

Software Licensing and Customer Satisfaction

New Strategies for Enhancing Customer Relationships and Revenues with Entitlement and Compliance Management



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Managing Entitlement: An Age-Old Problem in Digital Industries

Twenty-five years into the modern software industry, revenue growth is slowing¹, and relationships between software publishers and customers are frequently complicated by multiple mergers and acquisitions (M&A). Additionally, in today's stringent regulatory environment, both publishers and enterprise customers must gain a clearer understanding of software ownership to ensure compliance with legal requirements.

In parallel, a new industry for digitally distributed content is growing rapidly. Pervasive high-speed, high-bandwidth Internet connectivity allows all manner of content – not just software, but associated marketing, training and feedback on product usage, and platform demographics – to be exchanged with enterprise customers in a mutual, agreed-upon fashion. Beyond the long-term challenge of reforming software licensing practices, these opportunities pose the immediate question of how to license and provide entitlements for software published today.

Software licensing evolves into Entitlement and Compliance Management

As a result, the core concept of software licensing management is changing. It is evolving from value-exchange model based on one-off transactions to an integrated model built on an ongoing relationship between a software publisher and the customer. This model, called Entitlement and Compliance Management (ECM), is designed to align the distribution and sale of software with the way it is purchased and used by customers. Specifically, in the ECM paradigm, a customer's entitlement to a product or service intrinsically changes over time.

Through ECM, traditional licensing and digital rights management models are being rethought to enable a broader, more flexible approach that proactively improves customer relationships and satisfaction, and maximizes revenue. ECM also creates a process framework for understanding which organizations and/or individuals are entitled to license rights, products, updates, support, download rights, content access, online communities and distribution rights.

In gaining a more granular, timely understanding of customer relationships, ECM goes beyond maximizing revenue and improving regulatory compliance. With it, software publishers can leverage compliance strategies to drive operational efficiencies, achieve superior product differentiation and, ultimately, enhance customer experience.

Flexera Software delivers ECM solutions for today – and the future

Flexera Software has a long history of helping software and hardware producers get the most value from their software products. Flexera Software technology is a trusted standard in software licensing, installation and delivery, used by over 50,000 software producers and deployed on more than 500 million desktops worldwide. Today, these capabilities have evolved into Flexera Software's solution for ECM, a comprehensive suite that enables software producers to increase revenue and simplify the customer relationship by:

- Creating a single, end-to-end entitlement management system that eliminates manual processes
- Making it easier for customers to buy and use software with flexible packaging, pricing and licensing
- Increasing and protecting revenue with accurate entitlement tracking and software compliance
- Enabling a consistent customer experience across the various products

¹The software industry has had only modest growth for the past several years; worldwide revenue increased from \$195.6 billion in 2004 to \$211.3 billion in 2005, an annual increase of only 8.0%. Source: IDC.

Flexera Software's solution for ECM delivers the capabilities prescribed for this category by IDC; it provides software producers with a holistic approach to help productize, monetize, deliver and install packaged software. IDC believes that companies offering solutions in this space must address the software producers' "five Cs" of customer pain points: compliance, costs, control, complexity and customer satisfaction. IDC forecasts that worldwide spending in this market will reach approximately \$1.2 billion by 2010.

Systematic Breakdown: The Disconnect between Licensing, Revenues and Customer Satisfaction

Today, software publishers are keenly aware that in this maturing and competitive industry, product differentiation and strong customer relationships are the keys to survival. Ironically, most software companies haven't applied integrated applications to address their relationships with their customers, resulting in silos of duplicate information and non-integrated processes. The software licensing practices most companies use have not evolved appreciably over the decades. This fact has had a deep impact on the software industry, resulting in:

- Uncaptured revenues from non-compliant and unlicensed use by existing customers. The Business Software Alliance (www.bsa.org) estimates that 22 percent of all copyrighted software in North America is the subject of unauthorized copying or distribution, a figure that rises to 35 percent worldwide. The revenue leakage problem is intensified by the complexity of the typical software lifecycle, which can last for many years
- Poor ability to differentiate offerings and address customer needs with customized licensing options, resulting in further loss of potential revenues
- Declining customer satisfaction that stems from confusing licensing practices. Software publishers' complex licensing practices can make it difficult for companies to determine precisely which software they are entitled to, and at what cost

Regulatory issues complicate licensing

Increased government focus on the software industry has created a multitude of regulatory issues for publishers. These include SOP 97-2 compliance, revenue recognition concerns, FASB/GAAP and software export compliance. Software vendors are being forced to complete a costly review of their own policies around sales, entitlement, fulfillment and maintenance.

