



# **2007 Electronic Licensing Survey**

Software & Information Industry Association  
Software Division

November, 2007

## ***Research Objectives***

The specific objectives of this research were to determine:

- The extent of electronic software distribution and electronic license delivery among software companies now.
- How companies are managing that process
- Features of current systems

## ***Research Notes***

Senior executives from software companies were identified from the SIAA membership database. Executives whose job functions included oversight of product development and other senior executives with wider management responsibilities were invited to participate in a confidential online survey.

Executives from 96 firms responded to the survey.

While not statistically projectable to the software development industry as a whole, we believe the findings are highly indicative of the overall trends in the software and technology industry.

A copy of the questionnaire with topline responses appears as an appendix to this report.

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## ***Introduction***

Today's software industry is more competitive than ever. As with many other industries that once enjoyed exceptionally high margins, software products are becoming increasingly commoditized, with resulting deterioration in both revenues and bottom line profits. To counteract these trends, software publishers and vendors now see the need to change the way they market their products, to increase the value they offer their customers and to better differentiate their offerings from the competition.

Electronic Software Distribution has been a recurring theme for the software members of SIIA. The then-new Internet Division developed several white papers on "Electronic Licensing Strategies: Enabling the Future of Digital Goods" and "Developing an Effective Electronic Licensing Strategy" in 2002. Even earlier, under its old Software Publishers' Association name, we released "Electronic Software Distribution Models for Software Publishers", "ESD and the Electronic Commerce Value Chain" and "Try-Before-You-Buy Policies for Electronic Software Distribution" in 1998.

Electronic Software Distribution (ESD) is a solution created by software producers that allows users to download software products over the Internet (i.e. electronically). Usually, software products distributed electronically have the advantage of costing less to produce than software distributed on physical media, due to factors such as the elimination of expensive storage space or of the time gap between order and delivery by regular mail.

One of the main advantages of this type of software distribution is that it offers buyers access to software products, 24/7, regardless of time or place. Thus, software purchases can be made at any hour, from anywhere in the world, using only a valid credit card. This is a factor that greatly influences customer satisfaction.

Recent trends indicate that in the software industry, pricing and licensing policies are being made increasingly more flexible in order to improve vendor-customer relationships and grow revenue.

Electronic licensing is among the most promising approaches to achieving more competitive, value based offerings. Software publishers and vendors moving away from the traditional model based on perpetual licenses and printed End User License Agreements toward more flexible licensing models. New licensing tactics such as trialware, demoware, module and feature based licensing, rental, subscription, network licensing—and combinations of these—enable software publishers and vendors to adapt to dynamic markets by offering compelling products that target broader, more segmented markets.

Many publishers still manually manage licensing data. They live with holes and errors, not knowing exactly how software moves through tiered channels to end-users, how to increase renewal revenue, and how to cross-sell and upsell. If their system isn't fully automated, they can't quickly scale or accommodate to changes in strategy. These challenges are exacerbated for publishers that have gone through mergers or acquisitions.

Automating software licensing management changes all that. With complete, accurate data on everything from pricing options and contract specifics to products used, order history and termination timeframes, it enables vendors to optimize revenue streams

through renewals and upselling. Integrated systems allow vendors to react quickly to changes in product, sales and channel strategies, and competitor actions.

## ***Types of Electronic Licensing***

### **Evaluation Licensing Models**

Evaluation licensing models are marketing tools for the software publisher, providing potential end users with the opportunity to test software without making a financial commitment. An evaluation license can be based on fully-functional trialware or on semi-functional demoware. The license can be limited by time or by executions. When a potential end user subsequently decides to purchase the software, the software vendor can offer any of the paid licensing models described in this guide, with the appropriate key type and locking type. The evaluation license is then seamlessly converted to a purchased license at the end user site.

