Putting Transformative Business Models—Consumption & Usage-based–Into Practice

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SAN JOSE

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Goal

- Discuss how to implement a usage-based/consumption licensing model
  - Step-based process
  - Based on numerous conversations with Publishers over the last three years and Flexera's own implementations

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Usage-based/consumption model - definition

- Is Usage-based/Consumption model:
  a. pay for use
  b. SaaS
  c. Subscription
  d. all the above

- Definition: licensing model based on the actual use of features within an application
  - In any environment: on-premise, on-devices, SaaS, in the cloud, mobile
  - Enabling post and pre-pay charging models
    - True-Up
    - Pay-for-burst, Pay-for-use, pay-for-overage

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Step-based process

- Step 1: Design program (hardest)
- Step 2: Identify what needs to change
- Step 3: Implement
- Step 4: Go-Live

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Step1: design program (hardest)

- Identify goal
- Identify target audience and geography
- Identify meters
- Identify pricing approach
- Identify time of reconciliation
- Identify impact to existing licensing
- Set expectations on financial impact

Step 1 - Design: identify goal

- Identify what you are trying to accomplish
- Examples:
  - Easier for the larger customers (move to true-up model)
    - $ upside
  - Remove barrier of entry for the smaller vendors
    - market maker-smaller $ upside
  - Match SaaS pricing models-semi-variable
    - Natural for IDMs
  - Reduce audits by automating them
    - Cost reduction

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Step 1 - Design: identify targets

- Identify target customer type and geographies
- Examples:
  - All customers (for SaaS – but rare for on-premise)
  - Larger customers (common for on-premise)
    - Higher risk, more control, more $ impact (+ or -)
  - Smaller customers (common)
    - Lower risk, less control, smaller $ impact
  - MSPs
    - automating often manual process, often good $ upside (cost & revenue)
- Geographies:
  - Don't recommend this in Asia unless extremely good controls and means to shut off quickly/easily

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Step 1 - Design: identify meters

- Examples:
  - # of hours use (15 minute increments)
  - # of users / month (at least 15 minutes per month)
  - # gigs backed up
  - # gigs converted
  - # text messages sent

  ….

- Rules of thumb:
  - No more than 3-4
  - Tied to value as best as can
  - Don't forget that some of these will have "resets"
    - # of gigs delivered per month
    - # of gigs stored per month
  - User count is ONE model – but not always the best

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Step 1 - Design: identify pricing approach

- ## Selection options:
  - ### With existing pricing vs. taking over pricing
    - Existing pricing/hybrid model
      - Add to existing perpetual/subscription pricing
  - ### Pure usage vs. overage
    - Usage guarantees no "shelf-ware"; much harder to budget for
      - Difficult for most enterprises unless provide a lot of "prior use" data
    - Overage will have "selected shelf-ware potential"; easier to budget for;
      - Risk of over buy vs. get large overage bill is selected by Enterprise/customer
  - ### Editioned, tiered, linear
    - Edition
      - Typically is "how much can you use" – tied to traditional licensing
      - Could be combined with Tiered
    - Tiered
      - Typical
    - Linear
      - Rare

Step 1 - Design: identify reconciliation/invoicing timing

- Options to consider:
  - Monthly, quarterly, year
  - Hybrids
- Typical model:
  - If pure usage-monthly
    - With "pay ahead" option with discount
  - If predicted usage: then pay yearly, with a quarterly or monthly overage invoice
    - Monthly: potentially high impact on invoicing systems (on both Publisher and Enterprise) but faster cash
    - Quarterly: lower impact, slower cash
    - In interviews with very large enterprises-they prefer quarterly just from a cost overhead
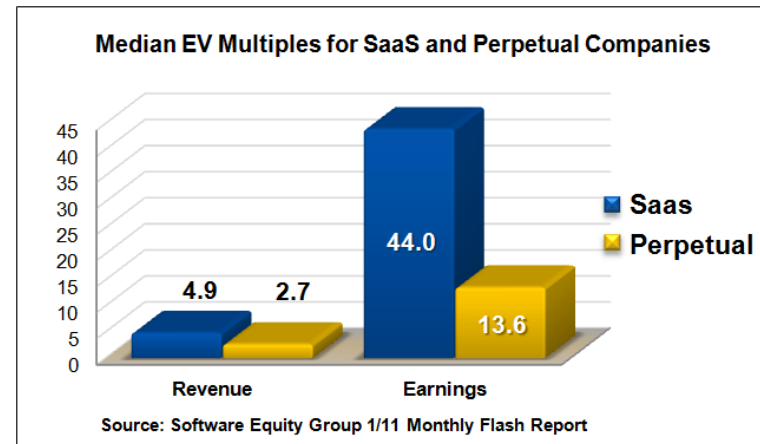

Office 365 Small Business Premium

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$12.50 user/month

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Step 1 - Design: identify impact to existing licensing

- Options to consider:
  - Rip & replace
  - Add usage to existing
  - Add (to nothing)
- Flexera's recommendation:
  - Add usage to existing products where warranted

