THALES

The Build vs. Buy Dilemma

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The DIY Mentality

"If you want something done right, do it yourself"

We've all used that phrase when frustrated by the inability to get things done just the way we want. Whether in our personal or professional lives, we sometimes feel that the simplest way of completing a task successfully is to do it ourselves -- as opposed to finding someone else, explaining the task, and checking their work at the end. Of course, this method may depend on us mastering a skill outside of our core competencies, and can often end up taking longer or cost more money.

When it comes to software licensing, software vendors and intelligent device vendors face a similar dilemma.

On the surface, building internally would seem to have several advantages:

- You get to build a system that meets your exact requirements
- You immediately have expertise in the system withouthaving to pay for costly training and integration
- It's cheaper to build in-house; after all, your developers' salaries are already a sunk cost
- It's inexpensive to maintain because you can do it yourself

This is a very real perspective when it comes to license management. The software vendor or embedded equipment vendor's needs for the creation, generation, and fulfillment of various license models are so specific that building a solution in-house quite often seems like the best possible solution.

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If There's One Constant, It's Change

It stands to reason that an in-house solution will be the perfect fit. It can be built to meet exact business needs and customized for maximum advantage. Instead of trying to integrate a third-party solution, you can create something from the ground up that is built to work with your existing infrastructure. Your needs today are likely to focus on preventing very specific types of unlicensed use. Your developers believe they know how your products are being misused and have an ideal solution to the problem. And in fact, this very well may be the case.

However, if there is one constant in today's business world, it's change.

Although you could potentially curb some unlicensed use now, the threats your organization faces today will likely change. Opportunities for changing your pricing structure and increasing your revenue streams are also not likely to be static.

An historical example of the need to adapt to business change was the rapid growth of ERP and CRM systems. ERP asked people to change the way they did business and this sort of change was instinctively met with skepticism. The benefits were unclear, the costs were unknown, and the value was not apparent.

Today those arguments seem less valid. A license management system is not entirely different in its scope from ERP and CRM systems. The most significant similarity is in how they all touch almost every department within an organization.

This is where an in-house licensing system can become problematic.

Each department is constantly seeking tools and processes to optimize productivity. Engineering uses the latest development and sourcing tools, IT adopts a new e-commerce initiative and marketing takes on marketing automation software. Organizational units may be changing without necessarily communicating changes to one another.

An in-house license management system that's built to work with current applications can quickly find itself outdated and unusable.

This is the inherent problem with building a customized solution.

It is virtually impossible to predict how an enterprise is going to change—and even more so, how the industry is going to change. Your in-house development efforts will focus on methods with which your programmers are familiar and comfortable. They are not likely to take all the time necessary to design a system that is openended enough to scale to new applications or business imperatives.

Penny Wise and Pound Foolish

Developer time is often viewed as a sunk cost, so the cost of building and maintaining an in-house licensing system is often underestimated. The initial goal of a license management system may be to curb unlicensed use, but "scope creep" can occur quickly, with the project goal expanding to include other benefits. This can turn a seemingly short task into a lengthy one.

If you consider a programmer's salary when applied to the number of hours spent on building a license management system, the costs add up fast. This is in addition to the time programmers are spending away from their core duties.

A license management system needs to be treated as its own entity and must go through all the design and test cycles any other product would. The end result is that, in the interest of saving the cost of third party software, you recreate the wheel by creating an entirely new product. Worse yet, the product is not one of your core competencies.

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Flexibility & Scalability Go Hand-in-Hand

"Scalability" and "flexibility" are often over used terms, but they are used so frequently for good reason.

These buzzwords are critical components of any application that needs to integrate with other business systems and function across various departments. A license management system is definitely such an application.

In-house license management systems are built to address an existing need—not to scale or to integrate with future systems. Whereas a good commercial license management and monetization solution is constantly being updated to fit the growing needs of its customers. Scalability and flexibility are necessities, not a mere tagline.

