Enterprise Software Licensing in the 21st Century:

Can SAP's *Project Trust* Change Industry-wide Practices?

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Introduction: The Changing Dynamic of Enterprise Software Licensing

As 21st century use-cases for enterprise data run up against 20th century licensing practices, the complexity of how enterprise software is licensed in the age of digital transformation has become a major source of confusion and customer ire. Those practices, created in an age of monolithic applications housed in internal data centers, are massively unsuited for a digital world where innovation is defined in large part by how well a company leverages its existing data resources and creates new processes that span application silos. As such, building applications and processes that bridge previously siloed sources of information, particularly ERP and other enterprise software systems like CRM and HRMS, require new ways to look at how those data are used. Adding data from social media, IoT devices, and other unstructured data sources to the mix further reinforces this need.

While this is a problem that every enterprise software vendor and its customers struggle with, the issue came to a head in early 2017 in the SAP ecosystem with the announcement that SAP had prevailed in a lawsuit against a customer, Diageo Great Britain Ltd., that centered around how users of Diageo's Salesforce.com system accessed data and processes in their SAP system. That news rocked the enterprise software world, in particular inside SAP's user base and user groups – ASUG in the US, DSAG in Germany, UKISUG in the United Kingdom and Ireland, and SUGEN worldwide. The backlash helped catalyze an on-going effort by SAP to bring its licensing policies into line with the changing technology landscape and curtail behavior that could lead to abuses during the sales and audit process.

That effort, detailed below, has taken place with a degree of public discussion and scrutiny that is unique to the SAP ecosystem. The objections to the lawsuit and the efforts of user groups, analysts, and other interested parties led to a lively public interchange, no shortage of angry and concerned responses from the customer base, and, as of April 2018, a new licensing model that goes a long way towards solving these problems. The effort has placed SAP in a unique position as the only vendor to be so publicly criticized for what is clearly an industry-wide issue as well as the only vendor that has taken a public stand and, working with its user groups, has put forth a program to resolve these issues.

This report is part of a larger effort undertaken by Enterprise Applications Consulting to look at these industry-wide practices in the hope of helping customers and vendors understand the complexities behind these issues and what can be done to remediate them. As SAP has become the lightning rod for these issues, as well as the first vendor to address them with a comprehensive remediation program, this initial report will focus primarily on SAP. A follow-up report will look into how other vendors in the market are reacting to these issues.

As such, this report has two goals: the first is to level-set the issues surrounding indirect licensing as an industry-wide issue, and the second is to discuss SAP's new approach to solving these issues in the context of these industry practices. To this end the report will start with a discussion of a wide range of industry practices by leading vendors, most of which to their credit have been quite forthcoming about

these issues. It will then move to a discussion of SAP's new licensing model and how well it succeeds in abating the issues outlined in the first section. The final section will include suggestions for best practices for both customers and vendors as they move forward to modernize usage of enterprise data and the contracting terms and conditions that govern that use.

State of the Industry: Opacity and Confusion

How enterprise software is licensed and used has always been confusing for customers, partners, and even the vendors themselves, and the confusion is growing, not diminishing. This is due in part to the fact that the number of users of enterprise software in a given company is growing, as are the use cases for the data produced by transactional systems like ERP and CRM, and the petabytes of external, unstructured data from social media and other sources. Also at play is a dynamic market that is seeing growing opportunities for cloud software in both net new customer accounts as well as among existing, on-premise customers. All of this means that licensing has to cover a broad and complex set of requirements within highly complex user environments. Adding to the mix is two decades of M&A activity, which has meant that many companies have extremely complex infrastructures that contain a broadly heterogeneous set of applications, many of which are running older or off-maintenance products with dissimilar contracts and licensing terms.

