

The Four Cornerstones of a Comprehensive Software Monetization Strategy

WHITEPAPER

Software Complexities

- There is now a 3:1 device to user ratio and 40.7% of devices used by information workers to access business applications are ones they own themselves
- Cloud software will grow to \$67.3 billion by 2016 at a compound annual growth rate (CAGR) of 24%
- Fifty-seven percent of the top 100 software vendors worldwide (by revenue) had subscription revenue in 2012. For 16% of those top 100 vendors, subscription represents greater than 50% of their total software revenue. And the top 25 of those vendors with subscription revenue grew their subscription revenue an average of 17% from 2010 to 2011

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Introduction

This paper focuses on how software publishers can transform their software monetization strategies by evolving their approach to licensing, entitlement management, and customer enablement in order to optimize the profitability of their software.

As software pricing, packaging, and licensing requirements have become more complicated, so have the associated operational processes and the impact they have on company operations overall. This paper illustrates how to best meet these challenges and demonstrates the value that can be derived, financially and operationally, when a comprehensive software monetization strategy is established and properly executed.

The Increasing Complexities of Software

Software has never been easier to use but at the same time, it has never been more complex. Over the past decade, we have experienced a number of disruptive forces that are changing software licensing and impacting software companies and customers – cloud, SaaS, subscriptions, virtualization, mobile access, and a proliferation of devices, just to name a few.

As technology and delivery models have evolved, it has become strategically and operationally more complex for software vendors to provide their software in the many ways that customers prefer to purchase – subscription, freemium, use-based, feature-based, or any combination of these and more. Software pricing, packaging and licensing have become more complicated.

In order to be successful, software vendors need to be able to transform their strategies and businesses to be able to deal with the complexities of this new age and optimize the amount of money they make while doing it.

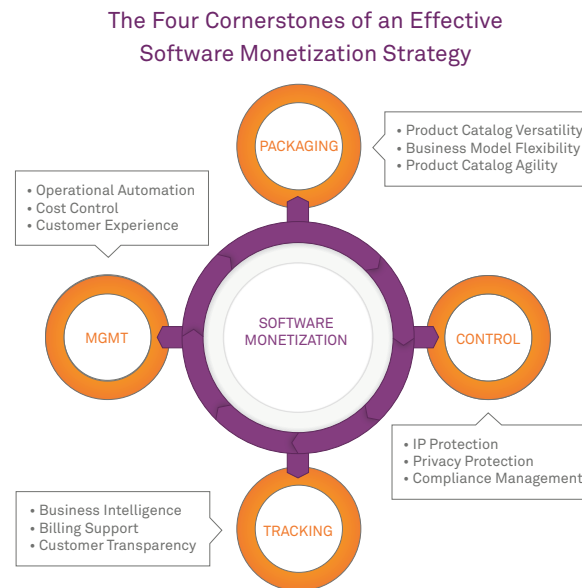
Laying the Foundation for an Effective Software Monetization Strategy

Software monetization can be viewed as the adoption of any variety of measures an organization takes in order to increase the profitability of their intellectual property (IP); in this case, software. These tactics can range from sophisticated anti-piracy and IP protection techniques to creative pricing and packaging strategies. It is important to note that no individual software monetization technique is greater than the combination of multiple techniques.

“There is a huge opportunity for software companies to improve their customer experience. Software providers need to start looking at that customer journey from the moment of time when customers start researching through to making the purchase, and then using the software and renewing it. They need to focus on the different challenges, opportunities, and barriers that customers might face, as well as the key questions that they have along the different points of that journey. Thinking about the customer experience around the monetization strategy and the license management portion ensures success.”

**- Amy Konary, IDC Research
VP of Software Licensing &
Provisioning**

No matter what type of software application has been developed or how that application is being delivered to the end-user, a comprehensive software monetization strategy hinges on four distinct cornerstones. Software publishers must be able to easily and effectively package, control, track, and manage their offerings. It is these four cornerstones which lay the foundation for an effective software monetization strategy.



