

WHITE PAPER



# Cloud-Based Software Licensing:

**Enabling Operational Efficiency, Delighted Customers and Sustainable Competitiveness**

## Introduction

In 1997, a pair of management consultants – Michael Treacy and Fred Wiersema – published a book entitled, “The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market,”<sup>1</sup> which suggested companies could only become a dominant player in their industry by achieving a proficiency in one of the following areas:

1. Product differentiation
2. Operational excellence
3. Customer intimacy

Treacy and Wiersema believed the cost involved in gaining superiority in more than one of these disciplines was prohibitive, and recommended corporate executives focus their resources on only one or risk becoming mediocre in multiple areas and losing their competitive advantage. Today’s business environment is even more challenging. The competitive pressures have never been greater. Fortunately, software and technological innovation is making it possible for businesses to gain a competitive advantage and deliver on all three of Treacy and Wiersema’s disciplines –simultaneously.

Advances in the Cloud have given businesses unprecedented visibility and data on customers. Data that can help you understand your customers, better serve their needs, and in turn, increase their loyalty and lifetime value. By opening up new ways to connect and engage with customers, the result is a deeper understanding of what customers need to remain loyal, and provide high customer lifetime values.

In the past, the sale ended when the order came in. The main focus of most organizations was getting the order and hoping for repeat business in the future. Today things are different. Thanks to subscription and pay-as-you-go business models, the spotlight has to be on finding ways to make things easier for your customer and in maximizing revenue while helping them get more out of their implementations. Today the focus is on developing stronger long-term relationships with your customers.

Yet, the relationship with the customer is constantly changing. The cost of acquiring customers is just one of the reasons why many businesses have moved from just selling products to selling services. Converting standalone products into subscription services gives companies a better opportunity to build ongoing relationships with their customers. For these companies, giving customers a better experience is a key differentiator.

However, many companies fall short at the first hurdle with poor adoption of their new service-based products. What’s the reason? Often, businesses don’t know because they lack visibility into how their customers are actually using their service products and what they’re trying to achieve.

Software monetization solutions can address these issues, and do more than simply control access and permissions for software. Software monetization solutions also provide an invaluable source of information to help companies meet their customers’ needs, and keep them as customers.

Software monetization solutions can also help companies increase the value of their customer relationships. Research shows that the longevity of the client relationship directly affects the financial stability of a company. Building strong customer relationships can even reduce sales and marketing costs, as well as the likelihood that the customer will deflect to a competitor.

According to a 2014 Gartner survey on marketing's role in customer experience, 89% of marketers expect to compete primarily on the basis of customer experience by 2016. <sup>2</sup>

This whitepaper will discuss the market forces that are reshaping the competitive landscape and show how a variety of businesses are utilizing cloud-based software licensing to implement a software monetization strategy to become the market leaders in all three disciplines described in Treacy and Wiersema's book.

THINKstrategies believes that the best way for a company to achieve a competitive advantage is by developing a better relationship with its customers and the first step is in leveraging technology to make those experiences and interactions easy.

### Revisiting the Original Idea of the Discipline of Market Leaders

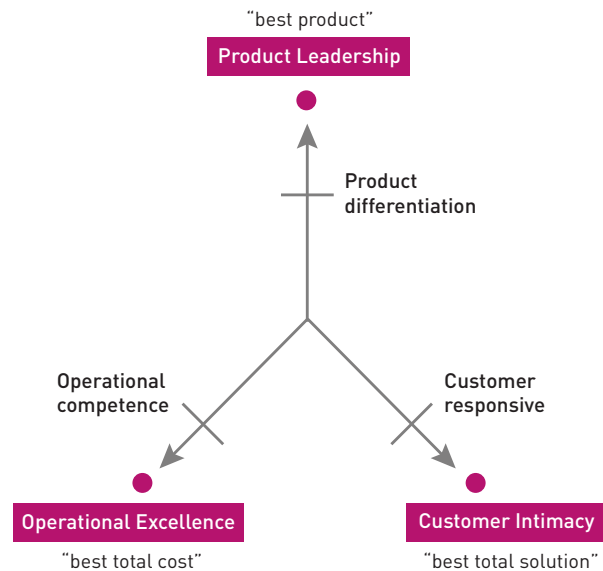
Michael Treacy and Fred Wiersema asserted in their book that companies could only aspire to become industry leaders by focusing on one of three proficiencies – product differentiation, operational excellence, or customer intimacy. They believed the cost and effort involved in achieving superiority in each of the areas was too great to allow a company to become a leader in more than one of these corporate disciplines.

