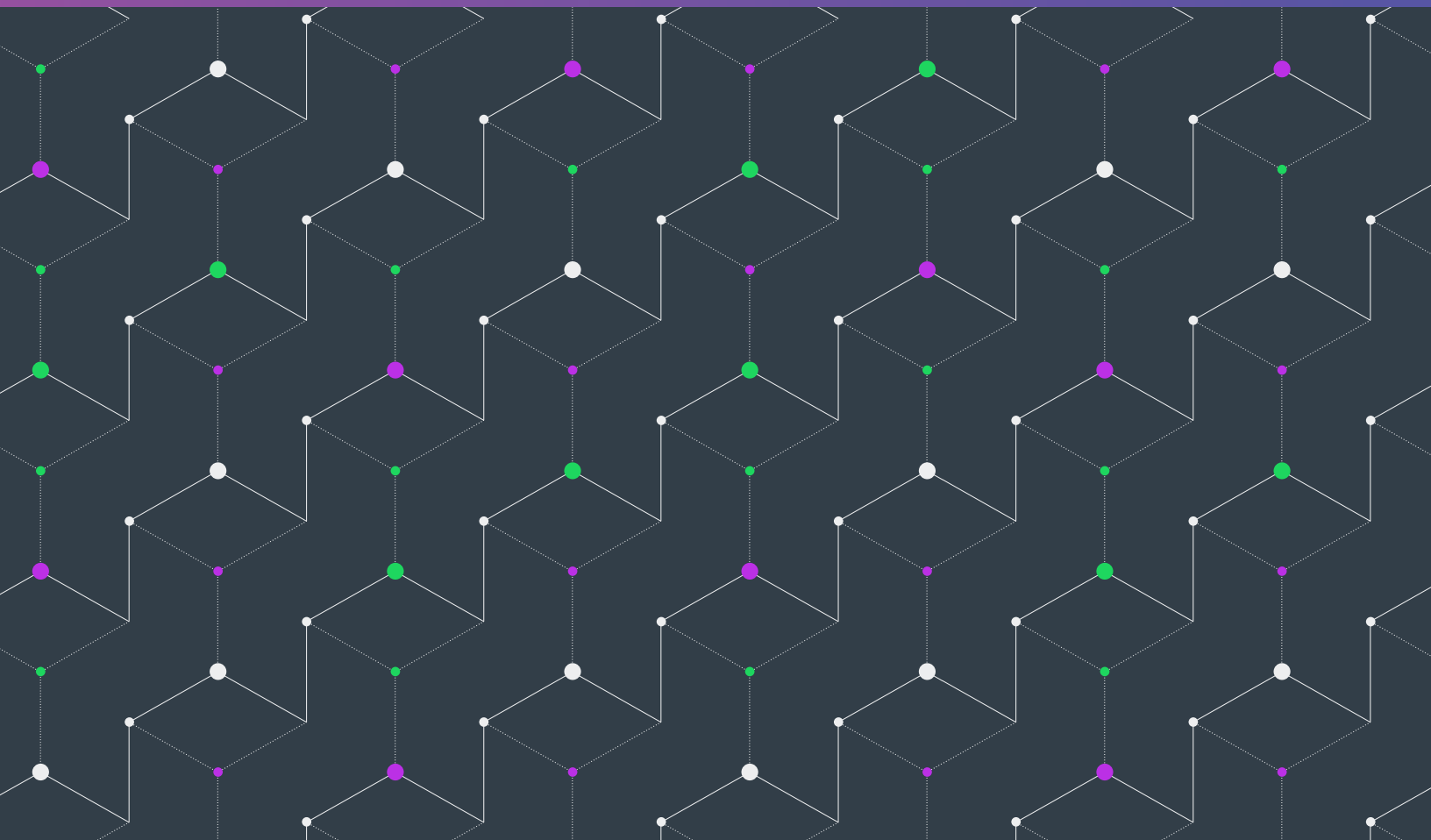revenera™

Revenera Monetization Monitor

# Software Monetization Models and Strategies 2021

# Executive Summary

Today's software suppliers have room for growth in how they manage a complex mix of monetization and deployment models, work toward aligning price with value, and strategically drive revenue growth. As has been the trend in past years, software suppliers are demonstrating an ongoing reliance on hybrid software deployment and software monetization models.

Recurring revenue is the standard for how software is being sold today: it increases company valuations and drives a better customer focus. To capture recurring revenue, software suppliers are embracing subscription monetization, a trend for various offerings, regardless of where the software is deployed, including on-premises or in the cloud. The move toward the cloud, often through software-as-a-service (SaaS) deployments, is certainly pronounced. Yet even as software suppliers demonstrate a continued reliance on SaaS, on-premises deployments are holding tight—highlighting that most software suppliers can't make a wholesale change in their deployment strategies.

Software suppliers must have the capacity to handle the complex mix of software monetization and deployment models that meet customers' needs. To efficiently support hybrid models, suppliers are demonstrating a growing reliance on complete software monetization platforms. These can automate processes (including licensing and entitlement management) and provide the usage data that can help inform software monetization and pricing decisions—without the manual interventions that are common with homegrown solutions.

## DEFINITION

**Hybrid** may refer either to a mix of deployment models (e.g., using on-premises deployments in combination with SaaS or cloud deployments) or a mix of licensing models (e.g., offering perpetual and subscription/term licenses).

### Software Monetization Models and Strategies 2021 Highlights:

- **Hybridization Continues in Monetization and Deployment Models**

  Today's dominant software monetization models are still subscription and perpetual licensing. In the coming 12–18 months, subscription and usage-based models will be the two largest growth categories.

- **Most Companies Have a Mix of Deployment Models, with SaaS Showing the Strongest Growth**

  59% of respondents in this year's survey report an anticipated increase in their use of SaaS. Suppliers must be prepared to support multiple models simultaneously, rather than anticipate the move toward a single approach for software sales and delivery.

This report offers benchmarks to help technology companies manage the complexity and secure valuable results—for themselves and for their customers.

