

## WHITE PAPER

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# Opportunities for ISVs: The Microsoft ISV Royalty Program

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Mira Perry

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## EXECUTIVE SUMMARY

Successful ISVs recognize that two of the primary business success factors, revenue growth and customer satisfaction, are interconnected, with the latter often underpinning the former. Yet for both young and established businesses, identifying new ways to improve customer satisfaction and increase revenue can be elusive. The results of recent Microsoft-commissioned research conducted by IDC depict the Microsoft ISV Royalty Licensing Program as an opportunity for Microsoft ISV partners to boost customer satisfaction and increase revenue.

The Microsoft ISV Royalty Program is intended to help ISVs integrate Microsoft products with their own solutions, enabling ISVs to deliver complete, licensed solutions to customers. The program structure enables ISVs to either fully integrate Microsoft applications with their own application or provide the customer the Microsoft product alongside the ISV's own installation media or preinstallation setup.

Program members have found a number of the products offered through the program to be overwhelmingly popular for use with or alongside their applications, including SQL Server 2005 Standard, Workgroup, and Enterprise Editions as well as the run-time licensing option. Participants also report heavy usage of Microsoft Visual Studio 2005, Microsoft Office Professional 2007, Microsoft Office SharePoint Server 2007, and Microsoft Visio 2007. Microsoft Office SharePoint Server 2007 is also among the products that are expected to see considerable growth through the program. Other growth products include Microsoft Dynamics CRM 4.0 and Microsoft BizTalk Server 2006. For existing and prospective program participants interested in more information about the products ISVs use through the program, additional details are provided in the Appendix.

Through participation in the Microsoft ISV Royalty Program, the opportunity to sell Microsoft licenses increases ISVs' ability to provide customers a one-stop-shopping solution: The customer can talk to the ISV about all aspects of the solution without going to another company. This in turn increases customer satisfaction while creating new revenue and efficiency opportunities for the ISV through license sales, faster installation times, and reduced support costs for its solutions. Program participants believe that these differentiators, along with the ability to offer customers a one-stop shop, will boost their revenue. In fact, 84% of program members report an expected increase in their Microsoft ISV Royalty revenue during the coming year.

*"The client doesn't care that we are part of the program, but what they do care about is that they don't have to go to separate entities to get the solution. So, the value, I would say, is tremendous. The fact that we can get them up and running in two hours, they love that."*

## PROGRAM OVERVIEW

The Microsoft ISV Royalty Program presents ISVs with an opportunity to redistribute Microsoft licenses alongside their own solutions, creating an additional revenue stream for savvy ISVs. Through program participation, ISVs are then able to provide customers with a fully licensed end-to-end solution.

One United States-based ISV Royalty Program participant used the program to streamline the ERP-friendly portal solutions portion of its business. By shifting from its proprietary technology platform to a Microsoft-based platform for its solution infrastructure, the company was able to shift its focus to its core competency of building comprehensive solutions on Microsoft technology including Microsoft SQL Server, Microsoft Commerce Server, Microsoft Project Server, and Microsoft BizTalk Server. Through program participation, the company was able to create a license for its comprehensive solution, which included licensed versions of the Microsoft products, distributing it efficiently to its customers. Prospective members can read more about this company's success with the ISV Royalty Program in the program case studies at [www.microsoft.com/isvroyalty](http://www.microsoft.com/isvroyalty).

An ISV Royalty Program participant in Europe provides healthcare management solutions based on SQL Server 2005 Standard Edition, Enterprise Edition, and run-time licensing version. Selling the end-to-end solution through the ISV Royalty Program saves this company considerable time because it is certain the SQL configurations are optimized for its solution at the point of installation. Having control of all the solution-related software enables the company to build its offering once and then deploy it to customers as a consistent image. Without control of the SQL Server configuration and the other solution components, including Microsoft Project Server 2007, Microsoft Office Communications Server, and Microsoft Office Professional 2007, the company would face new scenarios with each deployment, increasing the time required to get its customers up and running.

This European company has been engaged in the ISV Royalty Program for several years and expects to see new opportunities for growth through the integration of several additional Microsoft products into its solution offerings, including Microsoft Operation Manager 2007, Microsoft Visual Studio 2005, and Microsoft BizTalk Server 2006 in traditional and run-time license types.

