2013-14 Key Trends in Software Pricing & Licensing Survey

Software License Audits: Costs & Risks to Enterprises

IDC

Analyze the Future

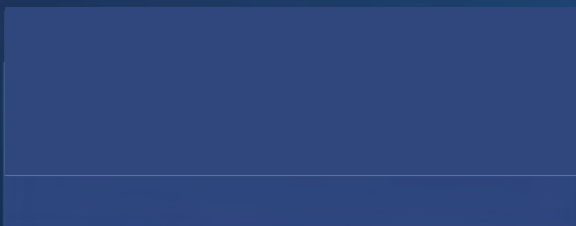# 2013-14 Key Trends in Software Pricing & Licensing Survey: Software License Audits: Costs & Risks to Enterprises

Survey Background

The *2013-14 Key trends in Software Pricing and Licensing* survey was conducted by Flexera Software with input from IDC's Software Pricing and Licensing Research division under the direction of Amy Konary, research vice president - software licensing and provisioning at IDC. This annual research project looks at software licensing, pricing and enforcement trends and best practices. The survey reaches out to executives at application producers (Software vendors and intelligent device manufacturers) and enterprises who use and manage software and devices. Now in its ninth year, the survey is made available to the industry at large each year.

Methodology and Sampling

In total, 1,828 respondents participated in the survey, including 430 enterprise executives and 1398 application producer executives.

Enterprise Demographics

41% of the enterprise respondents were from larger enterprises of $1 billion or more in revenues and 14% were from companies with $3 billion in revenues or more. Among other places, 56% of respondents were from North America, 28% were from Europe, and 7% were from Australia.

Which of the following best represents your annual company revenues?

- Less than $100 million — 23%
- $101 - $999 million — 18%
- $1 billion - $3 billion — 14%
- > $3 billion — 27%
- Do not know — 18%
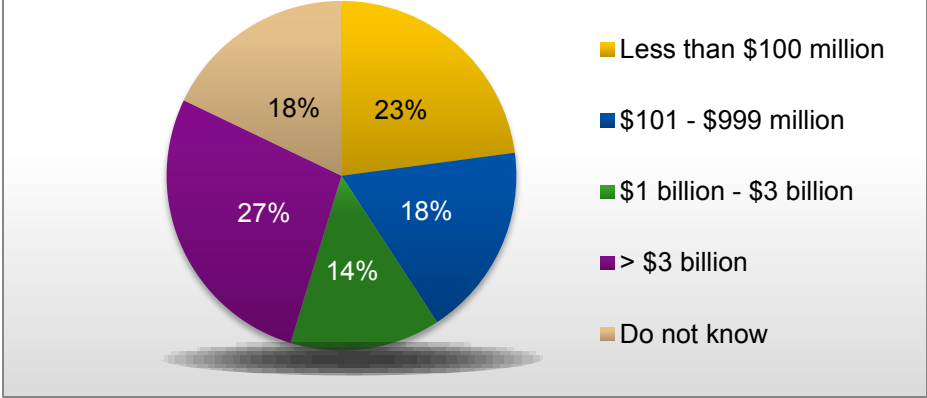
Application Producer Demographics

The largest segment of application producer respondents (60%) come from companies with $10 million and under in revenues. 3% of the respondents were from companies with $1 billion or more in revenues. Among other places, 47% of respondents are from North America, 23% from Europe, and 13% from Australia.

Which of the following represents your annual software license revenues (including any revenue from subscription software and/or embedded software in hardware devices)?

- Less than $1 million — 41%
- $1 - $5 million — 14%
- $6 - $10 million — 6%
- $11 - $30 million — 5%
- $31 - $50 million — 3%
- $51 - $100 million — 3%
- $101 - $500 million — 4%
- $501 million - $1 billion — 2%
- $1 billion - $10 billion — 2%
- Over $10 billion — 1%
- Do not know — 20%

