

WHITE PAPER

# How to Get Software Licensing Right – The First Time

Most ISVs are increasing the flexibility of licensing by adding more choice, in order to generate more revenue.

## Executive Summary

In spite of a difficult economic climate, the software industry and technology in general have fared okay. In many cases, it is because these software companies have been able to help their end users cut costs through flexibility in licensing their software products – either as a service or through subscription or pay-per-use models. According to IDC, most ISVs are increasing the flexibility of licensing by adding more choice, in order to generate more revenue. This paper discusses the importance of building a cohesive licensing team and integrating your licensing approach with your business processes, even before you worry about integrating licensing technology into your software products. The paper goes further to illustrate in real world terms, the value of a proactive team approach to implementation and optimization of software licensing and entitlement management to fulfill successful licensing strategies.

## Technology Versus Process

Gemalto has worked with many companies on licensing strategies and implementation over the years. Among the ISVs we have worked with, some common themes have emerged. In general, these ISVs recognize that they have a problem, or a need and they are just not sure where to begin and how to resolve it. “We need more control over customer usage but we’re not really sure where to begin.” “We have a licensing situation on our hands. We have information in lots of buckets and we’re not really sure how or who should manage it.” “We started down this path and it is a little bit more complicated than we thought it would be.” More often than not, these teams tend to be a little unorganized and are just not sure where to begin.

Most ISVs want to protect their revenue stream. They want to put controls in their software and the user experience to better govern their business. At this point, they begin to think in terms technology – what technology can I integrate with my software to protect my revenues. They immediately start down the path of finding the technology solution to attach to their software product.

What we find out, and what these teams find out about themselves is that they have more of a process problem than they do a technical problem.

This makes good sense in most cases. Looking to a third party license management solution as opposed to trying to build it yourself – even if you are an ISV – license management is generally not your within core competence. However, as we start working with these teams, what we find out, and what these teams find out about themselves is that they have more of a process problem than they do a technical problem. Moreover, they find that the technical problem is fairly easy to solve and then they realize that they have an integration problem – business integration and focusing on technology alone puts these teams in a bad spot.

Because when you have the technology and particularly around license management where orders are flowing through your systems – you are selling goods, executing sales orders and so forth – you have moving parts. And when you have moving parts, you have process. A technology focus often times ignores the process pieces of this equation.

## Four Tips for a Successful Licensing Project

### 1. Assign a licensing owner

Very often, no one person is responsible for licensing. Because the licensing of your software is such a critical part of your business strategy, it is important to choose someone whom will not only lead the initial licensing decisions, but whom will also own licensing post-launch. To be successful, this person should have a good solid customer background, and understand what is happening in the field to ensure a good customer experience. More often than not, License Managers come from the product management side of the business.

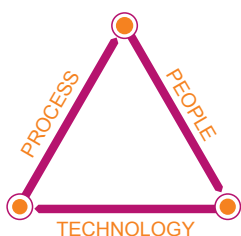
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### 2. Establish a cross-functional licensing team

Licensing is a team sport because it touches every part of your company and all departments within your organization have a stake in it. Therefore, before you make any licensing decisions it is important to involve someone from each of the departments across your company. Each will bring a slightly different perspective and together as a team, you will arrive at the best decisions for your company and your customers.

### 3. Conduct regular license reviews and planning sessions

One would expect licensing decisions to take place in advance of launching a new software product. And they do. However, they should also be taking place at regular intervals throughout the software product's life. If you take a good look at the economy, the market that your software serves, and the software industry as a whole, you would probably agree that there are many changes taking place. As a result, software licensing is no longer a set-it-and-forget-it kind of decision. Your company and your software licensing will also need to evolve to remain competitive.