Cornerstone 1: Software Packaging

Contrary to popular belief, software packaging is not a onetime event and despite the hopes of product managers around the world, ‘one size’ is never going to ‘fit all’. Even with the most sophisticated, feature-rich offering on the market, if you can’t offer flexible pricing and licensing models you will never reach your maximum potential. And just when you thought the work was done, you will still need the ability to change all of your pricing and packaging schemes on the fly in order to satisfy the constantly evolving demands of enterprise and consumer end-users alike.

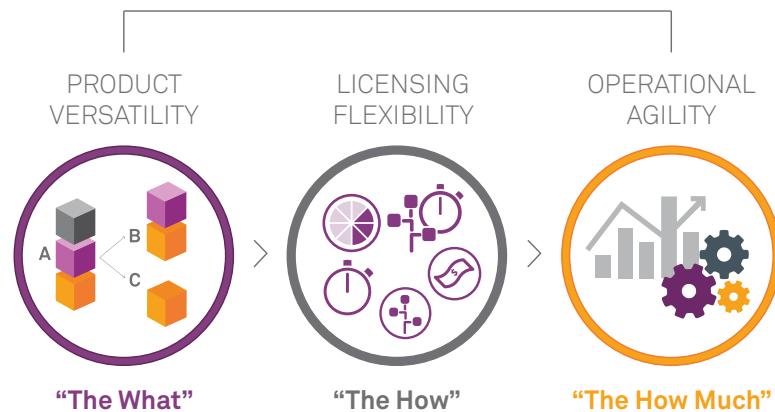
When you boil it down, software packaging really focuses on addressing three things: the what, the how, and the how much.

1. WHAT aspects of my offering does the customer want or need access to?
2. HOW does this customer need or prefer to pay for my product or service?
3. HOW MUCH does this customer perceive the value added by my product or service to be?

Asking these questions is only half the battle. Once you know the answers you need to have the tools in place which enable you to act. If a customer only wants a portion of your feature set you better be able to offer a basic bundle at a lower price point. If a customer can’t afford a one-time lump sum payment you better be able to offer a subscription or per-use licensing model. As you can see, it doesn’t do much good to have the answers to the questions if you can’t act on them. The ability to take action requires product versatility, access to flexible licensing models, and business agility.

The Software Packaging Trifecta

The ability to tie together components of your offering into different packages without engineering effort or writing one line of code, enables you to quickly and cost-effectively deliver the right offering for every customer every time.



- **Product Versatility.** Product versatility will help you achieve the right product offering for every customer every time, therefore addressing the “WHAT” aspect of our packaging trifecta. Product versatility is important for diverse market penetration, ongoing customer satisfaction and new business growth. For true product versatility, you first need to establish a value for each feature within your catalog and then have the ability to bundle those individual features into multiple service packages with a variety of pricing options. The ability to tie together components of your offering into different packages without engineering effort or writing one line of code, enables you to quickly and cost-effectively deliver the right offering for every customer every time.

When you build feature-level authorization and therefore packaging capabilities into your service catalog, you really improve the overall accessibility of your application across a multitude of diverse markets. You can deactivate or remove premium features from a ‘basic’ version that you can offer at a lower cost to capture low end markets. Alternatively you can charge a premium for access to cutting-edge features that provide additional value to high-end customers or niche markets. One thing is clear, if you don’t have the ability to monetize the individual features of your solution, you end up significantly limiting your market applicability or the price you can charge for your services – which equals lost revenue opportunities.

Licensing flexibility is a critical tool for helping your customers budget for and consume your service in a way that works best for their business.

- **Licensing Flexibility.** The next thing it takes to be successful with software packaging has to do with how your customers consume your services. It takes license model flexibility to address the “HOW” aspect of the packaging trifecta. Every organization has a unique internal process for budgeting, purchase requisitions, PO creation, and invoice payments. Some processes are clean and simple and some are very slow, complex, and cause frustration for everyone involved.

