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50 Years of Growth, Innovation and Leadership

Competitive Analysis of the Global Software License Management Market, 2011

SafeNet Remains the Clear Market Leader

A Frost & Sullivan
White Paper

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This research service is part of the extensive Frost & Sullivan research subscription on digital media. Our coverage encompasses all technologies in the digital media value chain, spanning the acquisition of content in a digitized format through management of that content and to final delivery. Frost & Sullivan analyzes the digital media value chain from an enterprise perspective, where it is largely used as a tool to facilitate marketing and corporate communications, as well as from the perspective of the media and entertainment market. The Software License Management (SLM) market, which covers solutions to manage entitlements for software and software-powered devices, is covered as part of our series of reports on content protection, and entitlement and rights management.

This research analyzes the SLM market. SLM enables software publishers and intelligent device vendors to efficiently monetize their products, particularly for enterprise and networked deployments. Software is typically licensed, not sold. As a result, usage rights to software—whether in the form of an on-premise desktop title, Software as a Service, or software features in a software-powered device—can vary over time or even expire.

Piracy is a significant problem for publishers and is experienced in the following ways:

- Intentional use of hacked applications with defeated or disabled license management
- Unintentional use of counterfeit software that appears legitimate
- Over-use of software by licensed customers (by volume, time, features, etc.)

Eighty percent piracy rates are common for B2C titles; rates of more than 60 percent have been reported for popular B2B titles. SLM solutions aim to minimize lost revenue via three key functions: defining software versions and licensing rules (development); automating license issuance and invoicing (deployment); and ensuring that software is used in accordance with terms of a purchased license (enforcement). License parameters need to be defined at development, issued for the specific customer/group of users at purchase, and enforced continuously thereafter.

License management solutions work at the client end to enforce entitlements, as well as integrate with back office for automated invoicing, billing, tracking, auditing, and more. Client-side enforcement can be done entirely in software or using hardware keys (dongles). Dongle sales continue to constitute a major percentage of the overall market, even though technology improvements are slowing their rate of growth in favor of all-software and cloud-based solutions.

Frost & Sullivan analyzes the SLM market in three application segments:

- Desktop software, which includes on-premise B2B and B2C software. Typically such software provides productivity, utility or enterprise functionality.
- Embedded software, which includes software that runs on dedicated device-based form factors, typically in tightly controlled environments and with low flexibility, low fault tolerance, and low power consumption. Devices powered by embedded software are often referred to as intelligent devices.

- Cloud software, which includes license management solutions applied to Software as a Service (SaaS) or cloud-based software. A SaaS offering may be standalone or may augment an on-premise desktop application or device license.

OPPORTUNITIES FOR GROWTH AND FORECASTS

This market is highly saturated, with the top three vendors accounting for nearly 90 percent of the market by revenue. However, the software market itself is both expanding and evolving, providing a number of strategic opportunities for growth. At the same time, smaller competitors are gaining maturity and mindshare, and are challenging incumbents on pricing, feature set, customer service, and flexibility.

The desktop software segment is driven by global expansion, and by a growing number of publishers who are choosing to buy rather than build their SLM solutions. The embedded device segment is poised for the highest growth, however, as device markets such as telecommunications, industrial automation, healthcare, and robotics shift from hardware-based designs to next-generation intelligent devices powered by embedded software. These device vendors are adopting SLM to efficiently manage product versions and SKUs by using a single hardware form factor and by enabling or disabling features in software. The cloud segment is currently nascent but is poised for growth as cloud-based offerings and pay-by-use software licensing models gain popularity.

The Europe, Middle East and Africa (EMEA) area is the strongest regional market today and is forecast to maintain its current rate of growth. North America and Latin America (NALA) and Asia Pacific (APAC) are smaller today but are growing faster, driven by growing publisher revenues, cloud-based deployments, and aggressive global expansion by publishers. Frost & Sullivan estimates global revenues for the software license management market in 2011 at just under \$250 million. The market is expected to grow linearly over the next five years for a CAGR of just under 10 percent.

COMPETITIVE ANALYSIS

The SLM market is highly concentrated: SafeNet, Flexera Software and Wibu Systems together account for nearly 90 percent of total market revenues.

SafeNet clearly dominates the market, accounting for more than half of total market revenues. This is a result of the company's stellar market share for both hardware-enforced and software-enforced segments, where it commands 75 percent and 35 percent market share by revenues, respectively. SafeNet also has a unique geographic competitive leadership position, reflected by a leading presence on both sides of the Atlantic. The company accounted for more than 40 percent market share by revenue in North America and more than 60 percent in Europe. SafeNet has also built a footprint in the rapidly growing Asia Pacific region, putting it in a strong position for further global expansion. The company's outstanding position is due to its strategically crafted product line, which has been recognized with Frost & Sullivan's 2011 Product Line Strategy Award for the Global Software License Management Market.

