



July Software Sales Results - Business Software License Sales Heat-Up

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Industry Overview

Sales of licensed business software and maintenance agreements through retail (including third-party direct merchants) have steadily accelerated over the past several quarters and July's sales results suggest that Q3 2002 will be among the biggest quarters yet for these deals. So why are license deals through channel on the rise? Think back to last year, when Microsoft altered its license program and the answer will become clear.

The software industry giant mandated a deadline of July 31, 2002 for its customers to convert to its new licensing program. While Microsoft normally dominates business software licensing sales through the channel on a month-to-month basis, sales volumes for these Microsoft agreements have steadily increased as the July 31, 2002 deadline approached.

For example, license deals for Microsoft products sold through the channel increased 53% in Q1 2002, versus the same period a year ago. For the second quarter of 2002 the increase was even higher - a 65% jump over the year ago quarter. Moving into July, the final month before the deadline, sales of licensed software through retail and third-party direct merchants skyrocketed - approaching an estimated 3.7 million units, representing approximately \$310 million. Not surprisingly, Microsoft titles accounted for the lion's share of this volume. The company's licensing sales volume in July 2002 was six times higher than the same month a year ago.

Software licenses overall (excluding maintenance agreements) in the business category increased approximately 140% in July, compared to the same period a year ago. Unit sales of maintenance agreements spiked over ten-fold in July. For Microsoft maintenance agreements alone, the increase was even more astounding - almost 30x. Upgrade licenses in the business category doubled in July from the year ago period.

Keep in mind, third-party direct resellers usually drive the license business in the retail channel, with traditional brick-and-mortar retailers driving the sale of boxed software product through the channel. While license sales for business software are booming, what about boxed business software?

Retail sales of boxed business software is also on the rise - increasing almost 19% YTD on a unit basis. Upgrades are leading the way, with business software upgrades (non-license) jumping almost 55% in July 2002 versus July 2001.

