

It's Time to Change the Game Plan

This article asks - "Why should organizations spend large sums of money and effort on software compliance when the Software Industry has FAILED since 1994 to deliver a solution to the problem."

Setting the scene.....

You've come to the end of a busy year in your business and have just done an inventory. The results indicate that the stock levels are down somewhere between 20% to 25% on what you expect them to be, based on your trading. The auditors are called in and their detailed investigation shows that the numbers are correct. This then is translated directly into a write down in your bottom line profit and cash of around 20% to 25%!

In raw unit numbers, this equates to between one in 5 and one in 4 items that are being produced "walking out the door" without any payment being made! Payments that you rely on in business to fund expenses, such as heat, air conditioning, light and power, wages, rent, other expenses and of course, taxes, investment and profit.

- What does senior management say to this? *Not happy, big time!*
- What does the stockholder group say to this? *Very disillusioned, they expected a better return on investment!*
- Will it impact the stock/share price? *Sure will, pushing stock prices down, which devalues the business and can destabilise trading and future business!*
- How long will you retain your position? *It's highly unlikely that you will be "exiting stage right" very soon after the management board hears the tale of woe about why this has occurred.*

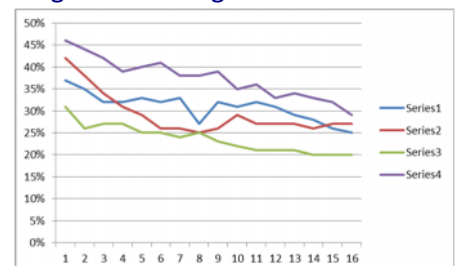
".....between 1 in 4 and 1 in 5 items produced walking out the door without being paid for"

Now, on a single, one-off basis this write-down might be seen as an aberration, that is then countered by a lot of internalisation to excise any theft or errors in the system, punish the guilty (and the innocent) , and then hopefully the business will be back on track to perform, yet again, another year.

But, what if the same "loss" numbers keep coming in year, after year, after year? Not possible you say?

One industry that continually suffers losses of this order of magnitude every year is the software industry through Software Piracy. The time series here relates to 4 key areas, Australia, US, UK and Canada and is data derived from annual surveys for the Business Software Alliance (BSA) since 1994 to 2009 showing the declining rate of software piracy over the last 15 years.

Now before you switch off and say "we've heard all this before" or "but the figures are rubbery and really can't be believed" , read on as we outline some key areas that are impacting your business in a manner you may not have previously considered.



Putting the BSA surveys into context

Firstly, we are not going to argue for or against the argument , "but the figures are rubbery and really can't be believed" that has been proposed by many over the years, or about the methodology, validity or accuracy, of the piracy numbers published by the BSA industry surveys.

From 1994 to 2003 the surveys were conducted by the International Planning and Research Corporation (IPR) and from 2004 to 2009 the surveys have been conducted by International Data Corporation (IDC) for the Business Software Alliance (BSA).

The BSA claims to be “*the largest and most international IT industry group*”.

Have the BSA Members been getting “value for money” from their annual fees so far?

The survey data is freely and publicly available on the WWW and at <http://www.bsa.org/country/Research%20and%20Statistics.aspx>
The 2009 Global Piracy Study publishes the methodology used to extrapolate the annual piracy rate. The BSA is made up of member companies who subscribe (pay a fee) annually to the organization and they claim to be “the largest and most international IT industry group”.

There is some “serious investment and financial horsepower” in the BSA Membership list! Read more about the BSA Members later in this article.

So, What Are We Suggesting?

At the outset, in general terms, we are NOT suggesting that organizations are responsible for software piracy. They do not typically, “set out to pirate software”.

Q - Why bother considering these issues?

A. - Because the BSA Members have not yet delivered a Software Compliance SOLUTION, and this could be COSTING you substantial sums of effort, and money!

Most organizations are well aware of their legal obligation to license software, in simplistic terms based on “one license for each PC”, and they normally set out to acquire legitimately, the correct amount of licenses.

“Organizations normally, in most cases set out to acquire legitimately, the correct amount of software licenses, and do not set out to “deliberately pirate” software.”