For companies interested in getting involved in the Microsoft ISV Royalty Program, the program is available to solution partners that qualify as ISVs, which Microsoft defines as solution partners that develop and/or sell custom software products and derive at least 30% of their overall revenue from the sale of those solutions. To be fully eligible for the Microsoft ISV Royalty Program, these ISVs must also have developed a unified solution that is licensed to end users, includes at least one licensed Microsoft product, and adds "significant and primary functionality to the Microsoft license," according to Microsoft. Before enrolling, ISVs should also ensure that they have either purchased five technical product support incidents or enrolled as a Certified or Gold Certified partner in the Microsoft Partner Program.

Qualified ISVs are able to enroll by simply completing and submitting the ISV Royalty License and Distribution Agreement, the Microsoft Business and Services Agreement, and a credit application form. Microsoft reviews applications to ensure minimum requirements are met and then sends a welcome packet with details on how to get started. Nearly 70% of the participants in IDC's *Microsoft Royalty Survey* indicated a high level of satisfaction with the program entrance requirements and ramp-up experience. Many cited Microsoft's recently lowered revenue commitment as a driver for their satisfaction, telling interviewers that the lower commitment made program participation possible and less daunting.

Once in the program, participants are required to:

- Provide customers with technical support for the unified solution
- Submit a monthly royalty report
- Meet a minimum royalty-revenue commitment

As program participants, ISVs have access to the "ISV License," which gives their customers full usage rights to the Microsoft product as long as the ISV's solution remains licensed. The Microsoft product is then a fully licensed component of the ISV's unified solution.

For customers that do not require full license rights or that are managing tight budgets, program participants can also offer the "ISV Run-time License," which limits usage of the Microsoft product to the ISV's unified solution. This license is exclusive to program members, a significant program benefit.

*"It's very good. If we didn't have the run-time license, we wouldn't be able to sell SQL. The majority of what we sell is run-time. The only way that we could get certain business is by saying to the customer, 'You can't get this on the street; look what a deal you get.'"*

Set pricing for each license type works well for many partners that appreciate the level playing field. Although program participants do report challenges competing against large resellers that can sometimes undercut ISVs' prices, the standard ISV pricing works well for many others, particularly those offering turnkey solutions. The ability to sell the lower-priced run-time licensing means that partner ISVs will often have an advantage against other resale avenues.

"The thing I like is that there is one set price for all ISVs, so we don't have to worry about wheeling and dealing with customers every time."

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## **Program Benefits**

Like most businesses, ISVs are seeking opportunities to grow their revenue and increase customer satisfaction. Results from the IDC survey indicate that Microsoft's ISV Royalty Program offers members several ways to impact these business objectives. While this document focuses on the benefits of a one-stop shop, expanded revenue opportunities, and anticipated revenue growth, prospective members are also encouraged to consult the ISV Royalty Program Web site at [www.microsoft.com/isvroyalty](http://www.microsoft.com/isvroyalty) to learn more about how the program can help participants:

- ☒ Provide a one-stop shop and faster deployment for their customers
- ☒ Take advantage of Microsoft technology to add value to their solutions
- ☒ Create an additional revenue stream by redistributing Microsoft licenses and Embedded Maintenance upgrade coverage with their solution
- ☒ Distribute Microsoft products globally as part of a unified solution
- ☒ Reduce installation, configuration, update, and/or support costs
- ☒ Earn points in the Microsoft Partner Program
- ☒ Sell licenses for version-specific solutions up to 24 months after Microsoft releases a new version of the product

### ***One-Stop Shopping and Increased Efficiency***

For many participants in the Microsoft ISV Royalty Program, the ability to offer customers a one-stop shop is a leading benefit of the program. Among the survey respondents, 77% reported that they are satisfied or very satisfied with the program's enablement of a one-stop shop for their customers. From the ISV's perspective, providing the end-to-end solution has significant business advantages.

One of the leading advantages to offering an end-to-end solution is that the ISV has complete control over all of the software components, ensuring that systems are optimally configured from the beginning. This saves the ISV time during installation and setup. In many cases, ISVs are able to gain efficiencies by essentially imaging the software setup and then deploying to multiple customers. Many efficiencies are lost when they are installing on preexisting systems where incumbent software may not be set up with the appropriate configuration.

"We always want to give the customer a complete solution, the box, the licenses. The customer doesn't have to worry about anything."