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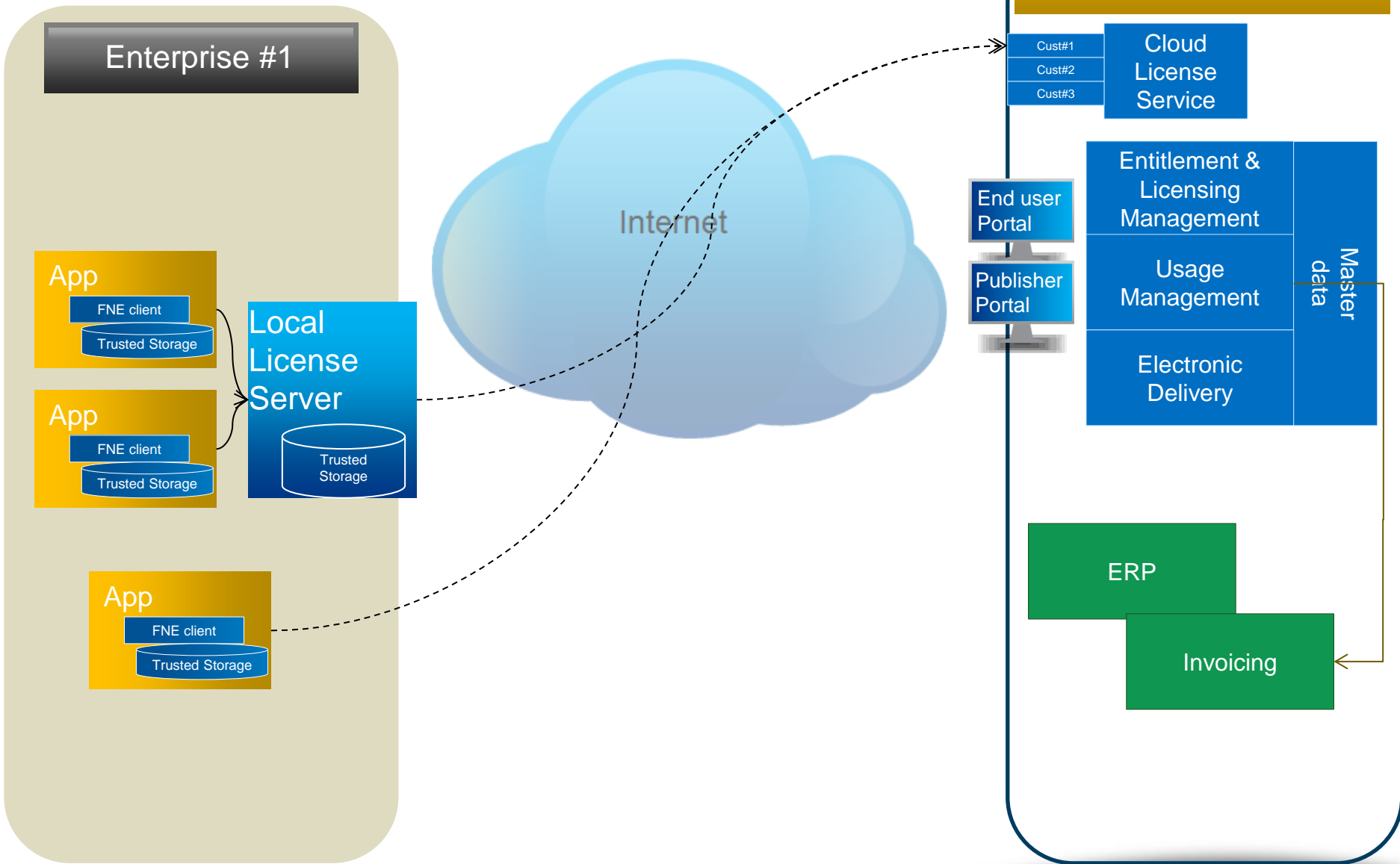# Step 1 - Design: set expectations on financial impact

- ## Potential impact:
  - Increase bookings
  - Decreased predictability
  - Decreased revenues
  - Some patience may be required here

- ## Remember:

Median EV Multiples for SaaS and Perpetual Companies

Source: Software Equity Group 1/11 Monthly Flash Report

Step 2: Identify what needs to change

- Products
- Back office
- Integration into financial systems (if using that model)
- T&C / EULA changes
  - There are a lot of legal changes with regards to data privacy
  - If data sharing is tied to monetization then make it clear that this what customers are agreement to when purchasing
  - Some Publishers are adding "do not share" in application
    - Application turns off certain capabilities
- Contract changes
  - SLAs, data use, data privacy, non-payment handling

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Flexera Software's solution

Enterprise #1

App
- FNE client
- Trusted Storage

App
- FNE client
- Trusted Storage

Local License Server
- Trusted Storage

App
- FNE client
- Trusted Storage

Internet

Publisher or Flexera

Cust#1
Cust#2
Cust#3

Cloud License Service

End user Portal

Publisher Portal

Entitlement & Licensing Management

Usage Management

Electronic Delivery

Master data

ERP

Invoicing

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Step 3: Implementation

- No different than any other project
  - Depending on the scope – this can take a while

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Step 4: go live

- As with any other project:
  - Monitor
  - Iterate

- Iterations might be:
  - Add more customers
  - Add geographies
  - Add products
  - Add features

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Peter Klein, Microsoft CFO (April '13):
"one in four of our enterprise customers now has Office 365, and the business is on a $1 billion annual revenue run rate"

Wes Miller, analyst for Directions on Microsoft: Bulk of these companies are relying on hybrid model approach where they purchase most of their Office licenses outright and subscribe to Office 365 for the remainder

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