



WHITE PAPER

# Making Money with Software Licensing

## Introduction

This white paper will help you discover and quantify the value of having your business run on a modern software monetization platform. Throughout this white paper we will discuss and highlight two areas:

1. Revenue Generation: by going to market in a different way
2. Cost and Risk Reduction: as a byproduct of operating more efficiently and with tighter controls

By the time you finish this white paper, you will have a deeper understanding of the potential value that an effective software monetization strategy can create for your organization. The calculations that are used throughout this white paper were created using Gemalto's Software Monetization business value calculator (SMRC). The business value calculator was specifically developed to help companies examine the profitability one can achieve through a software monetization platform. At the conclusion of the white paper, you will find an opportunity to quantify your own software monetization opportunities.

## Getting to the Value Proposition

We live in a world that is increasingly driven by software. Today, nearly every company is reliant on software in some way. As the reliance on software continues to expand and deepen, it becomes ever more important to have a solid strategy. Software monetization can be defined as the adoption of any variety of measures an organization takes to increase the profitability of their intellectual property, in this case, software.

A comprehensive software monetization strategy offers clear and obvious benefits. If there was ever a win-win situation that united Independent Software Vendors (ISVs) and Independent Device Vendors (IDVs) with their customers in a mutually beneficial value chain, software monetization is it. Given all that potential upside, the question becomes—why are so many companies slow to adopt even the most basic aspects of software monetization?

Because addressing the myriad issues and calculating the cost of making this shift can leave many organizations in a state of decision-making paralysis as they struggle to quantify the exact value—in actual dollars—they stand to gain from increased revenues or stand to save from reduced costs and improved operational efficiency.

Let's add some clarity by walking through the 8 ways software monetization can help you generate new revenue. And the 6 ways software monetization can help you save money by reducing costs and risks.

## Meet InControl Software: A Hypothetical Example of Value

InControl Software is a completely fictitious company we invented for this white paper to provide a hypothetical example of the kind of value you can expect to generate from a robust software monetization strategy and platform. To keep our hypothetical example realistic, we need to define some basic revenue information about InControl Software that will allow us to quantify the value of their software monetization efforts using Gemalto's Software Monetization business value calculator. Let's keep the math simple:

### InControl Software: Annual Software Revenue (Hypothetical Example)

Annual software license revenue: \$100MM

Annual software maintenance revenue: \$10MM

Total annual software revenue: \$110MM

As we move through the list of opportunities, we'll show both the gain that InControl would realize if it achieved all of its software monetization goals and the anticipated loss if they chose instead to do nothing at all. The InControl example enables us to see best- and worst-case scenarios from a valuation standpoint. Let's start with the revenue generation opportunities.

## Revenue Generation: Show Me the Money

Here are 8 ways that software monetization can generate value for you in the form of revenue. We'll use our hypothetical friends at InControl Software to quantify the value proposition and bring it life.

### 1. New Software License Models

**Background:** Market trends strongly support the view that more and more businesses are looking to purchase B2B software on OpEx rather than CapEx models. Analysis of sales data and customer analytics further support the view that subscription- and usage-based licenses must be offered by ISVs in the near-term if they wish to stay competitive in the marketplace and in the minds of potential customers.

**Considerations:** What kind of market pressure are you currently experiencing to offer new license models? Are you losing deals that you could otherwise convert into sales because of those license models? If you offered different license models, could your sales team close more deals? Would it create a competitive differentiator? With all of that in mind, what do you think your revenue increase might be if you offered the kind of flexible licenses the market is moving towards?

**Value:** Let's assume the Product Management team at InControl Software estimated a revenue lift. The business value calculator illustrates their \$4.5MM gain over a 3-year period.

Estimate the revenue increase by introducing new license models - Year 1	\$500,000
Year 2	\$1,000,000
Year 3	\$3,000,000
3Y Total	\$4,500,000

### 2. New Software Packaging

**Background:** New software packaging enables flexible pricing, but market research also shows that there is a demand for simplicity. Your pricing models need to be both flexible and easy for your customers to understand.