However, from time to time “the correct amount of licenses” can lapse through lack of management visibility, lack of direction, or lack of knowledge or experience by staff. Very rarely will an organization willingly, or willfully, “set out, to under license software”.

This article does not discuss the issues that arise for those that choose to illegally acquire software through whatever means, or deliberately underlicense software. It also does not consider the consumer (home user) market as that is irrelevant for this article.

How Does This Affect Your Business?

Outlined below are some of the unseen issues that may be unduly affecting your business.

- 🔴 Software Asset Management (SAM and ITAM) programs – These are expensive to set up, monitor, maintain and when poorly setup and run, do nothing to add real value to the organization bottomline. **The issue for your business?** They are an overhead cost, often of a very substantial size, and it’s a task that needs to be done to minimize your risk of being caught out with unlicensed software. Whilst running a SAM or ITAM programme makes good business sense to have within your business, they need to be managed well to derive and realize licensing benefits, whilst being kept within very clearly defined cost boundaries.
- 🔴 Software Auditing Tools – These vary in shape and size (there are hundreds on the market) and unfortunately at some sites are changed when the new auditor or IT administrator arrives on the scene. Or

Key Issues for Senior Management to consider

- 🔴 SAM & ITAM
- 🔴 Software Audit Tools
- 🔴 Whistleblowers
- 🔴 Accounting Systems
- 🔴 Home Grown Audit Tools
- 🔴 Experienced (or inexperienced) staff
- 🔴 Complacency
- 🔴 GFC (are you kidding?)

else, they are home grown by the IT administrator who knows best. Why? They prefer the types of tools they have been most familiar with at the previous role and go for ease of use over what is already in-situ. **The issue for your business?** Some have the auditing feature “turned off” due to excessive audit data generated or other priorities overriding the audit requirements. Many audits are done on a stop start basis, and are incomplete, inaccurate, ineffective or just not done at all. On top of this you are likely to be paying for annual maintenance at somewhere between 18% and 25% p.a. for upgrades to the software and updates to software identification libraries, which are not as effective as they really need to be, to give you total protection.

- Whistleblowers – Due to one of the anti-piracy tactics called “*Investigations and enforcement*”, offered by the BSA and other peak bodies, from time to time you will see details of organizations that have been “named and shamed” in the press “for being caught” with more copies of software installed than what they had verified “proof of purchase” information covering the purchase of software licenses. Often this will come about due to a disgruntled employee or ex-employee “dobbing in” the organization to the BSA and claiming the reward. Keep in mind “getting the reward” is not an easy task as it requires affidavits signed and there are penalties for making false claims. Rewards vary in size up to \$US 1m but it would have to be a very large site “shortfall” that claimed that level of reward! **The issue for your business?** The level of disruption to your daily operations (sometimes for weeks/months) due to an unannounced software audit (sometimes under an Anton Pillar order), the costs of gathering evidence, the cost of defence and the costs of acquiring the right amount of licenses to “true-up” your systems is typically 3 to 4 times the value of the “settlement amounts” published by the BSA. These can easily run into 5 or 6 figure sums, which come “out of your bottomline”!

It's time the BSA Members delivered a solution that helps organizations with their control over software compliance instead of “education and playing policeman”!

- Accounting Systems – These are typically “not set up to handle recording software licenses as an asset”. The other issue is the vendor invoices for software licenses come in several forms and are rarely solely for software, sometimes they will be mixed with hardware. The invoices are likely to be filed in the accounts payable department registry for tax purposes. **The issue for your business?** It's not an issue until you get caught with a vendor audit letter or a demand to true-up your licenses. However you need to be aware that you will be required to verify your state of software license compliance through the production of original

*Q - Why aren't the BSA Members coming up with an antipiracy solution?
A. We have no idea, but it seems as they aren't focused on solving the problem, they are just interested in their own benefits, (increased license revenue) not reducing your costs of compliance!*

invoices, matched to a software inventory. This is called “proof of purchase”. This may extend backwards to prior versions from previous upgrades as you are required to demonstrate that you not only have the original invoices for the original software prior to upgrade, along with all the media (CD/DVDs Certificates of Compliance etc) that belong to the software. This is a very complicated process scenario, not well understood by many.