On the enterprise side, customers have a strong desire, and a regulatory requirement, to properly license and pay for the software they use. Regulatory requirements such as the Sarbanes-Oxley Act in the US and the Basel II accords in Europe compel public companies to improve control over their software environments. These regulations require enterprises to have a precise, timely picture of all installed software.

In sum, software publishers that cannot provide a complete and accurate view of licensing status do disservice not only to themselves – 87 percent of software vendors claim some revenue loss due to unlicensed users² – but to customers, as well.

Why Traditional Licensing Practices No Longer Work

- Inflexible systems and rigid internal processes prevent publishers from creating flexible pricing and packaging
- Lack of integration with ERP and CRM systems requires publishers to manually re-enter order information to create licenses
- A drumbeat of M&A that results in disjointed processes, lack of clarity and a poor customer experience
- Inefficient software delivery and installation is time-consuming and error-prone
- Poor design of the activation experience requires users to search for and enter unfamiliar inputs to create a license
- Lack of self-service, particularly for making changes to licenses and entitlements, slows down processes such as returns and re-hosting
- Manual tracking of the installed base translates into manual, inefficient processes for tracking upsell and renewal opportunities

²Source: 2007 KPMG License Compliance Survey, in which 34 percent of respondents said their revenue losses exceeded 10 percent, and 21 percent believed their revenue losses were greater than 20 percent.

A New Approach: Entitlement and Compliance Management

ECM helps publishers and digital asset owners ensure that customers receive all the digital products and resources they are due. A detailed definition of ECM includes the following points:

- An entitlement is an object that defines what a customer has the right to use, download and update, and the current state of those rights.
- Entitlements include virtual or digital objects with changing properties such as versions, expiration dates and business policies.
- Unlike a specific product order, entitlement rights evolve over time, triggered by the actions of the software producer or the customer.
- An entitlement can include the rights to:
 - Use software, documentation, technical support, software maintenance, etc.
 - Download software, documentation, training materials, channel content.
 - Obtain updated software in the form of patches or updates, along with new product versions.

Entitlement spans a product lifetime – and enterprise information systems

Due to their constantly evolving nature, and the lengthy period of time they may span, digital asset entitlements are difficult to track. The value, and revenue, derived from any software asset is based upon increasingly sophisticated access rights that may change dynamically.

The ability to understand what customers were entitled to in the past, what they are specifically entitled to today, and what they will be entitled to at any give point in the future yields powerful insight into a software publisher's business. Therefore, the overarching goal in implementing an Entitlement and Compliance Management solution is "structured flexibility," to allow change to be readily addressed over time.

Thus, ECM solutions address entitlement issues over the lifetime of a product, and a software publisher's associated relationship with the customer. Entitlements are typically based upon a grant of rights such as a contract, but could also be unrelated to contracts, for activities such as an evaluation. Entitlements are influenced by events such as:

- Partial fulfillments
- Product return
- License renewal
- Product upgrade
- Partial or prorated maintenance contracts
- Usage increase
- Company and product mergers
- Product end-of-life
- Product transition
- New product bundling

An essential enterprise application for software publishers

Entitlement and Compliance Management solutions provide a strong complement to ERP and CRM systems, providing functionality that is unique within the enterprise application ecosystem. Specifically, both ERP and CRM are highly effective in addressing their original purviews, but are typically either too rigid or lack the functionality to manage the relationship between a publisher and customers' entitlement rights.

