

% Enterprises Preferring Subscription

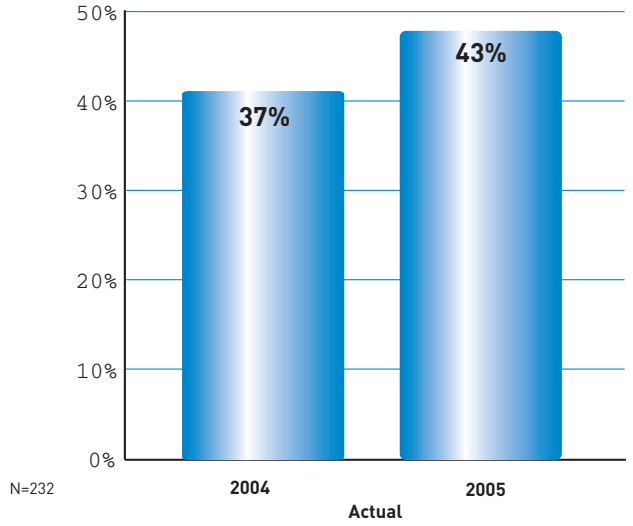


Figure 12

ENTERPRISE: Most Preferred Pricing Model 2004 vs. 2005

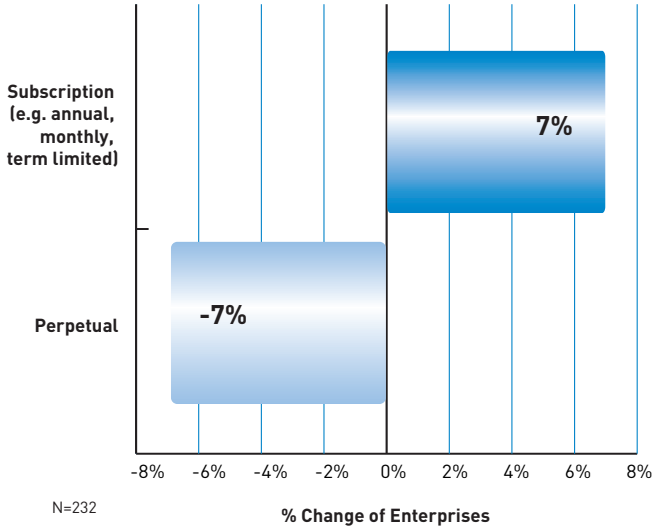


Figure 13

Concurrent and Named User Are the Preferred License Models

Enterprises strongly prefer the concurrent user model (53%) and that preference has grown 11% over the previous year. Conversely the "per machine/server" licensing model is rapidly losing favor, having experienced a 7% year over year drop. Similarly, there has been a 16% drop in the prevalence of the "per machine/per server" model amongst ISV's. Models that are becoming more prevalent are the "named user" and "concurrent user" model – consistent with enterprise preferences.

