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REPORT

Embracing Change with Software Licensing

State of Software Monetization 2022



Contents

03 Introduction

04 Key findings

06 The software landscape:
today and tomorrow

09 The challenges of
software licensing and
entitlement management

12 Monetizing software and
collecting customer data

14 Conclusion

Introduction

Software delivery methods have changed significantly over time. Today, software-as-a-service (SaaS) is considered to be the most popular way for independent software (ISV) and intelligent device (IDV) vendors to deliver software. There are many advantages associated with SaaS products. The primary advantage associated with SaaS is the ability to offer subscription options to customers demanding more flexible licensing options. Although this is not limited to SaaS, it is a main driver of this shift.

In addition to a move to the cloud, the delivery of software through a hybrid approach is also gaining in popularity. A hybrid approach offers a best-of-both-worlds solution for organizations that see benefits to offering on-premises products that provide some of the benefits of SaaS. Throughout this report, hybrid licensing is defined as licensing of an application which is typically installed on-premises but includes a dependency on a cloud component or service. This ensures the availability of near-to-full-time connectivity, which allows SaaS concepts such as real-time usage tracking and dynamic updates and renewals to be incorporated to on-premises applications.

The software industry is going through a period of transition. As software delivery methods change, the behaviors and demands of customers are also shifting. Customers now expect increased flexibility in the options offered by their vendors, delivered in ways which give

them more autonomy in deciding when and how they use that software.

This need for increased deployment and license model flexibility can create a level of complexity which most vendors will struggle with and is often the main reason why vendors avoid taking this as far as they would like. This is where entitlement management plays a key role and enables a sense of confidence in vendors.

The concept of business transformation is often misinterpreted as an expectation that traditional business must be abandoned and replaced with something new. But this is usually considered to be too high risk, and instead the concept of supplementing traditional business with new ways to sell and offer products is far more practical and realistic. However, this expanded choice and capability adds complexity, and the solution to that complexity is effective software monetization and entitlement management.

There is also an increasing emphasis on customer experience, and it is important for vendors to be able to meet shifting customer needs. As customer choice increases, so does customer engagement, which places further pressure on vendors to keep delivering value. Vendors need the right tools and the right software monetization strategies to ensure both vendor and customer work together to ensure the best outcomes and a positive customer experience.

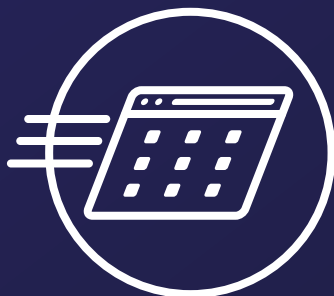
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Key findings



65%

of respondents from ISVs and IDVs say their organization currently offers their software as a service via the cloud (as a SaaS application)



87%

of ISV and IDV respondents say that delivery of SaaS applications has increased in the last 12 months and this trend is set to continue as...



74%

of ISV and IDV respondents expect SaaS delivery to increase in the next 12-24 months

Expected increase in software delivered as hybrid applications in the next 12-24 months

66%

of ISV and IDV respondents expect to see an increase in their software delivered as a 'hybrid' application, part on-premises and part via the cloud in the next 12-24 months

Widespread impact of lost revenues from customer licensing violations

90%

of ISV and IDV respondents believe that their organization is impacted by lost revenue opportunities due to customers knowingly misusing software

- » When handling misuse of software, **84%** of ISV and IDV respondents agree that recovering lost revenue is just as important as not losing a customer
- » Implementing a software monetization strategy gives vendors the flexibility to provide customers with improved offerings and service. Just over half (**51%**) of respondents from ISVs and IDVs say their organization has fully implemented a strategy, indicating that the remaining half need support in designing and/or implementing one
- » Collecting usage and insight data will help vendors to explore and measure customer behavior, with **89%** saying their organization currently collects usage data for business intelligence and product insight purposes
- » But are they fully leveraging and optimizing it? Just over a third (**36%**) feel that their organization is not leveraging usage data as best they could

