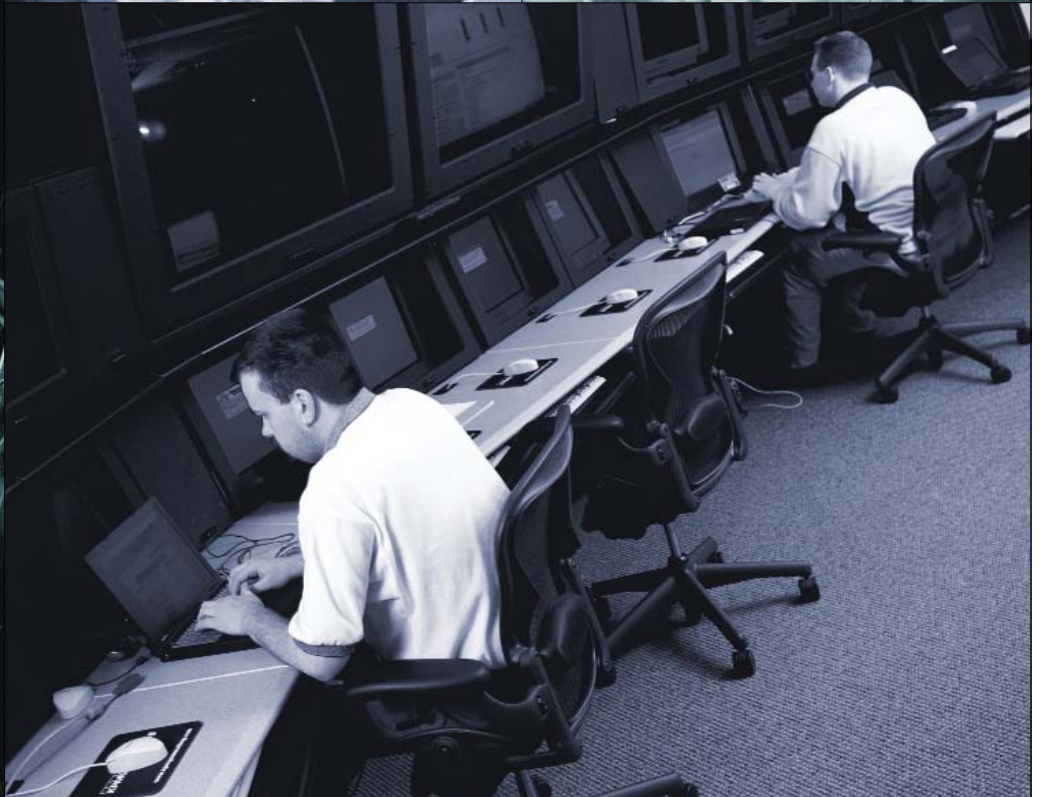


MAKING THE CASE: TRANSFORMATION TO DIGITAL LICENSING



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## PART I: Transformation to Digital Licensing

### EXECUTIVE SUMMARY

Today's software companies are straining to maintain revenue growth, reduce operational costs, and maintain or improve customer satisfaction and retention.

The fast-paced growth of the late 1990s has given way to a downturn in product demand. There is neither the budget nor the market demand for investment in minor improvements to existing products. As a result, software companies must seek to capture new markets with their existing product offerings. The rapid growth of the early 1990s and massive consolidation of the past few years have left many software companies with a stitched-together infrastructure that barely supports today's business, let alone provides a platform for future growth. While executives recognize the importance of infrastructure, many are unsure as to where they should focus their efforts to ensure long-term growth.

Finally, while products continue to evolve, many customers have grown dissatisfied with archaic methods for purchasing, receiving, installing, and managing software products. In spite of the innovation promised by the Internet and other technologies in the past decade, most software vendors are still shipping boxes, CDs, and manuals and leaving it up to the customer to stitch together a workable solution for their individual needs.

Recent industry and market developments, however, have led to the innovation of "digital licensing." Companies that successfully achieve a *Transformation to Digital Licensing* will be best prepared to compete in the emerging "software as a service" environment and take full advantage of the inflection point the industry is now facing.

Defined by Andrew S. Grove, president and CEO of Intel Corporation, strategic inflection points are the major turning points that change the way an industry operates. Organizations that recognize inflection points reap the benefits, usually at the expense of those that ignore them.

By completing a *Transformation to Digital Licensing*, software vendors will be able to successfully address the following five areas that are critical to their overall success:

- **Compliance**—Ensuring customers' conformance to license agreements.
- **Flexible Pricing and Market Strategies**—Providing the marketing department with the ability to better address market needs.
- **Business Intelligence**—Gaining critical insight into how customers use their products.
- **Completion of the eBusiness Vision**—Ensuring the customer experience is Web-enabled throughout the value chain.
- **Operational Efficiency**—Ensuring that infrastructure efforts are focused on those activities that best support the business.

Critical to the success of such an effort is the recognition of the transforming nature of the activities. To successfully support such efforts, the software vendor must manage the transformation as a company-wide program, incorporating the lessons learned from similar, large-scale efforts.

This document explores the nature of the current inflection and addresses the opportunity this time of change holds for software companies. In addition to exploring the larger market environment, we take a detailed look at the key success factors that must govern the processes, planning, and implementation that are necessary to realize the many benefits *Transformation to Digital Licensing* can offer.

## LANDSCAPE OF THE DIGITAL-LICENSING INFLECTION POINT

Today's software companies face a powerful point of inflection, or turning point. This time of dramatic change is driven by a combination of:

- Customer demands for service and support.
- Evolution of how software is used, licensed, and purchased.
- Need for streamlined operations that can support growth and reduce costs.
- Technology advances that enable new licensing models.

Companies are challenged to optimize the use of new technology while increasing revenue and improving internal operations. Additionally, companies are looking for complete solutions as opposed to short-term fixes.

### A Look Back

The software industry has seen tremendous growth in the past 20 years. With relatively low barriers of entry and a wide range of applicability, the industry has created an extensive range of solutions, applications, and markets. This expansive growth, however, led to a significant number of challenges for the industry and its customers, including:

- **Internal Operations.** Without the benefit of industry standards for operational management, many software companies developed internal infrastructure and processes based on traditional hardware companies. Since financial, regulatory, and governmental agencies developed concurrently with the industry, they have also been challenged to keep pace with industry evolution. Complex revenue recognition rules require that software companies manage their operations differently from traditional industries. Since the software industry has few fixed Enterprise Resource Planning (ERP) and Customer Relationship Management (CRM) operational standards, companies often developed and/or customized solutions to handle

their customers' unique requirements. Coupled with the natural tendency for software companies to develop their own IT solutions, many software vendors find system integration in today's environment a major hurdle.

- **Growth and Consolidation.** Due to explosive growth in the early 1990s, many software companies successfully developed and introduced innovative technology, only to discover an inability to effectively serve an expanded customer base over the long term. Numerous mergers and technology purchases followed, forcing the integration of technology, employees, data, systems, and—most important—customers into the purchaser's existing business practices. In most cases, companies sacrificed integration to support rapid growth.
- **Focus on Physical Products.** Technology limitations in the 1980s often compelled companies to develop a physical focus for products and their supporting systems. The way vendors reached markets was primarily rooted in the production of physical goods (e.g., tapes, CDs, manuals) and supporting collateral (e.g., literature, boxes). Consequently, software companies were forced to become manufacturing and physical-distribution-based businesses. While a necessary reality of the early industry, companies often focus exclusively on this method for the packaging and distribution of products. This model also generates significant overhead costs to maintain the facilities necessary for its support.