- Home Grown Audit Tools – **The issue for your business?** Some home grown (in-house developed) tools are OK however there are others that “miss the mark” wildly when it comes to listing what is installed on your systems. We have been in the business of software auditing since 1991 and have seen many variants of tools that have been developed in-house by IT “specialists”. In terms of generating a software inventory, some of them work, and yet others are poorly constructed, however the issue is they are rarely complete inventories of what is installed. This leaves you open to risk when it comes to a license true-up.
- Experienced (or inexperienced) staff – Many staff now specialise in SAM and ITAM procedures. **The issue for your business?** The challenge is replacing them with suitably qualified experienced practitioners as they move around the industry, with typical churn rates of 18 months to 2 years for IT personnel in some sectors. The other challenge is making sure that replacement staff do not choose new audit / SAM tools for your systems and use what is approved and in place, unless its proven to be ineffective and placing you at risk.

- Complacency - Assuming that your systems are under control, regular audits are taking place and that all software installed is being licensed legally and that you have sufficient proof of purchase information to be able to demonstrate compliance. **The issue for your business?** Our experience with client audits and also looking at the “name and shame” press releases over the years of those who paid the price, is that complacency will leave you wide open. The issue won’t go away, it is real and you need to consider and address the implications for your organization. Seek some external advice, if you aren’t sure.
- GFC – The Global Financial Crisis has forced many organizations to look long and hard at costs (as a survival mechanism) and as a result many sites have suffered cut backs in “non-essential” services, such as SAM and ITAM departments through cost reductions. **The issue for your business?** Actually, it’s your prerogative to determine how you spend your discretionary overhead costs! We can’t argue with you if that’s your decision, as you know your business better than anyone else. You have obviously figured out the trade-offs required and will deal with compliance issues as they arise. Just make sure that all software installed is legitimately acquired and force the accounting department to track software as an asset and set up a good filing system for your original invoices.

OK, that’s enough about your issues to be faced, we told you they were costing you effort and money, now let’s get back to the BSA and its’ Members and find out why we think that both their money, and yours, is being wasted!

The BSA 10 point reduction “mantra” or is it “cut and paste”?

The BSA in it’s annual press release each year has been making the following statements almost word for word in each annual report for many years. It looks almost like a “cut and paste mantra”.

“Lowering software piracy by just 10 percentage points during the next four years would create nearly 500,000 new jobs and pump \$140 billion into ailing economies.”
BSA Annual Global Piracy Study 2009

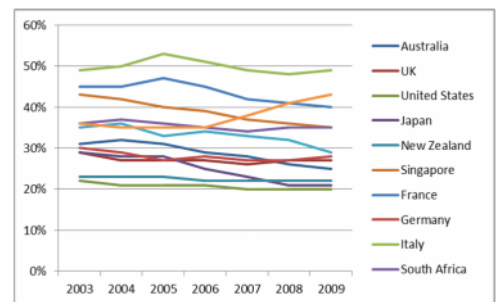
“In December 2005, IDC and the BSA released their second study on the economic benefits of lowering piracy. In the study, IDC concluded that decreasing piracy by 10 percentage points over four years would add more than 2.4 million new jobs and almost \$70 billion in tax revenues to local governments worldwide. Most of that new employment and most of an additional \$400 billion in GDP would be added to local economies.”

In 2003 it said, “In an April 2003 economic impact study conducted for BSA, IDC concluded that lowering piracy by 10 percentage points over four years would add more than one million new jobs and \$400 billion in economic growth worldwide.”

Piracy Rates	2003	2004	2005	2006	2007	2008	2009
Australia	31%	32%	31%	29%	28%	26%	25%
UK	29%	27%	27%	27%	26%	27%	27%
United States	22%	21%	21%	21%	20%	20%	20%
Japan	29%	28%	28%	25%	23%	21%	21%
New Zealand	23%	23%	23%	22%	22%	22%	22%
Singapore	43%	42%	40%	39%	37%	36%	35%
France	45%	45%	47%	45%	42%	41%	40%
Germany	30%	29%	27%	28%	27%	27%	28%
Italy	49%	50%	53%	51%	49%	48%	49%
South Africa	36%	37%	36%	35%	34%	35%	35%
Canada	35%	36%	33%	34%	33%	32%	29%
TOTAL WORLD	36%	35%	35%	35%	38%	41%	43%

In reality the survey results show minimal change in piracy rates over the last 7 years!

