

2008 Key Trends in Software Pricing and Licensing

October 2008

An abstract graphic consisting of multiple overlapping, wavy lines in shades of blue and white. The lines flow from the left towards the right, where they converge into a central point that resembles a stylized infinity symbol or a complex knot. The overall effect is one of dynamic movement and depth.

Key Trends in Software Pricing and Licensing 2008

SUMMARY OF FINDINGS

Satisfaction Gap: Enterprises appear to be more satisfied with licensing and pricing models as compared to last year, echoing Software Vendors' move to be more flexible and attentive to customer desires. However, even though satisfaction has increased, it is still low at only two-fifths (42%) of enterprises.

Compliance: Nearly three-quarters (72%) of enterprises agreed that compliance is important or very important, citing "Reduce Software Costs" as their top priority (44%) in comparison to last year's focus on "Ensuring Compliance with Vendor Agreements", showing a shift in motivation.

Subscription Model offering: Software Vendors have continued to offer subscription models in similar proportions, but have predicted a growth of approximately 10 percent by 2010.

Flexibility with Pricing/Licensing Policies: Software Vendor pricing flexibility is at an all time high since 2005. Software Vendors cite Revenue Generation and Improved Customer Relations as the key reasons for increased flexibility.

BACKGROUND

Acesso Software, SoftSummit, the Software & Information Industry Association (SIIA), the Centralized Electronic Licensing User Group (CELUG), and the Electronic Design Automation Consortium (EDAC) conducted an annual survey of pricing and licensing trends and best practices in the software industry among executives at both independent Software Vendors and Software Buyers (Enterprises).

METHODOLOGY AND SAMPLE

In total, 144 respondents participated in the survey, of which 66 were Software Vendor executives and 78 were executives from Enterprises.

Enterprise Demographics

Enterprise respondents tended to be large, with revenues greater than \$1B annually however the number of desktops per company was well distributed amongst the sample.

ENTERPRISE:

Annual Revenues; No. of Desktops

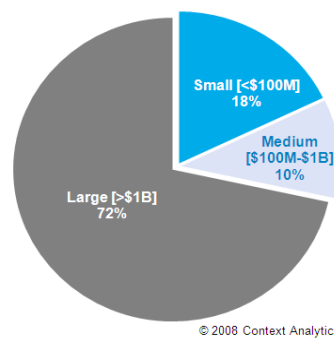


Figure 1

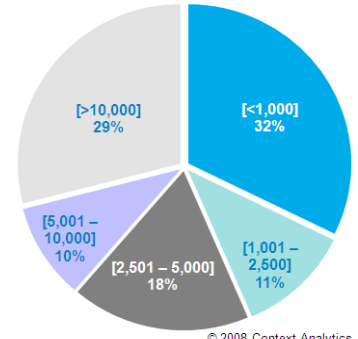


Figure 2

Software Vendor Demographics

Software Vendors primarily offered Enterprise Class Business Software and were equally distributed across Small, Medium and Large revenue categories.

SOFTWARE VENDOR:

Type of Software; Annual Revenues

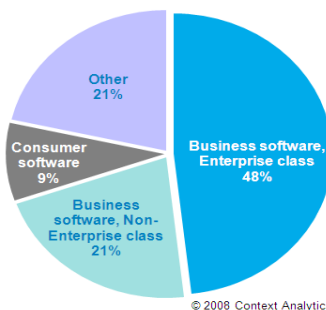


Figure 3

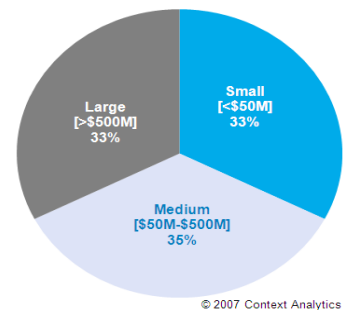


Figure 4

Enterprises Report an Increase in Satisfaction, Though Gap Still Exists

KEY FINDINGS

The Satisfaction Gap Between Enterprises and Software Vendors Narrows But Still Persists

Figure 5

Although a gap in satisfaction levels between software vendors and enterprises still persists, Enterprises did show a significant jump in overall satisfaction (up 11% from 2007) with vendors' licensing and pricing strategy, suggesting the Software Vendors having moved the needle somewhat. Still, fewer than half (42%) of the enterprises are satisfied overall.

SOFTWARE VENDOR vs. ENTERPRISE:

Average Satisfaction with Pricing and Licensing Strategy

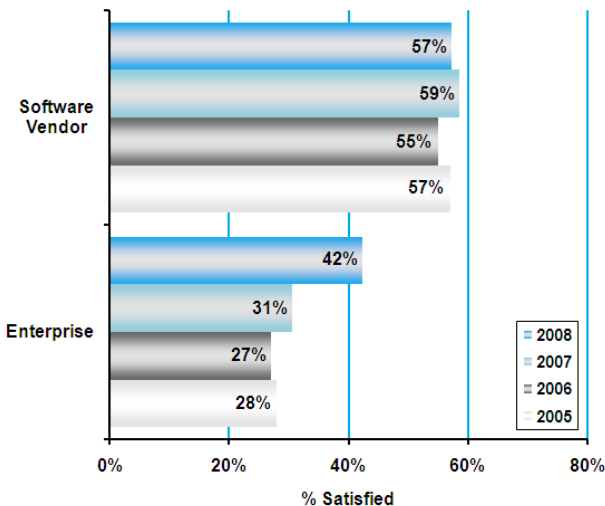


Figure 5

Satisfaction Levels Indicate Room for Improvement Across All Applications

Figure 6

In terms of satisfaction level across various applications, less than half (31% - 53%) were satisfied or highly satisfied in each application category, indicating room for improvement across all application types. Engineering applications did, however, score better than other application types, with 53 percent of Enterprises being satisfied or highly satisfied.

