WHITE PAPER

IMPACT OF UNLICENSED SOFTWARE ON MID-MARKET COMPANIES

Sponsored by Microsoft
Completed by Harrison Group

EXECUTIVE SUMMARY

Companies must weigh the trade-off of purchasing and using genuine, fully licensed software versus using unlicensed software. This paper explores this trade-off and concludes that companies with unlicensed software do not have lower IT spend, but may incur far greater risk of system failure, data loss and employee discontent. In this paper, we explore the differences between mid-market companies (organizations with greater than 24 PCs and less than 500 PCs) that are committed to using genuine, fully licensed software to those that allow unlicensed software to play a role in their firm. We explore the differences in IT system failure rates, IT spending, perceived risks of counterfeit software, and fundamental company success metrics. To capture a strong cross representation of large markets, we included the United States, the United Kingdom, China, and Brazil, each equally represented here. The findings outlined below are consistent across the emerging and developed markets tested.

To qualify as a fully licensed company, all or nearly all of the PCs and Microsoft Windows software needed to be acquired through genuine means. It is important to note that most unlicensed mid-market companies own genuine, properly licensed software and often predominately use licensed software, but may not manage their procurement closely enough to avoid being under-licensed.

Harrison Group's investigation yielded three primary findings:

- **Companies less committed to using genuine software are significantly more likely to have system failures that lead to lost critical data and employee downtime.** Particularly concerning is that the largest differences between the two groups relates to loss of sensitive data and critical system failures that impact more employees and customers. In addition to being more likely to have had a system failure, companies using unlicensed software also experience system failures more frequently.

- **Businesses that use fully licensed software report they are growing faster, are more profitable, and are more likely to be leaders in their market relative to those using a mix of genuine and unlicensed software.** Requiring fully licensed software would appear to be one of the foundational components of a successful business. The rest of the company can't perform at the highest levels if underlying IT systems are not operating with those same high standards. In addition, the findings show employees at companies not using fully licensed software are more likely to be concerned about their workplace, and take less pride in the company they work for.

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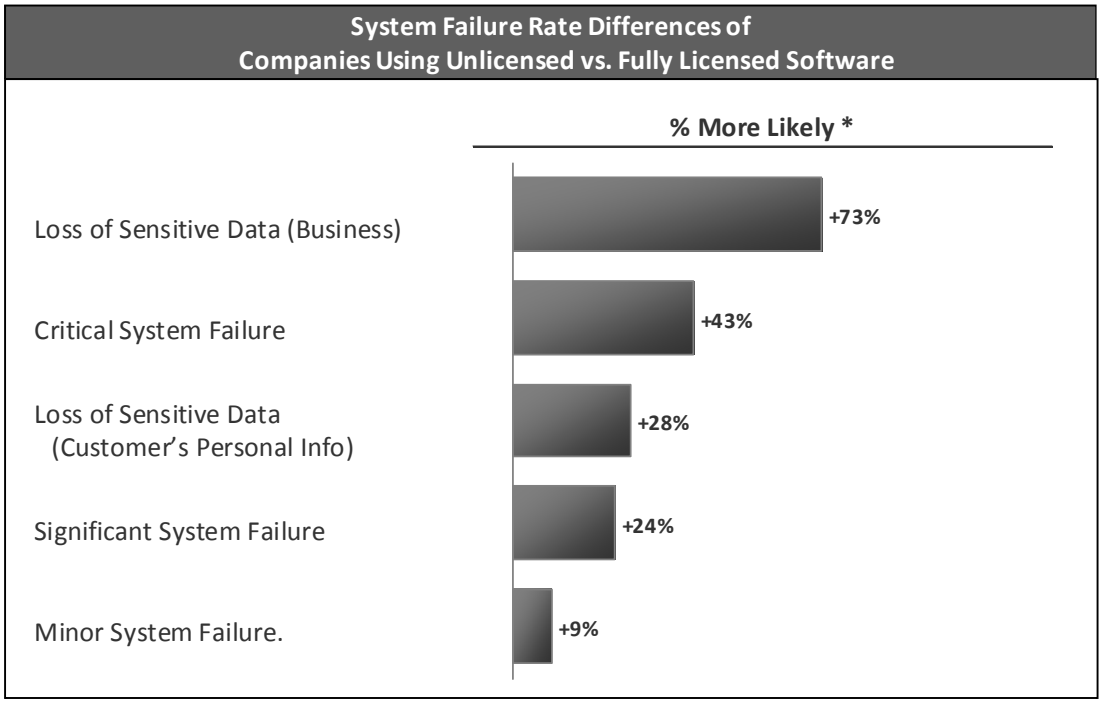
- **Using only fully licensed software does not result in higher IT costs for a business.** Spending for both IT and software as a percentage of revenues is identical for companies that use fully licensed software and companies that use unlicensed software. We believe this to be a function of two primary factors. First, failures are more likely to occur in unlicensed environments which drive up costs. Second, in both fully licensed and unlicensed environments, IT expenditures generally account for a small percentage of total company budgets. Ultimately, there is no evidence here to suggest that using unlicensed software adds to the bottom line, while there is plenty of evidence of incremental risk.