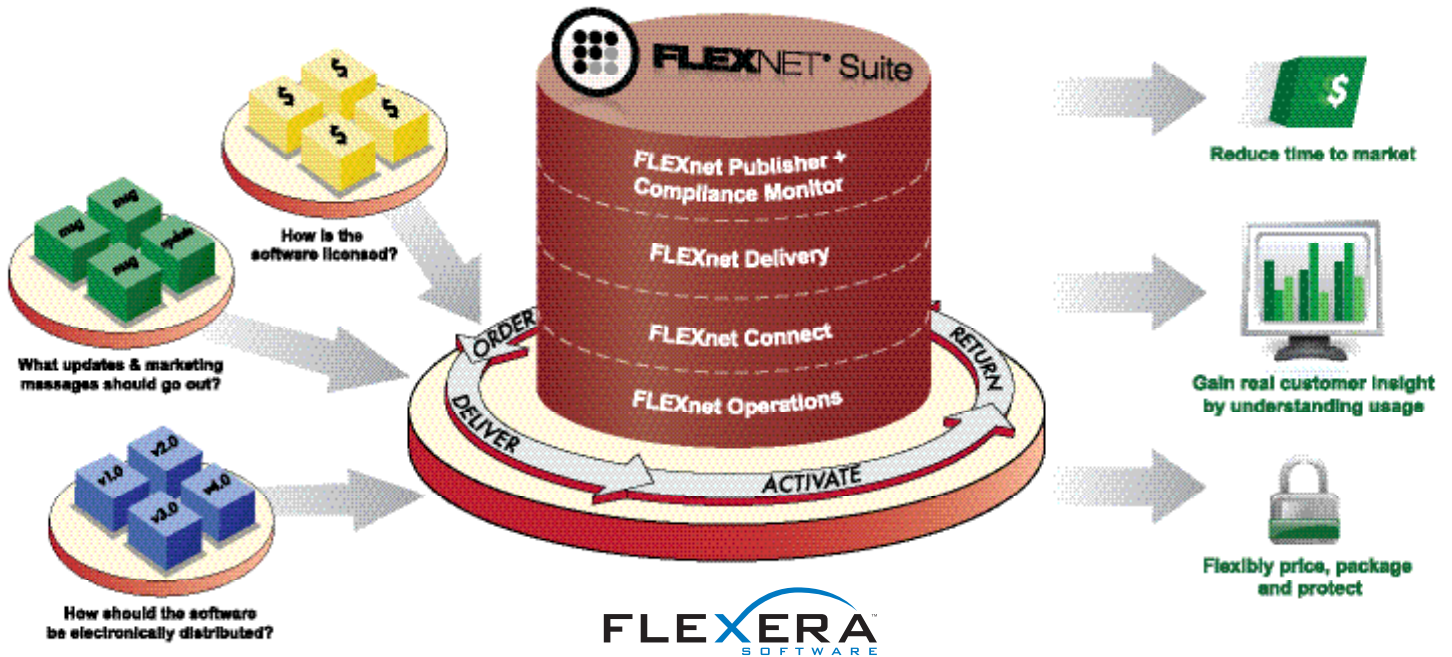
Supplementing ERP and CRM systems with "bolt-on" functionality that even approximates an Entitlement and Compliance Management capability requires expensive custom development and back office integration, as well as constant engineering maintenance. Even when quasi-ECM functionality is achieved, it reduces software publishers' flexibility to quickly react to market changes and make product packaging modifications as needed. Eventually, the back office begins to dictate business policies, rather than the converse.

Flexible by Design: Flexera Software's Solution for Entitlement and Compliance Management

Flexera Software's solution for Entitlement and Compliance Management simplifies the relationship between software producers and enterprises. Flexera Software's solution helps software producers reduce costly manual and redundant administrative processes while enabling:

- A holistic view of software entitlements
- Digital delivery of software and updates
- The ability to ensure compliant software usage

Ideal for medium-to-large software companies that are growing through M&A, Flexera Software helps publishers understand all aspects of customers' entitlements. It leverages existing enterprise software investments to provide a common integration point and framework for all entitlement-related information, including that contained in multiple, disparate back office systems. The Flexera Software solution can be quickly deployed, enabling new products and packages to be quickly rolled out without requiring IT resources.



Flexera Software Solution Overview

Flexera Software's solution comprises the following key components, which can be mixed and matched to meet the software producers' specific needs:

- **Entitlement and License Operations Management** is common integration point and framework for all entitlement management. It enables integration with existing enterprise systems, aggregating and normalizing entitlement data, and provides user access via a Web portal. Entitlement viewing and management for customers and channels enables 24x7 customer service for fulfillment and changes.

Ancillary benefits include eliminating the need to change back office infrastructure whenever new products are introduced, since a single build of supports multiple products.

