

Application Usage Management Survey

Intelligent Devices & Software: The Future of Manufacturing?

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2013 Application Usage Management Report

Intelligent Devices & Software: The Future of Manufacturing?

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Survey Background

The *2013 Application Usage Management* survey was conducted by Flexera Software with input from IDC's Software Pricing and Licensing Research division under the direction of Amy Konary, research vice president - software licensing and provisioning at IDC. This annual research project looks at application usage management trends and best practices. The survey reaches out to executives at application producers (Software vendors and intelligent device manufacturers) and enterprises who use and manage software and devices. This is the first year this survey is being conducted.

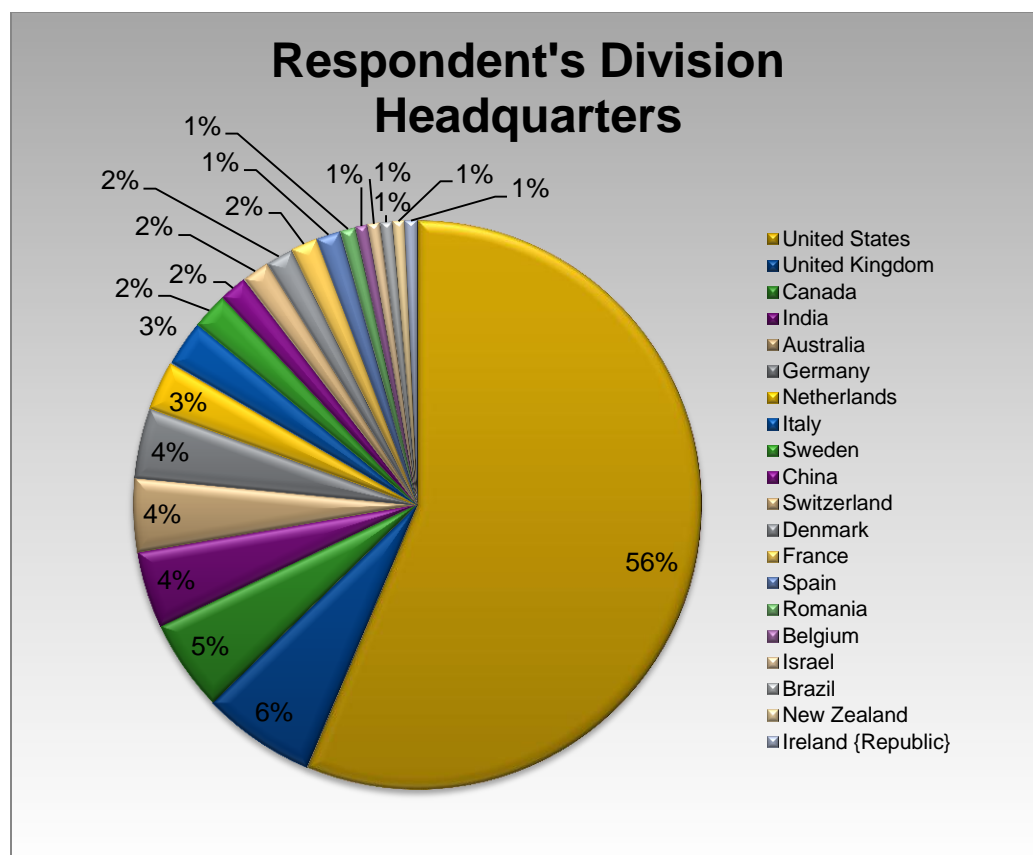
Methodology and Sampling

The data contained in these Application Usage Management reports is compiled from three separate surveys, one targeted for software ISVs, one for intelligent device manufacturers, and one for end-user organizations that consume enterprise software. More than 750 respondents participated, including executives and IT professionals from 455 software ISVs, 127 intelligent device manufacturers and 169 enterprise organizations, .