*"It allows us to have an integrated setup routine, so in the end you only have the customer data that is customized. Only one setup installs everything, so building a new box is pretty easy — all the setups are pretty much the same."*

Control of the initial installation not only decreases setup time but also reduces system support and maintenance requirements. Configuring the product during installation diminishes the likelihood of postinstallation surprises, which would otherwise disrupt the customer's business productivity. While the partner enjoys the benefit of revenue from the license sale and time savings, the customer also wins with faster setup and fewer problems later.

For companies considering participation in the Microsoft ISV Royalty Program, the benefits associated with a one-stop shop are impressive. Participants realize tangible benefits for their business, including extensive time savings during the deployment phase. Prospective program participants are encouraged to consider the advantages of controlling the end-to-end configuration in light of their own solution offerings.

The corresponding increase in customer satisfaction that accompanies a faster and more reliable installation translates into more word-of-mouth referrals and better service ratings. In other words, there is a business development opportunity associated with program participation.

### ***Expanded Revenue Opportunities and Competitive Pricing***

The Microsoft ISV Royalty Program gives ISVs a mechanism for selling Microsoft product licenses, while non-Royalty ISVs often have to refer their clients to other authorized Microsoft resellers for license purchases. Program members have the advantage of gaining revenue through the sale of the ISV License and the ISV-exclusive Run-time License, which provides a cost-effective option for customers that intend to use the Microsoft product only in conjunction with the ISV Royalty Program member's solution.

In addition, participants are able to reduce the complications that arise with the introduction of a third party into the ISV-customer relationship. The introduction of another company into the ISV-customer relationship can require additional time, particularly when the customer does not have an established relationship with a Microsoft reseller. Respondents of the research study also reported errors on the part of the license vendor that occasionally supplied the wrong product. Such scenarios leave the customer waiting longer for its solution and cost the ISV additional time while correcting the error. Getting the Client Licenses right is something ISVs can do particularly well, thus ensuring that customer end users have the right access to the solution.

Survey respondents are keen to see additional products added to the ISV Royalty price list. When new products are added, ISVs often recognize the addition as a potential new business opportunity.

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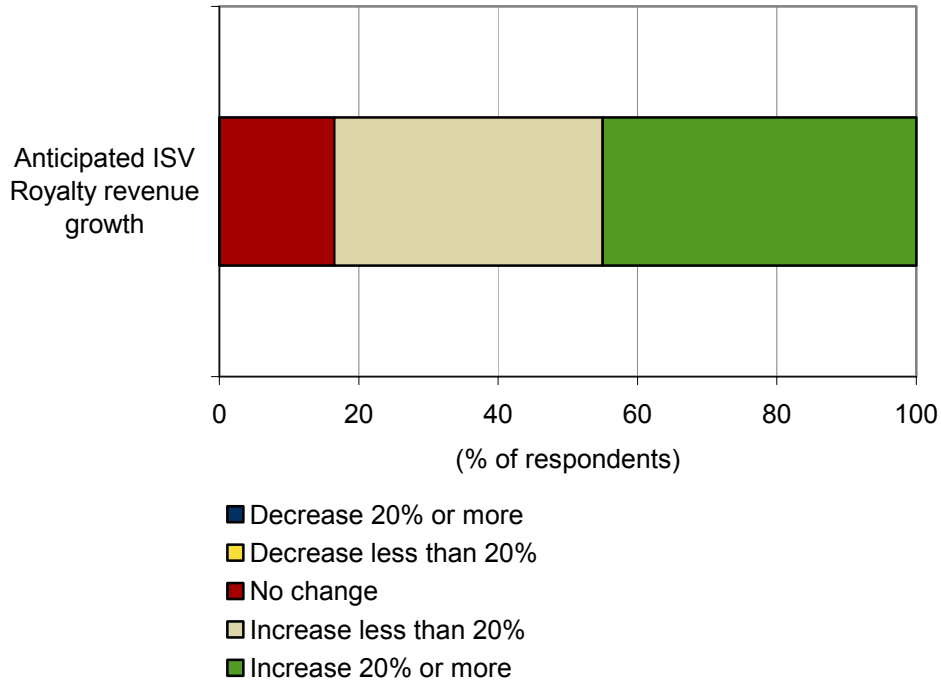
## **ISVs Anticipate Revenue Growth**

ISV Royalty Program partners believe that the combination of expanded revenue opportunities and the ability to offer customers a one-stop shop gives them a competitive advantage and increases customer satisfaction. In fact, confidence is so high that 84% of ISV Royalty Program participants expect to increase their Microsoft ISV Royalty revenue in the coming year. Forty-five percent of survey respondents expect ISV Royalty revenue to increase 20% or more (see Figure 1).

