# Application Usage Management Survey

## Software Licensing & Market Risk – A New Perspective for ISVs

# Contents

# *2014 Application Usage Management Report*

## *Software Licensing & Market Risk – A New Perspective for ISVs*
*Sponsored by Flexera Software*

## Survey Background

The *2014 Application Usage Management* survey was conducted by Flexera Software with input from IDC's Software Pricing and Licensing Research division under the direction of Amy Konary, research vice president - software licensing and provisioning at IDC.  This annual research project looks at application usage management trends and best practices.  The survey reaches out to executives at application producers (software vendors and intelligent device manufacturers) and enterprises who use and manage software and devices.

# Methodology and Sampling

The data contained in these Application Usage Management reports is compiled from three separate surveys, one targeted for independent software vendors (ISVs), one for intelligent device manufacturers, and one for end-user organizations that consume enterprise software.  More than 750 respondents participated, including executives and IT professionals from 455 ISVs, 127 intelligent device manufacturers and 169 enterprise organizations.

## Survey Demographics

### Location of Respondents

Of the 750+ respondents to the survey, 56% reported their division headquarters as being located in the United States. 6% were from the United Kingdom, 5% from Canada, and 4% were from India, Australia and Germany.
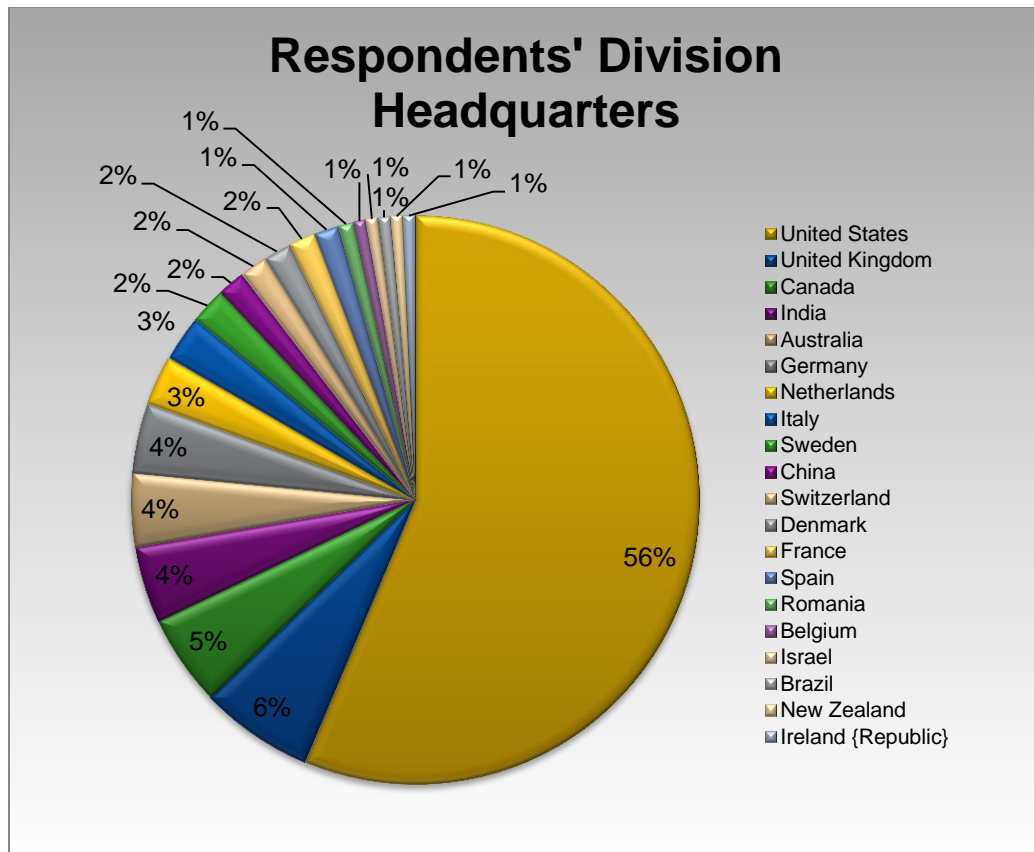
## Respondents' Vertical Market

Respondents of the Application Usage Management Survey fell across a wide array of vertical markets. 29% were from technology companies, 18% were from business and consulting services, 8% each from healthcare and financial services, and 7% each from government and financial services.

