



## HRG Insight: Subscription Services -

The concept of “Subscription Services” in software is not new but has become a front-and-center topic recently. Microsoft’s recent announcement that it will bundle the consumer version of Office with its OneCare security suite and sell it through a “subscription service” mechanism is an example of its currency. However, the topic is fraught with misconceptions. HRG’s Insight will summarize what subscription services are, why they have inherent value to the end-user and how one vendor, Red Hat, has successfully approached the concept.

### What is driving the renewed focus on Subscription Services?

Subscription services have been around as a business model for a long time, closely associated with newspapers, periodicals, magazines, and consumable products. Recently however they have become a much more robust model for today’s leading edge software vendors and software delivery companies. This is due in part to the key trends of using open source software as well as selling “Software as a Service” also known as SaaS. The traditional business model of purchasing a one-time acquisition fee for a “license” is increasingly being replaced by a subscription service. The subscription allows an end-user to use or access the software on a periodic basis (often monthly or annually) and, most critically, *the services associated with the software*. Of course, the subscription allows a user to continuously use the software during the period. Some vendors allow use of the software after the subscription ends (but not access to the services) and some do not allow continued use of the software.

These services are the foundation on which subscriptions can really benefit both the vendor and more importantly IT organizations and associated businesses. The software is in fact only the starting point. The services are what can be mutually beneficial to both the software vendor/deliverer *and* the end-user enterprise.

Subscription services clearly have a benefit to the software vendor or delivery organization. They allow the company to ensure more consistent revenue from an “annuity-stream”, provide more predictable sources of revenue and enhance customer loyalty or retention. But what about the end-user organization? How does a subscription service to software help them?

*The topic of Subscription Services is often misunderstood. It is not a “remedial support”, “bug-fix” or “right-to-use software” service agreement but rather has significant inherent value that IT decision-makers need to better understand. This value goes far beyond simplistic “cost-of-ownership” benefits and speaks to the “continuous improvement” of the technology itself – a concept the open-source software vendor Red Hat has been a pioneer in leading and developing*

Most CIOs and IT decision-makers must constantly make choices that require balancing the costs of doing business (IT assets, personnel, training, admin/asset management) with the inherent value of their investments. How do subscription services help CIOs make these decisions?

- The inherent value of the subscription goes well beyond the cost argument. In fact, it also goes beyond the traditional way of viewing a subscription as a “right to use software”. Implicit in the name subscription “service” is the “right to use the services” as defined by the agreement. This is where the true value of subscriptions lie. They are not simply extended “remedial support contracts” with bug fixes, software call center support or direct end-user support bundled as a subscription. Some vendors may offer and even promote these elements but smart vendors such as Red Hat, as we’ll see, offer a more underlying value.
- A subscription service, if created and promoted properly, can help an IT decision-maker protect current investments, provides access to the newest technology from the vendor and can support the IT infrastructure incrementally. As changes to the software are developed, that is, major revisions and minor updates rather than simply “bug fixes”, the subscription can make them available in a planned, more controllable fashion. This can lead to more immediate improvements in the performance and security of IT’s overall computing infrastructure. Contrast this with a more traditional approach to software – first, the acquisition of the license, then an often complex and less predictable access to software changes and direct support. In the traditional support model, there are up to four levels of support a user has to go through before an actual qualified engineer is called in. When is an update different from a “new release”? What about the complexities of administrating “new versions”? Is there a support contract in place to allow “new versions” to be used at multiple sites? With a single subscription service, the end-user always has access to the newest technology regardless of nomenclature or administration. Without subscription services, the user may be charged for a new major release and a new support contract. The value is not diminished but rather retained across time. There is no inherent depreciation as long as the underlying software and services are useful.
- Subscription services also force vendors into “continuous improvement”. This is especially true for open source software. With a traditional model, the software is acquired, revenue recognized and upgrades take place at the whim of the innovation culture within the vendor. With a subscription model the vendor can focus more on features that really benefit the customer, as opposed to more superficial “bells and whistles” that are required to entice one to buy a major revision. There is less incentive to improve between revisions. With a subscription business model, following the intuitive innovative nature of open-source software, the vendor needs to constantly be aware of what’s working and what isn’t because the subscription can be canceled by the end-user if they no longer perceive value. This makes the vendor focus on continued innovation. This is really a win-win for both vendor and end-user, not a zero-sum game.
- Subscription services also provide benefits for harried IT decision-makers who sometimes spend more time grappling with software administrative issues than technical ones. This can be a major drag on the enterprise’s productivity. A subscription service can greatly simplify the overall administration of “adds, changes and deletes” for software, particularly when multiple applications come from several different vendors. The additional concern of wondering if the most recent software is really certified can be removed by a subscription service that in effect guarantees it. The overall flexibility subscription services provide can reduce intangible headaches IT managers encounter every day.