**FIGURE 1**

Microsoft ISV Royalty Program Growth

Q. Over the next year, how much do you expect revenue generated through the Microsoft ISV Royalty Program to grow?



Source: IDC, 2008

ISVs report a variety of sources for additional revenue. One Canadian organization found inspiration for a product line expansion while reviewing the products available through the ISV Royalty Program:

*"When CRM was added, we started to build on CRM and we added a new version of our product."*

Other companies have seen significant financial gains through license sales:

*"We are selling more licenses than before because the pricing is competitive. This is pretty good. It really increased our revenue for license sales. I would not say we are selling more of our solutions, but we earn more money per solution now."*

Meanwhile, some organizations report shifting to or adding the Microsoft platform to increase their business opportunities. These organizations have turned to the Microsoft ISV Royalty Program to jump-start a new line of business.

In fact, while nearly 30% of Microsoft's ISV Royalty Program members that took part in this study also indicated participation in royalty programs with other large software vendors, there is a sentiment among some partners that their experience with the Microsoft program is unique:

*"We pay royalties to other vendors to use their products, but our relationships are more one-off agreements, not programs like the one with Microsoft. We may get special pricing through an agreement or receive a percentage [of the MSRP] for the product, but I wouldn't say there is a program like the Microsoft ISV Royalty Program."*

## **CHALLENGES/OPPORTUNITIES**

ISVs should familiarize themselves with the products that are and are not available through the program and through run-time licensing. Thirty-eight percent of ISVs that participated in the IDC research indicated at least one product they would like to see added to the program or have available with run-time licensing. For these program participants, engagement in the ISV Royalty Program got them closer to offering customers a complete one-stop-shop solution, just not all the way. Microsoft has added new products to the program over time in response to market trends and program member requests.

Program participants that wanted additional products added to the program also indicated a higher level of overall program satisfaction. IDC's opinion is that these organizations are maximizing program opportunities and are fully engaged in the program. Their interest in adding products to the program is likely indicative of an effort to round out solution offerings or expand their revenue opportunities rather than the absence of core or essential products.

Organizations joining the ISV Royalty Program should be prepared to provide monthly reporting to Microsoft through the monthly reporting tool, a potentially time-consuming activity for organizations with a large number of license sales in what is sometimes described as an "outdated" tool. Fortunately, as ISVs become more successful with their program sales, they will also become more familiar with the tool and perhaps find the monthly reporting less cumbersome. Microsoft reports that it is looking at improving the tool and the partner experience around it.

It is worth noting Microsoft's keen interest in understanding the detail behind these challenges. Substantial effort has been undertaken by Microsoft to communicate internally the positive and negative findings of IDC's research, an important first step toward further strengthening the program.

## CONCLUSION AND ESSENTIAL GUIDANCE

IDC's research findings indicate that many participants in the Microsoft ISV Royalty Program have identified ways to make the program highly effective for their organization. Whether this is through product line expansions, revenue opportunities from license sales, or the ability to provide a one-stop shop, nearly every company that participated in the research indicated a business benefit to program membership. In turn, most organizations also identified increased customer satisfaction as both a driver and an end product of program membership.

For ISVs new to or considering participation in the Microsoft ISV Royalty Program, there are a few lessons to be learned from current members:

- ☒ Take full advantage of the products available through the program
- ☒ Become familiar with the available license types and comfortable articulating the differences
- ☒ Promote the availability of your end-to-end solution and the benefit it will bring to your customers

Providing customers with a one-stop, end-to-end solution and the opportunity for additional revenue are compelling reasons to consider the Microsoft ISV Royalty Program, but they are not the only reasons. Visit [www.microsoft.com/isvroyalty](http://www.microsoft.com/isvroyalty) for more information, and if the program is right for your organization, follow the links to join.