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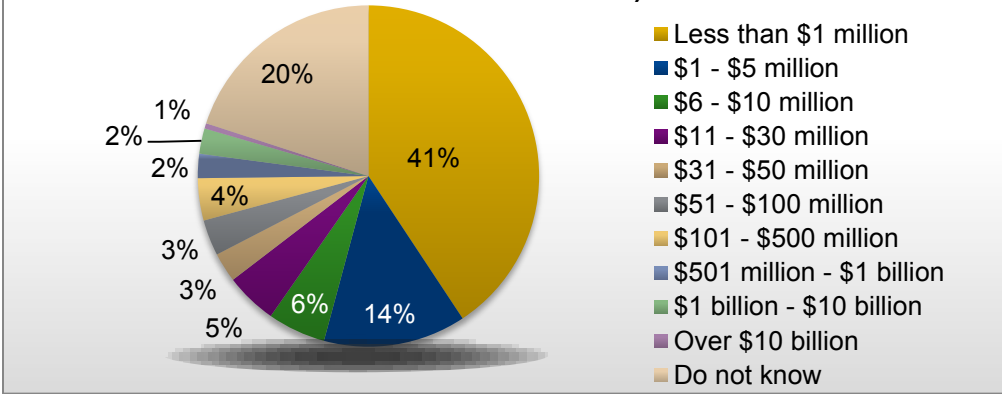
Software vendors are aggressively auditing their customers. The largest organizations are being targeted the hardest.

Software vendors are continuing their aggressive practices of auditing their customers for software license compliance. 63% of respondents report having been audited in the last 18-24 months. This high level of auditing is a continuation of existing practices reported in last year's Key Trends in Software Pricing and Licensing Report on this topic, at which times 64% of respondents reported having been audited.

Moreover, respondents report that audits are not isolated incidents. 37% say they were audited two or more times over the last 18-24 months.

Large companies are being targeted particularly heavily. For companies with $3B or more in revenues, one third of respondents, 33%, report being audited three times or more (versus 25% for $1-3B organizations, 14% for $101-999M organizations and 3% for or organizations with less than $100M in revenues).
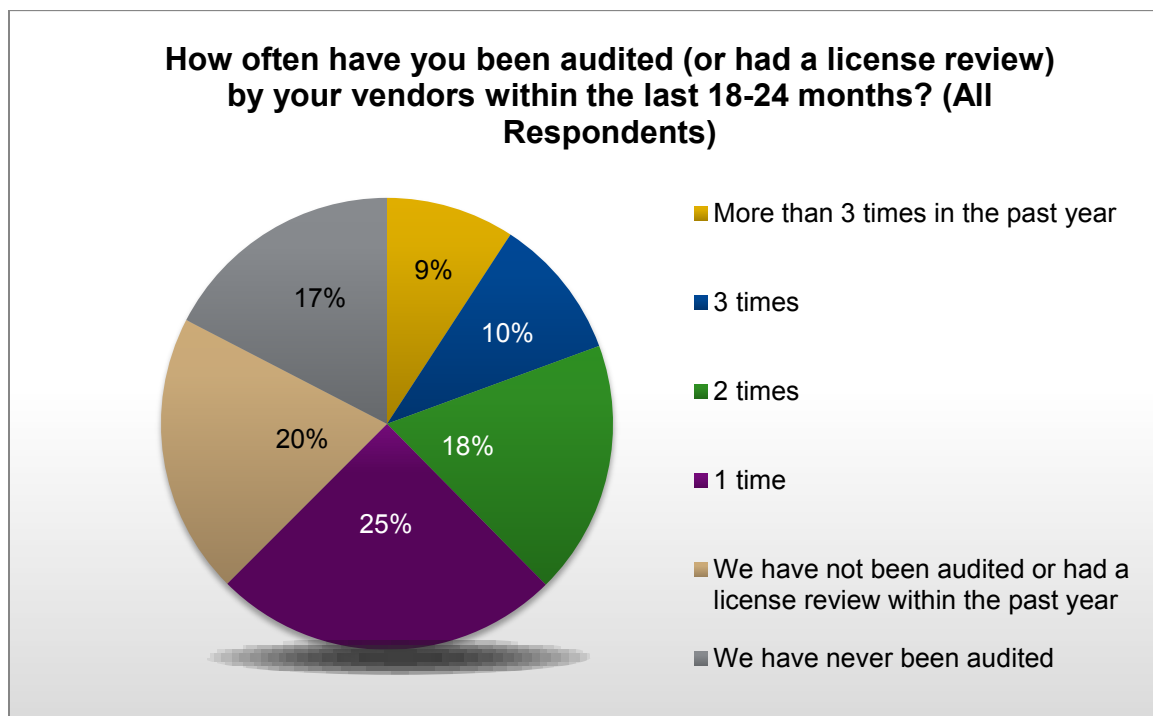
How often have you been audited (or had a license review) by your vendors within the last 18-24 months? (All Respondents)