SOFTWARE VENDOR: Most Prevalent License Models in Use Today

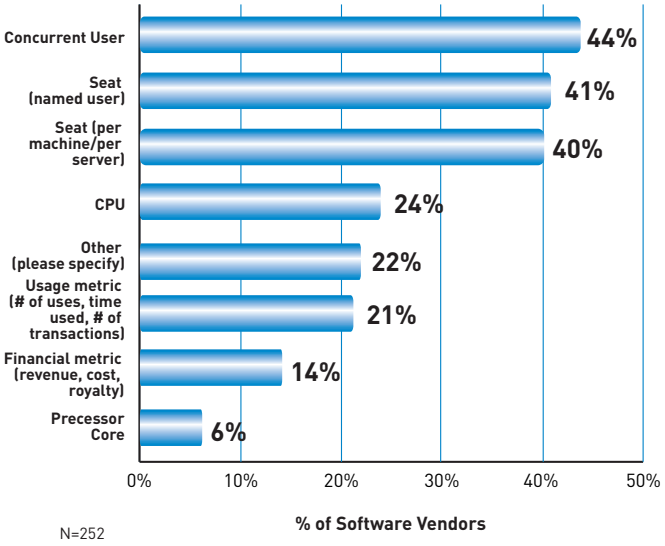


Figure 14

SOFTWARE VENDOR: Most Prevalent License Models in Use Today 2004 vs. 2005

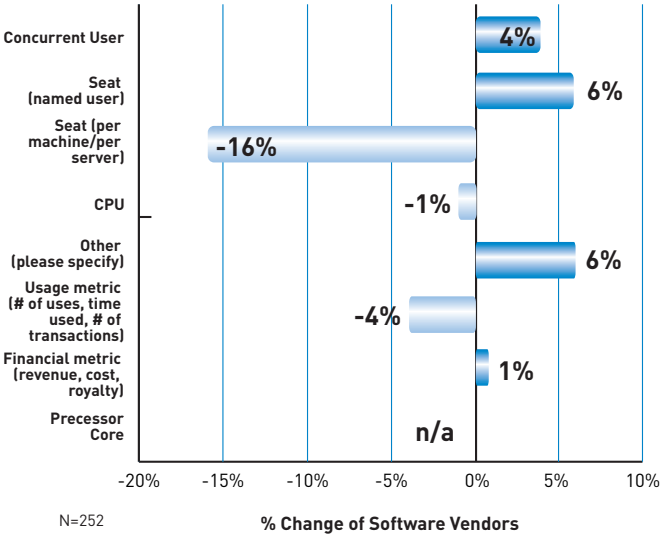


Figure 15

In October 2004 at SoftSummit, Microsoft announced that they would not be following Oracle's lead by not pricing per processor core. One year later, only 6% of software vendors price their software by the core and only 6% of enterprises prefer any type of processor-based licensing scheme. By 2007, vendors are expecting to significantly increase their prevalence of usage metric-based licensing; almost 40% expect to be doing so within the next two years.