ENTERPRISE:

Satisfaction Level Across Pricing and Licensing Strategies

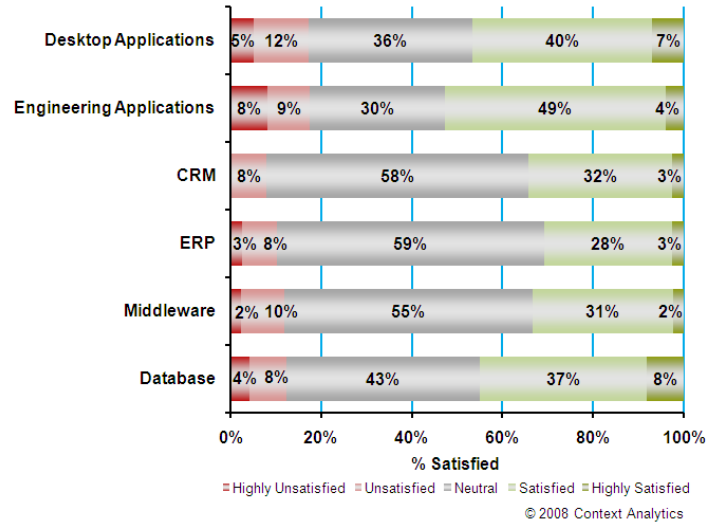


Figure 6

Software Vendors Somewhat More Satisfied with The Quality of Their Pricing Strategy

Figure 7

When asked to rate their level of satisfaction with the quality of their company's strategies, Software Vendors ranked quality of pricing policies higher than that of licensing (65% vs. 50%, respectively, were satisfied or highly satisfied).

SOFTWARE VENDOR:

Satisfaction with Their Pricing and Licensing Strategies

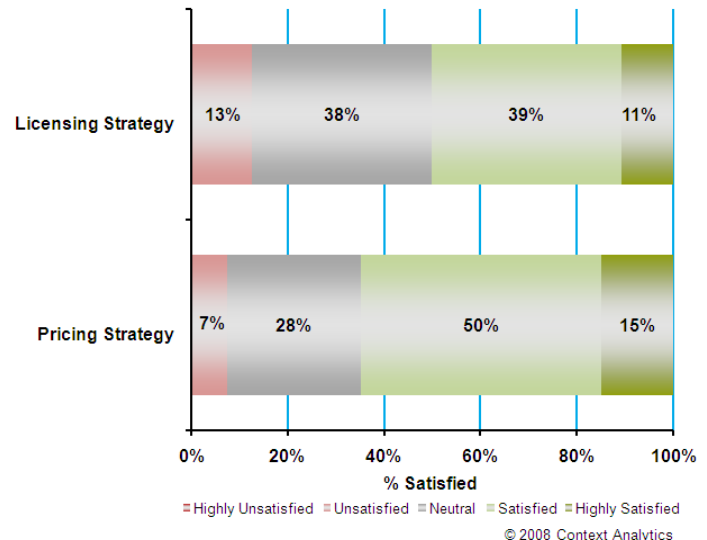


Figure 7

Enterprises Believe They Have Issues with Both Over-Licensing and Under-Licensing

Forty-five Percent of Enterprises Indicate That There Is Some Level of License Over-Use Figure 8

Almost half (45%) of Enterprise respondents said that some portion of their software license spend was associated with applications that are over-used and are, therefore, out of compliance. The majority of those stated that 1-10% of their software license budget met this criteria.

Since software compliance is a highly sensitive topic, these numbers may under-estimate actual enterprise compliance levels.

ENTERPRISE:

Over-Used and Out of Compliance Applications

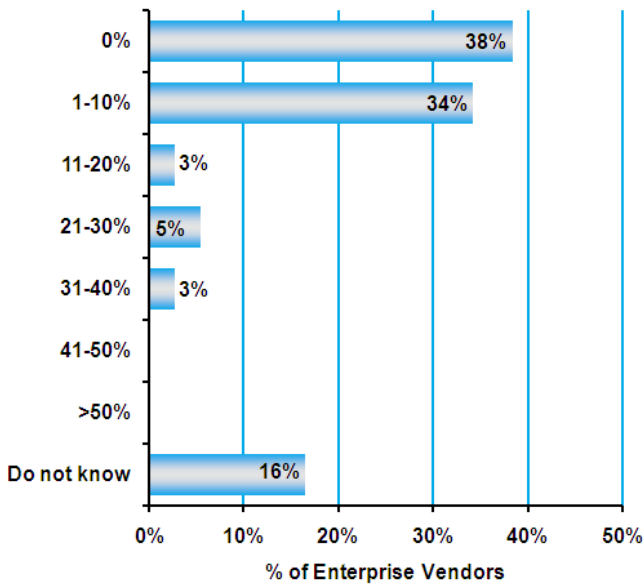


Figure 8

ENTERPRISE:

