Demand Pricing That Matches Business Value — The Radical Sourcing Trend For 2013

by Duncan Jones, January 4, 2013

KEY TAKEAWAYS

Act Now Or Obsolete Licensing Models Will Drain Your IT Budget

The spread of business technology to more processes and functions is driving accelerating demand for processing capacity. Enterprises won't be able to afford to meet that demand unless their software's cost more closely matches the business value it delivers. Current models will drive firms' costs up beyond what they can afford.

Software Buyers Should Encourage Four Value-Based Trends

Forrester's research has identified four licensing trends that will benefit you if you can push software companies to support them. We expect to see more and more buyers demanding flexible commercial models, role-based user licensing, no charge for collaboration, and subcapacity licensing of data centers.

Market Forces Will Drive Change, Even From Reactionary Software Companies

The old models won't die out, but Forrester predicts that they will become less prevalent. Even among the software giants we find examples of movement in the right direction. Sourcing professionals can accelerate our trends by encouraging the innovators and steering their colleagues away from the laggards.

Demand Pricing That Matches Business Value — The Radical Sourcing Trend For 2013

Landscape: The Strategic Software Sourcing Playbook

by Duncan Jones
with Chris Andrews, Mark Bartrick, and Ben Jennings

WHY READ THIS REPORT

This report describes the software pricing and licensing landscape and explains why it makes it so important for sourcing and vendor management executives to implement Forrester's strategic software sourcing approach. The traditional pricing models that currently dominate the software market are obsolete and no longer match products' cost to the business value they deliver. Software buyers are wondering how technology market shifts such as social computing, mobility, big data, and cloud will affect the way they buy software. They hope that the technology revolution will bring greater commercial flexibility and fairness, but they see the old guard oligopoly fighting back against the rebel forces of change. This report identifies four software licensing trends that could and should result from these market shifts if sourcing professionals encourage and nurture them. We'll explain where the major technology providers are moving in the right direction and where they are clinging to obsolete models. We'll also identify where the technology revolution isn't wholly in buyers' interests. This report will help sourcing leaders refine their software sourcing strategies to favor the more forward-thinking and buyer-friendly vendors.

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Notes & Resources

Forrester interviewed 12 vendor and user companies, including Actian, Adobe, Citrix, Flexera Software, IBM, Infor, Microsoft, Progress Software, salesforce.com, SAP, Software AG, and VMware.

Related Research Documents

Tiers Are Not Enough
March 27, 2012

Software Pricing And Licensing Trends 2011
April 5, 2011

Topic Overview: Software Pricing And Licensing
October 28, 2010

ACT NOW OR OBSOLETE LICENSING MODELS WILL DRAIN YOUR IT BUDGET

Major changes in the technology market are creating urgent problems for software sourcing and vendor management (SVM) professionals. Your CIO needs you to cut costs to free up budget for investment in vital new initiatives such as big data, cloud, mobility, and social, yet you are constrained by legacy systems — some that seem less business-friendly every day.[1] Your business can't afford to let additional license and maintenance costs consume your IT budget without delivering any additional business value, but you are still required to enter tough negotiations with the same set of vendors, year over year. Unless you take steps now to fix your software contracts, your incumbent vendors will eat up your budget, taking advantage of obsolete software models and pricing structures.

Traditional Licensing Models Increasingly Fail To Reflect Value

The idea that software's price should reflect its business value isn't new — publishers already try to do that so they can price new deals appropriately and then get more revenue later as the customer extends its usage. What has changed is that the market's axiomatic assumption — that business value is proportional to computing power — is no longer true. The dollar value of each unit of processing power, be it core, GB, or PVU, varies by application context and diminishes each year. The root of the developing conflict between the established software giants and their customers is that:

- **Enterprises see processing capacity growth as steady state, not higher value.** BT's spread to more processes and functions is driving accelerating demand for processing capacity. Continual improvements in hardware price/performance ratios enable companies to meet this demand. They won't be able to afford to keep pace with their competitors unless their software's price/workload ratio improves in line with the hardware's.

- **Software companies see these changes as extra value for which they can charge.** The pricing decision-makers that Forrester interviewed have a very different perspective from our sourcing clients on how the major technology changes affect business value (see Figure 1). They believe it is fair and reasonable to amend their policies to get more revenue from data inflation and from new deployment scenarios in various ways that surprise, confuse, and, often, enrage sourcing professionals.

Figure 1 Technology Changes Have Undermined Traditional Metrics' Link With Value

Traditional metric	Impact of technology change	Software companies' perspective	Buyers' perspective
Processor	**Virtualization** of data centers eliminates the link between software and the hardware that is running it.	Extra processing power available to the software means extra value, whether or not the software actually uses that spare capacity.	We shouldn't have to pay more for software merely because we've made our data center more efficient. If there is extra business value, it comes from the virtualization software itself, not from the products running on it.
Core or RAM	**Big data** means enterprises' demand for processing power is growing faster than CPUs are accelerating.	More data = more value. Customers should buy more licenses each year to support.	Data inflation reduces the value of a GB of data or a core of processing power. Software prices should decline just like hardware prices do.
Device	**Mobile devices** enable network styles. Information workers spread their software usage across multiple devices, including some they own themselves (BYOD).	Each additional device represents extra value for which we can charge. For instance, a customer who paid $300 per PC for our software will pay $900 to be able to also use it from a tablet and a smartphone.	The value is not increased; it is merely spread across the devices. If anything, the software is less valuable due to the other devices' inferior form factor.
User	**Systems of engagement** have wide, diverse user populations and integrate with multiple systems of record.	People who have indirect access to data that came from our database are getting as much value from it as direct users of our software. If you can't afford the flat per-user fee for that person, don't give him access to the data.	It is our data, not yours. We will pay for indirect use of the software (bidirectional interfaces supporting interaction between user and server) if the price matches that user's role. We won't pay for indirect access to the data (via unidirectional exports or imports).