## APPENDIX

### Methodology and Sample

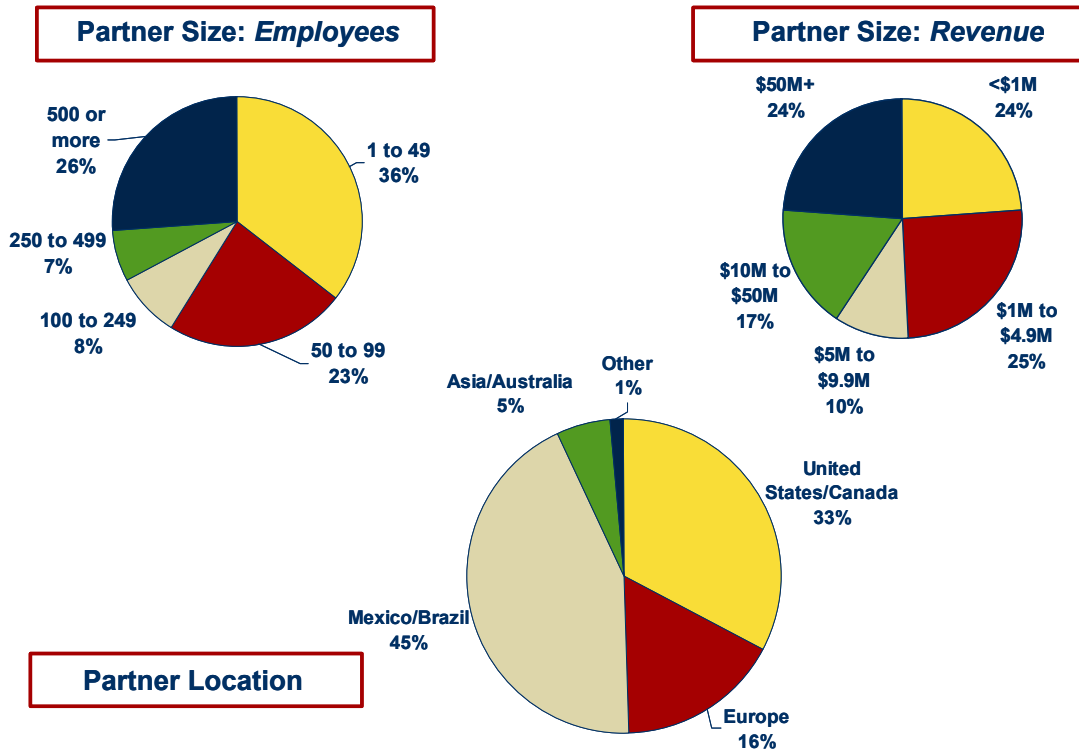
Microsoft commissioned IDC to survey and interview existing participants in the Microsoft ISV Royalty Program to better understand the benefits participants derived from program engagement while capturing their recommendations for program improvements. The first phase of the research included an online survey of ISV Royalty Program participants in Australia, Brazil, Canada, Germany, India, Israel, Mexico, the United Kingdom, and the United States. There were 74 total respondents. After the completion of the online survey, select respondents were contacted for follow-up in-depth interviews to probe further on trends that emerged in the online survey.

Respondents from Latin America represented 45% of the survey sample, while 33% were from North America, 16% were from Europe, and 5% were from the Asia/Pacific region. IDC found no statistical difference in satisfaction among ISVs in these different regions.

IDC received survey responses from a range of company sizes, with 36% of respondents reporting 1–49 employees and 26% of respondents coming from companies of over 500 employees. Twenty-four percent of respondents reported revenue of over US\$50 million, while half of the survey sample indicated revenue under US\$5 million. Figure 2 illustrates this and related data.

**FIGURE 2**

Survey Respondent Demographics



n = 73

Source: IDC's *Microsoft Royalty Survey*, 2008

The majority of survey participants reported an executive- (44%) or management-level (44%) role in the organization. Sales and marketing employees accounted for 30% of the respondents, while 18% reported having a technical role.

Overall, IDC believes the respondent demographics are relatively representative of the ISV Royalty Program membership, yet where necessary, controls were used in the analysis to account for categorical excesses or deficiencies.