Under-Used and Over-Licensed Applications

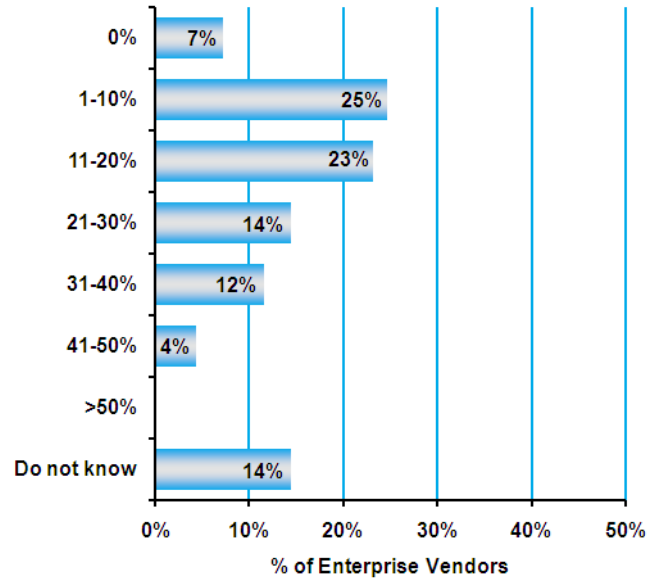


Figure 9

The Majority of Enterprises Recognize some level of Application Under-Use, Signaling Shelfware Issues Figure 9

Seventy-eight percent of Enterprise respondents indicated that there is some level of application under-use, exposing the issue of shelfware. Nearly 50 percent of the respondents pointed to this issue impacting up to 20 percent of the Enterprise software license spend.

Adoption of Automated Technologies Continues to Grow; Saving on Software Costs Key Reason for Tracking Compliance

Compliance Tracking Very Important to Enterprises Figures 10, 11, 12

Enterprises are increasingly using automated tools for license compliance tracking, but 42 percent still manually track or do not track compliance. Nearly three-quarters (72%) feel its important or very important to track compliance, and 44 percent state reducing software costs as the top reason it.

ENTERPRISE:

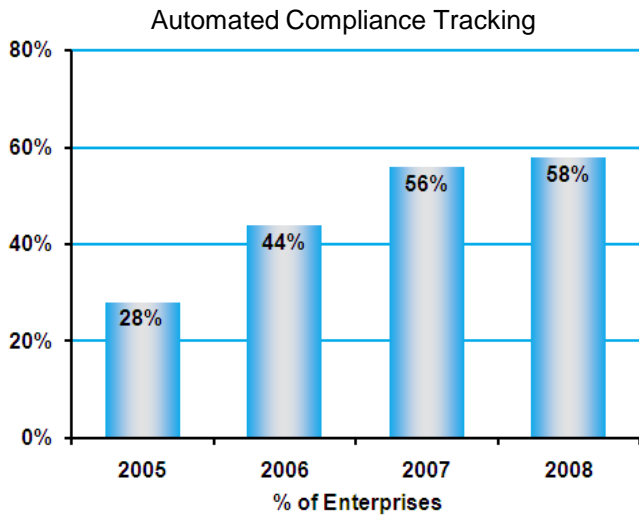


Figure 10

ENTERPRISE:

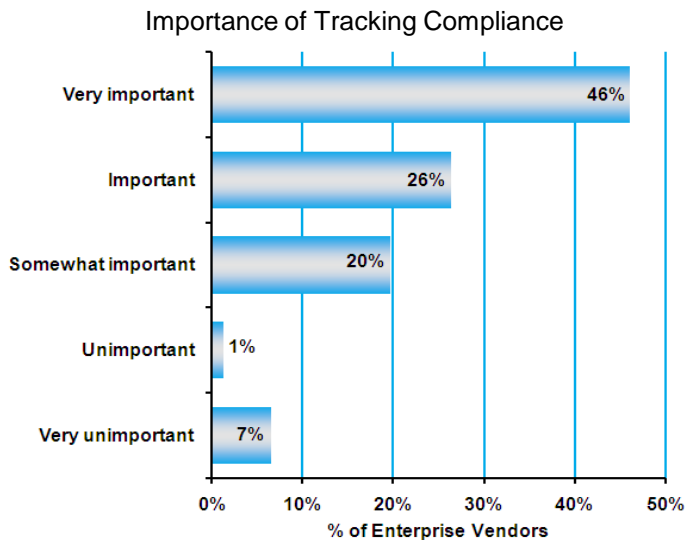


Figure 11

ENTERPRISE:

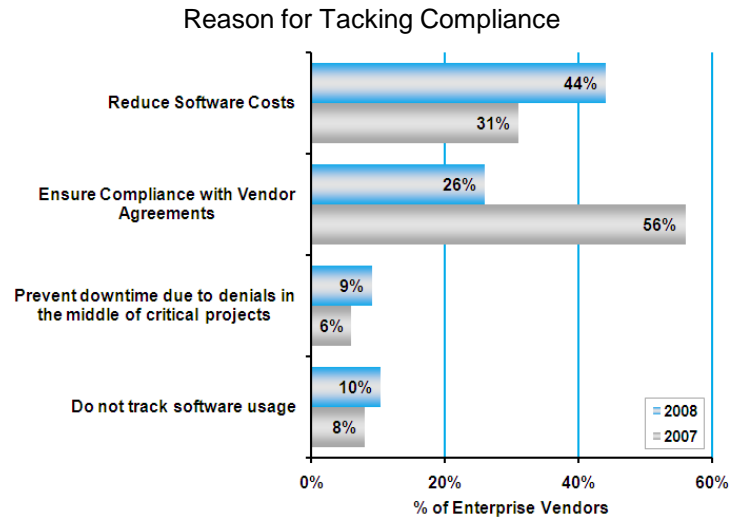


Figure 12

Number of Enterprises Audited Increases

Figure 13

Enterprises report an increase in having been audited (65% in 2008, up from 44% in 2007). This points out that other, more efficient methods of usage tracking and entitlement management are failing, causing Producers to resort to this approach. For the Enterprise, audits are time consuming and highly disruptive. They pull resources away from strategic business initiatives. Additionally, they often engender distrust and strain the relationship with the Producer.

ENTERPRISE:

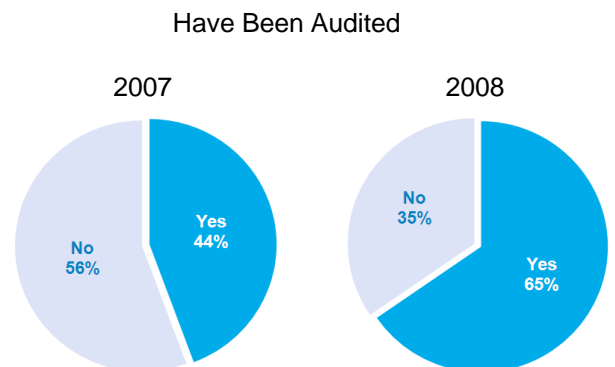


Figure 13

Software Vendors And Enterprises' Pricing Preferences Align Somewhat; Software Vendors Predict an Increase in Subscription Models

SOFTWARE VENDOR vs. ENTERPRISE:

Preferred Pricing Model

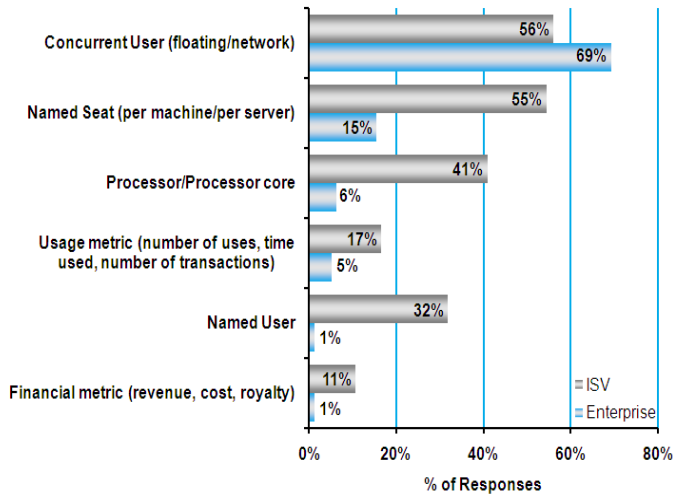


Figure 14

Difference in Pricing Model Preference Figures 14, 15

Enterprise respondents overwhelmingly selected Concurrent User as their pricing model preference (69%), while Software Vendors agreed (56%). Software Vendors also projected an increase in Concurrent User pricing, meeting the needs of Enterprise preferences.

SOFTWARE VENDOR:

Expected Pricing Model in 2010

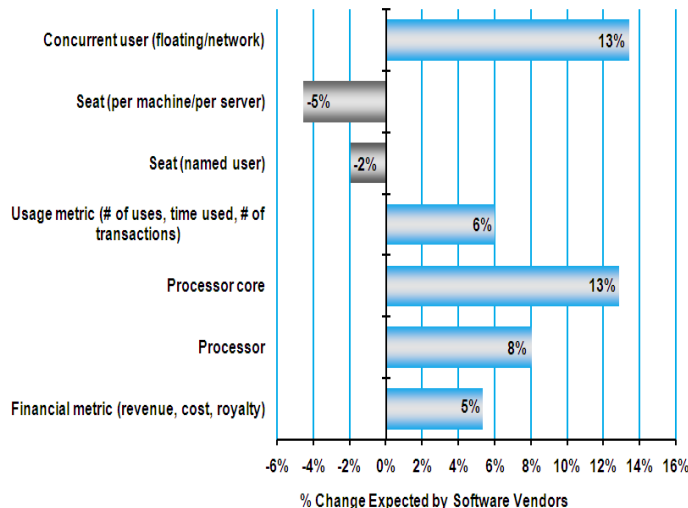


Figure 15

Subscription Model Trend Over Years, and Expectations in The Next 2 Years Figures 16, 17

The percentage of Software Vendors primarily offering Subscription models is similar to past years, however, they project an approximate growth of 10 percent by 2010, resulting in a similar projected decline for Perpetual models.