02

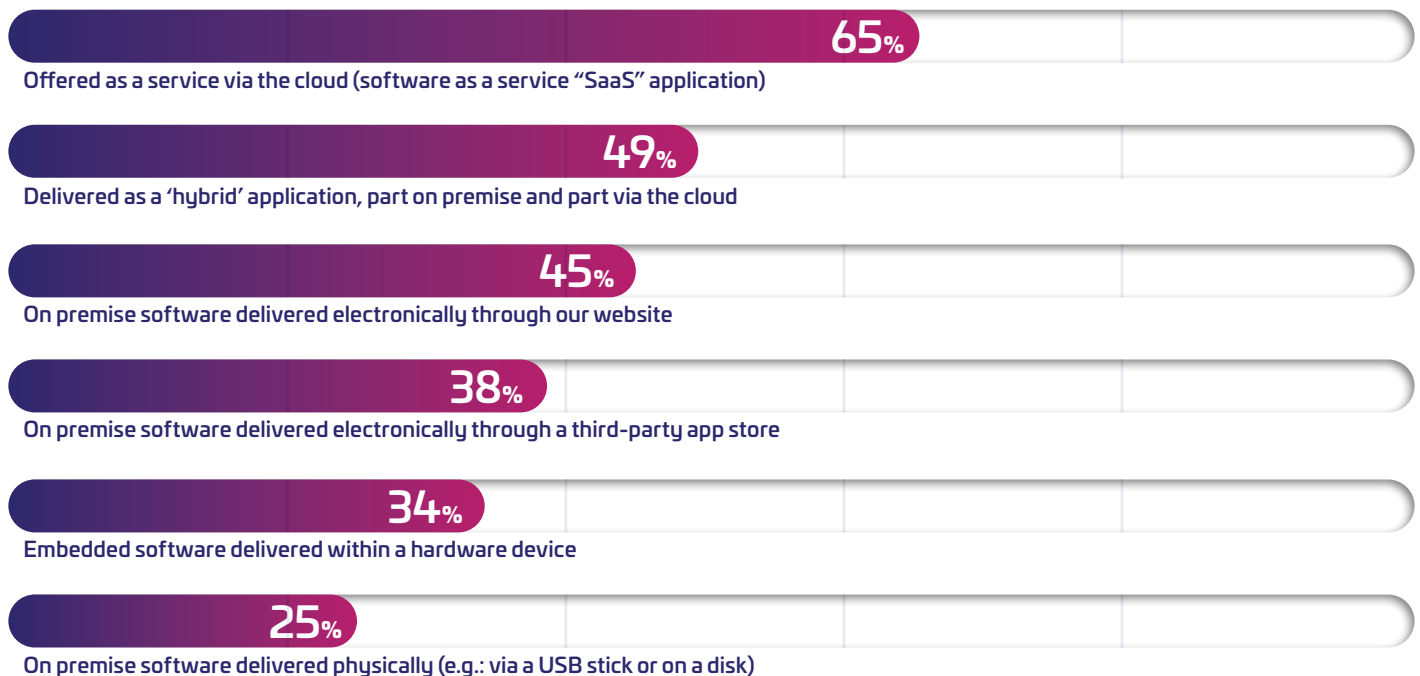
The software landscape: today and tomorrow

Software and how it is entitled are evolving as organizations embrace the benefits of digital transformation. Currently, just under two thirds (65%) of ISVs and IDVs are delivering software to their customers as a service via the cloud (as a SaaS application). In a similar research project conducted in 2014, just 33% of respondents cited that their organization was delivering software as a service over the internet. The fact that this figure has nearly doubled in the last few years highlights the clear journey towards SaaS that organizations are currently taking, reflecting increasing customer demand for subscription-based software.

FIGURE 1

How are organizations currently delivering software?