61661   Source: Forrester Research, Inc.

January 4, 2013

SOFTWARE BUYERS SHOULD ENCOURAGE FOUR VALUE-BASED TRENDS

As enterprises move from information technology picked by IT professionals to business technology chosen by business leaders, sourcing professionals will need to change their approach. Business buyers rightly expect the same commercial flexibility and fairness from their business technology (BT) providers that they get from their other suppliers, and they expect their sourcing colleagues to deliver it. They won't accept pricing metrics that they don't understand and that bear no relation to the business value they expect to get from their investment, nor will they accept illogical (in their opinion) rules that IT buyers have accepted for years, such as charging for products that the customer isn't using.

Let's be clear: The old models won't die out because the established vendors are too dependent on them and most enterprise-level clients depend on their software to support critical business applications. But they will become less common, especially in new deals. In the future, Forrester predicts that buyers will demand and publishers will deliver:

1. **Flexible commercial models.** Whether purchasing on-premises software or everything-as-a-service (XaaS), sourcing professionals must be able to adjust costs down when they need to and only accept cost increases when their software is providing them greater business value.

2. **Role-based per-user licensing of systems of engagement.** Flat pricing for all user types, or worse, per-device pricing, are inappropriate for the applications that today's diverse mobile-user populations use to do their jobs.

3. **External collaboration enabled at no extra charge.** Sourcing professionals must reject vendors' attempts to double-dip when firms share data with customers or suppliers.

4. **Cloud-compatible licensing of infrastructure software.** Buyers will demand value-based metrics from their public cloud XaaS providers and a peak concurrent (i.e., subcapacity) model for their on-premises private clouds.
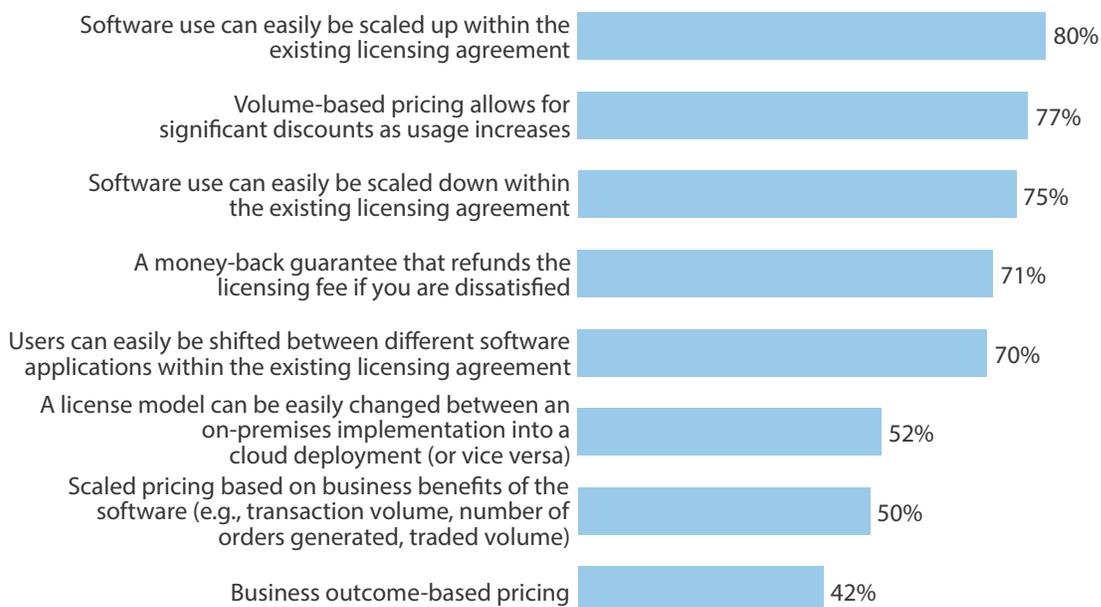
TREND ONE: FLEXIBLE COMMERCIAL MODELS

Buyers will increasingly demand to match their software costs with the value they're getting from the software. A recent Forrester survey found that 75% of IT decision-makers think that it would be valuable to have more commercial flexibility (see Figure 2).[2] The desired options are common features of XaaS deployment models and are also available with some term licenses for on-premises products, such as Microsoft's enterprise subscription agreement. The traditional model of a perpetual license combined with ongoing maintenance fees won't disappear, but it will decline in market share (see Figure 3). Moreover, some of the vendors that continue to offer it will match their XaaS competitors by allowing customers to:

■ **Phase investment in line with deployment.** Business executive project sponsors will be increasingly reluctant to agree to payment upfront for software that they may take years to fully roll out. They may be prepared to offer a firm commitment, but they'll only pay when the project reaches milestones and/or delivers results.