### Respondents' Vertical Market

| Percentage | Category |
|------------|----------|
| 29% | Technology |
| 18% | Business/IT Consulting Services |
| 10% | Manufacturing |
| 8% | Healthcare |
| 8% | Financial Services |
| 7% | Government/Public Sector |
| 7% | Oil/Gas/Utility |
| 4% | Education |
| 4% | Automotive |
| 3% | Aerospace/Defense |
| 3% | Consumer Goods |
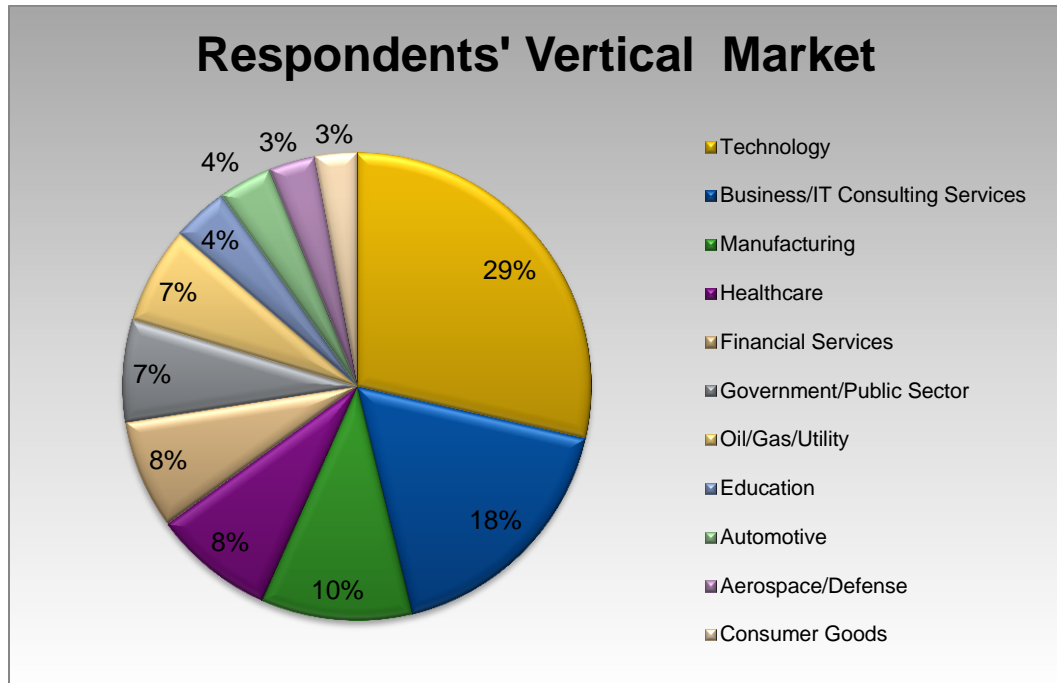
## Most ISVs Have Not Yet Implemented Best-in-Class Software Licensing and Entitlement Management Technology

To compete and win today, software vendors must focus on strategic imperatives. They must go to market faster with differentiated product offerings, ensure they are fairly compensated for their solutions, make every dollar spent count, and retain every single customer. All of this must be done while facing substantial hurdles. Software licensing and entitlement management are usually not top of mind for most ISVs, but increasingly implementing best-in-class licensing technology is a strategic imperative. Software Licensing and entitlement management standardization and technology help vendors go to market faster and ensure fair compensation for their products. Failure to implement best practices and technology in this area can substantially impact an ISVs' larger strategic imperatives and impede their ability to compete.

Moreover, the software market is changing, with many enterprises looking to virtualization technologies for more cost effectively deployments to the cloud. Enterprises are also looking to utilize applications on-demand, and to adopt usage-based pricing models that more closely align cost with value.Rapidly changing market conditions and the need to expand into new markets also require that software vendors can easily package and deliver their software products while ensuring quality and consistency. Software licensing and entitlement management technology is a key enabler to help ISV's monetize and protect their applications, go to market faster and more flexibly and deliver an excellent customer experience.

