Salesforce.com Licensing Quick Guide

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http://www.itassetmanagement.net/2011/03/01/salesforcecom-licensing-quick-guide/

[Right: Marc Benioff, CEO, Salesforce.com]

This article has been contributed by Jon Mulligan, Founder and Managing Director of Openplain.

It has been argued that enterprise software in the cloud will put an end to license management.

This article aims to highlight the main characteristics of Salesforce.com licensing and demonstrate that, despite Salesforce.com being simple and straightforward – there are still opportunities for optimization and cost savings.

Introduction

This guide aims to highlight the opportunities for cost saving and optimization with your Salesforce.com agreement.

For individuals responsible for managing software and services costs within their organization, Internet based enterprise applications represent a new frontier.

This guide intends to demonstrate how Salesforce.com is licensed and optimized and in doing so provide organizations some food for thought when it comes to managing Internet based applications in the future.

Generally speaking, it is a case of leveraging the principles and techniques learnt from managing traditional on-premise perpetual licensing and adapting them for the cloud.

Please note that this document is intended as a guide only and not the ultimate source of truth. Please refer to the Salesforce.com Master Subscription Agreement or your Salesforce.com account manager for any clarification on your entitlement and appropriate usage.

How Salesforce.com is licensed

If you are an experienced software asset manager or licensing specialist you will find the Salesforce.com agreement a walk in the park in comparison to the license schemes of other software publishers.

The Salesforce.com Master Subscription Agreement is only ten pages long and is written, for the most part, in plain English.

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Traditional software licensing agreements provide the user the ‘right to use’ and application within certain terms. With Salesforce.com you are investing in a service contract. This service contract is based on a certain number of users over a certain period of time.

The table below summarizes the main characteristics of Salesforce.com licensing:

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self Regulating Compliance</strong></td>
<td>If you have bought 50 users you can only use 50 users.</td>
</tr>
<tr>
<td>Services are purchased from Salesforce.com as user subscriptions that cannot exceed the specified number of users. This removes the typical software compliance risk involved in perpetual licensing.</td>
<td></td>
</tr>
<tr>
<td><strong>Synchronized Agreement</strong></td>
<td>If you have bought 50 users and the agreement terminates in December – any additional users you add to the agreement throughout the year will also terminate in December.</td>
</tr>
<tr>
<td>If an organization wishes to add additional users to the service agreement mid-term these are calculated on a pro-rata basis to terminate at the same time as the main agreement.</td>
<td></td>
</tr>
<tr>
<td><strong>Synchronized Pricing</strong></td>
<td>If you bought 50 users at $50 each any additional user added throughout the year will also be at this price.</td>
</tr>
<tr>
<td>Additional user pricing is calculated based on the prevailing price that you agreed for the main agreement.</td>
<td></td>
</tr>
<tr>
<td><strong>Named User Licensing</strong></td>
<td>Fred is the only person that can use the login for Fred.</td>
</tr>
<tr>
<td>Users are named individuals within your company and can only be used by those individuals. The login credentials for one user cannot be shared with other users or be accessed by more than one person. Salesforce.com uses IP address monitoring to enforce this part of the agreement.</td>
<td></td>
</tr>
<tr>
<td><strong>Re-Assigning Users</strong></td>
<td>If a company has 50 users and Fred leaves the company. Fred’s login can be deleted and another one created for another employee – therefore the total logins remains at 50.</td>
</tr>
<tr>
<td>Users can be reassigned to different users.</td>
<td></td>
</tr>
<tr>
<td><strong>The Only Way Is Up</strong></td>
<td>If you have 50 users you can increase this to 55 throughout the year based on your requirements but you can only reduce it to 45 at the agreement anniversary.</td>
</tr>
<tr>
<td>“The number of users subscriptions purchased cannot be decreased during the subscription term”</td>
<td></td>
</tr>
<tr>
<td>The total number of users can be increased throughout the year of the subscription term but not decreased.</td>
<td></td>
</tr>
</tbody>
</table>

**Different License Types**

The most significant difference between a Salesforce.com subscription agreement and traditional perpetual software licensing is that an organization can only have one type of user. So for example if an organization decides that it requires the features offered in Enterprise Edition, then everyone in the organization must have Enterprise Edition.

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This approach has advantages and disadvantages. On the plus side it means licensing is simple. On the negative side it means that some users will only be using a fraction of the features available (How to take advantage of this feature redundancy will be explained later in the guide).