[420] Asked to ISV and IDV respondents. Excluding some answer options



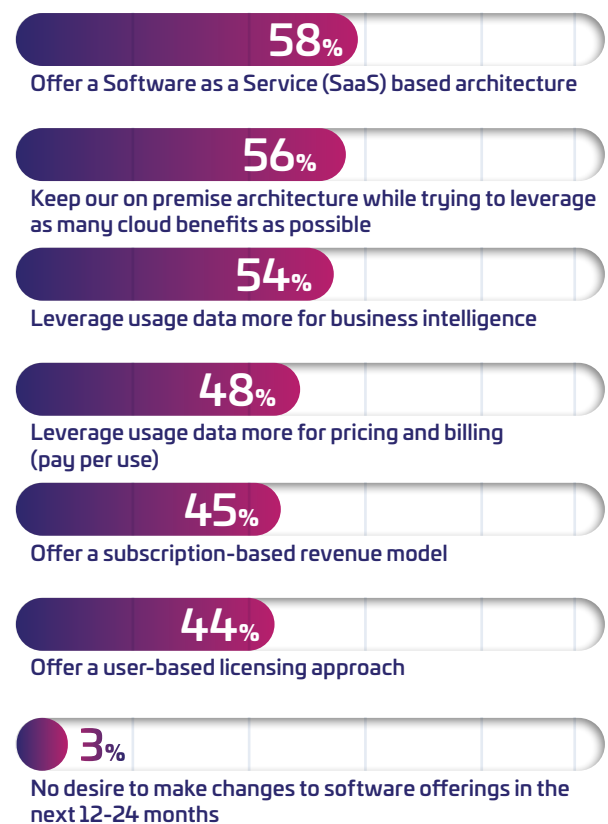
Looking to the future, it's apparent that vendors are set to continue offering software in this way, with three quarters (74%) of those surveyed expecting to see an increase in their delivery of software as a SaaS application in the next 12-24 months. This preference towards SaaS offerings may be due to the number of advantages associated with them, which benefit both vendor and customer. Key benefits vendors anticipate include improved user experience (40%), incremental customer value (34%) or increased revenue generation opportunities (30%).

While modern approaches seem to be more prevalent than traditional ones, there are still some calls from customers to deliver software electronically or physically (i.e.: via a vendor website or on a USB stick). There are signs that organizations are prepared to meet these demands as respondents reported an increase in delivering software electronically via a website (84%), a third-party app store (76%), embedded within a hardware device (75%) or physically (69%) in the last 12 months. For those who expect to see an increase in traditional methods, this is because of the convenience, safety and security associated with physical delivery.

FIGURE 2

Which of the following changes do respondents believe their organization would like to make to its software offerings in the next 12-24 months?

[288] Asked to ISV and IDV respondents currently delivering on-premises software physically, or electronically through their website or a third party app store. Excluding some answer options



Stay Relevant for Tomorrow

While some vendors are making the transition to subscription and the cloud already, for others the transition towards a full SaaS application may be daunting. To offer a best of both worlds approach, an ideal solution is to deliver software as a 'hybrid' application, providing customers with the flexibility they need and demand, and the security they expect. Just under half (49%) of ISVs and IDVs are currently delivering software as a 'hybrid' application.

Offering software in a hybrid manner ensures the availability of nearly full-time connectivity, allowing SaaS concepts such as real-time usage tracking, and dynamic updates and renewals to be incorporated to on-premises applications, and making software as a subscription more easily available. By offering products and software with a range of options including via hybrid delivery, vendors can better meet customers' demands for more control over their software and how it is entitled. Flexibility is the key as a single offering will no longer satisfy all customers.



49%

of ISVs and IDVs are currently delivering software as a 'hybrid' application

66%

of ISV and IDV respondents expect to see an increase in their software delivered as a 'hybrid' application, part on-premises and part via the cloud in the next 12-24 months

03

The challenges of software licensing and entitlement management

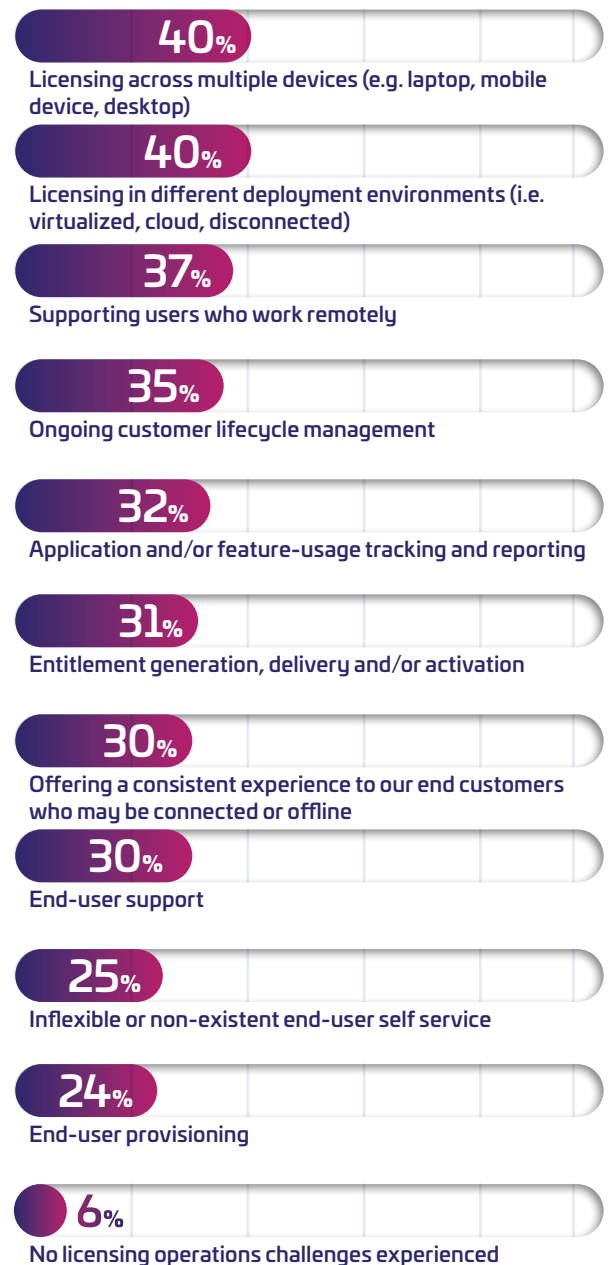
An unfortunate concern that continues to shadow the vast majority of software vendors interviewed (90%), is the fear that their organization's software may become compromised. This figure sat slightly lower, at 84% in 2014. Today, 90% of those surveyed believe that their organization is detrimentally impacted by lost revenue due to customers knowingly violating licensing agreements. This is only one of many difficulties vendors must contend with when their software becomes compromised.