Legend:
- More than 3 times in the past year — 9%
- 3 times — 10%
- 2 times — 18%
- 1 time — 25%
- We have not been audited or had a license review within the past year — 20%
- We have never been audited — 17%

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How often have you been audited (or had a license review) by your vendors within the last 18-24 months? (Responses Segmented by company size)

Legend:
- We have never been audited
- We have not been audited or had a license review within the past year
- 1 time
- 2 times
- 3 times
- More than 3 times in the past year

	Less than $100 million	$101 - $999 million	$1 billion - $3 billion	> $3 billion
We have never been audited	41%	10%	7%	4%
We have not been audited or had a license review within the past year	21%	25%	24%	16%
1 time	20%	36%	29%	20%
2 times	15%	15%	15%	26%
3 times	2%	8%	20%	14%
More than 3 times in the past year	1%	6%	5%	19%

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Unbudgeted costs are high, with six- or seven- figure true ups (or higher) being the norm. Smaller companies also feel the sting disproportionately

Software true-up costs resulting from a vendor audit are particularly painful for organizations because they are largely unbudgeted. So organizations must find uncommitted funds to pay the true-up bill. And, if no funds are available, the costs must come from other programs, creating financial hardship and corporate risk, which the CIO and CFO must strive to minimize.
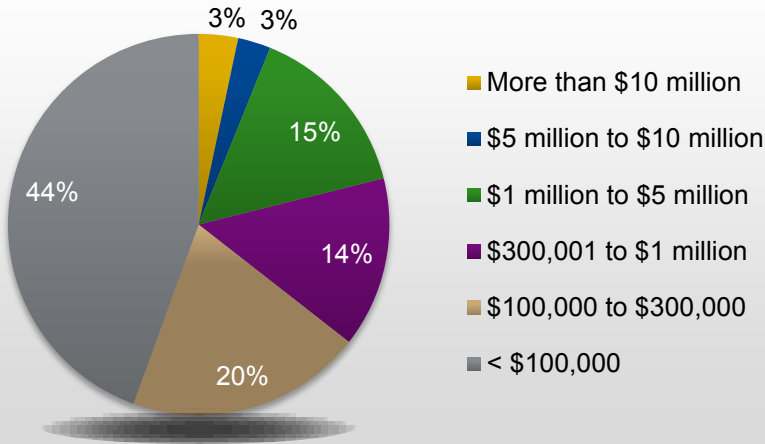
According to the survey, the audit true-up costs are high, as are the resulting risks being borne by organizations. Among respondents aware of their vendors' audit practices, the majority – 56% -- report that audit fees within the last year were $100K or more for their organization. The steep audit costs are, again, consistent year over year, with 55% of respondents in last year's study reporting audit costs of $100K or more.

21% of respondents in this year's survey said their organizations were charged $1M or more in audit true-up costs. This is comparable to last year's results, where 24% of respondents reported true up costs of $1M or more.

While the true up bill is generally much higher for large organizations, smaller enterprises also feel the sting – often disproportionately so. Even though the overall true up bill for companies under $100M are smaller relatively speaking – the expense impact is 13 times more severe for smaller organizations. For instance, according to analysis of the survey results, the average true-up payment for a $4B company would have been about $1.6M – or about $.0004 per dollar of revenue. The average true up payment for a smaller $50M company would have been about $263K, or about $.005 per dollar of revenue – about 13 times greater impact than to its larger counterpart.

Bottom line: Large companies are experiencing deep pain from software vendor license audits and all indications suggest that the trend is a long term one, with vendors continuing to audit their customers and extract deep fees.

