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Enterprise Software Licensing And Pricing Update, Q2 2009

by R "Ray" Wang
for Business Process & Applications Professionals

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This is the second document in the "Enterprise Software Licensing And Pricing Professionals Update" series.

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EXECUTIVE SUMMARY

Rapidly deteriorating market conditions led to a shift in the major enterprise apps vendors' overall software licensing and pricing strategies. Forrester examined the status and progress of 12 vendors and their responses to client requests and concerns. The good news: Most vendors focus on proving value and simplifying licensing and pricing. The bad news: Not all vendors can deliver on choice, value, and predictability. As part of all software negotiations strategies, Forrester recommends that clients focus on seven simple steps for success that include: 1) assembling the right team; 2) identifying the key business drivers; 3) aligning with the software ownership life cycle; 4) determining the adoption plan; 5) aligning contract strategy with product adoption; 6) identifying the main leverage points; and 7) finalizing the negotiation strategy.

TABLE OF CONTENTS

NOTES & RESOURCES

Forrester interviewed 12 vendors, including Agresso, Deltek, Epicor Software, Exact Software, Infor, Lawson Software, Meridian Systems, Microsoft Business Solutions, Oracle, QAD, SAP, and SYSPRO, and 717 end users.

Related Research Documents

"Craft Your Negotiations Strategy To Reflect New Packaged Apps Licensing And Pricing Trends"
April 3, 2009

"The Forrester Wave™: Enterprise Apps Software Licensing And Pricing, Q4 2007"
October 15, 2007

"An Enterprise Software Licensee's Bill Of Rights"
December 18, 2006

CHOICE, VALUE, AND PREDICTABILITY ARE STILL TOP OF MIND FOR BP&A PROS

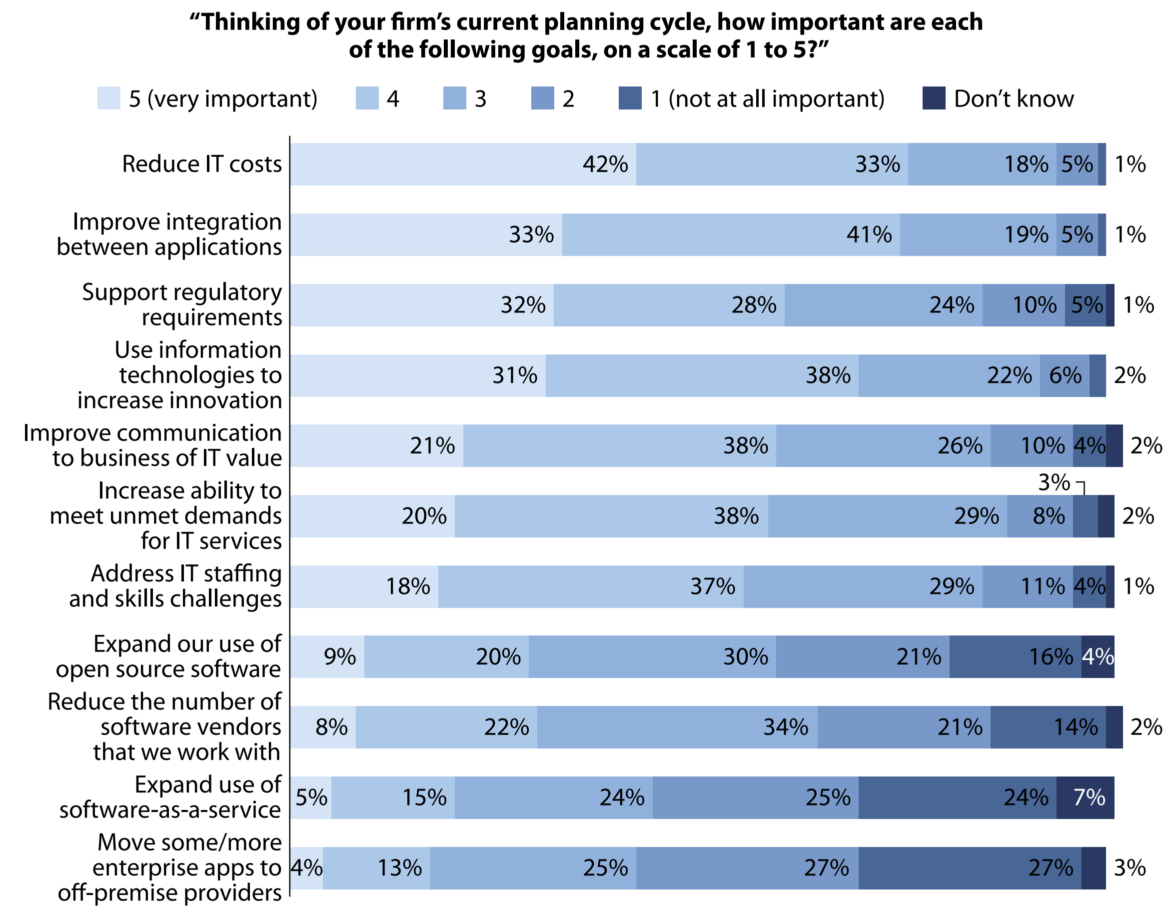
Over the past six months, Forrester's conversations with more than 700 applications professionals about price increases, maintenance hikes, and long-term apps strategy validate the results from our Enterprise And SMB Software Survey, North America And Europe, Q4 2008. Cost reduction led as the most significant goal for 2009 (see Figure 1). These discussions also provided insight into what users expect from their software ownership experience (see Figure 2). While those issues can be broken into many categories, our analysis uncovered three consistent themes, all of which align with the enterprise software ownership life cycle:

- **Choice.** Rapid vendor consolidation over the past five years has left apps pros with fewer vendor choices. Customers seek alternatives that integrate well with existing solutions. Top-of-mind options include industry-specific solutions, partner add-ons, and third-party maintenance. These options can incorporate new deployment models including software-as-a-service (SaaS), application service providers (ASP)/hosting, and business process outsourcing (BPO) options.

- **Value.** Continuing cost pressures drive clients to seek value. Maintenance fees have come under greater scrutiny as clients question the level of reinvestment, innovation, and support that vendors provide. Customers also seek value in reducing implementation costs, lowering operating costs, and improving flexibility. SaaS offerings have shaped current expectations because these solutions provide pay-as-you-go, "flex-up and flex-down" deployment. Users now expect to buy licenses when needed, reduce licenses during downturns, and unload shelfware maintenance fees that often result from aggressive vendor sales tactics.

- **Predictability.** Users expect a more constant and predictable stream of innovation, but current on-premise options limit user access to new functionality over long periods of time. Access to functionality often requires costly upgrades. SaaS vendors have put pressure on on-premise vendors, since they can deliver constant innovation with quarterly and even monthly product updates. Moreover, many vendors attempt to force users to new versions with threats of removing support. On the pricing front, users expect predictability in maintenance fee pricing and reasonable price list changes.

Figure 1 Cost Reduction Remains The Single Most Important Goal For 2009



Base: 2,227 IT executives and technology decision-makers
(percentages may not total 100 because of rounding)

Source: Enterprise And SMB Software Survey, North America And Europe, Q4 2008

54152 Source: Forrester Research, Inc.

Figure 2 The Software Ownership Life Cycle Supports Choice, Value, And Predictability

Selection	• Determine current state. • Identify key process flows. • Design future state. • Map process flow and functionality gaps with vendor offering. • Negotiate software terms.	Precycle
Implementation	• Select implementation partner. • Identify executive sponsors. • Build IT and business leader owners. • Determine program management. • Design ongoing knowledge management and transfer processes.	Years 0-1
Utilization	• Software is now at full usage. • Business requirements are collected for future enhancement requests. • Changes in business structure affect software usage.	Years 2-6
Maintenance	• Some regulatory enhancements are provided. • Vendor is likely to decommission support or to encourage an upgrade.	Years 7-10
Retirement	• Renewals • Change vendor status • Maintenance negotiations • Changing business conditions – Mergers and acquisitions – Divestitures – New business models	Years 11 through precycle

54152 Source: Forrester Research, Inc.

MOST VENDORS RESPOND BY PROVING VALUE AND SIMPLIFYING LICENSING AND PRICING

Forrester analyzed the completed, work-in-progress, or ongoing pricing and licensing initiatives for the fourth quarter of 2008 and first quarter of 2009 for 12 on-premise enterprise applications vendors. The bottom line — recessionary conditions drive vendors to develop new alternatives. The general software licensing and pricing trends that Forrester found include initiatives to simplify pricing, reduce implementation times, and increase transparency in value. Specific trends for these 12 vendors include:

- **Agresso continues innovative public-sector-focused framework agreements.** In addition to choice in service agreement deployment models such as shared services, managed hosting, ASP, and BPO specifically for payroll and human resources (HR) services, Agresso is expanding its sectorwide framework agreements with governments. These agreements provide a model for consortium buying. New payment models include subscription models for on-site software delivery and milestone billing for delivery. Agresso adds new usage-based metrics to its named user model to reflect industry-specific needs. These metrics include, for example, citizens for local government, students for education, and number of tickets for travel. Agresso supports virtualization options without penalizing users for virtualization cost savings. Forrester believes that these changes will help Agresso's public sector clients achieve choice and value going forward.