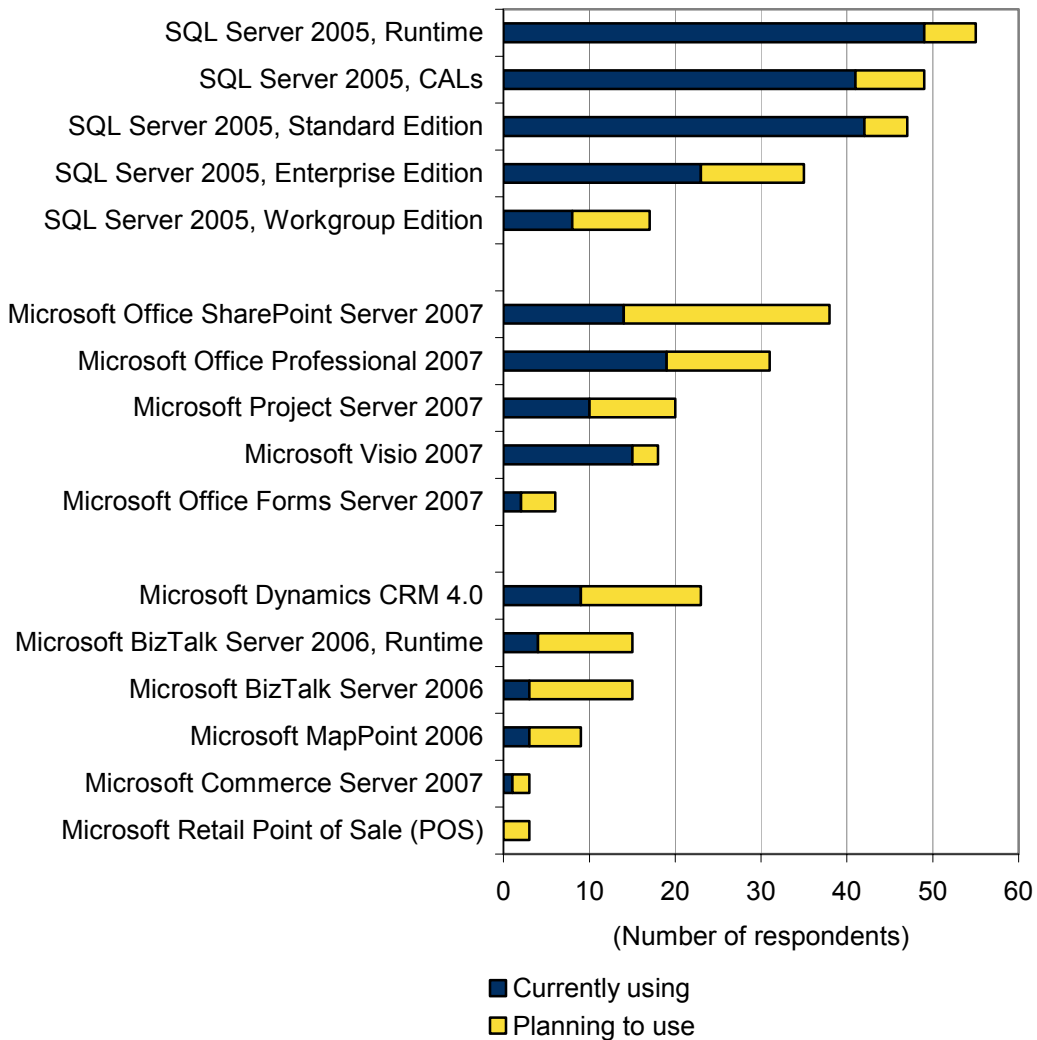
After the completion of the online survey, select respondents were contacted for in-depth follow-up interviews to probe further on trends that emerged in the online survey. These interviews included companies in Canada, Germany, the United Kingdom, and the United States. Information collected during these interviews was not statistically analyzed; instead, it was used to illuminate trends that emerged from analysis of the survey data.

## Product Usage

Research conducted by IDC identified the Microsoft products ISV Royalty Program members currently use and plan to use in the future. Many of the products that currently have heavy usage through the program are the foundation products one would imagine many ISVs are building with, including SQL Server 2005 Standard, Workgroup, and Enterprise Editions as well as the *run-time* licensing option; Microsoft Visual Studio 2005; Microsoft Office Professional 2007; Microsoft Office SharePoint Server 2007; and Microsoft Visio 2007. A more exciting finding, however, was that many ISVs' upcoming plans are based around growth products like Microsoft Office SharePoint Server 2007, Microsoft Dynamics CRM 4.0, Microsoft BizTalk Server 2006, and many others noted in Figures 3 and 4.

