Commercial Software Licensing

CHAPTER 5:

Pricing Models

Prepared by DoD ESI | January 2013

Chapter Overview

- **Software pricing** to end users is usually based on several models:

    – *Users.*

    – *Computer assignment.*

    – *Company application structure.*

- There are several approaches Publishers use to price their products to channel partners.

- **Channel pricing** needs to:

    – *Provide financial incentives to resellers.*

    – *Protect the Publisher's margins and its pricing to its direct customers.*

Comparing License Types

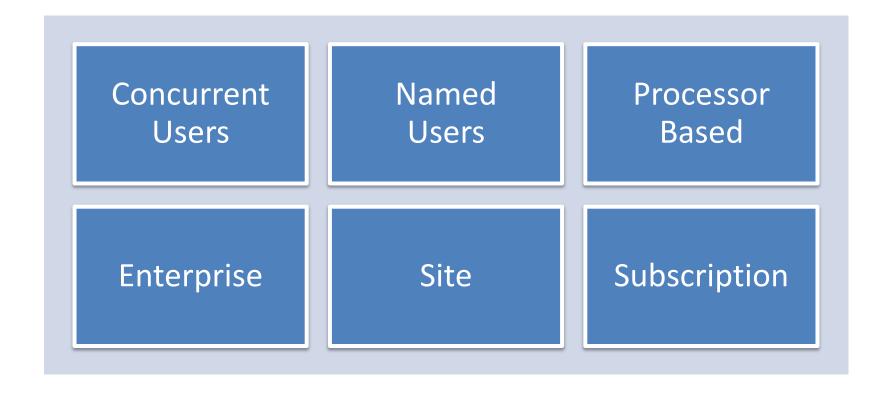| Perpetual/On Premises	Subscription/Off Premises
No specific time limit.	Term is limited.
Customer takes possession of software.	Customer does not take possession.
Customer responsible for IT environment.	Contractor provides IT environment.
Customer responsible for software maintenance.	Contractor provides all system maintenance.

Sample Perpetual License Language

Grant of License. Licensor grants to Customer and its Affiliated Companies a perpetual, nonexclusive, irrevocable license to use the Software and Documentation in the normal course of Customer's businesses as set forth in an Addendum ("License"). The license shall be nontransferable except in conjunction with a permitted assignment of this Agreement. Subject only to permissible restrictions which are expressly set forth in an Addendum, Customer may: (a) use the Software on any CPU, wherever located, that is used in Customer's businesses, including home and portable computers used by employees and contract personnel when working outside the office; (b) permit use of the Software by one or more third parties to perform information processing, disaster recovery, disaster recovery testing or other services for Customer, provided such third parties agree to keep the Software confidential; and (c) permit use of the Software by persons with authorized access to Customer's computer system, including auditors, temporary personnel, contracted personnel, customers, agents, consultants and suppliers, provided such third parties agree to keep the Software confidential. Any third party use of the Software will be in accordance with this Agreement, and Customer will remain primarily liable for any noncompliance by such third parties.

License Pricing Models
Direct or Indirect Sales

Concurrent Users	Named Users	Processor Based
Enterprise	Site	Subscription

License Pricing Models Defined

Concurrent Users

- License price is based on the maximum number of users who could be using the software at any given point in time.

Named Users

- License price is based on the total number of individuals in the user population.

Processor Based

- License price is based on the number of computers (CPUs) to which the software can be deployed.

License Pricing Models Defined (cont.)

Site

- A pricing model used when applications are deployed to a fixed location within an enterprise.

Subscription

- This model calls for periodic payments instead of a lump sum payment.
- It may also be selected when a customer does not want to deploy the software within its IT environment.

License Pricing Models Defined (cont.)

Enterprise License (EL)

- License price is based on a decision to deploy the software across an entire enterprise (as defined by the customer).

- Managed by one point of contact between vendor and enterprise - one "Ship To", one "Bill To", one Support Contact, one Payment.

- This model is used primarily with large, multi-national or global customers with large numbers of users (usually > 10,000).

License Pricing Models Defined (cont.)

EL Defined

- software license grant (EULA),

- covers a defined community of users,

- includes common products, quantities, and overall software usage rights,

- requires a single interface with the Software Publisher/Licensor for payments, technical support, product releases, and contractual actions, regardless of the internal issues inherent in a community of users acting as a single entity.
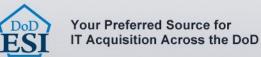
Comparison of Prices by Pricing Model

Example - 500 People, Heavy S/W Use, 2 Sites, 12 Processors

	Concurrent Users	Named Users	Per Processor	Site License	Enterprise License
Unit Price	$600	$300	$18,000	$80,000	$145,000
Quantity	300	500	12	2	1
Extended Price	**$180,000**	**$150,000**	**$216,000**	**$160,000**	**$145,000**

Alternative Software Licensing Models

Factor	Traditional Software License Model	Alternative License Models
Pricing Model(s)	• Up-front license fee. • Ongoing maintenance fee.	• Utility-based; on-demand. • Software as a Service. • Subscription-basis. • Tiered pricing, by customer, product, and consumption level. • Value-based. • Monthly fee; time usage.
Basis of License Fee	User-based *(named)* or Processor-based; per seat.	• Business service metric based. • Based on number of "unique daily user(s)." • Universal/enterprise scope. • Volume.
Release Schedule	• Major release every 3-5 years. • Minor updates in between.	• Incremental evolution *(e.g. quarterly or annually).*
Billing Implications	• Pay license fee upon delivery of CDs; maintenance on an annual basis.	• Billing capabilities must also be more sophisticated. • Subscriptions. • Metered. • Enterprise.
Contract Implications	• Same for the last ten years. • Fixed price.	• Variable pricing. • More complex terms; customized.

Publisher Channel Strategies & Issues
Pricing Models

Discount and Sell

- Publishers sell to Resellers at discount of 30% to 40% off list price.
- Resellers choose selling price and retain net revenue.

Price Floors and Ceilings

- Publishers establish an acceptable price range for Resellers.
- Publishers take a percentage or other form of revenue split.

Fixed Price Matrices

- Publishers establish specific Reseller purchase price, by product.
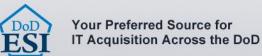- Resellers choose customer selling price and retain margin.

Potential Discounts Based on Order Size
Example Only

Size of Order (List)	Potential Discount (From List)	Comments
$1 - $9,999	10% - 30%	GSA/ESI (Based on Qty 1)
$10,000 - $49,999	20% - 40%	Perhaps Better than GSA/ESI is Available
$50,000 - $249,999	25% - 50%	Definitely Seek Additional Discount from GSA/ESI
$250,000 - $999,999	35% - 60%	This will likely be a Field Sales Transaction
$1,000,000 - $9,999,999	45% - 75%	This is a Large Transaction for the Publisher
$10,000,000 - $99,999,999	60% - 90%	Significant Publisher Corporate Attention
$100,000,000+	75% - 95%	One of the Top Publisher Transactions for Year

Discussion Guide

Discuss the ways Publishers price software, and give examples you have seen in your acquisition activities.

Talk about the pros and cons of the leading pricing models—discuss the factors to use in deciding whether a proposed model is the best one for your situation.

Discuss the pricing options Publishers typically use when negotiating with their channel partners.

Talk about the advantages you can gain by understanding direct and indirect pricing approaches and issues.