

Seeking Transparency

Modern Software Monetization

By Olivia Cahoon

As today's technology becomes increasingly complex, modern software monetization is essential. The adoption of modern technologies like the cloud have pressured independent software vendors (ISVs) to learn how to better protect their intellectual property (IP).

Additional trends gaining acceptance include the Internet of Things (IoT), big data, and mobility. To meet new demands, ISVs should look to modern delivery models and monetization methods including a user-centric focus, customer intelligence, and transparency for software usage.

Modern Software Monetization

Today's technology advancements affect how deployment models operate and what customers now expect. Business models, customer relationships, and deployment models have changed to better serve customer needs.

In the Software-as-a-Service (SaaS) or subscription world, Matthew Dunkley, director of strategy and product management, Flexera, says software monetization is no longer about licensing and compliance terms but rather how to optimize customer relationships.

"It's about helping customers succeed, truly understanding what's of value to them, and ultimately delivering on this value with a targeted offering. That's how you increase the number of subscribers, keep them loyal, and grow your business," says Dunkley.

Traditionally, software monetization focused on the process by which producers receive compensation for customers' use of products through various licensing technologies. As customer expectations for optimizing software value and the relationship with software providers change, modern software monetization strategies must reflect these new realities. "Software monetization will reflect greater alignment and the closing of existing gaps between the value that the customer receives from the software and the compensation for value received by the provider," says Vic DeMarines, VP, product and strategy, Revulytics.

According to DeMarines, customers want use what they pay for and avoid paying for shelf ware. Customers want to understand technology adoption within their organizations. ISVs are looking to ensure they are paid for the value and usage of their solutions by customers and non-customers, especially when software is pirated. To close any existing gaps in this method, DeMarines says greater transparency into software usage by both the customer and vendor is imperative.

Protecting IP in the Cloud

Cloud adoption is occurring at a rapid pace, creating challenges for traditional ISVs whose business and product portfolio wasn't born in the cloud. Traditional ISVs are left to deal with the complexity of transitioning to cloud-based solutions and subscription licensing to complement and even replace on-premise solutions.

DeMarines says that according to Gartner, by 2020 more than 80 percent of ISVs will shift their models from traditional licensing and maintenance and support to subscription-based.

He also cites reports from IDC. "According to IDC, close to 50 percent of organizations will have the processes and tools in place to meter usage of their major on-premises software by 2018," says DeMarines.

This means cloud adoption will focus more on the competitive advantage of ISV's software and the value of their software to end users. This includes testing value in terms of features added to applications over time. According to DeMarines, traditional ISVs with insight into end-user feedback and product usage intelligence accelerate response time and bring more valuable offerings to market.

As cloud adoption continues, ISVs can protect their IP by implementing more sophisticated software compliance and software piracy tracking. Because the majority of today's ISVs now have most of their IP based in software rather than hardware, the drive for profitability means stemming revenue leakage and piracy, says Dunkley. This requires accurate views of how customers optimize software to deliver mutually beneficial solutions.

"The right entitlement and compliance management solution gives you the opportunity to monetize overuse and unauthorized use while customers gain a clear understanding of their own usage—all without the intrusion of physical audits," explains Dunkley. Enforcing compliance and monitor intelligence can also be used to identify recurring revenue risks or opportunities.

By protecting IP in the cloud, Bob Reynolds, director of sales, Reprise Software, says ISVs can fully leverage near ubiquitous connectivity to simplify installation and authentication, whether it is through in-product activation or by supporting floating licenses by deploying license servers in the cloud. "Your choices should reflect how your customers use your products, as well as their own preferences," he offers.

IoT, Big Data, and Mobility

As trends like the IoT, big data, and mobility continue to gain acceptance, ISVs should consider several factors in terms of software monetization. Today's software models rapidly move towards a pay-per-use system, which may soon become the norm for most devices. According to DeMarines, the collection and analysis of this data brings big data and the ability to analyze it to a new level.

Leveraging the IoT is a continued priority for organizations. Forbes believes this comes as a result of actual deployment and monetization of IoT systems over the past year.

Delivery models should be considered as changes continue due to technology disruptions like cloud adoption and the IoT. Old models of monetization, notably perpetual licensing with maintenance, are evolving to embrace new monetization paradigms like subscription and consumption, says Dunkley. "Customers see benefits from spreading out the cost for acquisition away from capital investment towards operational budgeting," he adds.

It's also important for ISVs to consider driving recurring revenue through customer intelligence. Dunkley believes renewals are no longer assumed as a turn-key conversation and the goal to drive recurring revenue emphasizes on identifying attrition risk early on.

“Customers also demand greater transparency from producers to provide data on the actual realization of software value,” says Dunkley. This includes customers embracing a user-centric focus for monetization, leaving behind a device-centric focus. For example, Dunkley says individual users of an organization might receive value from software that’s delivered through a combination of on-premises modalities and through SaaS.

Matt Fisher, senior VP of product strategy, Snow Software, believes software is increasingly not being accessed by humans directly but by other computers and/or software. As a result, many ISVs don’t know how to monitor or categorize software usage and cannot either monetize or offer a licensing scheme that is attractive to end user organizations.

“ISVs need to consider new licensing schemes, as well as ways of tracking and the use of such schemes, that encourage end user organizations to integrate applications and software into the information supply chain needed to power IoT, mobile, and other new technologies,” offers Fisher.

Leveraging Real-Time Analytics

ISVs can leverage real-time analytics to improve software monetization. Data helps ISVs understand how their software is being used, including the strengths and weaknesses of the business model.

According to Dunkley, analytics help ISVs empower monetization with entitlement-driven business operations, introduce new business models like subscription or pay-per-use, managing software and devices in the IoT ecosystem through feature management and automated software delivery, and capture product insights to base product innovation and investment on real-world intelligence.