### Emerging Industry Trends

In addition to existing challenges, software vendors are faced with several emerging trends that, while presenting major opportunities, also present increased complexity:

- **Providing "Software as a Service."** Advances in technology—including the emergence of Application Service Providers (ASPs)—coupled with evolving customer expectations have given rise to the idea of "software as a service." Historically, customers purchased software expecting unlimited use of the

product's features. New options including application rental and pay-per-use models now allow customers to purchase software rights for a specific length of time or on an as-needed basis. In spite of some implementation and adoption concerns, the new models are gaining acceptance.

- **Enhancing the Customer Experience.** Today, customers expect more from software vendors—both in terms of treatment throughout the sales, distribution, and support processes and the degree of product flexibility and customization. Customers now expect software vendors to offer products and services that will meet their specific requirements. In addition, since they now recognize the flexible (and low cost of goods sold) nature of software products, customers now demand greater discounts to meet their expectations.
- **Enforcing License Compliance.** As the rapid growth—prevalent within the industry for so long—begins to slow due to changing market conditions, vendors must look for ways to increase revenue without significantly increasing costs. Existing customers are a center of attention for this activity and represent lost revenue through accidental use beyond license-agreement limits (or “honest abuse”).

## WHY DIGITAL LICENSING? EXPLORING NEW BUSINESS OPPORTUNITIES

Traditionally, software licenses have been sold on a “perpetual” basis, allowing customers to continue to use the software purchased throughout their lifetime. This model, while simple, has resulted in a general perception that, once purchased, the customer now “owns” the software.

The reality of the situation, however, is that the customer has only purchased the right-to-use the software. Based on the terms of the license agreement, the customer has paid the software vendor to utilize a specific set of functions over a particular time frame, typically only for the customer’s

benefit. The customer does not have the right to modify, copy, distribute, or otherwise abuse the software. In short, the customer has purchased the ability to use the software. At the termination of the license agreement, the customer is no longer legally allowed to access the product.

Recent innovations in the software industry and available technology have created a current business environment that is ready to more broadly adopt digital licensing.

- **Technology Maturity.** Early adopters of the digital-licensing model, such as the electronic design automation industry, successfully used licensing technology throughout the 1990s. With the successful emergence of commercial licensing applications (the market leader being GLOBEtrotter™), new vendors have identified an opportunity for growth and are actively developing products to address demand and spur innovation.
- **Maturing of the Internet.** The Internet has proven able to deliver information rapidly, securely, and at minimal cost to the provider. While customers may not yet be comfortable conducting large-scale purchases via the Internet, small purchases and information transformation have become a widely adopted business standard.
- **Growing Acceptance of Intellectual Property (IP) Protection.** Both business and consumer customers are beginning to understand the importance of protecting IP. The high-profile struggles of online music service Napster illustrate an increased awareness that value must be protected. Business software customers recognize the importance of honoring their license agreements, if only to avoid the costly fees and expenses to be incurred should they be found in breach of contract.

## DIGITAL-LICENSING VISION

In **Table 1**, we review several key differences between the current business model for software companies and the digital-licensing vision.

TABLE 1

TRADITIONAL VERSUS DIGITAL-LICENSING BUSINESS MODEL

**TRADITIONAL BUSINESS MODEL**

- Fulfillment constrained to delivery of physical goods
- Subsequent customer purchases require additional shipment and installation procedures
- Software purchased “perpetually”
- Responding to market requires extensive software redesign by engineering
- Disparate systems for management of customer and entitlements
- Non-integrated legacy systems create disconnected customer experience
- Non-integrated, point solution-based contacts

**DIGITAL-LICENSING BUSINESS MODEL**

- Online fulfillment enabled through ESD and Electronic Keys
- Subsequent customer purchases fulfilled through keys that unlock critical functionality
- Software purchased on rental or pay-per-use models
- Marketing has the ability to rapidly design products without impacting engineering
- Common view of customer and customer products
- Web-enabled 360-degree view of the customer through install base
- Integrated product suites enabled by licensing

The current and expected future uses for and benefits of digital licensing include:

- **Compliance**

- Systematically monitor usage against license agreements by protection, compliance, and asset management.
- Provide tool for users to manage assets and pay only if they need to use the software.

- **Flexible Pricing and Marketing Strategies**

- Implement new sales strategies such as shifting from enterprise-wide support models to support for individuals who perform a specific function for a limited time.
- Align licensing and pricing to specific market segments.
- Transition to value-driven sourcing and use (“software as a service”).

- **Business Intelligence**

- Improve business intelligence.
- Provide detailed usage information.
- Force registration of all customers and users.

- **Completion of eBusiness Vision**

- Link functions across an eLicensing spectrum (electronic software commerce, electronic software distribution, electronic license distribution, electronic license management).
- Allow customer and channel portals to offer ordering of right-to-use (features, functions, and bundled services).
- Create self-service selling transactions that can up-sell new features to better suit specific customer needs.
- Support discrete-feature bundling and promote levels of personalization.

- **Operational Efficiency**

- Streamline engineering processes through management of single binaries for a product suite with rights-to-use unlocked by license keys.
- Increase release flexibility by allowing marketing and engineering to easily reconfigure product offerings.
- Establish digital distribution channels.

## CURRENT LEADERS: SHIFTING THE LICENSING BUSINESS MODEL

Many independent software vendors successfully use digital-licensing technology to protect revenues, drive operational efficiencies, and enhance the customer experience through expanded self-service capabilities. The following examples describe how digital licensing has improved business for two software vendors.

### CASE STUDY: Product Management

A major independent software vendor/producer of design and development products significantly improved customer satisfaction and increased revenue by fully embracing digital licensing and radically restructuring its product offerings.

Due to growth through acquisition, the software vendor offered a complete range of products to address all aspects of the customer design cycle. Customers often found it difficult to justify product purchases on the traditional perpetual or yearly subscription basis when the software was only to be used at specific points during the design process. Often the customer “made do” with cheaper, inferior solutions or in-house-developed alternatives.

To address this issue, the software vendor redefined how it sold and managed its products for the largest, most strategic customers. Rather than providing a series of point solutions, this vendor offers a program where customers have access to the full suite of products, but only use specific products/features when they are needed in the design cycle. In place of a traditional “site license” that offers customers unlimited access to all products, the new program requires that customers “trade in” the licenses they no longer need (so they are not accidentally used outside of the project) to receive access to other products as appropriate.

With the new digital-licensing model, this vendor has realized a \$100 million revenue increase, a significant decrease in operating costs, and a major increase in customer satisfaction.

### CASE STUDY: Monthly Subscription Model

A second software vendor challenged conventional wisdom by stating that its software must be available 24 hours a day, 7 days a week, 52 weeks a year. The vendor offered an annual subscription in the form of 12 monthly licenses that, when invoked, would “lock” a license to the person that invoked the license for a period of 30 days.

