

Clouds Looming for Software Server Vendors

[Stacey Higginbotham](#) | [Tuesday, December 9, 2008](#) | [9:00 PM PT](#) | [3 comments](#)

As cloud computing moves beyond startups and attracts enterprise users, major software vendors are being forced to reckon with a new challenge to their current pricing models. Much like the emergence of software as a service has caused many large software vendors to evaluate existing licensing models that charge a set price for each software package copy running on a machine, the emergence of cloud computing is pressuring top server software vendors Microsoft, Oracle and IBM to adopt a subscription-style type of pricing.

The issue is similar to the [battle that raged years ago](#) when corporate customers started buying servers with multiple processors. Prior to that, vendors sold software on a per-core basis, so a customer who paid \$20,000 for a copy of Microsoft's software for a single-core machine was hit with a \$40,000 licensing cost when he upgraded to dual-core servers. With virtualized servers, where several virtual machines can exist on one server, such math becomes more complex, [and can lead to even higher prices](#).

As Microsoft, Oracle and IBM adapt to the cloud business model, they're likely to see their software licensing revenue drop. How they will manage this is part of a [new report out from research firm TechAlpha](#) that looks at how virtualization will affect industries ranging from software to storage. George Gilbert, co-founder and principal at TechAlpha, says Microsoft has been fairly advanced about its licensing efforts in the cloud, while Oracle seems to be lagging.

"The new principles of pricing with the ultimate destination of software in the cloud requires two things: capacity on demand, and something that's divorced from the physical infrastructure," says Gilbert. "The idea that you install software on a box and it lives there for the useful life of the server is increasingly less relevant."

This won't just apply to public cloud providers such as Amazon. Enterprises will undoubtedly build their own clouds of virtualized computing power, in turn making the shift more painful for vendors such as Oracle, which currently has a limited offering on public clouds. Gilbert estimates that about half of Oracle's licensing revenue could be affected by this shift to subscription-based licensing.

The solution seems to be divorcing certain software products from the hardware, and charging for it either on a per-instance basis as part of a computing cycle or based on a percentage of use for a specific amount of time. Because a customer can add capacity by moving a software product on a virtual machine to a bigger server for a temporary spike in demand, customers will demand the ability to pay for increments of both time and capacity. As customers measure their consumption, they can adjust their subscription each quarter.

As customers purchase less software up front, the move toward a subscription model will lead to a shift in the way vendors recognize revenue. The costs of building the software will stay the same, but the amount of time it takes to recoup that investment may stretch out longer. It may also cut revenue.

Gilbert points out that most corporate customers buy servers in anticipation of growth, rather than based on what they need today. Because software licenses are tied to those physical servers, customers are also buying more software than they need up front. With cloud computing enabled by virtualization, customers may spend less on both. It looks like in addition to open source, shrinking IT budgets and competition from software-as-a-service companies, the big software vendors will also have to keep an eye on those looming clouds.



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February 12th, 2009 9:21 AM PT Recession Is Good For Cloud Computing – Microsoft Agrees | CloudAve said:
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December 9th, 2008 11:01 PM PT Shane said:
Software as a service plus virtualisation have more far reaching effects for server vendors. Customers often over spec new server purchases or don't anticipate changes in the business landscape - virtualisation will mean that if demand ceases for a particular software server it can be terminated. Unfortunately the costing models will make or break it as you mentioned. For instance the split pie type charging model can result in a few carrying the cost for the infrastructure if others leave.

December 10th, 2008 1:48 PM PT Mike Maxey said:
It is not just software application pricing that is being impacted by cloud computing, the infrastructure is adapting as well. Price per GB of storage is a metric that many organizations are starting track and many insist on only paying for what is used. This is independent of whether the infrastructure is public (shared clouds) or private (clouds inside the firewall). The days where everyone embraced the "build it and they will come", multi-million dollar capital outlays are becoming a thing of the past. Customers want predictable pricing based on consumption. Fortunately ParaScale (and others) are delivering on these demands.

Mike Maxey
ParaScale


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