

WITH A COMBINATION OF OLD AND NEW TECHNOLOGIES, SOFTWARE PUBLISHERS AND VENDORS ARE PROVING THAT ALL OF THE OLD RULES, AS WELL AS THE WAY THEY USED TO DO BUSINESS, ARE SIMPLY WRONG.

THE SOFTWARE SHIFT

By Jeremy Soref, Aladdin Knowledge Systems

All the signs of fundamental change have arrived. The way software is marketed and sold is bringing truly noticeable changes for both software publishers and their end users. As the industry matures and competition increases, software products are clearly becoming commoditized. And similar to other industries that once enjoyed exceptionally high margins (such as hardware), a decline in revenues and margins is now evident. With factors such as open source and globalization taking a major toll on developers' purse strings, software publishers are finding they not only must change the way they do business but also how they plan for growth.

Publishers and software vendors must ask themselves: What rules or notions define my software business model? Do I consider online software distribution

approached their customers and prospects. Among the most pressing issues is a move away from the perpetual license and the printed end user license agreement. Just as in many other competitive industries, software vendors must find new ways of differentiating their offerings in an effort to reach broader markets – all while increasing revenues and protecting their operating margins. These new trends demand an all-inclusive licensing process linking many different options into one system, actually stimulating sales rather than limiting them. Publishers and developers don't just need to choose which method of distribution and protection they're going to use, but rather, they need to fit those tools into the sales process itself and effectively link security, distribution and marketing.

underserved demand. Early adopters relying on an ever-evolving mixture of sales channels are now commanding the ability to see the big picture, combining traditional software sales with online stores, direct mail initiatives and live events. All of these combine into one process: software digital rights management (DRM).

New Distribution Models

With the emergence of SaaS, new software distribution models are emerging as well. The Web, combined with attractive thin-client technology, is transforming traditional software product offerings into something more closely resembling utility service offerings. This enables small to medium-sized businesses and smaller enterprises to effectively outsource nearly all aspects of back-office systems,

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only ideal for small software programs? Am I limiting software protection to online sales? Are marketing and security personnel at different ends of my building? Do I consider peer-to-peer networks evil? With a combination of old and new technologies, software publishers and vendors are protecting their software against piracy and proving that all of the old rules, as well as the way they used to do business, are simply wrong.

Addressing these attitude shifts requires software publishers to change the way they have traditionally

No longer are firms forced to choose between online or offline distribution, locked or timed software, hardware or electronic licensing. Instead, all these models converge today into a holistic software digital rights management strategy that defines the new rules of engagement. The benefits of flexibility, convenience and expanded distribution flow to all participants: users, software developers and publishers. Whether inexpensive consumer gaming software or costly business applications, more choice reduces friction and expands markets by leveraging underlying and

including enterprise relationship management (ERP) and customer relationship management (CRM). Changing traditional pricing and relationships among vendors, their channel partners and customers, SaaS does indeed work in many of these cases since it delivers value to the customer. However, while this is one model, it is far from a comprehensive answer for vendors and cannot be expected to work for every type of software offering or environment.

Just as in any competitive and dynamic situation, software publishers

must constantly have their finger on the market's pulse. In fact, it's clear now that seeking out new distribution models is just as important as bringing new features and technological innovation to market. A recent Aladdin survey of more than 600 software publishers indicates that nearly all realize this need, as they're either currently turning to new models or are planning to do so in the near future. New distribution models form a clear, unmistakable relationship between licensing and distribution. New models must

and sales, to production and distribution. The value chain becomes significantly more complex with these new licensing and distribution models. Licensing must be fully integrated with back-office ERP and CRM systems and made accessible to customers and channel partners via convenient Web portals. Additionally, as with any other utility model, many processes must be automated and highly available to customers 24x7 and, if need be, hosted by trusted third parties.

In an effort to adequately address the

Publishers need to ensure all revenues due them are consistently received. This still requires copy protection, as well as market education informing end users of the problems and negative impacts associated with piracy. When all else fails, individual publishers and the industry as a whole need to push for prosecutions to illustrate that software theft simply does not pay.

Publishers must also ensure their IP is powerfully protected against reverse engineering and other forms of damaging IP theft. New distribution models give software a life of its own, making IP protection more critical; software may easily become more susceptible to potential threats through new models that take software farther from the publisher's monitoring systems. It's therefore an absolute requirement to institute strong protection to make software less prone to theft and to avoid the entry of competitors by less than legitimate means. Uniting and supporting far-reaching global initiatives, such as the World Intellectual Property Organization treaty, are also critical for the industry as a whole to prevent wholesale commoditization.

More and more companies are protecting software and their underlying IP, but they're doing so because it's now becoming an integral element of business expansion. Software protection and licensing are merging and actually becoming a valuable tool for targeting underlying demand that can expand market reach.

With powerful technology now available, electronic software distribution is no longer limited to small programs. Reliable protection is available for both traditional and online sales, and marketing and security efforts combine to address markets formerly considered difficult to penetrate. Old rules are being re-written, and the industry is already in the midst of a major shift worth addressing now, rather than later.

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SOFTWARE VENDORS MUST FIND NEW WAYS OF DIFFERENTIATING THEIR OFFERINGS IN AN EFFORT TO REACH BROADER MARKETS – ALL WHILE INCREASING REVENUES AND PROTECTING THEIR OPERATING MARGINS. THESE NEW TRENDS DEMAND AN ALL-INCLUSIVE LICENSING PROCESS LINKING MANY DIFFERENT OPTIONS INTO ONE SYSTEM, ACTUALLY STIMULATING SALES RATHER THAN LIMITING THEM.

provide more inherent value within the offering and address completely new segments – all while also gaining wider distribution.

The new software distribution models completely change the traditional product lifecycle, requiring a totally new approach to best practices. Developers must offer flexible licensing systems specifically designed to handle more dynamic and responsive approaches. If a developer is to rely solely on its legal department, R&D or engineering, the battle will be quickly lost and vast opportunities missed. Licensing systems must be dynamic enough to afford rapid change in response to changing market conditions, the identification of new segments or the opening of new opportunities – anywhere, anytime.

This new approach includes powerful role-based processes, many of which are automated to enable licensing, customization and remote upgrades, 24 hours a day and without burdening operating margins. A dramatic move from the shrink-wrapped model must change the way publishers relate to a “product,” as their processes can simply no longer follow a set linear path from R&D to marketing

ever-growing number of layers that may include multiple distributors and a large number of resellers, developers and publishers need to focus on integrating their efforts and maximizing their use of each partner. In addition to addressing anti-piracy concerns, software DRM encompasses flexible licensing and activation that take advantage of revenue opportunities such as casual sharing and peer-to-peer networking. By utilizing true software DRM, developers can convert casual sharing of software from a revenue drain into an efficient, super distribution channel for trialware, securely leveraging the power of personal networking. For example, by adding software activation and/or try-before-you-buy to software, publishers can transform word-of-mouth/pass-along referrals and peer-to-peer networks into solid sales opportunities and software revenue builders.

Protection Remains Key

Protection against illegal copying and reverse engineering, as well as numerous other threats to essential intellectual property (IP), must remain strong and more flexible than ever to properly complement the new distribution models.