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Best Practices in Subscription Licensing



Agenda

- Definition
- Business Case
- ☐ Pro's & Con's
- ☐ Operational Considerations
- ☐ Transition to a Subscription License Model









Definitions

Model	Time Limit	Maintenance Included	Payment	Revenue Recognition
Perpetual	No	No – Additional Purchase	At Delivery	Up Front (except Maint.)
Subscription (on-premises or SaaS)	1, 2, 3 year	Yes	Periodic	Ratable
Term	1 mo. – 3 yr	No	At Delivery	Up Front
Utility	Yes	Yes	Periodic & Arrears	Ratable





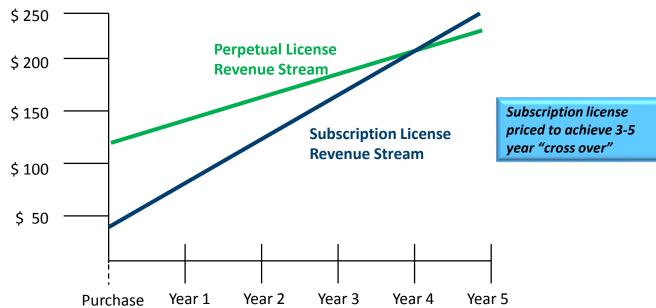




Business Case – Pricing (Example)

Perpetual: \$100 list price; \$20 annual maintenance

Subscription: \$ 40 annual fees



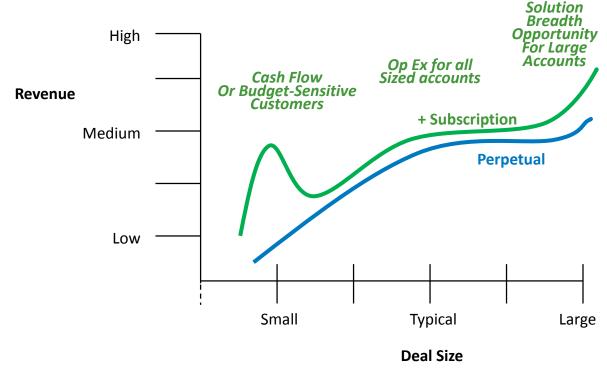








Business Case – Expanded Market Penetration



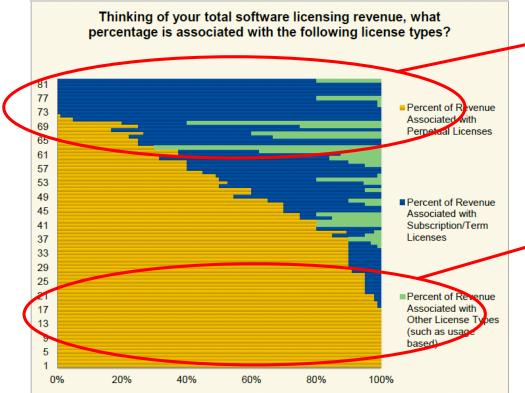








Business Case - Subscription Licenses in Market Today



Science/Engineering

- Variable Use Patterns
- Project Based Spend
- Rapidly Changing Problems & Software

Enterprise Software

- Infrastructure
- Corporate Purchase
- Steady Use

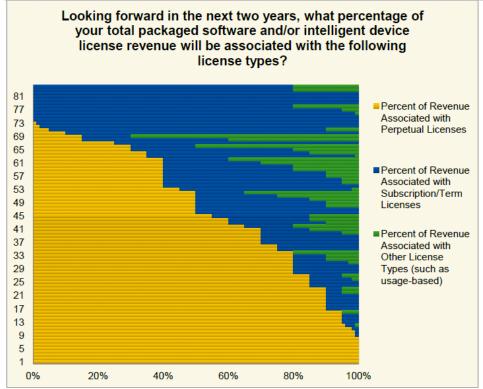








Business Case - Broader Adoption for Subscription Licenses



Cloud Computing
And SaaS Will
Drive Adoption
Of Time-Based
Or Consumptive
Models









Pros & Cons

Customer Pros

- Lower cost of entry
- Wider solution access for a given "spend"
- Operational expense (OPEX) budget
- Ongoing sales focus (renewal)
- Tune spend to usage needs

Customer Cons

- Higher TCO
- Possible Spend Un-certainty

Publisher Pros

- Recurring revenue stream
- Customer Capture Ease of doing business
- Market Penetration / Fortress Wider market appeal with more license options
- Reduce discounting

Publisher Cons

- Business Process Changes
- Revenue Deferral or "Dip"
- Initial Revenue Uncertainty



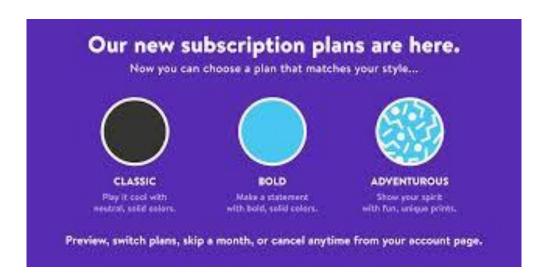






The Pervasiveness of Subscription Licenses

INDUSTRY NEWS RETAILING
Why **MeUndies** is adding layers to its subscription model











Operational Considerations

Renewal

Co-Termination

Pricing

Part Numbers

Revenue Recognition

Contracts/Agreements



Perpetual \$ 100

Sub \$40 Upgrade \$X

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Operational Considerations (cont'd)

• Sales Compensation



Expiration Experience



Rollout











Operational Considerations - Sales Compensation

- Issues
 - Sales will sell what yields the greatest commission
 - Compensate for desired behavior (e.g. subscription vs. perpetual; Long term vs. short term contracts)
 - Mismatch Sales compensation usually paid at at booking, but revenue is recognized over time (ratable)
 - Longer term cost of renewal is lower than cost of initial sale
- Initial Sales
 - Compensate based upon initial bookings
 - Example: 100% of 1 year deal, 80% of 3 year deal, 60% of 5 year deal
- Renewals often handled by internal renewals group with lower commission rate
- Need to ensure customer satisfaction is being tracked aggressively, otherwise renewal rates may decline



Adopting a Subscription License Model

Phased Deployment vs Abrupt Transition

- Start with new revenue opportunities small and large deals where cash flow or "share of wallet" are important
- NO companies switch overnight from perpetual to subscription there is always initially a choice and the choice may remain indefinitely
 - Some new companies can start 100% subscription
 - Customer and sales acceptance takes time
 - Impact to revenue stream can be dramatic
- 100% Switch-over Pros/Cons

Pros		Cons	
•	Lower cost - only support a single model	Impact to revenue stream – Revenue put into ratable stream	
		Customer acceptance takes time	
		Subscription not a fit for all customers	
		Migration of install base	







Transition to a Subscription License Model

- Develop a subscription offering for select products and "test market" with customers and sales.
 - Don't require 100% acceptance to move forward
 - Always some resistance
- Tune the offering based upon feedback
- Once customers are exposed to subscription licenses, they'll ask about more advanced models to tune their spend to their usage and value





Questions?









