Moving Software Licensing and Contracting to the 21st Century: Customer Success and SAP's Digital Access Adoption Program

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The global changes in business practices that have heralded the emerging era of digital transformation have had profound impacts on how companies use technology. There is a growing consensus that becoming a more digitally oriented business means changing how a business interacts with its customers, partners, and its own internal users. These interactions are meant to be truly transformative, and for many businesses wholly new processes and interaction models need to be adopted to affect this change.

While enterprise software customers are more and more marching to this new drumbeat, it is somewhat ironic that most of the vendors avidly pushing their customers in this direction are not pushing for a similar transformation in their own customer interaction models. Older notions of customer engagement that were promulgated in the last century based on an on-premise and highly siloed software consumption model continue to be the standard in the enterprise software world. Contract terms and conditions – particularly around licensing and support for the extraordinary connectivity and interoperability that is the hallmark of digital transformation – are still firmly rooted in 20th century commercial practices.

The result, however, is much more than ironic: Enterprise software customers facing enormous changes in how they use software are finding that their business transformations are becoming mired down – and in some cases adversely effected– by the antiquated contracting, pricing, and usage models that their vendors have brought forward from an earlier era. The same practices of pricing opacity, hidden charges, punitive audits, and expensive true-ups that are still the norm across the entire enterprise software industry are becoming barriers to progress in their own right.

The main focus of this problem lies in the need for users or devices that access and/or process data from an enterprise software application to be "licensed." Indirect licensing, which occurs when access or processing is done using a third party application or device, is at the core of the challenge to revise licensing in the age of digital transformation. With heterogeneity and edge innovation driving more indirect use, and the potential for thousands of IoT devices to be part of this interconnected enterprise, the idea of using older, per-user licensing models to cover these use cases is turning into a hidden tax that customers are, and should be, rebelling against.

One vendor, SAP SE, has been working purposefully over the last three years to address these issues and their impact on its customers and their success. Working in close partnership with its user groups, SAP set out to better understand how pricing and licensing can be a barrier to successful business transformations and to move to a better model for all concerned. This effort has evolved over time to become the foundation of the only customer engagement program in the industry that is working to provide the flexibility in licensing terms and conditions that can actively support the digital transformation efforts of net new cloud customers as well as legacy on-premise and hybrid customers.

SAP has asked Enterprise Applications Consulting to review these efforts in light of a new initiative, the Digital Access Adoption Program (DAAP), that SAP announced on May 6. EAC's review of DAAP shows that SAP continues to lead the industry in tackling these issues head-on. While other vendors burden their customers with old licensing regimes that are both unsuited for the current state of the industry and at times extremely unfavorable, SAP has chosen to take the lead in a way that challenges the industry and sets SAP on a course to change the game for customer success across the enterprise software industry.

The new Digital Access Adoption Program has a number of key components that seek to deal with the complexities of licensing the many thousands of SAP customers who would be most directly impacted by the program, while meeting the needs of net new customers. As such, the program offers customers several options for moving to a licensing and pricing regime that recognizes and accounts for pre-existing investments without necessarily increasing the cost of moving these investments to a new cloud-based platform. The new program also recognizes that requirements for new functionality – such as arrays of IoT devices connecting to core enterprise software – need dramatically new ways to license those use cases without costly and overly-complex terms and conditions.

From *Project Trust* to the *Digital Access Adoption Program*

SAP's pioneering efforts in aligning licensing and pricing with the 21st century were first formalized in 2018 with Project Trust. At the core of this effort was a shift in how indirect licensing was handled by SAP and its customers. Instead of continuing to license indirect use on a per-user basis, SAP decided that customers should pay for indirect use based on the number of "documents" created in an SAP system on behalf of a non-SAP system. (Documents that are created by SAP systems and solely consumed by those systems need no separate license.) The idea is that customers pay for the creation of the core documents – such as sales and purchase orders, invoices, and service orders – that are created by indirect use scenarios. This document license is a one-time fee regardless of how many times that document is read and edited (or deleted) as it traverses the customer's non-SAP software systems.