In the early days of the software industry, most ISVs either didn't have systems to manage their software licenses and entitlements – or they developed systems on their own. Given the globalization of software requirements, the complexity of environments in which ISV's operate, and their need for nimbleness and flexibility, this survey was developed to provide visibility into where software vendors are today in the evolution of their software licensing and entitlement management practices.

According to the survey, ISVs have not broadly evolved in the area of adopting industry-standardized software licensing and entitlement management systems. Only 35% of respondents use specialized, third-party software licensing technology, and only 25% use a third-party entitlement management system. The remaining respondents either do nothing at all (19% & 31% respectively for software licensing and for entitlement management), or they develop and maintain this functionality in house (46% & 45% respectively for software licensing and for entitlement management).

In light of these extremely low levels of adopting standardized technology, we sought to explore whether ISVs are experiencing the typical problems and challenges that licensing and entitlement management systems are designed to solve.

**Do you currently develop and maintain your own software licensing systems in house or do you use a third-party licensing tool?**
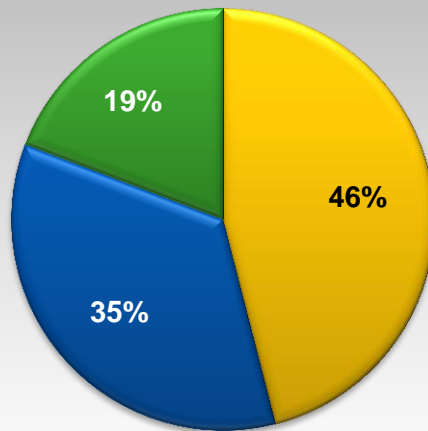
- Developed and maintained in house — 46%
- We use a third party licensing/entitlement management system — 35%
- We do not use one — 19%

**Do you currently develop and maintain your own entitlement management systems in house or do you use a third-party entitlement management tool?**
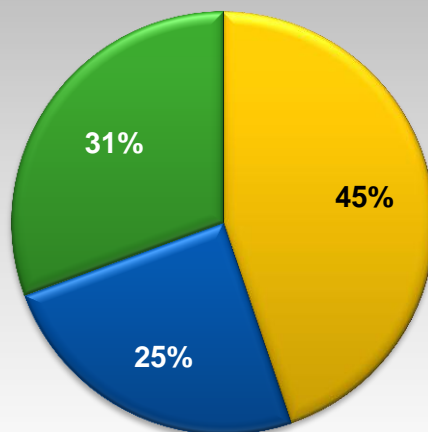
- Developed and maintained in house — 45%
- We use a third party licensing/entitlement management system — 25%
- We do not use one — 31%