■ **Cut costs if they need to.** Savvy publishers will let customers reduce their maintenance fees, such as by dropping support on license capacity and modules that they aren't using. The ones that refuse to do this, believing that maintenance costs should go up every year irrespective of customer value, will see their customers defecting to third-party support providers or even to rival products.

Figure 2 IT Decision-Makers Want More Licensing Flexibility

"How valuable does, or would, your firm find the following features in software license agreements?"
(4 or 5 on a scale of 1 [not valuable at all] to 5 [very valuable])

Software use can easily be scaled up within the existing licensing agreement	80%
Volume-based pricing allows for significant discounts as usage increases	77%
Software use can easily be scaled down within the existing licensing agreement	75%
A money-back guarantee that refunds the licensing fee if you are dissatisfied	71%
Users can easily be shifted between different software applications within the existing licensing agreement	70%
A license model can be easily changed between an on-premises implementation into a cloud deployment (or vice versa)	52%
Scaled pricing based on business benefits of the software (e.g., transaction volume, number of orders generated, traded volume)	50%
Business outcome-based pricing	42%

Base: 2,198 software decision-makers from firms with 20 or more employees

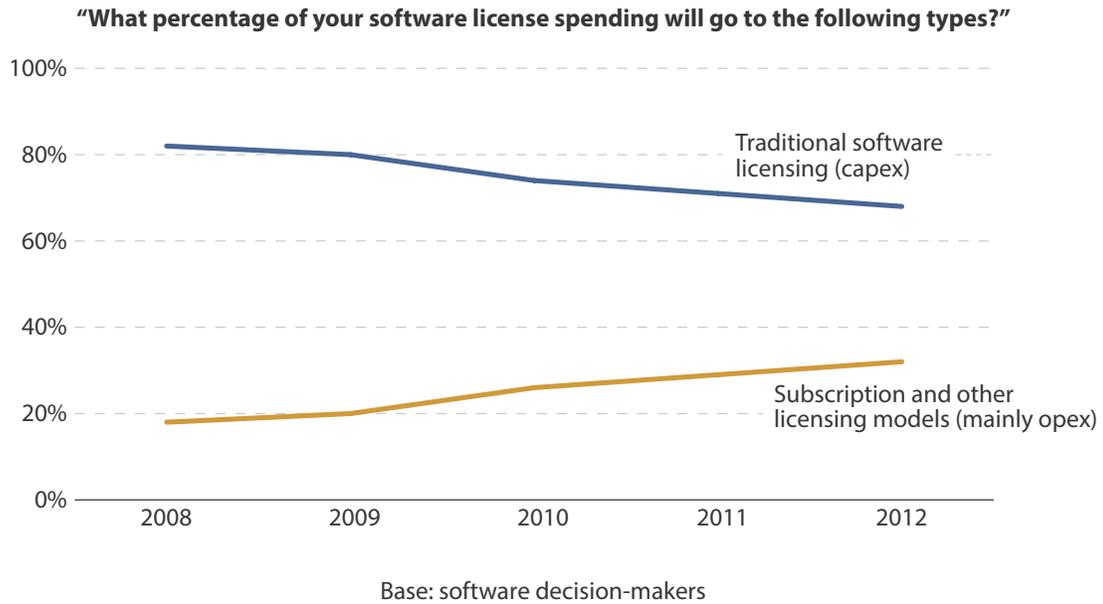Source: Forrsights Software Survey, Q4 2011

61661   Source: Forrester Research, Inc.

January 4, 2013

Figure 3 Software Decision-Makers Intend To Shift License Spend To Subscription Models

The spreadsheet associated with this figure contains additional base and sample size information.

"What percentage of your software license spending will go to the following types?"

Base: software decision-makers

Source: Forrsights Software Survey, 2007 to 2011

61661   Source: Forrester Research, Inc.

Support This Trend Because It Forces Vendors To Care About Your Success

The most important advantage of a flexible commercial model is that it forces the technology provider to share its customers' goals. Yes, it lets firms cut costs in times of austerity and shift the budget to new priorities, but those benefits are less significant than this fundamental change to the relationship. When customers only pay when they're receiving value, providers have to:

- **Delay product releases until they're fully ready.** There is no point in releasing incomplete or bug-ridden products when customers won't pay for them until they've gone live. In contrast, traditional vendors can recognize revenue when they ship software, even if it is no better than beta standard and bears little relation to the PowerPoint vision that the salesperson sold.

- **Ensure that implementation projects succeed.** Flexible models let you start with a pilot project and then add modules and users as you extend the product's use to more functions and business units. The provider therefore has a strong incentive to ensure that your rollout goes well, to increase its revenue stream as quickly as it can. That's why providers work so hard to help you resolve problems, increase user adoption, and demonstrate the return on your investment. Traditional software companies persuade companies to buy more than they need, before they need it, and make little effort to persuade customers to deploy their shelfware.[3]

Good Examples: IBM's Support Program And Microsoft's Enterprise Subscription

There are examples of cost flexibility even among the software giants. IBM lets customers reduce their costs by dropping support on individual products. Microsoft has a subscription alternative to its enterprise agreement, known as an EAS, which enables customers to adjust their desktop quantity up or down each year. SAP's acquisitions of SuccessFactors and Ariba are part of its strategy to grow its SaaS business, which it cannot do without allowing more flexibility than it does now.