**Today's dominant software monetization models are subscription and perpetual licensing.**

**Only 30% of respondent say that pricing and value are "totally aligned," offering much room for improvement.**

**The implementation of a recurring revenue (subscription) model was the top driver of change over the past two years.**

- **Aligning Price with Value Delivered to Customers**

  The highest rates of customer satisfaction and retention are only possible when the price (the expense for the customer) of a product is aligned with its value (the perceived utility). Yet only 30% of respondents say that pricing and value are "totally aligned," offering much room for improvement. Multiple impediments complicate the goal. Top among them: lack of customer acceptance for new monetization models.

- **Suppliers' Confidence in Their Ability to Automatically Gather Product Usage Data is Decreasing**

  Usage data, which can track and analyze how users engage with software, is valuable for all monetization models. While the need for such data is clear, suppliers' confidence in their ability to automatically gather product usage data today is decreasing. The majority of respondents (44%) reported that they could gather product usage data but it required manual processes or engineering help.

- **Strategies for Ongoing Revenue Growth**

  The need for business agility was magnified by the impact of the COVID-19 pandemic, and this was as true in the world of software, as elsewhere. With cloud deployments and subscription offerings gaining traction, suppliers must remain adept at managing these varied options in order to ensure customer satisfaction and revenue growth. Reasons for changing licensing strategies include the need to tighten license controls and enforcement, accurate price usage, and lower the barriers to entry. The implementation of a recurring revenue (subscription) model was the top driver of change over the past two years.

# Table of Contents

**Revenera Monetization Monitor 2021**

This report is part of an annual series, first published in 2019, focusing on trends and current software monetization models, pricing and strategies. The next report focuses on software usage analytics. Both reports are based on a global survey of 374 respondents conducted by Revenera from mid-April through mid-June 2021.

# Hybridization Continues in Software Monetization and Deployment Models

## Why a Hybrid Approach Remains Popular

As seen in past years, suppliers have continued to evolve toward both hybrid software monetization and deployment models. Often a one-size-fits-all approach to either monetization or deployment strategy isn't sufficient to keep pace with varied customer needs. The customer-supplier relationship requires flexible solutions for entitlement and usage management to ensure long-term customer value.

While cloud-based trends—including applications installed in the cloud as well as SaaS applications—support many suppliers' move toward SaaS, the need for on-premises and embedded software persists for certain needs.

For example, among those suppliers that are anticipating a strong increase of their reliance on SaaS in the next 12–18 months, 66% will continue to offer on-premises software and 80% will continue to offer embedded software at either their current rates or in an increased capacity.

By comparison, among those anticipating a strong increase in their reliance on on-premises deployments, 88% will continue to offer SaaS deployments and 81% will continue to offer embedded software at either their current rates or in an increased capacity. These numbers show a strong reliance on hybrid approaches that customers rely on and that suppliers must manage efficiently.

For suppliers that are moving to the cloud, using SaaS as the dominant deployment model (for more than 70% of their products), the top monetization model is subscription/term; for those where on-premises deployments dominate, the top monetization model is perpetual; and for those where embedded software is the dominant deployment model, subscription/term is the most popular monetization model.

### DEFINITIONS

**Monetization Models**

- **Perpetual:** pay once for unlimited use of your software
- **Subscription:** pay monthly or yearly to use your software (sometimes referred to as term licensing)
- **Usage-based:** pay based on actual usage of your software
- **Outcome or value-based:** pay based on measurable customer value

**Deployment Models**

- **SaaS:** Software-as-a-service
- **On-Premises:** applications installed locally
- **Embedded:** software installed in hardware/devices

**Hybrid** may refer either to a mix of deployment models (e.g., using on-premises deployments in combination with SaaS or cloud deployments) or a mix of monetization models (e.g., offering perpetual and subscription/term licenses).

| WHERE THE MOST USED DEPLOYMENT MODEL IS... | | THE MOST POPULAR MONETIZATION MODEL IS... |
|---|---|---|
| On-premises | → | Perpetual |
| SaaS | | Subscription/Term |
| Embedded | | Subscription/Term |
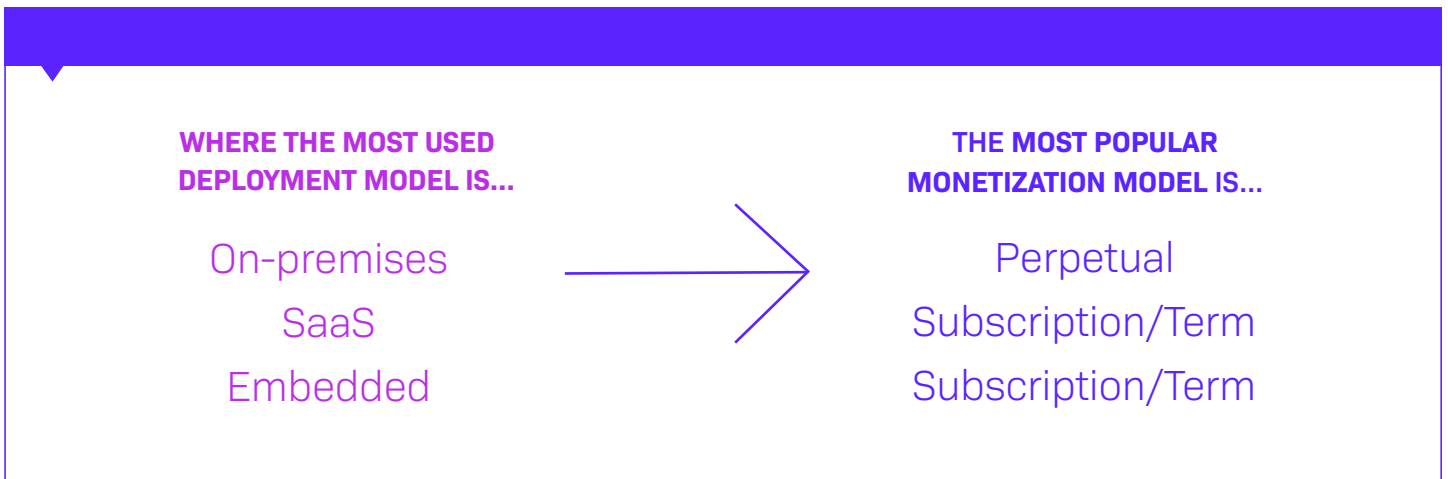
38% of respondents are currently using on-premises deployment for more than half of their deployment models across all product lines. Of these respondents, 36% said they are increasing their use of SaaS deployment in the next 12-18 months.

