

THE ECONOMIC BENEFITS OF LOWERING PC SOFTWARE PIRACY

Sponsored by Business Software Alliance

January 2008

METHODOLOGY AND DEFINITIONS¹

IDC's report, *The Economic Benefits of Lowering PC Software Piracy*, quantifies the additional economic benefits that could result from a ten percentage point reduction in PC software piracy. The study demonstrates that reducing software piracy can be a strategic tool to create high paying jobs, increase tax revenues, expand economies, and fuel competitiveness. Forty two countries are included in the study which together accounts for more than 90% of global IT spending in 2007.

The cornerstone of the research is IDC's Piracy Impact Model (PIM), which takes inputs from IDC's market research on IT spending and software piracy around the globe, along with other information on IT employment levels and IT-related taxes. IDC has been conducting economic analysis on the impact of IT and software on local economies since 2002.

Key inputs to the study include:

- IDC forecasts of IT spending by hardware, software, and services.
- IDC estimates of imports and exports of hardware, software, and services modeled using government statistics and local information.
- Macroeconomic data on GDP, workforce, population, tax rates, and total government tax receipts obtained from third party sources, chief among them the Economist Intelligence Unit, U.S. Bureau of Labor Statistics, and U.S. Census Bureau.
- IDC estimates of services and distribution channel activity that revolves around software.
- The annual BSA-IDC Global Software Piracy Study which estimates rates of packaged PC software piracy in more than 100 countries around the world, available online at www.bsa.org/globalstudy.

¹ This document is a companion to IDC's 2008 country profiles entitled "The Economic Benefits of Lowering PC Software Piracy" published in January 2008.

IT Spending — Spending in a country by consumers, businesses, governments, or educational institutions on information technology, including hardware, software, services, and data networking, as measured in the IDC's Worldwide IT Spending Trends reports (The Worldwide Black Book) or local versions. This spending excludes all telecommunications services revenues.

IT Employment — The number of people employed (full-time equivalent) in hardware, software, services, or channel firms. This includes all employees, from management, sales, and finance to marketing, production, sales, and administration. Headcounts by category are pulled from IDC's Economic Impact Model.

Taxes — VAT or sales tax revenues from the sale of IT hardware, software, or services; business and personal income, social, and consumption taxes. These figures come from IDC's Economic Impact Model which takes total income, profit, and social taxes within a country and determines what proportion is attributable to IT activities. The totals for taxes and employment were gathered from published statistics, the total IT employment from the IDC Economic Impact Model. Generally income and social taxes paid by individuals account for more than taxes paid by companies or through VAT or sales taxes.

Piracy — Unauthorized copying, reproduction, usage, or manufacturing of packaged software and can run the gamut from unauthorized copying or downloading of software or purchasing software copied illegally, to corporate overuse (more clients than paid for) of licensed software.

Piracy Rate — Percentage of packaged PC software installed in a country without a license. Use of open source software is accounted for in the calculations and is considered licensed, legal software.

% Lower Piracy Rate — A theoretical future piracy rate by taking the current rate and lowering it by X percentage points, e.g., if the piracy rate is 50%, lowering it by 10 points to 40%.

Piracy Benefit — Difference in the "losses" calculated using different piracy rates, with the lesser loss subtracted from the larger loss generating the benefit..

Piracy Losses — Theoretical losses from piracy in terms of revenue to software vendors, software-related revenues to services firms, and software-related revenues to channel players. Employment losses are calculated from revenue losses, and only apply to employment in the IT industry, not IT professionals in end-user organizations. Tax revenue losses are calculated from revenue losses (VAT and corporate income tax) and employment losses (income and social taxes). The software losses are based on the piracy rate and equal the value of software installed not paid for.