SOFTWARE VENDOR: Change in License Model By 2007

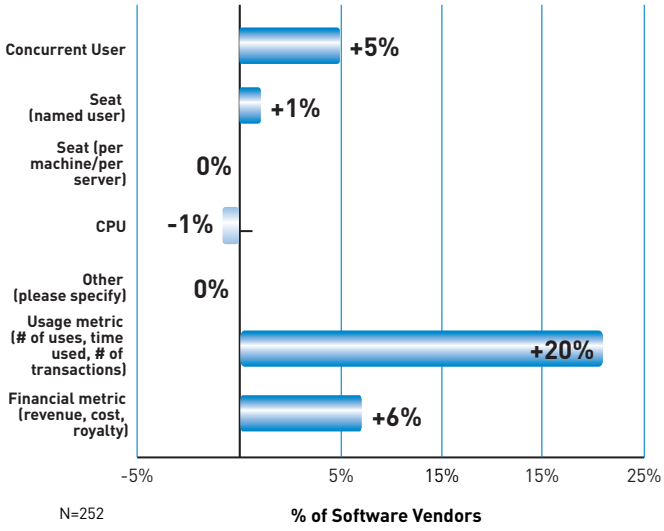


Figure 16

ENTERPRISE: Preferred License Model

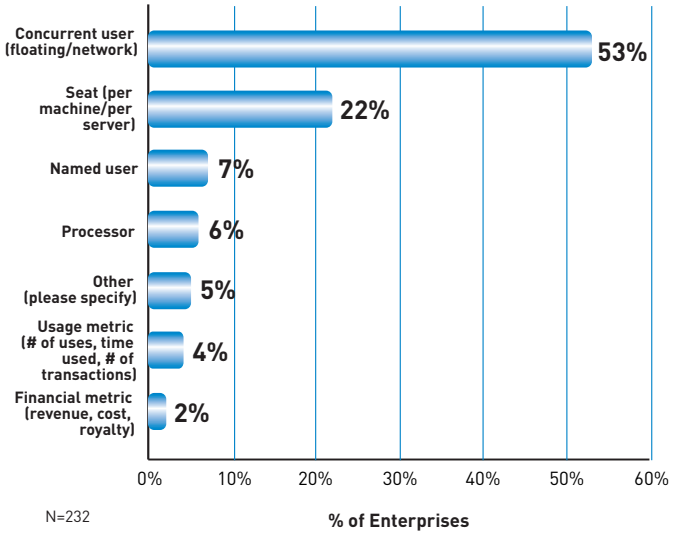


Figure 17

ENTERPRISE: Preferred License Model 2004 vs. 2005

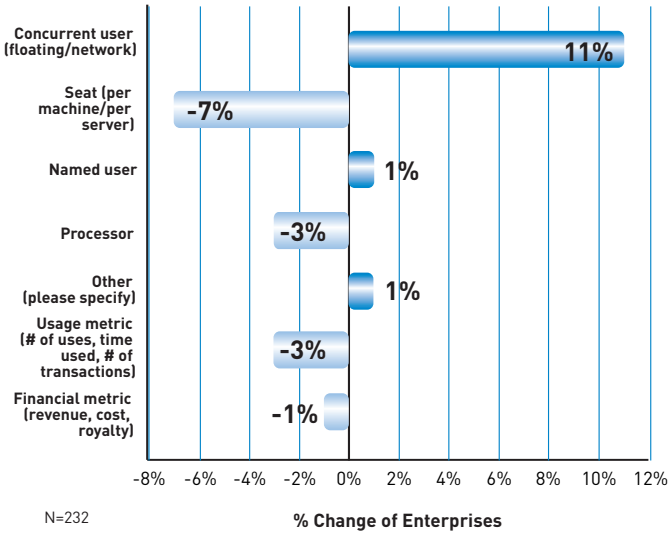


Figure 18

Licensing Enforcement Moving Towards Digital and Internet-Based Methods

Today, 46% of software vendors rely on electronic, digital, or Internet-based as their primary methods of licensing enforcement. More impressively, while one third of vendors use digital enforcement methods today, that number is expected to grow to 56% by 2007. In addition, the number of vendors who are offering their software as a service over the web has tripled since last year, reaching 12% today; an additional 6% expect to transition to that model by 2007. Paper-based enforcement continues to decline and is expected to be in place by only 36% of ISV's by 2007.

SOFTWARE VENDOR: Most Prevalent License Method in Use Today

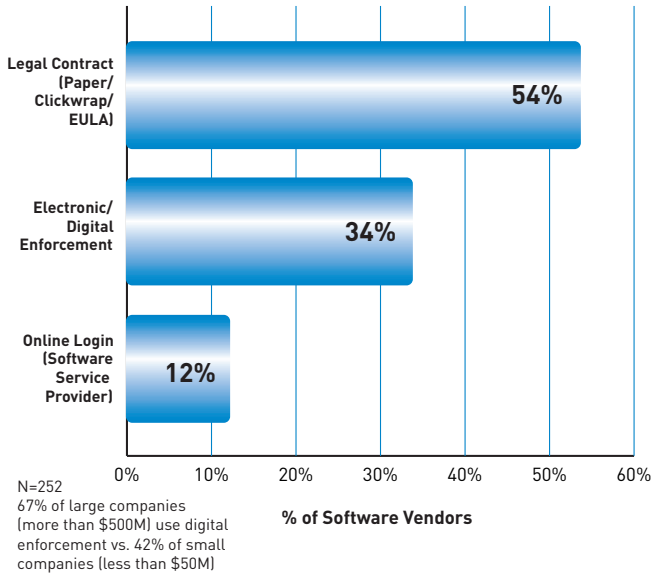


Figure 19

SOFTWARE VENDOR: Change in License Method By 2007

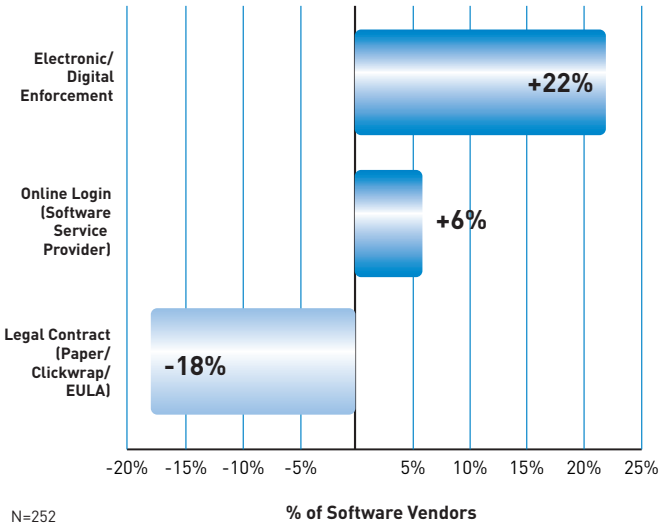


Figure 20

Dongles Are Dead

Only 2% of enterprises prefer dongle/USB forms of license enforcement.

Product Activation and Network Licensing Becoming Most Prevalent Methods of Enforcement

Software vendors continue to move away from traditional licensing enforcement such as serial numbers (down 7%), dongle/USB keys (down 6%), and through audit and compliance teams (down 6%). Product activation has clearly become the most popular method in use today (45%), followed by network licensing at 35%. By 2007, 57% of vendors will be using product activation technologies and 47% will utilize network licensing. Although one in four vendors are not using any licensing enforcement methods today, that number is expected to dip to one in nine vendors by 2007.