The software vendor did not restrict how the customers used the licenses. Some customers used their licenses one month at a time, while others would use multiple licenses in peak times and manage the remainder during the balance of the year on an as-needed basis. The vendor’s sales organization initially feared an adverse impact to revenue, but their customers expressed satisfaction, and revenue increased by 30 percent.

## TOMORROW’S OPERATIONS

In order to reap substantial benefit from a *Transformation to Digital Licensing*, we must examine each stage of the licensing life cycle through the customers’ eyes. (See **Figure 1.**) Customer-focused licensing means developing easily understood, accurate, and efficient purchasing methods. Data sources must be coherent and transparent so customers can easily reference and understand which products and services they already have and readily identify the additional options now available to their organization at specific price points. Once purchased, it is crucial that installation and integration of customers’ licensed software be seamless and accurate.

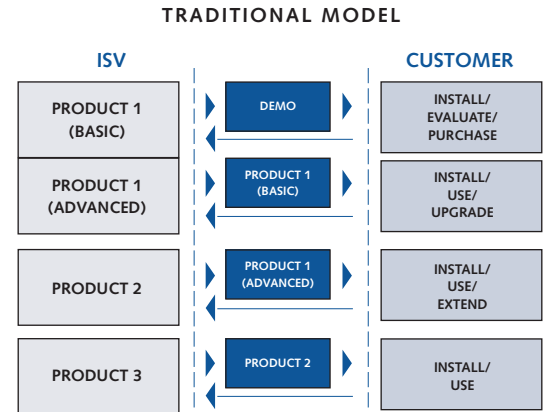
Evolving to the digital-licensing model requires the careful planning of many key business process transformations, including several software-specific areas of technology focus:

- **Single Binary Vision.** Currently, software vendors must manage a wide range of products, product families, and industry-specific product versions. As a result, customers are often forced to select a product based on

price and the discrete offerings provided. Frequently, after using a product, the customer is interested in adding new features or functionality. Invariably, the customer is required to generate a new purchase order that is fulfilled by the vendor through traditional physical delivery mechanisms and then installed by the customer (potentially requiring the customer to reinstall the initial product). The complexity of this upgrade process often discourages customers from making additional purchases. (See **Figure 2.**)

To realize a single binary vision, the vendor must migrate its product suites into a single image (or executable code) and control the use of the IP through a digital-licensing program. Using this approach, software vendors can provide an entire code-set to their customers in just one transaction and allow the customer, through Web interaction, to enable incremental functionality as required. This model provides the vendor and customers with a new range of sales options (providing temporary demo keys to trial products, short-term functionality adds for specific

FIGURE 2 SINGLE BINARY VISION



DIGITAL-LICENSING MODEL

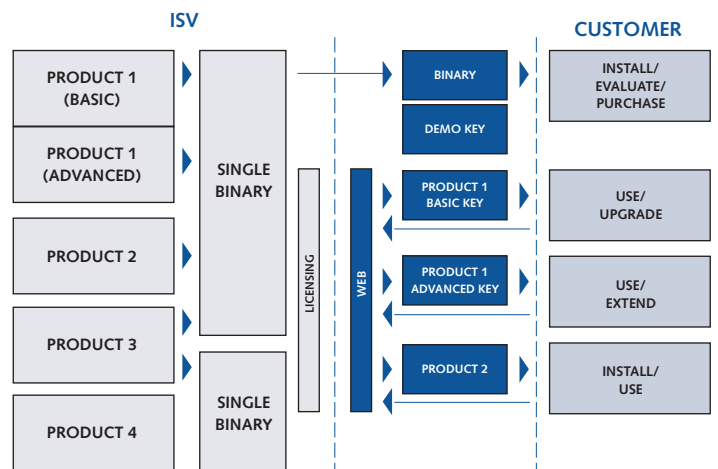
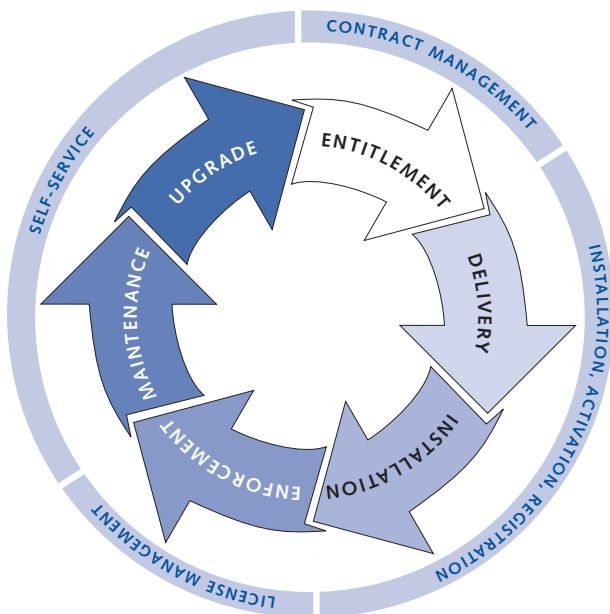


FIGURE 1 LICENSING LIFE CYCLE



tasks, and so forth) as well as a significant reduction in operational costs for both parties.

The single binary vision can also have a direct impact on the vendor's engineering group in the areas of source tree and code management. Most software vendors will have to increase discipline in order to minimize code branching and ensure that all peripheral development is managed for inclusion in the main branch.

- **License Modeling and Configuration.** Market leaders constantly seek opportunities to enter new markets and find ways to maximize existing market revenues. Frequently, however, requests to combine feature sets to meet the needs of new markets or to offer alternative sales and usage models (subscription, frequency, etc.) will be stymied by the complexity of having to reengineer software products for each request. In some cases, companies must decide how to structure and sell a product months—or even years—before its completion, demanding an unrealistic level of predictability in today's rapidly shifting market demand.

Properly implemented, digital licensing allows companies to sell products through a wide array of usage models that range from the standard perpetual license to subscription and pay-per-use. Also, by embedding the appropriate “hooks” into their code, engineering can provide internal marketing teams with the ability to easily recombine feature sets and meet changing market requirements without additional costly development. By separating feature-management issues and the purchasing model from development of core code, software vendors can allow their engineering teams to focus on their core competency: development.

- **Licensing Life Cycle (Installation, Activation, License Enforcement, and Self-Service).** Currently, most software vendors manage their customer experience as a series of discrete events (purchase, fulfill, invoice, service). With the introduction of digital licensing, integration of licensing and the customer experience

requires an increased level of coordination between formerly disconnected organizations. The phases of the digital-licensing life cycle include:

- **Installation**—Requires a simple and complete software installation, as well as a licensing process that is relatively transparent to the customer. At the same time, however, the vendor must accurately track what products each customer has installed and be able to update internal data sources appropriately.
- **Activation**—The ability to access and install required licenses that activate the software a customer is entitled to run. Again, transparency is key while also ensuring that the vendor can capture critical customer information.
- **License Enforcement**—Involves providing customers with the technology to use products while ensuring that a customer is not in violation of a licensing agreement. Currently, most customers have no way of tracking their usage in order to manage their user activity within compliance constraints.
- **Self-Service**—Automates many of the non-value-added tasks that customers frequently require. These include updating customer information, transferring licenses, rehosting to new equipment, and, in some cases, simple quantity increases. In today's model, these activities require significant support from sales and operations with no positive impact on revenue. Fully automating these processes can significantly lower costs while improving customer satisfaction.
- **Managing the Install Base.** Most vendors currently manage customer information within individual internal organizations or departments based on specific requirements. For example, marketing, operations, sales, and customer service all manage unique systems for different purposes, making it difficult to consolidate or reconcile customer information.