SOFTWARE VENDOR :

Primarily Offering Subscription

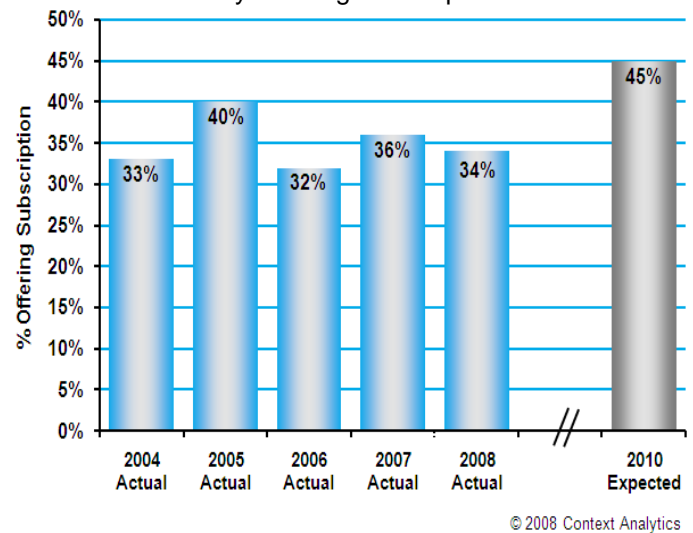


Figure 16

SOFTWARE VENDOR :

Primarily Offering Subscription

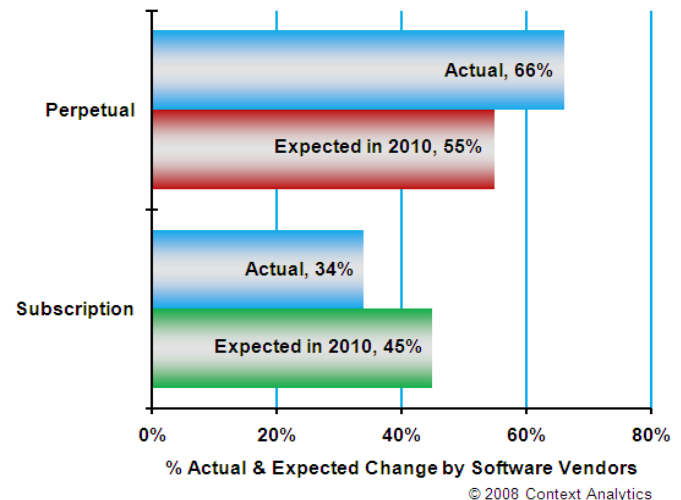
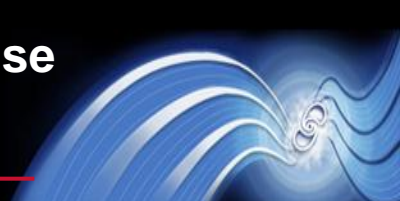


Figure 17

Electronic/Digital Enforcement is The Key License Enforcement Model; Expected to Grow Further



SOFTWARE VENDOR:

Primary License Enforcement Method

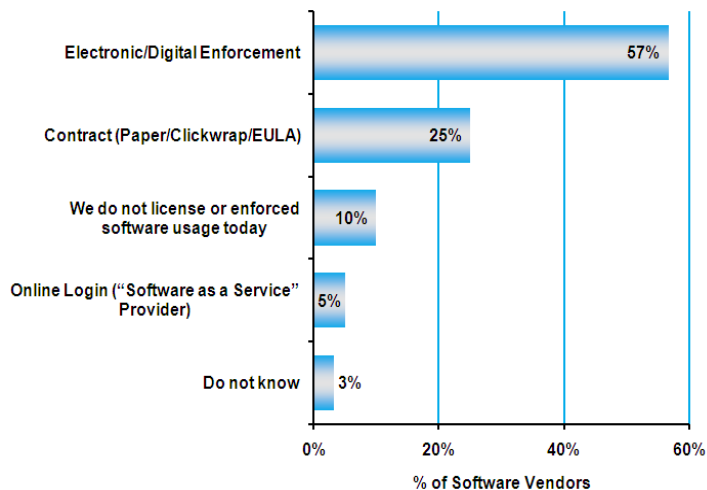


Figure 18

Electronic/Digital is The Principal Enforcement Method for Software Vendors Today and in 2 Years

Electronic/Digital is the primary enforcement method for over half (57%) of the Software Vendors, and is expected to show a double-digit growth (up 13%) in the next two years. Online login is also expected to pick up slightly (up 3%) by the year 2010.

SOFTWARE VENDOR:

Expected Change in Enforcement Method, 2010

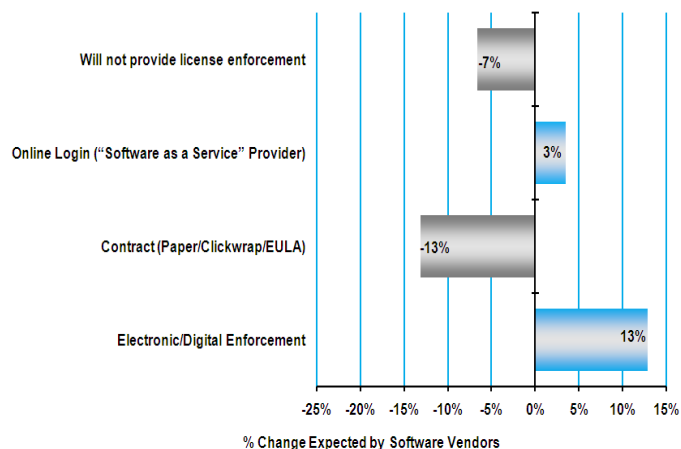


Figure 19

Most Vendors Do Not Monitor Customers' Software Usage Yet

Almost 60 percent of Software Vendors currently are not monitoring their customers' software usage. Just over one-quarter (27%) monitor software usage manually (15%), or through third party compliance monitor products (12% of vendors).

