



## Build vs. Buy: The Hidden Costs of License Management

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### OVERVIEW

“If you want something done right, do it yourself.” We may have used that phrase when frustrated at the inability to get things done just the way we want. It’s a similar dilemma faced by organizations that debate building an in-house solution or purchasing a third party package. On the surface, building internally has several advantages. You get to build a system that meets your exact requirements. You have expertise in the system without having to pay for costly training and integration. It is inexpensive to maintain. It is cheaper to build in-house; after all, your developer’s salaries are a sunk cost.

This perspective is often taken with license management. An enterprise’s needs for the creation, generation, and fulfillment of various license models are so specific that building a solution in-house seems not only the best solution, but the only one.

### A PERFECT FIT... FOR NOW

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. Most likely your needs today 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. In fact this very well may be the case.

However, if there is one constant in today’s business world, it is *change*. Although you could potentially curb some unlicensed use now, the current piracy threats your organization faces will likely change. Opportunities for changing your pricing structure and increasing your revenue streams are also not likely to be static.

Another example of the need to adapt to business change is 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 how they all touch almost every department in an organization. This is where an in-house 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 tries improved business

intelligence software. Organizational units may be changing without necessarily communicating changes to one another. An in-house solution that is 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 open-ended enough to scale to new applications or business imperatives. If they do create an open ended, flexible and scaleable system that meets your exact business needs, those exact business needs are only the ones you need to meet... for now.

### **A PENNY SAVED**

Developer time is often viewed as a sunk cost, so the cost of building and maintaining an in-house solution is often underestimated. Without detailed time tracking, it is impossible to know the total developer's time required to create a new application, whether for internal use or for sale. The total cost of releasing a new, revenue-generating product is also therefore difficult to know. The initial goal of a license management system may only be curbing 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. License management isn't typically considered very "sexy" or exciting. Unless this individual was hired with the express purpose of building a license management solution, it is possible that he/she will want to get back to the more engaging new project that he/she is supposed to be working on. This may result in the sacrifice of other features of the license management system.

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 create an entire product. Worse yet, the product is not one of your core competencies.

### **WHY CAN'T WE ALL JUST GET ALONG**

"Scalability" and "flexibility" are often abused terms, but they are used so frequently for good reason. These buzz words are critical components of any application that needs to integrate with other systems and function across various departments. A license management system is definitely such an application. 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, use standard document types such as XML, and accept input from various order entry and other back-office systems. In-house systems are built to address an existing need—not to scale or to integrate with systems that may not even currently be used within the organization. A good third party license

management solution is constantly being updated to fit the growing needs of its customers. Scalability and flexibility are necessities, not a mere tagline.

### **THE EARLY BIRD CATCHES THE WORM**

As the saying goes, “Time is money”, and a slow time to market can cost 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-user’s needs. The purchase of a third party solution eliminates the delay of development, allowing you to start integrating into your operational infrastructure quickly. This lets the responsible departments work with their part of the license management system, and thereby reduce time to market. Developers can focus on integrating license models into the applications while IT and others can focus on creating fulfillment systems like web portals to allow customer-driven license delivery.

A third party solution also provides you with the advantage of easy experimentation. If you are unsure as to whether license management is right for your business, a third party solution can allow you to explore options first. You can pilot various license models with one application rather than spending valuable resources building in-house without prior knowledge of how your market will respond. Being able to quickly respond to changes can make the difference between competitive advantages, leading to higher profits, and lost revenue.

### **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 do not have to wait on a third party vendor’s schedule. When it comes to creating license models to fit your business need, who is more of an expert than your own internal staff? But this approach is not without its drawbacks. When the in-house experts are no longer with the organization you find yourself stuck with a proprietary system that no one knows how to use or worse yet, fix when inevitable problems arise. You may find yourself wishing there was a technical support line you could pick to solve the very problems that you thought you could avoid by building a solution in-house.

Internal expertise is limited to those that have been trained. It is difficult to prevent an in-house solution from becoming costly, if not 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 revenue-generating 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 out. 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

Let's assume that a company, ABC Software, needs to develop a license management solution for its suite of 5 applications. They first consider the cost of staffing:

### Senior Software Developer:

Annual Salary: \$110,000

Benefits: \$20,000

Total: \$130,000

- Development of scope of work and product architecture
- Project management and supervision of other development

### Junior Software Developer:

Annual Salary: \$70,000

Benefits: \$20,000

Total: \$90,000

- Development and testing

6 Senior Developers X \$130,000 = \$780,000 Annually

3 Junior Developers X \$90,000 = \$270,000 Annually

The total development team may cost 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

The opportunity cost involved in taking developers away from core projects that generate revenue is necessarily difficult to calculate. You may be able to staff your team so that the dedication of resources to license management has no detrimental effect on the progress of other projects. 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 in-house 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.

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 third party licensing system, and has cut 3 months off of their development cycle (a low estimate). Because of this, 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. This is still without considering ongoing maintenance, as well as intangibles such as market perception, and momentum

## FAMILIARITY DOES NOT 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 the very inefficient processes and support nightmares the organization was trying to avoid. A corporate initiative to standardize on a single third party license management solution can be very

beneficial. The standard makes licensing one less thing to worry about, since there is no need to integrate disparate systems. A corporate mandate to use third party licensing means all products that adopt licensing will use the same technologies, can be fulfilled through the same operational processes and support staff can be trained on just one system. As closely attached as a license and its related product are, using a third party license management system is not too unlike using third party development tools. Standardization can lower costs for support, deployment and integration for the entire company.

## **CONCLUSION**

Technology is constantly changing and evolving; offering features to automate manual processes, lower costs and improve efficiency. New or relatively unknown technologies are often met with skepticism and initial reaction may be to build a solution internally. Building in-house certainly is not always a bad idea for some highly specialized requirements. However, if your organization is likely to face the types of changes above, then a third party solution 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 — all the way from design to fulfillment, to ongoing management.

Your chosen vendor should have a breadth of experience and offerings, and should be constantly adding to its portfolio of products to be able 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.

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