Even when extreme heterogeneity was the exception, complexity has always been baked into the licensing and contracting process. Back in the old on-premise days, software was often licensed based on hardware utilization using metrics such as the number of CPUs or cores in a given server. For the most part licensing has evolved to be focused more on the number of users of a particular product, with the term *user* subject to broad interpretation. The general rule of thumb, however, is that, in addition to direct use of the application as a named user, the user of a dashboard that accesses data from an enterprise application may need a separate license, as would an application that, while never actually used by a human operator, nonetheless accesses and transforms data from another enterprise software system. And, in the canonical example of indirect use, a user of one enterprise application that accesses data from a second, separate enterprise application usually needs a license for both.

Further complicating these issues is the fact that few companies and their IT organizations are standing still. Companies are constantly upgrading, consolidating, and implementing new software. In particular, upgrades often include features, many of which are "on" by default, that also have to be licensed, usually by adding on to the cost of each individual user license. Devices also require user licenses in increasing numbers: most enterprise software vendors require a "user license" for any device that accesses or inputs data in the vendor's application, which means that old-fangled devices like multi-function printers and new-fangled devices like sensors are also considered "users."

The move to the cloud has made this even more complex: in addition to the shift from one-time perpetual license fees to fees calculated on a per user/month basis – which continues to upend on-premise vendors' revenue-accounting models – cloud vendors with legacy customers have to deal with the complexities of migrating customers from one service modality to another. This is often more than just a matter of swapping perpetual licenses for per-user/per-month licenses – how customers pay for maintenance, storage, and API access in the cloud use can vary significantly from the on-premise world.

Migration to the cloud has added additional forms of licensing that take into account the shift of responsibility for "back office" functions from the customer to the vendor's or partner's cloud platform. Pure cloud vendors often charge for API access and storage use above a specified limit. This can be become a major source of licensing confusion. A vendor could offer a new service for a given fee that accumulates large amounts of data in the cloud. When that service needs to store data above a certain threshold, the vendor charges an add-on fee for data storage. That fee can contribute to a significant cost overrun as usage increases, much as consumers are seeing when their free iCloud or OneDrive accounts fill up with photos and other media, and what was once a free service becomes a highly lucrative paid service for the vendor.

The acquisitiveness of large enterprise vendors adds an additional element to the problem: many vendors have newer customers that have contract terms and conditions that are grandfathered in and differ substantially from older customers, or they have existing customers that were running the acquired software products and now have two products from the same vendor with vastly different licensing structures.

Figure 1: Audits and License Reviews are Common Practice Across the Industry
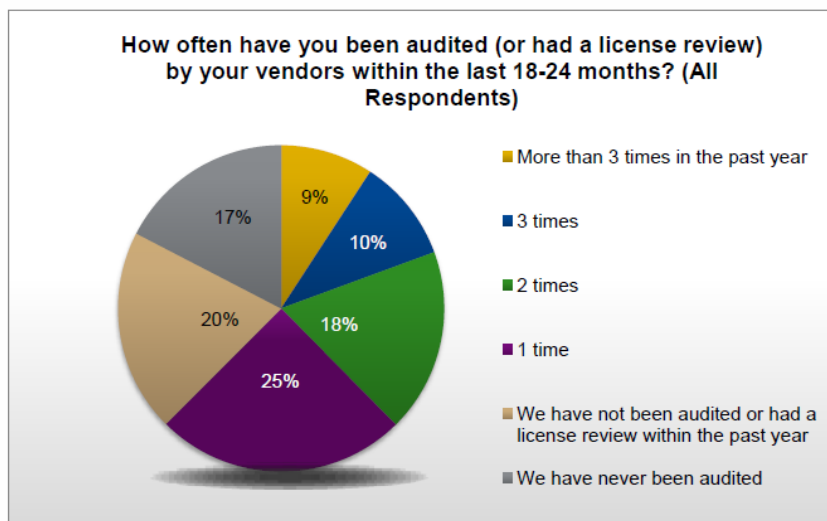
Source: IDC/Flexera Software