SaaS is the dominant deployment mode among companies where the dominant monetization models are outcome or value-based, subscription/term, or usage-based. Where perpetual is the dominant monetization model, the majority of deployments are on-premises.

Not only are suppliers relying on a mix of monetization and deployment models, they're turning to varied technologies to manage their monetization efforts. Among those suppliers that use software monetization (licensing and entitlement management) technology, 46% use the same system/tool for all solutions; 28% use different technologies, based on deployment models; and 27% use different technologies per product line.

**46%** **Among those suppliers that use software monetization (licensing and entitlement management) technology, 46% use the same system/tool for all solutions**

Among software suppliers that use a complete software monetization platform, including licensing and entitlement management, the majority (60%) have annual revenue greater than $101 million. Smaller companies tend to rely more heavily on homegrown licensing technology that must be maintained by their own engineering teams, with 42% of respondents at companies with revenue below $10 million taking this approach.

# Subscription Leads Software Monetization Models Today

For respondents at companies that use one monetization model extensively (for ≥51% of their business), subscription is leading, as was the case in 2020, when it was both the most extensively-used monetization model and the one with the greatest predicted growth. Additionally, nearly one-third of respondents who are using one monetization model for more than 70% of their business are relying on a subscription model.

While overall reliance on usage-based or outcome/value-based monetization models is still somewhat limited, it continues to be embraced for a variety of use cases. Respondents cited metrics including time, usage, number of devices, transactions processed, space utilized, number of active users, and customer revenue growth.

**What percentages of your monetization models today are:**

Percentages of Responses

| | Perpetual | Subscription /Term | Usage-Based | Outcome or Value-Based |
|---|---|---|---|---|
| Extensive (>51% usage) | 24% | 36% | 14% | 12% |
| Moderate (11-50% usage) | 35% | 35% | 31% | 19% |
| Limited (<10% usage) | 41% | 29% | 55% | 69% |
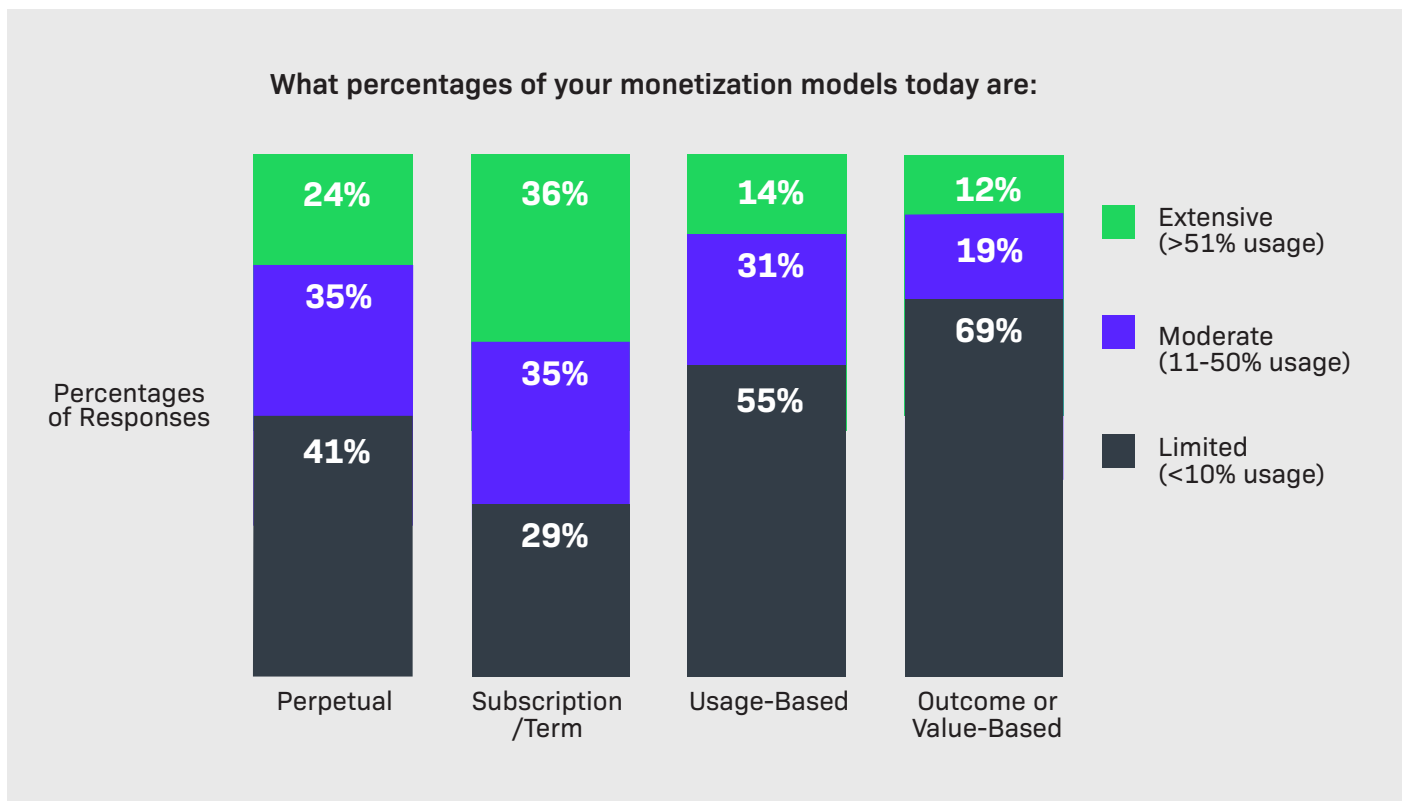
## PROVIDE SUPPORT FOR A MIX OF MODELS