Survey Demographics

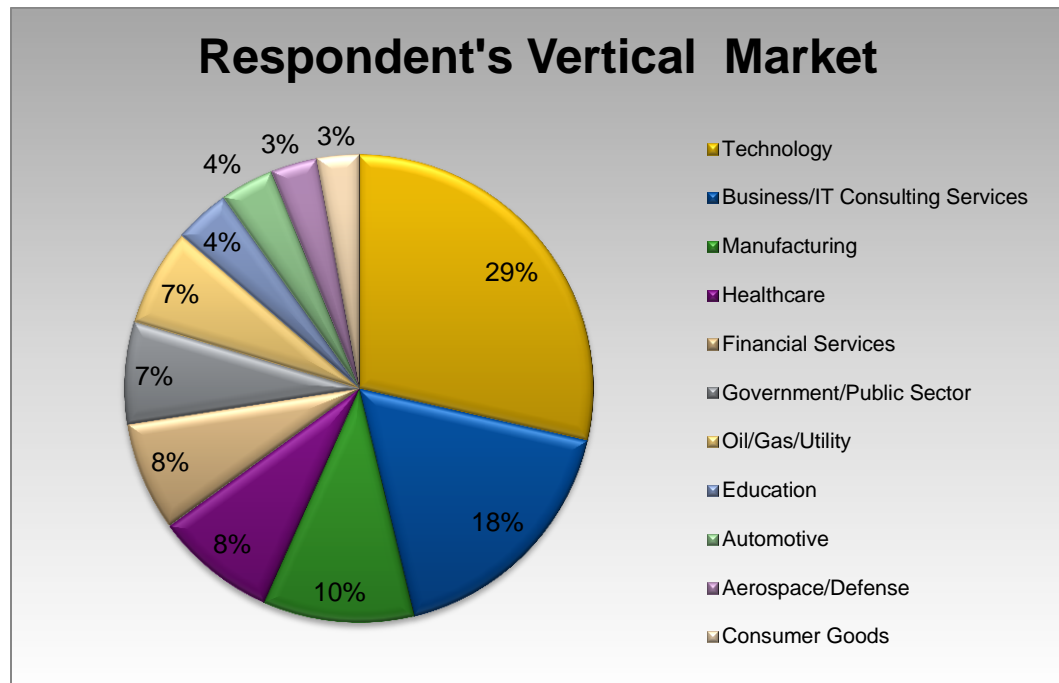
Location of Respondents

Of the 750+ respondents to the survey, 56% reported their division headquarters as being located in the United States. 6% were from the United Kingdom, 5% from Canada, and 4% were from India, Australia and Germany.



Respondents' Vertical Markets

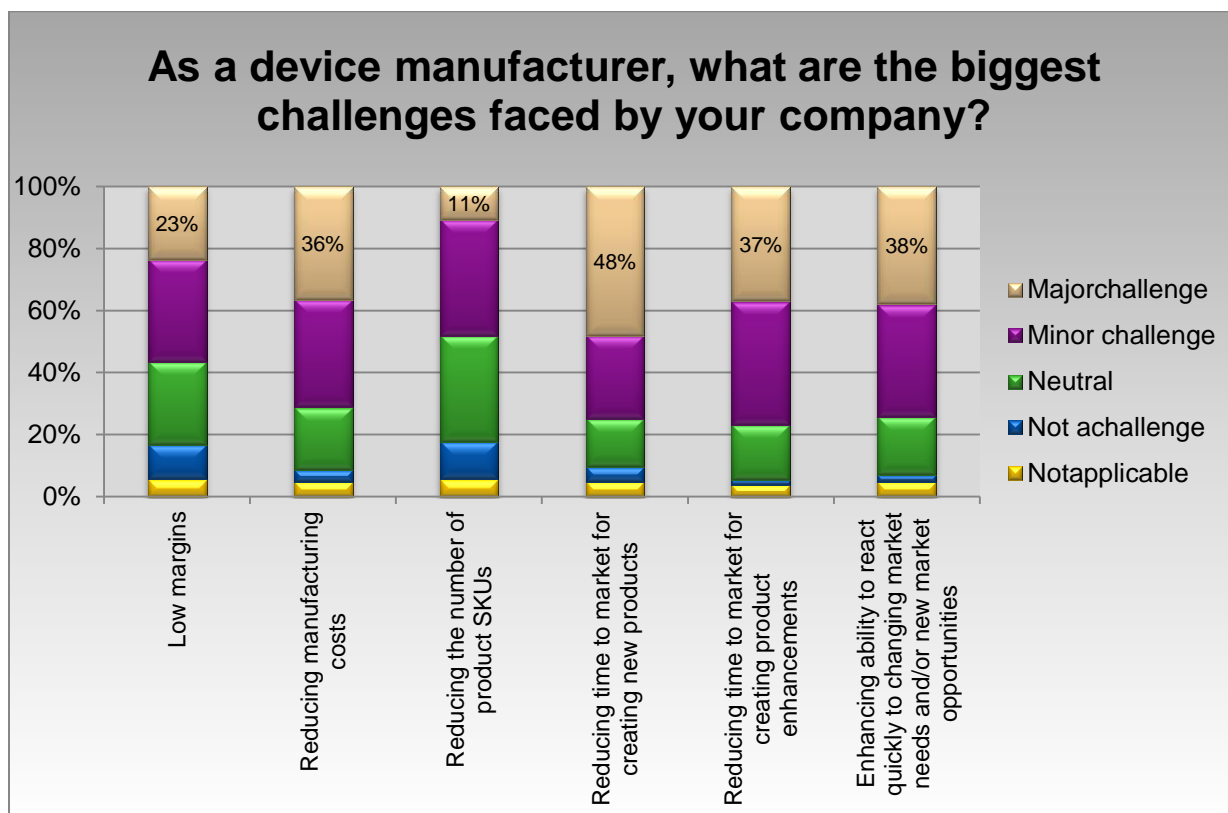
Respondents of the Application Usage Management Survey fell across a wide array of vertical markets. 29% were from technology companies, 18% were from business and consulting services, 8% each from healthcare and financial services, and 7% each from government and financial services.



