



I D C A N A L Y S T C O N N E C T I O N



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Key Software Licensing Considerations for Next-generation Enterprise Environments

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The IT industry is in the midst of a massive structural shift toward what IDC calls the 3rd Platform. The 3rd Platform is the next-generation compute model 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 that supports important new workloads such as big data analytics. This momentum is disrupting the software business whereby subscription models are now growing much faster than traditional license models. Going forward, the market will see increased adoption of consumption-based models including pay-per-use and other approaches. Because of the increased complexity that will be introduced, software vendors are working to offer flexibility in their licensing programs so that customers can begin to migrate to cloud-based models without having to revise their licensing agreements.

The following questions were posed by Microsoft to Amy Konary, vice-president of IDC's software licensing, provisioning, and delivery research, on behalf of Microsoft's customers.

Q. What types of software pricing models should IT buyers expect to see for 3rd Platform technologies such as cloud computing?

A. A key tenet of the 3rd Platform is the availability of subscription pricing models. IT buyers should expect to see models that enable flexible access to applications and consumption-based pricing. These new approaches can give IT buyers the opportunity to spend their software budget more efficiently and in such a way that allows operational expenses to replace capital investments. Pricing models such as pay-per-use can also support chargeback scenarios internally. At the same time, there is the opportunity to shift IT spending to the line-of-business (LOB) for certain business process workloads.

The transition to 3rd Platform business models will happen incrementally. During the transition and beyond, IT buyers will have to contend with a complex hybrid mix of on-premise/cloud, perpetual/subscription, and PC/mobile software. IDC recommends that IT buyers seek out licensing approaches that enable them to move to the 3rd Platform at their own pace, while simplifying the management of subscription, cloud, and on-premise perpetual licenses.

Q. How will 3rd Platform business models impact software budgets in general?

A. Subscription will increasingly be an option, and, in some cases, may be the only way to buy software. In the next 3-5 years, subscription budgets will increase for each product or service in the marketplace by an average of 35%. By 2017, because of the rise of 3rd Platform

investments and the spending shift from IT to LOB budgets, 60% of operational spending on software will come from the LOB side. From a budgeting perspective, the most remarkable change will be a spending shift from capital budgets to operating budgets, and from IT to LOB. In addition, IDC research shows that the size of a company's budget will depend on three distinct factors: industry and market growth; the rate at which the organization adopts new technologies including the move to cloud-based subscription models; and the ability of the organization to manage licenses effectively.

Q. Will the rise of the 3rd Platform and cloud models make managing software licenses simpler or more complex?

- A. Companies will have more choice and flexibility in the way they buy software. This can result in efficient software purchasing, advantageous financial arrangements, and pricing that aligns more closely with actual usage. Unfortunately, increased flexibility usually means increased complexity in licensing terms and conditions, and in the management of software licenses. Most IT buyers are aware of the tangible impacts of these complexities. At best, hours are wasted and thousands of dollars are spent manually counting licenses. At worst, millions of dollars are spent rectifying software license compliance issues.

This complexity is detrimental to both buyers and vendors. Moving to the cloud may help simplify the management of licenses, in part because of the centralized provisioning and tracking capabilities inherent in the cloud, and because cloud pricing models have less moving parts. Software vendors are working to simplify their licensing programs so that customers can begin to migrate to cloud-based models when ready without having to revise their licensing agreements. Vendors are also working to standardize their licensing policies to make license management easier across the entire software portfolio as well as provide a more consistent user experience for customers.

Q. What should IT buyers consider when entering into license agreements for software deployed across the enterprise?

- A. Enterprise licensing programs will still be an important means of standardizing on software across the enterprise. Typically, the more a company commits to a vendor's products and services, the higher the discount. Commitment is measured in terms of volume, relative breadth, depth of technology commitment, and term. In most cases, enterprise license agreements are multi-year. For larger vendors with a broad product portfolio, these agreements include complementary products within a product family and may also include adjacent products from the same vendor.

IDC recommends looking at vendors that offer subscription-based licensing options alongside perpetual licenses, as well as on-premises and cloud deployment options. Integrated technology platforms that support these options can provide customers with flexibility while also offering customers the benefits of integrated technology from a single source. This gives customers access to more flexibility when they need to retire workloads, consolidate, or migrate to the cloud. You may wish to deploy some software in the cloud, and some on-premise. You may be deploying software on premise to start, but wish to migrate to the cloud during the course of the agreement term. IDC's 2013 CloudTrack survey found that 62% of organizations plan to use license mobility in order to move applications to cloud infrastructure platforms. In addition, the agreement should support cloud migration so that the company can move to the cloud at its own pace without having to sign another agreement. Companies will also want to stay clear of licensing terms that make it impossible to run key workloads in private clouds, which lessens the positive impact of cloud deployment.

Q. What other elements of the software agreement should IT buyers focus on?

- A. The last generation of software offerings was all about the discount percentage. In today's environment, however, companies that are too focused on discount may be missing the fact that, with the 3rd Platform shift in business models, the structure of software purchase agreements are also shifting. Companies must consider not only the license purchase, but also the management, servicing, and support of software in dynamic cloud and virtualized environments. IDC recommends that IT buyers pay close attention to maintenance costs and terms. In addition, the size of the partner ecosystem and their level of licensing expertise can also play a key role in your success and return on investment. Some vendors are offering additional benefits within enterprise agreements that can be very beneficial for customers including access to support resources, management platforms, license mobility, and simplified license management.

There are also opportunity costs to consider if enterprises are impeded in their 3rd Platform deployment plans due to inflexible licensing terms or the need to sign multiple agreements with the same vendor. IT buyers should also consider the licensing complexity involved from an initial procurement and ongoing management perspective. As an example, IDC believes that software license complexity will indirectly cost organizations an average of 25% of their software license budgets by 2015. This complexity is increased when IT buyers are sourcing from multiple vendors with different licensing metrics, terms, and conditions. Finally, IDC recommends that IT buyers consider the ability of the vendor to support a range of licensing and deployment options across its breadth of products. Software licensing for next generation environments will continue to be complex, but the right vendors will provide customers with the education, tools, and flexibility to navigate this successfully.

ABOUT THIS ANALYST

Amy Mizoras Konary is a research vice president with IDC focusing on software pricing, licensing, provisioning, and delivery research. In this role, Ms. Konary is responsible for providing coverage of software go-to-market trends including volume license programs, evolving license models, global price management, and licensing technologies through market analysis, research and consulting.

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