Leverage Service-Oriented Business Applications Toward Better Software Contracts

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Traditional software licensing models are not a good fit for service-oriented business applications (SOBAs). Start discussions on terms and conditions (T&Cs) for SOBAs now to establish a suitable licensing model early in the transition from legacy licensing models.

Key Findings

- Software vendors are defining the contract terms to better match how they look at SOBA licensing.

- Although the first SOBAs are available, licensing metrics vary significantly.

- User organizations can exploit their own business requirements to drive and shape vendor T&Cs for a service-oriented architecture (SOA).

- Vendors want to protect their revenue stream, but can become allies when allowed to participate in building licensing models to fit customer requirements.

Recommendations

- Identify your internal SOBA requirements and choose appropriate pilot scenarios.

- Discuss T&C roadblocks to implementations and enforce open SOA.

- Use discussions to fix some general inflexibilities and establish modern T&Cs supporting SOBAs.

ANALYSIS

Historically, many large application software vendors have sold their applications in functional, siloed bundles (for example CRM, ERP, supply chain management, help desk and asset management). With the current move to SOA, many vendors are rethinking their go-to-market and pricing strategies. This provides new opportunities for discussions with the vendors regarding the value delivered via the old bundles, in comparison to such new opportunities. Because most vendors are still in a migration phase regarding the acquisition or acknowledgement of services to complement features of their application suites, now is the time to leverage the general competition accompanied by these new offerings. Talk to your vendor contact person about how you would embrace the new services and ask him or her to waive some of the contractual barriers that might limit you to take advantage of these state-of-the-art application enhancements. Use the negotiations to also address other unfavorable terms, such as indirect access or lack of user swap rights that have hindered you from promoting the business value of the applications.

Challenge and Opportunity

Large application vendors have started into the SOA age by first offering new business scenarios, sometimes called "enterprise services." They typically combine process threads from various parts of the traditional applications and answer a new business question, such as, "book a travel that fits my calendar, budget and preferences" or "show order schedule if the order is shifted to another planning system and decide." Or, they use specific external services that update certain conditions (weather, route or currency) in a core process to enhance the decision-making intelligence. Although such preconfigured service-oriented scenarios provide good value for a number of businesses, they are just the tip of the iceberg. The real impact of service orientation will come from user organizations that implement new ways for shorter ad hoc processes and industry-driven end-to-end business enhancements.

The challenge of pricing is multifold and largely depends on how closely services are worked into the existing back-office applications environment with a high degree of vendor-owned integration, or if it is worked onto that environment, with a greater choice of different SOA tools, middleware, enterprise service buses, repositories and others. A summary of the expected pricing impacts from SOA can be explored in "Questions on the Impact of SOA on Software Pricing From Gartner's IT and Software Asset Management Conference." This research points to using the opportunity for discussions with your major ERP/backbone vendors to adjust current contracts, as well as preparing to accommodate the new licensing for your first SOBA deployments.

To check your status and readiness for SOA, identify the opportunities by analyzing the demand back-log and the new examples popping up in many similar enterprises, sometimes promoted by new business models.

SOA Promoted by the Business

Web services enjoy short implementation cycles. Their standardized interface and simple basic structure enable more plug-and-play than ordinary customization. The nature of Web services, their focus on easier user interaction and their nimbus of low price (although not reflecting total cost of ownership reality) have made the use of services popular for the business. Businesses regard service orientation as a lever to better control business processes, a notion that is underpinned by the enhanced tools for business process re-engineering and business scenario management. Vendors have recognized this and are trying to sell their own version of SOA to the business-unit heads enforcing these expectations, not all of them proven.

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This is an opportunity for creativity to building advantage: Pick the pilot areas best suited for a reasonable scope of service implementation and test your vendor to comply with your architectural model and user profile. You will easily create more questions from the vendors than you will get answers and can then design the future application landscape, still built on the vendor-given application platform.