In addition to the standard Salesforce.com CRM users organizations can also purchase bolt-on user types such as:

- Salesforce.com Platform
- Salesforce.com Platform Light
- Force.com Licensing – custom licenses, customer portal users and feature licenses, e.g. Marketing user.

**How Salesforce.com Tracks Usage**

Salesforce.com provides the ability to track usage of its service and generates monthly bulletins so that administrators can enjoy a high level view of activity.

Unfortunately the usage data generated by Salesforce.com is primarily aimed at the adoption and ongoing success of the Salesforce.com implementation rather than cost optimization. Usage metrics include user logins and new records created.

For example we can see that James in the pre-sales department has logged into his account and created 50 new account records in the last month and that Jane in sales has not logged in or created any records.

Salesforce.com also provides analysis on data quality (e.g. is James updating his tasks) and business performance (e.g. Total deals in the pipeline).

These metrics are very good to support CRM adoption and implementation but they do not highlight the key facts required for cost optimization e.g. That James does not need Enterprise Edition in order to perform his job.

**Opportunities for Savings**

There are four main areas for cost saving and ongoing optimization with a Salesforce.com subscription. They are listed in order of priority:

1. **Negotiate Your Renewal with Real Usage Data (Opportunity: Significant)**

   The fees charges by Salesforce.com for the use of their service are based on what you have purchased not what you are using. Similarly the nature of Salesforce.com licensing means that everyone within your organization is using the same edition – which may be overkill.

   The opportunity for cost optimization lies in identifying the real usage of the application and negotiating your annual renewal (and subsequent additional users) based on real usage data.

   For example if you are paying for 1,000 Enterprise users, but only 150 staff only ever use enterprise features, you can suggest to Salesforce.com during your negotiation that you either need to downgrade all users to professional edition or that they should offer a discount for this mismatch of functionality. This tactic is best supported with facts – your usage data.
2. User Recycling (Opportunity: Moderate)

The number of users in your subscription can only increase. The opportunity with cost optimization here is to simply look for a user that is not using the application before requesting a new login. Your organization cannot share logins but can delete a user and add another by speaking with your Salesforce.com account rep.

3. Force.com Restructuring (Opportunity: Moderate)

Force.com is the custom applications platform from Salesforce.com. Force.com user licensing is generally significantly cheaper than Salesforce.com standard CRM user licenses.

“The cost for a Salesforce Enterprise license is $1500/year per license and the cost for a Force.com Enterprise license is $600/year per license. So you save $900/year per license for each user moved to a Force.com license.” Starrforce.com

The opportunity here is to consider migrating some of your existing user base to a custom application to access CRM data. This is a longer-term strategic optimization opportunity but might represent a significant saving. Salesforce.com integrator Starrforce.com state that users that only access accounts, contacts and custom objects are ideal candidates to move to Force.com Enterprise Edition.

See “Using Force.com to Optimize License Costs”

4. Billing Cycle (Opportunity: Small)

Penny Pinching Tip: If you have exhausted the search for users not using Salesforce.com and need to buy an additional license – wait until the first of the month to start the subscription. Users added mid-month are billed for the full month – e.g. If you add a user on the 20th January your organization will be billed for the whole of January.

Finally, it is worth noting that organizations need to give 30 days notice before their anniversary if they wish to decrease the number of users on their subscription.

Best Practices for Salesforce.com License Optimization

[Right: Jon Mulligan, Founder, Openplain]

Technology such as ours includes the ability to track both what web-based application is being used and what parts of that application are being used.

We recommend the following steps for license optimization to organizations that harness our software:

1. Track usage of Salesforce.com by user
2. Track which areas of Salesforce.com are being used
3. Show what versions of Salesforce.com would be most appropriate given usage e.g. James has Enterprise Edition but his current usage is more suitable to Professional Edition.
4. Negotiate a discount based on real usage data

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It is also worth noting that the ability to demonstrate to your vendor that you are actively tracking password sharing will also support your negotiation and demonstrate a high degree of control of your software estate.

About License Metrics

This article has been contributed by Jon Mulligan, Founder and Managing Director of Openplain.

Openplain Ltd. develops and sells LicenseMetrics and OfficeMetrics. LicenseMetrics is an award winning software inventory and usage metering solution. OfficeMetrics is a pioneering workplace analytics tool. Openplain’s products and solutions are used in more than 50 countries around the world.

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