Software licensing: expectations, challenges and the future

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The only constant is change

The software market has been undergoing a fundamental change for a number of years now with the rise of the connected economy – either through virtualization, cloud or SaaS or through the plethora of available connected devices. On-premise software, SaaS, and intelligent hardware devices and IoT solutions are all increasingly being deployed and consumed in cloud connected environments that are changing the customer experience and disrupting industries. These dynamics are transforming the way software, hardware, and services are being deployed, consumed, and monetized.

New business models are emerging that require software vendors to adapt their offerings to meet the changing needs of the market with several common themes that are transforming the business dynamic of the software industry:

- **Anywhere, Anytime Access:** end customers expect access to software applications from any device at any time, whether deployed on-premise, in the cloud, or across hybrid environments. This is evidenced as over eight in ten enterprise respondents believe that software should be accessible across multiple devices and that is why flexible deployments options is the most important attribute for the majority of end-users

- **User-Centric Licensing:** with end users accessing software from any device licensing mechanisms need to evolve to become user centric, a point that over four-fifths of enterprise respondents agree with. This means that license delivery and enforcement needs to be based on who is using the software and not what machine it is being accessed from.

- **Usage Tracking:** the growing demand in the market for pay-per-use licensing models is driving ISVs to implement capabilities to track and aggregate usage data to enable pay-per-use and business analytics. Seven in ten of end-users surveyed want to see ISVs improve their usage tracking and improvements when it comes to pricing models. This increasing demand for pay-per-use is not just for consuming software from the cloud, but for software delivered on-premise as well.

- **Common User Experience:** end users expect a common licensing experience, no matter how or where they access the software from. From the user’s perspective the licensing mechanism should be consistent across on-premise, cloud, and hybrid environments. According to enterprise respondents, half now say that ensuring software can be used and accessed on every relevant device by every user is the most important attribute when acquiring software.

Offering flexible license models, tracking and aggregating usage, controlling use, and managing entitlements are common challenges for software vendors. The changes in these markets provide opportunities to software vendors that have the flexible systems, processes, and culture to adapt as these industries continue to evolve. What is clear is that providers of on-premise software, SaaS, intelligent devices or IoT solutions, face similar challenges when it comes to monetizing their offerings in these connected environments. Importantly, these companies should be thinking not only about how they monetize today; they also need to ensure that they have the flexibility in place to future proof their businesses as these markets continue to evolve.
Customers’ expectations of ISVs are high and software developers are acutely aware of it. Over eight in ten of all respondents say that software vendors need to adapt to evolving market needs, packaging must be flexible and software should be accessible across multiple devices.

Almost half of ISV respondents admit that they find it difficult to be flexible with their software licensing and to support their software on multiple devices.

83% of enterprise respondents said that flexible software packaging and accessibility across multiple devices are extremely important to them.

In addition, three-quarters of ISV respondents believe that if their organisation is to be successful, their software needs to be future proof.

However, this will not be an easy task, especially regarding feature enablement. Four in ten ISV respondents admit that their organisation finds it difficult to be flexible with their software licensing and has difficulty deploying their software on multiple devices.
ISVs face software monetization challenges

Various challenges are currently holding a large proportion of software vendors back from meeting customers’ expectations. With very few saying that there are no challenges, the vast majority of ISV respondents report that their organisation is experiencing challenges with licensing their software.

But no one single challenge is reported by the majority. This suggests that challenges with software licensing vary from organisation to organisation and that software vendors have their own individual obstacles to overcome.

As a result of these challenges, many ISVs are suffering frustrations when it comes to licensing their own software. Over four-fifths find the cost of, and the time spent on, renewing and managing licences a frustration.

Regarding licensing your organisation’s software solutions, to what extent does the following cause frustration?

- 87% Cost of renewing and managing licenses
- 83% Time spent renewing and managing licenses
- 82% Time and cost spent on non-product related development
- 68% Limited visibility into how products are being used

Only one in ten ISVs and intelligent device manufacturers don’t have any licensing operations challenges.

Four-fifths of ISVs find cost, time spent on renewing & managing licences a frustration.
Licensing and packaging flexibility are in high demand

With the majority of ISVs experiencing challenges with their software licensing and packaging, it is not surprising that enterprises experience challenges from the software they use.

Which of the following software monetization methods does your organisation currently use to ensure the security, flexibility, and profitability of your offerings?

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software IP protection tools</td>
<td>48%</td>
</tr>
<tr>
<td>Flexible feature packaging / bundling</td>
<td>41%</td>
</tr>
<tr>
<td>Licence compliance enforcement mechanisms</td>
<td>39%</td>
</tr>
<tr>
<td>Software audit capabilities</td>
<td>33%</td>
</tr>
<tr>
<td>Customer usage data collection and reporting</td>
<td>31%</td>
</tr>
<tr>
<td>Integrated entitlement management processes</td>
<td>29%</td>
</tr>
<tr>
<td>Customer self-service tools</td>
<td>27%</td>
</tr>
<tr>
<td>Business intelligence / value</td>
<td>19%</td>
</tr>
<tr>
<td>We do not use any methods</td>
<td>10%</td>
</tr>
</tbody>
</table>

Nine out of ten enterprises experience challenges with their software licenses

The most likely challenge such organisations face is inflexible licence agreements that do not meet business needs. This is more than one and a half times more likely to be a challenge than a lack of support from licence vendors.