Customers have a definite preference when it comes to how they purchase goods and services. Your service offering could be exactly what they are looking for, but if you don’t offer a licensing model which aligns with how they do business, they may choose a less attractive competitor out of necessity.

Adapt Offerings in Real Time to Meet Customer & Market Demand



1 Define your product catalog

Mix and match features to create a variety of packages for maximum market applicability.



2 Select a licensing model

Leverage different business models for different types of customers to put your pricing models within reach for more customers.



3 Agree on a fair price point

Based on which features are being licensed and the terms of the contract offer a variety of pricing options for customers to choose from.

There are many factors that influence consumption preferences – from market segment, to the size of the organization, and even how critical the application is to your customer’s business. Small, or start up customers may prefer (or even need) to make many small payments with no long term commitment. Large, complex enterprise organizations may prefer long term, quarterly or annual unlimited-usage plans. Licensing flexibility is a critical tool for helping your customers budget for and consume your service in a way that works best for their business.

Success in feature bundling and licensing will set you up to address the third and final aspect of the packaging trifecta, “HOW MUCH”.

Being able to adapt your services in real time, without additional coding, not only closes the door for competitive evaluation but it also significantly reduces your engineering costs and time to market.

- **Operational Agility.** The final and most commonly overlooked requirement for achieving true packaging nirvana is business agility. It is great if you are able to build one great package, for one customer, one time, but if you can’t move quickly to provide that kind of flexibility for all of your customers then you are still missing out.

As most established ISVs know, product versatility and flexible licensing models are only the first steps of an ongoing commitment to customer satisfaction. What is right for customers today will need to evolve for tomorrow. Customers will want to stop paying for features they don’t use and will want the ability to add features that they either overlooked in their initial purchase or have been added to your service offering as your product has evolved.

If you don’t have the ability to quickly change your product catalog to easily add features to existing packages you make it much more difficult to monetize new R&D work through existing customers and you add a lot of additional engineering work to your go-to-market process.

It is critical then, that when you are designing your service offering you establish a clear separation between engineering and packaging/delivery. If you are unable to rapidly respond to evolving market and customer demands you create a significant opportunity for your competitors. Being able to adapt your services in real time, without additional coding, not only closes the door for competitive evaluation but it also significantly reduces your engineering costs and time to market.

Cornerstone #2: Control

Control is the aspect of software monetization that folks tend to be the most familiar with – after all, it has been around the longest. Control is critical to effective software monetization. All of the creative pricing and packing in the world won't get you anywhere if you have no way to a) ensure payment for products or services rendered and b) protect your intellectual property from tampering or reverse engineering.

- **Usage Control.** To protect revenue you need the ability to control use of your products and services. This is accomplished by controlling who is authorized to access your application at any given time and to what extent. Effective usage control will render pirated versions of software useless and ensure that paying customers only access the software as intended by the terms of their license agreement.

The more complicated your license models, the more critical control is. For example, offering a free trial is one way to get a large numbers of prospects to evaluate your solution and hopefully become paying customers. But if the right tools are not put into place to cut off a user's access to the application once the trial ends, those prospects turn into lost revenue. The same logic applies to subscriptions, feature-based license models, and so on. Bottom line – you need to be able to control who is authorized to access your offering and to what extent – at all times.

Beyond the threat of intentional unauthorized use and distribution, control over your software is also critical to ensuring customer license compliance.

But how do you manage compliance without negatively impacting that experience for the end-user? Denial of use is a license enforcement tactic that has been on the decline in on-premise markets for some time now and is completely taboo within the cloud industry. The last thing you want to do is to stop a billable use of your software. Therefore, it is important that you have the ability to authorize and control the use of your software services.

If access control has failed you, the next best thing is visibility – you need the power to know who used what, when, and for how long. Armed with this information you can recover lost revenue from users out of compliance with their license agreements. Be warned though – this method of tracking usage post consumption and chasing down payment after the fact is not a long term business model. End-users expect that their access is controlled by you as the software provider.