Manufacturers Say Increasing Agility, Reducing Costs and Low Margins Are Big Challenges

The world is changing rapidly, and device manufacturers are caught in the grips of this seismic reality. Globalization, increased competition, technological innovation – all are impacting manufacturers' business models and their ability to compete, keep costs in check, and make profits.

According to the Application Usage Management survey, manufacturers' biggest challenges relate to their ability to minimize costs and maximize agility in this new marketplace. When asked, 48% said that among their biggest challenges, reducing time to market for creating new products is a major challenge. Closely related, 38% of respondents said enhancing their ability to react quickly to changing market needs and/or new market opportunities were major challenges. Reducing time to market for creating product enhancements (37%) and reducing manufacturing costs (36%) also topped respondents' list of big challenges. Low margins was cited as a major challenge for nearly a quarter – or 23% of respondents.



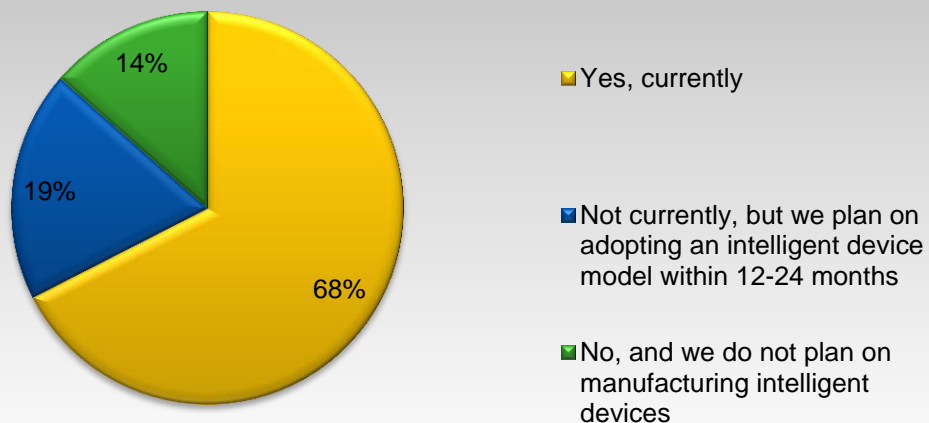
Manufacturers Hope To Address These Challenges by “Going Intelligent”

An undeniable trend in the manufacturing space in recent years has been the move towards “intelligent” devices – devices that use software to control, for instance, product features, function and/or capacity. The flexibility of applications – whether embedded within the product or external applications capable of accessing the hardware – allows device makers to sell differentiated products and create new revenue streams while simultaneously streamlining the manufacturing process.

According to the survey, device manufacturers overwhelmingly see the advantages of the intelligent device model, and are seeking to transform their businesses through the power of software. 68% of the respondents participating in the survey say they already develop intelligent devices, and an additional 19% say they plan on adopting an intelligent device model within the next 12-24 months.

Indeed, only a small percentage of manufacturers who responded to the survey do not see software in their future. 14% of respondents say they will not be moving to the intelligent device model.

