

## **CAUTION! SITE LICENSING AHEAD**

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By Dee Kiamy

Site licensing. It's been called a greased pig, a jigsaw puzzle, a brain teaser; it's been likened to log rolling, walking on ice, or trying to put your arms around a fog bank. All for good reasons: The concept is complicated, the practice can be tricky, and neither the rule book nor the definitive guidebook has been written. Although site licensing has been with us in one form or another for almost a decade, it is still evolving. There are relatively few long-standing models or case histories to refer to, and even these are so circumstance-specific that they might be difficult to emulate.

Despite this, some developers have made site licensing work for them. It can be a viable proposition if your business has the right combination of ingredients. To help share their experiences with you, this article will briefly review the concept of the site license and the reasons why some developers have opted to offer them. Next month's follow-up article will discuss the basic decisions that must be made when creating a license and some precautions to consider.

There's a temptation to try to squeeze the subject into a neat, well-packed, well-defined box. Developers, the press, industry prognosticators, and legal gurus have repeatedly grappled with site licensing, each group trying to put the subject into perspective and formulate a prognosis. Many developers have also waited and watched, examining site licensing from a respectable distance, as if they were walking around a purportedly harmless snake.

The apprehension and confusion are quite understandable. In fact, entering into a site- license agreement is like deciding to get married: It should be carefully considered and thought through, because site licensing touches every aspect of your business and gets right to the core of what you are really about, what your goals are, and what kind of relationships you want with your customers. Site licensing changes the paradigm of software selling because it's so closely linked to the changing

computing environment, particularly the increasing use of distributed computing methods, networks, and servers. This evolving environment requires you to rethink the selling process and relinquish more straightforward and traditional concepts about per-unit sales and pricing. The very nature of a site license requires giving up some control over previously sacrosanct things, such as software copying—which is pretty uncomfortable and even scary for most folks.

**A Rose(?) by Any Other Name.** Even the term *site license* has been used to mean so many things that some developers want to excise the words from the English language. Most often, it conjures up the scenario of giving a customer a single “golden master” software disk and thus the privilege of making copies for use at whatever has been mutually agreed on as a site. On the surface, this appears to be many developers’ worst nightmare incarnate.

Site licenses come in many sizes and shapes, however. In all its many forms and implementations, site licensing is indeed something of a chameleon. Sites can be defined in a variety of ways. The limits of the license can run the gamut from allowing the customer to make only a specified, tightly controlled number of copies to issuing a relatively unlimited ticket to make as many copies as necessary—on the honor system. The agreement can pertain to software to be used in individual workstations, LANs, WANs, servers, or any combination of them. The term of the license can be whatever makes the most sense for both parties—annual, biannual, or even permanent.

For the purpose of this article (and for simplicity’s sake), a site license is simply a contract between a developer and a customer that allows for the purchase of software on other than a per-unit basis (that is, the customer pays a set price independent of the number of individual disks received from the developer). It gives the customer the right to use/make software copies to a mutually-agreed-on extent at the defined site. This definition excludes the volume purchase discount, in which a customer purchases a large volume of shrink-wrapped goods (disks, documentation, and so forth) at a lower per unit price than individual purchases would have cost.

**Should I...or Shouldn't I?** Whether site licensing is the wave of the future depends on whom you ask. There are no pat answers and no formulas for either making the decision to do it or for actually making it profitable. Whether you should do site licensing depends on many factors specific to your business. Here are a few points to consider: what your customers need or want, your profit goals, your cash position, your marketing strategies (for example, market penetration versus taking share from a competitor), where your products are in their life cycles, what your competitors offer, and your ability to allocate the resources needed to execute and maintain the program.

Depending on where the chips fall for your particular combination of ingredients, you may want to at least consider trying to cash in on this kind of business arrangement. Here are several reasons why companies that offer site licenses have given it a try.

**The Buyer's Perspective.** The main reason most developers offer site licensing is that customers often ask for it. This is true in both the corporate and the education markets, although the motivation for the requests can vary. In education, particularly in the K–12 market, the driving force is often the need for lower prices. In the corporate arena, the reasons include reducing costs, standardizing the software used, achieving freedom from the liabilities of illegal copying, controlling budgets, and building stronger ongoing relationships with developers.

Many buyers are seeking ways to reduce costs and/or control the diversity of applications being purchased within a large user base. Michael A. Looney, Director of Market Development for Claris Corporation, says, "Some companies that have both a lot of Macintosh® computers and their own hefty support organizations don't feel the software-management concerns as acutely. Instead, they are looking for the lowest possible price for their software.

“On the other hand,” he says, “some customers say that price is secondary and that they’ll even pay street price if you can relieve them from the hassles of administering the software across a complex site or group of sites. They are more interested in adequately managing the upgrade process; assuring that their users employ the most current, or at least the same, software version; and keeping tabs on the copies made.” Likewise, some companies with many users want to avoid dealing with a high volume of packaged goods and the associated warehousing and inventory tasks.

As the amount of software a company buys and the number of users increase, so do the concerns about piracy (this is true for developers and customers alike). A site license can help reduce a customer’s headaches and the potential for litigation. If piracy is reduced, the developer naturally benefits. APDA™ Manager Wendy Tajima, whose organization recently took on the rigors of site licensing for some of Apple’s development tools, adds this perspective: “Look at it this way: Customers who want site licensing want to be legitimate in their software-copying practices, so you’re certainly selling to the right kind of people.”