**Considerations:** Would your sales team sell more software if you offered simple packaging like Gold, Silver and Bronze? Would they close more deals if they could sell individual modules? Would offering new software packaging create a competitive differentiator for you? Based on those considerations, what do you think your estimated revenue lift might be by offering new, optimized software packages?

**Value:** The Product Management team at InControl Software estimated a \$1.6MM revenue increase over a 3-year period.

Estimate the revenue increase by introducing new software packaging schemes - Year 1	\$100,000
Year 2	\$500,000
Year 3	\$1,000,000
3Y Total	\$1,600,000

### 3. Software Compliance

**Background:** Most software abuse is unintentional due to companies deploying software that does not have a mechanism to prevent unauthorized use. Industry standards for unintentional abuse range anywhere from 25-35%. As an example, vendors selling 100 licenses of software that does not have license enforcement can expect their honest customer to use around 130 licenses because the customer has few ways of controlling use.

**Considerations:** How do you convert revenue leakage into revenue generation? Start with sales. Do your teams believe their customers are using more software than they purchased? If so, by what percentage? Would your sales teams sell more software if your products had a mechanism that prevented customers from going over? And last, would your sales teams capitalize on true-up opportunities if you had tighter enforcement?

**Value:** Our hypothetical example company, InControl Software estimated their customers were out of compliance by 25% on average. After successfully integrating tighter enforcement controls, InControl estimated they could convert revenue leakage into a \$3.5MM revenue gain over a 3-year period.

Estimate the percentage of licenses your customers use above entitled limits	25.0%
Estimate the revenue increase with better software license enforcement - Year 1	\$500,000
Year 2	\$1,000,000
Year 3	\$2,000,000
3Y Total	\$3,500,000

### 4. Annual Software Maintenance

**Background:** Software maintenance is typically sold to customers who purchase perpetual licenses. Software maintenance is usually an annual license priced at ~20% of the value of the perpetual license fee. An active maintenance contract typically entitles customers to get technical support services and stay current on software versions including major and minor upgrades, and bug fixes.

**Considerations:** Does your company have an annual software maintenance program? If so, what is your company's renewal rate across the customer base? Do you believe you can achieve the industry average renewal rate of 80%+ with having better tools and processes? Would your renewal rates increase if your products had a mechanism that only allowed customers to access new software versions if they are on active maintenance?

**Value:** InControl Software achieved an increase on maintenance renewal rates bringing in revenue that would have otherwise been lost. The business value calculator shows us the dollar value of that gain:

Estimate the increase renewal maintenance by having version control - Year 1	\$50,000
Year 2	\$200,000
Year 3	\$500,000
3Y Total	\$750,000

## 5. Customer Experience

**Background:** Consumers are making more buying decisions based on their experience online so offering a good customer experience is more mission critical than ever. Many companies struggle with quantifying the value that improvements to the customer experience can generate. As a reference point, a Fortune 100 software vendor was able to increase its customer satisfaction score by 30 points after making improvements to the overall customer experience on their software licensing management portal.

**Considerations:** Does your company measure customer satisfaction or NPS (Net Promoter Score)? Would your customers say their experience with your software fulfillment and activation is good, fair or poor? Does your company have a customer experience improvement initiative? Would your sales teams say they lost business because of a poor customer experience? If so, what is the value of that loss over time? Can you estimate the impact to revenue if you could offer a better customer experience?

**Value:** The hypothetical superstars at InControl Software continued to achieve their software monetization targets by increasing their customer satisfaction scores by 10%. This increase in customer satisfaction led to lower customer churn rates, high customer renewal rates and a digital experience that InControl can actively market as a competitive advantage.