## ISVs Report Significant Go-to-market Challenges Around Software Licensing and Entitlement Management

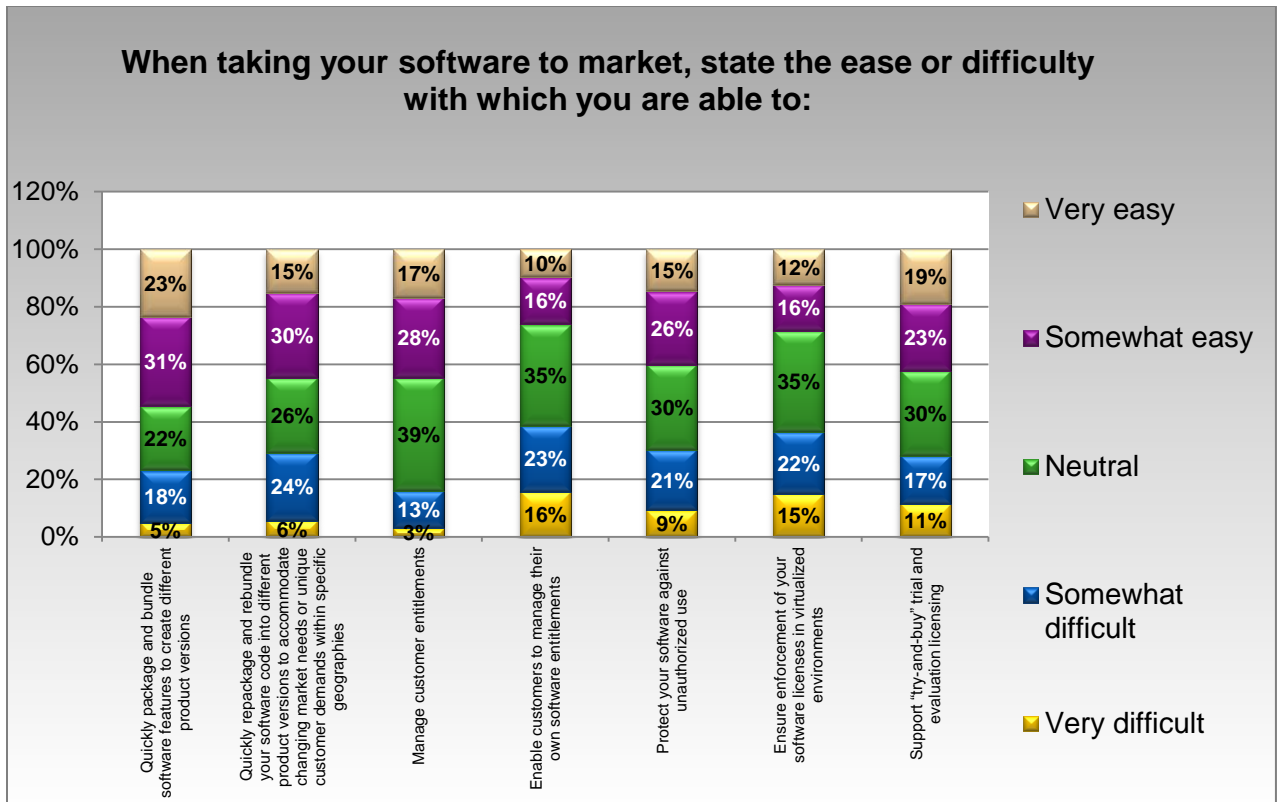Customer self-service is increasingly important in the software industry. Customers want the ability to manage their own entitlements – activations, fulfilment, returns, re-hosting of licenses, and repair of licenses, to name a few. According to the survey, more than a third of ISVs – 39% – report having some or extreme difficulties in this area.

Virtualization is another area of risk for software vendors. Most ISVs have implemented licensing rules around virtualization to ensure they are being compensated for software run by their customers in virtual environments. Yet according to the survey, 37% of respondents report that it is either somewhat or very difficult to ensure enforcement (and therefore monetization) of their licensing rules in virtual environments.

Intellectual property (IP) protection is another area of concern for most ISVs. Indeed almost a third – 30% of respondents – indicate either some or extreme difficulty protecting their software from unauthorized use.

30% of respondents also said it is either somewhat or very difficult to quickly repackage and rebundle their code to create different product versions to accommodate rapidly changing market needs within target geographies. 23% likewise said it was difficult or very difficult to initially package and bundle features to create different product versions. Related to this issue of flexibility – 28% of respondents report that it is either somewhat or very difficult to support "try-and-buy" trial and evaluation licensing – a critical method of selling enterprise software to prospects in today's risk-averse marketplace.

In light of these significant go-to-market challenges, the lack of widespread implementation of best-in-class software licensing and entitlement systems could explain many of the difficulties ISVs are currently facing.