SYSTEM FAILURES

We explored the impact that system failures have on business covering loss of critical internal and external data and more or less severe employee downtime scenarios. Companies running unlicensed software are significantly more likely to encounter system failures that have all types of negative repercussions – particularly the most serious types where loss of sensitive data or critical system failures occur. See Figure A below.

- Companies using unlicensed software were 73% more likely to have loss/damage of sensitive/valuable data and 43% more likely to have critical system failures lasting 24 hours or more than those using fully licensed software.
- Companies using unlicensed software were 28% more likely to lose a customer's personal information and 24% more likely to have a significant system failure with at least one group down for 4-23 hours than those using fully licensed software.

FIGURE A:



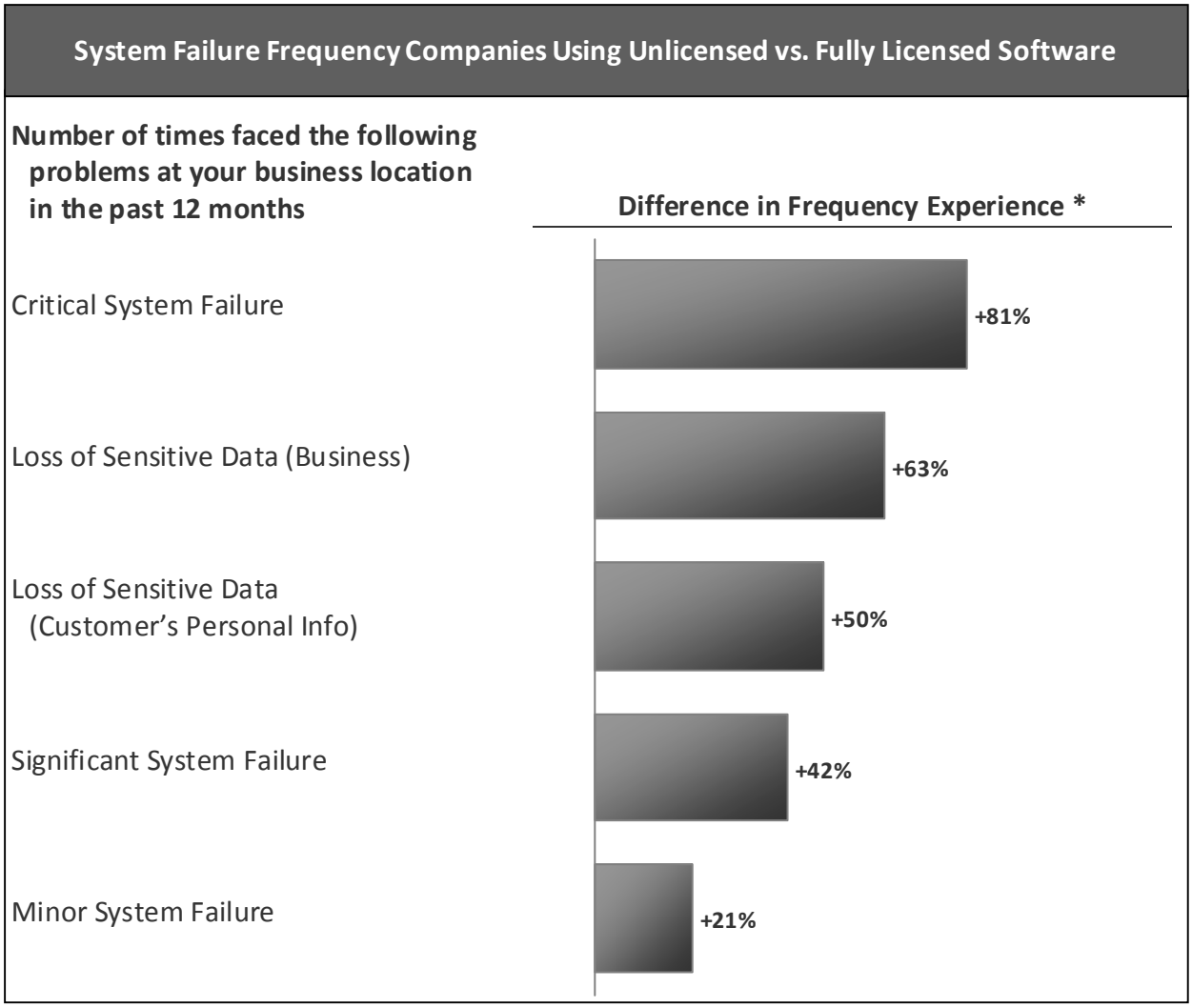
*** Based on differences in the percent encountering failures in companies using fully licensed relative to companies using under licensed software.**

For further detail reference Figure A-1 in appendix.