TREND TWO: ROLE-BASED PER USER FOR SYSTEMS OF ENGAGEMENT

Business decision-makers' main IT priorities include mobility, business processes, and customer engagement, which are all examples of what Forrester describes as systems of engagement (see Figure 4).[4] Role-based pricing of these applications matches each user's cost to not just their usage breadth (i.e., modules they access) but also its depth (features within those modules) and frequency (how often they use the software, and for how long). This role profiling will be primarily top down, from analysis of employees by job function, rather than bottom up from detailed tracking or limitation of access to specific functions — the goal is to match price to value, not to create a usage tracking nightmare.

Figure 4 Business Decision-Makers Prioritize Systems Of Engagement

"Which technologies are you or your team currently using or requesting?"

■ Implementing or using　■ Made a formal request to use　■ Interested in using

Systems of engagement

Technology	Implementing or using	Made a formal request to use	Interested in using
Mobile applications	38%	11%	30%
Business process management tools	38%	11%	29%
Deploying smartphones/tablets for employees	47%	9%	22%
Customer communication management	39%	10%	27%
Web analytics	41%	7%	21%
Content management software	38%	9%	21%
Enterprise social networking tools	34%	8%	25%
Social intelligence tools for monitoring what customers are saying	24%	9%	32%
Real-time predictive business and customer analytics	21%	11%	33%
Packaged applications implementation or upgrade	34%	12%	18%
Enterprise marketing platforms	24%	7%	24%
Enterprise apps store solutions to deploy smartphone and tablet apps	15%	9%	29%
Big data solutions	18%	7%	21%
Loyalty management platforms software	16%	7%	22%
Sensors, RFID, or other machine-to-machine technologies	14%	6%	14%

Base: 1,004 North American and European business decision-makers from firms with 1,000 or more employees

Source: Forrsights Business Decision-Makers Survey, Q4 2011

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Support This Trend Because Per Device Is Obsolete, But One Price Does Not Fit All

Systems of engagement include native applications on PCs, tablets, and smartphones, and also server-based applications like customer relationship management (CRM) or collaboration platforms. They often support a diverse range of users who may access the software from a range of devices in addition to their main PC, such as a smartphone or a PC in a hotel business center. Role-based user pricing is better for sourcing professionals for both types because:

- **Per-device licensing could make the new delivery models prohibitively expensive.** Some software publishers believe that increasingly common software access methods, such as native mobile apps virtual desktop infrastructure (VDI), represent additional value for which they can charge. For example, consider a customer with 200 users accessing the software from their virtual desktop running on any one of 1,000 company devices or from their personal tablets. Device-based companies demand 1,200 licenses to support this scenario instead of the 200 they would get under the old physical PC deployment model.

- **Counting devices is difficult, if not impossible.** It is no longer possible to measure usage of native applications merely by counting executables on hard disks because that won't cover VDI access and mobile devices.[5] Keeping track of vendors' rules can also be a challenge because they are making them ever more complex rather than accepting that their basic model is obsolete. For instance, just within Microsoft there are different licensing treatments of VDI between Windows, Office, Office 365, and Exchange, along with further complications depending on where the device is and who owns it.

- **Usage profiles vary widely across the organization.** Systems of engagement typically create large, diverse user populations, which makes the simplistic flat-fee per-user model unfair. Roles enable buyers to segment their users, such as to distinguish process designers from process users, and content creators from content reviewers and consumers. Concurrent user pricing and detailed pay-as-you-go usage metering might do this, but they are obsolete in today's always-on mobile world.

Good Examples: Adobe Acrobat, SAP's User Categories, And Microsoft Office 365

Adobe differentiates between content creators and consumers by providing the latter with the free Reader product, which even allows limited editing, such as completion of an input form. SAP has always offered a range of user categories, from professional users with full access to employee self-service users who perform a few basic functions.[6] Buyers can negotiate the details of how they apply the categories to their usage population. Microsoft embraced role-based pricing when it released Office 365, although its model only considers usage breadth, and not depth or frequency.[7] However, it will consider these latter two when negotiating enterprise deals.

TREND THREE: EXTERNAL COLLABORATION ENABLED AT NO EXTRA CHARGE

Enterprises will force providers of back-office applications to eliminate charges for indirect data access via separate collaboration platforms. Currently, many on-premises software companies use broad, vague definitions of "use" and "access" to demand user licenses for many scenarios involving external collaboration and data sharing (see Figure 5).[8] As collaboration becomes more common, enterprises will demand clear, consistent, fair rules, such as:

- **Indirect data access is only licensable software use if it is real-time and bidirectional.** Some systems of engagement enable users to interact with integrated systems of record, and it is fair for sellers of the latter to charge for this indirect use. In contrast, users of web communities and extranet servers should not need user licenses for databases with which they integrate via batch imports and exports. No vendor would be able to make you buy user licenses for people to whom you send output files, reports, or documents by email, and there is no good reason why it should be any different to, for instance, post them on a website or send them to a smartphone by some other transfer protocol.

- **One person, one license (OPOL) grants community membership, not just enterprise access.** Where two firms use the same software, their own licenses should also cover access to each other's systems if the other party chooses to allow it. For instance, an individual with an SAP user license or a SharePoint client access license shouldn't need a second license to access a business partner's SAP or SharePoint system.

