Slide 1

Explore the Secrets of
Workday Licensing
Secure a "best-in-class" deal for your Workday
contract

Scott Bickley, Practice Lead VCCO

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Slide 2

About Info-Tech Research Group

Info-Tech Research Group produces unbiased and highly relevant research to help leaders make strategic, timely, and well-informed decisions. We partner closely with your teams to provide everything they need, from actionable tools to analyst guidance, ensuring they deliver measurable results for the organization.

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Dramatically
Outperform
Your Peers

Drive Measurable Results
Our world-class leadership team is continually focused on building disruptive research and products that drive measurable results and save money

Better Research Than Anyone
Our team of experts is composed of the optimal mix of former CIOs, CISOs, PMOs, and other IT leaders and IT and management consultants, as well as academic researchers and statisticians

Leverage Industry Best Practices
We enable over 30,000 members to share their tried-and-tested practices that you can use by having direct access to over 100 analysts as an extension of your team.

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Slide 3

Webinar Objectives

01
Acquire an understanding of Workday's market position, product offerings, and go-to-market approach.

02
Highlight key components that comprise Workday's licensing structure and Master Subscription Agreement.

03
Drive successful outcomes for Workday agreements using a robust approach.

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Workday:
Market Overview & Value Proposition

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Why is Workday so sticky?

55% of Fortune 500; 25% of Global 2k and 70%
of FINS Fortune 500 are Workday customers

"Power of One:"
- One user experience
- One data model
- One security model (cloud native)

"Land and expand" strategy:
Workday sells to your peers directly.

Relentless push into new markets:
HCM + DnA, Finance, Adaptive Planning, Student, Strategic Sourcing, Spend Mgt., Extend Platform, Industry Verts

- $4.73B+ TTM REV, with a target of $6.2B+ by FY23
- Renewal rate = ~95%
- R&D investment = ~28% of revenue

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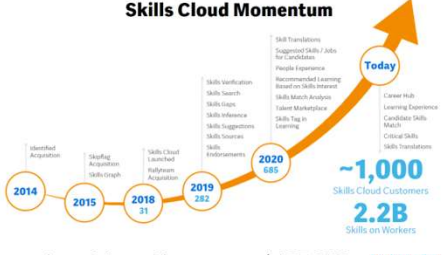
Workday Innovation Example

Skills Cloud Momentum

~1,000
Skills Cloud Customers

2.2B
Skills on Workers

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HCM market share, 2020

- WDAY = 23% Growth
- ROW = 6% Growth

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Winning the battle for the back office

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Workday attach rate to its core offering – 2020 vs. 2021