### 4. Look beyond the technology to business integration

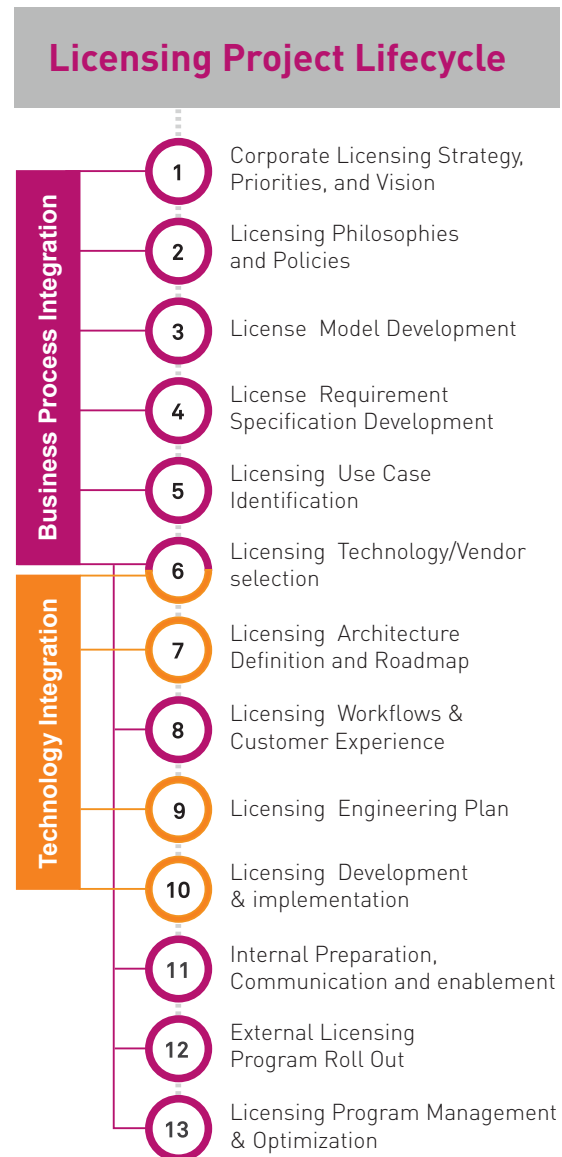
When approaching licensing decisions, most companies immediately think of the licensing technology itself and are not really considering the business processes or people involved in the licensing equation. A

successful licensing strategy and implementation demands a big picture approach that considers people, process, and technology.

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## The Typical Software Licensing Project Lifecycle

The following chart outlines a number of things that any licensing project leader will have to deal with at varying levels at some point in the life cycle.



First, you will be considering the corporate licensing strategy, priorities, and vision, along with your licensing philosophy, and policies. This sets the stage for what you are trying to accomplish. Then you move into developing the license model and then requirements, use cases, and all the way down through engineering, development, and product launch. Then once launched, you will need to maintain and ensure a stable and optimized product as you move ahead. Though the steps may vary slightly from ISV to ISV, these are all parts of a typical software licensing project lifecycle.

These technology sections are the areas that many companies tend to focus on. Teams tend to first gravitate to the technology aspects of a software licensing project. More often than not, when they go down this path, particularly for the first time, they source a third party license management software development kit and get their engineering teams involved.

This is a very common approach but if you look at the big picture using ALL of the steps above, the things that come before the technology pieces, which are extremely important, often get overlooked. These are the planning and vision development steps that need to take place before jumping into the technology. Then finally, once you have the strategy, vision and technology pieces figured out, it is important to focus on integrating your software licensing technology with your established business processes.

So why is it that so many teams ignore the planning and vision development around licensing and jump right to the technology pieces?

Once you have the strategy, vision and technology pieces figured out, it is important to focus on integrating your software licensing technology with your established business processes.

Most teams lack the big picture vision. They tend to start by visualizing in their heads how the entire licensing lifecycle system is going to work – how all the pieces will fit together. They know that they have to do something. But they are not really sure which pieces they can outsource, which things they need to emphasize, which things they need to approach from an industry standards perspective, and which things are just not important.

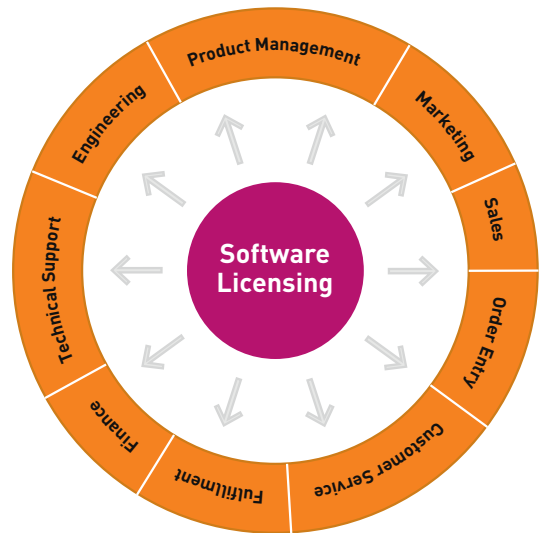
Without a clear vision, they just gravitate toward a technology and more often than not, end up building the wrong thing. These teams need to stay focused on the big picture to be successful. Following is a framework to help guide you.

### Establish a Cross-Functional Licensing Team

As we mentioned earlier, software licensing touches every part of your company so before you make any licensing decisions it is important to appoint an owner. Once you have a software License Manager, their charter will be to build a cross-functional licensing project team and involve someone from each of the departments across your company.