The authors profiled Wal-Mart, Dell, Southwest Airlines, Airborne Express, Atlantic Richfield, Home Depot, Intel, Sony, and others as examples of companies that became market leaders in one of the three categories, but were unable to achieve the same level of success in the other disciplines.

Although it does take a concerted effort and significant investment to become expert in each of the three disciplines identified by Treacy and Wiersema, a growing number of companies are proving that it is possible to be successful “in all of three phases of the game” as football coaches would say, to gain the competitive advantage and stay ahead.

As the following graphic from their book illustrates, they even suggested that the nature of product differentiation, operational excellence and customer intimacy were conflicting corporate objectives.

### The Discipline of Market Leaders Strategic Alternatives



Source: “The Discipline of Market Leaders: Choose Your Customers, Narrow Your Focus, Dominate Your Market” Redefining the Competitive Landscape

In August 2011, Marc Andreessen, Co-Founder and General Partner of the venture capital firm Andreessen-Horowitz, and Co-Founder of Netscape, published a seminal opinion piece in the Wall Street Journal entitled, “Why Software Is Eating the World,” <sup>3</sup> in which he claimed:

“More and more major businesses and industries are being run on software and delivered as online services.”

Andreessen discussed how a new breed of software-enabled companies were emerging in almost every industry that were significantly disrupting their respective markets. He pointed to Apple and Netflix in the music and entertainment industry, and Amazon in retail, among others as examples of this phenomenon. And, he attributed this trend to a combination of more readily available and user-friendly software development tools, including Open Source solutions, along with economical service delivery capabilities via the Cloud.

Even Andreessen was probably surprised how quickly and significantly, his vision became a reality with the rapid rise of Uber and Airbnb. These revolutionary companies used a variety of software-enabled innovations to make the idea of the “shared economy” mainstream.

The Internet of things (IoT) is the next shift in our relationship with technology. We are already seeing how it will affect our lives. Software has become the opportunity. One that will have far reaching consequences, across all markets. As Bill Ruh, President of GE Software, has stated, "...any industrial business that does not become a software business will not be relevant." <sup>4</sup> Software will not only be used to activate licenses, but also to enter new markets, reduce operational costs, and improve customer satisfaction.

The advent of the Cloud, SaaS and IoT, or what GE refers to as the "Industrial Internet," is fueling the digital transformation process across every industry. This process is focused on gaining greater customer intimacy, improving product quality, and driving greater operating efficiency. And software is the primary enabler of the digital transformation process.

### The New Realities of the Cloud Market Leaders

The most prominent example of this capability is Salesforce.com. It has certainly achieved a product leadership position in the software industry by pioneering the Software-as-a-Service (SaaS) business model. It also continues to be a product innovator by rolling out new service capabilities on a regular basis with its quarterly releases.

The multitenant software architecture that underlies its SaaS offerings has also enabled Salesforce.com to become a market leader from an operational efficiency point of view because it permits greater scalability. This service delivery model has enabled Salesforce.com to grow at a faster rate than any software company in history while continuously expanding its product portfolio.

And despite becoming a massive company in a relatively short timeframe, Salesforce.com has also been able to retain an enviable level of customer intimacy which continuously yields high customer satisfaction scores, renewal rates, and add-on business. As a result, Salesforce.com has made the 'land-and-expand' market penetration strategy an industry best practice.

By attaining a market leadership position in all three disciplines, Salesforce.com has been able to defy the 'law of big numbers' by generating substantial revenue growth while accumulating a larger installed base of customers. While Salesforce.com may not be profitable in the strict sense of the term, it has achieved extraordinary cash-flow success because of its high customer renewal and add-on sales rates.