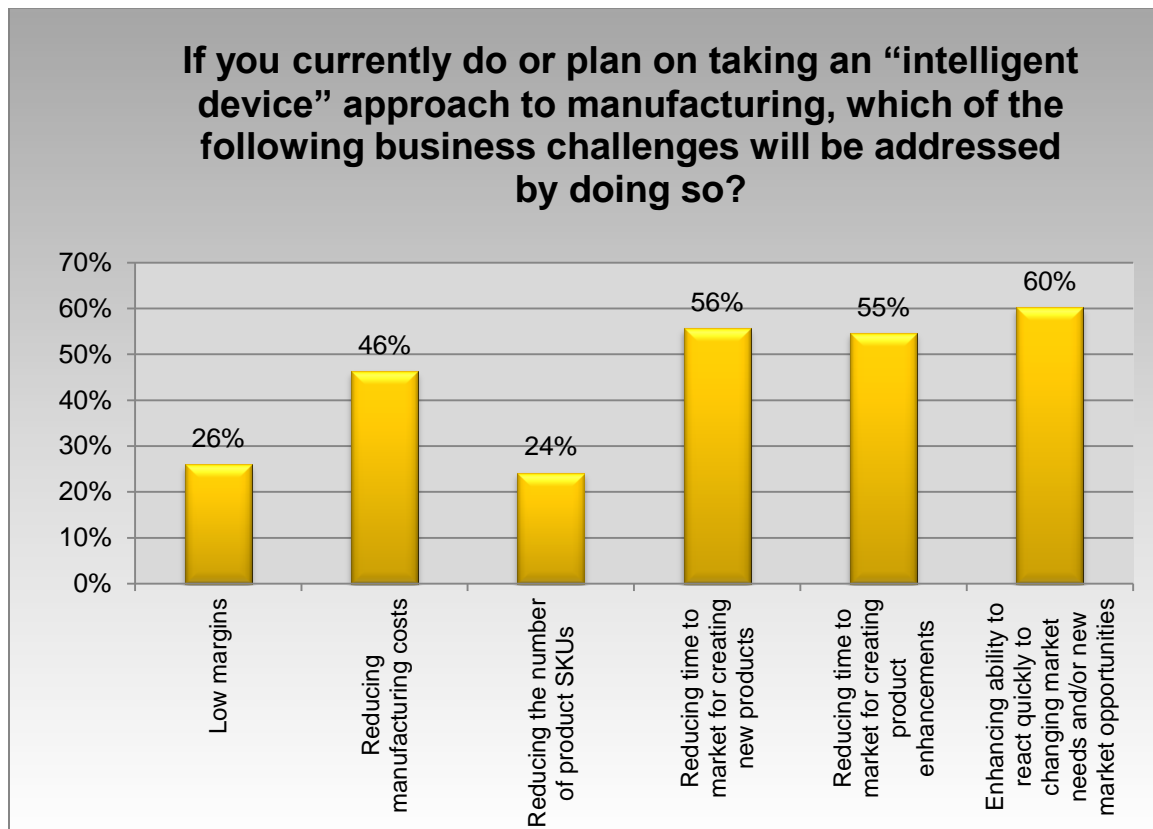
Does your company manufacture “intelligent devices”–devices that use embedded software to control product features, function and/or capacity, and software licensing to monetize that embedded functionality?



Manufacturers Say Leveraging Software with Their Devices Will Help Solve Their Biggest Challenges

The survey also asked manufacturers who have already taken an intelligent device approach to manufacturing – or those that plan on it – why? Their reasons are familiar, and closely align to respondents' enumeration of their greatest market challenges outlined earlier in this report.

60% of respondents said that transforming their products to become intelligent devices using software will enhance their ability to react quickly to changing market needs and/or new market opportunities. 56% said it will help reduce time to market for creating new products. 55% said it will reduce time to market for creating product enhancements, and 46% said it will help reduce manufacturing costs. Profits also factor in to manufacturers' thinking. 26% cited lower margins as their reasons for leveraging software with their smart devices.