Reliance on perpetual and outcome/value-based software monetization models has decreased some over the past year, with extensive use of each dropping significantly by 10 percentage points since 2020. Nonetheless, the ongoing use of each demonstrates their holding power. Suppliers must continue to support these monetization models to meet customers' needs.
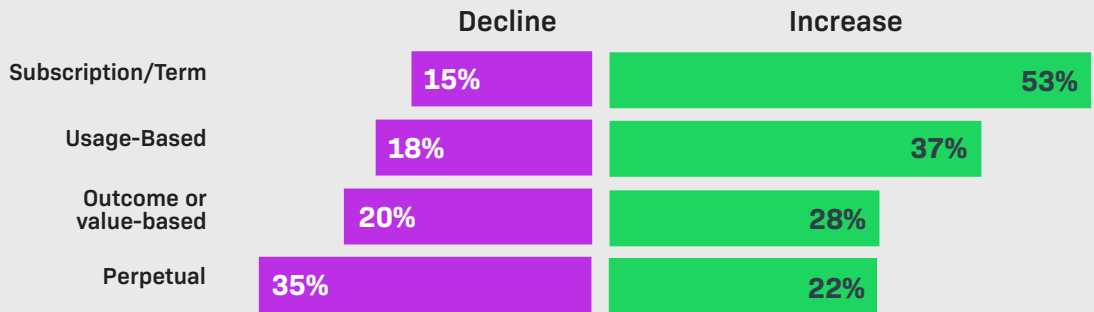
# Software Monetization Models Tomorrow

The anticipated growth of subscription/term monetization models continues to show the most growth. In 2020, 53% reported that it would grow as part of overall software license revenue; in 2021, again, 53% reported anticipated growth of this model in the coming 12–18 months, making it the largest growth category for the coming year.

Among those who reported anticipating a "strong increase" in monetization models, subscription/term (23%) and outcome or value-based (12%) are in the lead. The greatest anticipated decline is for perpetual models (reported by 35%); this extends a trend seen in 2019 and 2020, as well.

Product managers anticipate even stronger growth of subscription/term monetization models. Among the product manager cohort of respondents, 62% indicated that they expect growth of this model and 47% anticipate an increase in their reliance on usage-based monetization.

**Over the next 12-18 months, do you expect the following software monetization models to grow or decline as a percentage of your overall software license revenue?**

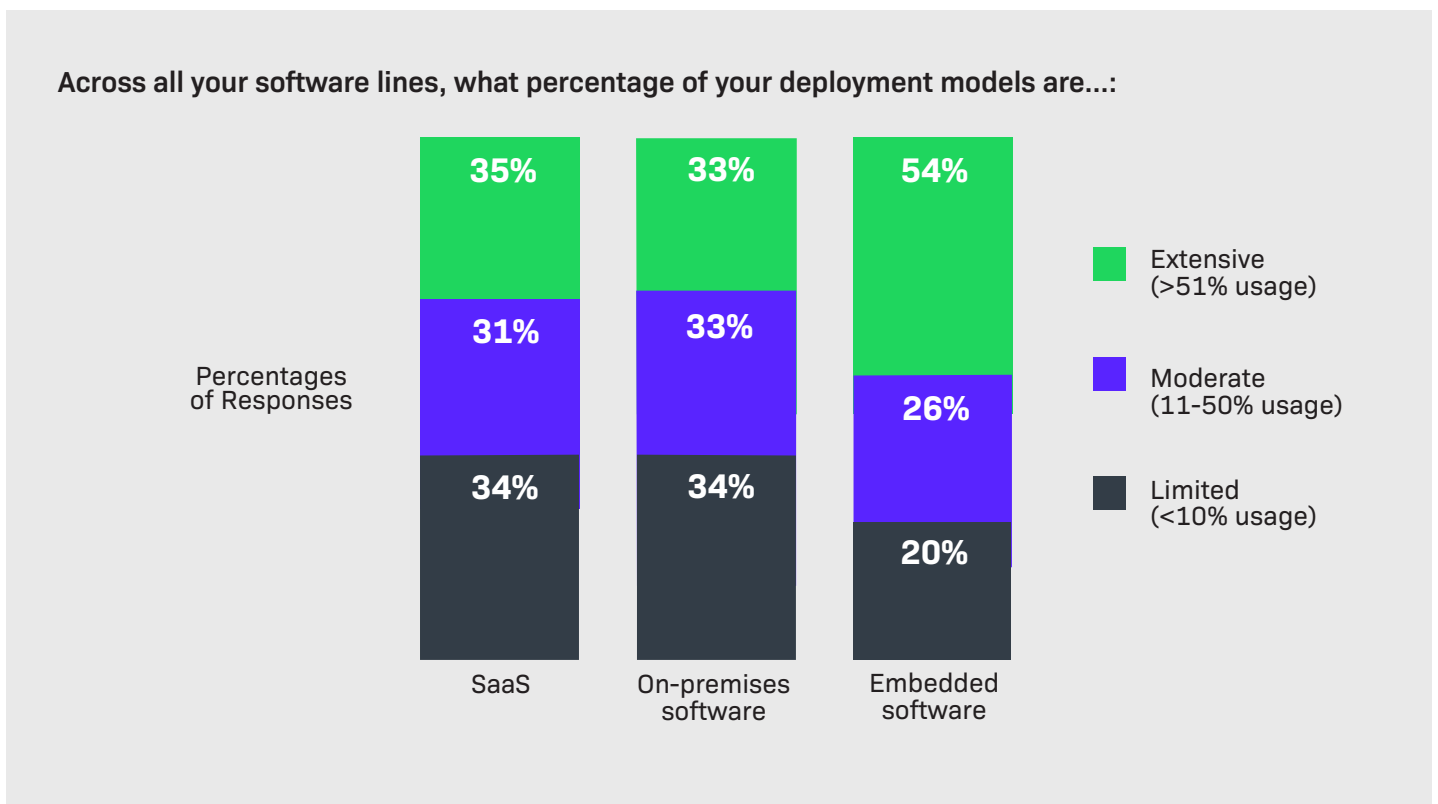|  | Decline | Increase |
|---|---|---|
| Subscription/Term | 15% | 53% |
| Usage-Based | 18% | 37% |
| Outcome or value-based | 20% | 28% |
| Perpetual | 35% | 22% |

**62%** of respondents changed monetization models in the last two years to implement a recurring revenue model.

# Software Deployment Models Today

Today's software companies continue to use a mix of deployment models, extending findings from 2020. Where respondents use one deployment model for more than half of their software lines, SaaS and on-premises software are currently tied, at 34% each.

When reliance on a particular model is even stronger (used for greater than 70% of deployments) SaaS continues to gain traction. In 2020, 14% reported using SaaS for >70% of deployments across all software lines; in 2021, this jumped to 23%.