SafeNet's Sentinel product line serves both on-premise desktop software, which is the traditional stronghold for this market, as well as intelligent devices and embedded software. The embedded segment represents the strongest growth opportunity for the SLM market, and is expected to overtake desktop software as the largest vertical in the license management market by 2018. SaaS and cloud-based architectures are increasingly gaining momentum as competing or complementary offerings to traditional on-premise software applications. Correspondingly, there is an urgent and growing opportunity to provide license management solutions that are optimally architected for cloud/SaaS software vendors. In recognition of this need, SafeNet added Sentinel Cloud to its SLM product suite in 2011. Designed to support a wide set of use cases and provide a deep set of features to serve the monetization and analytics needs of this fast-growing segment, Sentinel Cloud is poised to see rapid market traction in the coming year.

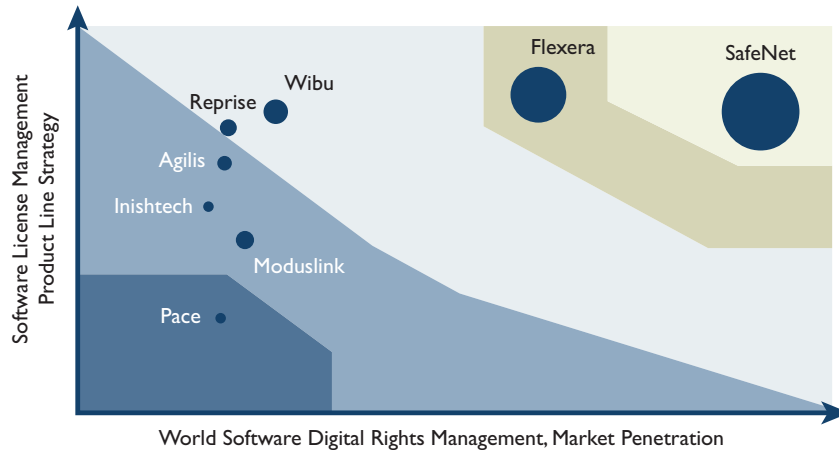
The SLM market has been shaped significantly by merger, acquisition and divestment activity. SafeNet acquired leading competitors Aladdin Knowledge Systems and Rainbow Technologies—both vendors of dongle-based solutions. Acresto (now Flexera Software) acquired analytics firm Linkware in 2008 and SaaS solutions provider Intraware in 2009. Flexera Software was spun off from Macrovision (now Rovi) in 2009 to Thoma Bravo, and then Teachers' Private Capital acquired a majority stake in Flexera in 2011. SafeNet filed for an initial public offering in 2011. We expect additional mergers and acquisitions to occur over the forecast period of 2012-2018, as market dynamics make additional consolidation imperative. Frost & Sullivan also expects new vendors to emerge over the forecast period, particularly in growth markets and for new applications.

COMPETITIVE LANDSCAPE MAP

Frost & Sullivan competitive landscape positioning maps provide a reliable, third-party industry snapshot of the relative positioning of vendors in any given market, based on product line strategy and market penetration. In Frost & Sullivan's recently published market engineering study on Software License Management, SafeNet emerged as the clear market leader. The chart below represents our competitive landscape analysis for this market.

Competitive Landscape Analysis

Total Software License Management Market: World, 2011



SIGNIFICANCE OF STRONG POSITIONING IN THE SOFTWARE LICENSE MANAGEMENT LANDSCAPE

A combination of significant market share and high strategy score indicates solid current position and bright future prospects. Companies with high strategy scores but relatively small market share indicate interesting early-stage investment prospects, while vendors with clear leadership positions in the map hold the strongest potential for long-term market dominance.

For prospective license management customers, a highly ranked vendor represents a proven, market-leading solution and can provide the reassurance of long-term viability. This is particularly relevant for the SLM market, where replacing a license management system becomes increasingly disruptive and time-consuming—often prohibitively so—once products have matured and have a large installed footprint. High vendor market share also indicates a significant ecosystem of existing customers, and consequently indicates a higher probability of finding supporting resources such as trained personnel, accessories, support, and interoperability with complementary applications. In the specific case of the license management market, choosing a widely adopted solution also minimizes the probability of disruptive network or workflow integration requirements by the end-product licensee (such as a software publisher or a consumer of embedded devices).

