I D C V E N D O R S P O T L I G H T

Supporting Software Business Transformation with Systems Designed for the Task

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The IT industry is in the midst of a massive structural shift toward a next-generation compute platform characterized by a proliferation of always-connected smart mobile devices, coupled with the widespread usage of social networking, and layered over a cloud-based server infrastructure supporting important new workloads such as big data analytics. The 3rd Platform, as it is called, has massive scale, reaching trillions of IP-addressable "things" — devices, monitors, and sensors — and billions of users through millions of new applications and services with a potentially global user base and unlimited hardware resources. This Vendor Spotlight addresses these trends and discusses the role that SafeNet solutions play in addressing the challenges these trends pose.

Introduction

IDC believes that 3rd Platform solutions will be responsible for 75% of the growth as worldwide industry spend moves from $3.2 trillion in 2013 to $5.3 trillion by 2020. The rise of the 3rd Platform is happening alongside a customer revolution. Next-generation applications will be designed for the consumer and enhanced for the enterprise. Consumer-like expectations for simplicity and transparency will dictate pricing models and payment terms. In addition, expectations for ease of access (anytime, anywhere, and from any device) and interoperability will also be gleaned from consumer experiences. New business models that align more closely with business outcomes and experiences are becoming the preferred way of monetizing software intellectual property, including software embedded on intelligent devices.

This is one reason that subscription models are on the rise, growing much faster than traditional license models. And start-ups aren't the only ones offering subscription — 16% of the top 100 software vendors derive more than 50% of their revenue from subscription. Though important, subscription models are just the tip of the iceberg when it comes to business model change brought about by the 3rd Platform.

IDC expects that with billions of users on an average of three devices apiece, there will be a shift from device-based pricing models to user- and usage-based models that align more closely with consumption. Furthermore, the billions of users who access 3rd Platform applications provide a massive data trail that can be harvested, curated, and sold back to interested parties (e.g., retailers) or otherwise used to improve user experience. Software providers are creating new services to provide information back to markets as they mine the information entered by their customers into public cloud systems. End users will have new ways to benchmark their work processes against those of peer groups that are using the same software, creating opportunities to refine and improve their own productivity.

At the same time, the business of software is changing. Today, key providers include classic software companies, as well as new entrants from an array of industries including IT hardware, telecommunications, healthcare, entertainment, and logistics. Despite coming from different perspectives, all companies that monetize software products face a set of similar challenges in today's highly networked, increasingly mobile and decentralized world. Software, and the data that it helps to generate and store, is becoming more valuable — not only to the customers that acquire it but also to hackers who are determined to exploit it.

Transition Requirements

Software providers must realign their processes, policies, systems, and organizations around these new opportunities. For a software monetization strategy to be effective in this new era, software providers need to provide full-featured, transparent, and customer experience–friendly pricing and packaging. Elements of flexibility and simplicity must be equally balanced. Furthermore, these systems must be agile and highly scalable. Finally, customers expect a consistent and unified experience, whether the provider has a mix of organic and acquired products or on-premises and cloud solutions. Key capabilities include the following:

- **Provide a single view of the customer.** With the introduction of new models alongside existing approaches, customers have many opportunities to buy. Even if they buy multiple products and services including cloud and on-premises offerings, they expect to be regarded as a single customer working with a single provider.
- **Reduce paperwork.** Increased automation and electronic documents and signatures need to replace inefficient paper-based processes.
- **Track usage.** The ability to monitor and report on usage in real time is a key enabler for next-generation business models as well as for enhancing the customer experience.
- **Reduce sales friction and simplify customer onboarding and billing.** This includes the ability of customers to self-provision and then to catch up on the order afterwards. Many suppliers are focused on the commerce side of enabling new business models; investing in Web stores and in-product purchasing capabilities, and billing engines that allow customers to have different types of products with different types of billing timing. They also need to invest in user and service provisioning and integrating with key systems such as billing.
- **Enable flexibility without complexity.** Automation plays a key role in enabling flexible pricing and packaging strategies while also shielding customers from business process complexities.
- **Protect intellectual property (IP).** Companies need to reduce the incidence of malicious misuse and piracy and quickly identify software license compliance and application protection gaps.

Transition Approach

Even as these transitions occur, the majority of software providers will have to manage a hybrid state, including a mix of traditional and new business models, for the foreseeable future. The hybrid state is a difficult and unsteady state to manage; however, it is the reality for most providers and their customers. In general, companies with traditional businesses are often at a disadvantage when it comes to the demands of newer pricing and deployment models due in large part to legacy processes and systems.

From a strategy perspective, it is necessary for a provider that is faced with a transition to decide whether it wishes to continue offering traditional products, and to whom. Most software providers do decide to maintain an existing approach while they grow a new business and offer customers the flexibility to choose. This can create challenges, such as how to market and sell the new approach alongside the traditional model and whether customers can mix and match or move from one to the other. Providers that decide to shift away from the traditional model entirely must decide how to convince (or compel) the install base to switch over. No matter how a software provider approaches the transition, the potential financial impact will be a concern.