By developing and managing a central install base that accurately tracks customer purchases, shipments, installation, and entitlements (including service), vendors

can reduce the time and effort spent on maintaining multiple systems and greatly increase employee productivity. In addition to being the centralized master location for key generation, a central install base will also enable support teams to better service customers by providing a more complete record of what products the customer owns. Sales and customers also benefit by having a better understanding of the product suite. In addition, a fully enabled install base can provide critical product usage information, enabling better product-development decisions.

### ENABLING DIGITAL LICENSING: KEY TECHNOLOGIES

In **Figure 3**, the specific front-office technology enablers that characterize licensing across the value chain are illustrated. Here we examine this transformation's impact and consider the expansion of business opportunity that must begin with a more specific stratification of the products, services, and delivery mechanisms that make up the business.

FIGURE 3 DIGITAL LICENSING SPECTRUM

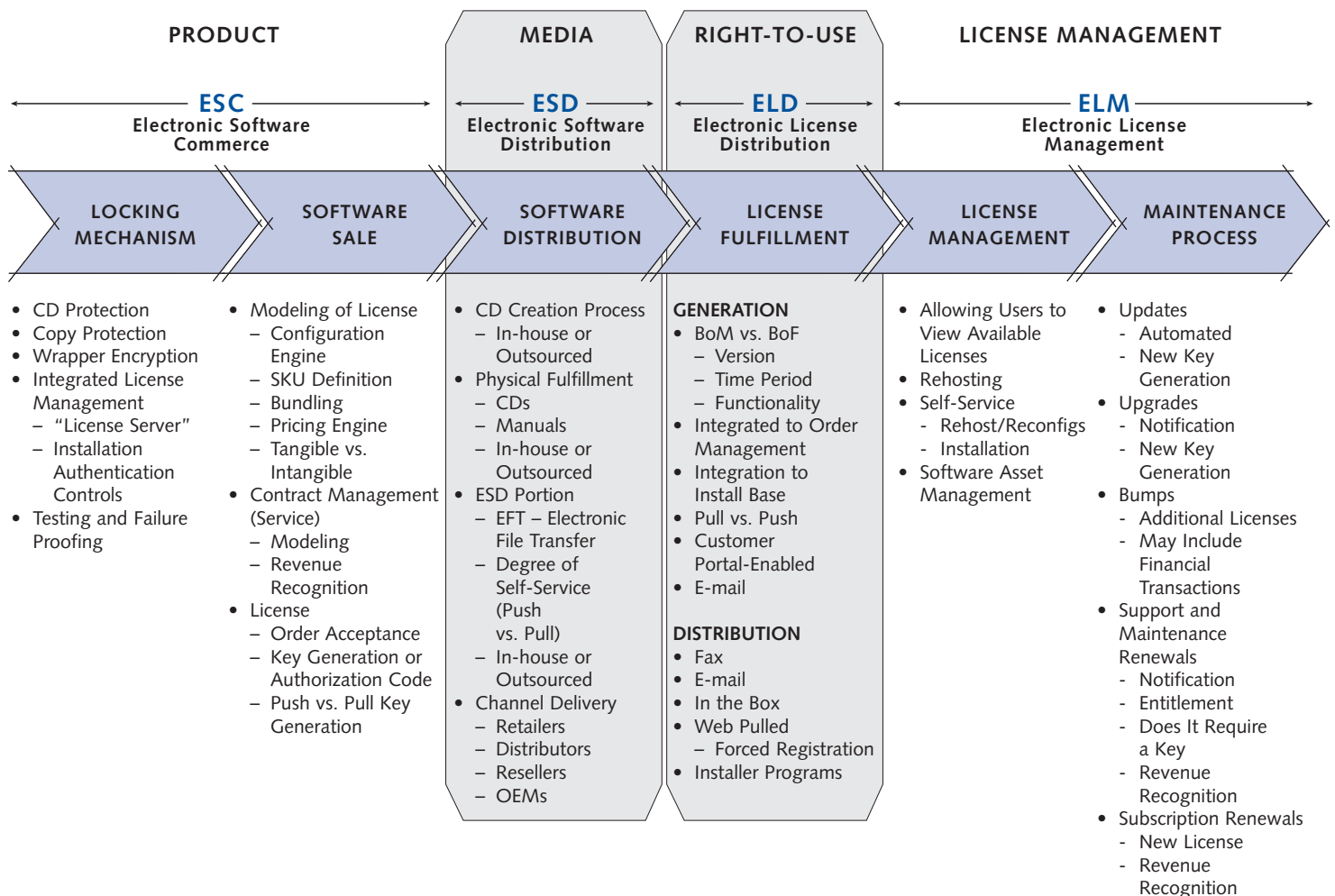
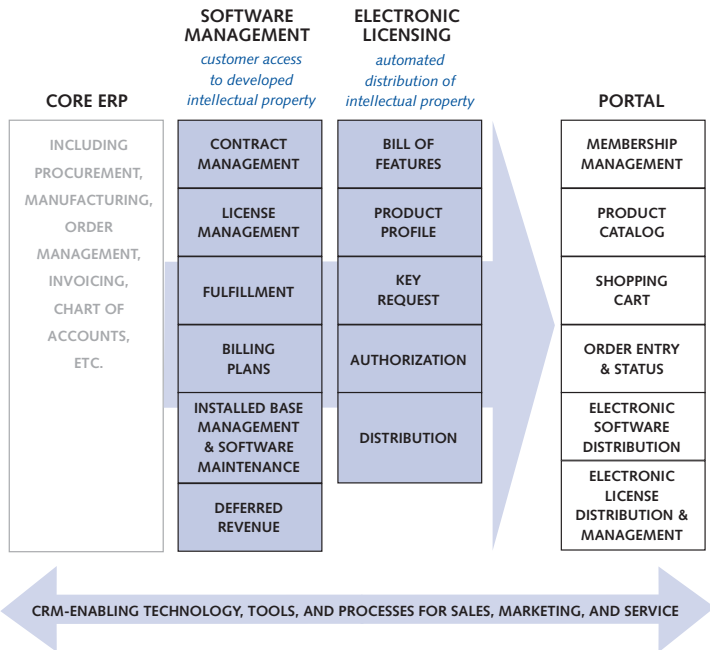


FIGURE 4

MORE THAN JUST AN ERP INTEGRATION



The shift to licensing appropriate rights-to-use is important to customers. However, a technology-based product-delivery system cannot work effectively without strong connections to back-office systems as well.