Sorry folks, but I can’t see any “10 point reduction” at all!



Has the “10 point reduction during the next 4 years”, become a mantra, as it’s repeated again and again?

We acknowledge the rate of piracy has reduced in some countries & regions, but nowhere near the 10 point drops claimed in each Executive Summary for each BSA annual report.

Many contend that the price of software is artificially high anyway and that it’s too expensive, so are not concerned with the rate of piracy being at 20% or higher depending on which country/region you reside.

We all know that in the retail industry, they face up to the fact of “losses through theft” annually by ramping up the unit prices to cover such stock losses, so the end user pays anyway, as well as increased security/surveillance systems, but you may not be in the type of industry or organization that will tolerate a price point marked up by 20% to 25%.

What haven't the BSA Members come up with a Solution?

According to the BSA - *"BSA's member companies are some of the most innovative companies in the world, investing billions of dollars a year in local economies and delivering software solutions trusted by billions of people to help them be more productive, connected and secure."*

In the 2009 Global Piracy Study BSA outlined its **Blueprint for Reducing Software Piracy** as follows;

- Increase Public Education and Awareness,
- Implement the WIPO Copyright Treaty,
- Create Strong and Workable Enforcement Mechanisms as Required by TRIPS,
- Step-up Enforcement with Dedicated Resources, and
- Lead By Example.

The BSA's tactical approach to its **Anti-Piracy and Compliance Programs** covers;

- Investigations and enforcement,
- Fighting Internet-based piracy,
- Software asset management (SAM), and
- Education.

Given the names on the BSA list of members here we are absolutely amazed they haven't yet solved the problem of pirated software. Sure they all have individual programs they have created with DRM, online registration, license serial number and activation schemes, so that they protect their own interests. Some even have their own anti-piracy unit.

But the key issue for business is, you are expending (= wasting) a huge amount of effort and money every year due to the failure of the software industry to come up with a solution to the problem of managing software compliance.

To add “insult to injury”, some of you are then being “caught” and having to pay 5 to 6 figure settlement sums PLUS a multiplier value of around 3 to 4 times “rule of thumb” (of the published settlement amount) for being “caught” with having more software installed than what you are able to provide proof was acquired legitimately.

It's Not Good Enough!

In our view, whilst the “tactical approach and the blueprint outlined by the BSA” seem to be “appropriate”, they really do nothing for business or your organization in terms of keeping the cost of software compliance low, making the task easier and reducing your risk.

In 2010 and 2011 organizations need to operate on Lean Overhead costs to stay competitive and it's time for “a change to the game plan” to solve the problem, certainly for the business and government sector systems.

Tell the BSA, that it's time for a permanent solution!

Contact the BSA and tell them that their members companies, with Microsoft as the leader, need to come up with a permanent solution inside the operating system to solve the problem for Windows based systems.

It can be done, if they are interested! PCProfile built several prototypes prior to 2004 that work, but these belong deep inside the operating system!

BSA Members 2009

Adobe, Agilent Technologies, Altium, Apple, AquaFold, ARM, Arphic, Audaces, Autodesk, AutoForm, AVEVA, AVG, Bentley Systems, CA, Cadence Design Systems, Cisco Systems, CNC Software - Mastercam, Corel, Dassault Systèmes SolidWorks Corporation, Dell, Graphisoft, HP, IBM, Intel, Intuit, Kaspersky, Layton Technology, McAfee, Microsoft, Mindjet, Minitab, NedGraphics, Progress Software, PTC, Quark, Quest, Rockwell Automation, Rosetta Stone, SAP, Siemens PLM Software, Inc., Sybase, Symantec, Synopsys, Tekla, The MathWorks

“It’s now time for the BSA Members to deliver a solution through the operating system that lowers the cost of software compliance for organizations around the world!”