- **Deltek bundles modules for price simplification.** For its Vision and Costpoint products, Deltek simplified pricing by creating pricing bundles. For Deltek Costpoint, bundles have been created around processes such as managing human resources and procure-to-pay. The pricing of bundles is based on a percentage of the price of the core accounting/projects modules instead of distinct a la carte pricing. For Deltek Vision, the product is one solution with modules that can be bought and "turned on" individually. Hence, physically bundling software is not needed since everything is already in the system and is shipped and working together when a customer buys the software.

  For maintenance and support, Deltek standardizes fees to 18% for all modules starting in 2009. Deltek offers new packaged service plans that include Deltek Costpoint Quick Start Implementation Service, Costpoint Upgrade Service, Deltek Performance Management Quick Start Service, and GCS Premier Billing Packaged Service. For both Deltek Costpoint and Vision, the offering can be delivered in a hosted environment and the products can be virtualized without incurring additional licensing costs**.** Forrester anticipates that clients will find value in rapid implementation and simplification of a traditionally complex price list.

- **Epicor improves choice, value, and predictability in the software ownership experience.** Epicor Software simplifies pricing in the base price list for Epicor 9 with four formalized editions that include standard, enterprise, advanced, and express (express is offered as an on-demand SaaS option). Customers can also purchase by industry, such as general services, manufacturing, or distribution. As of June 2008, Epicor 9 replaces all named user pricing and server-based pricing schemes with more customer-favorable concurrent user pricing. The Epicor Everywhere Framework applies a concurrent user license to the Web browser, Microsoft Smart Client Application Platform, or Smart Device, leaving the choice to the customer. Unlike many competitors, customers on existing products who pay maintenance receive functionality equivalency for Epicor 9 without additional fees. Maintenance contracts also remain at the same level with no hidden increases. On the virtualization front, Epicor Software supports VMware and recently began offering support for Microsoft Hyper-V.[1] Forrester finds Epicor Software's approach to be one of the most flexible in delivering value and choice.

- **Exact Software offers new simplified bundles but finally ties support to maintenance.** Users can now purchase combinations of Exact Software's individual products as bundles in the Exact

Synergy Enterprise Suite. New professional services offerings include a Business Process Assessment that provides a check-up on processes effectiveness. However, changes in maintenance now require customers purchasing new licenses to bundle maintenance with support. Maintenance typically covers enhancements and upgrades. Support covers bug fixes and help desk support. This constitutes a change from the past, when it was possible to purchase maintenance separately from support and pay a la carte. Early indications from customers indicate some resistance to this approach, although most customers typically purchase both. Forrester applauds the bundling in simplifying licensing but believes that tying support to maintenance removes one of the distinct advantages that Exact Software provided to its customers.

- **Infor lowers entry points for the SMB market and demonstrates value for maintenance.** Infor offers new Business Editions in enterprise resource planning (ERP) by industry, financials, and its point solutions (e.g., enterprise asset management [EAM], product life-cycle management [PLM], customer relationship management [CRM], etc.) geared for the requirements and budget of a small and medium-size business (SMB) customer. As customers grow they can then upgrade licenses to the enterprise edition. On-premise users can still choose between named user and concurrent user licensing models. Infor's available SaaS options include Infor EAM, Infor EAM iProcure, Infor Expense Management (XM), Infor ERP Syteline, Infor Transportation Management, Infor AMSI-eSite Property Management, and Infor FMS Anael. In terms of vendor-led financing, Infor partners with IBM to provide financing options that help extend credit to its customers. A new program will be announced in mid-June to allow new and existing customers the option to pay for their license, maintenance, and service purchases over one, two, or three years.

  Meanwhile, customers on maintenance gain access to Infor MyDay and the new Infor Evolve components such as Infor General Ledger, Pricing, and Inventory Control on a like-for-like basis. While Infor improves value for maintenance, many Forrester clients report that Infor includes provisions that restrict a customer's ability to obtain third-party maintenance for many of its product lines. Such provisions include restricted rights to use source code and the requirement to obtain permission to allow third parties to access the source code.