Additionally concerning is that those same companies that allowed unlicensed software to play a role in their business also experienced lost critical data and employee downtime more frequently than companies that use fully licensed genuine software. See Figure B below. Companies that use unlicensed software:

- Had 81% more critical system failures that led to downtime of 24+ hours
- Had 63% more experiences of losing sensitive internal data
- Had 50% more episodes of lost customer personally identifiable data
- Had 42% more occasions where significant system failures occurred for 4-23 hours
- Had 21% more minor system failures

FIGURE B



*** Based on frequency experiencing failures of companies using fully licensed relative to companies using under licensed software.**

For further detail reference Figure B-1 in appendix.

The impact on employees and customers is significant. Depending on the magnitude of the system failure, roughly half of the employee population is impacted with each of these events and in nearly half of these occasions interaction with customers is impacted. See Figure C below.

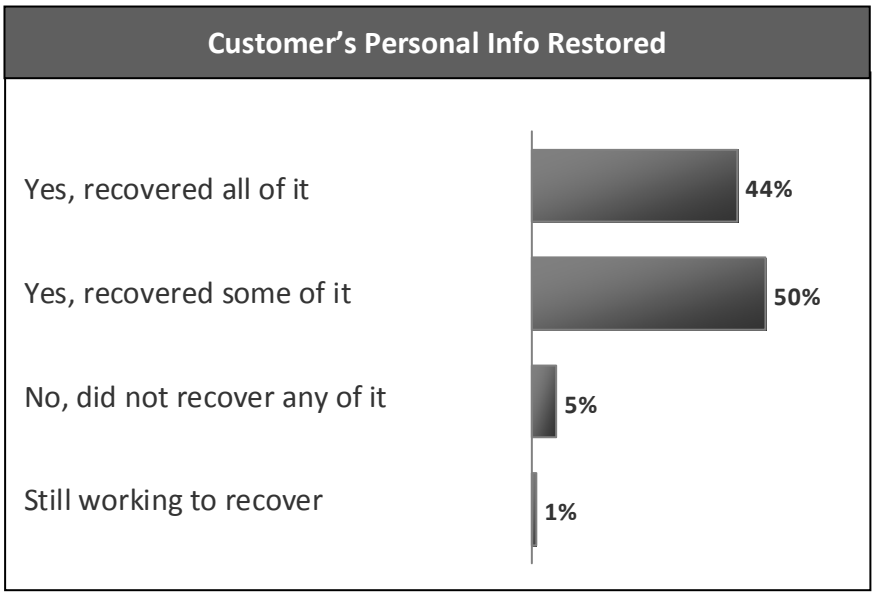
FIGURE C

System Failure Impact on Employees and Customers

	% of Employees Impacted On Average by Each Failure	% of the Time Impacted or Impeded Customer Interaction
Critical System Failure	56	47
Significant System Failure	56	44
Minor System Failure	48	36
Loss of Sensitive Data (Business)	46	40
Loss of Sensitive Data (Customer's Personal Info)	43	40

When failures do occur involving personally identifiable information for customers, in over half the cases, firms are not able to recover all of the lost data. See Figure D below.