Knowing what PCProfile knows about how to control software in the workplace on Windows based operating systems we suggest to the BSA that ***for less than 1% to 2% of one years annual premium the BSA members could deliver a software solution that resides permanently within the operating system that manages and controls piracy of software, music, movies, images and fonts in a manner that enables businesses and organizations to focus on core business activities, increasing profits and reducing costs.***

The bottom-line benefit of delivering a permanent solution will then result in delivering the 10 point reduction (or even more) that the BSA has been talking about, but has not yet achieved, over the last 10 to 15 years!

Some final observations from PCProfile

It seems that “Education & Punishment” are some of the key methods preferred BSA method rather than actually coming up with a “long term solution”. “TRIPS and WIPO solutions” proposed by the BSA aren’t going to help business organizations, despite the BSA’s best intentions. “Leading by example”, whilst admirable doesn’t cut it with business either!

The above “measures” (apart from enforcement) are all “soft” examples and are not long term solutions!

The BSA just doesn't seem to realise they are dealing with a societal mindset problem of "it's soft therefore it's free" and that “education, punishment and auditing systems” isn't the way to overcome the issue of software piracy. It hasn’t worked (to any visible extent) over the last 10 years, so what will be different about the next 4 years?

With an "it's soft therefore it's free" mindset now firmly engraved in many, if not all new software graduates and highly skilled technical staff ,who are used to Open Source, Bit Torrent, Facebook and Myspace mechanisms for “sharing” files of all types then we would suggest that the current piracy rate of 1 in 4 (or 1 in 5) is actually way out of line and the true rate is actually much, much higher!

PCProfile’s view, based on our observations over many years that a simple solution for businesses with a control suite embedded within the operating system could have been found to this problem at least 4 to 6 years ago and this would have solved the problem for ALL software, music, movies, images, sound files and fonts. PCProfile knows this for a fact because we designed and built a prototype anti-piracy solution in 2004 for software, music, movies, images and fonts, based on Windows XP systems that really belongs embedded within the Windows Operating System layer.

If you could reduce your cost of monitoring and compliance through a defined solution that allowed you to control your installations of software, music, movies, fonts and sound files through the operating system, would that interest you?

Q. “Why should organizations spend large sums of money and effort on software compliance when the Software Industry has FAILED since 1994 to deliver a solution to the problem.”

**A. We believe that in 2010 and/or 2011 you should be provided with a solution that lowers your cost of software compliance and reduces your risk by insisting that the BSA Members “solve the problem by managing compliance through the operating system”.
It can be done!**

It’s Now Time to Change the Game Plan!

Some caveats on our views

Let's be clear, we have no problem with the BSA tackling rampant cases of piracy by resellers or unscrupulous individuals such as those who set up eBay auctions after duplicating multiple copies and selling them. See a list of some press releases of those who have been paraded before the courts as listed at; <http://www.bsa.org/Press%20Room.aspx>

We have no problem with the BSA vigorously tracking down and closing duplication factories, set up in backyards and business premises, but we all know that for every one shut down several new ones spring up in the area days later.

We have no problem with the BSA tracking down peer to peer or file sharing networks using torrent files to distribute software across the globe using the Internet.

We have no problem with the BSA tracking down key generation programs that allow you to generate any number of serial number keys for older version software to keep the software legitimate.

We have no problem with "education" but wonder whether the message is falling on deaf ears, as the Gen X and Gen Y and the next generations are all brought up with a mindset of "software" really means "free" and Open source is the way of the future, so "why pay for any software". By the time these graduates enter the workforce these new employees have a very firm view that doesn't match "the BSA's education stance" taken some time beforehand. The BSA needs to keep up its efforts in killing off Internet piracy and lobbying governments and anti-piracy bodies around the globe, but it's now time to "FIX THE PROBLEM".

