

The advantages of software-subscription

Arguments for a software subscription instead a one-off investment

Flyer

When deciding between software subscription and license purchase many factors play a role. A subscription model has many advantages. These include, among others:

Lower entry costs

The purchase of a software license requires high initial expenditure and also expenditure when updating to a new version, the release upgrade. With a subscription, the license costs and maintenance are spread over the term of the contract. As the up-front costs are generally lower with a subscription than with a conventional permanent license, this removes an important hurdle when purchasing software. This also opens up new opportunities for small and medium-sized companies.

Planning reliability for software costs

Subscription models offer linear expenses and therefore facilitate budget planning. In addition, there are no major follow-up investments during the contract term, as maintenance and release upgrades are included. One exception is a significant change in the billing unit. In this case, the subscription fee is adjusted.

Operating costs versus investment costs

Software subscriptions are preferred by companies that focus on their operating expenses. Software licenses based on a subscription can be reported as operating expenses (also commonly referred to as “operational expenses”, or “OpEx” for short), while perpetual (purchase) licenses must be accounted for as capital expenditures (“CapEx” for short).

This leads to a differentiated tax treatment.

Operational expenditures are recognized in the corresponding accounting period in which they are incurred. In this period, they reduce profit in full as costs. Capital expenditures can be claimed for tax purposes in the form of depreciation in the respective period on a pro rata basis.

If a company does not wish to disclose a subscription as OPEX, despite the Advantages of this option, it is also possible in principle to split the costs of the subscription. The subscription is a combination of the actual license and the corresponding maintenance consisting of updates and support. The portion attributable to the licenses can be claimed as CAPEX in the corresponding accounting period. The Portion relating to maintenance can be claimed as OPEX. (split approx. 75/25%)

Flexibility

It is not necessary to invest large sums without knowing how the company will develop over the next few years. The license unit (user, master data records, number of documents) can be scaled as required.

It is also possible to terminate the subscription after the term. This reduces the risk of being tied to a software solution in the long term due to high license investments.

Actuality

The advantage for customers is that they have the right to the latest version of their solution, including further developments and optimizations. This is a major advantage, especially in the fast-moving IT world.

Vendor Support

Customer satisfaction with subscription models plays a key role for software vendors. It determines the renewal of the subscription and thus ultimately sales growth.

Accordingly, subscriptions often help to strengthen vendor relationships.

Direct Access

With cloud-based solutions such as SDP, consumers benefit from direct access to the services. With software subscriptions, this means using functions instead of buying programs.

The Advantages of Software Subscription

Lower entry costs

- The license and maintenance costs are spread over the term of the contract
- The up-front costs are generally lower than for a one-off software purchase

Planning reliability for software costs

- Linear expenses facilitate budget planning
- No major follow-up investments during the contract term

Operating costs versus investment costs

- The costs are regarded as operational expenditure (OpEx) for tax purposes
- In principle, however, there is also the option of plitting the costs into a combination of the costs for the actual license and the maintenance costs for updates and support

Flexibility

- The license unit can be scaled as required within the contract term
- The risk of long-term commitment to a software solution due to high license Investments is eliminated

Actuality

- The latest version with the latest updates and bug fixes is always available

Vendor Support

- Strengthening the vendor relationship

Direct Access

- Direct access to services and functions (using software instead of buying it)

