



2013 Global Software-Enforced Software Monetization  
Market Share Leadership Award



F R O S T & S U L L I V A N



50 Years of Growth, Innovation & Leadership

## **Market Share Leadership Software-Enforced Software Monetization Market Global, 2013**

### **Frost & Sullivan's Global Research Platform**

Frost & Sullivan is in its 50th year in business with a global research organization of 1,800 analysts and consultants who monitor more than 300 industries and 250,000 companies. The company's research philosophy originates with the CEO's 360 Degree Perspective™, which serves as the foundation of its TEAM Research™ methodology. This unique approach enables us to determine how best-in-class companies worldwide manage growth, innovation and leadership. Based on the findings of this Best Practices research, Frost & Sullivan is proud to present the 2013 Global Market Share Leadership Award in the Software-Enforced Software Monetization Market to Flexera Software.

### **Significance of the Market Share Leadership Award**

#### **Key Industry Challenges in Maintaining and Growing Market Share**

Software monetization is a business-critical but difficult business. On the one hand, solutions must ensure legitimate use of software within the bounds of an existing license. On the other hand, the solution must not interfere with the user requirement of transparency in legitimate execution. Furthermore, complex business models and fragmenting platforms make it difficult for vendors to keep up with current market demands in a backwards-compatible and yet forward-looking manner. For example, segments such as embedded software and cloud are growing faster than the traditional mainstay of B2B desktop software and have fundamentally different architectural and business model requirements than traditional use cases. As another example, the networking environment in enterprises is evolving beyond closed LANs (local area networks) to roaming handheld devices.

Vendors of software-based solutions are challenged by the high prevalence of hardware dongles in the software monetization market and the perception in many regions and verticals that they are more secure than software-only alternatives. That said, software-based enforcement offers advantages in terms of flexibility and lower cost, and technical advancements have made security levels comparable to those which can be achieved using hardware. However, communicating this to the market at large remains a challenge.

Another challenge is the level of ease of use demanded across the board – this is a key challenge for software monetization solutions to conquer because they fulfill so many roles for so many types of users – from development through purchasing and deployment to consumption and tracking. In particular, enterprise customers who license software from many different ISVs prefer they all use the same license management system so that the enterprise can harmonize their license tracking and compliance infrastructure.

There is a high rate of stickiness for software monetization solutions among customers, because they are integrated at many levels into software applications and software vendors' back office infrastructure. Winning market share against dominant incumbents is challenging because of this factor. On the flip side, loyalty can be harnessed as a positive feedback-loop catalyst for the software monetization market, where market wins lead to even more wins on the strength of ISV confidence and enterprise customer demand.

Frost & Sullivan finds that penetration of license management in the desktop software segment is less than 30 percent, while over 45 percent of all software by revenue is governed – if not secured - using home-grown solutions. Companies who overcome the challenge of converting home-grown solution users to customers can reap significant advantages in immediate revenue, but more importantly they pave the way for long-running revenue streams and sustained market leadership.

### **Impact of Market Share Leadership Award on Key Stakeholders**

The Market Share Leadership Award is a prestigious recognition of Flexera Software's continued accomplishments in the Software-enforced Software Monetization segment. An unbiased, third-party recognition can provide a profound impact in enhancing Flexera Software's brand value and emphasizing its leading position. As captured in Chart 1 below, by researching, ranking, and recognizing those who deliver excellence and best practices in their respective endeavors, Frost & Sullivan hopes to inspire, influence, and impact three specific constituencies:

- **Investors**

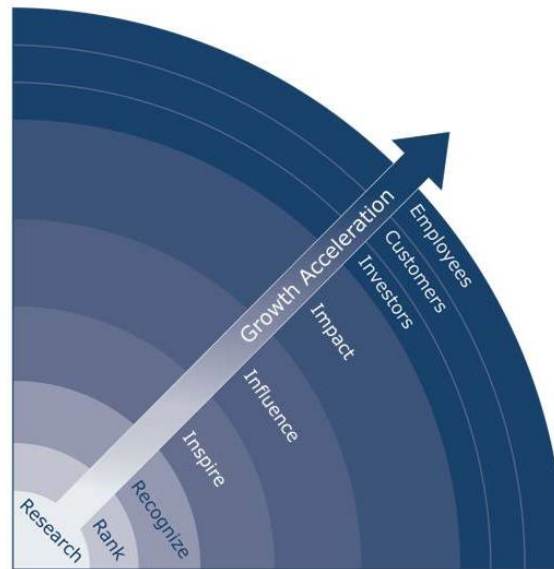
Investors and shareholders always welcome unbiased and impartial third-party recognition. Similarly, prospective investors and shareholders are drawn to companies with a well-established reputation for excellence. Unbiased validation is the best and most credible way to showcase an organization worthy of investment.

- **Customers**

Third-party industry recognition has been proven to be the most effective way to assure customers that they are partnering with an organization that is leading in its field.

- **Employees**

This Award represents the creativity and dedication of Flexera Software's executive team and employees. Such public recognition can boost morale and inspire your team to continue its best-in-class pursuit of segment leadership for Flexera Software.

**Chart 1: Best Practices Leverage for Growth Acceleration**

## Best Practice Award Analysis for Flexera Software

The Frost & Sullivan Award for Market Share Leadership is presented to the company that has demonstrated excellence in capturing the highest market share within its industry. The Award recognizes the company's leadership position within the industry in terms of revenues or units, as specified.

### Flexera Software's Performance in the Software-enforced Software Monetization Segment

The Software Monetization market has two major segments – hardware-based enforcement through dongles, and software-based solutions. Flexera Software was recognized for leadership in the software-enforced segment in 2011. It has maintained this leadership position over the last three years, and thus wins this award again – by a larger margin. Flexera Software has continued to grow in market share despite the generally flat revenues in the markets it serves, which is particularly noteworthy. Frost & Sullivan estimates that Flexera Software grew its share in the software-enforced segment from nearly 45% market share by revenue in 2011 to over 48% in 2013. Flexera Software has a particularly strong presence in the North America market and is continuing on its growth trajectory within European and Asian markets. By functional segments, while Flexera Software is strongest in the B2B segment, it continues to carve out growing market share in the embedded and cloud segments.

Flexera Software is a diverse company. In addition to its FlexNet Producer Suite, it offers compliance management to enterprises to streamline and optimize the use of their software

licenses – whether from Flexera Software or from vendors like Microsoft, IBM and Symantec. Flexera Software also offers InstallShield, the market-leading software installation product. The strong synergies of its interrelated product lines give the company added brand value and competitive strength.

## **Key Performance Drivers for Flexera Software**

### **Factor 1: Established Product and Brand**

The FlexNet Producer Suite has one of the longest histories in the license management market. The platform is tried, tested and proven, and has wide recognition not only in the traditional desktop software markets that Flexera Software served but also in embedded use cases where Flexera Software is used to manage intellectual property and feature editions in software-powered appliances and devices. The suite supports a comprehensive set of supported business models, entitlement features, use cases and back-end integration capability with CRM and ERP systems. FlexNet Producer Suite enforces entitlements in software, while enabling use of major third-party dongles at the software publisher's discretion. The suite also supports management for embedded and cloud-based software, enables pay-by-usage business models, and supports cloud-based services. On the enterprise customer side, most IT infrastructures support management of FlexNet licenses, and many third party vendors provide compliance management suites that are compatible with Flexera Software licenses.

Flexera Software, in addition to being a leading vendor of software license management solutions, also serves as a thought leader for the software industry. For example, their annual SoftSummit event series brings together technology, market research and a rich partner ecosystem to serve the community's monetization, operations optimization, and anti-piracy goals. The company also maintains a steady flow of webinars, white papers and educational material designed to disseminate monetization best practices and strategic guidance to a market that continues to be characterized by heavy use of in-house solutions.

### **Factor 2: Established, Growing Markets**

FlexNet Licensing is the dominant license management solution in several desktop software segments including Electronic Design Automation (EDA) industry computer aided design/computer aided manufacturing (CAD/CAM) market, product lifecycle management (PLM), oil & gas exploration, and financial services. Flexera Software is also a trusted advisor to industry influencers like the EDA Consortium (EDAC) on issues of piracy prevention and the Distributed Computing Management Task Force (DMTF) on trends in the cloud. This type of industry convergence contributes to brand awareness and market acceptance, in turn driving up revenues and resulting in long term competitive strength.