Support This Trend Because B2B Collaboration Is Now The Norm, Not The Exception

Information sharing is becoming more common and also more intimate. It is no longer merely about exchanging documents — firms are pooling demand data, jointly designing products, sharing supplier reviews, and mashing up data from multiple sources into rich systems of engagement. Firms won't be able to afford these use cases if they let their application vendors interpret undefined contract terms such as "use" and "access" too broadly. However, it won't be easy for buyers to drive this trend in the right direction because many software companies:

- **Believe that B2B collaboration is additional customer value for which they should charge.** Whereas spokespeople for SaaS providers naturally embrace the OPOL principle, the pricing managers for on-premises companies perceive external use as a revenue opportunity. They struggle to understand the customer's point of view that the value comes from the applications supporting the collaboration, not from the data that they share.

- **Are concerned about enforcement.** Vendors' main objection to the OPOL principle is that they would find it hard to audit compliance if they allowed it. Would each customer have to check that the people with whom it shared data had user licenses of their own? This is a minor detail that they could easily solve, such as by making their user authentication a web-based service just like the SaaS providers use. It is certainly no excuse for their current double-dipping.

■ **Have the leverage to force buyers to accept their contract interpretation.** Incumbent vendors cannot amend customers' perpetual agreements unilaterally and retroactively, so they instead publish licensing guides and policy updates that apply the old language to new scenarios. Salespeople have told Forrester clients that they are out of compliance, based on the rep's interpretation of the contract, and have threatened to revoke their licenses or withhold support services unless they pay up. Buyers need leverage, such as a large discretionary purchase, or courage to call the rep's bluff if they are to resist this threat.

Figure 5 Software Companies Demand User Licenses For Many Different Types Of Indirect Use

Source: Forrester Research, Inc.

January 4, 2013
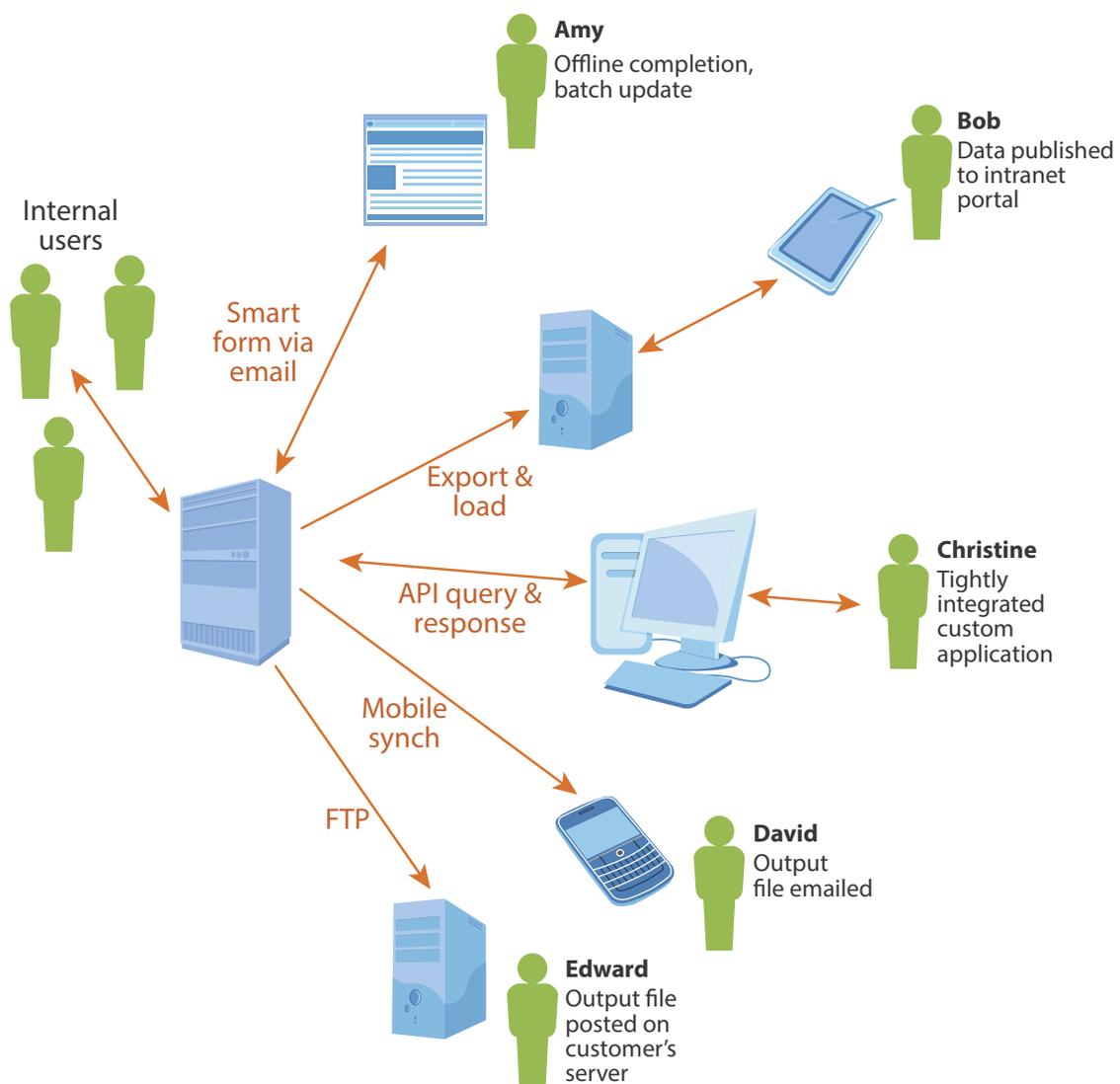
Good Examples: IBM Connections, SharePoint, Chatter, And Streamworks

The vendors of these SaaS collaboration platforms — IBM, Microsoft, salesforce.com, and SAP, respectively — have embraced the OPOL, community-membership principle. A user that signs up to these services can collaborate with any external contacts who also subscribe to the service at no extra cost.[9] Microsoft is a recent convert, eliminating extra charges for external use of Exchange and SharePoint from October 1, 2012.