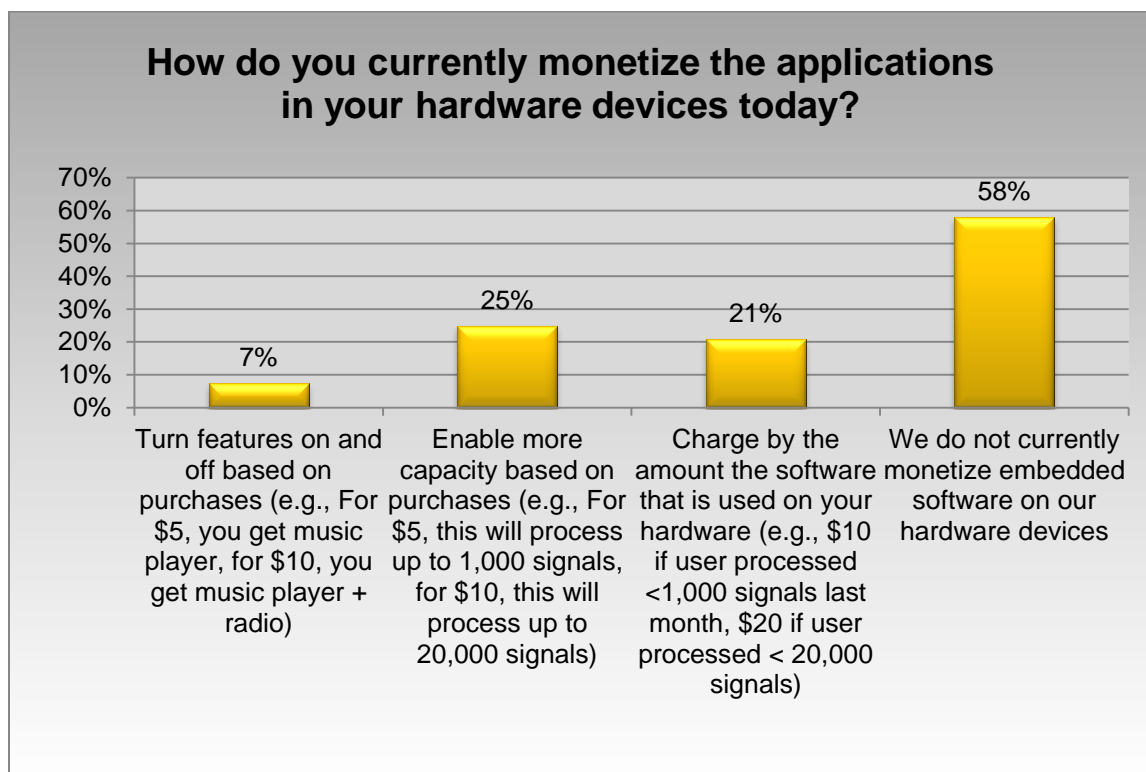


Manufacturers Are Not Monetizing Their Software – Leaving Money on the Table

Perhaps the most startling revelation from this Application Usage Management survey is that the majority of manufacturers who are moving to the intelligent device model are not monetizing the software they develop for their hardware devices – leaving money on the table.

According to the survey a clear majority of respondents – nearly 58% -- indicated that they do not currently monetize software on their devices.

Of those that do, 25% use capabilities delivered via software to enable customers to purchase more capacity on their devices. 21% make money by charging for the amount of software that is used on the device. A smaller percentage – 7% -- is using software to turn on and off product features in the device that customers have license to use.