The bottom line is that complexity in licensing is the norm across the industry, and no major vendor and its customer base is immune from these problems. Needless to say, this complexity means that customers struggle to sort out how their actual use of a given software product syncs up with how the software is licensed. The unfortunate standard for resolving this problem is an audit, and it's no surprise that a significant number of customers – 63%, according to a study by IDC and commissioned by Flexera Software – had been audited in the 12-24 months prior to the survey, with a total of 56% having found out that they owe their vendor for unlicensed use (see Figure 1). The largest number of audits, according to the study, were conducted by Microsoft, but all the vendors in the study, which included the

customers of IBM, SAP, Oracle, Microsoft, and others, were actively auditing their customers. The total true-up costs to customers ranged from less than $100,000 to more than $10 million (see Figure 2.)[1]

Figure 2: Audits Can Be Costly
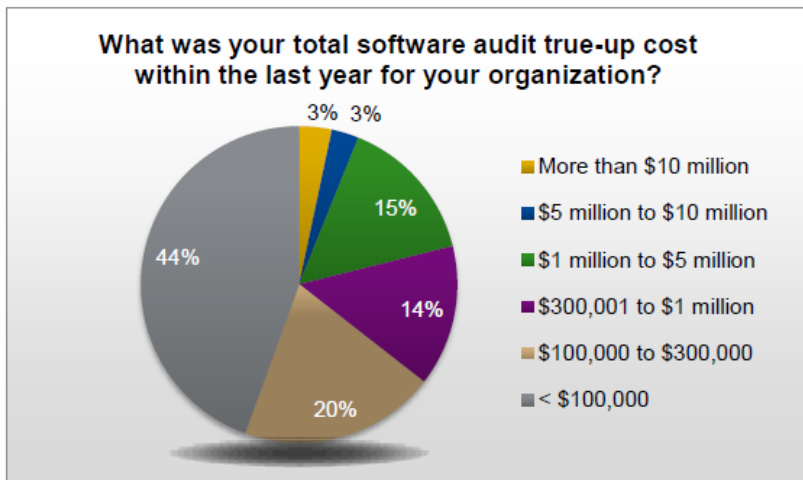
Source: IDC/Flexera Software

This industry-wide context is important to note. While SAP has been roundly criticized for its licensing and audit practices, and in some ways deservedly so, the rest of the enterprise software industry has gotten a pass on these issues. At this writing, no efforts to modernize licensing and auditing practices equivalent to the SAP program are underway at any of SAP's major competitors, among them Salesforce.com, Microsoft, Infor, and Oracle, the primary companies researched by Enterprise Applications Consulting for this report. Indeed, indirect licensing exists in many forms and under many names across the industry, and every vendor in the market charges for this kind of use in one way or another. In general, the rule of thumb is that vendors across the industry require user licenses for any person, application, or device – the latter includes printers, IoT devices, and autonomous software systems – that accesses data or processes within an individual vendor's application.

Audit practices are also an industry-wide issue, and vendors like Oracle, Infor, and Microsoft, along with SAP, have also had problems in this regard: In too many cases, rogue sales people have played fast and loose with contract terms and conditions and performed audits as a means to either boost end-of-quarter results or force customers into an upgrade in exchange for forgiving the unpaid fees revealed by the audit. EAC's research has shown that these practices, while almost never officially sanctioned, have nonetheless been widespread across the industry.

Even those that have been able to limit these "worst practices" are still not as forthcoming as they should be about the issues behind indirect use and licensing. At a minimum, most vendors hide the details of licensing in obscure legal language and contracting practices that are poorly understood by all involved, vendor sales staff included. And while some – but not enough – customers have contracting

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[1] *2013-14 Key Trends in Software Pricing & Licensing Survey.*
https://www.flexera.com/enterprise/resources/research/Research-IDC-Software-License-Audits-and-Costs-Risks-to-Enterprises.html

experts working out the details and in theory making sure terms and conditions are clearly laid out, compliance is another problem. Few customers maintain a comprehensive list of the software and licenses its users are entitled to, and as such have little or no ability to police their contract compliance. The result is that all too often individual employees are unaware of the restrictions surrounding indirect use. This makes it relatively easy for user organizations to fall out of compliance as a result of encouraging innovation on top of existing systems.