On top of the challenge of moving to the cloud, vendors are faced with additional complexities. These include maintaining visibility over potential misuse, as well as managing and enforcing software compliance. Each of these arenas is complicated, time-consuming, and expensive to handle well.

FIGURE 3

Which of the following software operations challenges do organizations experience?

[420] Asked to ISV and IDV respondents.
Excluding some answer options



Exacerbated by the COVID-19 pandemic, vendors are facing a multitude of additional challenges such as licensing across multiple devices (40%), or deployment environments (40%) or supporting users who work remotely (37%).

All software comes with a licensing agreement, explaining how the user can and can't use the product — this includes parameters such as how many users, for how long, and much more. In order to abide by these rules, customers must be able to accurately track their software usage — however, this can be a challenging feat. There are signs that customers don't fully understand these agreements. Just over two fifths (42%) of respondents indicate that knowing if too many/too few seats have been purchased is a challenge, which is likely to be contributing towards software misuse.

Enterprise IT decision makers (customers) estimate that, on average, 35% of their organization's software was unlicensed in the last year, a trend that is heading in the wrong direction when compared to a similar group that estimated 22% of software was unlicensed in 2014. If accurate, correcting that amount of misuse could make a massive difference to the bottom line of any software vendor. Unlicensed software can be extremely detrimental to vendors, resulting in lost, unrecoverable revenue, so it's imperative

82%

of ISV and IDVs agree that the way organizations handle misuse of software can have a huge impact on businesses

84%

of ISV and IDVs agree that when handling misuse of software, recovering lost revenue is just as important as not losing a customer

that they pay closer attention, and take steps to make licensing agreements clearer for their users.

The majority of ISV and IDVs (82%) agree that the way organizations handle misuse of software can have a huge impact on businesses. While recovering lost revenue may be the obvious priority for vendors to correct, the majority (84%) agree that when handling misuse of software, it is just as important to ensure they don't lose a customer. Given the importance of customer retention, this figure illustrates the low tolerance of vendors for both revenue loss and customer churn.