INTERPRETING THE COMPETITIVE LANDSCAPE MAP

The competitive landscape map distills market participants into five classes:

- a. **Market Leader.** Market leaders are typically established vendors with significant market share leadership, strong product lines and broad geographical outreach. Market leaders

with high strategy scores are likely to continue to dominate their industry over the forecast period, and are likely to be a reliable long-term partner or provider. Conversely, market leaders with lower strategy scores than adjacent vendors are likely to be reaching saturation or slowing their innovation initiatives, which makes it likely that the vendor will lose market share to Challengers in the near future.

- b. **Challenger.** Challengers typically have smaller market share than market leaders overall, but excel in one or two market segments. Depending on the strength of their crafting and execution of strategy, they may either win growing market share to move closer to market leadership position, or drift backward into the Contender bracket as they continue to lose market share to the leader.
- c. **Contender.** Market contenders are typically smaller companies in terms of market share and size, but typically have significant technical and execution strength and are likely to become increasingly significant in terms of market share and market influence over time—as product maturity and geographical outreach grow, and as their brand becomes more established.
- d. **Emerging and Receding Participants.** These vendors typically have relatively small market shares, and are either very early stage companies or have relatively lower momentum toward significant growth. Successful early-stage companies “emerge” toward contender status over time, while stagnant or perishing companies gradually recede out of the market—either through closure or via acquisition.
- e. Niche market participants typically dominate a specific, narrow vertical in the market and are therefore a noteworthy presence in the marketplace, but are typically unlikely to grow beyond the niche to “emerge” into a more significant position unless they significantly rework their product line and execution strategy.

METHODOLOGY FOR CONSTRUCTING THE COMPETITIVE LANDSCAPE MAP

Frost & Sullivan’s competitive landscape map provides relative positioning of vendor participants in terms of their current market share and strategic positioning for onward growth. The following factors are considered in constructing the landscape:

- **Current market share by revenue.** The size of the company’s circle, and its X axis coordinate, correlate to the current size and strength of the vendor’s market position. The higher the market share score, the more dominant the company is in the market at the time.
- **Relative strategic excellence.** The company’s position on the Y axis correlates to its strategy score, which is computed based on factors specific to the target market. The higher a vendor’s strategy score, the more likely it is to outperform the market and grow market share. Factors for the SLM market include:

- **Number of customer segments targeted:** Companies with products that address the needs of larger sections of the market score higher on this vector, while niche vendors score lower. Companies serving a broader set of customers are also more likely to be able to adapt to emerging technology needs and serve evolving needs of customers; for example, software publishers who may be expanding beyond traditional on-premise software to SaaS-based offerings.
- **Geographical reach:** With tier-I customer for the SLM market located across North America, Europe and advanced Asian markets, local presence in these regions is critical to ongoing growth. Additionally, as software publishers and device vendors focus on growth markets for new revenues, corresponding global diversification by license management provides valuable support both for publishers and their end consumers.
- **Product offering—hardware and software:** As consumer preferences evolve and security technology matures, there is increasing fragmentation in demand for SLM technologies to both hardware-based and non-hardware (i.e., software-based) enforcement. Vendors offering both enforcement options, particularly those with equivalent functional depth and security strength across both options, are best positioned to meet the current and future needs of consumers of SLM technology.
- **End-to-end solution:** License management solutions are an integral part of the business enterprise. Once chosen, a solution will be closely interwoven into a company's applications, its business operations process and into back-office infrastructure. Vendors who offer solutions across client-side enforcement, backend office operations, SKU/edition definition, analytics and related components are better positioned to help their customers solve the overall problem of software monetization in current and emerging business models.
- **Price competitiveness:** Businesses today are closely controlling costs. At the same time, competition in the license management market is growing. Price of a solution, in terms of upfront cost, maintenance fees and hardware cost (where applicable), is an increasingly important factor in choosing (and perhaps replacing) a license management vendor.

Silicon Valley

331 E. Evelyn Ave. Suite 100
 Mountain View, CA 94041
 Tel 650.475.4500
 Fax 650.475.1570

San Antonio

7550 West Interstate 10, Suite 400,
 San Antonio, Texas 78229-5616
 Tel 210.348.1000
 Fax 210.348.1003

London

4, Grosvenor Gardens,
 London SW1W 0DH, UK
 Tel 44(0)20 7730 3438
 Fax 44(0)20 7730 3343

877.GoFrost • myfrost@frost.com
<http://www.frost.com>

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For information regarding permission, write:

Frost & Sullivan
 331 E. Evelyn Ave. Suite 100
 Mountain View, CA 94041

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