TREND FOUR: CLOUD-COMPATIBLE LICENSING OF INFRASTRUCTURE SOFTWARE

Five years ago, almost all sellers of infrastructure software such as operating systems, middleware, and databases used the full-capacity model, demanding licenses for all the physical processors that are available to run their software. Cloud computing has made this model obsolete, yet some vendors still use it, partly because there is no single perfect alternative to replace it. In the future we expect several models to coexist, with buyers being able to choose between:

- **SaaS, with infrastructure included.** Enterprises will increasingly avoid the headaches of hardware-based licensing by switching to SaaS products, which bundle the infrastructure into their service. SaaS vendors will use metrics that more closely match the way they deliver value than per processor does, such as role-based user and transaction volume. The software publisher may charge the SaaS provider per processor or via a royalty or some other method, but that's of no interest or concern to the end customer.

- **Subcapacity, for standalone servers and private clouds.** Firms that still buy infrastructure software for their own data centers will insist on paying for the subcapacity. This measures the hardware that is supporting the software at any point in time, as opposed to the full capacity, which includes every processor on which the software could run, even if it couldn't run on them all simultaneously (see Figure 6). Vendors offering subcapacity will charge either for the peak concurrent hardware quantity or for the actual time-based usage, also called pay as you go (PAYG).[10]

- **Open source.** The source code for these products is available to all, and anyone can use it at no cost, provided they comply with the open-source license restrictions. A community of developers jointly maintains and enhances the product. Customers either pay for support to a specialist provider or self-support with the community's help.

Figure 6 Subcapacity Is Cheaper And Fairer When A Cluster Supports Multiple Products

Product A

Product B

Virtualization layer
(e.g., 4 virtual cores per VM)

Full capacity: A = 16 cores
                B = 16 cores

Subcapacity: A = 4 cores
               B = 12 cores

Product A

4 physical cores spread across 4 quad-core CPU
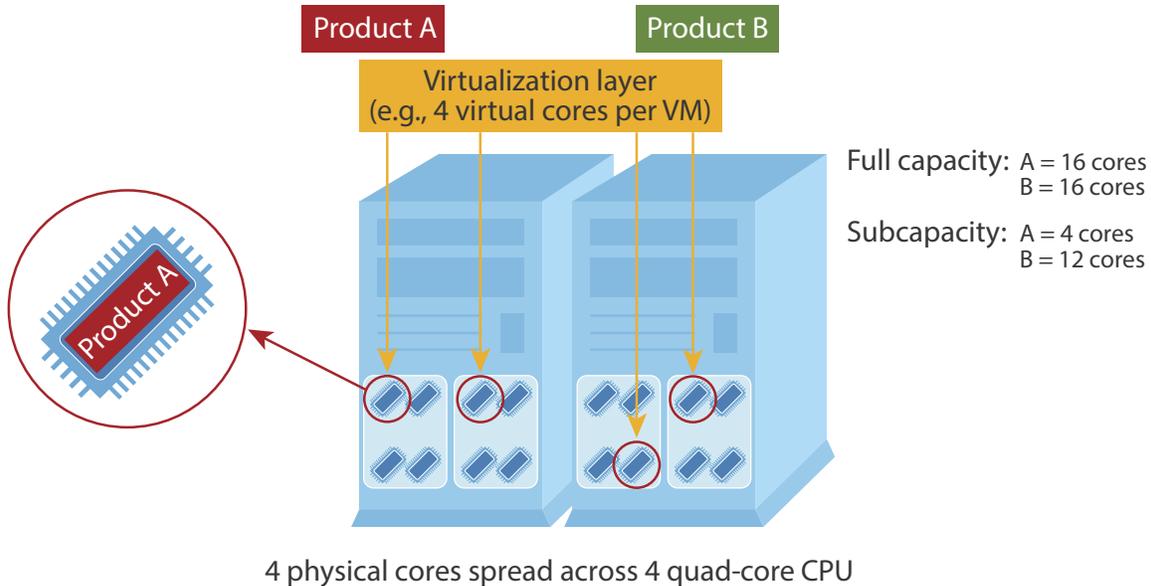
61661   Source: Forrester Research, Inc.