SOFTWARE VENDOR: Most Prevalent Enforcement Method in Use Today

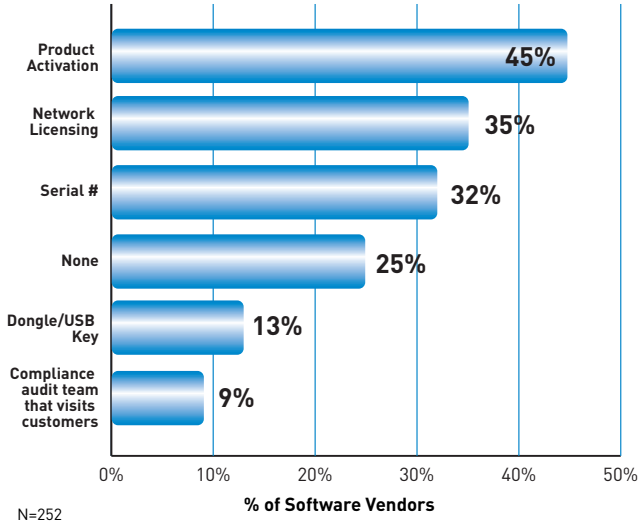


Figure 21

SOFTWARE VENDOR: Most Prevalent Enforcement Method in Use Today 2004 vs. 2005

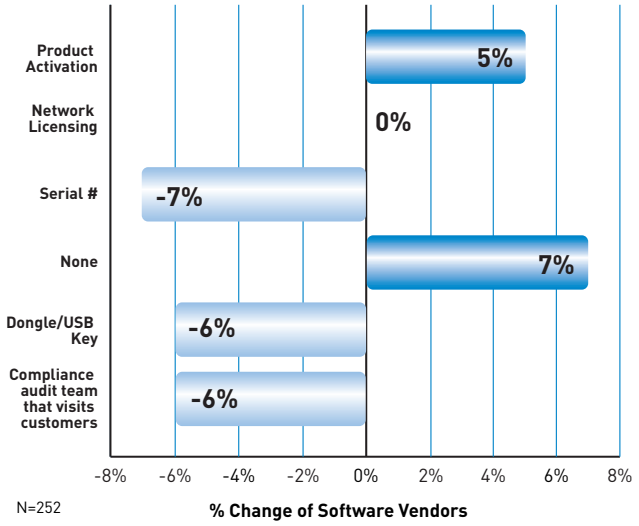


Figure 22

Enterprises are also reducing their reliance on traditional enforcements and are showing a very strong preference towards network licensing methods. Well over half of respondents prefer network licensing today, an 18% increase over last year.