**When taking your software to market, state the ease or difficulty with which you are able to:**

Legend: Very easy, Somewhat easy, Neutral, Somewhat difficult, Very difficult

| Category | Very difficult | Somewhat difficult | Neutral | Somewhat easy | Very easy |
|---|---|---|---|---|---|
| Quickly package and bundle software features to create different product versions | 5% | 18% | 22% | 31% | 23% |
| Quickly repackage and rebundle your software code into different product versions to accommodate changing market needs or unique customer demands within specific geographies | 6% | 24% | 26% | 30% | 15% |
| Manage customer entitlements | 3% | 13% | 39% | 28% | 17% |
| Enable customers to manage their own software entitlements | 16% | 23% | 35% | 16% | 10% |
| Protect your software against unauthorized use | 9% | 21% | 30% | 26% | 15% |
| Ensure enforcement of your software licenses in virtualized environments | 15% | 22% | 35% | 16% | 12% |
| Support "try-and-buy" trial and evaluation licensing | 11% | 17% | 30% | 23% | 19% |

## New Licensing Options and a More Diverse Range of Deployment Environments and Delivery Models Are Creating Risks and Opportunities for ISVs

Enterprises increasingly want to pay for their software licenses in a way that more closely aligns to use and the value they receive. In addition many enterprises are also deploying their software in complex new environments (virtual, cloud – public, private and hybrid, etc.). When asked about risk versus opportunity of developing solutions for the more diverse array of deployment environments and delivery models now trending, software vendors were mixed.
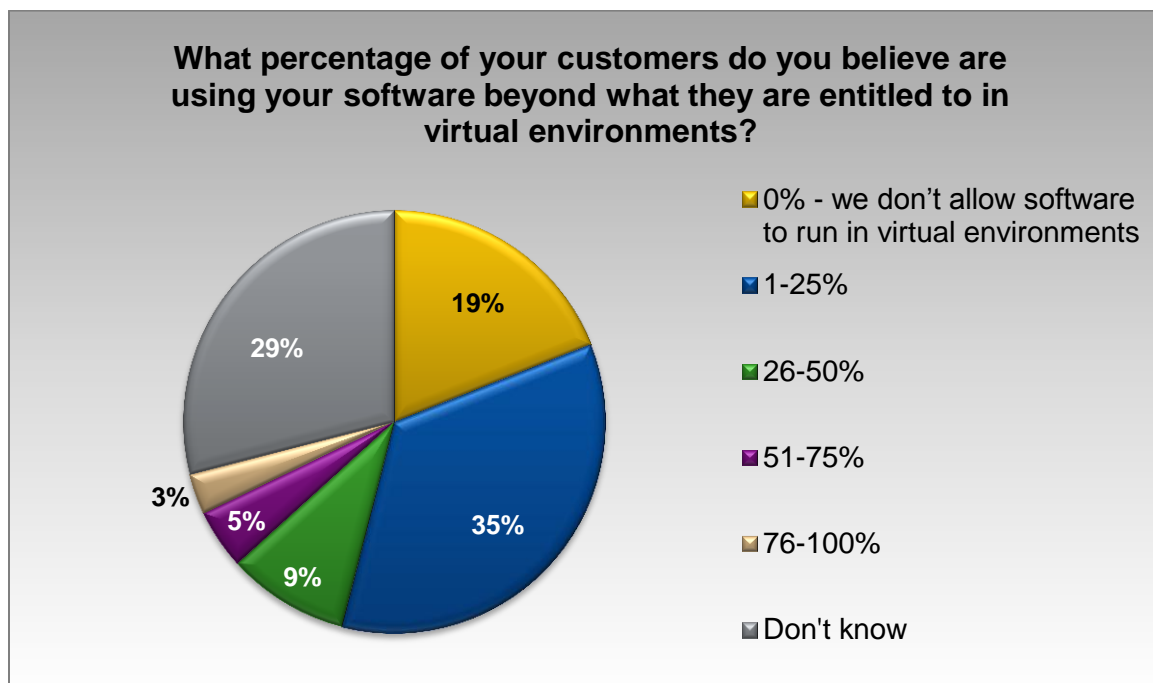
For instance, 35% of respondents said there is great opportunity in BYOD, while 39% say there is no opportunity. 65% of respondents see great opportunity in the cloud, while only 12% see no opportunity. 64% of respondents see great opportunity in Virtualization, while only 20% see no opportunity. 59% see great opportunity in subscription-based licensing, and only 19% do not see opportunity. 45% of respondents see great opportunity in the shift to usage-based licensing models, while only 26% see no opportunity. Finally, 62% see great opportunity in mobile applications, while only 16% see no opportunity.