Beyond strategy and policies, the software provider must consider whether existing operational systems can extend to support the new business. Sometimes, the new business is the result of an acquisition, and the provider will decide to keep the systems separate for a time. Eventually, it will be important to have a consistent customer experience and a unified view. As software providers consider how to achieve this, they may find that best practices exist in both systems, and they will approach the options differently than if they were offering just one approach or another.

Key Challenges

As companies rev up their strategies, they often find that existing systems — including license management, ERP, and billing — are not up to the task. Some companies rely on manual processes to bridge the gaps. This approach may work initially, at low volumes, but at some point, a tipping point will be reached and automation will be required.

Without technology to enable the software monetization life cycle inside the vendor and at the customer site, it is easy for customer frustration and noncompliance situations to occur. Poor practices and technologies can reduce business agility, create manual work, increase the likelihood for error, and compromise the company's relationship with partners and customers.

With a long laundry list of requirements, oftentimes the bias will be to focus on issues that impact the customer experience first. For example, one of the most challenging aspects of next-generation pricing approaches is managing the customer life cycle. For a company in which the norm is to make an up-front sale and move on, the tightly managed relationship that is required throughout the life of the customer contract and renewal is brand-new territory. Software companies must understand whether the customer is using the products and to what degree in order to ensure value and renewal. Furthermore, they must work to make sure that customer usage increases over time.

Compliance can be another challenge. Some providers do not have the ability to turn the software or service off if the customer stops paying its subscription. Another systems-related challenge is updating the order and fulfillment processes and operations to meet the needs of subscription-based models.

Considering SafeNet's Approach to Supporting Today's Software Monetization Strategies

SafeNet Inc. is on the "short list" for many software providers that are looking for software monetization solutions. The company offers a suite of protection, licensing, and entitlement products that include hardware-, software-, and cloud-based solutions designed to maximize the value that companies derive from their software.

SafeNet customers include a mix of classic software companies, intelligent device manufacturers, and cloud-based "as a service" companies. SafeNet understands that the software monetization needs of these firms can vary widely, and the company has a track record of providing products and services that address several scenarios as well as integrate with other key systems.

For example, some SafeNet customers are looking to maintain classic licensing and enforcement solutions while supporting new deployment scenarios (like virtualization or disconnected networks) on multiple endpoint devices. Existing licensing and enforcement solutions that were initially implemented for classic scenarios are rarely capable of transforming to support new business models.

For example, a provider may have three different offerings packaged for and targeted at three different market segments. To deploy, license, and entitle, the company needs to have a solid, flexible system in place that enables feature-based packaging and delivery. By utilizing more flexible solutions, rather than outdated or homegrown enforcement technologies, the company can increase customer satisfaction and reduce the number of calls to technical support.

Other customers have used SafeNet to enable try-before-you-buy scenarios. Transparency and ease of use are key tenets of today's cloud-centric world; however, providing these attributes requires technology that can ensure that potential customers can experience the software for enough time to make a buy decision while also preserving value for paying customers.

Challenges

As more software providers look to improve their software monetization processes and systems, competition for products such as those offered by SafeNet will increase. SafeNet must constantly look for ways to demonstrate technological advantage and its successes to gain continued recognition. In addition, this space is evolving rapidly, and customers are looking for a broad range of products and services that constitute a solution. SafeNet will need to keep up with the changing market by investing in partnerships and exploring adjacent markets.

Conclusion

Revenue for 3rd Platform technologies is projected to grow at a 10.6% CAGR from 2013 to 2020, compared with 0.5% for revenue associated with traditional client/server technologies. Most software providers are shifting toward business models that align with the 3rd Platform to some degree. The required changes will be unique to each provider but will likely impact almost every aspect of the organization. Updating the technologies that support the software business is as important as hiring the right people or embracing a company culture that supports 3rd Platform tenets. In addition to looking holistically at which technologies should be part of a software strategy, software providers should consider the following factors:

- Does your company currently have internal expertise in software licensing and monetization technologies, and do you wish to expand and maintain this expertise?
- Does your company have development resources that can be utilized for the development, testing, and ongoing maintenance of these technologies?
- Is your company willing to address the significant requirements associated with the integration of a homegrown licensing technology with other relevant systems in both your internal environment and the customer's environment? How about the support for the technology across multiple platforms as required by customers?
- Does your company have an understanding of the evolution of the software business, and licensing in particular, including the ways in which your approach may need to change in the future to adapt to new customer demands and market realities? Could an internally developed and supported licensing technology be flexible enough to adapt in a timely manner to new licensing scenarios?

This final bullet makes a key point. In today's dynamic software market, not reacting to a clear competitive situation or customer mandate means lost opportunity. Software providers need to establish a solid, but flexible, technology-based foundation on which to shift and grow. SafeNet offers specific expertise in these market evaluation areas. To the extent that SafeNet can address the challenges described in this paper, IDC believes that the company is well positioned for success.

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