SOFTWARE VENDOR:

Monitor Customers' Software Usage

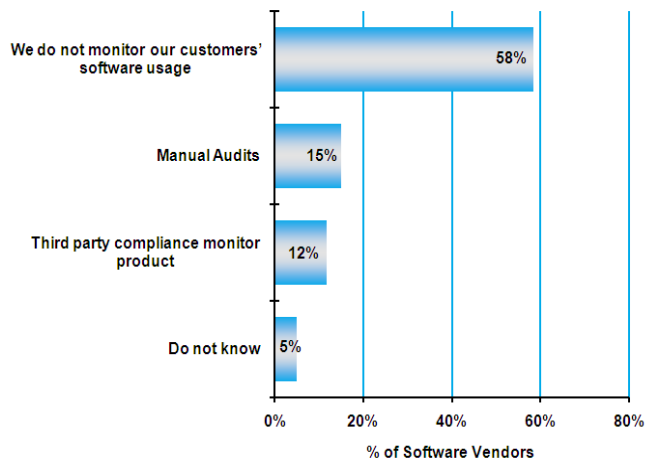


Figure 20

Nearly Half of Software Vendors Have No System in Place But Believe Customers Know What They Can Use

Nearly half (48%) of Software Vendors do not have the tools to determine what product/versions their customers are using, but 53 percent of Software Vendors believe their customers know what they are entitled to use.

SOFTWARE VENDOR:

Have Tools to Monitor Product Usage



Figure 21

SOFTWARE VENDOR:

Customers Know What They Can Use

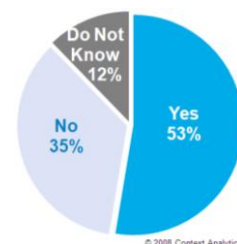


Figure 22

Software Vendors Increase Pricing Flexibility to Generate Revenue and Improve Customer Relations

Software Vendors Increase Pricing Policy Flexibility Figure 23

An increased amount (59%) of Software Vendors were flexible with their pricing and licensing policies in 2008, but remained lower than their all-time high in the year 2006 (~68%).

SOFTWARE VENDOR:

Changed Pricing/Licensing Strategies to be More Flexible

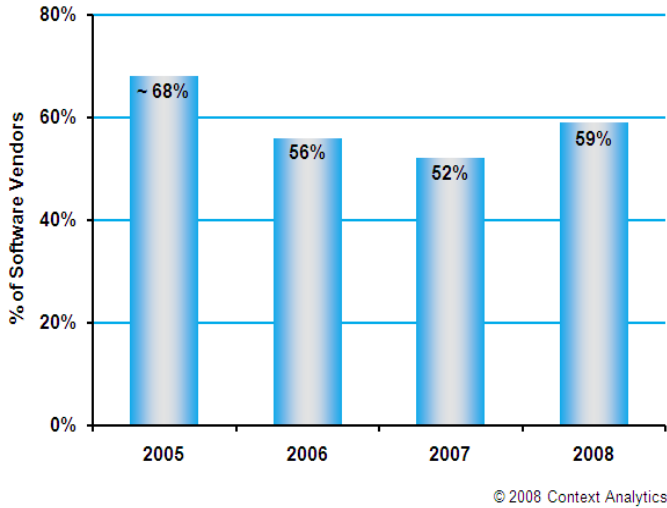


Figure 23

SOFTWARE VENDOR:

Reasons for Flexibility with Pricing/Licensing Policies

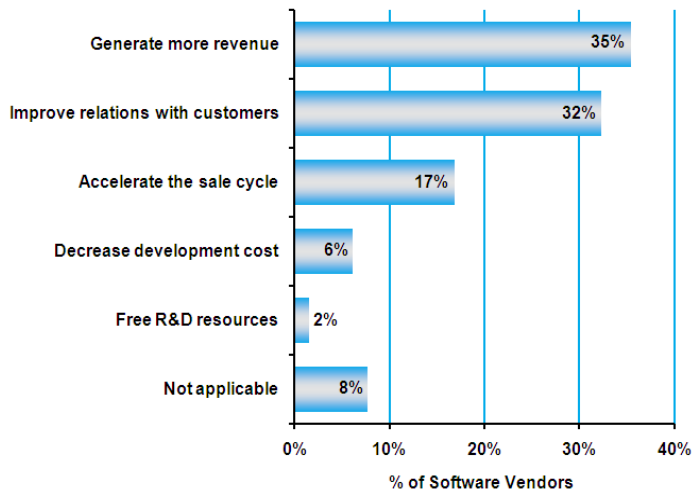


Figure 24

Software Vendors Reasons for Flexibility Figures 24, 25

Software Vendors cited the need to Generate More Revenue (35%) and sustain their customer base through Improved Relations with Customers (32%) as the two most prevalent reasons for being more flexible in 2008.

These reasons are similar to those in 2007, however, they have traded spots as most important, with revenue generation as the front runner in 2008, potentially due to the current economic environment.