What was your total software audit true-up cost within the last year for your organization?

3% 3%

44%

15%

14%

20%

- More than $10 million
- $5 million to $10 million
- $1 million to $5 million
- $300,001 to $1 million
- $100,000 to $300,000
- < $100,000

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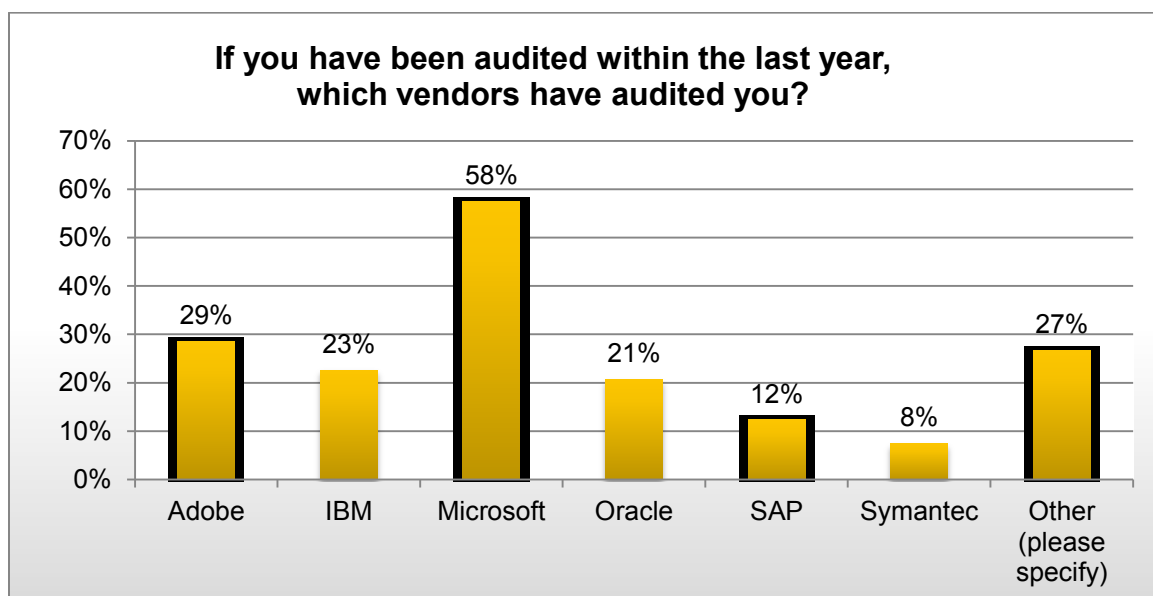
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All major vendors are auditing but Microsoft is the most aggressive – and it's going after organizations of all sizes