*Trialware* is a fully functional program that is made available for a limited time period as a marketing tool. The program is protected with a software based license, so that it can be distributed both electronically, for example via a Website, and on media such as a CD. The time limited license is linked to the machine on which the trialware is installed. After the time period expires, the program can no longer run on that machine. However, it can be installed on other machines, creating a super distribution mechanism when the trialware is referred to others. Alternatively, use of the program may be limited by the number of times it is executed or opened.

The *Demoware* version of the program is limited to a subset of the functions provided in the fully licensed product. Demoware provides prospective end users with limited program functionality, at no charge. Even if the end user does not subsequently purchase the program, the demoware is not discarded, serving as a constant reminder that more powerful functionality can be purchased, with your brand name at the forefront

### **Subscription**

The end user pays a monthly subscription fee that covers the initial program package plus periodical updates. If the end user does not renew the subscription, the basic package and all paid updates remain the property of the end user. New updates are not provided.

### **Peak-time Usage**

The end user purchases a pre defined number of "usage units". Differential charging is calculated according to the hour of the day or the day of the week in which the program is used. When the program is used at peak demand time, more "usage units" are consumed than at low demand time. This type of license might be applicable in an environment such as a learning facility, in order to encourage students to use resources at low demand time.

### **Counter-based License**

The end user purchases a pre-defined number of software executions, which can be defined per program or per functionality. A counter based license might appeal to end users who use a program or a software functionality sporadically, and prefer to pay only when they actually run the program or use the functionality.

### **Capacity (CPU/Memory/Disk)**

License consumption depends on utilization of resources, for example CPU usage or disk

space. The more resources the end user consumes, the sooner the license runs out. This type of license might be applicable in an environment such as a learning facility, in order to limit the resources consumed by students.

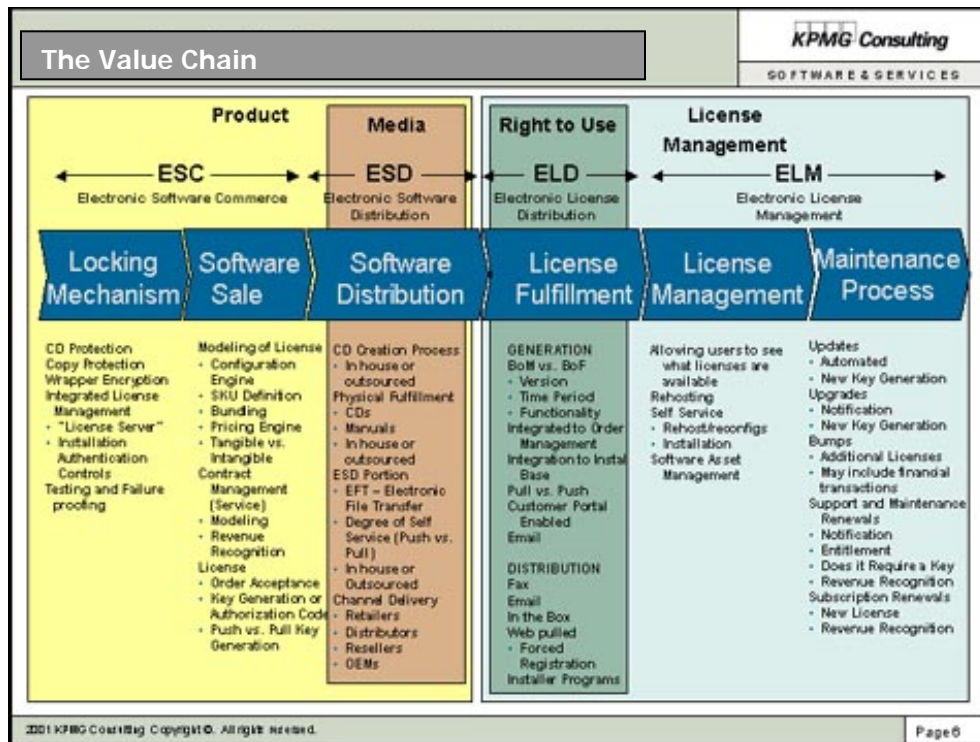
Usage can be limited to a specific PC, a specific password-specified end-user or to a specified number of concurrent users on a network.

