

Accelerating Your Path to Software Compliance Maturity

Recommendations for developing and executing an effective company-wide strategy to drive license revenue and combat software piracy and misuse



Did you know that for every three seats of paid software there are two unpaid seats in use due to piracy or overuse?¹

Many Independent Software Vendors (ISVs) are either unaware that their software is being pirated or over-deployed, or they underestimate the revenue they are losing. The fact is that unlicensed software continues to be a multibillion dollar revenue challenge for software companies worldwide.² According to the Business Software Alliance (BSA), industry revenue losses from unlicensed and pirated software are estimated at a staggering \$63 billion.³

The good news is that ISVs can recover much of that lost revenue by accelerating the path to Software Compliance Maturity. KPMG recently surveyed leading software companies: 31 ISVs representing more than 50 percent of the revenue in the software industry. Almost 90 percent indicated that “their software license compliance program is a source of revenue” and nearly half said that “compliance efforts account for at least 4 percent of their companies’ software revenue.”⁴

While the process is not always easy and there are hurdles along the way, the payoff is significant. ISVs that build a mature software compliance program gain a significant competitive advantage by increasing revenue and protecting their intellectual property at

each stage of their journey. Software Compliance Maturity delivers data- and process-driven license revenue streams.

The starting point is understanding the challenge specific to your organization. While anecdotal reports from sales and support or whistleblowers may be an indicator of piracy and overuse, they do not help to quantify your actual revenue loss. Implementing an intelligence strategy with the associated tools, processes, best practices and resources for measuring and reducing license revenue leakage are important steps along the path to Software Compliance Maturity.

A software intelligence solution that delivers machine-level and environmental data on how and where your product is being used and misused are invaluable in enforcing license compliance. This information is critical for quantifying the scale of the piracy problem, and provides actionable insights your compliance team can use to reclaim lost revenue from license violators.

Transform Software Piracy into a Revenue Opportunity

Software companies have been battling piracy since the dawn of the computer age. Despite efforts to stop the spread of pirated software through legal channels and misplaced hopes that users of pirated software will become addicted to the product and convert to paying customers, the reality is that unlicensed software use will continue until meaningful steps are taken to ensure compliance.

In many cases, users have no idea that they are using pirated software. Research from Adobe⁵ and Microsoft has found that 83 percent of pirates in mature markets are well-intentioned victims of piracy who will pay for software. Often these users have paid a discounted price for the software and believe they are customers—sadly, they do not appear in your customer database. Some ISVs have even found that as much as 50 percent of unlicensed software use happens within their existing customer

base.⁶ The financial damage to the ISV is substantial: in the KPMG survey, the majority of respondents said revenue losses from the use of unlicensed software amount to at least 10 percent of their total revenue.⁷

So should you give up and accept software piracy and misuse as an inevitable and unsolvable problem? Absolutely not. The best way to combat unlicensed use of software is to initiate a coordinated company-wide effort to reach Software Compliance Maturity. Doing so will not only help your company recoup lost revenue, but it will also give you a significant competitive advantage over your slower moving rivals. By accelerating your path to Software Compliance Maturity, you can transform the piracy and misuse problem into a significant revenue opportunity.

Piracy Hurts Your Customers Too

Piracy and misuse also hurt your legitimate customers. When customers buy a software license from you, there is an implicit agreement that you will enforce a level playing field by ensuring that all users pay. By allowing misuse, you are actually rewarding violators by giving them a competitive advantage (zero cost of software) over your loyal paying customers. In addition, some ISVs increase the cost of their software licenses to try and recoup the lost revenue due to misuse. By employing this tactic, ISVs are in essence making their paying customers fund other companies' unpaid software use.

Best-Practice Recommendations for Reaching Software Compliance Maturity

If your company is ready to turn software piracy and misuse into a revenue generation opportunity, there are proven steps you can take to fast-track your transition to Software Compliance Maturity and the generation of new license revenue.

STEP 1:

STOP IGNORING THE PROBLEM

Some ISVs are not aware or simply do not care about the misuse of their intellectual property. You might understand that piracy is an issue, but you may not realize the severity of the problem or recognize the impact it is having on your revenue. Alternatively, you might still see pirated use as a form of viral marketing, and “hope” that the pirates will eventually pay. While misuse certainly grows your unlicensed customer base, its effectiveness as a viral marketing campaign can only be measured by the rate at which those unlicensed users convert to paying customers. Much like a free trial version of your software, you need to be able to track and convert to paying customers for piracy to be an effective marketing tool.

Additionally, by ignoring piracy, you are turning a blind eye to the use of tampered software that can introduce security and performance threats to your customers and your reputation.

If you hope to reach Software Compliance Maturity and start recovering revenue lost to unlicensed software use, the time to stop ignoring piracy is now.