It is clear from these varied opinions on risk versus opportunity that the situation is fluid and vendors are trying to digest their options. Having the ability to flexibly offer different licensing and monetization models and enforce or capture usage for those licensing models in a myriad of environments– be it on-premises, in the cloud and virtualized environments, or on mobile platforms – will be key. Change is the one constant and the ability to provide standardized software licensing and entitlement management across all use-cases, currently known or emerging, is vital for ISVs seeking to future-proof their applications.



**Do the following IT trends pose opportunity or risk for the future of your software company?**
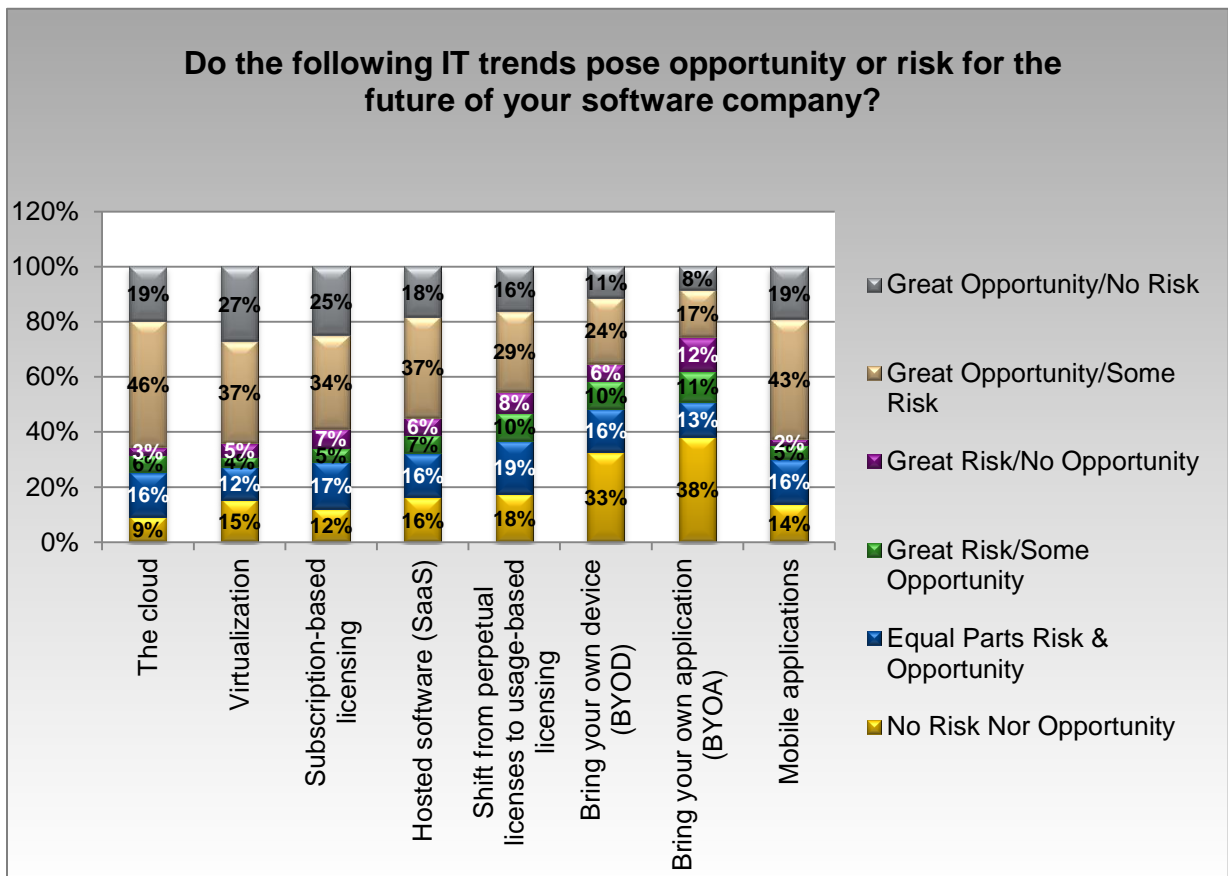
# ISVs Are Losing Money on Virtualized Applications