## 6. Channel Partner Experience

**Background:** Selling software and services through a sales channel can have its challenges due to the loss of visibility into who your customers are. Distributors need tools to be able to move software inventory through their channel. Resellers need tools that help them provide value-added services to their customers like software installation and activation. Meeting these needs has the same benefits you derive from meeting the needs of your customers and as a reference point, you can expect a 1 to 2% increase in your channel partners satisfaction scores.

**Considerations:** Does your company sell software through a channel? Is it Multi-tier? Do you know who your end customers are? Is there increased value in your company knowing who the end customers are? (e.g. sell end customer support contracts, etc.) Would your partners say their experience with your software fulfillment and activation is good, fair or poor? Would your partners find value in having a dashboard of software licenses across their customer base? Would your partners order more software if they had a self-service method of fulfilling and activating software for their end customers?

**Value:** Meanwhile, back at InControl Software, everything they expected to get materialized and they were able to increase their channel partner satisfaction scores by 2%. This ultimately led to an increase in business with those InControl partners.

## 7. Customer Insight

**Background:** Knowledge is power. So, what do you call the opposite of that? Perhaps the best way to describe it is to call it a missed opportunity. As your customers use and interact with your software—activating, managing, renewing and using the software, data is being generated about what your customers want and need. This information can help you make a host of business decisions based on real customer feedback. Imagine the cost you would incur to generate all of this information through research, focus groups and consumer panels? When designed correctly, your software licensing management system should be a gold mine of customer insights.

**Considerations:** Can you easily see a list of: Customers who are entitled to any given product? Products to which a given customer is entitled? Products that have been activated against their entitled limit? Customers on active maintenance contracts? Customers whose subscription or maintenance is due for renewal? Customer product usage data? How would your company benefit from having this information?

**Value:** InControl Software converted the deep customer data they collected via their software licensing management platform into customer insights that informed their marketing approach, sales tactics, product development strategy and customer service approach to open new revenue streams, reduce costs and boost operational efficiency.

## 8. Revenue Recognition

**Background:** The common practice for software vendors is to recognize revenue when you have given the customer “access to the software”. This can be tricky if customer needs a license key for the product to work. The industry standard is to recognize revenue when you send an email giving the customer instructions on how to download and activate the software. An automated system with customer self-service can allow you to recognize software revenue moments after the order is processed and an email automatically goes to the customer. CFOs are usually well-aware of revenue recognition issues.

**Considerations:** When in the order lifecycle does your company recognize software revenue? Would your CFO say there is a benefit for being able to recognize software revenue immediately after order submission? Can you estimate the impact to quarterly revenue?

**Value:** Of course InControl Software achieved their planned revenue lift by recognizing software revenue immediately upon order commitment.

Revenue increase resulting from recognizing software revenue immediately upon order commitment	\$100,000
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## Cost & Risk Reduction: Show Me the Savings

"We aren't interested in cost or risk reduction" said no one ever. At least not anyone who relies on software. Here are 6 ways software monetization can reduce your costs and risks.

### 1. Manual License Generation Cost

**Background:** The largest cost item in running a software licensing program business case is usually the cost to employ people who do manual work generating licenses for customers, partners and for internal use. Manual processes are expensive and slow and can lead to customer dissatisfaction. Offering self-service software downloads and license activation can decrease cost while increasing customer and partner satisfaction.

**Considerations:** What is the average time it takes a customer to get a software license after ordering? (minutes, hours, days?). If you add up the collective time your people spend generating licenses for customers, partners and employees, how many FTEs (Full Time Employees) does this equate to? Is there a goal to reduce license generation staff? What is the average annual fully loaded cost of licensing support staff?

**Value:** Our hypothetical example, InControl Software, achieved their goals by automating their license key generation and reduced their licensing support staff headcount by 2 FTE.