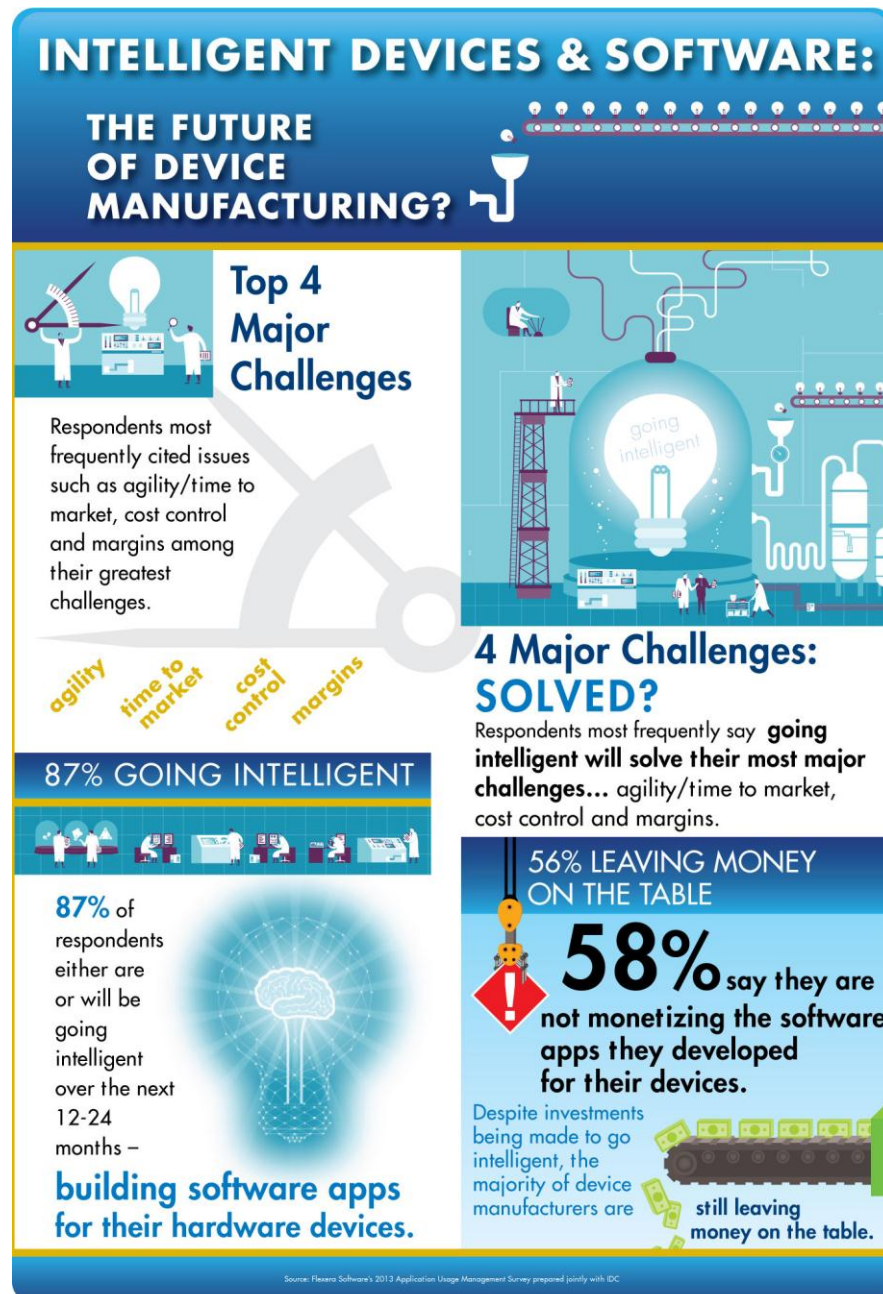
Best-in-class companies monetize the software developed for their devices – delivering substantially more value to customers while increasing margins in an increasingly commoditized hardware environment. This is clear enough when one looks at the most ubiquitous intelligent devices in the consumer marketplace – smartphones and tablets. Manufacturers such as Apple and Microsoft monetize both the devices and the apps accessible via their app stores.

In a B to B context, device manufacturers also now incorporate software applications into their products and, using flexible licensing and entitlement management, monetize that software and control who can

and cannot access device capabilities based on the entitlements they have purchased. Cross tabulating the response data, technology companies appear to be further along than in other industries, combining hardware and software to create value that results in higher margins and profits. For instance, 35% of technology company respondents said they are monetizing their applications by enabling more capacity based on purchases. 20% say they are charging by the amount of software used on their hardware.

Based on this Application Usage Management survey, it is clear that device manufacturers are moving to the intelligent device model for a variety of reasons – to react quicker to changing market needs, reduce time to market for creating new products and product enhancements and reduce costs. The jury is still out whether these companies will be able to follow the lead of market-innovators and increase margins and profits by maximizing their returns from their software applications. To do so, they will need to monetize, through flexible licensing and entitlement management, the added value they deliver in solutions that combine software and hardware.

Infographic – Intelligent Devices & Software: The Future of Device Manufacturing?



Software Licensing and Provisioning Research at IDC

IDC's global Software Licensing and Provisioning research practice is directed by Amy Konary. 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. In her coverage of software maintenance, subscription, electronic software distribution and licensing technologies, Ms. Konary has been instrumental in forecasting future market size and growth. Ms. Konary was also the lead analyst for IDC's coverage of software as a service (SaaS) for eight years prior to focusing exclusively on pricing, licensing, and delivery. International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. For more information about IDC, please see www.idc.com

About Flexera Software

"Flexera Software helps application producers and enterprises increase application usage and the value they derive from their software. Our Application Usage Management solutions are essential to ensure continuous licensing compliance, optimized software investments and to future-proof businesses against the risks and costs of constantly changing technology. Over 80,000 customers turn to Flexera Software as a trusted and neutral source for the knowledge and expertise we have gained as the marketplace leader in licensing, installation and compliance for over 20 years and for the automation and intelligence designed into our products.



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