Salesforce.com isn't alone in proving Treacy and Wiersema's theory wrong in the age of the Cloud. Every Cloud category leader is emulating Salesforce.com's model for success, including Workday, ServiceNow, and NetSuite among others. Given the growing number of successful Cloud companies who are proving the old disciplines are no longer mutually exclusive, a broader set of companies are attempting to gain

some of the same market advantages. Established ISVs like Microsoft, Adobe, and Intuit are following the lead of the 'born in the Cloud' software companies. Each of these ISVs are moving aggressively to gain the product, operational and customer intimacy advantages identified by Treacy and Wiersema.

### Having It All: Winning In All Three Areas of Market Leadership

In each case, the disrupting companies have leveraged a new generation of software functionality to become product innovators that create a new form of customer intimacy and gain exponentially greater operating efficiency than their predecessors.

Becoming more customer-centric, innovative, and efficient may sound appealing, but it also requires the right kind of software licensing capabilities to properly monitor and track customer usage patterns, operating metrics, and to identify new market opportunities.

Licensing activation, entitlement management, and enforcement are essential software licensing capabilities that allow you to monitor, measure and maximize application usage to deliver products people want at the right time and the way they want to consume them.

For instance, the right software licensing capabilities can enable an ISV or subscription service provider to improve trial conversion based on customer usage data. This information can also predict and prevent churn, or identify additional up-sell/cross-sell opportunities. And, greater software intelligence can drive better new product/market investment decisions.

Gemalto's Sentinel EMS is a web-based solution that gives software providers an integrated license and entitlement management platform with back-office integration capabilities. It also includes a set of advanced data collection and reporting functions that enable users to improve their business operations, enhance their end-users' experience, identify new business opportunities, and improve profitability.

Sentinel EMS is the platform that HP Enterprise Group (EG) uses to deliver operational efficiency, product leadership, and customer intimacy. HP provides an extensive portfolio of software solutions to large organizations. Although HP EG isn't a cloud-based ISV, its experience illustrates the changing market dynamics. Because of the scale of its portfolio, the company was experiencing many product licensing-related challenges and increased costs with support calls and with licensing operations.

Due to HP's, complex business use cases, disparate license generators, and back-office systems which were not sharing information, the end-user experience ratings for its product license activation process were extremely low.

HP needed a new software entitlement management technology to support approximately 50 license generators of proprietary and commercial technologies, and manage 70,000 products and 3.5 million entitlements.

Their customer web portal needed to be simplified to make the process of activating a product easier-to-understand. The portal also needed to comply with the established visual elements of the HP brand.

HP also wanted automated license fulfillment for multiple third-party license enforcement technologies, the ability to build to stock and build to order, factory activation, and channel-partner fulfillment. The entitlement management system and portal also needed to integrate with its SAP back-office system and two user authentication services for single sign-on.

HP engaged Gemalto's consulting team to help determine its own internal entitlement, licensing and monetization requirements and come up with a project plan. HP decided to deploy Gemalto's Sentinel Entitlement Management Solution (EMS) to automate the licensing fulfillment, activation and management processes, streamline operations, enforce compliance, and provide reporting functions across the software licensing lifecycle.

In only nine months, Sentinel EMS was fully integrated with HP's SAP back office and it now supports approximately 50 licensing enforcement technologies through integration with GLiS, a proprietary HPE middleware system between SAP and Sentinel EMS.

HP customers now activate their licenses using a custom web portal developed using Gemalto's EMS and HP Customer Care can collect real-time data about its customers.

The new custom licensing portal is also integrated with the two user authentication services for single sign on. Sentinel EMS also maintains a catalog of HP's growing portfolio of products and software entitlements.

Since the deployment, HP has successfully completed its corporate restructuring into two separate organizations, and the deployment of Sentinel EMS has been instrumental in easing the transition for HP Enterprise (HPE), and customer satisfaction has increased from 56% to 84%.

### **Bottom Line: Market Leadership Begins With a Cloud-Based Licensing Solution**

As the landscape transforms and customer expectations escalate, the nature of software and its use is also dramatically changing. As the market becomes more software-driven, employing a new generation of software monetization solutions is imperative. Starting with a cloud-based licensing system as part of your strategy will allow you to begin collecting the customer intelligence and valuable insight needed to start building customer intimacy.