FIGURE D



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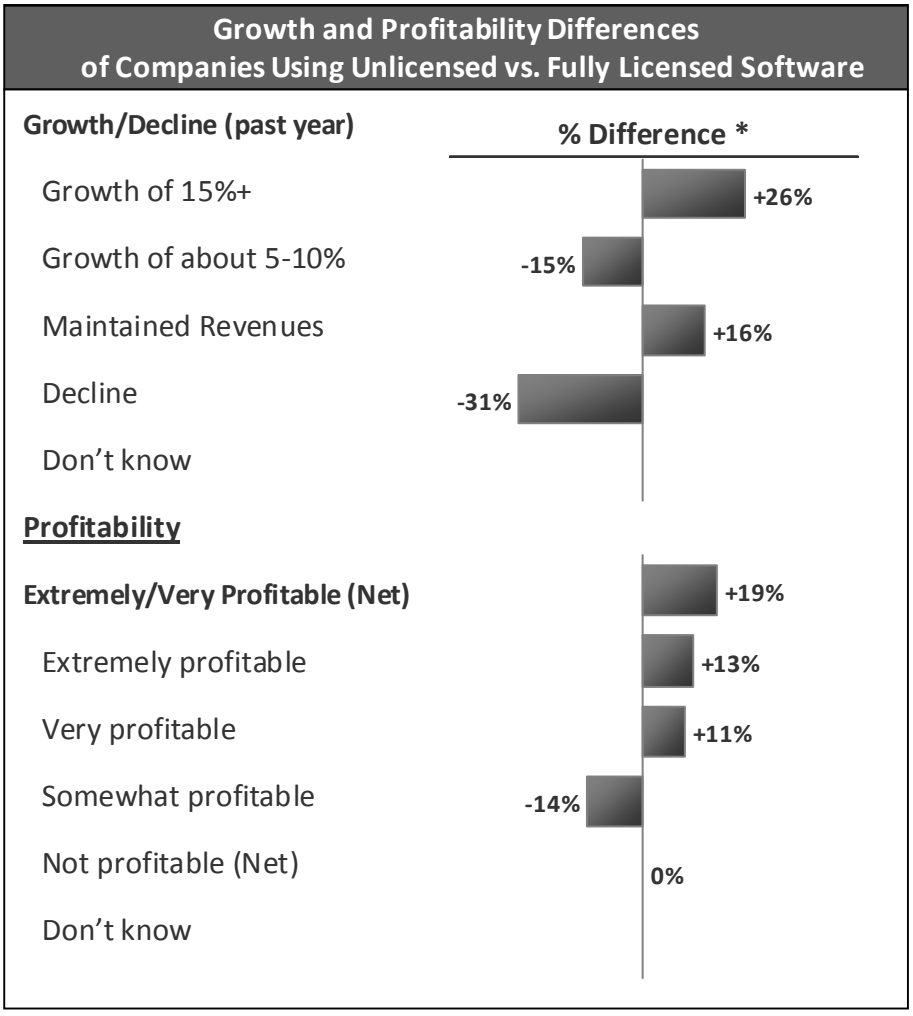
COMPANY SUCCESS

Businesses that use fully licensed software report they are growing faster, are more profitable, and are more likely to be leaders in their market relative to those using unlicensed software.

Three factors were used to compare the business success of companies that use fully licensed software to companies that use unlicensed software. These include revenue growth, profitability, and perceived advantage relative to competition. On each of these metrics, those companies with fully licensed software significantly outperformed companies that use unlicensed software. See Figure E and F below.

- Companies that use fully licensed software were 26% more likely to report corporate growth of 15% or higher than companies that use unlicensed software.
- Companies that use fully licensed software reported profitability levels 19% higher than companies that use unlicensed software.
- Companies that use fully licensed software report specialization levels 20% higher than companies that use unlicensed software.

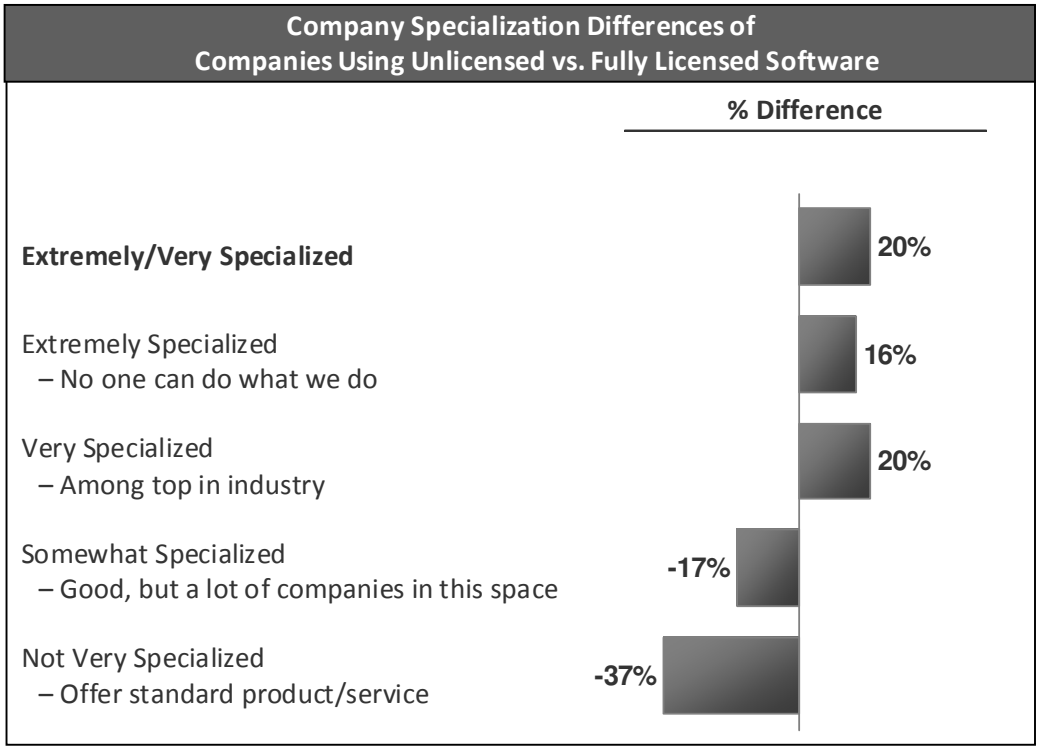
FIGURE E



*** Based on difference of companies using fully licensed relative to companies using under licensed software.**

For further detail reference Figure E-1 in appendix.