SOFTWARE VENDOR: Change in License Enforcement Method Over the Next 2 Years

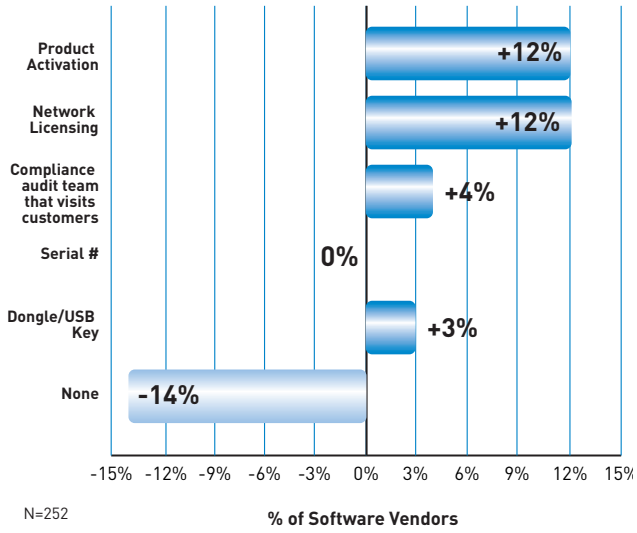


Figure 23

ENTERPRISE: Most Preferred Enforcement Method

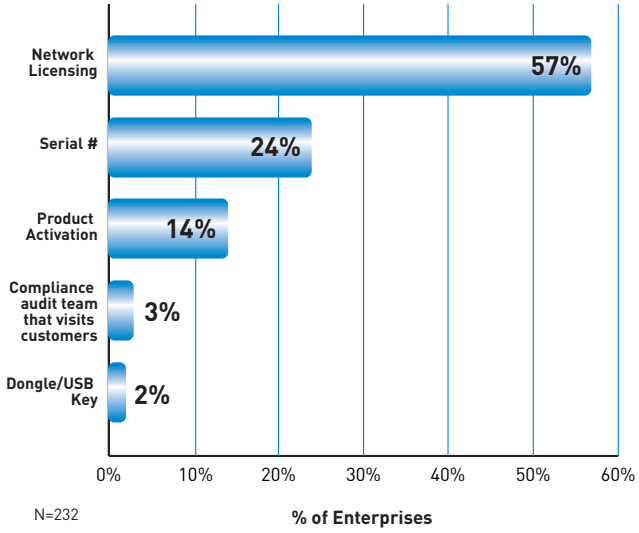


Figure 24

ENTERPRISE: Most Preferred Enforcement Method 2004 vs. 2005

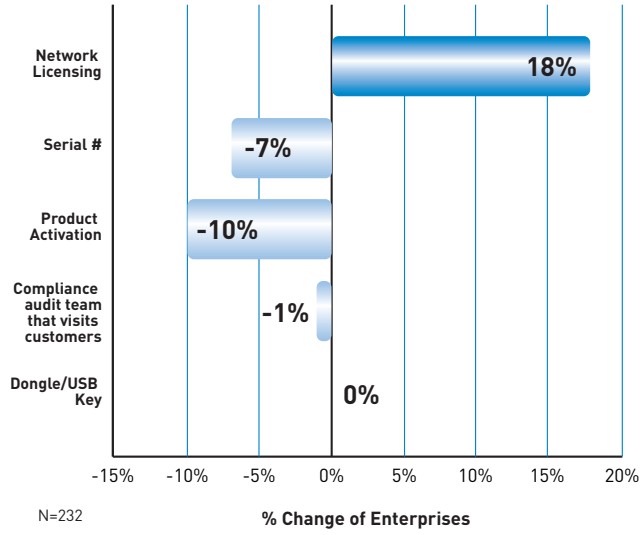


Figure 25

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. If your company is moving toward a subscription model, what is the primary reason for the move?

A. We want a more predictable revenue stream.

B. Our customers are demanding it.

C. Our competitors are offering it.

D. We want to increase adoption of our software by offering a lower upfront price to customers.

4. Which pricing models do you offer for your software today? (Check all that apply). Software that is priced per…

A. Processor

B. Processor Core

C. Seat (per machine/per server)

D. Seat (named user)

E. Concurrent user (floating/network)

F. Usage metric (# of uses, time used, # of transactions)

G. Financial metric (revenue, cost, royalty)

H. Other (please specify)

5. In two years, which pricing models do you expect to offer? (Check all that apply). Software that is priced per…

A. Processor

B. Processor Core

C. Seat (per machine/per server)

D. Seat (named user)

E. Concurrent user (floating/network)

F. Usage metric (# of uses, time used, # of transactions)

G. Financial metric (revenue, cost, royalty)

H. Other (please specify)

6. 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)

7. 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)

8. 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

9. 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

10. How would you rate your level of satisfaction with the quality of your company's licensing and pricing strategy? Rate your level of satisfaction:

A. Highly Satisfied

B. Satisfied

C. Neutral

D. Unsatisfied

E. Highly Unsatisfied

11. Has your company changed its pricing and licensing policies in the past two years to make them more flexible?

A. Yes

B. No

12. If yes to question 11, has providing more flexible licensing and pricing policies helped the company (please check all that apply):

A. Generate more revenue

B. Improve relations with customers

C. Accelerated the sales cycle

D. Free R&D resources

E. Decreased development costs

F. N/A or none of the above

13. How would you characterize your software?
Enterprise software

A. Non-Enterprise business software

B. Consumer software

14. Which of the following best represents your annual revenues?

A. Less than $10 million

B. $11 - $30 million

C. $31 - $50 million

D. $51 - $100 million

E. $101 - $500 million

F. $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. How do you currently perform tracking and reporting of your software licenses?