Not only is licensing a team sport, it is probably one of the biggest team sports you have internally because if you think about it – between all the different organizations, your licensing execution sits right in the middle. Licensing and licensing decisions involve finance, order entry, IT, development, tech support, product management,

operations – the list goes on. Each player will bring a slightly different perspective and together as a team, you will arrive at the best licensing decisions for your customers and your company.



### Conduct License Planning Sessions

It is customary for license planning to take place in advance of launching a new software product and in an effort to remain competitive and in step with dynamic markets, it is also important to conduct reviews and planning sessions at regular intervals throughout the software product's life.

When guiding a team in how to prepare and conduct one of these sessions for the first time, we recommend focusing on three specific business elements. Sales models, operations, and license enforcement. And remember, to get it right, the big picture is key. Without first developing the strategy and vision, and in addition to the licensing technology, also thinking about the people and processes with which your licensing will have to integrate, you might not get it right.

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### Look at Sales Models

Forget the technology for now and ask these types of questions: How are we selling today? How do we need to sell in the future? Ask your salespeople: If you had more control over the software behavior, regardless of what that control is, how would you like to be selling? Would you like to sell per unit of time, would you like to sell in little tiny technology or feature bites? Would you want your customers to do site licensing and then charge them after the fact? The idea here is to figure out how you can make the most money or monetize your software the best way. There is no question, your salespeople will have input here, but make

sure to involve the entire team in this discussion. You might be surprised how many valuable ideas will come from other members of the team. Once you understand a little bit more about how you are selling and how you want to sell, spend plenty of time looking at your operations.

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### Look at Operations

Next, you should look at your fulfillment and delivery mechanics. In most companies, there is usually only one or two people that really understand what happens when your sales teams places an order. How it travels through your system – from quote, to order entry, through getting the part numbers built into the bill of materials, flowing down into the ERP into CRM and how the customers get notified, and so forth.

To do this, you will have to take a very close look at your different ordering and fulfillment use cases, which usually represents a significant challenge for teams going down this path the first time.

Your team will need to identify and review all of the different use cases in the ordering and the operational domain in order to fully understand your current process and customer experiences and decide what changes need to make. You will need to visit everything from initial purchase, to add-on purchases, to upgrades, maintenance renewals, and so forth.

It is important in this step that you really take time to understand what actually happens now and what the customer experiences. Then determine if you can improve the process or the customer experience.

Once you have reviewed and discussed operations then you can move on to enforcement.

### Look at Enforcement

In terms of licensing requirements, the next step is to start thinking about license enforcement and where you want to add controls. What is your license enforcement philosophy? How strict do you want your licensing to be?

You will want to discuss compliance versus software piracy, which are two very different things. The results of this conversation will play a key role in your license enforcement implementation.

For example, if your teams feels strongly that you need to prevent piracy at all costs and in all regions of the world, your implementation is going to look very different than if your corporate philosophy is one in which you simply want to put some tools in place to keep your honest customers doing the honest thing. Essentially, the tools make it inconvenient for them to become out of compliance inadvertently.

Once you have a good picture of where you are today and how to fulfill you strategy moving forward, it is time to map your vision.

This example illustrates two very different philosophies, which require two very different implementations. So those types of questions and discussion really do matter.

Once you have a good picture of where you are today and how to fulfill you strategy moving forward, it is time to map your vision.

### Mapping Out the Vision

Now that you have a good idea of how you want to sell and what you want that customer experience to be and how orders will flow through the system and your customers will receive goods, it is time to build out the vision. Use a tool like PowerPoint to illustrate the detailed vision for each of your use cases. This exercise is a good way to ensure that all of your team members are on the same page. And it will also allow you to 'paint the picture' and give others a feel for how things are going to work under certain conditions. From these basic sets of architectural diagrams, you can take that next step towards license design. Even though physically mapping out the vision makes complete sense and is a fundamental step in the process, it is often overlooked.

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### Case in Point: A Real Life Story

Now let's take a look at how one software company used the Gemalto software licensing process and technology approach to evolve and streamline their business as well as reduce costs to increase profits.

#### Licensing Landscape

In its original state, this company had 120 different software products and about \$500 million in annual software revenues. However, as a result of acquisitions, they were supporting three different licensing technologies, each with a different customer experience. Because this ISV sold bundles that included products from each of the three different product families the customer was sent in three different directions to fulfill the license keys. Not a very good user experience.