Virtualization doesn't just create software licensing complexity for enterprises – it also complicates things for ISVs.  In order to ensure they're getting paid for their software according to the terms of their licensing agreements, vendors must be able to track their customers' usage of software in virtualized environments and enforce those licensing rules.  According to the survey, software vendors are able to track and understand their customers' use of virtualized applications with varying levels of success. More than a third of respondents – 35% – believe that anywhere from 1-25% of their customers are using software beyond their entitlements in virtual environments.  9% believe that between 26-50% of their customers are using their software beyond their entitlements in virtual environments.  And an additional 8% believe that one half to all of their customers are using more software in virtualized environments than they have a right to. 29% of respondents did not know.

**What percentage of your customers do you believe are using your software beyond what they are entitled to in virtual environments?**



Legend:
- 0% - we don't allow software to run in virtual environments
- 1-25%
- 26-50%
- 51-75%
- 76-100%
- Don't know

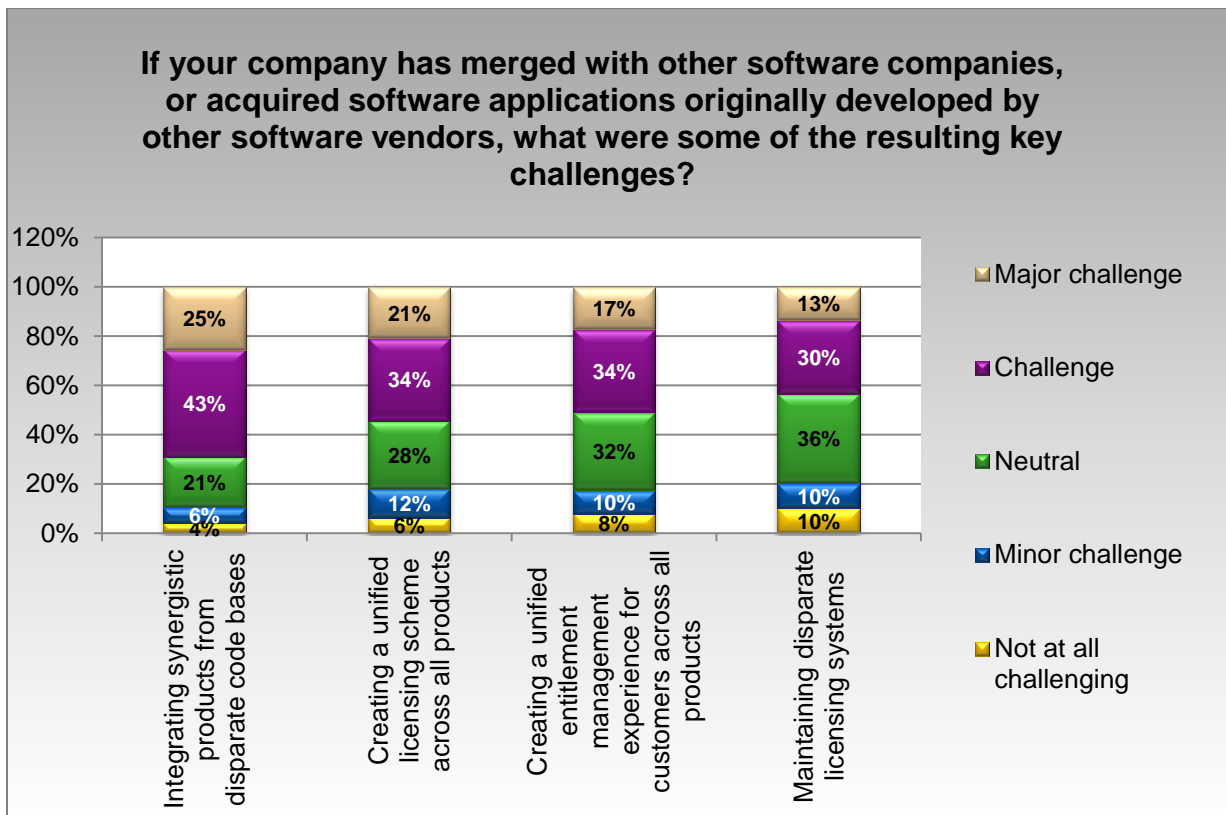Pie chart values: 19%, 35%, 9%, 5%, 3%, 29%

