Stop Buying Software

If you stop to read the licensing agreement on that shrink-wrap box your software came in, you may find that you have a lot fewer rights than you thought. Much of your software is not yours to do with as you please. For example, many software packages cannot legally be resold to others when you no longer need it.

When you buy software, you may be surprised to find that you have not actually purchased anything except the right to use that software - more like a rental than a purchase. Since software changes so often, this is not necessarily a bad thing - why not extend the practice to something beneficial to both the user and the vendors?

Preferring the concept of paying only for what I use, I always favored software that was licensed based upon the maximum number of concurrent users (I despised having to pay for software sitting unused on someone's system - especially when I had to pay the continuing costs of upgrades just in case they may someday want to use a spreadsheet)! Some took advantage of concurrent pricing policies by placing this licensing on an international network - so that company users in HongKong could be using licenses while the users in Chicago slept. Is this unfair use?

I spoke to a CAD maker about such an arrangement about 10 years ago. I was frustrated with their licensing scheme. It took time to add workstations when I needed them, and I was paying for unused licenses when the project load was low. We were paying an annual rate for support, but couldn't accurately budget software upgrades. The initial software investment was also a disincentive to switching software. In addition to my own problems, the CAD maker had the problems associated with supporting several versions of software.

At that time, I suggested that they simply rent the use of their software on a monthly basis - basically including the cost of software with support costs. Software updates and bug fixes would be automatically provided to customers, all customers would be using the latest version of the software (making support easier), expenses would be easier to budget, and the customers would be happier.

Since then, a couple of CAD makers have begun to use versions of that business model.

Now, the proliferation of the Internet has made it the business model of the future - not only for vertical applications like CAD, but also for mainstream application like Word Processing.

It has been known for some time (but not widely circulated) that the next version of Microsoft Office will be the last version you will buy off the shelf. After that release, you will be leasing or renting the use of that Word Processing or Spreadsheet application from a Service over an Internet connection.

Several pricing models for Internet-Based software are already being used by the High-tech giants. Microsoft charges on a per-processor basis for it's 'backoffice' products. Oracle uses a 'Power Unit', which is calculated based upon the number of processors and their power.

There are many applications that are used infrequently. Currently, if you need to create a project schedule, you might have to purchase new software - possibly for only that one use! Even worse, you may avoid buying it and try to use a less effective method. Ever try to do a project schedule with a spreadsheet? It can be done, but it's no picnic. If we had usage-based software accessibility, you could use the right tool for the task (and bill rental costs to the project reimbursables like faxes and phone calls). Software version problems disappear, upgrade hassles disappear, high initial investments disappear, investment in unused software disappears, and appropriate use of appropriate software when needed will proliferate.

Everyone is struggling to figure out the right pricing model for these services - but the promise of 'paying for what you use' is a very attractive process for users. The challenge is in how you define use. Companies may count usage in megabytes of storage, transaction counts, web site hits, number of chips in the server, or the power of each processor. No doubt, there will end up being different pricing models for different type of software and different types of end-users. Until these usage measuring and pricing models mature, your negotiation skills will determine the kind of deal you get. Once they do mature, I'm sure it will be a better deal for everyone.

Of course, it is the Internet that is the driving force behind these changes. We can already purchase, download and install new software in minutes - or used web-based subscription software in seconds without ANY installation. Many upgrades and bug fixes can be downloaded quickly, and some will notify you and self-install from the application itself upon startup. With an Internet connection, it's feasible to collect usage data and bill based upon that information.

As business users, we will demand some assurances before taking this plunge. Will the data be available locally in case the providers business fails? Will it be readable? What happens when an Internet connection fails? Will data be free of viruses and hacking?

Would you use a usage based license for your applications? - e-mail me at mhogan@id-8.com.

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