	Current	With New System
Enter the number of staff dedicated to license generation - Year 1	3	3
Year 2	3	2
Year 3	3	1
FTE cost per head (\$)	\$100,000	\$100,000
Year 1 cost	\$300,000	\$300,000
Year 2 cost	\$300,000	\$200,000
Year 3 cost	\$300,000	\$100,000
3Y cost	\$900,000	\$600,000
3Y Cost Delta		\$300,000

### 2. Licensing Support Cost

**Background:** The cost to employ a licensing support team can also be significant. Companies without customer and partner licensing portals tend to have higher support costs than companies that offer self-service and self-help.

**Considerations:** How many FTEs does your company have that take licensing support calls? What percentage of your overall support call volume is for licensing? How many licensing cases does your support team take per unit time (week, month, year)? What is the average cost per support call? Is there a goal to reduce licensing support staff? What is the average fully loaded annual cost of licensing support staff?

**Value:** InControl Software was able to cut their headcount by two FTEs resulting in a considerable savings according to the business value calculator:

	Current	With New System
Enter the number of staff dedicated to licensing support - Year 1	4	4
Year 2	4	3
Year 3	4	2
FTE cost per head (\$)	\$100,000	\$100,000
Year 1 cost	\$400,000	\$400,000
Year 2 cost	\$400,000	\$300,000
Year 3 cost	\$400,000	\$200,000
3Y cost	\$1,200,000	\$900,000
3Y Cost Delta		\$300,000

### 3. Software Delivery Costs

**Background:** Many companies still rely on shipping software by physical media. The average media kit preparation, handling and shipping cost is around \$20.

**Considerations:** How does your company distribute software including new releases, updates and fixes? With a new software purchase, how long does it usually take for the customer to get the software? Do your customers have a way to get updated software on-demand (self-service web portal)? Is there any mechanism that prevents customers from accessing software to which they are not entitled? If you deliver software via physical media, what is the average cost per kit? How many media kits to you ship per unit time (month, quarter, year)?

**Value:** InControl Software was spending \$130K per year to ship physical products. Making the shift to an Electronic Software Delivery (ESD) approach helped them reduce the cost of delivering software by 90%!

	Current	With New System
Number of units shipped per year - Year 1	2000	2000
Year 2	2000	1000
Year 3	2000	200
Cost per unit	\$20	\$20
Year 1 cost	\$40,000	\$40,000
Year 2 cost	\$40,000	\$20,000
Year 3 cost	\$40,000	\$4,000
3Y cost	\$120,000	\$64,000
3Y Cost Delta		\$56,000

#### 4. Product Development Cost

**Background:** Many companies have product lines that have differing license enforcement technologies. It is not uncommon for larger companies to have more than a dozen licensing technologies across their portfolio. Standardizing on a single licensing technology can reduce engineering efforts across product lines. This can keep software developers focused on their product instead of engineering licensing functionality.

**Considerations:** How many unique license enforcement technologies does your company have? Would your software development teams benefit from leveraging a single licensing technology instead of supporting their own? If so, estimate how much time this would save per unit time (week, month, year). What is the average fully loaded annual cost of software developers?

**Value:** InControl Software achieved positive results in reducing their overall product development costs by standardizing their licensing technology across their software product portfolio. The net result was a much more efficient development process that resulted in the elimination of 1 FTE headcount. This resulted in an annual savings but there were additional benefits that are more difficult to quantify such as freeing up product engineers to focus on optimizing a software product rather than wrestling with licensing enforcement technology. The business value calculator totals up the annual savings with the new, more efficient product development team:

	Current	With New System
Enter the number of full time engineering and QA staff dedicated to licensing - Year 1	3	3
Year 2	3	2
Year 3	3	2
FTE cost per head (\$)	\$100,000	\$100,000
Year 1 cost	\$300,000	\$300,000
Year 2 cost	\$300,000	\$200,000
Year 3 cost	\$300,000	\$200,000
3Y cost	\$900,000	\$700,000
3Y Cost Delta		\$200,000

#### 5. Licensing Back Office/IT Cost

**Background:** This item may apply if your company has a homegrown license generation tool. Back office applications usually require IT or engineering support to not only keep the system running, but to enhance it on a regular basis.