According to the survey, all of the major software vendors are auditing their customers. But Microsoft is by far the most aggressive. 58% of respondents report having had a Microsoft audit within the last year. The other major vendors audited – but not nearly as pervasively. 29% or respondents report being audited by Adobe within the last year, 23% by IBM, 21% by Oracle, 12% by SAP and 8% by Symantec. Other vendors mentioned less frequently include Autodesk, Attachmate and VMware.
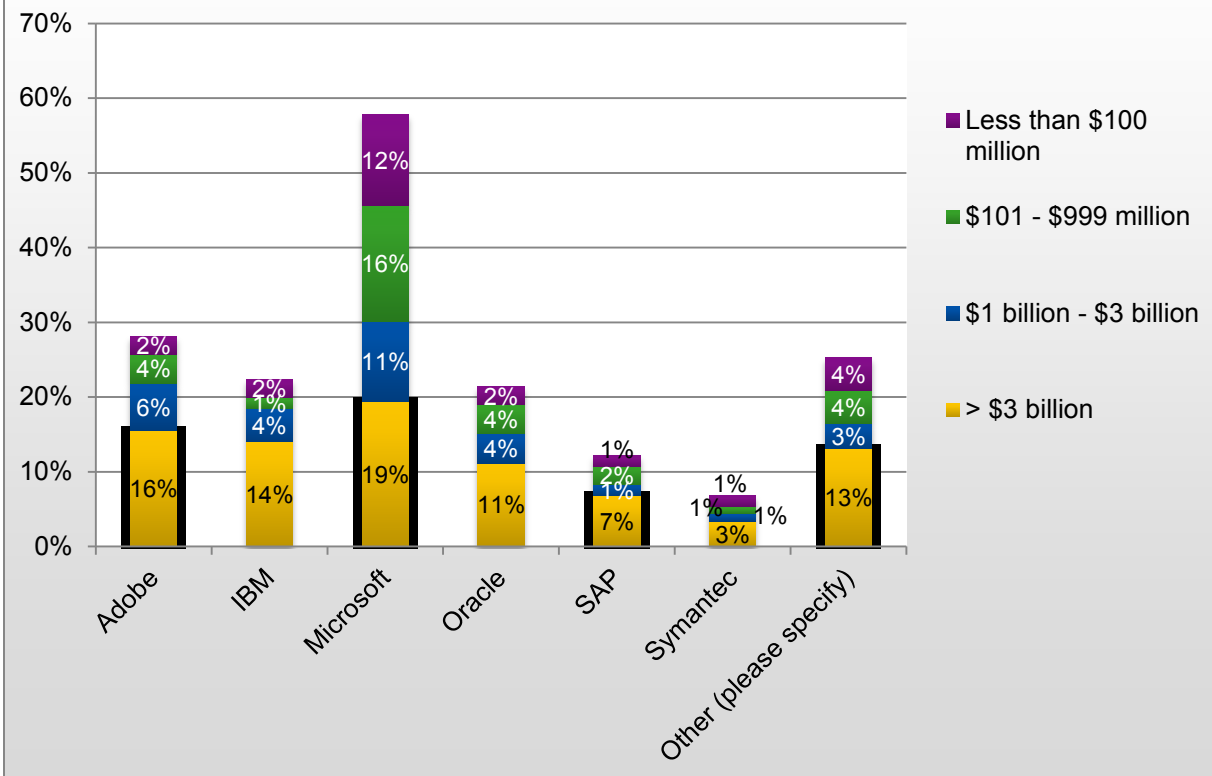
This is the second year in a row that Microsoft has taken top spot as the most frequent auditor, while Adobe has risen in the ranks considerably. In the 2012 study, 51% of respondents said they had been audited by Microsoft during the prior year, 27% by Oracle, 24% by IBM, 22% by SAP and 19% by Adobe.

While most vendors focus their auditing efforts on their largest customers, Microsoft is an equal opportunity auditor – aggressively targeting customers of all sizes relative to other vendors.
For instance, consider Microsoft versus Adobe – the next most aggressive auditor according to the study. For companies reporting $3B in revenue or more relative parity in auditing frequency prevailed – Microsoft audited 19% of those respondents within the last year and Adobe audited 16%.

However, as respondents' organization sizes decrease in terms of revenue – the ratio of companies audited by Microsoft versus Adobe (and the other vendors) increases. For instance, 11% of companies with revenue between $1-3B were audited by Microsoft last year versus only 6% by Adobe. For organizations with $101-999M in revenues, 16% still reported being audited by Microsoft versus only 4% by Adobe. And for organizations with less than $100M in revenue, 12% report being audited by Microsoft versus only 2% by Adobe.

If you have been audited within the last year, which vendors have audited you?

Vendor	Percentage
Adobe	29%
IBM	23%
Microsoft	58%
Oracle	21%
SAP	12%
Symantec	8%
Other (please specify)	27%

If you have been audited within the last year, which vendors have audited you?
(Respondents segmented by company size)

Legend:
- Less than $100 million
- $101 - $999 million
- $1 billion - $3 billion
- > $3 billion

Adobe: 16%, 6%, 4%, 2%
IBM: 14%, 4%, 1%, 2%
Microsoft: 19%, 11%, 16%, 12%
Oracle: 11%, 4%, 4%, 2%
SAP: 7%, 1%, 2%, 1%
Symantec: 3%, 1%, 1%, 1%
Other (please specify): 13%, 3%, 4%, 4%

