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Intraware

**Survival of the Fittest – ESD and Other Key Strategies for
Adapting to the Evolving Software as a Service
Environment**



What we're here to talk about

- Increasing demand for immediacy, flexibility and ease of use driven by customers, regulatory changes and market forces
 - Shift from infrequent “shipments” to continuous delivery
 - Shift from a few managed hosts to pervasive systems
 - Shift in business models
- “Electronic logistics”
 - Real time delivery
 - Granular control
 - Support for flexible business models





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Market Forces (according to IDC)

- Software revenue has stalled
 - Net new license sales are in decline
 - Overall software growth single digit
 - Compliance issues abound
- Different delivery models are emerging
 - Application Hosting/Management
 - Software as a Service
 - eBusiness on Demand
 - Maintenance and subscription licensing





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Technology Changes

- The computing world is getting more
 - diverse
 - mobile
 - connected

- In 2002 more than 6 billion processors were sold
 - Only 1.5% went into PC's and Unix Workstations
 - Most of the rest went into embedded systems (CMP)

- Through 2005 the use of wireless will grow ~50% each year (Gartner)

- In 2002 1.14 Billion people had cellular service (Intercomms)
 - 51% of all telephone subscribers





Increasing Rate of Software Change

- 76,404 virus attacks were reported in the first half of 2003...nearly the same number reported all of last year. (CERT)
- More than 4,000 software vulnerabilities were reported in 2002, compared with 2,400 in 2001. Just under 2,000 were reported through July of this year. (CERT)
- Both Microsoft and AOL have recently pushed for more frequent software updates, offering up new features to combat dwindling subscriber bases (BetaNews)



Change Becomes a Problem

- Existing systems and approaches have too much “friction”
 - “Most organizations will tell you, if they're honest, that it takes them six to eight weeks to deploy a given patch across a large organization without making it an emergency,” (BigFix Inc)

- Entitlement based automatic updates
 - Go from monthly to daily updates
 - Better “product” because of digital delivery
 - Eliminate customer intervention
 - Lower support costs
 - Eliminate costs of physical updates





Economic Imbalance

- Maintenance agreements are typically 15% - 20% of the license cost
- 50% - 80% of development costs are for maintenance
- Need a better way to extract profit from the heavy investment in ongoing development
 - Sell incremental features
 - Don't add incremental development costs

- Electronic licensing and digital delivery let you sell new features as you develop them
- Cost effective way to extract more value from your ongoing investment in R&D



Opportunity in Software as a Service

- Lots of hype
- “Pay-as-you-go pricing will not be widely popular without billing systems that customers can understand and find reasonable. “
<http://news.com.com> Utility's last snag: The price tag
- Systems must support variable pricing models
 - Feature-based
 - Number of transactions
 - Subscription
 - Pay-per-use
 - Post-use-Payment
 - Surcharge for additional users ...
- An electronic logistics framework includes licensing, entitlement management, electronic licensing, audit and reporting, etc.

Compelling Case For Electronic Logistics



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- Lower cost
- Immediacy
 - Functionality
 - Content / data
- Control
 - Licensing
 - Sales
- Better service model
 - Automatic updates





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What's holding you back

- Process / policy
- Bandwidth not there
- Security / privacy concerns
- “We’re different” / special