### Metered Licensing Models

In recent years, licensing models that are based on usage have become more prevalent. The most common forms are rental (time based) and execution (counter based) metering. Some models require a pre-paid fee, while others enable payment per use. The models in this section include:

- ◆ *Rental packages*—Time limited rental, phased rental, micro rental, indefinite rental, subscription. The license is pre paid or paid on a monthly basis. When it expires, the end user can only continue using the program by extending the license.
- ◆ *Pre-paid execution-based packages*—Standard counter and phased counter. The license provides a pre paid number of executions. When these have been consumed, the end user must purchase a new package of executions.
- ◆ *Specialized packages*—Capacity, peak time, overdraft.

Electronic software delivery and license management are key parts of the software value chain. They stand between product development and end-user utilization of functionality, streamlining the process for all involved. Thanks to Ron Machan, formerly of KPMG, for this concise summary of the relationship between the components.



## ***Summary of Findings***

Electronic distribution of software has moved from the periphery to the mainstream. Only 8% of our respondents do no electronic distribution at all, fewer than 16% ship less than half of their product online and 20% use it for more than 75% of their distribution. Another 20% are pure Software as a Service (SaaS) players and ship no product – users access functionality through the browser.

Currently 73% of the respondents use electronic licensing and 28% do not. Three quarters of those not currently using some form of it plan to do so within the next two years.

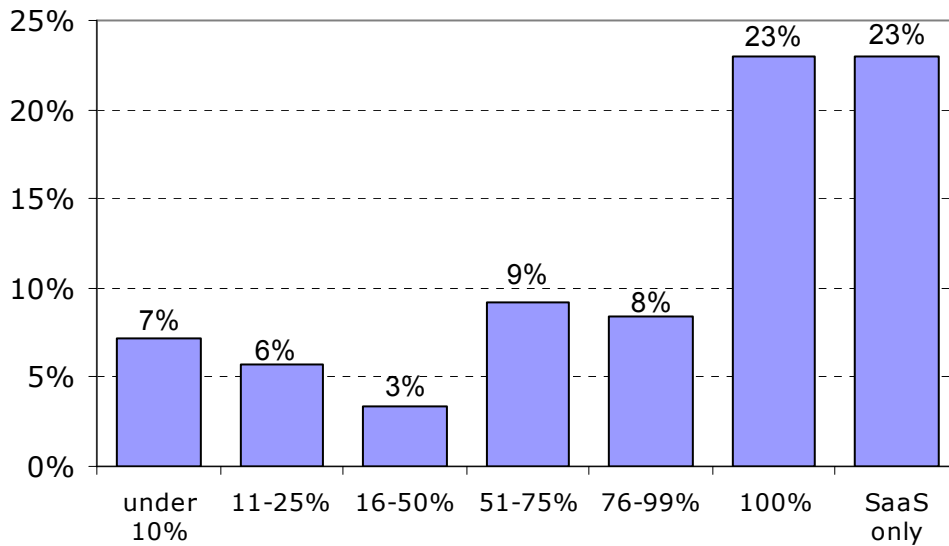
ISVs who are not using – and do not plan to use – electronic licensing express a variety of objections. No one reason predominates though. Respondents are fairly evenly split among feeling that the legal agreement is sufficient, dissatisfaction with the solution they have seen and believing that they do not have the resources to implement electronic licensing at this time. The chart on the next page shows the results.

Over three-quarters of respondents have changed their pricing and licensing practices within the past two years to make them more flexible. Customers are not satisfied with one-size-fits-all in anything any more and licensing is just another expression of that demand. Of the firms that had made those adjustments, beneficial impacts were seen by most. The table below shows various outcomes of increased flexibility.