We are uncertain that the BSA understands the full implications of the font piracy issue as that is exceedingly hard, if not impossible, for any manager to control, and handle and reconcile to licenses, due to the technical nature of any font installation and removal. Our advice to anyone caught with font "piracy" that they are claimed to have not licensed correctly (unless they deliberately set out to steal these fonts) is to consult a technology lawyer very quickly and mount a defence for your case as the issue of fonts piracy is not as clear cut, as many would believe.

Overall we have no problem with the BSA representing software industry members in terms of protecting the world against software piracy, we just believe they are missing several key areas that are vital keys in lowering the piracy rate;

- It's not just software that needs to be looked out for, it's also movies, images, sound files, fonts etc
- Messages to C level executives need to be refocused to draw attention on what the business is losing. When a C level executive finds out that they might be losing the most out of the whole software compliance + piracy equation, then the level of engagement rises rapidly and they can become a very useful ally in helping solve the problem through enforcing a more rigid regime within their own environment
- It's time to develop and deliver a permanent solution that resides within the Operating System. If PCProfile can develop a prototype in 2004 that sits on a desktop PC and controls compliance over software, music, movies, sounds, images and fonts, then surely Microsoft can do a lot better than we can when they can control it through the operating system!

Previous articles;

- [10 pt Reduction - is the BSA serious?](#)
- [Don't Be Accused of Font Piracy!](#)
- [What the Font?](#)
- [It's Soft Therefore It's Free!](#)
- [Proof Of Purchase](#)
- [Anton Pillar Raids – what they mean to your assets](#)
- [Software Compliance is not your core business!](#)
- [15 Steps to Compliance](#)
- [Who Is Responsible for Software Piracy?](#)
- [Who Else Is Responsible for Software Piracy?](#)
- [Are you wasting your time?](#)
- [Software Piracy](#)
- [No Budget for Audit Software?](#)
- [Web Based Audits present risks](#)
- [Rewards USA -up to \\$US 1million!](#)
- [How Dumb Is This?](#)
- [Missing Software In Audit?](#)

Information on the BSA is available at;

BSA Members list <http://www.bsa.org/country/BSA%20and%20Members/Our%20Members.aspx>

BSA Public Policy initiatives and AntiPiracy activities at <http://www.bsa.org/country/BSA%20and%20Members.aspx>

BSA Industry Research <http://www.bsa.org/country/Research%20and%20Statistics.aspx>

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This commentary has not been sanctioned or approved by the BSA, or Microsoft, it is a set of views and observations of PCProfile after working on software auditing since 1991 and then with businesses and organizations world wide since 1998 on the state of play with anti-piracy efforts and solutions. This paper is designed to stimulate thinking and discussion amongst senior management around what can be done to FIX THE PIRACY PROBLEM instead of reporting every year that there has been very little change in the overall rate of piracy.

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About the Author - PCProfile is an Adelaide based company with over 40 years practical computing experience in small, medium and large enterprises and offers managers and business owners in SMEs, and SOHO businesses practical tips and advice on how to get the best out of the technology used by your SME/SOHO business.

Rob Harmer is the owner of PCProfile and specialises in providing practical and relevant advice on Technology issues that are relevant for managing your business. Since 1991 he has been a champion for anti-piracy advice and activities assisting businesses with keeping their systems compliant in the face of piracy of software. During the 1998 to 2000 years he played an active role with pragmatic advice for Year 2000 issues worldwide for PCs and managed the successful transition for a major high profile Year 2000 activity (covering 2 million lines of code and substantial legacy assets) at a defence site in Australia.

He has been running his small business PCProfile continuously since 1991 and has won prestigious IT awards in SA in 1994 and 1999 for IT excellence. Rob has published numerous articles on overseas audit community web sites and has been a contributor to the National Accountant IT section as well as other publications overseas. He has occupied various roles as a Senior Executive Manager with over 40 years experience in computing at various levels, with significant achievements in all aspects of business management, finance accounting and commercial agreements, process mapping, risk management, staff development, coaching and training managers, organisational and cultural change, and business process improvements. Presenter Bio can be seen at www.pcprofile.com/resume.htm PCProfile also runs seminars on technology topics for SME and SOHO business owners. www.pcprofile.com email pcprofile@pcprofile.com Mobile +61 (0) 448 650 227