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Despite the high stakes – enterprises aren't doing enough to eliminate audit costs or risks

Given the growing complexity of managing software licenses, automated commercial solutions such as Software License Optimization tools have emerged to ensure continual compliance and license optimization. However, only 36% are using automated commercial software to manage their software. The majority of respondents is using a patchwork of methods -- or is doing nothing at all. For instance, 25% of respondents are managing software licenses using manual methods, such as spreadsheets, while 9% are using home grown systems. 18% are using tracking tools provided by their vendors, and 7% are simply not tracking their software licenses at all
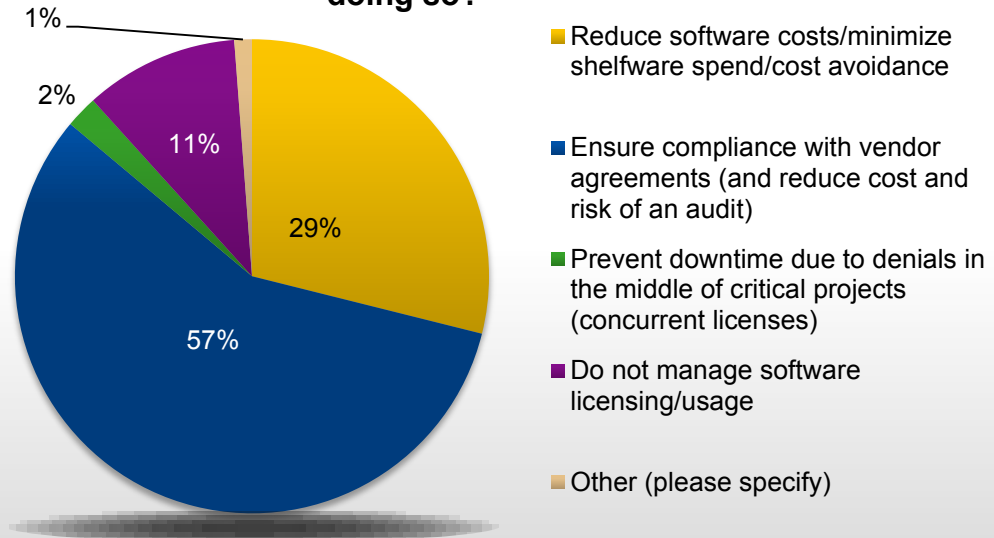
Respondents who are managing licenses do it primarily (57%) to ensure compliance with vendor agreements and to reduce cost and risk of an audit. 29% say they manage licenses to reduce software costs/minimize shelfware.

How do you primarily perform tracking, management and reporting of your software licensing/usage today?

- Automated (commercial) software
- Use software provided by the vendor
- Automated (homegrown) software, our own system used only for license management
- Manual methods, including the use of spreadsheets
- Do not currently track
- Other (please specify)

36%
18%
9%
25%
7%
6%

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If you are currently managing your software licenses/usage, what is the most important reason for doing so?

Legend:
- Reduce software costs/minimize shelfware spend/cost avoidance
- Ensure compliance with vendor agreements (and reduce cost and risk of an audit)
- Prevent downtime due to denials in the middle of critical projects (concurrent licenses)
- Do not manage software licensing/usage
- Other (please specify)

Values shown on pie: 1%, 2%, 11%, 29%, 57%

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Organizations least prepared for software audits are the least satisfied with their current method of managing their software licenses

The survey asked respondents that are managing software licenses and usage – how satisfied they are with the results. We cross-tabulated answers based on the method of license management respondents are using. Those that have implemented automated (commercial) software, such as a Software License Optimization solutons, are significantly more satisfied. Not surprisingly, organizations least prepared for a software license audit – those that do not proactively manage their software licenses or do so manually – are the least satisfied with the results.

54% of respondents who report that they have implemented automated commercial software for managing their software licenses, report being satisfied or very satisfied with their methods. Only 31% of those who use vendor-provided software are satisfied. Likewise, only 22% who use home-grown systems for license management are satisfied. And only 6% who use manual methods, such as spreadsheets, are satisfied.