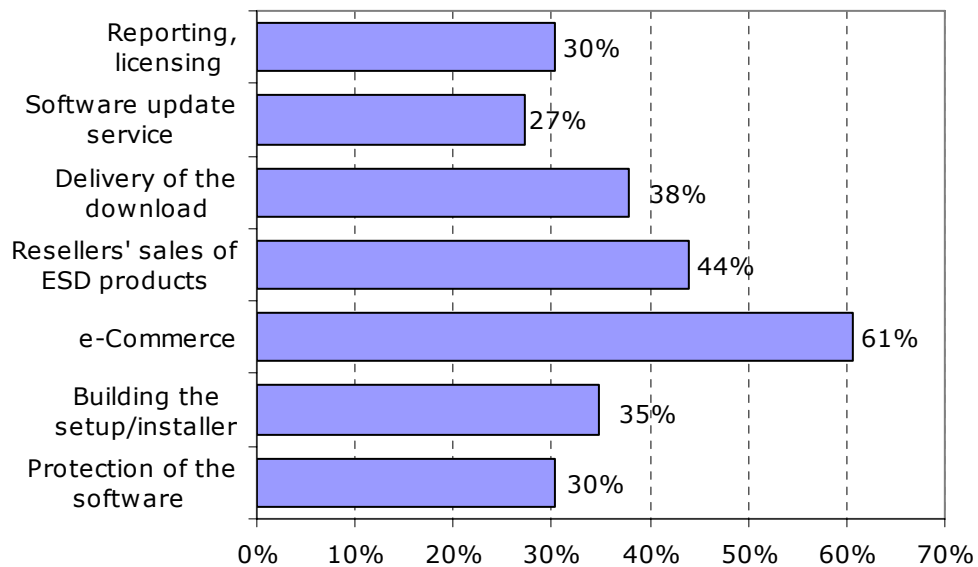
## Detailed Findings

Electronic distribution of software has moved from the periphery to the mainstream. Only 8% of our respondents do no electronic distribution at all, fewer than 16% ship less than half of their product online and 20% use it for more than 75% of their distribution. Another 20% are pure Software as a Service (SaaS) players and ship no product – users access functionality through the browser.

*Share of Product Shipped Electronically*



*ESD Components ISVs Will Consider Outsourcing*



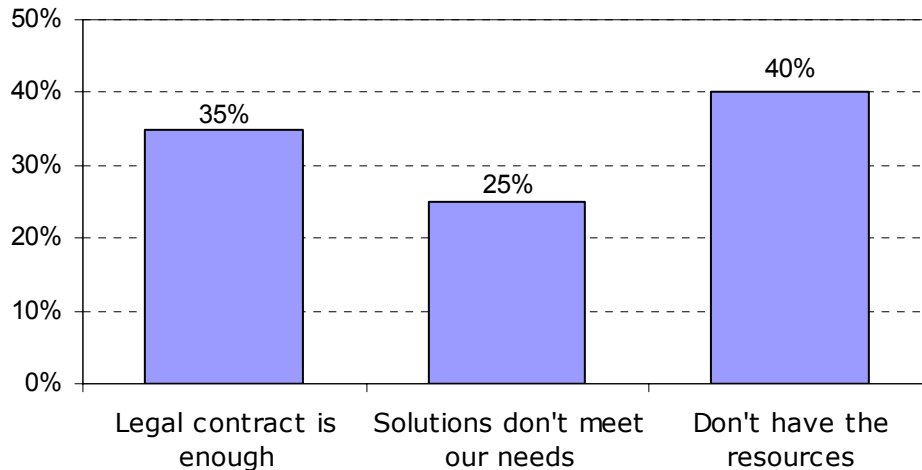
## Current Use of Electronic Licensing

Because electronic distribution has become so important in the industry, an understanding of the current forms of licensing becomes vital. Do ISVs license electronically? How do they enforce those licenses? What features are included? Who in the ISV hierarchy makes the decision on whether to use?