- **Lawson Software streamlines its maintenance program and improves rapid implementation.** Lawson Software provides new price options for Lawson M3, emerging markets, strategic human capital management (HCM), and industry-specific pricing. Lower list prices for the Lawson M3 suite target SMB companies with 10 to 30 users, and it has introduced lower entry points for emerging markets. Since March 2008, Lawson Software has provided both on-premise and SaaS deployment options for Lawson Strategic HCM. On the maintenance front, Lawson Software provides two precious metal tiers of maintenance — bronze and silver. Recent enhancements to its maintenance offerings include expanding hours of support coverage to include global 24x7, how-to support, proactive support Webinars, dedicated global support account managers, regular scorecard activity reviews, and updated planning services. In January

2009, Lawson Software introduced the Value Improvement Program, which offers Lawson S3 and Lawson Strategic HCM clients savings opportunities for both maintenance and software solutions. The program includes extended maintenance for several decommissioned products, as well as multiyear maintenance discount options.

For customers seeking rapid implementation, Lawson Software offers seven QuickStep methodologies that include manufacturing, distribution, enterprise asset management, food and beverage, fashion, government, and healthcare. In January 2009, Lawson introduced Lawson M3 Analytics Fast Track: preconfigured analytics with key performance indicators (KPIs) and scorecards with a 10-day implementation commitment and a money-back guarantee. Virtualization does not create additional burdens on user-based pricing, but in areas where pricing is based on cost per user (CPU)/cores, customers are asked to respect the license limitations in their virtual machine setup.

- **Meridian Systems upholds simplified licensing and pricing policies.** Pricing for Meridian Systems' new Prolog Connect product supports choice with on-premise and SaaS offerings. On-premise customers will pay for a server component and an end user access component sold in concurrent user packs of five. Existing SaaS customers can add Prolog Connect for no additional fees but must pay a one-time setup charge. Customer-focused simplification initiatives that reduce implementation times include solution accelerators; report packs that include common reports, dashboards, and metrics that customers can use out of the box; starter packs that combine solution accelerators with Office Business Applications; and preconfigured dashboards, metrics, alerts, and industry best practices. Meridian Systems allows customers to buy product deployment options that include on-premise, hosted, and managed services. Customers can also take advantage of its flex model, which allows users to lease software during times of peak usage. Meridian supports virtualization deployments without additional charges.

- **Microsoft Dynamics delivers the widest choice and flexibility.** Users compliment Microsoft on a good balance of simplified pricing and relevant options via its Business Ready Licensing program launched in July 2006, which provides three pricing editions (i.e., Business Essentials, Advanced Management, and Advanced Management Enterprise) Microsoft still provides existing and new users upfront, defined transition investment credits for movement between the three pricing editions and between the Microsoft Dynamics ERP product lines. The Enhancement Plan remains at a standardized 16% plus any partner-specific support fees. Microsoft Dynamics CRM users can use Business Ready Licensing in addition to Microsoft's traditional volume licensing.

  New for 2009 is Microsoft Services Premier Support Mission Critical Support, which offers customer response times of 30 minutes versus one hour, guaranteed response time backed by financial credits, 24x7 access to engineers who know the environment, guaranteed critical on-demand patch protection, private builds, and highest prioritization of issues. Rates for Premier

Services are based on customized plans. Although the zero-percent financing offer ended March 20, 2009, the new SmartPay offer allows customers to buy now and pay six months later with 24- or 36-month terms as long they take action by June 30, 2009. Microsoft announced Business Ready Flexible Pay on April 28, 2009, which gives new Microsoft Dynamics ERP and CRM customers in the US the option to purchase their solution today but pay for it in equal payments over three years. This mitigates interest charges and applications processes.

- **Oracle maintains three pricing options and public price lists.** Oracle keeps its three pricing models, which allow customers to not only choose among any one of Oracle's major product lines, but also to combine multiple product lines into a single deal and single pricing model. Component licensing delivers a la carte product licensing based on users and transactions. Metrics remain specific to each product. Custom applications suite licensing provides customers with the flexibility to create their own suite based on their needs and specific vertical requirements. Metrics are tied to a custom suite user. Last, but not least, enterprise-level licensing allows customers to not only connect internal and external users but also use metrics such as annual revenue, employee, operational budget, cost of goods, and funds under management. Forrester finds that some savvy customers with significant long-term usage are entering into enterprise agreements.[2]

  Oracle should be applauded for publicly publishing its price lists and software investment guide. One downside, however, is that Oracle's policy on virtualization requires customers to count physical CPUs and charges for all of the processors on the server. While this policy limits the potential savings from virtualization, Oracle will allow technology-based exceptions that allow processors that are being used in a partition to be counted. These hard partitions include software-enabled partitions such as LDOMs, Integrity Virtual machines, and Oracle VM. Oracle's approach may change when chip manufacturers introduce the ability to turn cores on and off as needed.