Entering into a site license in which the total costs for the program are spelled out up front can also help buyers control their budget. This can work particularly well for companies with larger, centralized budgets, but in the case of smaller, decentralized budgets, the price tag of the license may be too high.

Furthermore, many companies increasingly want stronger “business partner” relationships with their vendors. They often want assurances, however implicit, that vendors are committed to supplying their business needs. They seek stability, ongoing quality assurance, and an opportunity to contribute ideas to product development. Many wish to tell developers what they need or want in products and perhaps be clued in to what is coming down the pike.

The contractual nature of the site license may contribute to that sense of partnership more than would an over-the-counter purchase arrangement. If appropriately managed, it can also be a win for

developers, letting them create closer ties with users and get valuable insights into how their products are and aren't being used and how they can be made more useful.

**Increased Sales Potential.** Executed and administered properly, site licensing can give developers a way to get customers to buy significantly more product than they otherwise would and more firmly entrenches developers in a company or educational institution. Fred Angelopoulos, Director of U.S. Sales for Symantec, explains, "It's very difficult for a customer to remove or replace a product once it is on every machine at a site. It lets us build to a critical mass, and we end up selling more product to that site than we otherwise would have."

Once developers establish a relationship with a company, they can create opportunities to sell that product to other sites within the company and to cross-sell other products. For example, if a software developer eventually branches into new areas (from word processing to desktop publishing, for instance), that publisher may have an easier time selling the new product to site licensees who have had a good experience with its other products.

Another way to look at that: For a developer with a group of products that individually might not be comprehensive but as a collection represent an attractive offering, a site-licensed package is an alternative way to sell multiple products to budget-limited customers. MECC, whose main business is software for the education market, first entered into site-license agreements in 1980. "Some of MECC's products aren't as individually extensive as something like a very deep, major word-processing application would be," says Don. G. Rawitsch, former Vice President for Business Development at MECC. "But the site-licensed collection offers the customer a very useful, substantial package and at the same time allows the sale of more products to that customer." An additional benefit of this approach, he points out, is that products sold this way become a *de facto* standard at a site; if an education customer spends 80 percent of its budget on a collection from a single developer that can meet most of its needs, it reduces the likelihood that competitive products can carve out as strong a foothold with that customer.

**Money on the Barrelhead.** In the right set of circumstances, site licensing can lower the delivery costs of a product and swell your profit margin. New, lesser-known publishers are likely to have different profit-margin goals than do developers who are firmly entrenched in the market. Says Claris' Looney, "Some analysts say that smaller publishers may offer site licensing just to buy market share against a larger competitor and opt to reduce their profit margin to get the business. However, if appropriately evaluated, it could be a good way for a cash-poor company to get a leg up; it gets a large up-front check for delivering a single disk. And by getting a larger company to standardize on its product, the smaller developer wins a sales coup and may also get a PR boost and increased visibility in the marketplace."

The nature of your product is also an important consideration when you're deciding whether to do site licensing. For example, utility products may be good site-license candidates, because this kind of product, such as one for virus protection, is something a company or educational institution will want all users to have. "Site licensing can be an especially good arrangement for utility products, which usually don't need manuals or extensive customer support," says John Laing, Symantec's Vice President of Sales. Of course, that should not mean that products requiring more support and more-comprehensive documentation should not be considered.

As you've seen in the examples here, some developers have found that offering a site license is a good way to entice corporate customers. However, others such as Richard A. Skeie, President of CE Software, Inc., have a slightly different perspective: "While site licensing doesn't necessarily attract corporate accounts, it does remove a barrier to acceptance. It's almost becoming an 'admissions requirement' for entry into large corporate customers." Quite simply, if a competitor offers at least a reasonable site-license deal and you don't, you may lose potential sales.

Apple itself is a good example. APDA's Tajima says that in the higher-education market, Apple was being locked out by several potential Macintosh Programmers' Workshop® (MPW) customers because they couldn't afford to pay the unit price for the volume they needed. She says that Apple decided to go the site-license route because it was the best way to service the market better and make sure Macintosh solutions were available and affordable for a broader audience.

**Your Company's Resources.** Negotiating a site license is resource-intensive and requires not only lawyers to help write and negotiate the agreement but also a caretaker, someone to watchdog the process after the agreement takes effect. Most site licensors find that explaining the arrangement to the customer contact is quite a challenge. Often, the customer may confuse site licenses with volume purchase discounts. The nuances of the various rights involved, fees, and the general terms and liabilities can confound those who aren't experienced in decrypting these kinds of documents. You, or various members of your organization, can end up doing paralegal-type work.

Also, the site license often has the (desired) net effect of creating a closer relationship with customers, and therefore customers may call on you more than they otherwise would. Rawitsch explains, "If you sell a product one at a time over the counter, it will probably be the last time you see that customer. But when you sell *en masse*, you open the door for ongoing, extended contact." Such a relationship can be somewhat of a blessing but can also hang an albatross around your neck. Having adequate resources to manage this degree of customer involvement is a critical concern (which we'll address in next month's article).

We've looked at some reasons members of the Apple community are doing or considering site licensing, but this is only part of the story. Next month's article on this topic will cover the basic decisions that go with creating a site license (defining a site, determining pricing, and so forth) and will include examples from education and corporate developers, some red flags to watch for, and some precautions to take.

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