## Mergers and Acquisition Adds to Software Licensing and Entitlement Management Difficulties

Mergers and acquisitions create special challenges for ISVs.  When a software company or specific software products are acquired – the acquiring vendor is faced with having to manage separate code bases as well as multiple licensing and entitlement management systems.  If either or both the acquiring vendor or the acquired products do not use standardized licensing technology, undue complexity results.  The customer experience also suffers due to multiple processes and end user requirements to activate and access the disparate product lines.

According to the survey, respondents confirm that mergers and acquisitions cause unique difficulties around software licensing, monetization and IP protection.  68% report that integrating synergistic products from disparate code bases is a challenge or major challenge.  55% report that it's a challenge to create unified licensing across all products, and 51% report difficulty creating a unified entitlement management experience across all products.  Finally, almost half of respondents – 43% – report difficulty maintaining disparate licensing systems in a post-merger or post-acquisition environment.

Software vendors that will either be acquiring other software companies or products should look closely at using industry-standardized software licensing and entitlement management technology to simplify integration of disparate products and ensure a consistent user experience.



**If your company has merged with other software companies, or acquired software applications originally developed by other software vendors, what were some of the resulting key challenges?**

## Conclusion

ISVs are in business to create value for their customers by solving difficult business problems through the functionality they build into their applications.  They do not view their primary functions nor do they invest the majority of their resources in systems to manage software licenses and entitlements across the lifecycle.

But the world is changing.  Enterprises are demanding new and varied software licensing models, from perpetual to subscription, "all-you-can-eat" to usage-based – that more closely align to how they use the software and derive value from it.  Enterprises are deploying their licenses in a growing myriad of environments – from virtualized and cloud-based environments to mobile.  And the continuing trend of mergers and acquisitions in the software industry further complicates matters – requiring vendors to manage disparate software licensing systems without degrading the customer experience.

And yet despite these painful challenges, the vast majority of ISVs still have not implemented industry-standard technology for software licensing and entitlement management.  ISVs seeking to solve critical marketplace challenges around software packaging, monetization and IP protection, maintain agility amidst constant change, and future-proof their applications, would be wise to look more closely at software licensing and entitlement management, and adopt industry best-practices and technology.

**Infographic**



ISVs DON'T UNDERSTAND SOFTWARE LICENSING– AND THEY'RE PAYING A PRICE

**65%** of ISVs haven't implemented automated licensing/ entitlement management systems

**37%** The percentage of ISVs that report difficulty **enforcing their licensing rules in virtual environments.**

The percentage of ISVs that believe their customers are using at least some of their software **beyond the entitlements paid for:** **53%**

**69%** The percentage of ISVs challenged in **post-merger environment** integrating synergistic products developed off of **disparate code bases.**

Source: Flexera Software's 2014 Application Usage Management Survey prepared jointly with IDC

## Software Licensing and Provisioning Research at IDC

IDC's global Software Licensing and Provisioning research practice is directed by Amy Konary. In this role, Ms. Konary is responsible for providing coverage of software go-to-market trends including volume license programs, evolving license models, global price management, and licensing technologies through market analysis, research and consulting. In her coverage of software maintenance, subscription, electronic software distribution and licensing technologies, Ms. Konary has been instrumental in forecasting future market size and growth. Ms. Konary was also the lead analyst for IDC's coverage of software as a service (SaaS) for eight years prior to focusing exclusively on pricing, licensing, and delivery. International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. For more information about IDC, please see www.idc.com

## About Flexera Software

"Flexera Software helps application producers and enterprises increase application usage and the value they derive from their software.  Our Application Usage Management solutions are essential to ensure continuous licensing compliance, optimized software investments and to future-proof businesses against the risks and costs of constantly changing technology. Over 80,000 customers turn to Flexera Software as a trusted and neutral source for the knowledge and expertise we have gained as the marketplace leader in licensing, installation and compliance for over 20 years and for the automation and intelligence designed into our products.

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