- **QAD keeps tradition of choice, value, and predictability despite economic downturn.** QAD's policies provide one of the broadest offerings of usage-based metrics and lowest overall software life-cycle ownership costs. The vendor continues to add incremental functionality into the core product. For example, in 2008 named user customers current on maintenance for the 2008 SE release received the QAD CRM offering as part of the core suite bundle. QAD doesn't plan any maintenance increases for 2009, although it applied an across-the-board consumer price index (CPI) increase in maintenance for 2008. New enhanced service offerings from QAD Global Services include application management services, cost containment and business process optimization consulting, and integrated development toolkits. The vendor's introduction of online eLearning tools provides users with customer-specific and classroom training. QAD's licensing metrics support cost savings from virtualization initiatives.

- **SAP improves licensing and pricing transparency while addressing Enterprise Support.** As of April 15, 2009, SAP has rolled out new price list documents with clear metrics and price points. SAP also delivers an improved description of licensing models and license terms in three public documents.[3] On the BusinessObjects front, SAP harmonizes the licensing of BusinessObjects by introducing named user types for use with BusinessObjects software: 1) a Business Expert user akin to developer; 2) a Business Information user for viewing-only or read-only access to reports; and 3) new named users (Business Analyst and BI viewer) that are intended for standalone BusinessObjects deployments, that is, no access to SAP Business Suite. Forrester finds the recent developments by SAP to be positive for customers as SAP licensing traditionally ranks as the most complex in the industry.

  On April 28, 2009, SAP and the consortium of SAP User-Group Executive Network (SUGEN) came to an agreement on how to address SAP's July 16, 2008 decision to move to a single-tiered 22% maintenance model, know as Enterprise Support.[4] While the new model does offer some new benefits like upgrade support and end-to-end operations support, third-party code support, and 24x7 mission-critical support with guaranteed SLAs, most Forrester customers continue to question the value of SAP's software maintenance in general. Consequently, SAP users groups around the world have agreed on a set of metrics that must demonstrate tangible cumulative cost savings for customers exceeding the increase in support fees.[5] As part of the agreement, SAP Enterprise Support must show cumulative savings over the four years using a predefined schedule of 4% in 2009, 12% in 2010, 22% in 2011, and reaching the full 30% by 2012. SAP has agreed to keep the increase at 18.3% until the SUGEN KPIs prove the value of Enterprise Support.

- **SYSPRO maintains value in its maintenance offering.** Despite its robust offering, SYSPRO's maintenance pricing remains one of the lowest in the industry at 12% per annum. Pricing is simple, based on concurrent users and a single server. Customers may take immediate benefits from virtualization strategies because no price variance would apply if the system were deployed on-site, in a hosted environment, sitting in a virtual cloud, or in a virtualized environment. Cost of ownership reduction initiatives focus on template-driven offerings. Implementation solutions follow SYSPRO's Structured Technique to Achieve a Rapid Solution (STARS) methodology that includes preconfigured installs with features such as pre-set stationery, financial reports, and tax setups, which can result in deployment cost savings of 20% to 25%, according to the vendor. SYSPRO also provides customers amnesty from back-maintenance fees if they return within a three-to-four month period.

RECOMMENDATIONS

APPLY SEVEN SIMPLE STEPS TO SUCCESSFUL CONTRACT NEGOTIATIONS STRATEGIES

Overall economic crisis, declining license revenues, shifting buying behaviors, and pressure from new deployment options like SaaS finally put buyers in the driver seat. Now is the time to buy or renegotiate contracts that meet true ownership requirements and deliver the right balance between cost and value. Forrester recommends the following approach in contract negotiations strategy:

1. **Assemble the right team.** Include key business leaders, technology leaders, vendor management experts, and legal advisors. If applicable, work with a third-party advisor or trusted expert who can provide insight on the latest pricing trends, concessions in licensing and pricing policies, and vendor relationships. Include the right team from the vendor. Ensure that their account quotas and objectives are aligned with yours.