A. Automated software

B. Manual methods

C. Do not currently track

4. If your company is buying more software on a subscription basis, what is the primary reason for the move?

A. Our vendors are giving us no choice.

B. It gives us more predictable expenses.

C. It gives us a lower upfront cost than paying a large upfront licensing fee.

D. It forces my vendors to continously deliver value since I can cancel my subscription at any time.

5. Which software pricing model do you prefer? Software that is priced per...

A. Processor

B. Processor Core

C. Seat (per machine/per server)

D. Seat (named user)

E. Concurrent user (floating/network)

F. Usage metric (# of uses, time used, # of transactions)

G. Financial metric (revenue, cost, royalty)

H. Other (please specify)

6. 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

7. How would you rate your level of satisfaction with the quality of your software vendors's licensing and pricing strategies? Rate your level of satisfaction:

A. Highly Satisfied

B. Satisfied

C. Neutral

D. Unsatisfied

E. Highly Unsatisfied

8. Which of the following best represents your annual revenues?

A. ←$50M

B. $50M-$100M

C. $100M-$500M

D. $500M-$1B

E. →$1B

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

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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 powerful Web-based software license management system that enables organizations to centrally track, manage, and report on their license usage. FLEXnet Manager provides a single console view of all the licenses and license servers across an enterprise's environment, enabling a single administrator to effectively manage and maintain licenses within departments and across the enterprise. Importantly, FLEXnet Manger 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.

- **FLEXnet AdminStudio** provides enterprises with the most advanced solution for preparing reliable software packages for enterprise deployment. Web-based management tools enable enterprises to share resources and centrally manage the software packaging process. FLEXnet AdminStudio enables IT teams to implement a structured software packaging process that ensures consistent, trouble-free software deployments, decreases application management costs, and improves IT productivity.

- **Workflow Manager** is a Web-based application management system providing enterprise IT teams with the most effective method for globally managing the software packaging process. Workflow Manager connects IT Management, software packagers, and application owners together in real time, helping them work together to speed packages to deployment. Using Workflow Manager,

organizations can implement a standardized software packaging process based on best practices that improves software reliability, maximizes IT productivity, and reduces the time needed to deploy software.

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

About SoftSummit
SoftSummit is both a conference and information portal spanning all dimensions of Software Value Management. As a conference, it is the software industry's premier event covering software management, pricing, and licensing. This annual two-day conference 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 market.

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

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

As a portal, SoftSummit.com is the "one-stop shop" for Software Value Management. It provides executives who are responsible for software management, pricing, and licensing with access to key trends, opinions from thought leaders, informative research, and actionable best practices to help maximize the value of their software.

Just as the annual SoftSummit conference has become a must-attend event for those who price, license, or manage software, the SoftSummit website is a portal to the ever-changing world of software value management. SoftSummit.com provides context, contacts, and answers for a rapidly evolving industry.

Deep Resources
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APPENDIX C

GLOSSARY OF TERMS

Concurrent User
Some products are licensed based on how many users access the software simultaneously. Such license models are often used for business software.

Dongle
A mechanism for ensuring that only authorized users can copy or use specific software applications, especially very expensive programs. Common mechanisms include a hardware key that plugs into a parallel or serial port on a computer and that a software application accesses for verification before continuing to run; special key diskettes accessed in a similar manner; and registration numbers that are loaded into some form or ROM (read-only memory) at the factory or during system setup.

Metric-based Licensing
License models that are based on varying business, usage or financial metrics, such as revenue, budgets, or cost of goods sold.

Named User
A system whereby each software license and corresponding usage rights are assigned to a specific person.

Networking Licensing
A license model where 2 or more users share licenses for a software. Enterprises benefit by not having to buy dedicated licenses for every user. Publishers benefit by expanding their market to customers that might otherwise find dedicated licenses cost-prohibitive.

On-Demand
On-demand (OD) computing is an increasingly popular enterprise model in which computing resources are made available to the user as needed. The resources may be maintained within the user's enterprise, or made available by a service provider.

Per Machine/Per Server
A system whereby each software license is assigned to a particular computer or server.

Processor Core
A multi-core processor is an integrated circuit to which two or more processors have been attached for enhanced performance, reduced power consumption, and more efficient simultaneous processing of multiple tasks.

Product Activation
The process of installing or downloading licenses to us an application on an end user's machine.

Perpetual Licensing
Licenses are paid for on a one-time basis, giving the user the right to run the program as long as they choose. It does not imply a right to upgrades, which are typically sold separately as part of a maintenance agreement or on a per-upgrade basis.

Subscription Licensing
Licenses are paid for with a recurring (often annual) fee to continue using the software. If the fee is not paid, the software stops working. The customer does not own the software license.

Utility Computing
a service provisioning model in which a service provider makes computing resources and infrastructure management available to the customer as needed, and charges them for specific usage rather than a flat rate. Like other types of on-demand computing (such as grid computing), the utility model seeks to maximize the efficient use of resources and/or minimize associated costs.

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