**Across all your software lines, what percentage of your deployment models are...:**

Percentages of Responses

| | SaaS | On-premises software | Embedded software |
|---|---|---|---|
| Extensive (>51% usage) | 35% | 33% | 54% |
| Moderate (11-50% usage) | 31% | 33% | 26% |
| Limited (<10% usage) | 34% | 34% | 20% |

**INSIGHTS FROM PRODUCT MANAGEMENT**

**Product managers report an even higher reliance on SaaS than is the case overall; 44% report using it extensively, including 29% who report using it for >70% of deployments across all software lines.**
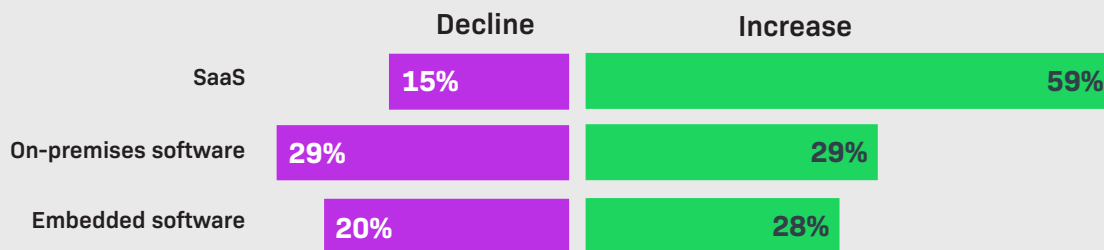
# Software Deployment Models Tomorrow

In the coming 12–18 months, SaaS is forecasted to see the greatest pace of anticipated growth, with 59% of respondents reporting an anticipated increase in use of SaaS. Product managers anticipate an even greater reliance on SaaS, with 72% planning to increase their use of SaaS in this timeframe.

Meanwhile, the growth of embedded software is slowing. In 2020, 44% anticipated seeing an increase, but in 2021, more than half (52%) see no change in it, with only 29% anticipating its growth. On-premises software is holding somewhat steady; similar to 2020's findings, when 41% of respondents said that their reliance on on-premises wouldn't change in the coming 12–18 months, 42% of 2021 respondents anticipated no change in on-premises deployments.

With only 34% of companies using on-premises software as the model for more than half of their product lines, the growing reliance on SaaS and hybrid models highlights the importance of focusing on and managing SaaS monetization initiatives.

**Over the next 12-18 months, do you expect the following software monetization models to grow or decline as a percentage of your overall software license revenue?**

|  | Decline | Increase |
|---|---|---|
| SaaS | 15% | 59% |
| On-premises software | 29% | 29% |
| Embedded software | 20% | 28% |

**In the coming 12-18 months, SaaS is forecasted to see the greatest pace of anticipated growth, with 59% of respondents reporting an anticipated increase in use of SaaS.**

# Aligning Price with Value Delivered to Customers

## Alignment Varies Across Monetization Models

In order to achieve the highest rates of customer satisfaction and retention, software suppliers must work toward the goal of aligning the price (the expense for the customer) of its product with the value (the perceived utility) that's delivered. This balance can be challenging when offering hybrid monetization and deployment models: **overall, only 30% of respondents say that pricing and value are "totally aligned."**

Confidence in alignment between price and value jumps significantly for monetization models that are more accurately tied to measurements of usage and engagement. Where usage-based monetization models are dominant (for more than 70% of business), 81% report that pricing and value are totally aligned; where outcome or value-based monetization models are dominant,  60% report that pricing and value are totally aligned. These models can help strengthen the relationship between price and value.
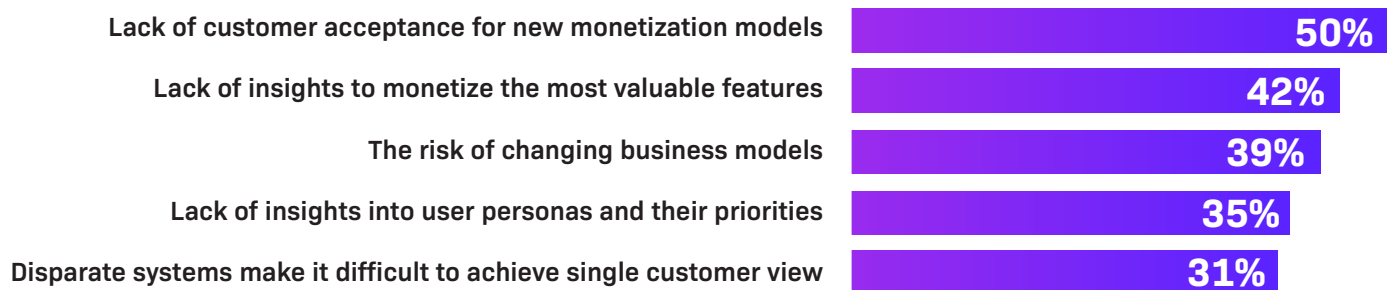
## What's Standing in the Way?

Multiple impediments complicate the goal of aligning price and value. Top among them: lack of customer acceptance for new monetization models. This has doubled in the past year; 25% cited this as a challenge in 2020, but 50% cited it in 2021. This may be due in part to the heightened change and price-related sensitivities caused by the ongoing challenges doing business during the COVID-19 pandemic.

Another top challenge, the lack of insights to monetize the most valuable features (reported by 42%), indicates the need to hone in on insights about what users value. Product managers indicate that this is actually their top challenge (55%), highlighting the importance of gathering accurate insights.