- **Code Control.** Software publishers get so caught up in the need to protect their applications from unauthorized use and distribution that they overlook the importance of protecting the application itself. Software publishers are at risk every time they deliver their applications to their end-users. If not properly protected, the code of an application is left vulnerable to theft, tampering, and reverse engineering.

Theft and reverse engineering can both result in redistribution of your IP to non-paying customers. But with reverse engineering the impact can be far greater. If someone is able to reverse engineer your application they hold all the secrets to what makes your application valuable in the palm of their hand. They can use this information to not only resell your IP without authorization, but they now have the power to easily build a competitive solution to the product you have on the market at a lower price point under

a new name, or sometimes even worse – under your name but with cheaper parts, no support, etc. The worst part is that the end-user purchasing a pirated or black market version of your product may not know and end up with a bad impression of you/your organization and never do legitimate business with you again.

Tampering is when someone gains access to your software code and makes a change to how the product functions. Tampering can be intentional or accidental, malicious or with good intent. You designed your software to function the way it does for a reason, and changes to that design can result in non-compliance, tainted system output, and more. Changes to how your software functions can also do irreversible damage to your brand and product reputation. How? Take a look at this example.

Tampering Case in Point

Consider a piece of medical diagnostic equipment for example. The internal software is designed to control how diagnostic tests are run. Perhaps a user somewhere thinks the system is slow, and decides to tamper with the software code just enough to speed up calculations by 20%. Mission accomplished – they're now able to test more patients per day. No malicious intent whatsoever.

What they may not know is that by speeding up the calculation process they are speeding up a process that needs the extra time to meet several medical industry regulations. Subsequent tests run on the equipment are inaccurate. Who gets the negative press and resulting drop in sales? Not the user who messed with the equipment. Not the hospital. It's the manufacturer of the medical equipment and/or the software vendor that will be cited for having faulty software.

Would you be willing to hand the trade secrets in your code over to your competitor or to a renowned hacker? If you just answered no, then you can't afford to run the risk of not incorporating IP protection into your software monetization strategy.

“There needs to be some technology in place because tracking [licenses] manually is not something companies want to be doing. Software publishers need an easy, automated way to track license details, entitlement activations, and product usage right down to the feature level.”