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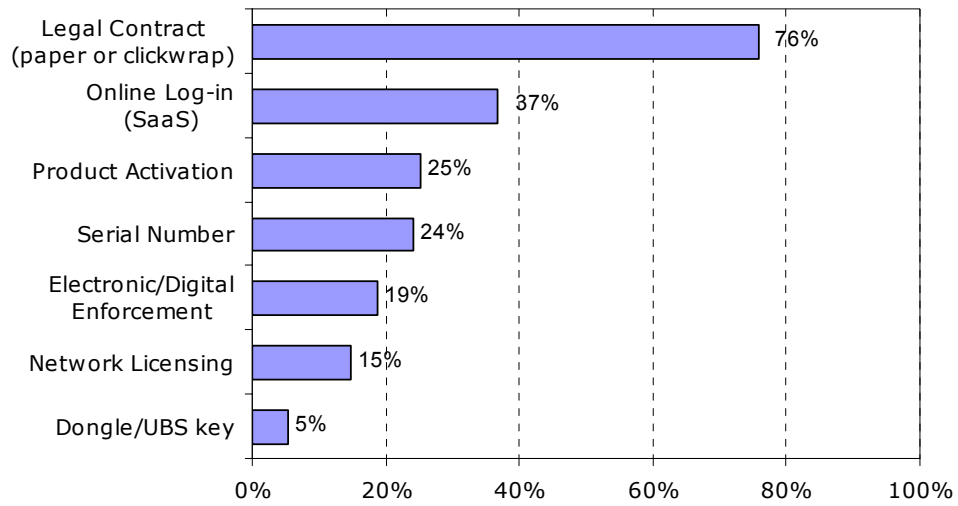
*Objections to Electronic Licensing*



Interestingly, avoidance of electronic licensing is not due to a perception that customers would balk. Over 86% of all respondents reported that they do not believe electronic licenses are perceived negatively by their customers. Even among those not using them, only 28% thought that their customers would not like them.

Enforcement of license agreements is very important to continued viability in the software business. We asked respondents how they are currently enforcing their agreements. Note that the total does not add to 100% because ISVs often use different methods for different products in their

*Current Enforcement of Software License Agreements*



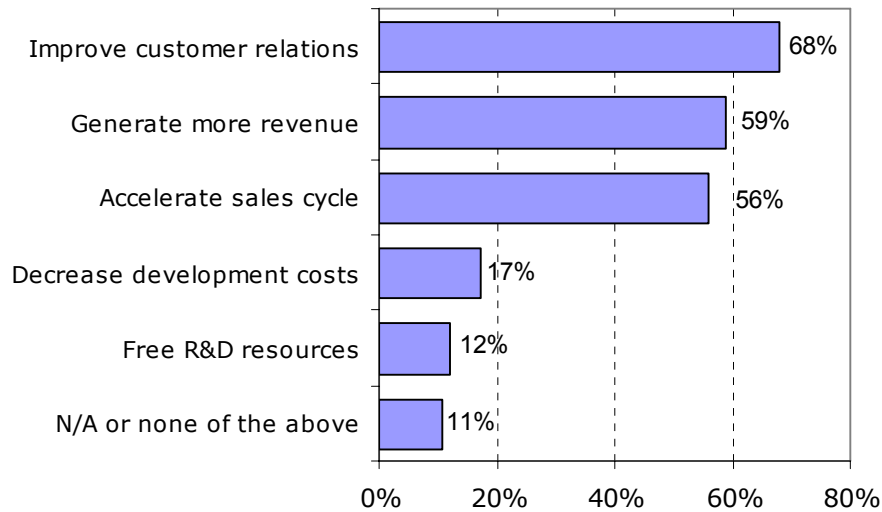
Again, this is a multiple-response question, but as you can see, most ISVs still rely upon the legal contract. However, nearly half of respondents (44%) also use another means of enforcement in addition to the EULA and just over a third offer SaaS on some products or exclusively.

## Features of Electronic Licenses

We asked respondents to identify some specific characteristics of the electronic licensing systems they currently use.

One of the first things to note is that over three-quarters of respondents have changed their pricing and licensing practices within the past two years to make them more flexible. Customers are not satisfied with one-size-fits-all in anything any more and licensing is just another expression of that demand. Of the firms that had made those adjustments, beneficial impacts were seen by most. The table below shows various outcomes of increased flexibility.