“Having the ability to easily capture real-time telemetry from applications in the field is increasingly important to product managers who want to have a truly data-driven roadmap,” says David Rowley, chief revenue officer, Nalpeiron, Inc. With development bandwidth at an all-time high premium, it’s critical to invest resources in areas that objectively have the greatest impact on business and customer success.

While real-time analytics allow ISVs to demonstrate the software’s value by sharing actual end user behavior with a customer’s end users, the feedback can be integrated within the application. According to DeMarines, it can also be made available within an ISV’s own administrative functionality.

“When end users login with their vendor specific ID, they will see exactly what features and products they use,” says DeMarines. He believes this tool can be extended like analytics used in multiplayer online games—gamification driven by analytics can increase adoption in new ways for ISVs.

Software monetization must also reflect the shift toward a customer-centric economy, which is accomplished by increasing the consumer’s confidence to share data with brands they engage with. Those brands are expected to share data with the consumer. “This reality is permeating business relationships and driving changes in software licensing policies for enterprise software—including the demand for policies that meter software usage and charge for it based on consumption,” says DeMarines.

For ISVs to share data with users, they first need to have it. DeMarines says the first step in implementing modern software monetization is ensuring the business has tools to collect data on usage in a reliable, non-disruptive, and secure manner and then to analyze it quickly and efficiently.

IP Protection Risks

In terms of IP protection and software monetization, ISVs face risks like data privacy and protection requirements, including the new General Data Protection Regulation (GDPR) that goes into effect in May 2018. The GDPR replaces the Data Protection Directive 95/46/EC and is designed to harmonize data privacy laws across Europe to protect and power European citizen’s data privacy while reshaping how organizations approach data privacy.

“Vendors who stick with their old comfortable models, like perpetual licenses and maintenance, and don’t respond to their customer’s need to match ongoing expense with ongoing value will soon see themselves edged out by more agile competitors,” warns Rowley.

Another risk is the complexity of current licensing approaches. According to Rowley, it’s not uncommon for customers to be frustrated that over 25 percent of their support tickets currently center around problems with their existing licensing approach. He offers, “successful licensing and activation of a product should be a quick and painless non-event.” This can be achieved by focusing on models that put customer experiences at the highest priority.

While customers demand transparency, one of the greater risks to ISVs is installing a black box. According to Fisher, black boxes help ISVs monetize software usage, but challenges arise when ISVs keep the information to themselves. “By doing this, ISVs create distrust between themselves and customers, which lead to customers increasingly turning to other ISVs that have implemented more transparent pricing, licensing, and billing practices,” says Fisher.

When selecting a software monetization strategy it’s important for ISVs to consider how customers will understand the strategy. Rowley suggests ISVs establish a strategy that is easily understood with clear terminology and simple models that match customer’s ongoing expense with the software’s perceived value. “Be flexible, allow different models to be used by different customers, partners, and/or market segments—don’t take a one size fits all model,” he suggests.

As software is remotely deployed on end or edge devices it’s more susceptible to attack. As a result, IP and code protection is an increasing issue. According to Aiden Gallagher, CEO, InishTech, the complexity of adaptive pricing and packaging needs to be managed carefully to optimize monetization. “Options and choices are great but can be confusing for the user,” he says.

Instead, pricing and packaging should be simple, easy to understand, and easily managed by the customer and their users. By delegating the management of how software is deployed to the customer, Gallagher says valuable ISV resources are freed, the possibility of wider software deployment increases, and the customer receives real-time dynamic entitlement management..

Trends for the Future

Subscription pricing methods are one of the largest trends affecting software monetization. In the new subscription economy, ISVs want to be successful but must rethink how they price their products.

“We’re seeing a hyper-focus on customer value that’s driving pricing and packaging strategies,” says Dunkley. As a result, suppliers seek innovative methods to identify value drivers to help them receive new business and maximize renewals.

This includes flexibility in licensing, delivery, reporting, and management while also protecting IP. “The ability to offer flexible licensing models is an important component in every ISV’s toolbox for optimizing their software monetization strategy,” says Marcellus Buchheit, president/CEO, Wibu-Systems USA. It’s important that ISVs package their software to match the dynamic usage requirements of the end user while also considering tight budgets and slow revenue growth.

“Gone are the days of selling software with a perpetual license in a box,” says Buchheit. He believes traditional perpetual software licensing agreements are rapidly falling out of favor because they often replace restrictions on product use that doesn’t fit the end user’s needs. As a result, may businesses benefit from the ability to tailor licensing usage and subsequent costs to reduce their upfront expenditures and more closely match their business cycles.

However, it's important to remember that software monetization is more than the revenue from the first customer acquisition. Dunkley believes software monetization is about maximizing the lifetime recurring avenue of any given customer opportunity and that market trends support this change. He says market trends include growth of the customer success role to drive technology adoption, product analytics to identify customer behaviors that indicate risk and upset, and experimentation with product packaging permutations to expand into new customer segments.

For some ISVs, indirect usage is integral as end user organizations demand to pay for software based on the real-world value it drives. "We have seen transaction-based licensing become more popular, but we expect other new metrics to emerge in 2018 and 2019 that help IT budget holders in end user organizations to directly demonstrate the value—and therefore justification—of software spend," says Fisher.

Broadening Customer Expectations

Business models, customer relationships, and deployment models have changed as today's technology advancements modify customer expectations. Modern software monetization ensures customers use the services they pay for while taking advantage of cloud adoption and real-time analytics tools. To maintain customer satisfaction and improve monetization, ISVs should ensure data and software usage is transparent and easily understood by customers.

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