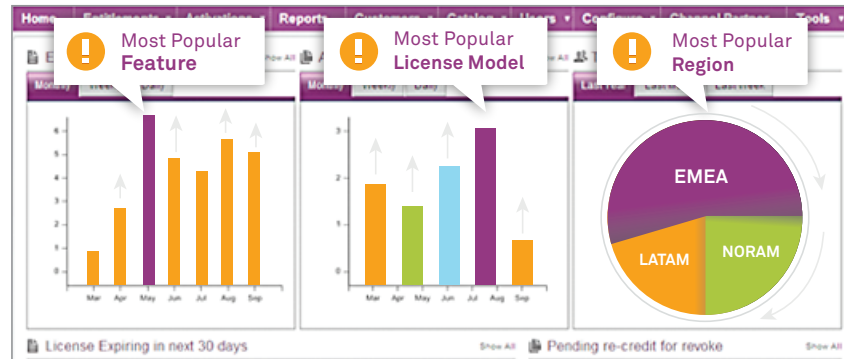
- Amy Konary, IDC

Cornerstone #3: Track

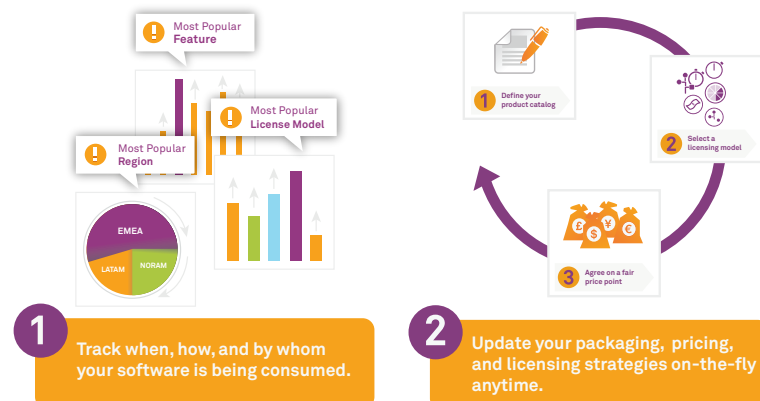
The ability to effectively and automatically track and easily report on what end-users are a) entitled to and b) what they have consumed – when, and to what extent – is the third cornerstone of a comprehensive software monetization strategy. IDC's Amy Konary reinforced the importance of automated tracking in a recent interview with TMCnet¹, “There needs to be some technology in place because tracking [licenses] manually is not something companies want to be doing. Software publishers need an easy, automated way to track license details, entitlement activations, and product usage right down to the feature level.”

Product usage monitoring provides the business insight required to report on license agreement compliance, optimize product roadmap investments, and to drive future packaging strategies.

Optimizing the Product Roadmap Investment



- **Manage licensing agreement compliance**—Tracking and reporting on software usage is critical for end-user compliance and billing purposes, both of which ensure that you are receiving the maximum value from every customer every time.
- **Optimize product roadmap investment**—Insight into how products are being used is a key component of effective product line management. Armed with a full understanding of which features are being used and to what extent provides product managers with an easy way to identify which features they should be investing in, and equally as important, where to divest. This knowledge can also help with overall use case prioritization and investment mapping.
- **Identify up sell, cross sell, and renewal opportunities**—With the ability to track at which stage of their license agreement end-users are, marketing and sales organizations can easily run reports to track various things such as: who is ripe for renewal, who may be a good candidate for an up sell, and who may want a complementary product.
- **Drive future packaging strategies**—Tracking gives you an understanding of the various ways that customers use your products and enables you to make smarter packaging decisions. Determining which features to package into a baseline product and which features can be sold as added value allows product management and marketing to more appropriately reach customers who want a low investment in the software all the way up to the larger deployments that want full access on a much grander scale.



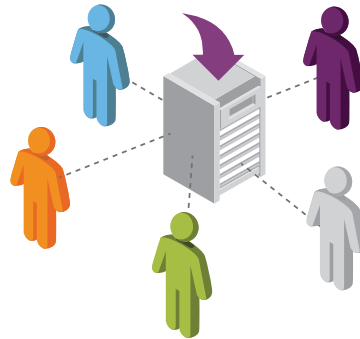
Usage data is not only valuable to you, it is valuable to your end users. Making all or a portion of this data accessible to end users gives them the information they need to ensure compliance with their license agreements and proactively manage large enterprise deployments.

Cornerstone #4: Manage

As any CFO would be more than happy to tell you, profitability is as much about reducing and controlling costs as it is about revenue. Therefore, it is critical that all the systems put in place to help effectively price, package, bill for, and manage your product offerings not only integrate easily with each other, but are simple and easy to use for both internal and external stakeholders. Effective software monetization management focuses on three things: centralization, automation, and end-user enablement.

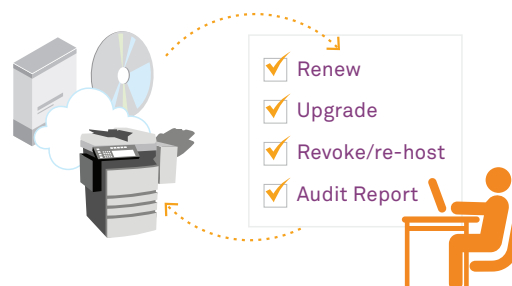
- **Centralization**—Licensing touches so many aspects of your organization – from sales, and product management to IT, operations, tech support, and customer service. And each one of these functions need access to the data in your licensing and entitlement management system. Many of these functions have systems in which they work on a day to day basis – sales in a CRM; marketing in a marketing automation system; finance in an ERP. Conversely, some of these functions don't have their own systems and will need limited-privilege direct access to your entitlement management system. If you don't integrate your software licensing and entitlement management with these systems you end up with a mess.