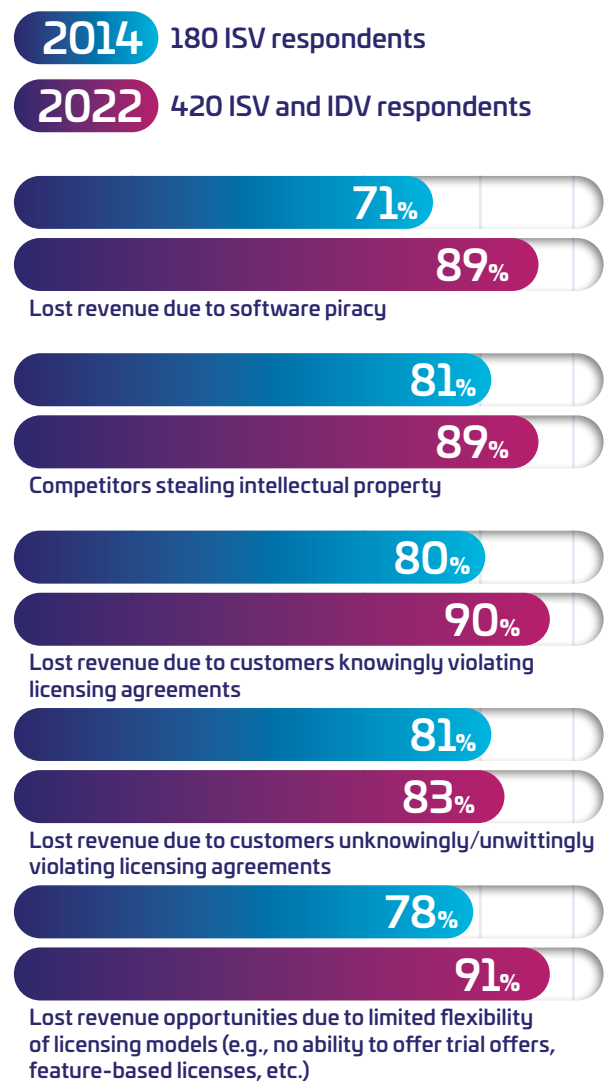
Alarming, the number of ISVs and IDVs impacted by lost revenue opportunities due to customers unknowingly violating licensing agreements is currently at around four fifths (83%), with this seeing little change from ISVs who expressed the same concerns in 2014 (81%). This begs the question, where does the responsibility lie? Are vendors or customers responsible for this unintentional misuse? The impacts can be detrimental for both parties, the biggest risk being the legalities of breaking license contracts which can result in huge fines. Proactive and effective management of software entitlements can avoid this unfortunate result for both vendor and end customer.

While unintentional misuse is extremely damaging, vendors are also being impacted by intentional misuse, such as customers knowingly violating licensing agreements (90% expressed concern this year, compared to 80% of ISVs who stated this in 2014), competitors stealing intellectual property (89% versus 2014's 81%) and/or lost revenue due to software piracy (89% versus 2014's 71%). Software vendors are continuing to experience a whirlwind of challenges surrounding customer demands and expectations, supporting those who are unintentionally misusing software, but also combating cybercriminals who are deliberately exploiting software. What are software vendors to do?

FIGURE 4

How much do each of the following impact respondents' organizations?

[Base numbers in chart] Showing a combination of those who indicated there has been an impact. Wording differed slightly between years. Excluding some answer options



04

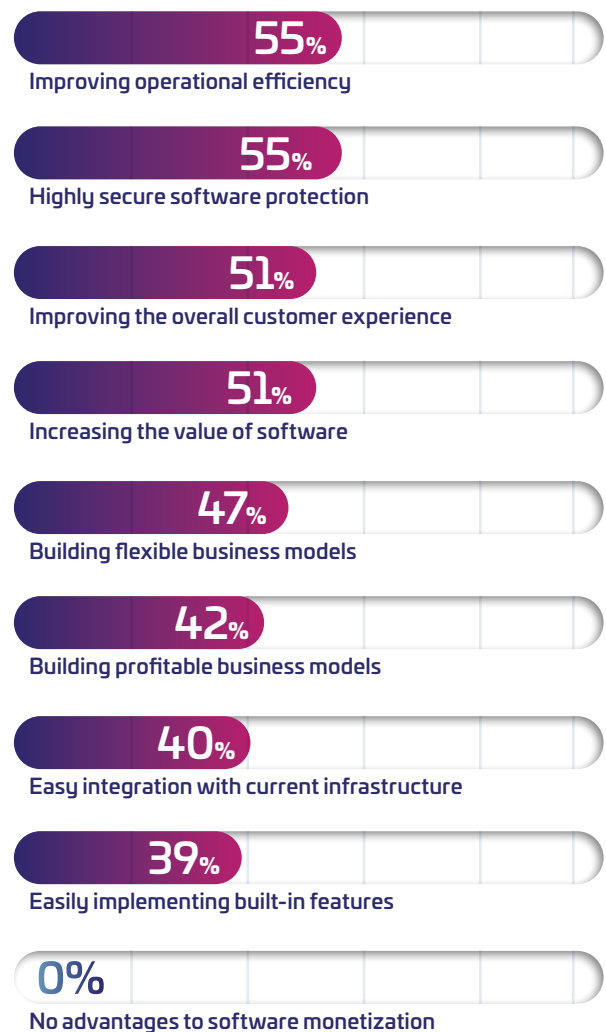
Monetizing software and collecting customer data

The overall aim of software monetization is to ensure that organizations are maximizing the value of their software—through growing revenue, increased customers, more satisfied customers, and more. Succeeding at software monetization, however, is growing in difficulty. Vendors are facing demands for more flexibility in entitlement management and other challenges that can easily result in lost revenue, due to customer churn or a competitor's offerings. It's vital that vendors implement a strategy to minimize risks and maximize their ability to meet customer needs.