Support This Trend Because Big Data Will Drain Your Budget Unless You Do

Buyers who continue to accept full-capacity licensing will soon see their infrastructure software costs killing their company. For 20 years, hardware improvements, in accordance with Moore's law, have reduced the impact of data inflation on enterprises' demand for additional processors, and hence additional licenses of per-processor software. Now, the era of big data is causing demand for processing power to grow faster than ever, but the technology acceleration to cope with that demand is coming from flash memory, multicore processors, and virtualization rather than from faster CPU cycle times. The licensing alternatives that Forrester proposes will keep infrastructure software affordable by:

- **Freeing IT operations groups to optimize their private clouds.** The subcapacity model avoids the artificial constraints that the full-capacity alternative imposes on data center managers. For example, to limit licensing costs, managers must group all instances of one product on dedicated hardware, physically restrict the resources allocated to each workload, and prevent virtual instances moving to different physical hosts. All of these reduce the data center's overall efficiency, for no good reason other than to avoid getting hammered by the vendor's obsolete licensing model.

- **Putting SaaS providers between enterprise and the software giants.** Buyers can outsource the infrastructure software licensing hassles to SaaS providers. They will have to negotiate with the infrastructure software publishers, keeping their costs under control as data inflation battles with

technology improvements and controlling subcapacity across multiple data centers. Some will have sufficient scale to give themselves the negotiation advantage. The remainder may struggle to make a profit, but that will be the venture capital finance provider's problem, not yours.

Good Examples: IBM's Subcapacity, Oracle's ULA, Various XaaS Offerings

IBM's subcapacity licensing charges customers only for the hardware within the private cloud that is supporting IBM workloads.[11] Microsoft's model for SQL server 2012 is similar, although customers need to buy software assurance (SA) to get unlimited virtualization rights.[12] Other vendors, including Actuate, Software AG, Tibco Software, and VMware, have subcapacity and/or workload options.

Oracle's unlimited license agreement (ULA) enables customers to avoid the restrictions of its standard model, provided that they can negotiate a price that matches their perception of the ULA's value. Oracle also bundles its infrastructure software within its on-demand applications that have their own value-based pricing metrics.

RECOMMENDATIONS

PERSUADE YOUR SOFTWARE VENDORS TO CHANGE, OR CHANGE YOUR VENDORS

These trends will happen if and only if you nurture and encourage them by persuading your colleagues to favor vendors that support the trends and avoid those that react against them. Software companies are reluctant to change their commercial models because it's expensive — altering contracts, revising marketing collateral, designing transitional arrangements, training sales teams, etc. They need to be sure that they'll make more money long term by doing something that appears to cost them revenue in the short term. Therefore it is important for buyers to unite behind these positive licensing trends, amplify the message, and accelerate the trends. Three practical steps that you can take immediately are:

- **Educate colleagues about the risks to your firm if your main vendors refuse to change.** Operations and development professionals can see the benefit of standardization and consolidation but may not see the associated risk of being dependent on a vendor whose obsolete licensing policies will increase your costs exponentially. Therefore you should take time to explain the risks and persuade them to help you mitigate those risks.

- **Make suppliers' top tier status conditional on them supporting these trends.** Software publishers want preferential treatment, such as executive access, favored status when bidding for new projects, and multiyear financial commitments. Savvy sourcing managers use formal criteria to grade suppliers so they know what they have to do to keep their position, and a willingness to offer commercial flexibility and up-to-date policies should be part of that tiering system.

■ **Publish commercial requirements in RFxs, and use them as decision criteria.** Buyers that lack formal supplier tiering can still put their weight behind these trends by including them formally in product selection events and ensuring that all the vendors know that you have done this. The best way to persuade software companies to change is to ensure that sales teams know that their firm's obsolete approach is costing them deals and thus pressure their pricing and licensing leaders to update their policies.

SUPPLEMENTAL MATERIAL

Methodology

Forrester's Forrsights Software Survey, Q4 2011 was fielded to 2,438 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from small and medium-size business (SMB) and enterprise companies with two or more employees. This survey is part of Forrester's Forrsights for Business Technology and was fielded during November 2011 and December 2011. LinkedIn Research Network fielded this survey online on behalf of Forrester. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Forrsights Software Survey, Q4 2010 was fielded to 2,403 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from small and medium-size (SMB) and enterprise companies with two or more employees. This survey is part of Forrester's Forrsights for Business Technology and was fielded during September and October 2010. LinkedIn Research Network fielded this survey online on behalf of Forrester. Survey respondent incentives include a choice of gift certificates and research reports. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Enterprise And SMB Software Survey, North America And Europe, Q4 2009 was fielded to 2,165 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from SMB and enterprise companies with two or more employees. This survey is part of Forrester's suite of Business Data Services studies. Forrester fielded the survey from September 2009 to November 2009. LinkedIn fielded this survey online on behalf of Forrester. Survey respondent incentives included gift certificates and research summaries. We have provided exact sample sizes in this report on a question-by question basis.

Forrester's Enterprise And SMB Software Survey, North America And Europe, Q4 2008 was fielded to 2,227 IT executives and technology decision-makers located in Canada, France, Germany, the UK, and the US from companies with two or more employees. This survey is part of Forrester's suite of Business Data Services studies. Forrester fielded the survey from December 2008 to February 2009. e-Rewards fielded this survey online on behalf of Forrester. e-Rewards provided incentives to survey respondents. We have provided exact sample sizes in this report on a question-by question basis.

Forrester's Forrsights Software Survey, Q3 2007 was fielded to 2,252 software decision-makers at North American and European enterprises and SMBs. Of these, 55% were from SMBs, and 45% were from enterprises. Geographically, 67% were from North America, and 33% were from Europe. We screened all respondents for significant involvement in software purchasing decisions. We have provided exact sample sizes in this report on a question-by-question basis.