Traditional ERP enables only part of the digital-licensing solution. **Figure 4** shows the grouping of enterprise functions by application. Effective operation of both the software management and distribution processes assumes that core ERP functions are available to appropriately inform the Internet-portal-customer interface, enable accurate product-feature profiles, and authorize proper distribution-on-demand. **Figure 4** also illustrates the relationship between two key process layers that often were missing links: software management and digital licensing.

Today, although it is still necessary to deliver code “frozen in time” by shipping software, this inconvenient step can be overcome as delivery processes are streamlined moving forward. The shift to digital licensing will reinforce the understanding that software companies license the right-to-use IP.

The software-management-process layer links customer access to developed IP. Digital licensing automates the distribution of IP to customers. To ensure effective operations that generate maximum revenues, the management layer must provide flexible sales and maintenance contracts and licensing programs that are transparent at the level of automatic distribution. Many software companies have already embedded code into IP packages to return usage information that can be tapped at renewal points in the delivery cycle. Regardless of individual contract complexity, the future of digital licensing demands a set of process tools to automate electronic commerce, software distribution, license delivery, and management, as well as software asset management for both vendors and their customers.

Effective configuration management ensures that engineering has a consistent methodology for managing code development. Consistent defect tracking and change-management processes are required to allow engineering and marketing to make effective cost-benefit-driven decisions regarding change requests to fix defects identified late in the process. Finally, an effective packaging solution that gives engineering the flexibility of modular development while ensuring that a single-binary-driven image can be rapidly built and tested is critical for success.

Digital licensing is not simply the addition of appropriate technology to improve current licensing processes. Fully utilized, it completely changes the way IP is packaged, purchased, serviced, and maintained.

## CURRENT OPERATIONS CHALLENGES

Examination of the operational model that focuses on selling our customers discrete products points to many challenges that can impede efficiency. Some companies may excel at marketing or product development, but few companies have implemented a full digital-licensing vision. Every aspect of the company must commit to overcoming the following operational inefficiencies:

- **Marketing** delays the engineering-software-development process by requiring commitment to structure, licensing, and pricing decisions many months prior to product completion. Any changes to the initial specification, even if they don't impact core development, must be approved via an engineering change order.
- **Engineering** spends weeks to months navigating development, integration testing, and release processes that discourage rapid development or maintenance initiatives.
- **Manufacturing's** release process is often unstructured and plagued with inconsistencies as development delays drive an "anything that works" approach. Minor "tweaks" to products are not possible since developing an identical image is extremely difficult due to the extremely complex release process.
- **IT** represents significant overhead, expense, and delay, and it fails to provide an effective platform for building additional services and system flexibility.
- **Sales, order entry, and billing processes** are disconnected and/or inefficient. Sales may have difficulty matching customer needs with complex product offerings. Operations and other resources constantly spend cycles cleaning up data.
- **Customer experience** is inconsistent at best. Inconsistent product offerings and multiple license-management schemes make it difficult for customers to identify the products and solutions they need. Their experience is further diminished during the product execution due to nonintegrated point solutions, multiple installation routines, product shipping and invoicing complexities, and mistakes.

This inflection point, caused by customer demand, industry trends, and operational challenges, will transform everything about how we define and develop software products. It will no longer be adequate to simply characterize a software company's products as executable software. Tomorrow's software-enabled solutions will contain distinct components including source code, executables, hardware, services, third-party products, options to facilitate additional features, and additional refinements yet to be defined. In this context, "installation," "license," and "integration" will take on different meanings depending on specific user requirements and relative to a variety of distribution options.

Today's multiple product lines, families, and release cycles are driving complexity instead of innovation and effective reuse. Systems, processes, and organizations that are optimized for one product line are often unable to easily support others. Efforts to optimize one or more business processes across the enterprise may deliver less-than-optimal results for existing processes or systems in localized organizations.

## WHY DIGITAL LICENSING REQUIRES A "TRANSFORMATION"

Digital licensing is not simply the addition of appropriate technology to improve current licensing processes. Fully utilized, it completely changes the way IP is packaged, purchased, serviced, and maintained. Therefore, thinking, planning, and mobilizing the digital-licensing solution—on the right scale—provide the keys to success.

In today's boardrooms, executive-level discussions are common galvanizing forces of organizational and industry change that acknowledge the need to carefully tie systems-integration initiatives to the business vision. Once an enterprise accepts electronic licensing as its mechanism of change that will enable successful transition across the inflection point, it is of paramount importance to consider the total impact that change must have on both its front- and back-end systems.

While working with software companies as they embark on the path to digital licensing, we notice that however modest the initial concept, its implementation impact spreads enterprise-wide across operations, engineering, marketing, and sales. For example, a new business model may include developing online configuration rules for a new product. This new product's structure includes different levels of bundled services. The online configuration rules will need to:

- Enable customers to unlock the appropriate right-to-use.
- Support enforcement of license compliance.
- Collect and accurately document online self-service sales revenue.
- Report back to corporate marketing to ensure that cross-sell and up-sell marketing campaigns can be calibrated to actual usage.
- Report back to ensure that support and maintenance processes can be developed and staffed appropriately.

In this way, digital licensing impacts staff and management responsibilities and dependencies, as well as influences a broad range of business-process decisions. (See **Figure 5**.)

You should pause to consider the complexity, opportunity, and pitfalls associated with moving your company forward toward the new business landscape. All the lessons learned when implementing major change programs will apply to digital licensing as well, including several key strategic, governance, and process considerations and recommendations.

Applying a broader, more ambitious definition of functional and organizational scope from the first step of implementation often helps avoid fragmentation.

FIGURE 5 AREAS OF BUSINESS IMPACT



## PART II: Managing for Success: Strategy, Governance and Process in Enterprise Transformation Programs

### LESSONS LEARNED FROM ERP

Clearly, some degree of initial planning is essential to set the vision, define the scope and business benefits, and lay out the road map for achieving the vision of a transformation program. Yet, taking the time to set an effective strategic plan in motion often remains an uphill battle in many corporate environments.

Since the early 1990s, we have gained extensive global ERP implementation experience that enabled us to determine common (or global) versus local requirements. Meant to support international companies lacking globally integrated systems, these ERP projects were frequently lacking the support of an integrated management structure to help set the right direction. Therefore, ERP implementations had to forge appropriate decision structures—often painfully. As a

result, some early global ERP programs spent far too long considering global processes, often without clearly understanding the implementation constraints they faced. In such an environment, frustration often set in and spawned independent initiatives. Although many early ERP adopters standardized on an application package, they often were unable to achieve the “single integrated instance” goal that would enable consistent global processes.

Later adopters of ERP (or those carrying out consolidation programs) learned the importance of establishing requirements prior to beginning the first implementation project. A broader, more ambitious definition of functional and organizational scope for the first implementation step often helps avoid fragmentation.

### Defining Program Scope

We believe ERP lessons can be applied to the digital-licensing inflection-point challenges software companies now face. This past ERP experience can guide the organization toward the appropriate level of detail needed to:

- Set goals and vision.
- Define a realistic road map for implementation.
- Identify measures for success.
- Identify cross-functional boundaries.