Of companies that can gather usage data "very well," **61% feel pricing is aligned with value.**

**Top Hurdles for Aligning Price and Value**

| | |
|---|---|
| Lack of customer acceptance for new monetization models | 50% |
| Lack of insights to monetize the most valuable features | 42% |
| The risk of changing business models | 39% |
| Lack of insights into user personas and their priorities | 35% |
| Disparate systems make it difficult to achieve single customer view | 31% |

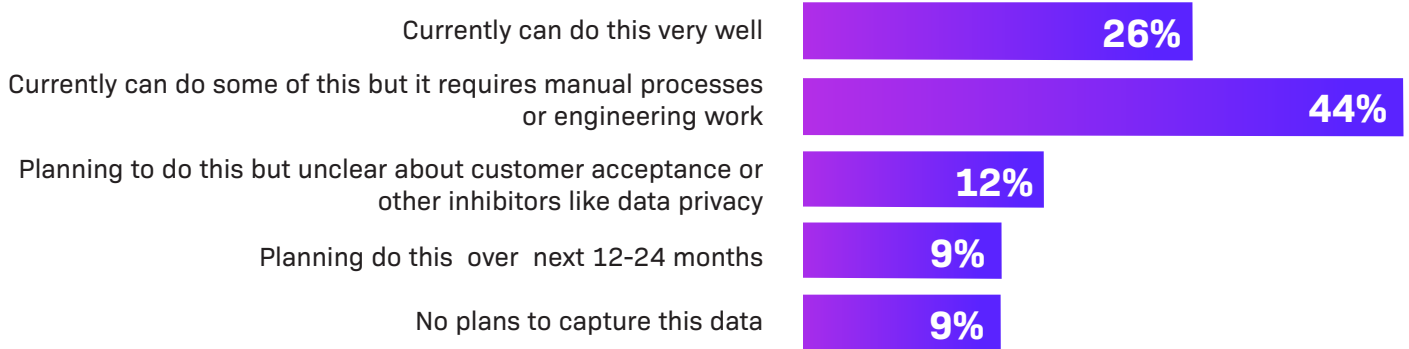# Efficiency of Product Usage Data Collection Efforts

Today there's a notable increase in organizations that can gather product usage data with manual processes or engineering work (up from 28% in 2020 to 44% today). Concurrently, the number of respondents who can gather product usage data very well decreased, dropping from 32% in 2020 to 26% in 2021, perhaps reflecting the complexities of manually collecting this data, highlighting the need for automating these processes.

Overall, 9% overall plan to gather product usage usage data in the next 1–2 years. The desire for this capacity appears to be greater among product managers, with 15% of them planning to gather this data in the same timeframe.

**USAGE DATA IS...**

**Usage data** is valuable for all monetization models. It helps product management, marketing, software engineering, sales, customer success, compliance, and senior management teams. Uses include feature prioritization or roadmap development, UI/UX design, beta testing, deprecating features, pricing decisions, software version decisions, and piracy tracking.

**Please rate your organization's ability to gather product usage data**

| | |
|---|---|
| Currently can do this very well | 26% |
| Currently can do some of this but it requires manual processes or engineering work | 44% |
| Planning to do this but unclear about customer acceptance or other inhibitors like data privacy | 12% |
| Planning do this over next 12-24 months | 9% |
| No plans to capture this data | 9% |

Learn more about software usage analytics in the next report in the Revenera Monetization Monitor 2021 series.

# Strategies for Ongoing Revenue Growth

## The Need for Business Agility Continues

The COVID-19 pandemic's prolonged impact magnifies the ongoing needs to be agile and flexible in order to adapt business, monetization and technology models/strategies quickly. This is particularly the case in order to move toward cloud deployments and the SaaS offering that cloud usage facilitates.

Various approaches are available for managing these multiple, hybrid licensing options. These can help accelerate time to value (TTV) and prevent revenue leakage. While homegrown licensing technology is still the most prevalent approach (used by 34% of respondents in 2020 and again in 2021), usage of complete software monetization platforms is up 28 percent in the past year. Additionally, more than half of respondents with complete software monetization platforms (60%) report that their pricing is aligned with the value they are providing to customers.
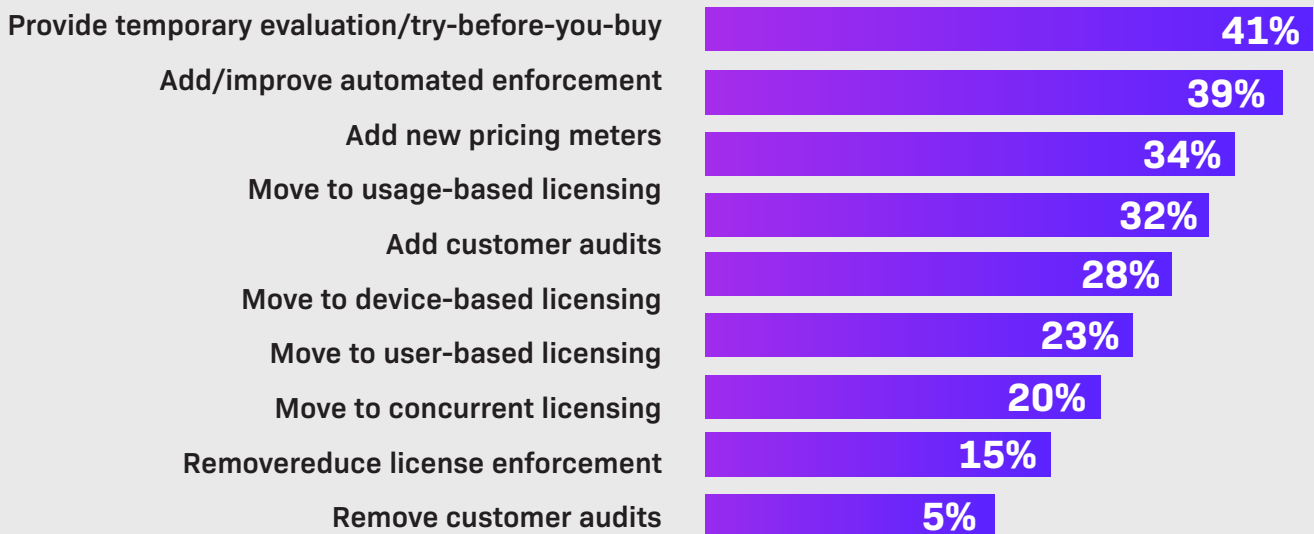
**Usage of complete software monetization platforms is up 28% in the past year**

# Drivers of Change for Monetization Strategies

Monetization strategies are changing for multiple reasons. These include the need to tighten license controls and enforcement, accurate price usage, and lower the barriers to entry.

This year showed a significant jump in the number of software suppliers that are planning to provide temporary evaluation/try-before-you-buy offerings of their products in the coming 12–18 months, as reported by 27% in 2020 and by 41% in 2021. Product managers expressed even greater levels of interest in this offering, with 55% of them indicating plans to provide temporary evaluations. Other top areas where all respondents are increasingly focusing their efforts include adding/improving automated enforcement (reported by 30% in 2020 and by 39% in 2021) and adding new pricing meters (reported by 28% in 2020 and by 34% in 2021).