## Red Hat's approach to Subscription Services

Red Hat is an example of an open-source software vendor who has been one of the leading proponents of subscription services as a strategic business model. It is offered for its flagship RHEL (Red Hat Enterprise Linux) product and has recently extended the concept beyond software to include a subscription business model with its Amazon partnership for “Cloud Computing”. Red Hat’s RHEL subscription service is delivered on a per-system annual basis. The terms of the subscription include both basic access to software and updates and a set of services designed to let end-users take advantage of Red Hat’s overall technical development community. If the subscription is canceled, the customer can

continue to use the software but the services are not available. There is one overall subscription price. It is an encompassing set of services that extends the open-source model of innovation beyond just development. Red Hat is aware that commercialization of software needs to go beyond a license acquisition and a cost argument. Additionally, Red Hat's leadership as an advocate for the Open Source Community amplifies this culture of innovation.

The subscription includes access to RHEL software which includes an unlimited number of major releases, minor releases or patches. It includes these elements :

- **RHEL source and binary code** (can also be available without subscription)
- **Software documentation** (can also be available without subscription)
- **Major Releases** - Rights to an unlimited number of new versions of Red Hat Enterprise Linux that are released during the subscription lifetime
- **Minor Releases** - Regular updates between major releases that provide enhancements, new features, and additional tested hardware and configuration support
- **Errata** - Access to the latest bug fixes and security patches on an unlimited basis

These elements would be expected of any software subscription service. The real differentiator for Red Hat and the longer term value for its customer base lies in the other subscription elements. These include:

- **Access to the “Red Hat Network”** -This network allows an automated delivery mechanism for efficient and easy deployment of software and updates for the enterprise. Also, the network can offer enhanced systems management capabilities for enterprise deployments. This is particularly important for large-scale application deployments or transitions to new computing environments such as a virtualized or Cloud Computing environment.
- **Access to a library of tips, best practices, troubleshooting advice**, and other, current technical information for RHEL. This includes information from Red Hat Certified Engineers who update the library on a daily basis.
- **Access to a large and continually growing family of pre-certified and tested** software applications and system hardware from Red Hat's OEM and ISV partners.
- **Flexibility** - unlike some more traditional subscription services or complex licensing rules, the RHEL subscriptions are transferable. This means an enterprise can upgrade its system hardware with no penalty. The subscription can also be moved across architectures making enterprise testing and development easier.
- **Guaranteed long term software stability** - the application interfaces for each Red Hat Enterprise Linux release (both user-mode and primary kernel-mode) are guaranteed to be kept stable for the life of the software. This protects the user from having to change potential application interfaces every time a new release becomes available, thus decreasing maintenance costs of the application.
- **Legal assurance** - the Red Hat Open Source Assurance program safeguards customers who are developing and deploying open source solutions. In addition, there is an Intellectual Property Warranty coverage for the life of the subscription.
- **On-going Expert Red Hat technical support with multiple service level options** – this direct support provides unlimited incidents and coverage up to 24x7 with 1 hour response. Enterprises can speak directly with Red Hat certified engineers and “talk technical”.
- **Interoperability Assistance** – Red Hat is a member of TSANet that provides a facility for resolving multi-vendor interoperability problems.
- **Support Lifecycle** – Red Hat provides three years support for each OS version.

At the end of the day, Red Hat's subscription service looks more like a customer-vendor partnership than an arms-length contractual agreement. This is consistent with the industry's increasingly open-source innovation philosophy. Red Hat's service offers far more than a "de facto" support agreement focusing on remedial bug fixes and call center support.

By contrast, Red Hat's subscription is a robust set of elements aimed at the commercial market and the CIOs and IT decision-makers who have to live with the complexities of managing software operating systems and application life cycles. The true value of the subscription doesn't lie with any single element but ensures:

- **"Future proofing" technology** with continuous improvements and enhanced performance and security for the enterprise's IT computing environment. Since the subscription provides unlimited major releases, minor releases (updates), and errata including security fixes on a continual basis, the enterprise is always taking advantage of technology innovation. This provides the most optimal performance available for the software enhancing overall stability of the enterprise's computing infrastructure.
- **Holding the vendor accountable (in this case, Red Hat)** - Subscriptions force Red Hat to be continually innovative in both technology and overall support delivery. The subscription business model means the customer can choose not to renew if not satisfied with the value of the technology or overall service. This ensures Red Hat will be closer to the customer rather than selling a license up-front and then, in effect, disappearing. The subscription, taken overall, reinforces real value – continual customer contact.
- **Simplifying IT's life** - The Red Hat Network offers a web-based set of common IT management tools enabling simpler, more efficient deployments and service delivery. Thus, the subscription service provides better control over software O/S and application asset management, simpler accounting and more predictable IT spending. The enterprise gets continuous value at predictable, lower costs.
- **Providing quality of Service** - According to CIO Insight, Red Hat ranks number one in value and reliability.

## Summary

The subscription business model is here to stay. It is a natural extension of the open-source software business model and offers an enterprise value far beyond traditional subscription elements such as remedial support and "bug fixes". It provides a win-win environment for both the end-user and the vendor. It forces the vendor to be continuously innovative and enables long-term stability, performance and security for an end-user's IT environment. Finally, it makes software deployments and long-term support more predictable and ultimately less costly than traditional software license models. Red Hat has listened to its users in defining the Red Hat RHEL subscription service, and has bundled the essential facilities that are needed to provide a valued added service for developing, maintaining, and supporting application software.

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