In addition, Gemalto's cloud-based licensing solution provides companies with accurate usage data that will help product marketing teams drive product excellence and differentiation. Data for strategic business decisions will allow companies to expand to new markets and open up new revenue opportunities. For example, the usage data collected provide new insight and information so that new pricing models can be offered (i.e. consumption-based), providing customers with more purchasing options.

As more IoT products are introduced and transactions grow, a strong connection between the system that generates and manages software entitlements and the back-office systems will be vital. Integrating with the back office will reduce operational expenses and improve profitability.

Manual license fulfillment is costly, time-consuming, tedious, error-prone, and restrictive on sales models and channels. Connecting disparate operational systems with software licensing will streamline and automate key business processes with licensing workflows to improve business visibility and ultimately drive business growth.

In today's on-demand, post-sale economy this could be the difference between keeping your customers and losing them to the competitor. According to the Chartered Institute of Marketing, it can cost up to 30 times more to get a new customer than it does to keep an existing one.<sup>5</sup>

We stand at the dawn of a new era – an era of digital business transformation. A digital transformation driven by the way end-users interact with technology.

This means that new products and business models must be delivered with agility, while allowing for the customization of capabilities throughout the customer buying cycle. In addition, deployment needs to be automatic and seamless. The heart of the digital age comes down to data. Having the ability to collect information on how your products are being used, and perhaps more importantly, not being used, will get you one step closer to product leadership. "The most compelling value propositions start with a focus on a single customer's needs.

Software monetization solutions create market leaders and significantly improve your chances of achieving success in the three disciplines described in Treacy and Wiersema book.

While the changing nature of software design and utilization pose plenty of software licensing and monetization challenges, a new generation of software monetization solutions that includes cloud-based licensing is creating even more opportunities for organizations to attain market dominance.

## About Gemalto, Inc.

About Gemalto Sentinel Software Monetization - 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 Sentinel is the most trusted brand in the software industry for secure, flexible, and future-proof software monetization solutions.

[www.gemalto.com/software-monetization](http://www.gemalto.com/software-monetization).

## About THINKstrategies, Inc.

THINKstrategies, Inc. is the only strategic consulting services company focused entirely on helping its clients capitalize on the unprecedented business opportunities created by the technology industry shift from a product-centric to a services-driven orientation and an "on-demand" delivery model, such as Cloud Computing, Software-as-a-Service (SaaS) and Managed Services.

THINKstrategies' mission is to help our clients re-THINK their corporate strategies, refocus their resources and re-align their operations to achieve their business objectives. THINKstrategies helps enterprise decision-makers with their sourcing strategies, IT solutions providers with their marketing strategies, and VCs with their investment strategies.

THINKstrategies has also created the Cloud Computing Showplace online directory and best practices resource center to help IT and business decision-makers find and fully leverage today's leading SaaS, Platform-as-a-Service (PaaS) and Infrastructure-as-a-Service (IaaS) solutions. To learn more about the Cloud Computing Showplace, go to [www.cloudshowplace.com](http://www.cloudshowplace.com).

THINKstrategies also hosts a series of executive forums focused on the latest business opportunities and technological developments in the Cloud marketplace, called the Cloud Innovators Summits. To learn more about these events, go to [www.cloudsummits.com](http://www.cloudsummits.com).

For more information regarding our unique capabilities, visit [www.thinkstrategies.com](http://www.thinkstrategies.com), or contact us at [info@thinkstrategies.com](mailto:info@thinkstrategies.com).

1 <http://www.amazon.com/The-Discipline-Market-Leaders-Customers/dp/0201407191>

2 Gartner, Agenda Overview for Customer Experience, December 2014. <https://www.gartner.com/imagesrv/digital-marketing/pdfs/agenda-overview-for-customer.pdf>

3 <http://www.wsj.com/articles/SB10001424053111903480904576512250915629460>

4 <http://www.computerweekly.com/news/2240241843/Executive-interview-GEs-software-chief-Bill-Ruh-on-value-of-an-industrial-cloud>

5 Mike Johnston, The Chartered Institute of Marketing

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