It should be noted however that these traditional segments are undergoing a metamorphosis of business models. Where B2B software was almost exclusively licensed on

an annual or perpetual license basis for on-premise use, it is increasingly being offered through the cloud, as a SaaS, and/or on pay per usage terms. In a growing set of use cases, companies have the option to pay a basic subscription price and then “true-up” based on actual usage. Flexera Software has been effective at upgrading its offerings to match these evolving requirements, thus ensuring they remain relevant to their mainstay customers even as they broaden their vertical reach.

FlexNet Licensing continues to be the monetization system of choice for protecting popular plug-in based platforms, where the base application and most plug-ins all leverage FlexNet Licensing and FlexNet Operations for their entitlement management needs. This not only contributes to existing market share, but provides added barrier to entry for competing solutions since enterprise customers prefer their entire application suite to use a single software monetization solution.

Flexera Software is also seeing growing adoption in the embedded community, which is seeking to transition away from low-margin hardware based business models to agile, high-margin software based business models. In this segment the company has strongest adoption in verticals like industrial automation, telecommunications and networking equipment. It is seeing growing sales in verticals such as medical and healthcare; surveying and mining equipment; and automotive. In all these use cases, software and informatics are playing a growing role in product design and deployment and complex policy enforcement is key to emerging business models. Given that these companies are already familiar with Flexera Software since it is used to manage monetization of the development and simulation tools often used by these companies, the company benefits from existing awareness of and satisfaction with its brand.

### **Factor 3: Growth Strategy**

Flexera Software has taken strategic steps to remain ahead of technology evolutions in the license management market through organic development and strategic acquisitions. Organically, Flexera Software has developed licensing solutions in the last few years for usage-based models in the cloud and on-premises, as well as licensing solutions for software running inside devices. In 2009, Flexera acquired Intraware for SaaS-based entitlement management and electronic software delivery capability, complementing the on-premises entitlement management capability it continues to offer as well. Flexera Software has also made acquisitions to expand its software license optimization solution for enterprises users of software, including ManageSoft, Honico, LinkRight and most recently SCCM Expert. SCCM Expert provides an enterprise app store, a key component in on-demand application provisioning. This allows Flexera Software to take the logical next step in usage-based licensing, which is to allow employees to check out and provision enterprise applications, on demand, in accordance with IT- and company-defined policies. Offering license management solutions for the enterprise users of software serves to complete the software license supply chain, and provides insights that are used to reinforce and enhance the licensing solutions for software vendors.

On the product portfolio side, Flexera Software has chosen to maintain its software technology approach, relying on hardware specialists to provide dongles where required while maintaining their own core competency in higher-margin software solutions. The company continues to enhance its offerings for traditional use cases, for example augmenting traditional entitlement management with usage logging features and incorporating FlexNet Connect into the portfolio which manages software updates as well as gathers usage information. Flexera Software also continues to innovate in its offerings for the cloud (for example adding support for Microsoft Hyper-V in addition to existing support for VMware) and embedded (such as adding support for Java) segments. Collectively, these ensure that Flexera Software remains competitive across the board in terms of monetization applications and product use cases.

#### **Factor 4: Premium Pricing Capability**

Flexera Software pursues a value-based pricing model, where the company charges a small percentage of total software revenues as a licensing fee rather than a fixed per-unit fee. This is particularly effective in use cases where vendors sell only a few thousands of licenses per year of software that costs hundreds of thousands of dollars per license. It also allows relatively small software vendors to deploy Flexera Software's monetization solutions at relatively risk-free price points. Ultimately however, its position as a market-leading solution with industry-wide adoption, and absence of a strong competitive threat, places Flexera Software in a position to command premium price for their product. This factor has been a key contributor to Flexera Software's high market share by revenue. Flexera Software has also instituted the option for vendors to purchase multi-year subscriptions to their monetization technology. As more and more companies choose this option and broaden their use of Flexera Software to all products across their businesses, Flexera Software is seeing very strong year-over-year growth in revenue bookings. In the three- to five-year timeframe, this is expected to result in healthy and sustained growth in revenue for Flexera Software.