**Considerations:** How much time do your IT and/or product development teams spend on your licensing back office tools per unit time (month, quarter, year)? What is the annual systems cost to support your licensing back office (hardware, software, hosting, etc.)? Would your IT team welcome the notion of Gemalto hosting a commercial licensing back office? What is the average fully loaded annual cost of IT professionals?

**Value:** InControl Software had been running a homegrown licensing platform that required 2 FTE to manage and maintain. After switching to Gemalto's Sentinel platform, InControl was able to reduce its licensing/back-office headcount by 1 FTE, resulting in an annual savings. InControl was also able to significantly increase its operational efficiency by adopting a more robust and stable licensing platform that included annual maintenance and upgrades. The business value calculator shows the savings that resulted from the elimination of 1 FTE:

	Current	With New System
Enter the number of staff dedicated to supporting licensing systems - Year 1	2	2
Year 2	2	1
Year 3	2	1
FTE cost per head (\$)	\$100,000	\$100,000
Year 1 cost	\$200,000	\$200,000
Year 2 cost	\$200,000	\$100,000
Year 3 cost	\$200,000	\$100,000
3Y cost	\$600,000	\$400,000
3Y Cost Delta		\$200,000

## 6. Business Continuity Risk

**Background:** This item applies if your company has a homegrown license generation tool. Critical back office applications require solid business continuity plans in the case of a disaster or system outage. Failure to have a business continuity plan could put your company at risk. Creating this kind of plan on your own can be costly and cumbersome.

**Considerations:** Does your company have a business continuity plan for your licensing back office? If not, should you have one? How much time do your internal teams spend on business continuity planning for your licensing back office per unit time (month, quarter, year)? What would happen if your licensing back office suffered a catastrophic system failure? How many customers would be down? Revenue recognition impact?

**Value:** After moving to Gemalto's Sentinel platform, InControl was able to outsource all of its Business Continuity Planning to a dedicated resource. Moving these mission-critical business processes and systems to a Managed Services solution eliminated significant internal costs associated with procuring, managing and maintaining all of the hardware, software and technical infrastructure required to implement their own Business Continuity Plan.

### InControl Software: Total Valuation Example

To recap, we made up the purely hypothetical InControl Software to provide an example of turning a vague notion of "value" into quantifiable dollars that show you how software monetization generates revenue and reduces costs and associated business risks. Let's take a look at the total value in dollars that InControl generated:

#### InControl Software: 3 Year Return on Investment

a. Revenue opportunities (3Y):	b. \$10,750,000
c. Cost reduction (3Y):	d. \$1,106,000
e. Bottom line financial impact (3Y):	f. \$11,856,000
g. Additional Upside	h. Improved customer experience
	i. Improved time to market
	j. Improved partner experience
	k. Fewer escalations through Sales
	l. Reduced business continuity risk
	m. Scalable platform

## Conclusion

The value proposition that software monetization offers is straightforward. An effective software monetization strategy helps you create new revenue streams by allowing you to quickly and efficiently repackage and reprice software to meet changing customer needs and market conditions. And it helps you cut internal costs by creating operational efficiency, eliminating revenue leakage, protecting your IP and reducing business continuity risk.

For many companies, making the shift from perpetual licenses to subscription- or consumption-based licenses involves navigating a series of complicated organizational, technical and operational challenges. Without a clear picture of the real value these efforts can create—in terms of additional revenue generated and costs eliminated or reduced—this important shift can be met with hesitation or resistance.

Gemalto's Software Monetization business value calculator allows you to quantify the revenue and cost-reductions that a robust software monetization platform can provide. We encourage you to explore this valuable tool to gain deeper insights into the positive bottom line results you can achieve.

To receive the business value calculator please email [marcy.clapp@gemalto.com](mailto:marcy.clapp@gemalto.com).

**Contact Us:** For all office locations and contact information, please visit [www.gemalto.com/software-monetization](http://www.gemalto.com/software-monetization)

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