The result is an industry that is supposedly built on trust and notions of partnership and empathy – but that has actually created an all-too-often adversarial relationship with its customers through a combination of complexity, opacity in licensing, and rogue sales behavior. For the most part there's enough good will on the table that these issues never even come close to making it to court, but there is no shortage of trouble caused by these practices. What has been needed for some time is a way for vendors to get what they think is a fair price for using their software while allowing customers to plan their budgets without fear of unanticipated costs, allowing them to unleash innovation across the enterprise without needing to worry about or hide from an audit.

Customer Responsibility: It's Not Just About the Vendor

There are a number of reasons why the industry is in a situation that has not only pitted customers against vendors but has also pitted internal business users intent on innovative use of enterprise data and processes with IT against compliance managers trying to stay within the limits of the contract. In the above section some of the reasons why vendors bear responsibility were highlighted, but there is blame and responsibility to be acknowledged by all.

While it's clear that licensing is overly complex, and contracts are seemingly designed to be confusing and impossible to comply with, three issues stand out with respect to the customer's responsibility. The first is that customers are often lax in both understanding the terms and conditions of their enterprise software contracts and enforcing those terms and conditions. All too many times customers have approached the contracting process without adequate counsel and have found themselves "outlawyered" by the vendor. This doesn't necessarily result in a contract that is genuinely unfair or one-sided, but at a minimum it results in contracts that are poorly understood and therefore poorly executed.

The second problem is that user organizations often have no way to track their use of the software, or even what use cases are or are not licensed. This can lead to a real *gotcha* for customers – some vendors automatically install unlicensed features in an upgrade and then in a subsequent audit demand payment if these features are ever used. This is not an uncommon occurrence. It's easy to imagine a DBA seeing that some new and interesting features have suddenly become "available" and being unable to resist the temptation to test them out or even put them into production, at which point their techy instincts become a liability for the customer.

The third problem that customers impose on themselves is through flagrant misuse. EAC's research for this report uncovered numerous cases across all vendors of business users proceeding with new capabilities without securing the correct licensing, or even trying to find out whether a license is needed or not. Sometimes there is genuine ignorance on the part of the employee playing fast and loose with indirect licensing usage, but all too often there is willful flaunting of the licensing model. This is a set-up

for failure problem that can make an audit extremely painful for all involved: the IT manager who assumed there was no unlicensed use, the business user who is now in hot water for exposing the company to an unpleasant audit, and the vendor's account executive, who typically would prefer to find a more positive topic for interaction with the customer than a negative audit report.

The ultimate responsibility still lies with the vendor, however, and the end result can only be described as an intrinsically messy contracting, auditing, and compliance process across the industry. Many customers feel that they are held hostage by vendors out to boost their revenues any way they can, and many vendors feel their customers are looking for any way to skirt the terms of the contract and get more use than they have paid for. This simmering problem exploded in the SAP market with the aforementioned lawsuit, but what's surprising is not that this explosion happened, but that it took so long to take place at all. The good news is that SAP, and so far, only SAP, has responded with a wholesale shift in its licensing, contracting, and audit strategy that EAC believes will eventually lead other vendors to follow suit.

SAP, *Project Trust,* and Indirect Use – Anatomy of a Fix

SAP launched a new program in early April, code-named *Project Trust,* that is the result of a two year-long effort to address problems with licensing and licensing practices that came to a head following the news about the Diageo lawsuit and a second against Anheuser-Busch InBev. The goal of the program has been to address customer concerns around three key issues: indirect licensing, audit and sales practices, and how to account for existing customers' needs regarding implementing a new licensing model.

EAC's review of this program is that it is on the right track, and, while it's expected there will be teething problems with its implementation and customer buy-in, SAP's efforts have put it well ahead of the rest of the market in terms of the transparency and accountability this brings to licensing industry-wide. This is particularly important at a time when efforts around digital transformation are dramatically changing usage patterns across the industry and challenging older licensing models that don't account for these changes.

The fact that these issues have been addressed with considerable input from user groups, individual users, and analysts (including EAC) on this program is also unique. While most vendors EAC interviewed were relatively forthcoming in providing spokespeople and information on their practices, there is little to no effort among vendors other than SAP to engage in a public dialogue with customers and other stakeholders regarding these issues.