### **Conclusion**

Vendors with a strong dongle-based offering have traditionally dominated the software monetization market. Flexera Software is unique in having its strength in software-based monetization solutions. The company has consistently outperformed the market in terms of revenue growth; it has as a result continued to extend its market share lead in the software-enforced segment which it has led for several years. Factors contributing to this leadership include an established product and brand, entrenched position in several large desktop software verticals, effective industry outreach, significant barrier to entry for competitors, and successful execution of strategic growth initiatives through both acquisitions and organic development. As packaged software revenues continue to grow, use of software monetization technologies in the embedded sector becomes more widespread and cloud-based opportunities mature, Flexera Software is well positioned to

continue to maintain its market leading position in, and see growing revenues from, its FlexNet Producer Suite of license management solutions.

## **The CEO 360 Degree Perspective™ - Visionary Platform for Growth Strategies**

The CEO 360 Degree Perspective™ model provides a clear illustration of the complex business universe in which CEOs and their management teams live today. It represents the foundation of Frost & Sullivan's global research organization and provides the basis on which companies can gain a visionary and strategic understanding of the market. The CEO 360 Degree Perspective™ is also a “must-have” requirement for the identification and analysis of best-practice performance by industry leaders.

The CEO 360 Degree Perspective™ model enables our clients to gain a comprehensive, action-oriented understanding of market evolution and its implications for their companies' growth strategies. As illustrated in Chart 5 below, the following six-step process outlines how our researchers and consultants embed the CEO 360 Degree Perspective™ into their analyses and recommendations.

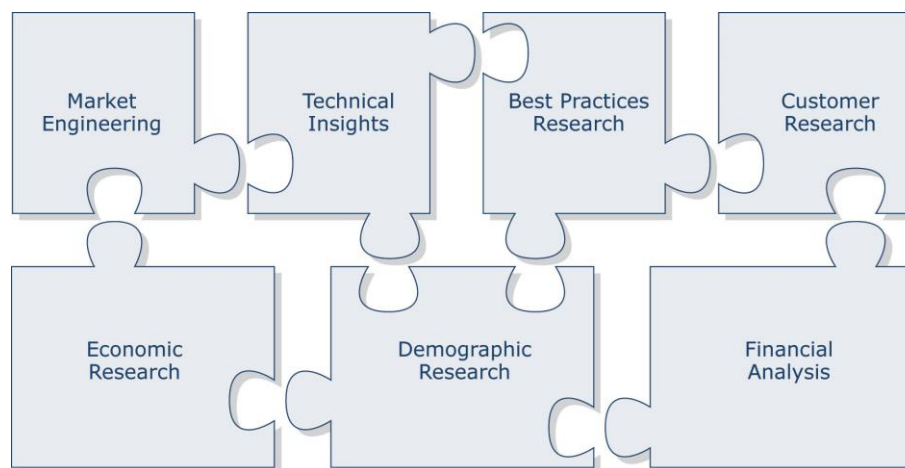




## Critical Importance of TEAM Research

Frost & Sullivan's TEAM Research methodology represents the analytical rigor of our research process. It offers a 360 degree view of industry challenges, trends, and issues by integrating all seven of Frost & Sullivan's research methodologies. Our experience has shown over the years that companies too often make important growth decisions based on a narrow understanding of their environment, leading to errors of both omission and commission. Frost & Sullivan contends that successful growth strategies are founded on a thorough understanding of market, technical, economic, financial, customer, best practices, and demographic analyses. In that vein, the letters T, E, A and M reflect our core technical, economic, applied (financial and best practices) and market analyses. The integration of these research disciplines into the TEAM Research methodology provides an evaluation platform for benchmarking industry players and for creating high-potential growth strategies for our clients.

**Chart 3: Benchmarking Performance with TEAM Research**



## About Frost & Sullivan

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best-in-class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best-practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from more than 40 offices on six continents. To join our Growth Partnership, please visit <http://www.frost.com>.