- **Electronic Delivery Management**, including entitlement-based electronic download and automatic updating, increases customer satisfaction, reduces support costs and drives renewal rates. By using Flexera Software to gather highly accurate and timely entitlement information, software publishers can communicate with customers in a targeted manner. Instead of sending general technical or promotional communications – which can easily be construed as spam – software companies using Flexera Software can target communications to the right contact person within customer organizations.

- **Compliance Management** enables software publishers to help their enterprise customers remain in compliance with licensing agreements by providing a single, consistent view into the state of the software entitlement. Compliance monitoring provides passive reporting of software use, giving publishers the ability to compare what has been sold to the software that is in use. It also fosters customer satisfaction by allowing publishers to provide innovative product packaging, flexible licensing and creative pricing.

- **Customer Intelligence Reporting:** provide both broad and granular business intelligence across products, answering questions such as:

- Which products does the customer own?
- Breakdown of products and versions
- Number of support incidents against a specific product
- Percent of customers who own Products X and Y that are on the latest versions
- Number of downloads during this period?
- How many people activated the product?
- Which customers are up for a renewal?

Flexera Software Professional Services reduces business risk and speeds adoption

Implementing entitlement and compliance management can be a major undertaking that can have a positive and wide-reaching, impact on many aspects of a software publisher's

³Source: SoftSummit 2007.

business. While the potential benefits are enormous, so can be the challenges.

Flexera Software Global Consulting Services can reduce implementation time and business risk with a range of services and proven methodologies that leverage the company's expertise and industry best practices. To avoid unexpected issues that lead to budget and time overruns, Flexera Software consultants follow a phased approach that encompasses pricing and products, as well as entitlement strategy, discovery, design, implementation, knowledge transfer and certification. Each phase in the licensing implementation methodology includes a well-defined list of deliverables that must be approved and accepted by the customer.

Flexera Software Global Consulting Services offers the deepest domain expertise available in entitlement management solutions delivery, resulting in higher return on investment (ROI) and faster time to benefit.

Flexera Software's Solution Drives Multiple Improvements in a Changing World

Flexera Software's solution for Entitlement and Compliance Management solves the technology issue that drives the business problems associated with software and hardware publishers' inability to effectively manage software entitlements. It allows software publishers to overcome common challenges that negatively impact customer satisfaction, revenue capture and growth, and operational efficiency:

- **Mergers and acquisitions:** In a consolidating industry, M&A makes entitlement management an exponentially growing problem. Mega-vendors are emerging as they grow through M&A rather than organically. As technology markets become saturated, software publishers are looking for new ways to differentiate their wares and sell more effectively to customers. Flexera Software ECM enables operational excellence, and flexibility in bundling and selling software.
- **Today's digital world:** The tremendous rise in broadband adoption worldwide has spawned new Internet and Web-centric technologies that are disrupting the software industry. Software producers are making the move to digital delivery; Gartner predicts that 50 percent of all enterprise software will be delivered electronically in 2008. This move also addresses the high cost of distributing physical media, the production of which Gartner states as an average of 45 percent of the total cost of packaged software.

Flexera Software's solution for ECM enables consolidated entitlement management and effective electronic distribution of software. It meets software/hardware publishers' and end users' desire to lower upfront costs, reduce overall risk and ensure a higher rate of success with each technology deployment.

- **Revenue leakage and loss:** Flexera Software's solution for ECM allows support contacts to be enforced by licensing,

leading to lower support costs and increase renewals. In addition, an entitlement rights strategy enables software publishers to drive more revenue by selling products the way customers wish to buy them, for example, through flexible bundling options.

Flexera Software's solution for ECM can also address the challenge of software use in virtual environments, in which there is a disconnect between the traditional per-CPU sales model and plural instances of the software running on multiple virtual machines. This allows software publishers to recoup previously uncaptured revenues.

- **Improve customer satisfaction** by providing enterprises with a consistent customer experience across the product family. It also provides greater visibility into the entitlements they own.

Finally, Flexera Software's solution for ECM helps enterprises handle vendor software audits with greater ease. According to Gartner, software vendors will double the number of audits performed as a method of increasing their revenue. Many vendors will include audit clauses in their license agreements. In light of these realities, the majority of enterprise customers still want to acquire their software in flexible methods to meet their business needs. Furthermore, a majority of enterprises consider ensuring compliance with vendor agreements a top business priority.³

Flexera Software's solution for ECM enables operational efficiencies

Flexera Software's all-digital Entitlement and Compliance Management solution allows publishers to achieve significant operational efficiencies, starting with the elimination of costly, environmentally unfriendly physical delivery. Digital delivery reduces time to market by eliminating media burning, stocking and shipping, as well as customer disposal.