If you are currently managing your software licenses/usage, how satisfied are you with the current method? (Cross-tabulated based on respondents' method of license management)

	Automated (commercial) software	Use software provided by the vendor	Automated (homegrown) software, our own system used only for license management	Manual methods, including the use of spreadsheets	Do not currently track
Very satisfied	8%	0%	3%	0%	9%
Satisfied	46%	31%	19%	6%	9%
Neutral	35%	49%	58%	36%	52%
Dissatisfied	8%	19%	17%	36%	26%
Very dissatisfied	3%	1%	3%	22%	4%

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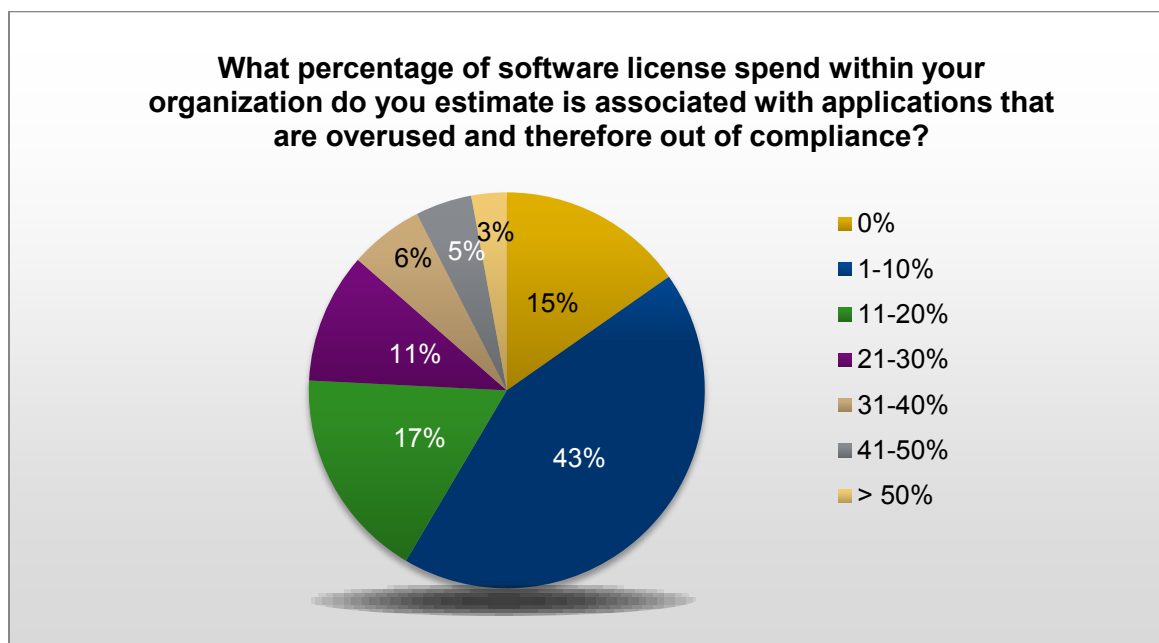
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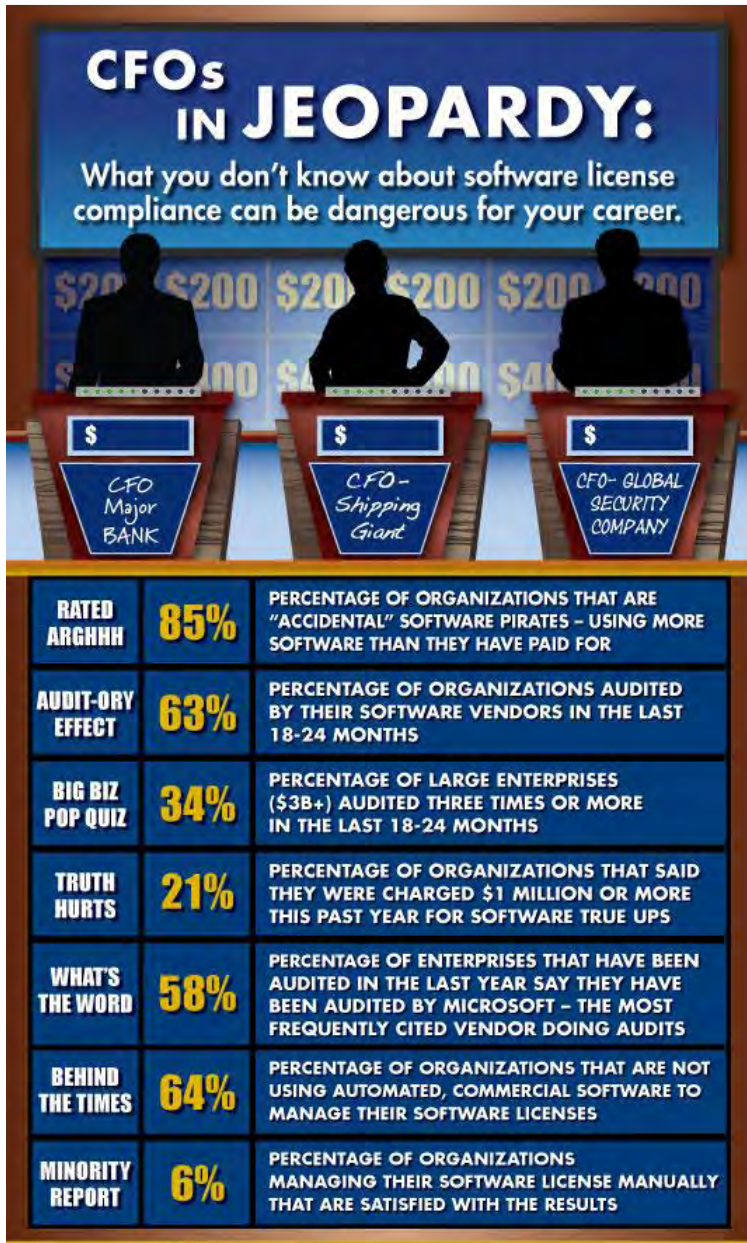# CFO's beware -- most organizations are "accidental software pirates"

