



Software licence models – perpetual or subscription

Traditionally software was only available on a perpetual licence basis. Today, subscription models are becoming more prevalent; but what is the difference between the two and in what circumstances are the two models most suitable?

What is a perpetual licence?

A perpetual licence is the traditional model used to sell software. The customer pays for the software licence up-front and has the right to use the software on a perpetual basis (i.e. indefinitely).

With perpetual licence models, initial installation and configuration is typically paid for separately and support and maintenance is provided under a separate contract either by the software developer or by a third party support provider.

Perpetual licence models usually only cover the original version of the software. If the customer wishes to use a newer version, they pay for a separate licence of that version.

What is a subscription licence?

A subscription licence is similar to a gym membership or a mobile phone contract. The customer subscribes to use the software for a set period (typically a month or a year) and is entitled to use the software for that subscription period. The licence fees can be paid on a monthly or yearly basis either in advance or in arrears.

Subscription models can cover the provision of the software alone but it is not unusual for the subscription fee to include support and maintenance and sometimes even installation and configuration services.

Subscription licences can be limited to the original version of the software but can also include updates and upgrades to newer versions as they are released.

What about Software as a Service (SaaS)?

The move towards subscription licensing models has been fuelled by the rise in popularity of [Software as a](#)

Service (SaaS) solutions where the software is made available to the customer as a hosted solution rather than an on-premise installation. However, subscription licensing models are also used for on-premise installations / downloads.

Pros and Cons of perpetual and subscription models

	Perpetual	Subscription
Upfront costs	Perpetual models require the customer to pay for the software upfront in one lump sum which can require capital expenditure. This can be beneficial for the software developer because it gives them access to more money upfront but it can deter customers from making the initial investment.	There are limited, if any, upfront costs with a subscription model. This encourages customers to trial software products without the concerns of big financial outlays and makes it easier to budget. However, over time subscription licences can be more expensive than perpetual licences.
Monthly payments	Once a perpetual licence has been purchased, there are no monthly payments for the customer to make unless they purchase separate support and maintenance.	A subscription model gives the software developer a more predictable monthly income particularly when the subscription contract contains an initial fixed term or long notice periods for termination.
Scalability	With a perpetual model, if a customer wishes to add new software users it needs to buy additional perpetual licences outright and it is not able to reduce its licences if its requirements reduce (for example if a staff member leaves). However, the customer may be able to <u>sell licences in certain circumstances</u>	A subscription model can make licence scalability simpler and more flexible. Depending on the terms of the subscription contract, the customer can increase and decrease its licences as required.
Updates and upgrades	Perpetual licences do enable customers to use the software 'forever'. However, software products typically have short lifecycles and can become obsolete as a result of support being withdrawn and the software ceasing to be compatible with newer hardware and software.	With a subscription model, updates and upgrades are usually included in the subscription price so the software products remain 'current' for longer.
Protection of Data	When perpetually licensed software becomes 'end of life' and is no longer supported with updates, patches and bug-fixes, there is a greater risk from viruses and malicious software.	Subscription software is typically maintained on an ongoing basis and so protection from viruses and malicious software can be added on an ongoing basis.

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