SOFTWARE VENDOR:

Y-o-Y Change in Reasons for Being Flexible

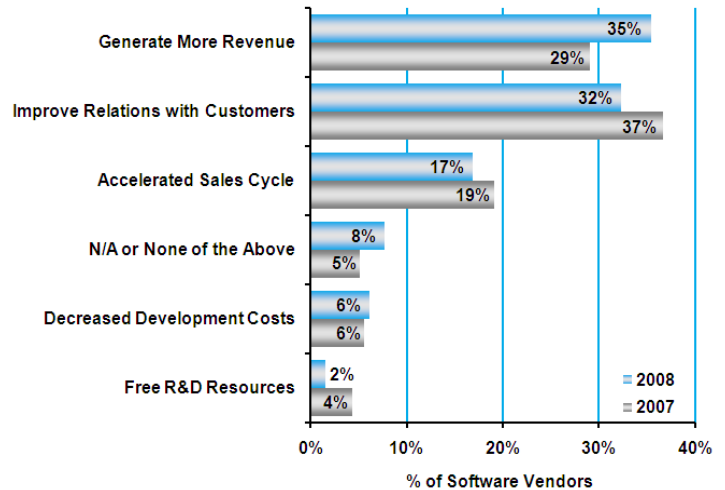
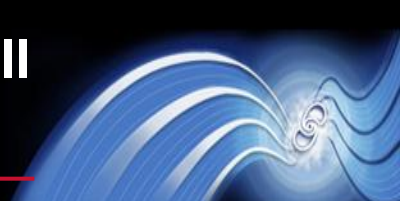


Figure 25

The Expected Impact of Virtualization is Still Unclear to Many



ENTERPRISE:

Impact of Virtualization

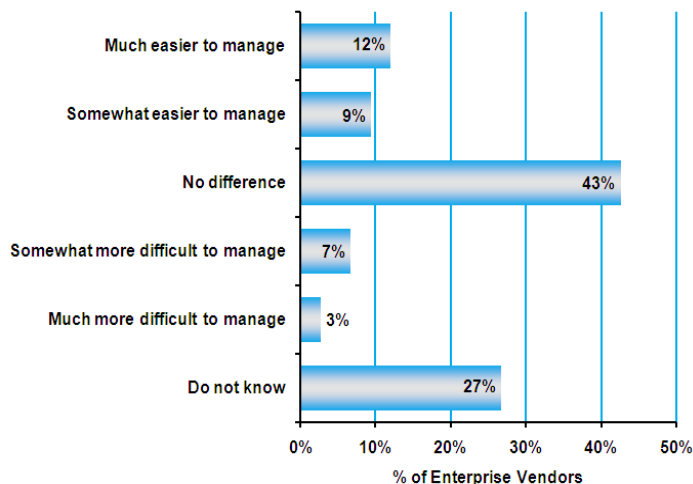


Figure 26

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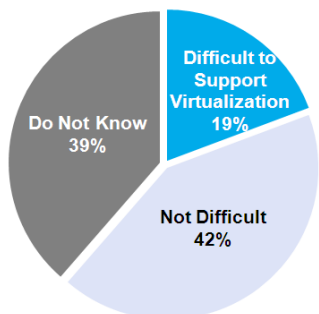
Enterprises “Do Not Know” or Have Limited Recognition of How Virtualization Affects License Tracking for Compliance

Figure 26

Over one-quarter (27%) of respondents did not know how virtualization affected their ability to track license usage for compliance management. Forty-three percent did not recognize the difference that virtualization technologies have had.

SOFTWARE VENDOR:

Ease of Offering Virtualization



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Figure 27

Most Software Vendors Feel that Virtualization Will Have Some Level of Impact

Figures 27, 28, 29

Software Vendors responded above 60 percent for some level of impact in all response categories, with Licensing having the highest perceived impact at 82 percent. The expectations about the positive or negative nature of the impact varies widely, though.

SOFTWARE VENDOR:

Amount of Impact of Virtual Technologies

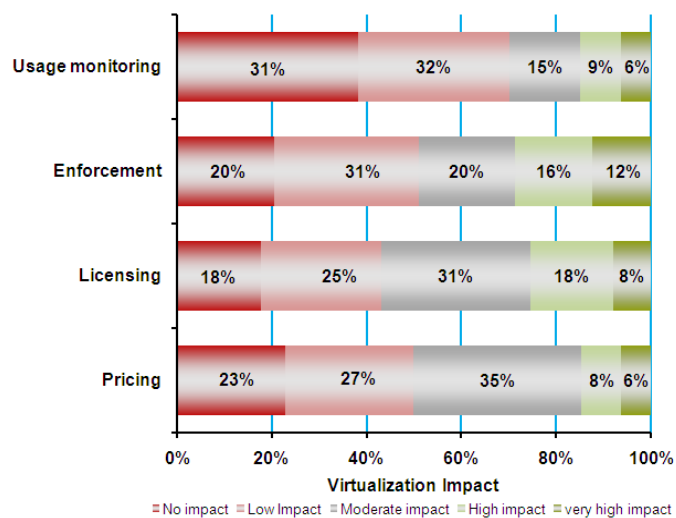


Figure 28

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SOFTWARE VENDOR:

Favorable/Unfavorable Impact of Virtual Technologies

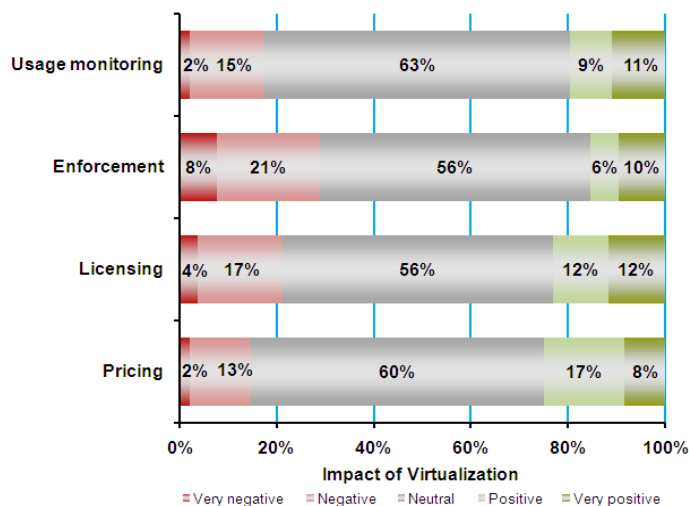


Figure 29

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CELUG

CELUG's mission is to facilitate collaboration among companies who administer software licensing at the enterprise level, enable sharing of best practices and experiences, and partner with software publishers to improve software license management tools and processes. CELUG, a non-profit organization with global representation, has been in existence since January 2003.

www.celug.com



The Software & Information Industry Association 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 500 leading software and information companies that are setting the pace for the digital age. The SIIA has a three-pronged mission: to promote the common interests of the software and digital content industry as a whole, as well as its component parts; to protect the intellectual property of member companies, and advocate a legal and regulatory environment that benefits the entire industry; and to inform the industry and broader public by serving as a resource on trends, technologies, policies and related issues that affect member firms and demonstrate the contribution of the industry to the broader economy.

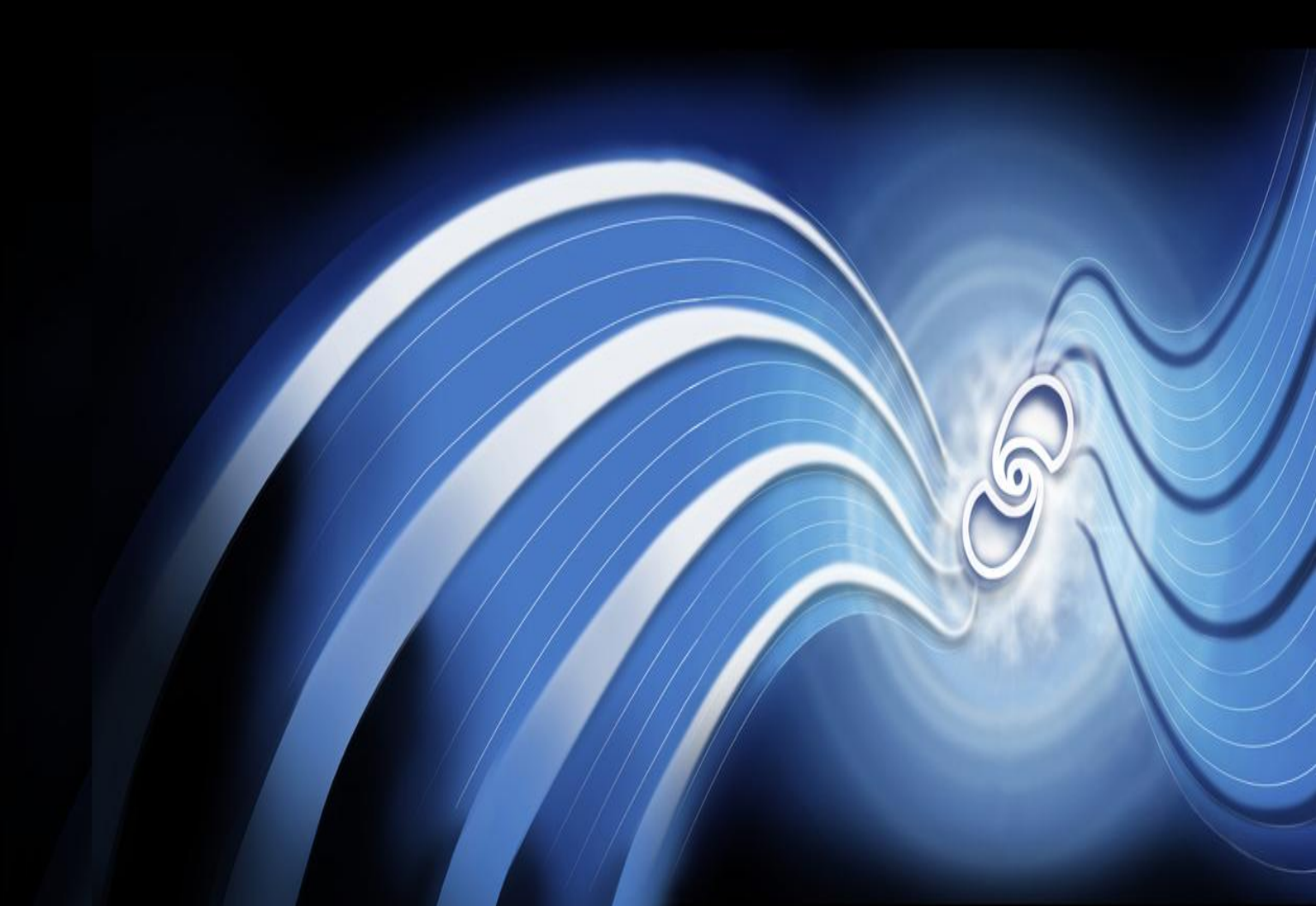
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