*Perceived Benefits of Increased Flexibility in Pricing & Licensing*



Obviously, improved customer relations leads the list, with increased revenue generation and sales cycle acceleration nearly tied behind it.

The Sarbanes Oxley requirements for corporate reporting have had some influence on the ability of firms to increase flexibility, but most report that it has not been of any great impact. Eight-one percent report that their transactional audits will meet SARBOX standards.

Sales through the channel using electronic licensing are the subject of a greater degree of variability at this time. Only 35% of the respondents' current systems allow them to track the movement of software entitlements through multi-tiered channels. And, just about 65% of them are receiving information on end-users from the channel. This is a problem to channel use in general and is not necessarily a reflection on the use of electronic licensing.

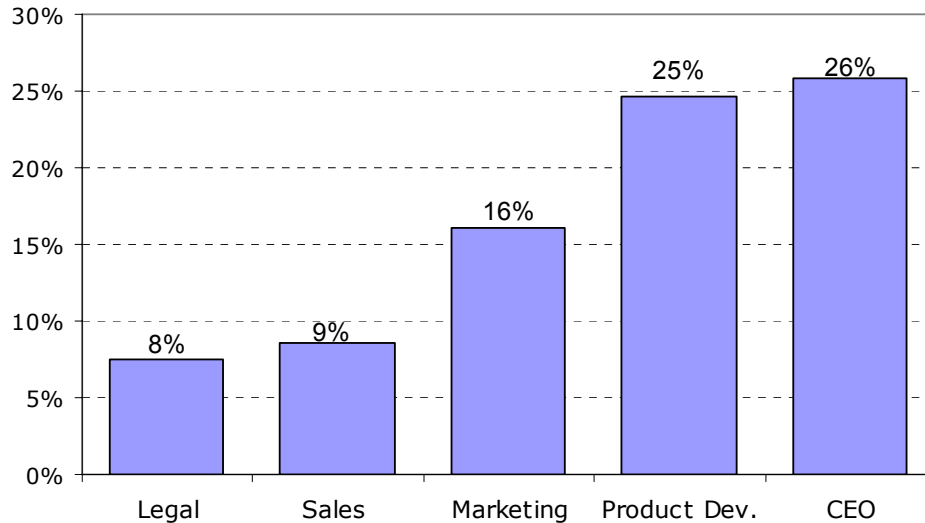
Only forty percent of systems allow partners (and end-users) to use a self-service key generation and registration on a 24/7 basis. SaaS providers and other types of systems do not require this type of key generation so this data needs to be taken in that light.

## How Licensing Decisions Are Made

There is no consensus within ISVs about what department or executive makes the decision on what type of licensing to use. In twenty-eight percent of respondents' firms, individual product or business units manage licensing policy decisions on their own. For the remaining seventy two percent, there is a wide range of structures for this process.

In the table below, you can see how the various options are used within software firms.

*Department/ Executive Responsible for Licensing Policy Decisions*



In addition, there were 15 different 'other' responses including three Product Management, two Finance + Sales Operations, two All of the Above and six combinations of various departments plus IT and the COO.

## ISVs Willingness to Outsource License Management

Outsourcing license and entitlement management is a prospect that is of great interest to the respondents. Eighty percent are considering it within the next two years -- 13% of those are already doing so. Just under twenty percent do not plan to consider the option.

# ***SIIA Electronic Licensing Survey 2007***

## **Topline Results**

1. *Do you currently, or will you in the next year, distribute your software electronically to end users?*

	Percent	Number
Yes	<b>73.7%</b>	70
No	<b>8.4%</b>	8
SaaS only	<b>17.9%</b>	17

2. *If you currently distribute software on both CD and by ESD, what share of your product shipments are electronic?*

	Percent	Number
under 10%	<b>17.2%</b>	15
11 - 25%	<b>5.7%</b>	5
26 - 50%	<b>3.4%</b>	3
51 - 75%	<b>9.2%</b>	8
76 - 99%	<b>18.4%</b>	16
100%	<b>23.0%</b>	20
SaaS only	<b>23.0%</b>	20