**If your company plans to make changes to monetization strategies in the next 12-18 months, what changes will you be adopting (respondents could select up to 5)?**

| | |
|---|---|
| Provide temporary evaluation/try-before-you-buy | **41%** |
| Add/improve automated enforcement | **39%** |
| Add new pricing meters | **34%** |
| Move to usage-based licensing | **32%** |
| Add customer audits | **28%** |
| Move to device-based licensing | **23%** |
| Move to user-based licensing | **20%** |
| Move to concurrent licensing | **15%** |
| Removereduce license enforcement | **15%** |
| Remove customer audits | **5%** |

**THE TREND TOWARD USAGE-BASED LICENSING CONTINUES**

**Nearly 1 in 3 respondents cite the "move toward usage-based licensing" as a strategy they'll implement in the next 12-18 months**—highlighting the importance of usage data to accurately monetize the products.
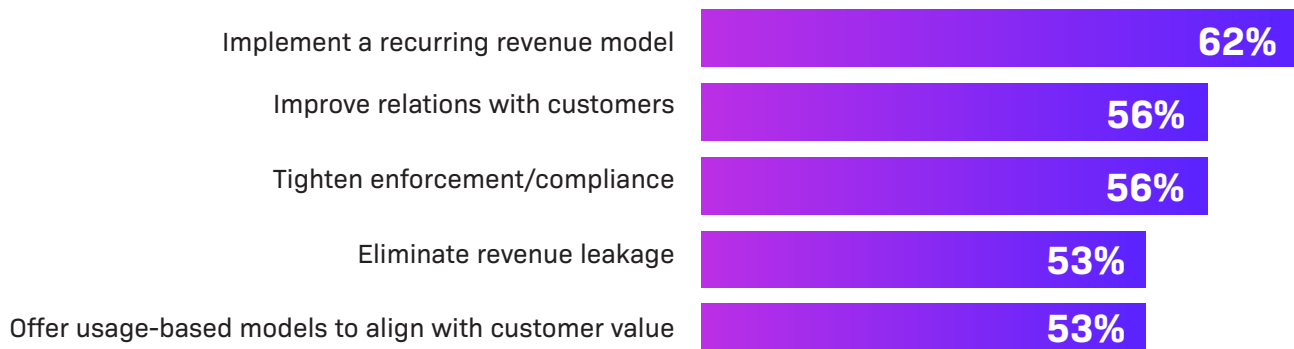
# Reasons for Changing Software Monetization Models

Looking at the top drivers of change, suppliers are adapting their approaches to monetization for a variety of reasons. The top change already undertaken over the past two years is the implementation of a recurring revenue (subscription) model, as reported by 62%. Software suppliers must maintain flexible software monetization platforms to support the multiple models that are being used as part of this hybrid reality.

Usage data can help pinpoint problem areas and identify changes that will be advantageous. The top planned change has shifted this year. In 2019 and 2020, generating new revenue was the top driver of planned changes. 2021's top driver is a more specific way of achieving revenue growth: entering a new vertical market(s), reported by 62% overall and by 72% of product managers. Seeing a significant jump this year: the need to respond to competitive dynamics. In 2021, 48% indicated that they are planning changes for this reason, up from 38% planning to do so in 2020. New market dynamics established by the COVID-19 pandemic may factor into this jump.
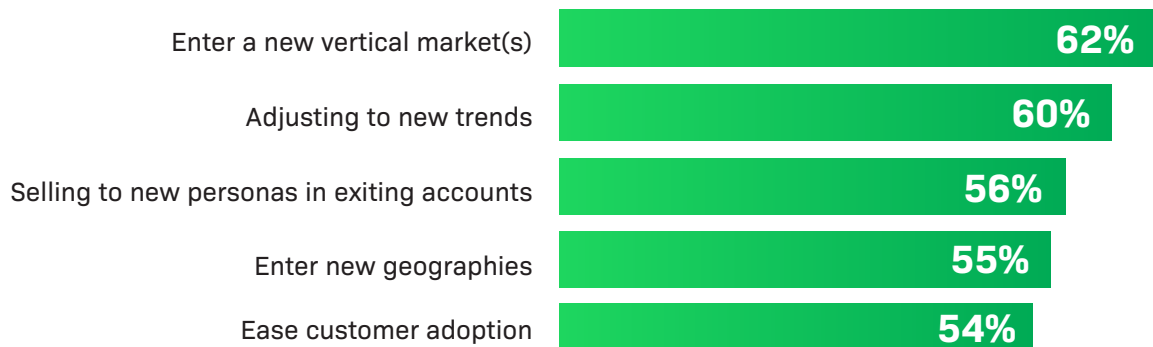
## REASONS FOR CHANGE

**Organizations that changed monetization models in the last two years**

| Reason | Percentage |
|---|---|
| Implement a recurring revenue model | 62% |
| Improve relations with customers | 56% |
| Tighten enforcement/compliance | 56% |
| Eliminate revenue leakage | 53% |
| Offer usage-based models to align with customer value | 53% |

## PLANNING TO CHANGE

**Organizations that are planning to change monetization models**

| Reason | Percentage |
|---|---|
| Enter a new vertical market(s) | 62% |
| Adjusting to new trends | 60% |
| Selling to new personas in exiting accounts | 56% |
| Enter new geographies | 55% |
| Ease customer adoption | 54% |

# The Bottom Line

Today's reality is that software customers have varied requirements that are best met through a variety of both monetization and deployment models. The ability to deliver and support hybrid offerings can help software suppliers succeed. While the business landscape is always changing, one thing remains constant: the need to deliver high-value products that help ensure customer retention.