The appropriate time frame and level of detail is driven in part by the effectiveness of the overall implementation, including how the organization gains agreement, avoids rework, and determines up-front requirements. Another important consideration, however, is an organization’s tolerance for this kind of operational strategy.

- Too much detail and the vision is lost—or worse, analysis by paralysis sets in.
- Not enough detail and the proposals will lack sufficient credibility.
- Too much or not enough detail and consensus is never reached.

Based on our experience and observations, it is essential to adequately set the stage by defining a credible set of initiatives linked to the vision and goals. Planning for the impact of each initiative on all systems, graphing benefits, and acknowledging risks—as well as developing realistic budgets and identifying business value—must be clarified. A medium-sized company might expect to scope out a useful road map by focusing on the program’s parameters in a five- to ten-week planning phase.

Putting a clearly defined governance and decision-making model in place is a critical success factor. It must be chartered to respond to changes brought on by new information—or constraints and requirements that are uncovered—as project activities commence. Enterprise-level programs will always need to respond to business changes, so effective governance is essential to steer the right course. The expectation that program planning is a continuous process needs to be set at the outset.

### Measuring Business Value

As recently as two to five years ago, major change programs were readily approved on the basis that infrastructure investment and a platform for growth were critical to securing future success. Today, such proposals are unlikely to result in program-fund commitment. Without an explicit articulation of the business value to be derived, your transformation program will be unable to secure executive-level support. You will need to define an appropriate value-measurement hierarchy to:

- Identify a scale of measure for business improvement.
- Place points along that scale including current, target, and best-practice benchmarks.
- List the assumptions needed to achieve the improvement from current to target.
- Articulate the assumptions to translate the improvement as a cash value.
- Assign accountability for delivering the improvement.
- Determine a time frame for realizing the benefit.

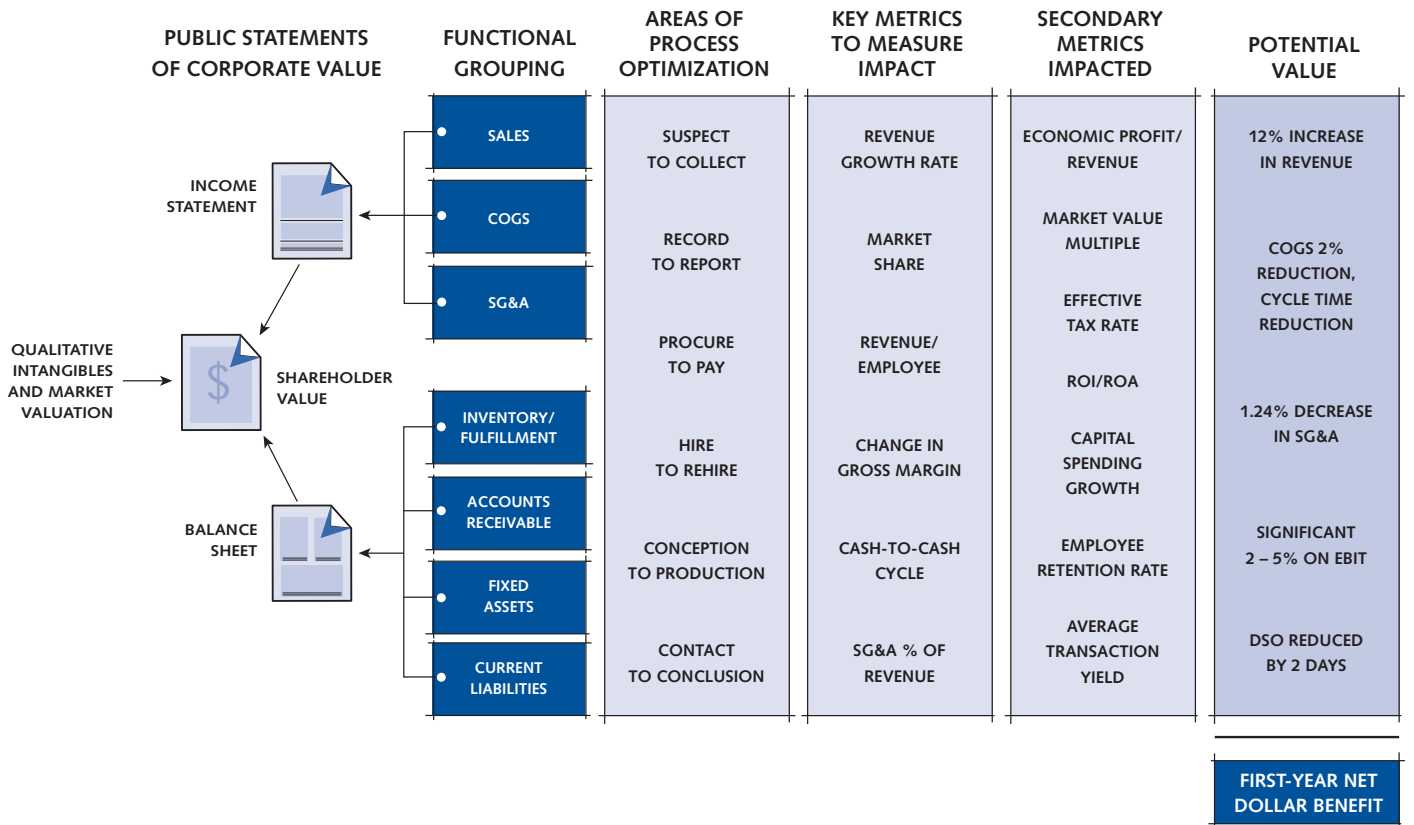
We believe that measurement can always be made and a cash value derived. Assumptions made when translating improvements into cash value must be articulated. For example, some companies will determine that customer satisfaction, as measured by survey, needs improvement. A number of controllable actions can positively impact the satisfaction rating, such as call wait time. The assumption is that higher customer satisfaction will improve customer retention and therefore revenue. Management must buy into the principle that improved customer satisfaction is worthwhile, agree which attributes are likely to impact it, and—if required—agree on the revenue equivalent for those improvements.

Although benefits can be quantified, assumptions are often required to express each benefit as a cash value. Reduced operational cost is also a tangible benefit. Too often,

companies quantify simple measures to justify a project, while failing to articulate the more complex measurements such as how the more strategic benefit of improved customer satisfaction will be delivered. Without management attention and quantification, such strategic value will go unrealized.

As illustrated in **Figure 6**, each of your improvements can also be linked back to shareholder value. Once you consistently define how specific processes are expected to contribute to the enterprise's bottom-line valuation, it becomes easier to advocate for the technological improvements that can secure organizational transformation. When all constituencies understand and agree on what the key program-value indicators should be, you can prepare to effectively manage your projects to demonstrate that value.

FIGURE 6 STRATEGIC VALUE METRICS AND VALUE DRIVERS



## THE CASE FOR CHANGE: MAKING THE VISION REAL

Making the case for change is different from quantifying business value. Business value cannot always be directly tied to specific actions. If there are to be several related initiatives, the case for change must be clearly stated. Your case needs to effectively demonstrate how the transformation project will tie to specific departmental or individual process results. To drive action, change must always be made personal. Effective change agents are able to get the organization excited and motivated, since they help others envision the collective future. The change agents also keep a steady eye on the end-state goals in order to identify and communicate when each has been achieved.