3. *How do you currently enforce your software license agreements?*

	Percent	Number
Legal Contract (Paper/Clickwrap/EULA)	<b>75.8%</b>	72
Serial number	<b>24.2%</b>	23
Dongle/USB key	<b>5.3%</b>	5
Product Activation	<b>25.3%</b>	24
Network Licensing	<b>14.7%</b>	14
Electronic/Digital Enforcement	<b>18.9%</b>	18
Online Login (Software Service Provider)	<b>36.8%</b>	35
Other	<b>1.1%</b>	1

4. *Is electronic licensing part of your current strategy?*

	Percent	Number
Yes	<b>72.3%</b>	68
No	<b>27.7%</b>	26

5. *If you do not now use electronic licensing, do you plan to do so within the next two years?*

	Percent	Number
Yes	<b>74.5%</b>	<b>35</b>
No	<b>25.5%</b>	<b>12</b>

6. *If you do not plan to use electronic licensing, which of the following best approximate your objections?*

	Percent	Number
Don't feel we need it (we rely on the legal agreement)	<b>30.4%</b>	7
Solutions available do not meet our needs	<b>21.7%</b>	5
Don't have the resources	<b>34.8%</b>	8

7. *If you license electronically, what percentage of your support team's efforts would you estimate is devoted to electronic licensing issues?*

Median	5
Average	11.8
1 <sup>st</sup> Quartile	5
2 <sup>nd</sup> Quartile	5
3 <sup>rd</sup> Quartile	10

8. *If you license electronically, do you provide 24 x 7 self-service key generation and registration for your partners and end users?*

	Percent	Number
Yes	<b>39.7%</b>	29
No	<b>49.3%</b>	36

*Comments*

- Automated renewal
- It is all done by provisioning our SaaS application
- key generation and registration is unnecessary - products are pre-registered prior to ESD
- This year we will
- Not at the moment but within 6 months

9. Do you think electronic licenses are perceived negatively by your customers?

	Percent	Number
Yes	<b>13.5%</b>	12
No	<b>86.5%</b>	77

*Comments*

- expectation of SaaS
- Small business accept them, larger ones still negotiate paper contracts
- We have never experienced negative response from our customers to our electronic licensing.
- In some cases -- others would rather have it.
- Activation issues are difficult and expensive in a large enterprise.
- We have never experienced negative response from our customers to our electronic licensing.
- Only users who want to circumvent

10. In the next two years, will you consider managing your licenses and entitlements in a software as a service environment?

	Percent	Number
Yes	<b>80.5%</b>	66
No	<b>19.5%</b>	16

*Comments*

- Possibly but not a major issue right now
- Already do - 11
- As another license program, not as a replacement
- Too expensive, don't need to scale that big
- Possibly. Need more analysis.

11. Which of the following components of software delivery are you willing to outsource?

	Percent	Number
Protection of the software (customization screens, activation routine)	<b>30.3%</b>	20
Building the setup/installer	<b>34.8%</b>	23
e-Commerce + sales + credit card transaction	<b>60.6%</b>	40
Resellers/affiliate sales of ESD products	<b>43.9%</b>	29
Delivery of the download	<b>37.9%</b>	25
Software update service	<b>27.3%</b>	18
Reporting, licensing	<b>30.3%</b>	20

**12.** Do individual products/business units manage licensing policy decisions independently?

	Percent	Number
Yes	<b>27.6%</b>	24
No	<b>72.4%</b>	63

**13.** Which department/role is responsible for making decisions about licensing in your organization?

	Percent	Number
Sales	<b>8.6%</b>	8
Marketing	<b>16.1%</b>	15
Legal	<b>7.5%</b>	7
Product Development	<b>24.7%</b>	23
Chief Executive	<b>25.8%</b>	24
Other	<b>17.2%</b>	16