#### License Key Generation

Half of the license keys for their high volume, high price software were generated manually. A process which required 13 full time people to generate keys. These 13 people were costing this company over \$1.3 million per year just in headcount to generate keys. They used an automated tool to generate licenses for the remaining fifty percent of their software which cost this ISV another \$325K. The total cost for license key generation was over \$1.6M

### Their Pain Points

- > Manual license key generation was expensive and slow.
- > Supporting separate customer experiences was confusing and not optimal.

### The Solution

Gemalto worked with this vendor to help them become more efficient. Through a combination that included streamlining of their processes, and an improved user experience by migrating license key generation for all of their products to a single automated and scalable platform. So regardless of which product the customer purchased, all keys were automatically generated in one place and provided to the customer through a self-service portal.

### The Results

Through a well researched and thought out vision, streamlined processes, and automated self-service license generation, Gemalto was able to help save this company money and increase profits. An additional spend of \$165K in tooling enabled a \$500K per yr cost reduction in headcount plus delivered a single and much more feature-rich customer experience.

Over the next couple of years they acquired four more software companies, each with a different license management system that required a total of 14 more licensing staff to manually generate keys.

Because they already had a scalable streamlined corporate standard for license key generation, this company was able to move all the license key generation for the new acquisitions to the corporate standard. As a result, they were able to streamline the licensing processes and didn't need to employ 14 additional licensing staff.

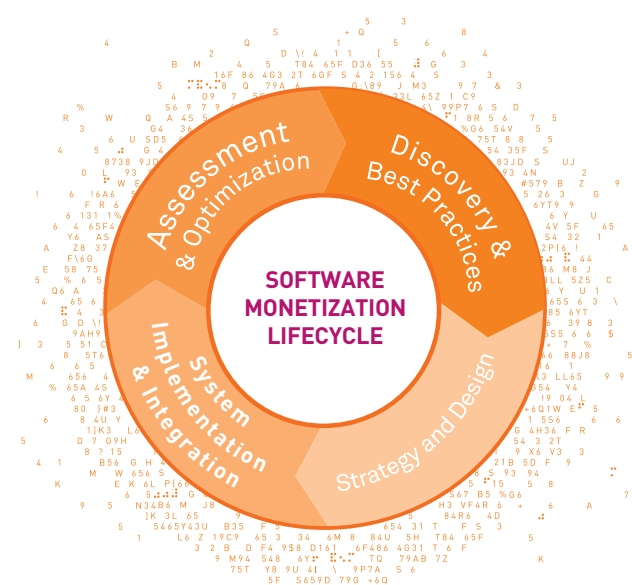
These results would not have been possible had this ISV not taken the time to step back, look at what they were doing, develop a new vision for how they wanted to execute and then bring that vision to reality.

### Summary

For any business, pricing and delivery models are evolving. And it is important to take the time to align your license enforcement with them. However, licensing is no longer a set-it-and-forget-it function. Make sure you periodically review and evaluate your licensing and enforcement strategies and make adjustments as needed. Be sure to do the work up front to build out your strategy and vision before jumping into the technology part of the equation. It is important that you successfully integrate your licensing approach with your business processes before worrying about integrating licensing technology with your software products. Use the framework presented here to help avoid the pitfalls, unexpected problems and project delays and get your software licensing project right the first time.

## Gemalto Software License Consulting Services

The Gemalto Professional Services team is staffed with the industry's most sought after software licensing system design, implementation, optimization, and management experts. Software license consulting services include:



### BEST PRACTICES, DISCOVERY & VISION

Gemalto will coach your teams through software licensing best practices including traits of successful projects and common shortcomings of failed implementations.

### MONETIZATION STRATEGY & DESIGN

Gemalto will assess your goals, requirements, and use cases and help define your licensing vision. Gemalto Consultants will lead the development of thorough end-to-end licensing design specifications that are execution-ready.

### SYSTEM IMPLEMENTATION & OPERATIONS

Led by a project manager dedicated to your account, the Gemalto team of Software Monetization Consultants will deliver the technical design for your licensing system and work with your internal stakeholders to engineer and deliver the work required to bring your vision to life.

### ASSESSMENT & OPTIMIZATION

A Gemalto Licensing Consultant will conduct a thorough assessment of your existing licensing processes and then define an actionable plan and vision for evolving your licensing strategy.

## About Gemalto's Sentinel Software Monetization Solutions

Gemalto, through its acquisition of SafeNet, is the market leading provider of software licensing and entitlement management solutions for on-premises, embedded and cloud-based software vendors. Gemalto's Sentinel is the most trusted brand in the software industry for secure, flexible, and future-proof software monetization solutions.

### Additional Resources on Software Monetization

Visit [Gemalto's on-demand resource library](#) to learn more about how you can better monetize your software.

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