

MARKET ALERT: PUTTING SOFTWARE SUBSCRIPTIONS IN PERSPECTIVE

Nearly three years after the launch of **Adobe Creative Cloud** – which provides access to Adobe’s entire suite of creative applications (e.g., *Photoshop*, *Illustrator*, *Premiere Pro* and several others) and related services, in a Software-as-a-Service delivery model – users are getting on board with the many benefits of a software subscription, as opposed to old-school product licenses, support contracts and upgrade fees for Adobe *CS6*. As a bonus, it also makes things easier for the IT staff.

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1. Cloud-Based Services, and Why Enterprise-Class Software Applications are Moving There

As Aberdeen noted in [Making the Most of Your Resources with Cloud Applications](#) (November 2014), cloud-based applications and services are providing organizations of all sizes with easier and more efficient access to the functionality that they need, more than ever before. Users experience the benefits of broader *accessibility* and enhanced *collaboration*, while the organization’s IT staff enjoy faster *deployment* and easier *management*. In Aberdeen’s study:

- Three out of five (58%) of the leading performers were able to provide **better support for users**, regardless of their location, by using cloud-based services.
- Three out of five (57%) of the IT departments that had deployed Software-as-a-Service applications reported a **reduction in application-related expenses**.
- One-third (32%) of the leading performers were able to **reduce capital expenses** by adopting cloud-based services.
- One-third (35%) of all respondents reported moving to the cloud because they saw **greater value in a software subscription model**.

It’s a simple but important point, as Aberdeen noted in [Optimize Both IT and Business with the Public Cloud](#) (December 2014): cloud-based applications that are easily accessible and highly available can help users to be even more productive, while also making life easier for IT departments. This is a win / win scenario, if ever there was one.

2. Adobe Creative Cloud, and How Both Creative Users and Their IT Departments Benefit from the Transition to Software Subscriptions

In January 2015, Adobe announced the latest enhancement to its **Creative Cloud Service**: [Creative Cloud Libraries](#), which users can share with other *Creative Cloud* subscribers, making it easier to collaborate and maintain consistency of design across both desktop and mobile applications. *Creative Cloud Libraries* is just the latest example of the many benefits to be gained from Adobe's transition from a **traditional software licensing model** (perpetual product licenses plus separate fees for support contracts and product upgrades), to a **cloud-based subscription service**:

- ➔ **Immediate access to the latest functionality** – *Creative Cloud* subscribers always have access to the latest capabilities, which eliminates the need to plan and budget separately for upgrades, and increases the efficiency of creative teams by having all users working with the same version.
- ➔ **Bundled access to a wide range of valuable services, in addition to the full suite of applications** – examples of which include *Typekit* fonts, *Behance* social media capabilities, tutorials and other *educational content*, support for multiple *languages*, cloud-based *storage* for each user, and access to creative *expertise* (e.g., the ability for each user to schedule sessions with Adobe experts).
- ➔ **Enhanced mobility, sharing and collaboration capabilities** – including *Creative Cloud Libraries*, *mobile apps* that extend the utility of traditional desktop applications; and the ability for creative users to *sync and share* files and projects across any supported device, regardless of their physical location. (Note, however, that a network connection is *not* required to use *Creative Cloud* applications, which run from the user's local device as opposed to from a web browser.)
- ➔ **Predictable cost for essential creative infrastructure** – from the organization's perspective, the subscription model eliminates the high upfront cost of traditional licensing; many organizations prefer the predictability of an ongoing *operating expense* as opposed to the "lumpiness" of irregular *capital expenses*.

- **Easier for IT to manage, resulting in more flexible support for users** – *Creative Cloud* provides administrators with a centralized management console to assign (and re-assign) seats to different users, making it easier to support creative projects and teams as they naturally change over time; both users and administrators generally see this as a big improvement over the [Adobe Licensing Website](#) used for traditional licenses.

3. Adobe *Creative Cloud*, and How it also Benefits Adobe

It's clear that Adobe is designing *Creative Cloud* to provide significant benefits not only to its enormous base of creative users, but also to the IT teams that support them. It should also be clear that Adobe believes that a transition from traditional licensing to software subscriptions is in its own strategic interest as well. Managers and investors are attracted not only to the **predictability of revenue streams** from a subscription-based business model, but also to the opportunities for **speed and efficiency of developing new features** based on a common application delivery platform.

For this reason, it makes perfect sense that when it comes to encouraging its huge installed base to move from traditional licenses to software subscriptions, Adobe has deployed both the proverbial carrot (i.e., the benefits listed above) and the proverbial stick – for example, new functionality is being provided only in the *Creative Cloud*; the last updates for traditional *Creative Suite 6 (CS6)* were made available in May 2012.

What may be less clear to Adobe's users is the [massive corporate commitment](#) that this kind of transition in business model requires behind the scenes – from vastly different approaches and timelines for software development; to significant changes to several essential back-office systems for marketing, sales, finance and production; to an entirely different mindset and culture throughout its distribution channels. The fact that Adobe has made this substantial commitment, and sustained it over the last three years, should be a strong signal of their strategic intent to make this transition to software subscriptions happen fully, for the benefit of their creative customers and corporate stakeholders alike.

Perhaps the strongest evidence is in the numbers. As a percentage of Adobe's total revenue, subscriptions have grown from 15% in fiscal year 2012, to 50% in fiscal year 2014 (source: [Adobe Form 10-K](#) filing). In terms of the number of subscribers:

- ➔ *Creative Cloud* subscriptions grew by more than two million to 3.454 million in fiscal year 2014.
- ➔ Net new *Creative Cloud* subscriptions grew by 644,000 in the fourth quarter (Source: [Adobe press release](#), December 2014), with the rate of new subscriber additions increasing each quarter since its initial release.

4. The Clear Conclusion – Creative Users are Getting On Board with Adobe *Creative Cloud*.

Based on the evidence, the message is pretty clear: Adobe has moved to a business model based on software subscriptions and wants its large and loyal base of creative users to come along with them.

- ➔ There are many powerful incentives for new creative users, or existing *Creative Suite* users, to make the transition to *Creative Cloud*.
- ➔ Compelling reasons to transition to *Creative Cloud* also exist for both the IT and finance departments.
- ➔ The facts confirm that after nearly three years since being launched, more and more creative users and teams have gotten on board with Adobe *Creative Cloud*.
- ➔ As time goes on, and the functionality gap between *Creative Cloud* and *CS6* continues to widen, the incentives for creative users to make the transition from traditional licensing to a software subscription will grow even stronger.
- ➔ In addition, the findings from Aberdeen’s benchmark research are in alignment with the core value propositions of making the transition to a subscription-based, Software-as-a-Service licensing model.
- ➔ New creative users should be looking exclusively at Adobe *Creative Cloud* – specifically, **Creative Cloud for teams** (for small and medium businesses, or for teams and workgroups within larger organizations), or **Creative Cloud for enterprise** (for larger organizations) – and current creative users should be planning for transition to Adobe *Creative Cloud* by the end of 2015.