STEP 2:

MAKE LICENSE ENTITLEMENT A FORMAL CORPORATE INITIATIVE

Make License Entitlement a Formal Corporate Initiative Once your company acknowledges that piracy or misuse is a problem—often by discovering the dramatic overuse of your software at an existing customer—developing a product-wide licensing strategy is a common first step. As your product becomes more widely used (and misused), you will need a way to track entitlements. Undertaken at the department/product management level, this initiative standardizes on either a homegrown or third-party licensing platform to keep track of which users and computers can use the software licenses, or in the case of floating licenses, how many copies of the license are in use.

At this stage, the focus is mainly on existing customers. The licensing strategy “keeps honest customers honest” and provides a system to track entitlements and provide metrics for auditing exercises. Companies are concerned about maximizing revenue without risking existing customer relationships, but there is no visibility into unlicensed use by those outside of the customer and licensing databases.

Many vendors at this stage will also begin monitoring piracy distribution channels, and even start sending out takedown notices as a way to limit the availability of unlicensed software. While monitoring is useful, vendors should realize that focusing on takedowns can be a Pyrrhic victory that results in a game of “Whac-a-Mole” that they cannot win. While takedowns can be part of a balanced approach to Software Compliance Maturity, at this stage it is cost and resource intensive and takes the focus away from measuring the true impact of unlicensed use on your business.

STEP 3:

IMPLEMENT SOFTWARE INTELLIGENCE TOOLS TO DETERMINE THE SCOPE OF YOUR PROBLEM

The challenge for ISVs lies in systematically identifying unlicensed users, generating actionable leads, and analyzing which revenue conversion opportunities to pursue. Traditional approaches to target unpaid use, such as anecdotal evidence or profiling, do not offer reliable forensic evidence of infringing use. Even if you have “phone home” functionality in your applications, it is often insufficient to identify infringing users, and not actionable by the teams responsible for software piracy or license compliance.

Knowledge is power. By implementing a robust software intelligence solution, your company can identify and generate actionable leads from unlicensed usage—whether through overt piracy or license overuse. In addition, the data generated by software intelligence tools—as well as pressure from legitimate, licensed clients—often shows there is still a large and active community of unlicensed users despite coordinated licensing efforts and rigorous legal response. Armed with this actionable intelligence, you can start tapping a previously unidentifiable market and adding to your top line revenues with new and expansion license sales.

Most companies begin by deploying software intelligence in one or two products and developing processes to analyze and act on the data. The path to Software Compliance Maturity is an iterative one. Companies that are new to compliance will often turn to third party partners with expertise in qualifying compliance leads and converting them into new license revenue. This will likely be the first time the company has the data, dashboards, and analytics to fuel compliance efforts and it is important to leverage partners' expertise when developing your more mature compliance team and program.

STEP 4:

SECURE C-LEVEL SUPPORT FOR YOUR SOFTWARE COMPLIANCE INITIATIVE

When it comes to making software compliance a corporate priority—complete with a formal plan and funding—support from C-level executives is crucial. The path to a mature compliance program that will generate revenue often starts with a single product with a small, focused team. But as the program grows and becomes more successful it will quickly attract the attention at the C-level. In the 2013 KPMG's software company survey, respondents said that senior-level support is critical to establishing and maintaining successful software license compliance programs.⁸ According to these respondents, C-level support sends a clear signal about the importance of compliance efforts in protecting revenue and intellectual property.⁹ It is important to have the dashboards and data to demonstrate program growth to these important stakeholders.

Without firm leadership and backing from executive management misalignment between departments over compliance strategies and resources often ensues, potentially impacting customer relationships. For example, compliance efforts may not be coordinated with field sales or the distribution channel, resulting in conflicts. In other cases, the development team may use its own departmental budget to fund advanced software protection pilot projects without consulting with the sales or compliance teams to understand the potential negative consequences of locking down customer software use.

The KPMG survey revealed that Sales or Sales Operations leads the compliance program in 52 percent of the companies, demonstrating the “desire to align the sales process with compliance.”¹⁰ Finance—which led compliance programs at 47 percent of companies in KPMG's 2007 survey—dropped to 13 percent in the 2013 survey,¹¹ underscoring the increasing importance of revenue generation

in compliance. The survey also revealed that senior-level support can be invaluable in helping software providers maintain healthy relationships with customers by reinforcing the provider's desire to develop a compliance process that is fair to the interests of both sides.¹² We have seen a similar trend among our customers and expect it to continue as compliance becomes an increasingly important source of new license revenue. Sales organizations focused on compliance revenue are also well-suited to strike the right balance between maintaining good customer relationships and pursuing legitimate compliance opportunities.