Process / Policy

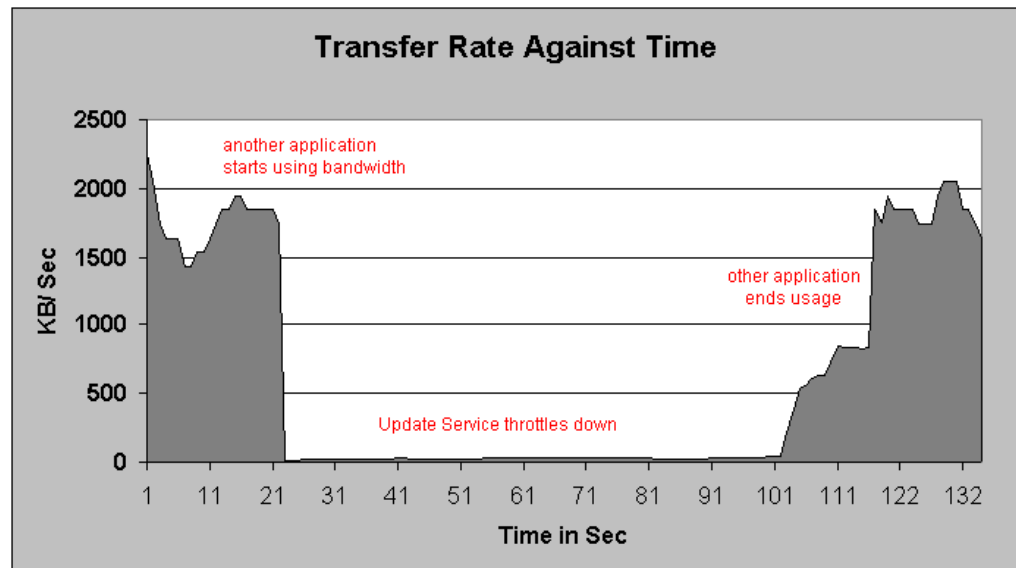
- Start small
 - Tax free delivery
 - Updates only
 - Single product line

- Find ways to accommodate existing needs
 - Printable license replaces box as proof of delivery
 - 3rd party publisher provides printed documentation for small fee



Bandwidth

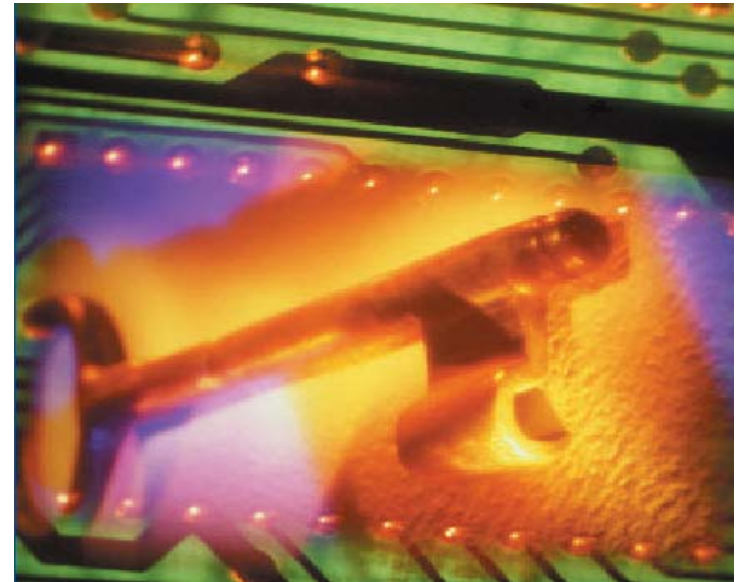
- Available bandwidth continues to grow
 - The number of high speed Internet subscribers in the world grew by 72 percent to 62 million last year (AFP)
- Technical solutions
 - Asynchronous updates
 - Bandwidth throttling





Security

- Theft is still an issue in media
- Electronic licensing can virtually eliminate theft in SW
 - (see Process policy issue)
- Encryption and authentication can guarantee integrity in transit





“We’re different”

Maybe ...

- Is cost an issue?
 - Digital is cheaper
- Is customer satisfaction an issue?
 - Customers want digital
 - 80+% preference
- Is understanding how your customers use your products an issue?
 - Digital allows you to know who is using what
- Do you need to extract more revenue from existing customers?
 - Digitally managed goods can be reconfigured after the initial sale



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Closing Message:

Adapt to new agile
logistics or risk extinction
through natural selection



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THE WAY DIGITAL GOODS MOVE

Thanks for your time