**FIGURE 3**

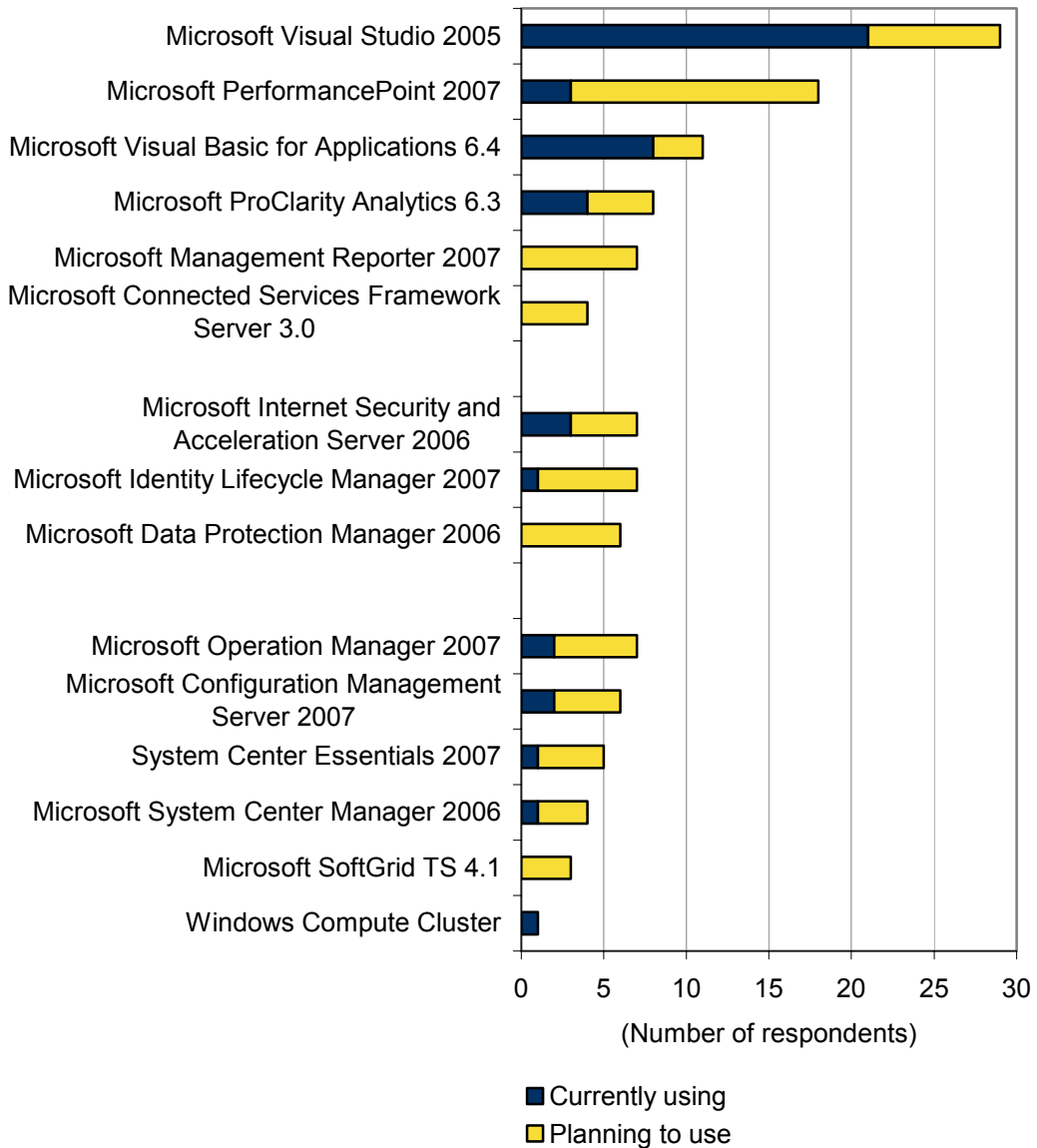
Current and Future ISV Royalty Product Usage



Source: IDC, 2008

**FIGURE 4**

Current and Future ISV Royalty Product Usage, Continued



Source: IDC, 2008

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