Below is a brief overview of the highlight of SAP's *Project Trust* initiative. Readers of this document online may find further information on this from SAP here and ASUG here.

User Licensing and Indirect Licensing 2.0

SAP's new licensing model makes no changes to the concept of licensing employees and other human users to directly use SAP software: these individuals will still require a standard user license to use their

SAP system. This license applies to any SAP software running at the user's site: a company running SAP S/4 HANA and Ariba would not need to license the same individual user twice, for example.

The new model however, does make significant changes to how the two most common forms of indirect use – human and device – are licensed. The new model's licensing process centers around what SAP calls a document, which it defines as the result of a transaction executed inside an SAP system on behalf of a non-SAP app, tool or device. The most common document example is, of course, the sales order created by an external CRM system. In this example, the need for an indirect license kicks in when the sales order is used to trigger processes that create purchase orders, financial postings, material movements, inventory updates, and other transactions in an SAP system. Under the new program, the customer pays a fee for a fixed number of documents that is depreciated each time an external system creates a sales order that triggers subsequent SAP processes. Importantly, the customer in this example is charged only for the initial external sales order: the SAP transactions triggered by the sales order incur no additional fee, nor does any subsequent use of that same sales order.

> **The new indirect use licensing model is** *based on the following 9 document types:*
> 1. Sales Order
> 2. Invoice
> 3. Purchase Order
> 4. Service and Maintenance Order
> 5. Manufacturing Order
> 6. Quality management
> 7. Time Management
> 8. Material order
> 9. Financial Document

A sales order is only one of nine document types – representing the most common documents used in the SAP systems – that are licensed under the new program. Importantly, not all document types are licensed equally, based on their relative value to the customer. Thus, of the nine document types (see sidebar), material and financial documents are priced at 1/5 the cost of the other seven.

Figure 3: SAP's View of Indirect Access
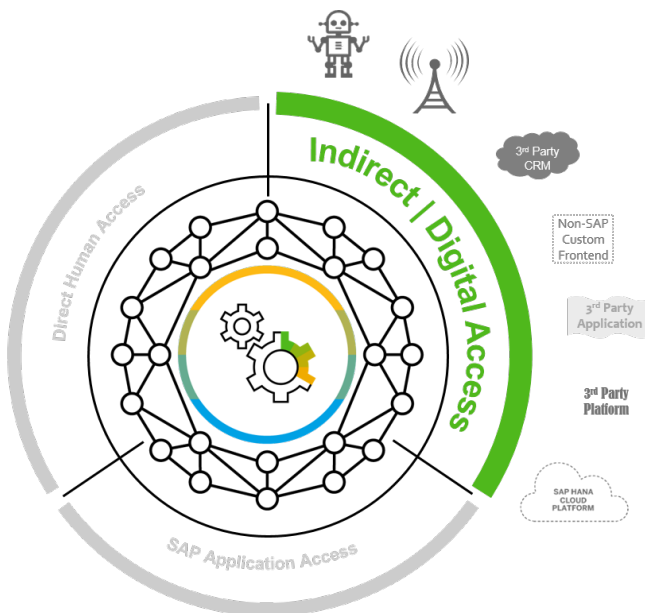
Source: SAP

The new program does not distinguish between a user in an external CRM system creating a sales order and a signal from an extrnal IoT device that triggers a maintenance order. Because both actions result in a document that is produced by processing data in an SAP system, the indirect access by a user or a device must be licensed. This should also simplify the customer's need for managing indirect use: by tracking document creation only, customers won't need to keep track of who or what is creating the document, only that the document has been created (see Figure 3).

It's important to note that SAP as the vendor of a broad suite of applications is not charging customers additional fees to access any of the licensed SAP products in their portfolio. Thus, a SuccessFactors or Ariba customer would not pay any additional fee to access SAP S/4 HANA. SAP is planning on coming up with a separate set of rules for custom apps that are developed to run on the SAP Cloud Platform (SCP) and access parts of the SAP Suite. As of this writing, the details of that program are not finalized.

