



SELLING SOFTWARE – MOVING FROM IMPERIAL TO METRIC?

As the move to subscription payment systems gains momentum so interest in the use of newer more appropriate usage metrics becomes more important as a powerful addition to the subscription charging method. A supplier usage charge would be able to reflect accurately, the real ongoing value gained by end users from the software and services. Metrics based subscription systems provide the ability for the user and supplier to share a direct common interest in the user performance benefits gained through use of the software and services.

Pricing of goods and services has evolved a long way over the last half century. It has moved from the original manufacturer's cost of production plus overhead and profit, through market pricing, to subscription systems where the time the product is used for determines how much the user pays.

A common longstanding supplier complaint has been that, through the market priced capital purchase system, negotiated and completed before the use of the product actually begins, they are denied the opportunity to establish the real value of the software or service to the user and receive a fair share of that value. Moreover they are involved in fierce discounting battles with the user which reduces the price further without any consideration of the real value of the product to the user.

Users on the other hand complain that they have to pay in full at the beginning and they carry the full risk if the usage ends prematurely for any reason.

Both parties are right! What was missing was the means of satisfying both concerns.

Subscription & Metrics Combination

Subscription based "payment for use" systems provide a way to satisfy both needs. The first two white papers in this series showed how a simple monthly subscription payment system could reduce the user risk and at the same time give the supplier continuous revenue during the life of the software or system.

The concept of using a variety of different usage measurements as the basis of the subscription payment brings the payment charges even closer to the actual operation and the real benefits being achieved by the system on behalf of the user.

It can be a regular event or significant parameter in a user organisation which can be used to quantify the operational performance of the user overall or in a specific area, at a specific time or over a specific period. Applying a cost per event or parameter gives the subscription charge.

Clearly there are many applications areas where such a system would not be possible or worthwhile but it seems likely that a large majority of systems which would have been purchased or leased would be more cost effective or indeed more easily justifiable on a measured usage arrangement with the supplier. It is even reasonable to speculate that the take up of new software and systems would accelerate if this approach was more readily

available in the marketplace

Why Does It Work?

A fundamental reason that this approach works for information systems but perhaps not for many other types of equipment is that IT lies at the heart of operations and its capabilities are to record, analyse and monitor the processes it performs.

The most critical aspect of setting up a measurement is the need to accurately establish the cost of processing them. For this the combined expertise of the supplier and user is probably needed to quantify the value of savings and additional benefits/revenue per unit measurement. Combining that information with the known or estimated number of events or parameters forms the basis for two actions:

Firstly, it is the basis for the charging calculations and control of the operation.

Secondly, and just as importantly it provides the information for a new and more accurate method of cost justification replacing the old capital based ROI and capital payback systems.

Another View Of Cost Justification

Cost Justification in a subscription environment consists of the simple comparison of the monthly or quarterly costs of running the system to the savings, benefits and revenue which can be ascribed to the operation. The application is justified if there is a positive balance each period. The savings are continuously generated and would generally start from day one.

The expectation is that the justification would be simpler, more accurate and a positive result expected more often than under the old capital based systems.

Another important benefit is the way in which it automatically gives 'relief' to the user for seasonal fluctuations in their business activities. However, to prevent the swings from being too wide in a highly seasonal business the supplier would perhaps seek an agreed monthly minimums or ranges.

Some Examples.

The range of events and parameters that could be used as a charging metric is extremely wide, creative, and, in some cases very ingenious!

It would be wrong to say that none existed before, as

everyone is aware of software provided based on the number of licences, users or seats for example.

Population Pricing:

However, how much more ingenious is the supplier who offers his major software application into his local government market on the basis of the population in each authority. The cost per head of population is the same for every authority large or small. This is of course, an example of the good use of a fixed parameter and a good way of expanding market penetration.

Storage Systems, Utilities, Hosted Services:

Then there is the provider of mass storage systems for archiving who places several terabytes of storage on each user site and charges for the actual usage each month. This is one example of the computer utility approach used by some bureau and hosted services who charge by the straight number of transactions, processor usage, programme modules used etc. These are all accounted for and controlled by the system itself.

Public utilities' use of metrics and subscription are long established, but what is new is the increase in the numbers of suppliers of inhouse systems, managed services and applications hosting companies who offer a combined subscription and metrics solution.

Some Others:

A supplier of car parking management software who provides a managed service, paid on the number of tickets processed each day.

Hospital scanner which is paid for by a charge made for each scan.

The UK's leading provider of network based betting machines who prospers with his customers by charging a minimum fixed cost and receiving a share of the revenue generated by each machine.

The Intelco Group

Since its formation in 1988 Intelco has become one of the UK's leading designers and providers of rental and subscription services to software and systems suppliers. These services have enabled suppliers, covering the full spectrum of software and hardware products, to offer payment for use subscription and rental options to their users. Intelco is at present, focussed on assisting software and systems suppliers make the transition from traditional "in perpetuity" licensing methods into the rapidly growing subscription markets which includes software licensing, hosted services and managed services.

A water utility on line sewage analysing and monitoring system that is paid for by a charge for each tanker of sludge which off loads into the system. The system does the counting automatically and the accounting and management are handled on a hosted system.

Primary health care practices have access to a patients management system where payment is in accordance with the number of people on the doctors' lists. And so on!

Conclusion

The range of usage and operations metrics which can be applied to software is wide and varied, there are many unique and widely different solutions in use already. The good news is that we now have the technology to provide them as practical solutions across a much wider range of user applications.

Both usage and per-procedure based subscription solutions are likely to become more important for the software market over the next few years. Charging in a way directly related to the users' needs and performance, avoiding risk, capital expenditure and heavy upfront costs, and simplifying the acquisition of more powerful and intelligent systems, will prove attractive to a progressively more aware market.

For software and service providers it will provide a way to realise the real value in their applications and services and still offer a better deal to their customers