With this in mind, it is important to communicate initial compliance goals and early success metrics to the C-suite at appropriate milestones during your initial implementation of your software compliance maturity strategy.

STEP 5:

INSTITUTIONALIZE COMPLIANCE AND SOFTWARE INTELLIGENCE STRATEGY

In order for your software compliance strategy to be absorbed into your company DNA, you need to generate new license revenue from implementing software intelligence. While many vendors achieve ROI on their initial software intelligence investment within a year, building a mature program doesn't happen overnight.

The transition to an institutionalized compliance strategy requires:

- Actionable software intelligence that provides global visibility into your piracy/overuse problem; enables you to track, identify, and convert unpaid users into licensed paying customers; and drives data-driven decisions regarding regional pricing, bundling, and licensing to reduce unpaid software use over time
- Seamless coordination among executive management and your legal, sales, operations, development, and product management teams to successfully balance your compliance approaches including software intelligence with a positive customer experience
- A coordinated plan to deliver a superior customer experience, license entitlement, and a compliance program led by sales and supported by your legal department
- Recognition of data-driven compliance strategy as a competitive differentiator by C-level executives and shareholders

ISVs that have reached Software Compliance Maturity and lead the industry with an institutionalized unpaid user conversion strategy are already enjoying a significant competitive advantage by increasing their top line revenues up to 10 percent.

Best-Practice Takeaways

Achieving Software Compliance Maturity is a process. Here are some key takeaways for each step of your journey.

LEARNING

1. Stop ignoring piracy/misuse (or viewing it as viral marketing) and begin to address the issues
2. Begin discussions at the product management/departmental level
3. Communicate learnings from software intelligence tools and share initial results
4. Share results with C-level executives, build support for the program, and establish success metrics
5. Recognize software intelligence and usage analytics as a formal corporate initiative

FINANCIAL

1. Begin researching costs of addressing the problem and the opportunity costs of ignoring it) to build case for investment
2. Fund individual product pilots and initiatives to improve licensing and combat misuse
3. Use software intelligence to provide data to more accurately measure the impact and revenue generation opportunity
4. Measure license revenue being generated from piracy and overuse, and build internal compliance team and compliance partners to accelerate growth
5. Secure enterprise-level funding and define formal financial goals as software license compliance efforts are “business as usual” and compliance revenue becomes significant

TECHNOLOGY

1. Implement basic licensing to start addressing misuse
2. Introduce more robust third-party licensing as products become more widely used (and misused)
3. Implement software intelligence to track, report and analyze misuse and overuse
4. Implement software intelligence to more products/product lines
5. Procure and implement enterprise-level software intelligence tracking solutions

PEOPLE

1. Identify formal team to understand or correct the piracy/misuse problem
2. Identify pilot project managers and begin to build formal team
3. Name program owner and build team to work with software intelligence data; identify external resources to augment efforts
4. Establish performance objectives at the business unit level and coordinate efforts with sales
5. Establish and measure enterprise objectives with accountability at all levels

Conclusion

Software intelligence plays a critical role in helping software companies accelerate their path to Software Compliance Maturity. As you transition from viewing software piracy and misuse as an insurmountable business problem to treating it as a significant revenue opportunity, software intelligence can provide the hard data needed to drive a companywide compliance initiative and convert unlicensed software users into legitimate paying customers.

Partnering with a provider such as Revenera's can deliver the type of actionable intelligence and the domain expertise you need to accelerate your path to Software Compliance Maturity. Our Compliance Intelligence platform enables vendors to quickly and easily generate actionable intelligence on the use and misuse of their applications. Combined with Revenera's implementation best practices, customer success and compliance data analyst teams, and turnkey revenue generation services, vendors are able to accelerate their programs while generating new revenue streams from data-driven compliance strategies.

Endnotes

- 1 BSA, *BSA Global Software Survey June 2014*, at 1.
- 2 KPMG, LLP, *Is Unlicensed Software Hurting Your Bottom Line?*, 2013, at 1.
- 3 BSA, *BSA Global Software Survey June 2014*, at 1.
- 4 KPMG, LLP, *Is Unlicensed Software Hurting Your Bottom Line?*, 2013, at 8.
- 5 *How Adobe Protects Customers From Software Piracy* (webinar with Adobe's Corporate Director, Global Piracy Conversion Team, Richard Atkinson)
- 6 Data from customer deployments of Revenera Compliance Intelligence solution.
- 7 KPMG LLP, *Is Unlicensed Software Hurting Your Bottom Line?*, 2013, at 8.
- 8 *Ibid.*, at 9.
- 9 *Ibid.*, at 9.
- 10 *Ibid.*, at 10.
- 11 *Ibid.*, at 10.
- 12 *Ibid.*, at 9.

NEXT STEPS

Identify, Detect and Convert Unpaid Software Use.

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