Managing these offerings requires insights into users' behaviors. A complete software monetization platform that provides clarity into usage data, while simultaneously providing the organizational efficiencies required to support for each model, can help suppliers meet or exceed customers' expectations.
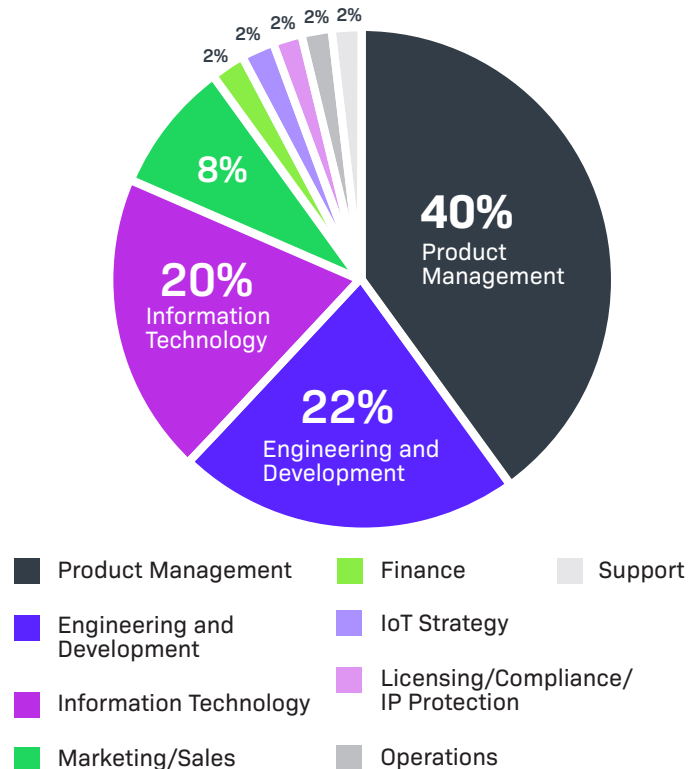
# Survey Background

The 2021 Revenera Monetization Monitor is based on 374 responses to a survey conducted by Revenera from mid-April through mid-June 2021. This research project looks at software producers' software business models, pricing, usage and transparency. Due to rounding, percentages may not always appear to add up to 100%.

**Job levels**



- 34% Director and above
- 33% Manager/ team leader
- 33% Individual contributor/ consultant

**Job functions**



- 40% Product Management
- 22% Engineering and Development
- 20% Information Technology
- 8%
- 2%
- 2%
- 2%
- 2%
- 2%

Legend:
- Product Management
- Engineering and Development
- Information Technology
- Marketing/Sales
- Finance
- IoT Strategy
- Licensing/Compliance/ IP Protection
- Support
- Operations

**INSIGHTS FROM PRODUCT MANAGERS**

**2 out of 5 survey respondents were product managers.** Some of their particular insights into software product management are highlighted throughout this report.

**Location.** The survey was undertaken globally, with 46% of respondents located in North America, 29% in Asia Pacific and 25% in Europe.

25%
Europe

46%
North America

29%
Asia Pacific
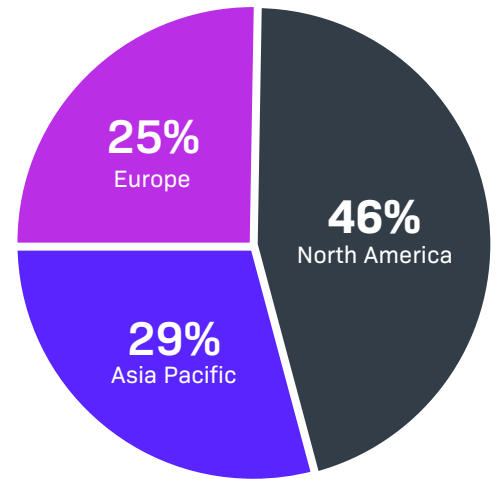
**Annual Revenue.** 36% of repsondents have annual revenues greater than USD $101 million; 30% have annual revenues between $10–$100 million; and the remaining 34% have annual revenues below $10 million. The industries surveyed included pure-play software (56%) as well as respondents across manufacturing and industrial automation; computer hardware and peripherals; medical devices and services; and telco and communications.

34%
<$10 million

36%
>$101 million

30%
$10-$100 million
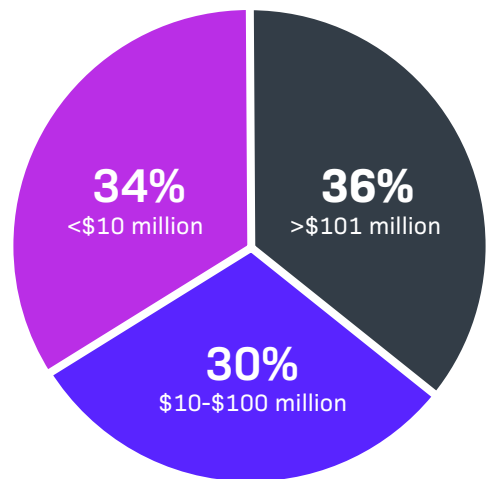
**Approach to Monetization Technology.** 23% of respondents have implemented a complete end-to-end software monetization platform that includes licensing and entitlement management. A further 34% use a homegrown solution maintained by their engineering teams; 19% use basic commercial licensing technology paired with ERP or CRM systems to enable basic functionality; and 23% report not utilizing any licensing technology.

**23%**
Basic commercial licensing technology

**23%**
Homegrown solution

**19%**
None

**34%**
Complete end-to-end software monetization platform
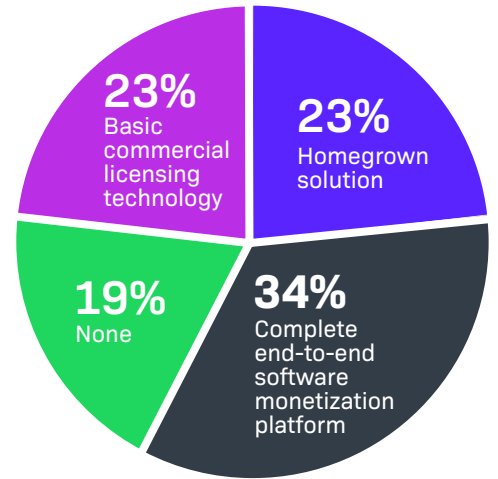
**NEXT STEPS**

Learn how Revenera can help you protect your applications, manage compliance, understand customer needs and drive recurring revenue.

LEARN MORE >

Insight into software usage analytics will be provided in the next report in the *Revenera Monetization Monitor 2021 series*.

Revenera provides the enabling technology to take products to market fast, unlock the value of your IP and accelerate revenue growth—from the edge to the cloud. **www.revenera.com**