It is assumed that software piracy is the trade of unscrupulous criminals. But according to the survey results, most organizations are software pirates – they are using software that they have not paid for. In reality, it's a misnomer to call these enterprises software pirates – they're really "accidental pirates." They fully intend to pay for all the software they use. The problem is, as the survey reveals, they're doing a poor job at managing those software licenses to ensure compliance with their software license agreements. This occurs when enterprises fail to implement the necessary processes and technology to track software installation and use across all environments – on-premises, virtualized, cloud and mobile – and reconcile that activity with the rules – product use rights – contained in their license agreements.

Among respondents familiar with their organizations' compliance position, 85% reported that at least some of their license spend is associated with applications that are out of compliance. 28% of survey respondents say that anywhere from 11-30% of their software spend is associated with applications that are out of compliance. And 14% of survey respondents say that 31% or more of their software spend is associated with software that is out of compliance.

These results should serve as a wakeup call to IT management. Painful software audit true up bills will continue until best practices and technology are implemented to help ensure continual license compliance and optimization. And until that is done, continue to expect uncomfortable conversations with the CFO explaining why these audits are yielding six, seven (and even eight) figure unbudgeted pay outs to software vendors.

What percentage of software license spend within your organization do you estimate is associated with applications that are overused and therefore out of compliance?

- 0%
- 1-10%
- 11-20%
- 21-30%
- 31-40%
- 41-50%
- > 50%

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Infographic: CFO's in Jeopardy

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Software Licensing and Provisioning Research at IDC

IDC's global Software Licensing and Provisioning research practice is directed by Amy Konary. In this role, Ms. Konary is responsible for providing coverage of software go-to-market trends including volume license programs, evolving license models, global price management, and licensing technologies through market analysis, research and consulting. In her coverage of software maintenance, subscription, electronic software distribution and licensing technologies, Ms. Konary has been instrumental in forecasting future market size and growth. Ms. Konary was also the lead analyst for IDC's coverage of software as a service (SaaS) for eight years prior to focusing exclusively on pricing, licensing, and delivery. International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. For more information about IDC, please see www.idc.com

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