Flexera Software's solution for ECM provides far more powerful capabilities than in-house download sites, which do not allow for control and tracking of download by entitlement, and helps publishers to stay in compliance with export controls and other government regulations.

Summary

With the modern PC software industry passing the quarter-century mark, the concept of entitlement today defines the manifestation of the producer-customer relationship. ECM is the operationalization of that relationship; Flexera Software's solution for Entitlement and Compliance Management provides a consolidated ECM product offering that integrates into the existing back office and supports all entitlement processes throughout the software lifecycle.

Flexera Software's solution for ECM is comprehensive suite that can readily scale to meet software producers' changing needs. It satisfies simple and complex entitlements, software delivery and compliance requirements. For more information about how the Flexera Software's solution for Entitlement and Compliance Management can benefit your software business, please visit www.flexerasoftware.com.

About Flexera Software

Flexera Software provides a broad set of solutions that enable businesses to protect, enhance and distribute their digital goods to consumers across multiple channels. Flexera Software solutions are deployed by companies in the entertainment, consumer electronics, gaming, software, information publishing and corporate IT markets to solve industry-specific challenges and bring greater value to their customers. Flexera Software

holds approximately 270 issued or pending United States patents and more than 1,200 issued or pending international patents, and continues to increase its patent portfolio with new and innovative technologies in related fields. Flexera Software is headquartered in Schaumburg, Illinois, U.S.A. with other offices across the United States and around the world. More information about Flexera Software can be found at www.flexerasoftware.com.

Getting Started with an Entitlement and Compliance Management Solution

If your company...	Start with...	Customer testimonials...
<ul style="list-style-type: none"> Recently merged with or acquired another company Uses multiple CRM, ERP and licensing technologies Offers complex product lines Is looking for ways to drive revenue 	<p>FlexNet Operations</p> <ul style="list-style-type: none"> Cut operations costs Simplify entitlement operations Get a single, holistic view of entitlements Manage multiple licensing technologies <p>FlexNet Compliance Monitor</p> <ul style="list-style-type: none"> Recoup lost revenue by monitoring software usage Enable fact-based conversations with customers 	<p><i>"The Entitlement Management Solution from Flexera Software has helped Alcatel-Lucent improve the way we view and administer entitlements. Now our license generators can be consolidated into a single system, saving us time and money while giving customers a more consistent experience."</i></p> <p style="text-align: right;">Alcatel-Lucent</p>
If your company...	Start with...	Customer testimonials...
<ul style="list-style-type: none"> Is looking to extend its offerings to easily meet changing market needs Is entering new geographic markets Wants to ensure that customers are not overusing your software 	<p>FlexNet Publisher</p> <ul style="list-style-type: none"> Package, price and license the way the market needs Protect IP from piracy <p>FlexNet Compliance Monitor</p> <ul style="list-style-type: none"> Monitor software use Engage customers in fact-based conversations about usage 	<p><i>"Our customers expressed a desire to pay for the software they used in a more accurate way and wanted greater flexibility in applying licenses across the entire product suite. FlexNet is helping us to remain competitive in the market, and we can now relate and adapt to our customer's needs more quickly and effectively. As we continue to evolve our product line, we see FlexNet as a key component of keeping us agile and customer-focused."</i></p> <p style="text-align: right;">AVEVA Engineering</p>
If your company...	Start with...	Customer testimonials...
<ul style="list-style-type: none"> Wants to grow and maintain revenue from current install base Needs to reduce product packaging costs 	<p>FlexNet Connect & FlexNet Delivery</p> <ul style="list-style-type: none"> Understand your customer base and how they use your products Promote new products and updates to your customers Cut fulfillment and support costs 	<p><i>"FlexNet Connect makes it easy for us to deliver software and data updates to all our users thereby increasing customer satisfaction and eliminating costly support calls. It also enables us to increase revenue by understanding our customer's needs better and by enhancing customer communication."</i></p> <p style="text-align: right;">Earthlink</p>



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