FIGURE F



*** Based on company specialization of companies using fully licensed relative to companies using under licensed software.**

For further detail reference Figure F-1 in appendix.

IT SOFTWARE SPENDING

Using only fully licensed software does not result in higher IT costs for a business.

Companies using fully licensed software and companies using unlicensed software report nearly identical IT costs. Average revenues are over $50MM in both types of entities with IT spend levels of approximately $400,000 (US equivalents).

There does not appear to be any savings to the company through the use of unlicensed software. It's likely that a variety of factors is causing revenue and spend levels to be so similar. These companies are of similar scale and for most businesses, IT costs do not dominate the income statement or balance sheet. Costs of addressing failures are higher for companies that use unlicensed software.

Unlicensed software does not help decrease total cost of ownership, but it does appear to add significant risk to company operations. See Figure G below.

FIGURE G

Revenue/Budgets		
	Unlicensed (n=890)	**Fully Licensed** (n=690)
Avg. $ Revenue (last year)	$53,685,000	$59,010,000
% Develop annual plan for IT	60	68
Avg. $ Spent on IT	$388,000	$400,000
Avg. $ Spent On:		
Hardware	$108,000	$111,300
Software	$68,000	$70,000
Staff/Support	$84,000	$86,200
Share of Revenue to IT	0.7%	0.7%
Share of Revenue to Software	.13%	.12%

CONCLUSION

Lack of commitment and discipline in managing and maintaining fully licensed software introduces many risks to mid-market companies. There are significantly greater risks of losing sensitive/valuable internal and customer data and greater risks of system failures that lead to significant downtime for employees and their customers. In addition to legal consequences, there is the potential for erosion in employee or customer perception given knowledge of unlicensed software use. The research shows that companies using unlicensed software are at greater risk. All these risks without corresponding cost improvements indicate a commitment to using fully licensed genuine software is worth the investment.

Companies disciplined in their IT practices also appear to be disciplined in business practices that give them a competitive edge with more distinct product offerings, faster growth, and greater profitability.

RESEARCH METHODOLOGY

Findings here are based on the results of 1,580 interviews completed among both Business Decision Makers and IT Professionals in mid-market companies defined as having 25-499 PC's in the US, UK, China, and Brazil. Both IT Professionals and Business Decision Makers were required to indicate that they were extremely or very knowledgeable about how software was used and acquired for their company in order to participate.

Within this population we identified 690 who were defined as companies that use genuine fully licensed software, while the remaining 890 were recognized as using unlicensed Microsoft Windows. To qualify as a fully licensed user in the US and UK, all or nearly all of the PCs and Microsoft Windows software needed to be acquired through genuine means. Those below that threshold were recognized as using unlicensed software. In China and Brazil, at least three-fourths of the PCs and Microsoft Windows software needed to be acquired through genuine means in order to be classified as fully licensed. Those indicating half or less of their PCs and operating systems were acquired in a fully licensed genuine manner were recognized as using unlicensed software.

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Appendix

FIGURE A-1:

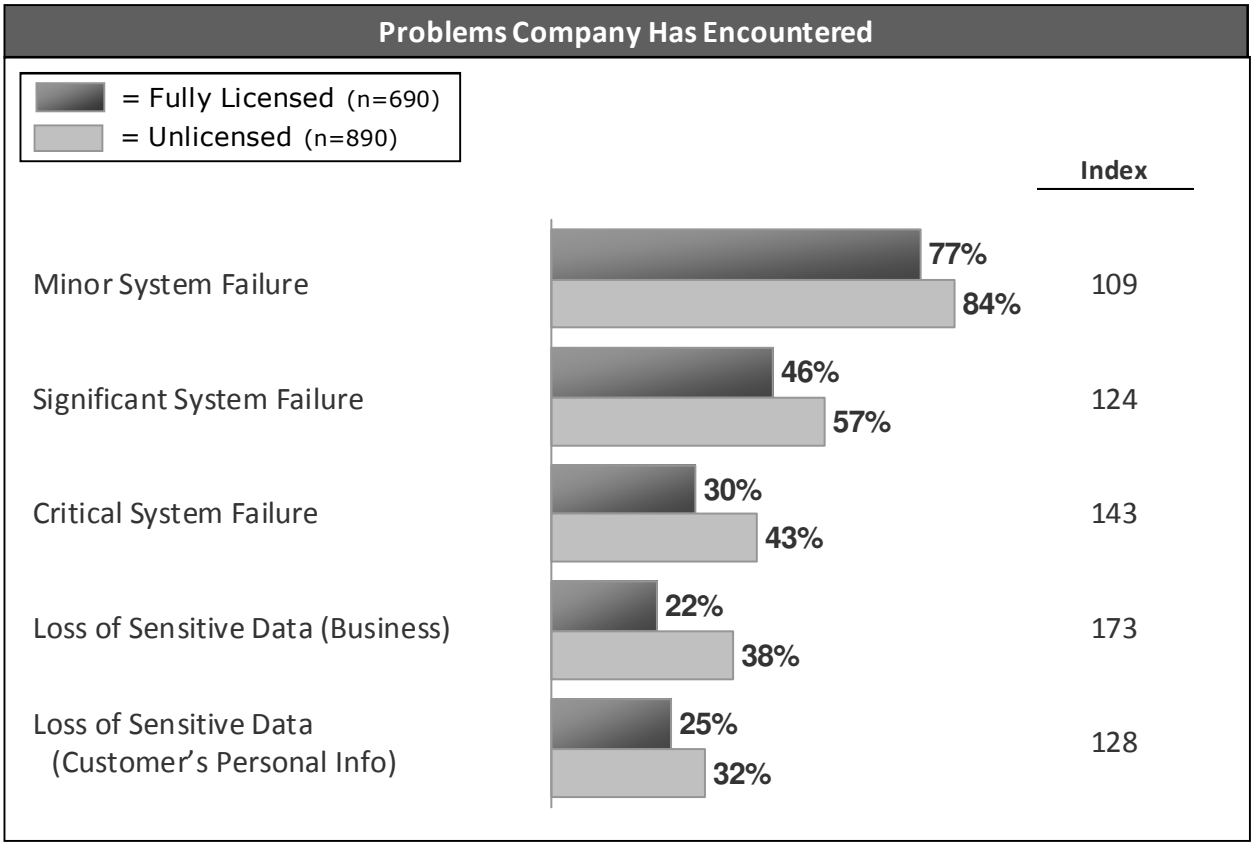

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FIGURE B-1:

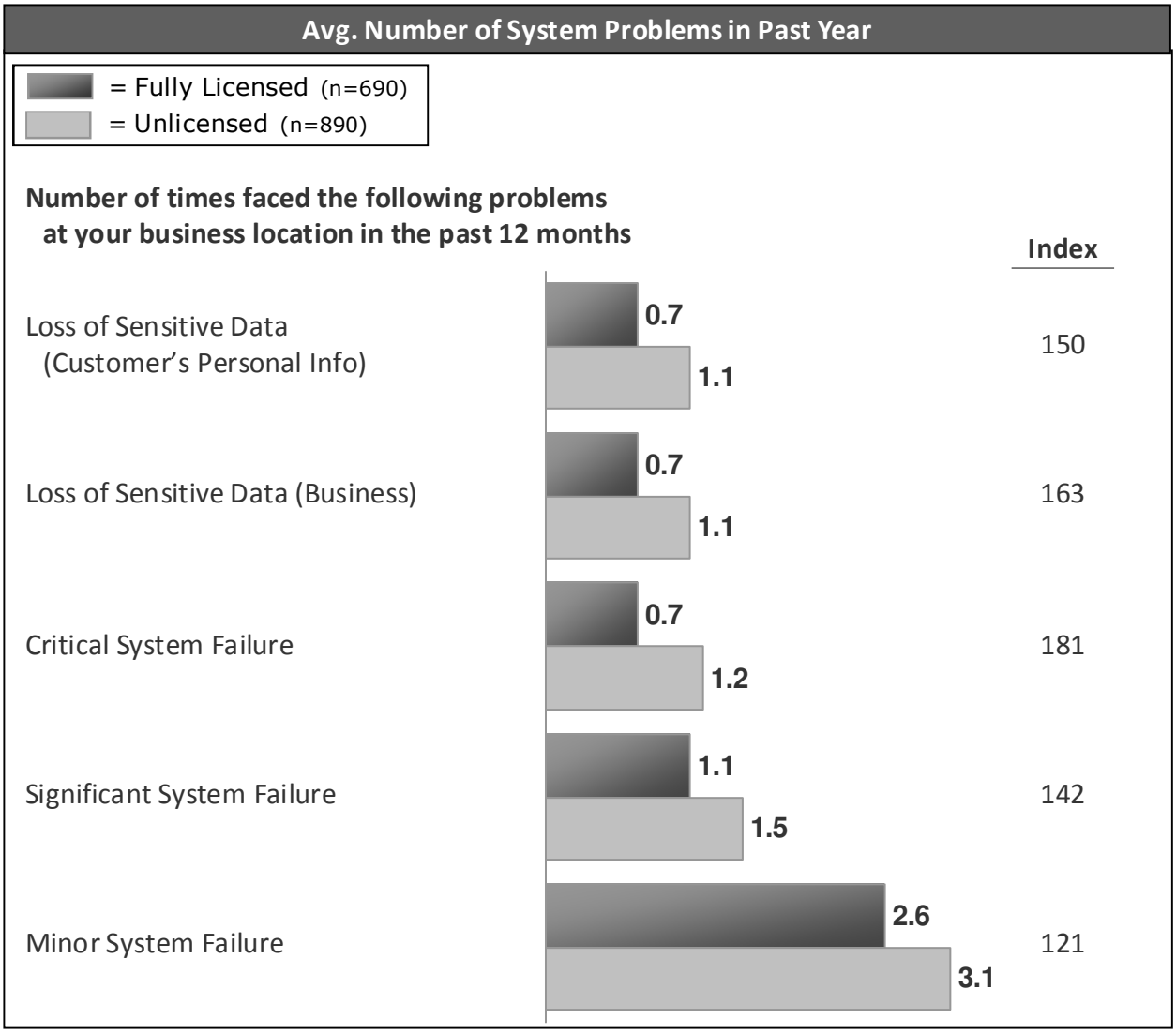

Avg. Number of System Problems in Past Year
= Fully Licensed (n=690)
= Unlicensed (n=890)
Number of times faced the following problems at your business location in the past 12 months
Index
Loss of Sensitive Data (Customer's Personal Info)
0.7
1.1
150
Loss of Sensitive Data (Business)
0.7
1.1
163
Critical System Failure
0.7
1.2
181
Significant System Failure
1.1
1.5
142
Minor System Failure
2.6
3.1
121

FIGURE E-1:

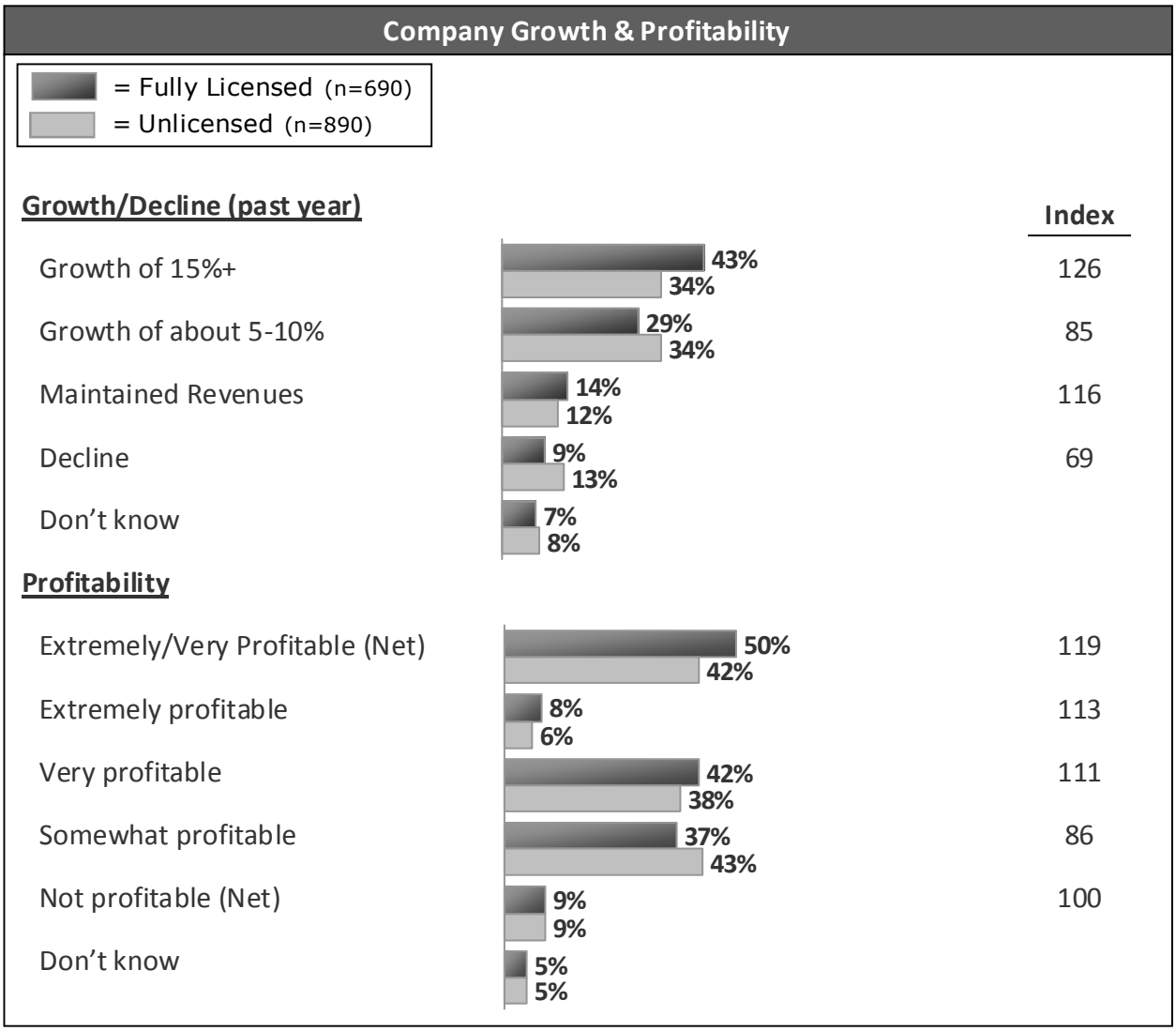
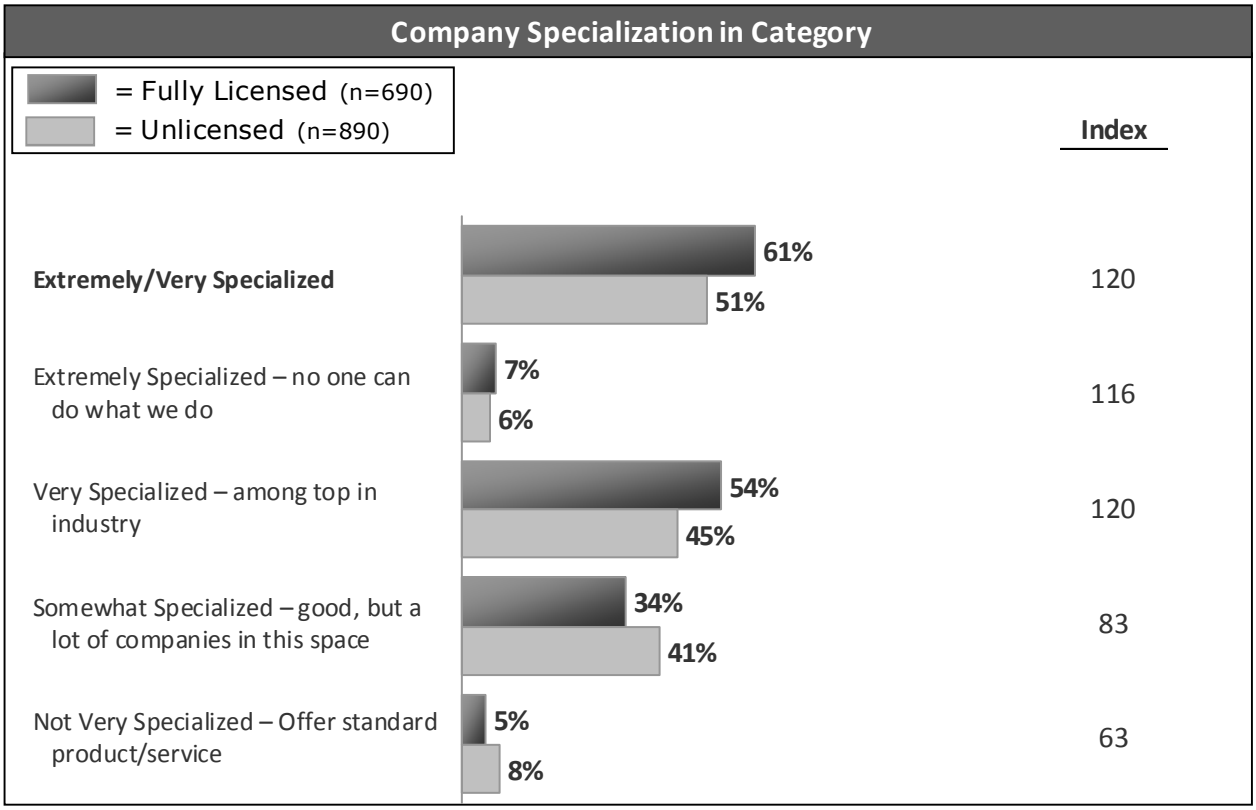

Company Growth & Profitability
= Fully Licensed (n=690)
= Unlicensed (n=890)
Growth/Decline (past year)
Index
Growth of 15%+
43%
34%
126
Growth of about 5-10%
29%
34%
85
Maintained Revenues
14%
12%
116
Decline
9%
13%
69
Don't know
7%
8%
Profitability
Extremely/Very Profitable (Net)
50%
42%
119
Extremely profitable
8%
6%
113
Very profitable
42%
38%
111
Somewhat profitable
37%
43%
86
Not profitable (Net)
9%
9%
100
Don't know
5%
5%

FIGURE F-1:


Company Specialization in Category
= Fully Licensed (n=690)
= Unlicensed (n=890)
Index
Extremely/Very Specialized
61%
51%
120
Extremely Specialized – no one can do what we do
7%
6%
116
Very Specialized – among top in industry
54%
45%
120
Somewhat Specialized – good, but a lot of companies in this space
34%
41%
83
Not Very Specialized – Offer standard product/service
5%
8%
63