Licenses are coupled with the products that they protect and should therefore follow the same flow throughout the product lifecycle. A license management system must talk to multiple, disparate databases and accept input from a wide variety of back-office systems.

The Early Bird Gets the Worm

As the saying goes, "Time is money," and a slow time to market can cost you customers. Delaying the launch of a product can result in market share being stolen by competitors who are faster to supply a solution that meets end-users' needs.

The purchase of a commercial license management solution eliminates development delays and allows you to integrate licensing into your operational infrastructure more quickly. This lets the responsible departments work within their parts of the license management system, thereby reducing time to market.

Software engineering can focus on secure licensing of products, while product management can create flexible packaging and pricing models. Meanwhile, operations can focus on fulfillment and integrating systems, such as web portals, to allow customer-driven license delivery.

A third-party solution also provides you with the advantage of easy experimentation. If you're not sure license management is right for your business, a third-party license management system allows you to explore your options.

Being able to quickly respond to market changes can mean the difference between competitive advantage and lost opportunities.

With a commercial software license management solution, you can pilot various license models on the fly rather than spending valuable resources building in-house without prior knowledge of how your market will respond. Being able to quickly respond to market changes can mean the difference between competitive advantage and lost opportunities.

Master of Your Domain

When you build something yourself you know all its subtleties inside and out. If problems occur, there is no need to call outside technical support. Your programmers can quickly create patches and updates and don't have to wait on a third-party vendor's schedule. After all, when it comes to creating license models to fit your business needs, who is more of an expert than your own internal staff? But while these reasons all sound great, this approach is not without significant drawbacks.

When the in-house experts are no longer with the organization, you'll find yourself stuck with a proprietary system that no one knows how to use, let alone fix, when the problems inevitably arise. You may find yourself wishing there was a technical support line you could pick up to solve the very problems that you thought you could avoid by building a license management system in-house.

Your internal expertise is limited to those that have been trained. It's difficult to prevent an in-house solution from becoming costly, and can be virtually impossible to maintain. You must create a process by which knowledge is continually transferred to make sure

that there are always internal resources available to troubleshoot. This is particularly challenging when you consider all the various departments that are involved in the license management process.

The knowledge-transfer process may be familiar for developers. However, carrying out the task for an in-house product is another serious investment of time, further taking away from support of revenuegenerating software products. From building to integrating, many departments are involved in creating a fully functional license management system.

Relying on a set of in-house "licensing gurus" requires knowledge of several different systems and is clearly a model that does not scale. It also requires this group to spend more time on license management issues than focusing on duties that could contribute to generating revenue.

The Proof is in the Pudding

A hypothetical example illustrates the downside of building a licensing system in-house

ABC Software Homegrown Licensing Example

ABC Software is looking to develop a license management solution for its suite of 5 applications.

Following are some of the cost considerations.

Staffing & Salary Assumptions:

Senior Software Developer
Annual Salary: $110,0000
Benefits: $20,000
Total: $130,000

- Develop the scope of work and product architecture
- Manage projects and supervise other development staff

Junior Software Developer
Annual Salary: $70,0000
Benefits: $20,000
Total: $90,000

- Develop and test software

6 Senior Developers X $130,000 = $780,000 Annually
3 Junior Developers X $90,000 = $270,000 Annually

Cost of Staffing: The total development team may cost ABC Software approximately $1,050,000 annually. Estimating three to nine months for initial development and testing, the employee cost alone can range from $262,500 to $787,500.

Opportunity Cost: The opportunity cost involved in taking developers away from core projects that generate revenue is difficult to calculate. It might be possible to staff your team so that the dedication of resources to license management has no detrimental effect on the progress of other projects. But even in this case, workflow problems may arise when the majority of the license management work is completed.

If your development team is staffed at 100% for external development and 100% for the creation of inhouse license management, you may be overstaffed when license management no longer requires as many developer hours. The workflow and problems involved may create another hurdle for both operations and human resources.