FIGURE 5

Which of the following advantages and features of successful software monetization have organizations experienced/do they expect to experience?

[420] Asked to ISV and IDV respondents.
Excluding some answer options



By implementing effective software monetization, vendors can benefit from generating revenue from the selling or renting of value-adding services (36%) or preventing unauthorized software use in order to reduce revenue leakage (34%). On top of these benefits, vendors also expect to benefit in other ways such as improved operational efficiency (55%), highly secure software protection (55%), or the increased value of software (51%). While it's clear how vendors would benefit from these advantages, these also impact customers, improving the overall experience they have when purchasing software.

There are other important considerations that ISVs and IDVs must also take into account when devising a comprehensive software monetization strategy. For instance, collecting usage data can uncover critical insights into customer demands and requirements, enabling vendors to improve their software to better meet customer needs. This research shows that customers are calling for vendors to keep them aware of over/under usage of software. Having this usage data more readily available to vendors will make it easier and faster to do so, in turn improving the customer experience as well.

Vendors believe that it would be important to track and measure a number of usage and behavior metrics, to enable them to understand how their customers are actually using the software—instead of what they presume. This is reflected in what they need from data collection, such as features most commonly searched for (43%), usage trends over time (42%), the number of software licenses being used by users (41%) or the most/least popular features within their software (41%).

Of those who are already collecting service usage and insight data, they're doing this for a number of reasons such as for business intelligence and product insight purposes (89%) or for billing purposes (74%). However, while there are various uses and advantages to collecting such data there are also some challenges. These include improving the understanding of what value usage data can bring to businesses (88%), associated overheads with collecting data that are deemed to be too high (69%), or not leveraging it as well as possible (62%).

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Conclusion

Faced with demands for more flexibility in how they can deploy and sell their offerings, vendors can comply and evolve, or risk losing ground to competitors. The world is changing quickly, and software vendors are not immune to those changes. In the world of B2B software vendors, this is most clear with how the world continues to embrace SaaS with increasing speed. But this shift is not universal, and some end customers still hold onto more traditional concepts despite appreciating the benefits SaaS can drive and enable. This also introduces a number of challenges for both vendors and customers that can only be mitigated with an effective and scalable software monetization strategy.

Many vendors have already worked through the beginning chapters of this evolution and are currently in the middle of their transformation.

They may be at a point where they are able to envision what the future looks like. Others have barely begun and are looking at how others have been successful while also maintaining the stability they need.

There are clear advantages for vendors who put the right amount of focus on leveraging both software monetization and entitlement management to drive growth. By offering a flexible range of options as to how end customers can deploy and consume their products, and by also reducing the learning curves and IT demands on their customers, vendors can eliminate major growth barriers, gain increased competitive advantage and revenue, and ensure a greater number of happy and committed customers.

Methodology

Thales commissioned independent technology market research specialist Vanson Bourne to undertake the quantitative research upon which this whitepaper is based. A total of 1120 respondents, split between independent software vendors [210], independent device vendors [210], and enterprise IT decision makers [700] were interviewed in May and June 2021. Research took place in the following markets: US [400], China [160], UK [134], DACH [134], France [132], Japan [80] and Israel [80]. ISV and IDV respondents were from organizations with 25+ employees, while enterprise ITDMs were from organizations with 500+ employees. Respondents were from all public and private sectors.

Interviews were conducted online using a rigorous multi-level screening process to ensure that only suitable candidates were given the opportunity to participate. Unless otherwise indicated the results discussed are based on the total sample of respondents from ISVs/IDVs.

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Thales Sentinel is the leading global brand for software licensing, delivery, and protection. Our solutions help customers to generate new revenue streams, improve operational efficiency, increase customer satisfaction, and gain valuable business insights.

About Vanson Bourne:

Vanson Bourne is an independent specialist in market research for the technology sector. Their reputation for robust and credible research-based analysis is founded upon rigorous research principles and their ability to seek the opinions of senior decision makers across technical and business functions, in all business sectors and all major markets.

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