2. **Identify the key business drivers.** Successful contract negotiation strategies require alignment with corporate business drivers. But because business drivers for individual contracts and projects often shift with time, the portfolio of apps initiatives requires organization and alignment by economic state and project risk. Projects will align into four key areas including compliance, efficiency, growth, and strategy.

3. **Apply the software ownership life cycle and the licensee's bill of rights.** Put the bill of rights to use. Keep the five phases of the software ownership life cycle (i.e., selection, implementation, utilization, maintenance, and retirement) in mind when reviewing contracts. Unexpected costs during selection often include platform, connection, and country support charges. During implementation, customers may expect additional costs geared to performance, integration, and security requirements. Utilization surprises often include bandwidth, storage, and additional module fees. Maintenance charges remain minimal but could include backup recovery. Retirement includes switching costs such as data migration, process migration, training, and integration.

4. **Determine the product adoption plan.** Review product adoption plans to determine actual requirements. Validate the vendor's product road map strategy with key business drivers. Identify overall implementation road maps. A product adoption strategy provides the key differentiator in contract negotiations strategy. Ensure that your sourcing and vendor management teams work with product experts who also understand contract strategy or face long-term challenges with your overall negotiations strategy.

5. **Align product adoption strategy with contract negotiation objectives.** Business and IT roles must provide realistic time frames for product adoption to set contract negotiation objectives. Contract objectives can include flex-up/flex-down provisions, maintenance reductions, inputs into product direction, and long-term usage optimizations.

6. **Identify main leverage points.** Prioritize the list of negotiation points for terms and conditions. Target objectives for user and usage-based license costs. Inventory relevant products with an eye toward total spending.
7. **Finalize the negotiation strategy.** Bring all the elements together to craft the final plan. Gather agreement from key stakeholders. Prepare for contingencies and emergency scenarios by role-playing negotiations.

SUPPLEMENTAL MATERIAL

Companies Interviewed For This Document

Agresso	Meridian Systems
Deltek	Microsoft Business Solutions
Epicor Software	Oracle
Exact Software	QAD
Infor	SAP
Lawson Software	SYSPRO

ENDNOTES

[1] Server virtualization, the process of using software to divide a physical server into two or more virtual servers, normally saves customers money if licensing is based on virtual CPUs. Some companies enforce unfriendly virtualization policies that count physical CPUs, limiting any licensing savings.

[2] Amid worsening economic conditions and a rapidly consolidating vendor landscape, application delivery professionals will have the opportunity to consolidate their own landscapes by committing to single vendor "platform stacks." IBM, Microsoft, Oracle, SAP, and even smaller vendors each seek to gain such commitments to both cement future sales and to expand their presence in customer architectures. In a recessionary economy, stack commitments may be the only way vendors can realistically produce growth from enterprise accounts. For many firms, Oracle's "Red Stack" has grown in importance for both application development and business process and apps pros. Effective Oracle contract negotiations will require domain knowledge in Oracle product strategy from apps delivery pros as they apply lessons learned from the enterprise software licensee bill of rights. See the March 13, 2009, "Base Your Oracle 'Red Stack' Negotiations Strategy On Your Oracle Adoption Strategy" report.

[3] In 2009 SAP intends to publish information about its licensing models and terms and conditions through sap.com. A guide for buyers on "How to license SAP products" and a product catalog is planned for release and will include three public documents titled: 1) *Guide to Licensing SAP Software*; 2) *SAP Product Catalogue*; and 3) *Reference To License Items in Industry Solution Maps*.

[4] The decade of SAP's reasonably priced 17% maintenance fee is quickly coming to an end. New customers are already swallowing SAP's new single-tiered Enterprise Support offering priced at a hefty 22% of license fees. And as of January 1, 2009, all existing customers — including the 17,000 currently on Basic Support — will also be moved onto Enterprise Support pricing. Some would argue that SAP's maintenance hike to 22% is just catching up with the competition, since Oracle has been charging 22% since 2006. Oracle, however, typically provides more generous discounts on initial deals — a practice that SAP has not historically embraced. So while the combination of license and maintenance costs used to even out over 10 or more years, existing SAP customers now face a potential one-two whammy: the higher license costs they have been accustomed to paying, plus the 22% maintenance charge. See the October 10, 2008, "Coping With SAP's Pricey Maintenance Hike" report.

[5] A full list of the SUGEN KPIs can be found at http://blog.softwareinsider.org/2009/04/29/news-analysis-details-on-the-sugen-kpis-for-sap-enterprise-support/.

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