Executive sponsorship is an essential motivation for change within the enterprise. Frequently, actions to drive change consist of the “boss” informing or persuading the subordinate that something needs to happen. Perhaps the boss mandate is the most unambiguous path to managing a transformation program. Persuasiveness in matrix management structures, even in empowered team-building cultures, demands a clear executive sponsorship—in addition to consequence management—that lines up with a single company vision.

### The Burning Platform

Simply identifying transformation drivers at the personal, departmental, and individual levels still may not be enough to drive true organizational transformation. Creating a well-documented business case cannot make change happen by itself. In reality, current pain is more vivid than anticipated reward. When an enterprise needs to understand certain situations and practices as being both unacceptable and threatening to the business, the situation can also be characterized as a “burning platform” issue, defined as when the organization is facing a major (disruptive) change in which the cost for the status quo is prohibitively high, and there is significant risk that implementation failure could occur.

Systemic organizational changes such as *Transformation to Digital Licensing* must be characterized and communicated as a burning platform for the business. Without this level of urgency, change either will not happen at all, or its end-state goals become diluted during execution.

### Evolutionary Approach

“Think big, start small” is a good principle. The proof for a truly evolutionary approach will be found in measuring incremental business value. Today’s market environment demands an evolutionary approach to organizational transformation. The measurement process will help identify critical issues and ROI or improvements in key company metrics. The starting point for your rollout strategy should be identified business value, not your technical constraints. Work-around cost, the need to establish a flexible technical infrastructure, and your application architecture must all be considered—but they are not the transformation drivers.

Given the holistic nature of transformation programs, organizations often struggle to effectively map big-picture benefits down to the tiny steps necessary to accomplish change incrementally. We recommend delivering business value in 90-day increments. This value may not always be a direct-cost measurement. Reducing release time from 30 days to two days would be a great value. Rather than a direct-cost savings, it may be reflected in improving customer service or market share. This in turn might translate to reduced headcount, redeployed staff, or the ability to realize additional revenue. At the end of 90 days, finding ways to measure and achieve this business value could demonstrate a tangible achievement for the transformation program by providing management with options for how to achieve additional benefits moving forward.

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## IMPLEMENTING THE PLAN: MOBILIZATION AND THE EXECUTIVE TRACK

If the initial approach is to take five to ten weeks to create the vision and plan, what happens next? How do we smoothly transition from creating a plan to delivering business results? What can we do to maintain momentum for the program? Too often, the strategy-development phase fails to bring together a critical mass of stakeholders to agree on the collective vision and commit to its realization. This results in fragmented initiatives and the creation of new processes that develop increased resistance to change.

After weak executive sponsorship, ineffective mobilization is the biggest cause for program failure. How do we implement the above recommendations to ensure a successful *Transformation to Digital Licensing*? We have found that in order to move seamlessly from strategy through mobilization to implementation, an “executive track” (ET) should be established to address the requirements for capturing and articulating the vision, engaging key stakeholders, securing resources and funding, and owning the delivery of business value.

### Executive Track: Purpose and Process

**Figure 7** graphs the flow of an ET to support the realization of large change-management programs. An ET must successfully create the case for change to the board, the associated executive team, employees, customers, and suppliers. The ET is the driver for larger project decisions regarding scope, benefit, cost, time, and risk. It is also responsible for keeping these dimensions aligned to enable smooth step-by-step project implementation.

Perhaps the most visible duty of an effectively managed ET is to build and maintain momentum throughout the project implementation stages, including a proactive process that clearly anticipates and effectively feeds executive requirements for information, consultation, and approval to the project teams.

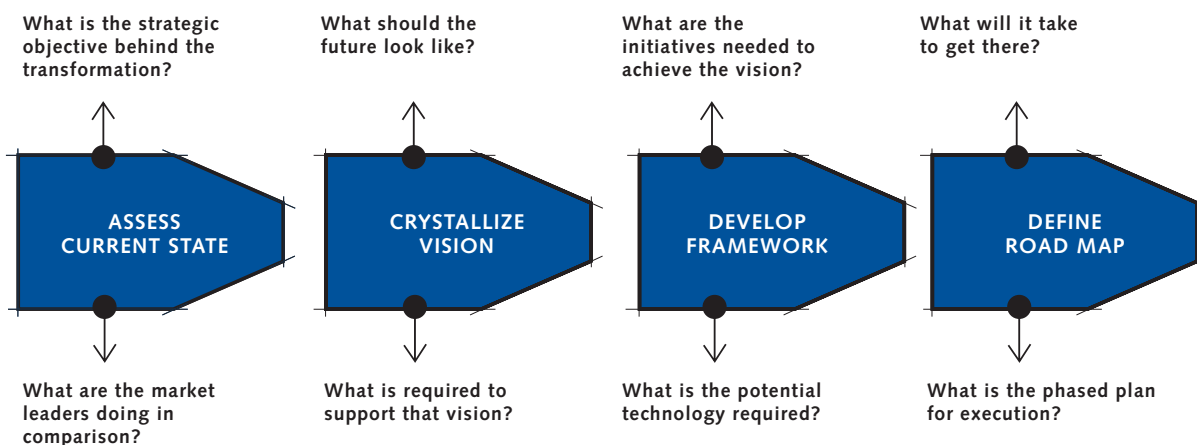
To effectively communicate results, a variety of communication vehicles must be established that speak to the specific concerns of several audiences and program constituencies. Again, ET oversight is critical to ensuring that the right messages are delivered at the appropriate points so that a range of purposes can be seamlessly served throughout the project duration (e.g., project approvals, ongoing budgeting, keeping project work focused on delivering high-value business tools). The key is to identify and communicate whatever is needed to ensure ongoing program momentum and success.

The most important mistake we have observed after our ERP implementation experiences is the client’s neglecting to establish and empower an ongoing ET. This oversight is analogous to investing in and completing project work and then shelving it rather than following through with the “go-live” stages that allow the organization to actually accrue the value of everyone’s hard work. As difficult as it is to realize systemic transformation that aligns technology enablers to measurable business values, we believe a strong ET can make all the difference. In order to support organizations in preparing to achieve these goals, **Figure 8** identifies and describes the tasks of the ET at each stage in the strategy phase of a transformation initiative.

It is difficult to realize a systemic transformation that aligns technology enablers to measurable business values. We believe a strong executive track can make all the difference.