Time-to-Market: Now let's consider ABC Software's time-to-market issues. The company is in a very competitive environment. DEF Software is nipping at their heels in pursuit of the next generation technology. The difference is, DEF has chosen to use a commercial licensing system, and has cut three months off of their development cycle (a low estimate).

As a result of DEF's faster time-to-market, ABC Software ends up losing 15% of their anticipated wins in that first quarter. If they do about $10 million per year in new name business in that one product line, then they've lost $750,000 to competitive erosion.

As you can see, the costs for building your own licensing system can quickly escalate to many millionsof dollars. And the numbers here don't consider the ongoing engineering maintenance & support involved in staying ahead of piracy and unlicensed use, creating new packaging and pricing models, or intangibles such as market perception, and momentum.

Familiarity Doesn't Always Breed Contempt

As organizations grow both organically and through mergers and acquisitions, standardizing processes among business units becomes increasingly challenging. If each business unit has its own licensing methodology, it can lead to very inefficient processes, poor customer experiences, and support nightmares the organization was trying to avoid.

A corporate initiative to standardize on a single thirdparty license management solution that integrates disparate licensing technologies can be very beneficial.

A corporate mandate to use third-party licensing means all products that adopt licensing will use the same technologies and can be fulfilled through the same operational processes. This also benefits support staff, as they can be trained on just one system.

As closely attached as a license and its related product are, using a third-party license management and monetization system is not unlike using third-party development tools. Standardization can lower costs for support, deployment, and integration for the entire company.

"Opportunity cost factors such as lack of flexibility in licensing models, taking developers away from product engineering, and reduced agility in the cloud are difficult to quantify but can tangibly hold a company back in its quest for innovation and growth."

~ Avni Rambhia, Industry Principal, Frost & Sullivan

Using a commercial licensing solution to merge multiple disparate licensing technologies will streamline internal operational processes and improve the customer experience

Final Thoughts

Software licensing technology is constantly changing and evolving; offering features to automate manual processes, lowering costs, improving efficiency, and generating revenue.

New or relatively unknown technologies are often met with skepticism Building in-house is not always a bad idea, especially in some highly specialized situations. However, if your organization is likely to face the types of challenges mentioned here, then a commercial license management system merits some further investigation.

For a complete license management system to function, several different departments within an organization must collaborate. While the different applications involved can vary, the overall license management process should be well defined.

A good license management solution should offer an easily integrated system as well as a defined and structured process — from design, to fulfillment, to

ongoing management.

Your chosen vendor should act as your partner, have a breadth of experience and offerings, and should be constantly adding to its portfolio of products in order to support your needs today and tomorrow.

So while it's true that to get something done right, you sometimes have to do it yourself, it's also true that you shouldn't have to reinvent the wheel.

A comprehensive software licensing and monetization strategy coupled with a proven software monetization technology like Thales Sentinel will put your company on the fast track to business growth.

Thales Sentinel has developed a free interactive calculator to help you understand where your spend is going and how using the right software monetization solution will not only help you save money – it will help you increase market share, revenue, and profit.
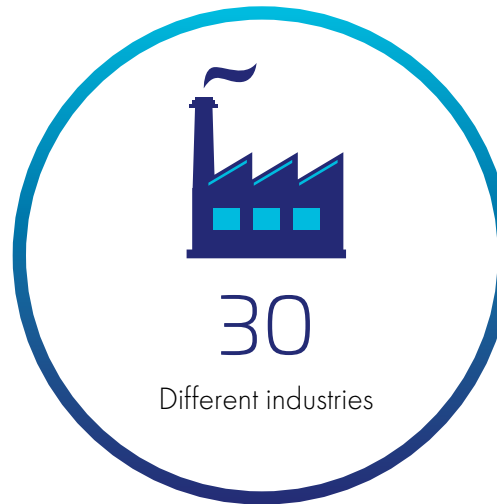
Cost Savings Calculator

Have you ever wondered how much money you could save by implementing a software licensing and entitlement management system?

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30
Different industries

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