Forrester's Forrsights Business Decision-Makers Survey, Q4 2011 was fielded to 3,534 business decision-makers located in Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Japan, Malaysia, Mexico, New Zealand, the Philippines, Russia, Singapore, the UK, and the US from small and medium-size business and enterprise companies with 100 or more employees. This survey is part of Forrester's Forrsights for Business Technology and was fielded from September 2011 to December 2011. LinkedIn Research Network fielded this survey online on behalf of Forrester.

Each calendar year, Forrester's Forrsights for Business Technology fields business-to-business technology studies in more than 17 countries spanning North America, Latin America, Europe, and developed and emerging Asia. For quality control, we carefully screen respondents according to job title and function. Forrester's Forrsights for Business Technology ensures that the final survey population contains only those with significant involvement in the planning, funding, and purchasing of IT products and services. Additionally, we set quotas for company size (number of employees) and industry as a means of controlling the data distribution and establishing alignment with IT spend calculated by Forrester analysts. Forrsights uses only superior data sources and advanced data-cleaning techniques to ensure the highest data quality.

We have illustrated only a portion of survey results in this document. To inquire about receiving full data results for an additional fee, please contact Forrsights@forrester.com or your Forrester account manager.

Companies Interviewed For This Report

Actian	Microsoft
Adobe	Progress Software
Citrix	salesforce.com
Flexera Software	SAP
IBM	Software AG
Infor	VMware

ENDNOTES

[1] Enterprises need to cut maintenance budgets so they can spend more on new projects. For years, CIOs allocated two-thirds of their budgets, on average, to maintenance of ongoing operations, systems, and equipment (a budget number Forrester calls "MOOSE") and one-third to new initiatives. However, Forrester's surveys indicate that IT decision-makers have recently been trying to reduce the share of MOOSE in their budgets so they can spend more on vital new business initiatives. We forecast that this trend will continue, so that in 2012, for the first time, CIOs will allocate more of their budget to new projects than they do to MOOSE. But the tech giants get an increasing share of their revenue from MOOSE spend. For instance, Oracle and SAP now get just 26% of their revenue from new license sales, whereas five years ago they got 34% and 32%, respectively. See the January 18, 2102, "Transform Your Strategic Supplier Relationships From Duels Into Duets" report.

[2] Source: Forrsights Software Survey, Q4 2011.

[3] If you're a software sourcing professional, your main performance metric is probably pushing you in the wrong direction. You want to get an all-around good deal that includes vital long-term protection for your company, but your executives only care about measurable, short-term savings. But too often getting the best price involves paying too much money too early in the project. See the October 25, 2010, "Great Price, Shame About The Deal" report.

[4] Building on what Geoffrey Moore has termed "systems of engagement," Forrester formally defines them as systems that "empower customers, partners, and employees with context-rich apps and smart products to help them decide and act immediately in their moments of need." See the March 26, 2012, "Mobile Is The New Face Of Engagement: An Executive Summary" report.

[5] Arguably the VDI vendors are at fault for selling software that causes their customers to incur large unbudgeted liabilities without warning them of the risk or helping them mitigate it. Some license tracking software vendors are extending their tools to cover VDI. However, CIOs shouldn't have to reduce the benefit they gain from the new software delivery models by tracking or limiting the devices from which users access their virtual desktops. It will eliminate the problem if buyers force publishers to switch to a role-based user model.

[6] Source: "Licensing SAP Products: a Guide for Buyers" SAP (http://www.sap.com/asset/index. epx?id=68939f62-732f-4d6b-b1d0-fe30ebe89387).

[7] Microsoft's Office 365 is priced by role. There are a variety of plans available to individual users, each scaled by total product usage. See the July 12, 2012, "How To Negotiate A Better Microsoft Office 365 Deal" report.

[8] Indirect use is an increasingly common source of disputes. Mobility and analytics have made it pervasive, yet few publishers have clear, fair, published policies for licensing it. For example, Microsoft defines indirect use more broadly than customers would expect. SAP's licensing guide refers to "interfaced access" but it does not have official criteria for deciding when that will count as use of its software and when it will not. See the December 30, 2011, "Updated Q4 2011: Forrester's Software Contract Review Checklist" report.

[9] External users may still need licenses for underlying sources of data shared via the collaboration platform. For example, an SAP Streamworks user may still need an SAP user license if he can access SAP's Business Suite software via Streamworks.

[10] A full comparison between PAYG and peak concurrent subcapacity is beyond this document's scope. The former is superficially attractive to buyers because it only charges them for what they actually use, but the price points will be higher so they won't necessarily save money. There are also disadvantages such as the complexity of measuring it properly and the risk of large unexpected bills if they fail to control resource allocation to workloads.

[11] IBM explains its virtualization capacity (also called subcapacity) licensing rules on its website. IBM assigns each a core a processor value unit (PVU) rating based on its vendor, brand, type, and model number. Source: IBM (http://www-01.ibm.com/software/lotus/passportadvantage/Counting_Software_licenses_using_specific_virtualization_technologies.html).

[12] Buyers can now choose between four primary virtualization licensing options for SQL Server 2012, depending on whether they want to dynamically reassign individual virtual machines (VMs) to different physical cores and on whether they want to have other workloads also running in the same server cluster. See the August 29, 2012, "Microsoft SQL Server 2012 Licensing Changes — What You Need To Know" report.