

Electronic Software Distribution... One Piece of a Much Bigger Picture

By Mark Lederhos

Through the course of writing this article, I spoke with more than twenty individuals involved in Electronic Software Distribution (ESD), including industry analysts, managers at large software companies and third-party ESD service providers. There is one constant. The mechanics of ESD are not that hard. In fact, it's relatively easy to send bits of information over the internet to almost any target destination. Software companies have been moving their software products, updates and patches over the internet for years, albeit, sometimes in hackneyed ways.

That said, the issues surrounding the simple process of moving software from point A to point B can be more daunting than one might first imagine. This is especially true for enterprise-level software publishers. Security, licensing, bandwidth, reporting and compliance represent a few of the major considerations. In a recent survey conducted by Enterprise Management Associates, 42% of the respondents said that their greatest challenge in software distribution is integrating the function with other IT processes including configuration management, security management and/or electronic provisioning. Maybe that's why, according to IDC, electronic software delivery currently represents less than 1% of the entire software market (Source: IDC). Conversely, it appears that almost every serious software company is implementing some basic form of ESD and that the trend is absolutely growing.

Sybase, one of the largest enterprise-level software publishers in the world, just committed to ESD for external customers last year, when they rolled out a new version update program. "When we first committed to ESD, we decided to implement the program in three phases," said Bob Mullen, Sr. Manager, Project and Planning, ESD at Sybase. "First we rolled it out internally. Next, we launched the version update program. In the final phase, we will ship new products over the internet. It's a gradual process."

While Mullen had to deal with all of the issues, as described, one of his biggest challenges had to do with marrying the old process with the new process. "Our SOPs were squarely rooted in the physical world. Before rushing ahead, we had to make sure that we had alignment in areas like product preparation, digital rights, license management, logistics and all of the business rules associated with selling and supporting our products."

At Massachusetts-based Progress Software, the decision to implement ESD came a few years ago. "Right from the beginning, our CEO made a commitment to ESD," said Brenda Piper, Director Manufacturing and Distribution at Progress. "That's important, because when you implement this type of change, it impacts several areas including finance, IT and marketing. You need a cross functional implementation team working together to make it happen."

Sybase and Progress outsource their ESD operations to Intraware. Based in Orinda, California, Intraware provides its customers with a managed solution called Subscribenet that focuses not only on distribution but also entitlement management. The company also integrates commerce, licensing and update solutions from other partners such as Macrovision and Install Shield into Subscribenet. "Intraware is a one-stop solution for electronic distribution," said Paul Martinelli, CTO at Intraware. "We focus on it exclusively and we understand the associated issues which can be complex."

If You Build it, They Will Come

After building an ESD operation, will your customers migrate to this new way of doing business? According to Mullen the answer is yes. "But you will need to promote the service and educate your customers," said Mullen. Since launching their update program, Sybase has seen a 40percent adoption rate in about nine months. By the end of 2004, they expect that number to grow to 70percent.

"At Progress, more than 38 percent of our orders are initiated through ESD," says Piper. "Our customers love it and we expect it to continue growing at a fast clip."

Other benefits to customers include faster delivery of the product and in many states, they enjoy tax advantages.

Financial Opportunities

In terms of cost savings related to ESD, Mullen estimates that Sybase will save more than \$1 Million annually just on product updates and more than \$5 million annually when they implement ESD for new product shipments.

Beyond obvious cost savings associated with sending software products electronically instead of through traditional physical shipping methods, there is potentially a much more compelling reason to embrace ESD.

A byproduct of having customers buy, download and register their software online is that it is much easier to administer the customer relationship. "It's really all about managing customer visibility," says Dave Dunlap, VP of Sales and Marketing at Intraware. "Once you have a better handle on understanding your customers' usage patterns and managing their entitlements, you will also have more chances to create a dialogue with your customers, find more selling opportunities and increase revenue."

Tying in E-Commerce

Digital River has long been recognized as a power in the world of Ecommerce and distributing application software over the internet. They serve over 18,000 software clients. Now, they are offering a service for the Enterprise space. "By

marrying our experience in marketing and e-commerce with ESD solutions for enterprise-level customers, we have seen sales performance increase by as much as 30 percent," said Chris Cooke, Director of Enterprise Software at Digital River. "Our clients can realize these gains by using our tools to better manage their entitlement process, stay on top of renewals and more powerfully leverage cross-selling opportunities."

Make or Buy

The prevailing wisdom in the industry seems to favor outsourcing the process of distributing software over the net. While some large companies such as Microsoft have built their own engine, a growing number of software publishers are turning to third-party providers who can implement a program in as little as three weeks.

"For us, it came down to cost and time to market," said Mullen. "It would have taken us a year to build this capability ourselves. By outsourcing the activity, the implementation was very fast."

"Distributing software electronically and managing all of the issues around it is not our core business," said Piper. "We would rather have a third-party that is focused on that area manage the function."

Third-party vendors that provide software manufacturing and distribution services are predictably big proponents of outsourcing.

"Using an external partner to handle software distribution always makes good business sense. Further, we think that it's important for software publishers to marry their ESD initiatives with their physical distribution operation," said Ken Sullivan, Business Development Director at Hewlett-Packard's Software Publishing Services Division. HP provides a complete suite of supply chain management and software manufacturing services, including physical fulfillment and ESD.

Eric Holstege, VP at Globalware, also a full service turnkey software manufacturer, commented, "It's important for software publishers to understand that they will always need to make a provision to provide physical fulfillment of their products. We will never see 100 percent ESD. Either way, outsourcing the distribution function continues to be the smart move for software companies."

Industry watchers take a more analytical approach and point out that every organization is different.

"It depends on the company and their specific needs," said Audrey Rasmussen, an industry analyst at EMA. "But there is certainly a good case to be made for outsourcing this activity for all of the usual reasons including cost savings and removing the burden from internal resources."

A Quick Checklist of Ten Broad Issues to Consider Closely

From those who have recently implemented ESD operations

- Figure out where you are now. Determine your total cost of ownership.
- Align your current processes with your new direction. Review your business rules.
- Discover low hanging fruit in your operation. Start with a single product.
- Think through security issues.
- Develop a plan to integrate ESD with your other systems.
- Marry your licensing and digital rights approaches with your ESD program.
- Sort out reporting and compliance issues/requirements.
- Make a plan to leverage the power of E-Commerce.
- Obtain proof that the methodology works. Test.
- Move in measured logical stages toward your long term goal.

Cost of Third-Party Services

There are several different pricing schemes employed by third-party vendors that provide ESD services. Most agreements are one year in duration. Typically they involve significant set-up fees and then ongoing charges that are governed by three basic models. These include pricing by total number of accounts, file size or a flat fee per download.

It is prudent to carefully consider how these different approaches will affect your particular business model. Your company may prefer predictable costs each quarter instead of variable charges that potentially may fluctuate dramatically from quarter to quarter. Events that might affect costs include the acquisition of new product lines or upcoming major releases.

Conclusion

Whether you make or buy, the business case for committing to ESD in your enterprise software operation is extremely compelling. Previous obstacles including the availability of bandwidth and its affordability have been removed and the opportunity to improve customer relationships and grow revenues via ESD is real.

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