This document-based licensing model is a dramatic shift from other vendors' models. Other vendors focus on a user-based model that requires a user or device that indirectly accesses an ERP or other enterprise software system to have its own user license. Many vendors also charge for the volume of data that needs to be moved in and out of the enterprise system. By contrast, SAP is moving to an outcome-based model that charges only when a transaction, triggered by a non-SAP system, results in the creation of a document, with no additional fees for any subsequent use of the document, such as reads, updates, or deletions. In this way SAP's model attempts to finesse a key sticking point in the indirect licensing debate: Customers believe, rightfully, that they own the data in their enterprise systems, and forcing a customer to pay to use those data is anathema to most organizations. SAP's position, also understandable, is that the data belongs to the customer, but when a system uses those data to affect an outcome, that usage of the system should be licensed.

While this approach appears to be a fair compromise between the two positions, it is different enough that EAC believes it may take a few iterations for SAP to perfect its document-based licensing approach and achieve significant user buy-in. EAC believes that this approach is a better way to deal with the problem of who owns the data and what happens when data flows between a vendor and third-party systems. There may need to be some fine-tuning, however, regarding issues like the number of documents to be licensed, the weighting scheme for those documents, and other considerations, along with some good old marketing of the changes and their benefits to what is by now a somewhat skeptical customer base.

Existing Users and the New Licensing Model

One of the main sticking points in the shift to a new licensing model has been the problem of how to support longstanding customers. These customers have two main concerns. The first is what to do about customers who had been told they were in compliance but could now be seen as out of compliance and could therefore be required to pay for indirect use. Customers told EAC that this double jeopardy scenario violates the good faith that they believe they have always acted in. The second, related concern revolves around the question of how to move a customer, if at all, from the old model to the new. While customers that license net new functionality will have to honor the terms of the new program, the question of what happens to the existing systems moving forward, particularly on-premise systems, needs resolution.

SAP is addressing the first problem in two important ways. The first is that no customer will be asked to pay for past unlicensed use if they are found to have been non-compliant and have been acting in good faith. This question of back-payment has been a major problem for customers who believe they have been acting in good faith, and SAP is right to be waiving those payments for these customers.

SAP will also not require customers to start paying for ongoing indirect usage that should have been licensed but wasn't, assuming that failure to license was an "honest mistake." While it's uncertain at this point how SAP will manage this issue, the intention is that if the customer has some way to prove that this unlicensed indirect use was acknowledged and/or sanctioned by SAP – and at this point SAP is considering some kind of proof in the form of an email or other documentable exchange between the customer and SAP – these customers will be given a green light by SAP to proceed without paying for ongoing use. This very specifically applies to pre-existing usage – any new indirect use scenarios will need to be licensed.

This is an important move that EAC believes will help put some good will back on the table. Many customers have expressed concerns that forgiveness for past unintentional "wrongs" doesn't solve the problem of what to do about moving forward. By grandfathering unlicensed pre-existing usage that was previously acknowledged, SAP is taking a potentially onerous cost off the table. This in theory should encourage a customer to budget for innovation and net new usage rather than worrying about allocating budget to right a past "wrong" they didn't think was wrong in the first place.

The issue of whether to move to the new licensing model or stick with the old is a little more complex, and SAP is effectively offering three options: do nothing, exchange old licenses for new, and, for existing SAP S/4 HANA and ECC customers, convert their contract to the new model, which would allow them to address their indirect access needs as well as reconfigure their solution landscape to account for future usage as specified in the new outcome-based model, if needed.

The "do nothing" model is exactly that – the existing licensing terms and conditions remain unchanged. EAC believes this option is really only advisable for SAP customers that have no intention of making any changes or modifications to the system, and therefore makes the most sense for systems that are either in line to be sunsetted or upgraded. In either case, the assumption is that the issue of re-licensing can be dealt with down the road when the final plan for the system has been determined.

