

Software's New World of Incremental Improvement

By Thomas G. Stephens, Jr., CPA, CITP, CGMA

In subtle and not-so-subtle ways, software – including operating systems – is changing. For many software publishers and many software titles, gone are the days of releasing a “major upgrade” every two to three years. Instead, publishers are turning to a model where “incremental improvements” are frequently released, often monthly, and the net effect of this approach is that it changes how we will acquire, update and use our software and operating systems in profound ways.

Comparing the Two Models

In the past, software publishers typically would create and publish a software title, and consumers would then purchase a perpetual right-to-use license of that software title and install the application onto their computer. Periodically, the software publisher would issue patches to resolve bugs in the application and to address any known security vulnerabilities. Meanwhile, in the background, the publisher would begin developing the next version of the application, by improving on existing features and adding new features in the hopes of enticing consumers to invest in an upgrade license when it became available. Often, this upgrade cycle ran about three years.

To the casual observer, this business model seemed to work relatively well for both the publisher and the consumer. However, there were significant weaknesses in this model for both parties. For example, from the publisher's perspective, this model created a cycle of cyclical and unpredictable cash flows and revenues. Many consumers chose not to invest in upgrades when they became available and would often skip one or two versions of the updated application in an attempt to increase their return-on-investment of the originally-purchased application. So, while the publisher would make significant

investments in developing new features for the upgraded application, there was no guarantee that consumers would elect to spend the money on acquiring a “new and improved” version of the tool.

Additionally, from the vantage point of the consumer, upgrades were often viewed as problematic and risky. In some cases, newly released applications caused integrations with other applications to stop working or required upgrades to hardware also. Further, for team members to take advantage of new and improved features, they needed to be trained on what these improvements were, why they were important, and how they could and should be used to increase productivity. For these reasons, many individuals and organizations chose to defer upgraded applications for as long as they could.

Case Studies – Microsoft Office 2007 and Windows Vista

The release of Microsoft Office 2007 provides a vivid example that reinforces the points outlined above. Approximately 10 years ago, Microsoft released the upgraded version of its flagship Office suite of applications as an upgrade to Office 2003. Office 2003 contained many very significant new features that, over time, have proven to be exceptionally valuable. However, because Office 2003 included a radically different user interface than previous versions of Office and because the file formats were different than those found in prior versions of Office, many consumers and organizations deferred upgrading for several years after the original release.

Likewise, the 2007 release of the Windows Vista operating system was also widely ignored by many consumers and organizations. While Vista introduced some cutting-edge features that are considered by many to be mainstream today – BitLocker drive encryption and User Account Control, to name two

– Vista was not compatible with many pieces of hardware in use at the time. Therefore, adopting organizations often incurred unanticipated investments in new hardware and spent countless hours on resolving issues such as updating drivers for existing hardware.

With both Office 2007 and Vista, the magnitude of the changes brought about by the upgrades created disincentives to taking advantage of the positive features made available in both tools. Thus, neither product was as well-received in the market as many had forecasted.

So, What's Different Now?

First, software publishers are moving away from the “perpetual license with a major upgrade every three years” model. Instead, they have begun offering their application on a subscription basis, through which users pay monthly, quarterly or annual subscription fees for the right to use the software. Of course, publishers of cloud-based Software As A Service (SaaS) have always operated this way, but now many traditional, desktop-based applications can be licensed through subscriptions also. Examples of mainstream applications available through subscription licenses include Microsoft Office (through an Office 365 subscription), Adobe Acrobat DC and QuickBooks Enterprise Solutions.

Now, you can even license Microsoft Windows on a subscription basis. In general, the advantages of licensing software in this fashion include predictable cash flows, the ability to scale up or scale down the number of licenses as organizations expand and contract, and automatic upgrades when new major releases become available. However, as indicated below, the issue of automatic upgrades is not as straightforward as it might seem.

A second major change in software development is that of moving away

from large-scale, major upgrades and adopting a policy of continual, incremental improvements that are released on a relatively frequent basis. Of course, this is the paradigm under which SaaS publishers have always worked. For example, if you subscribe to a cloud-based accounting application such as Xero, when engineers tweak the application and add new features, you receive the benefit of those new features automatically and without having to install any new software. Further, there is no separate charge for these incremental improvements – they are included with your subscription. Traditional publishers such as Microsoft and Adobe are now adopting the same strategy for their subscription-based customers.

For example, if you are an Office 365 subscriber, Microsoft is making available

new features for that product every month, and many of these features are not being made available to those who choose to purchase traditional perpetual-use licenses. In fact, you can view summaries of these new features at <https://blogs.office.com>. Additionally, with Windows 10, Microsoft is pushing new features to users on a monthly basis, instead of saving them for release as a future major upgrade to the Windows operating system. This update process creates what many are now referring to as “Windows as a Service.”

For the software publishers, these changes provide more predictable revenues and cash flows, while simultaneously minimizing the technical support issues previously associated with major releases. For consumers and organizations, doing away with major upgrades removes the barriers

to taking advantage of new and improved functionality while the shift to subscription licenses helps to provide predictability and flexibility in software licensing expenditures.

Benefits for Everyone

The trend to subscription licenses and incremental improvements is one that appears to be accelerating and for a good reason – it seems to benefit both software publishers and their customers. As a consumer, you should carefully consider how you currently license your software and your existing upgrade strategies and policies. If you are still using traditional approaches to licensing and upgrading, perhaps now is a good time to consider taking advantage of the benefits made available in the new world of incremental improvement. ■

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