Integrate Software Licensing & Entitlement Management with Other Critical Business Systems



- **Automation**—Automation takes advantage of centralization and goes the extra mile. Once you have a centralized place to store and access license and entitlement data you can start building out automated processes to simplify time consuming manual tasks such as audit reporting, renewal reporting, product activation, and more. You can also start automating many proactive marketing and sales efforts such as new feature promotion, automated renewal messages, expiration notices, and so forth.
- **End-User Enablement**—Customer enablement is all about empowering end-users to do many of the tasks which currently bog down sales, customer service, and tech support teams. These tasks include, but are not limited to, compliance reporting, activation, renewals, upgrades, cancellations, and so on. By enabling customers to perform these tasks on their own you improve the end user experience while dramatically decreasing the number of basic requests coming into your various sales support functions.

End-User Enablement



Key Takeaways

- Directly invest in the four cornerstones of a well thought out software monetization strategy.
- Employ the expertise and technological tools to flexibly package, control, track, and manage usage of your software products.
- Software publishers that don't embrace these tools and techniques will soon be at a competitive disadvantage.

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With the right entitlement management tools in place, every step of the license, entitlement, and software delivery process can be easily automated in an internally transparent and end-user friendly way. Adoption of a system agnostic, flexible entitlement management solution will enable you to automate time-consuming, manual tasks, eliminate human—error, and track the status of your end-user's entitlement and usage trends for life.

Conclusion

Increasing software revenue does not happen by accident. It not only takes good software, it also requires a thorough understanding of your buyers and how they want to buy your software. Moreover, it requires the flexibility to quickly respond to their changing needs. You must be able to swiftly and easily package, control, track, and manage usage, and then analyze that data to provide important insights to help your team make powerful business decisions. And you thought it was only about creating great software!

With the right strategy, a little bit of process, and some easy-to-use software licensing and entitlement management technology, you can increase your chance of success, spend more time on innovation than business and operations administration, and put your team in a position to better serve your markets and increase revenue.

About Sentinel Software Monetization Solutions

Easy to integrate and use, innovative, and feature-focused, the SafeNet family of Sentinel® Software Monetization Solutions are designed to meet the unique license enablement, enforcement, and management requirements of any organization, regardless of size, technical requirements, or organizational structure.

Software Licensing Products & Services: An award-winning suite of hardware, software, and cloud-based licensing solutions for protecting software applications from piracy, overuse, or code manipulation in order to maximize profitability and protect competitive intellectual property (IP).

Entitlement Management Products & Services: A feature-rich entitlement management system offered hosted, as a service, or for on-premise installation, for enabling software publishers to streamline and easily manage all operational tasks associated with software licensing.

SaaS Licensing & Management Services: A CODiE award-winning software licensing and entitlement management service architected from the ground up to support the unique catalog definition, provisioning, control, and usage tracking challenges of SaaS and other cloud service delivery.

Software Monetization Professional Services: A full suite of consulting and implementation services to help you define, align, and deliver a licensing strategy that meets the business objectives and operational processes unique to your organization regardless of where you are in the lifecycle of your licensing project.

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View more information on SafeNet Sentinel Software Monetization Solutions

¹The New Challenges of Software Monetization – Importance of Global Pricing Strategies, by Erin Harrison, Executive Editor, Cloud Computing; <http://saas-licensing.tmcnet.com/articles/306124-new-challenges-software-monetization-importance-global-pricing-strategies.htm>

¹"The New Look of Software Monetization" presented by Amy Konary, Research Vice President, Software Licensing, Provisioning, and Delivery, <http://sentinelvideos.safenet-inc.com/85d4/the-new-look-of-software-monetization/>

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