The license exchange option allows existing ECC or Business Suite customers to move to the new model by effectively swapping existing indirect licenses – which can be licenses for things like purchase and sales order processing as well as "user" licenses for third party users and devices – into document licenses as described above. SAP has worked out a system for establishing credits for prior use that is intended to make the exchange as much of a "like for like" swap as possible. Importantly, SAP has signaled that the exchange option doesn't change the maintenance fees originally contracted by the customer. It will be important for SAP to show that overall costs – maintenance fees plus the new document licensing fees – don't alter the total cost of ownership of the system.

The third option, contract conversion, which is for S/4 HANA and ECC customers, is intended to offer these customers a comprehensive, albeit complex, way to move to the new licensing model. The exchange offers a full credit for the original contract value, and while it is intended to be as seamless a process as possible, contract and landscape conversion will not come easily. Like the exchange option, the onus will be on SAP to reassure customers that there is as little net new cost as is possible for this

conversion. SAP will also need to help customers cost-justify the conversion, and EAC expects SAP to provide further details and examples of this process moving forward.

This brief overview is not intended as an in-depth guide to these choices, and how new contracts will look after conversion or exchange will need further clarification from SAP. Regardless, EAC recommends that customers approach this issue – and any issue involving contracting and licensing terms – with eyes open and contracting experts at the table. These and other suggestions will be covered in *The Role of the Customer in Solving Audit and Licensing Problems* section below.

Existing Users and the New Licensing Model: Changing the Audit Process

Another important customer-centric change by SAP comes from the acknowledgement that the audit process needed an overhaul to make it more transparent, user friendly, and as self-service as possible. This is a major change in industry-wide thinking. While every vendor interviewed by EAC acknowledged the possibility that rogue sales staff could have abused their audit practices, and that this abuse was absolutely not officially sanctioned, the fact remains that the punitive or predatory audit is an industry-wide practice that, while officially off-limits, has nonetheless been practiced in every vendor's ecosystem. Addressing this head-on is another reason for SAP to claim market leadership for this issue.

The most significant change SAP is instituting is to separate the audit process from sales. The company now has a Global License Audit & Compliance organization that handles all aspects of the audit process. This means that sale executives are no long able to order an audit, much less execute that audit, nor will they be able to "permit" a sales executive to allow the customer to avoid an audit by licensing new software. All audit responsibilities will be handled by the new audit compliance office, and the results will be shared with the sales executive only if any under-usage is found. Importantly, the individuals working in the Audit & Compliance organization are not compensated based on revenue associated with an audit.

The official criteria for performing an audit will largely remain the same, meaning that audits will be performed based on a number of criteria, including how long since the last audit, the results of that last audit, how a customer's use might differ from SAP's analysis of industry-wide usage, and if there has been a substantial change in the company's business, such as a merger or acquisition. An audit may also take place if the customer requests the audit – usually as part of an upgrade or migration – or as part of a license conversion process. While these criteria may mean that the overall audit process may still seem a little arbitrary to customers, EAC believes this will go a long way to removing the possibility of SAP performing an abusive audit.

There are two kinds of audit that will be performed by the compliance office. The first is a basic, semi-automated audit, that includes running a self-service audit tool and filling out a survey. This process has already been in use by SAP, and the company expects most customers to be asked to undergo this form of audit, and the average number of audits of this type is not expected to change. SAP also has an enhanced audit that is more comprehensive and will be used in a limited fashion in cases where the basic audit is not applicable.

To SAP's credit, the company is planning to offer the same auditing tools to its customers as SAP itself uses as a way of limiting the need for comprehensive audits, or in theory any audit at all. This ability to

"self-audit" is an important breakthrough that should go a long way towards heading off confrontational audits moving forward. This self-audit capability, which is expected to be available this summer, will mean that customers will have the tools they need to monitor their own compliance and take action before non-compliance becomes an issue with SAP. The self-audit has the power to reveal underutilization as well as overutilization, and, in the former case, the customer could use this capability to actually lower it licensing costs. Assuming the tool is well designed and user-friendly, EAC believes this kind of self-service audit capability will become an industry standard in a relatively short time.