- Product Management - 3
- ALL -2
- Finance/sales operations
- Finance and Legal, CEO
- Common Licensing Team - Centralized for Governance
- combination - support, product dev, marketing, qa, legal, revenue
- legal along with business operations group
- All the above make rec'd to the CEO who makes the final decision
- Community Group
- combination of sales/marketing and CEO
- both sales and product development in collaboration
- COO
- IT

**14.** If there is no centralized function, which individual within each business unit has this responsibility?

- Financial Director, CEO
- Each functional group had one representative on the Board of Managers
- Marketing, Product Development and Executives from operations, Sales, and Finance all have roles in the decisions
- Varies

15. Do your current systems allow you to track the movement of software entitlements through multi-tiered channels?

	Percent	Number
Yes	<b>34.8%</b>	31
No	<b>65.2%</b>	58

16. Do you receive information on your end-users from the channel?

	Percent	Number
Yes	<b>65.5%</b>	55
No	<b>34.5%</b>	29

17.

18. Do you have systems to automate your renewal process?

	Percent	Number
Yes	<b>50.6%</b>	45
No	<b>49.4%</b>	44

*Comments*

- Salesforce.com - semi-automate through alerts
- Recurring revenue model based on usage
- Requires multiple manual steps and communication.
- Within the year
- Credit-card-based: yes, Purchase-order-based: no

19. Has Sarbanes-Oxley limited your flexibility in pricing options?

	Percent	Number
Yes	<b>11.9%</b>	10
No	<b>88.1%</b>	74

*Comments*

- n/a, not public yet -
- Don't know - 3
- Not in the past
- deferred revenue

20. Will your transactional audit stand up to Sarbanes-Oxley?

	Percent	Number
Yes	<b>81.3%</b>	61
No	<b>18.7%</b>	14

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

	Percent	Number
Yes	<b>76.7%</b>	69
No	<b>23.3%</b>	21

22. If you have moved toward greater flexibility, has providing more flexible licensing and pricing policies helped the company (please check all that apply):

	Percent	Number
Generate more revenue	<b>58.7%</b>	44
Improve relations with customers	<b>68%</b>	51
Accelerate the sales cycle	<b>56%</b>	42
Free R&D resources	<b>12%</b>	9
Decrease development costs	<b>17.3%</b>	13
N/A or none of the above	<b>10.7%</b>	8

## ***Responding Firms***

3Tera  
Adaptive Planning  
Advanced MD  
Amlaki  
Aspire Systems  
Atomic Learning  
Authentify  
Autoskill  
Carnegie Learning  
Cassetica  
Centive  
Citrix  
Clarizen  
Click Commerce  
CollabNet  
Compass Learning  
Curriculum Advantage  
Curriculum Associates  
DocAdvantage  
Don Johnston  
Education Resources  
element5  
Emanio  
Entrust  
eSpindle  
FileMaker  
FineTooth  
Greaves Group  
Headsprout  
Houghton Mifflin  
Identimetrics  
Intraware  
Kaiser Technology  
L2 Inc.  
LeapFrog  
Learning Enhancement Corp.  
Learning.com  
LeCayla  
Lieberman Software  
MacMicro Inc.  
McGraw-Hill  
Microstrategy  
Mind Institute  
MySQL  
NetTrekker  
Open channel Solutions  
Oracle  
Pearson Education  
Petris  
Planitax  
Plexis Healthcase Systems  
Procuri  
PS'Soft  
Questionmark Corp.  
Red Hat  
Resume Mirror  
Ripple Effects  
rPath Inc.  
SaaS.com  
salesforce.com  
Sassafrass  
Seagate  
Siboney Learning  
Softel vdm  
SpokeSoftware  
SW Ident  
Tap Solutions  
TechSmith  
Theoris  
Thomson  
Uniloc USA  
Vertex  
Visual Mining  
VitalSource  
Wesupply  
WIBU  
Wireless Generation  
Zango

*Note: Some firms had more than one respondent and some responded with no company affiliation, so the number of firms listed here does not sum to total respondents.*