Road Map for Future Use

As a consequence of defining the pilot areas, applications that need refreshing or are waiting to support new process or business models should be plotted on an SOA road map that reflects a midterm enhancement schedule and can be used for internal communication and proof-of-concept discussions, as well as the vendor-oriented message: Comply, support or fail. You might reduce the scope of such road map for external communications to suit the state of your vendor relationship and the negotiation goals you are trying to accomplish. Such a road map will generate a sales plan on the vendor's side and should include potential competition in middleware and consulting services to underpin your willingness to move on the fastest path possible.

Remember that competition must be credible and should enable the vendor to react with improvements in its entitlements or terms, to secure its application footprint and to "stay in the game."

T&C Roadblocks to SOA

Because the introduction of services in a previously bundled application is changing how core application information is used in the enterprise, a number of typical T&Cs can hinder the proliferation of SOA.

Move From User to Key Performance Indicator-Based Business Metrics

Using business metrics to calculate a license fee is becoming mainstream for future licensing (see "Long-Term Trends That Will Radically Alter Licensing in the Software Market"), but should be carefully applied. Scaling effects and bulk adoption can turn such mechanisms into cash-burners. Establish thresholds or the right to renegotiate on exceeding such thresholds to prevent unreasonable license fees. For example, the number of cross-docked items in a logistics optimization service for better cross-docking may grow considerably after deploying the service. A suitable key-performance-indicator-based metric focuses on the real business (profit) contribution, but grows less than linear with the value delivered.

User Rights Swap

When introducing services to your application landscape, anticipate a shift in use from certain traditional applications to more-automated workflows; some users may no longer directly access the software. Regard this change with appropriate feedback from the users and be prepared to swap user rights at some point in time.

Indirect Access

Services may cause users to interact with backbone systems without knowing it. It may be embedded in the Microsoft Office desktop or other third-party applications, portals or tools. If you have no unlimited license agreement, then users must be defined in proper categories and reasonable use levels must be licensed. Challenge your vendor by asking for a certain low level of interaction license-fee until the SOA model of the vendor has fully evolved.

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Additional Fees for the Development Workbench

Most big vendors promote their embedded development workbenches that enable a more integrated and sometimes proprietary, but effective, way to extend applications. Ensure that your new services are considered part of the runtime, licensed scenario and do not constitute new, additional licensing fees.

External User Licensing

Services are also an encouragement for broader collaborations, especially with external business partners. Negotiate inclusion of a certain estimated external user count to get protection from back-licensing, such use, and monitor it carefully.

Country Uplifts

It is almost impossible to audit the use of software via services invoked on some front-end device in a world of ubiquitous connections. Vendors that demand license uplifts for special regions or countries should be asked to waive such uplifts in exchange for a further proliferation of system use.

Certification Requirements

As long as your code remains compliant with internal tool checks, avoid additional certification requirements that will slow down implementation and create new barriers for vendor fees and partner cost. Educate your development staff to fully apply the established standards for developing Web services.

Data Extraction

Some vendors require fees for data extracted from their systems. Avoid such fees by waiving the existing license requirements.

Bottom Line

In addition to removing the concerns by the relative adjustments of T&Cs, carefully listen to the licensing trends that the vendor wants to pursue in the future. Ensure that you remain in the driver's seat and that new terms will only be applied after your explicit approval. Lock in the current status for all users not using the SOBAs to avoid unpleasant surprises. When you discover a particular interest for certain business scenarios, beware of your intellectual property and trade it in for preferred customer status to ensure control.

Above all, always make business value central to your communications and make it the foundation to all application-related IT contracts. You may accomplish this by establishing mandatory business value checks within your product and portfolio management efforts.

RECOMMENDED READING

"Questions on the Impact of SOA on Software Pricing From Gartner's IT and Software Asset Management Conference"

"Long-Term Trends That Will Radically Alter Licensing in the Software Market"

Acronym Key and Glossary Terms

ERP   enterprise resource planning

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SOA   service-oriented architecture

SOBA   service-oriented business application

T&C   terms and conditions

This research is part of a set of related research pieces. See "IT Procurement: The More Things Change, the More They Stay the Same" for an overview.

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