Document-based licensing was indeed an important innovation for SAP's customers, particularly net new customers or those existing customers that were implementing net new systems unencumbered by

historical licensing issues. But existing customers with long-standing SAP contracts needed more clarity as to how much the actual transition to document-based licensing would cost.

As such, Project Trust began a process of further evolution, aided by significant input from SAP's main users groups, the Americas' SAP User Group (ASUG), the Deutschsprachige SAP-Anwendergruppe (DSAG), and the SAP User Group Executive Network (SUGEN). The major issue revolved around the need to figure out a way to move longstanding customers forward into a new licensing regime with as much transparency and cost-predictability as possible and without unfairly "taxing" them in the process.

Some customers were concerned that there was no easy way to assess the cost of shifting to document-based licensing. For these customers, moving to document-based licensing without a reliable picture of the net cost was a major barrier forward. Other customers were afraid that a new licensing program would reveal gaps in their historical licensing practices that could expose these customers to potential true-up costs as well as additional license fees moving forward. Understandably, these customers were reluctant to risk incurring costs for use cases they felt had already been properly licensed and paid for.

The Digital Access Adoption Program (DAAP) is intended to address these issues head on. DAAP has been examined and is supported by SAP's user groups, and represents the first and only program by any vendor in the enterprise software industry that addresses the problem and seeks to solve it in what EAC believes is an impressively customer-friendly manner.

The main focus of the program is to provide assurance that SAP is not hiding a revenue increase or other customer-hostile pricing and licensing costs in its efforts to move forward with document-based pricing. Indeed, SAP is offering customers a relatively generous license conversion program that demonstrates a substantial investment by SAP in making the program financially attractive to customers. According to the calculations SAP shared with EAC, there is an expectation that many customers will have a largely low-cost or cost-neutral conversion to the new licensing regime that will effectively "grandfather" in older indirect licensing practices at a significant discount to the customer. The ability to swap unused user licenses in the process could mean that some customers may see significant savings and little to no net new cost associated with the conversion.

The Digital Access Adoption Program entails two major elements. The first is a comprehensive process to measure the potential impact of document-based licensing. Customers can either use an estimating tool or install a support pack that calculates the current document usage in an SAP system. Armed with an estimate or an actual document count, the customer can then pick one of two ways of arriving at the cost of adopting the Digital Access Adoption Program. The first is option is to take historical usage as a baseline and have the customer pay only the cost of adding 15 percent more documents to their license (at a standard volume discount). The second option allows the customer to pay the cost of the baseline number at a 90 percent discount. SAP's intention is that use cases involving legacy technology like EDI and other interfaces, as well new uses cases like robotic process automation, can be covered under the options available in the program

The thinking behind these two options is simple: remove historical licensing discrepancies and inconsistencies from the discussion by providing what EAC believes are options that place a significant part of the financial risk on SAP to redress these issues. And, perhaps most importantly, the DAAP program allows SAP's customers to have a degree of visibility and predictability to the licensing costs of digital transformation that no other vendor can provide.

The work SAP has done with Project Trust and the Digital Access Adoption Program has removed an important barrier that had stymied a number of customers' efforts to move forward with their digital transformations. The new SAP program is also a challenge to the industry, and should provide SAP with an important competitive advantage against competitors that continue to use hidden indirect costs, punishing audits, and true-ups as an unfortunate standard practice. In this regard the transparency and customer-centricity that underlie DAAP should serve as a new standard in the industry, and indeed EAC believes that customers should hold all vendors to these standards.

This pioneering program offers SAP's customers an opportunity to press reset on an issue that has troubled their strategic relationship with SAP at a critical time in both parties' history. And even if customers in the end chose not to avail themselves of DAAP and stay with their existing licensing terms and conditions, the precedent set by SAP is one that will play an important role in revitalizing these all-important relationships.