As a result of these problems and the awareness that software needs to be secured and packaged effectively, ISVs are working hard to improve their software licensing and entitlement. Notably, software IP protection tools and flexible feature packaging tools.

This is an encouraging step towards more flexible packaging. But many organisations recognise the need to deploy IP protection and flexibility tools as part of their monetization strategy, both of which are a vital part of a software vendor’s successful strategy.

Over recent years, ISVs have become increasingly concerned that their software will become compromised. Over four-fifths of ISV respondents now claim that their organisation has implemented flexible feature packaging tools than they did in 2012.
Licensing compliance remains a concern

worry about this, up from around three quarters in 2012.

This is partially as a consequence of software vendors finding it difficult to have visibility into customers acting outside of contract with their software. Around half of enterprise respondents admit that their organisation has been non-compliant with one or more of their software licence agreements, with an additional around one in ten unsure.

Four-fifths of ISV respondents worry about unlicensed software use, up from about three-quarters in 2012

how their products are being used.

ISVs may have good reason to be worried about

Does your organisation find it difficult to have visibility into how your product(s) is/are being used?

This does not mean that end-users are maliciously violating their licence agreements. On the contrary, many ISVs are responsible, in part, for non-compliance. This is evidenced by over half of ISV respondents claiming that lost revenue, due to customers violating agreements unwittingly, results in a considerable or a significant impact on the business. If software vendors improve their offerings, through greater flexibility with licensing and packaging for example, enterprises may be less likely to accidently break their software agreements.

According to most ISV respondents, their organisation finds it difficult to know how their software is being used, to what extent, and by whom.
Most surveyed IT decision makers from enterprise organisations believe that software vendors need to improve the service offered to them. Customer Areas such as clarity around processes/audits and improved licence enablement are highlighted for improvement by the majority of enterprise respondents. ISVs looking to reduce out of contract actions would benefit from working with enterprises and/or listening to their needs in these areas in order to improve their offering.

The message from enterprises regarding what they want is clear and intelligent ISVs will ensure that their licensing and deployment solutions meet customer demands.

Software vendors could improve their service for the following:

- Clarity when it comes to audits: 80%
- Usage tracking: 72%
- Pricing models: 71%
- License enablement: 60%

Commercial software monetization solutions are worth implementing

Migrating to a commercial solution does not need to be difficult or a lengthy process for ISVs. Very few ISV respondents had, or would have, no concerns about migrating to a third party solution. For half, the time it takes to implement a solution is/was a concern.

Of the enterprise users who had implemented a commercial software monetization solution, two-thirds were up and running in less than six months.

Moreover, the majority of ISV respondents confirm that when their organisation migrated to a commercial solution, it was either not at all difficult or only somewhat difficult.

Although software vendors are worried about buying a licensing and entitlement management solution, those that have decided to do so indicate that the implementation was not a painful experience.

Third parties that help software vendors with their software licensing and entitlement management need to reassure ISVs that the migration will be completed on time and with less difficulty than they might otherwise imagine.
ISVs are failing their customers. It is not the quality of their software that is an issue but their approach to flexibility on agreements and packaging. Flexibility is essential if ISVs want to stay ahead of the curve and react to new technology trends at the necessary speed. However, most decision makers admit that their organisation is failing to provide the service enterprises require.

Organisations are not complying with licence agreements as a direct result of poor licence management and inflexibility. Inflexible software agreements are at the top of the list for causes of customer non-compliance with license agreements. But this is not the result of malice. Organisations are often unwittingly non-compliant due to their software vendor’s poor licensing management and failure to adapt their business models to suit customer needs. Many enterprises are left with little option but to circumvent agreements to enable them to react to customers’ expectations.

The impact of non-compliance on ISVs is considerable. Negative impacts include loss of revenue, intellectual property theft and strained relations with customers. ISVs’ failure to improve their software licensing and feature enablement may threaten long-term business viability.

Using a commercial licensing solution could help ISVs to prosper. To overcome challenges with their software licensing and packaging, many software vendors are turning to a third party solution. This facilitates remote feature enablement, greater visibility into how software is being used, and is more likely to be able to support software on multiple devices.

Concerns are holding ISVs back from implementing a commercial software licensing solution. In reality, most ISV respondents from organisations that use a third party solution report that migration was either not at all or only somewhat difficult. Third parties play an important role in helping to build awareness and understanding of the migration process and the resulting benefits to them and their customers.

There are clear advantages for vendors to use a third party licensing solution, in particular, the ability to innovate rather than focus on technical support. Essentially, to monetize their software portfolio more successfully. The research clearly shows that those using external partners to manage their licensing and packaging needs are performing much better, suggesting this may be the best way to meet market needs in future. To achieve this forward-thinking approach, ISVs should focus their efforts on innovating their software and improving their offering, while leaving the licensing and entitlement to a trusted partner.

About the State of Software Monetization Report

Gemalto commissioned Vanson Bourne to undertake the research upon which this report is based. In total 780 decision makers were interviewed. As part of the research there were two distinct respondent types: respondents from independent software vendors (ISVs) - including intelligent device manufacturers - and respondents from enterprises that consume software. The former are business decision makers from organisations with 10 or more employees; the latter are IT decision makers from organisations with 500 or more employees. Most decision makers were interviewed using an online methodology with 168 that participated via telephone interviewing. The majority of telephone interviews were conducted with ISV respondents. Respondents came from five countries/regions around the world. A robust multi-level screening process was used to ensure that only appropriate respondents participated in the project.