The Role of the Customer in Solving Audit and Licensing Problems

EAC believes that it takes two parties to move beyond the current state of the industry, and that means that customers need to come to the contracting and licensing table more prepared to play a positive role in improving compliance and reducing friction.

To this end, EAC recommends that customers consider implementing the following five best practices:

Know what you're running. In too many cases, customers have no way to know their exact usage patterns, what systems are sharing data with each other, what remote calls are being executed, and other details of their operations. This is absolutely essential information for both compliance and negotiating a contract, not just with SAP, but will all the vendors in a customer's infrastructure. There are many ways to approach this, including deploying third party tools, and EAC believes the money and time invested in this process will be worth the effort.

Use SAP's auditing tools when they become available. Having this tool at the customer's disposal should take a lot of the mystery out the license and audit process, and, as noted above, will help customers rationalize their deployments and ensure that there aren't either over-licensed or under-licensed. It will also ensure that the negotiation between SAP and the customer doesn't get bogged down in differences in terminology and use.

Make sure your users know what's allowed and what's not. Think of license compliance the way the industry is now thinking of cybersecurity: A major way to stop phishing attacks is to train employees to know the difference between a regular email and a malicious email. Similarly, preventing non-compliance requires employee training for business users, who are being courted more and more by vendors with "citizen developer" tools, that will allow them to understand what's possible and when they need to check in with IT about what their licensing terms allow.

Get a lawyer: and not just any lawyer, but one who is steeped in the rather arcane world of software contracting. There are numerous service providers who are experts in this world and having one of them at the table is absolutely essential to making sure that the contract will work well for everyone.

Get it in writing. All too many times a sales executive has provided a verbal assurance that a particular practice is within the terms of the contract, an assurance that disappears when the sales executive moves on or "forgets" what was promised. All exceptional use cases need to be documented and/or made part of an addendum to the contract. Otherwise let the buyer beware.

Conclusion: Setting a Standard for the Entire Industry

While it will take time for SAP's new program to take hold and win over a majority of its customers, EAC is convinced that SAP's approach could set a standard for other companies to follow. At a minimum, all customers should be provided with tools that allow the kind of self-audit SAP intends to provide, which will both remove friction between customer and vendor as well as help rationalize software usage. The separation of audit and sales is also an important milestone. While some vendors have already separated these functions, the cowboy culture prevalent in the field sales organizations of most vendors will need to change as well. The removal of incentives to abuse the audit process is an excellent first step.

Moving to a document-based model is clearly the most innovative part of the SAP program, and it's the one that will be most closely watched by customers and other stakeholders. SAP will have to show that the licensing changes it is proposing will not increase customer costs for existing usage, and the company will also have to show how the new model provides a way to accurately budget for the future without having to account for unplanned costs. While there is every indication that this will happen, the proof will come only after a critical mass of customers deploys the new model.

Finally, it's important to reiterate that SAP found itself in this position through a self-inflicted wound – the judgements in the Diageo and InBev cases – but it has gone further than any other vendor in addressing these issues and trying to provide a more transparent and customer-friendly program. The relatively openness of SAP was both a blessing and curse in this regard. Because the company has always had an extremely active user group community that actually has some real say in SAP's affairs, and because there is a large and vocal ecosystem of SAP Mentors and others who also have sway at SAP headquarters, the furor about the lawsuits was exceptionally vigorous. Any other vendor who did something similar and sued a customer for indirect use wouldn't expect the story to go anywhere near as far as it went when SAP kicked this particular hornet's nest.

Vigorous as the protests were, however, this open ecosystem also allowed SAP to enter into a public dialogue in a way that no other vendor could. That dialogue included extensive vetting of the program described here. While the issue of how to deal with indirect licensing may never be solved to the satisfaction of all, EAC believes that SAP's ability to seek input from its ecosystem – and the company's ability to actually listen to that input – gives this new licensing model a very solid chance for success. Considering the transformations at hand in both technology use and business practice, the time to change how software is licensed is long overdue. SAP's *Project Trust* sets the stage for an industry-wide reckoning with older licensing practices, and this initial effort is an excellent start.