FIGURE 7

EXECUTIVE TRACK



TASKS AND DELIVERABLES

BUSINESS

- |   |   |  |  |
|---|---|--|--|
| <ul style="list-style-type: none"> <li>• Conduct management interviews</li> <li>• Conduct business user focus groups</li> <li>• Define organization's current structure</li> <li>• Assess customers and products</li> <li>• Establish baseline metrics</li> <li>• Assess organization's change readiness</li> <li>• Assess end-to-end business process</li> </ul> | <ul style="list-style-type: none"> <li>• Conduct workshops to discuss application of leading trends and best practices</li> <li>• Formulate business model vision</li> <li>• Validate draft vision statement with stakeholders and executive management</li> <li>• Define governance committee and the charter</li> </ul> | <ul style="list-style-type: none"> <li>• Develop (and baseline) key metrics</li> <li>• Develop program framework</li> <li>• Create gap analysis</li> <li>• Identify program initiatives</li> <li>• Develop high-level future state process definition</li> </ul> | <ul style="list-style-type: none"> <li>• Prioritize and finalize initiatives portfolio</li> <li>• Develop phased rollout plan</li> <li>• Finalize key metrics</li> <li>• Finalize governance structure</li> <li>• Finalize change management plan</li> </ul> |
|---|---|--|--|

TECHNOLOGY

- |   |  |  |  |
|---|--|--|--|
| <ul style="list-style-type: none"> <li>• Assess landscape</li> <li>• Assess integration</li> <li>• Assess infrastructure</li> </ul> | <ul style="list-style-type: none"> <li>• Formulate and validate conceptual end-state landscape and architecture</li> </ul> | <ul style="list-style-type: none"> <li>• Identify technology portfolio requirements</li> <li>• Identify short list technology providers</li> </ul> | <ul style="list-style-type: none"> <li>• Identify technology dependencies</li> <li>• Finalize technology portfolio vision</li> </ul> |
|---|--|--|--|

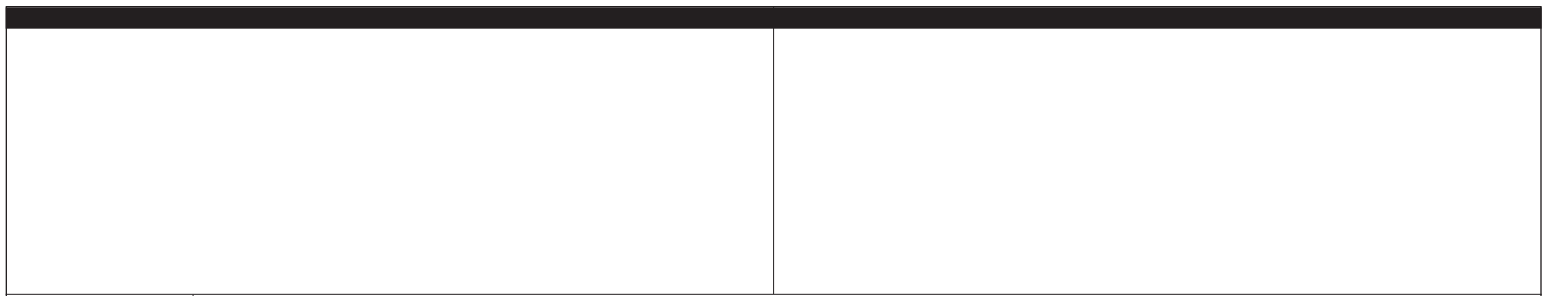


FIGURE 8

**EXECUTIVE TRACK: FOCUS ISSUES, AUDIENCE, AND DELIVERABLES**

PHASE	VISION/SOLUTION/APPROACH	STAKEHOLDERS	CASE FOR CHANGE	BUSINESS VALUE	COSTS	RESOURCES
<b>Mobilize Transformation Program</b>	Develop high-level vision statement Identify critical success factors Define program scope: process, system, company organization, products, customer segments	Identify stakeholders Provide program briefs Understand stakeholder areas of impact List other company-wide initiatives	Create "burning platform"	Identify top five issues transformation program will address Develop business value hypothesis Determine critical metrics to support hypothesis	Provide in detail for strategy Develop total program estimates	Provide in detail for strategy Develop total program estimates
	<i>Ensure stakeholders agree business value hypothesis merits investigation and they will support with resources</i>					
<b>Assess Current State</b>	Update scope as appropriate		Identify anecdotes to support "burning platform"	Update top five issues and business value hypothesis as current problems dictate Determine baseline for critical metrics Establish benchmark measures		
	<i>Ensure stakeholders agree to program scope relevancy and validate baseline measures and current state assessment</i>					
<b>Crystallize the Vision</b>	Refine vision Refine critical success factors			Set goals for business value Confirm business value hypothesis		
	<i>Respond to (and/or provide) feedback on vision and goals</i>					
<b>Develop Framework (of End State)</b>	Map solution to vision and business value	Confirm impact	Finalize case for change	Finalize end-state business value	Refined ballpark estimates (based upon first cut of initiatives, sequence, and timing)	
	Identify initial initiative structure, sequence, and timing in order to generate feedback and inform total program cost estimates	Prioritize/reconcile with other initiatives			Identify cost constraints	Identify resource constraints
<i>Agree on end vision and benefits. Run vision/scope/benefits and costs by decision makers. Provide approval for quick-strike projects, cancel unnecessary projects.</i>						
<b>Define Road Map</b>	Prioritize road map scenarios in alignment with company vision, relative to time-to-benefit and risk	Establish total program governance structure		Develop time-phased business value	Develop time-phased cost	Create six-month resource allocation profile
	<i>Agree on road map, budget, business value return, and resource allocation profile</i>					
<b>Quick Strikes/ Refinements and Final Approval</b>	Begin quick-strike project(s)	Solicit stakeholder feedback Prepare for program mobilization				Allocate staff resources
<b>Mobilize</b>	Transformation program launch announced company-wide Establish mechanisms to manage program scope over time	Hold department-level program launch meetings	Establish format for change management interventions	Set business value and risk monitoring in place	Establish cost monitoring	Assemble team and launch program

## LAUNCHING YOUR TRANSFORMATION TO DIGITAL LICENSING

To succeed with transformations on this scale in our current business climate, a phased approach is essential. At KPMG Consulting, we focus on the following goals:

- **Think Big:** Establish a vision and blueprint at the outset.
- **Start Small:** Create a phased implementation strategy.
- **Deliver Quickly:** Set scope of work to deliver rapid ROI and build momentum with incremental projects.

We have identified several other elements that can help an organization plan and execute for success. To succeed with cross-enterprise initiatives, there must be strong corporate sponsorship and constant communication between all stakeholders. To stay focused over the long haul, organizations must institute a cross-functional, consensus-driven approach to determine and/or clarify:

1. Who-owns-what product data.
2. Common business rules (data standards, privacy, process, auditing).
3. Common and/or shared processes and data requirements.

Finally, never forget that this must remain a dynamic process that requires:

1. A scalable, flexible, extensible infrastructure.
2. An ongoing team and commitment to evolving processes.
3. Remembering that today's business rules will not last forever.

## THE BENEFITS OF WORKING WITH US

KPMG Consulting is one of the world's most respected business advisors and systems integrators. We build enduring relationships with our clients by helping them create new business models and innovative solutions, enabling organizations to leverage technology for stronger return on investment and enhanced service to their customers, vendors, and employees.

From business systems strategy to implementation, we combine our industry knowledge with technology experience to deliver results-focused solutions quickly. By partnering with technology leaders, we provide leading business and government organizations around the globe with best-in-class solutions across every industry segment.

## THE NEXT STEPS

If you would like to learn more about how we can help your organization, please contact us at 1-866-FOR-KCIN (1-703-747-6748 from outside the US and Canada) or visit our Web site at [www.kpmgconsulting.com](http://www.kpmgconsulting.com).

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