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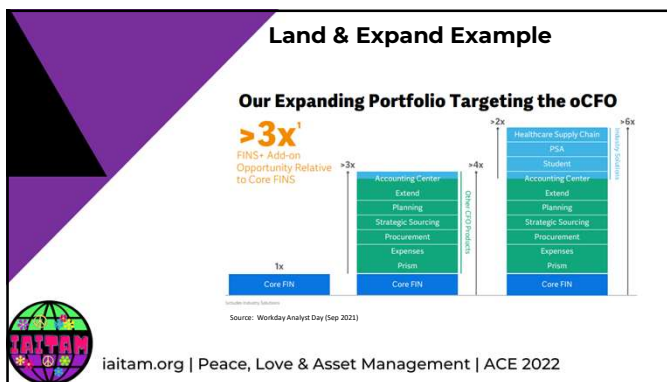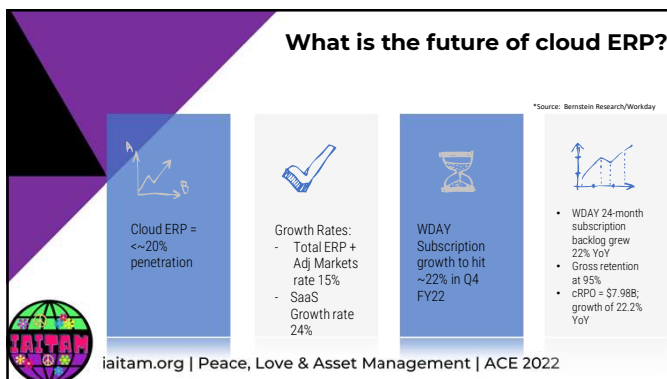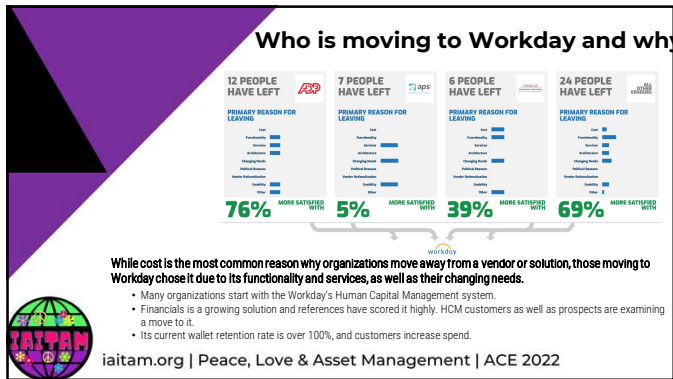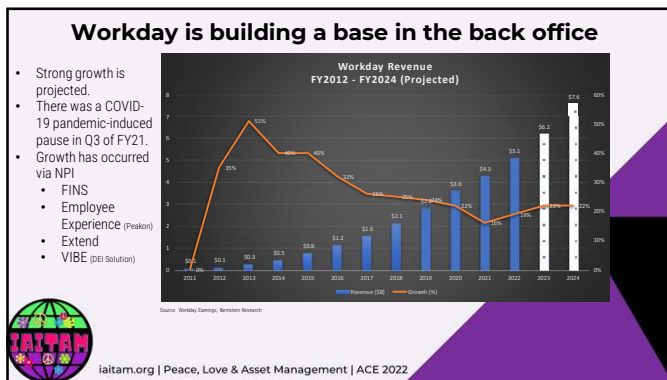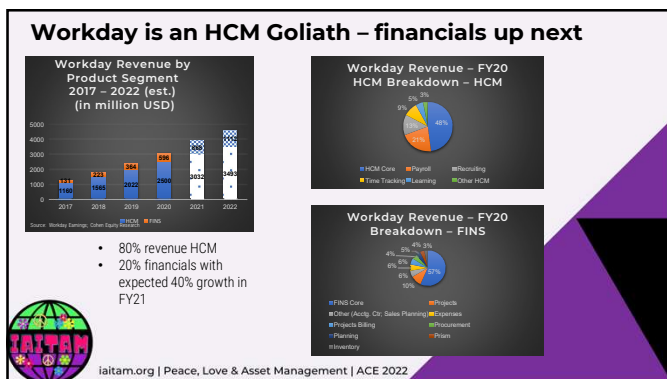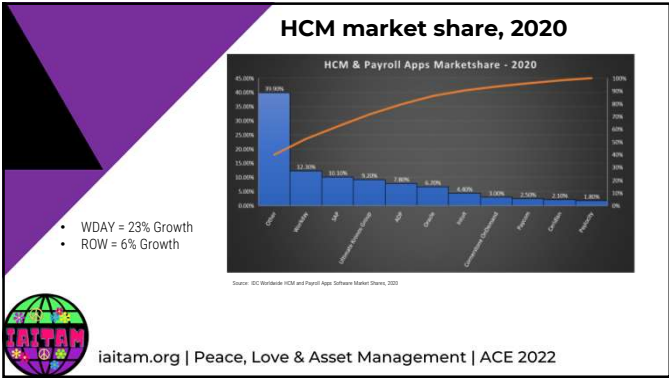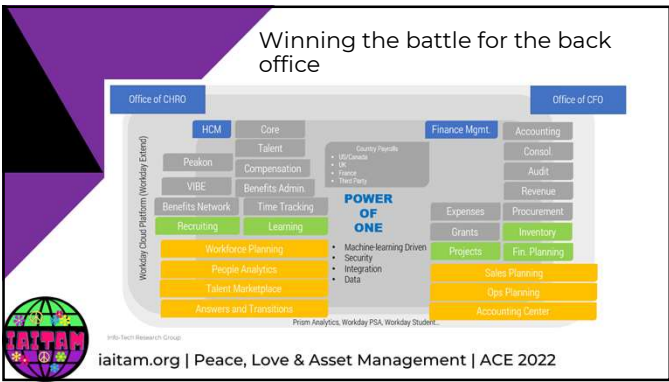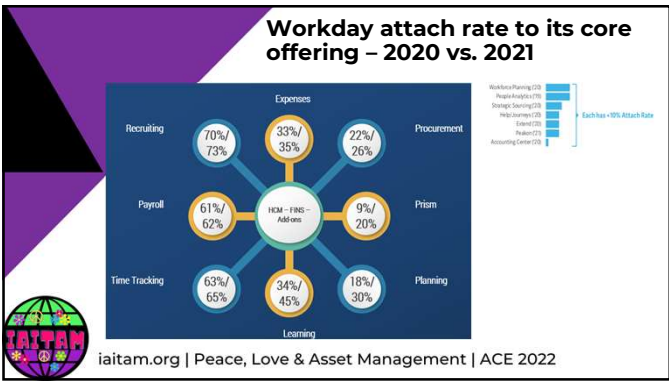
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Key Workday acquisitions

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Workday:
License Model & Contract Evaluation

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Know Workday's strengths and weaknesses

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Five key terms to negotiate with Workday

01 Full-service equivalent worker calculation & categories
02 Price transparency/discount tiers
03 Renewal clause & price protections
04 Software renaming/re-bundling
05 Negotiation & implementation plans

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Workday products are licensed by modules and users

Workday licensing is a bit simpler when compared to other mega-vendors.

| Modules | Example Ordering Documents |

- To acquire licenses, the company must first select modules. Each module provides access to a set of features.
- **Modules** vary by feature, functionality, and pricing.

Permitted Baseline FSE Worker Count by SKU

*SKU	Service	Permitted Baseline FSE Worker Count for Order Term
LDPHCM	Core Human Capital Management - LDP	655
LDPCCB	Cloud Connect for Benefits - LDP	326
LDPTT	Time Tracking - LDP	329
LDPAM	Absence Management - LDP	655
LDPACM	Advanced Compensation Management - LDP	655
LDPPD	Performance and Development - LDP	655
LDPSP	Succession Planning - LDP	655
LDPREC*	Recruiting - LDP	655
LDPCCTPP**	Cloud Connect for Third Party Payroll - LDP	655

Baseline FSE Worker Count by SKU

SKU	Service	Year 1	Years 2-5
LDPHCM	Core Human Capital Management - LDP	888	888
LDPPD*	Performance and Development - LDP		
LDPREC*	Recruiting - LDP		
LDPACM*	Advanced Compensation Management - LDP	0	
LDPAM	Absence Management - LDP		
LDPCCTPP**	Cloud Connect for Third Party Payroll - LDP*	767	767
LDPBEN	Benefits - LDP		
LDPCCB	Cloud Connect for Benefits - LDP		

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Beware Workday's Tactics for Increasing Client Spend

Subscription Rights Table

SKU	Service	Pricing Metric	Subscription Rights
CHCM	Core Human Capital Management	FSE*	Full Enterprise (including Former Workers with Access)
TLO	Talent Optimization	FSE*	Full Enterprise
CCB	Cloud Connect for Benefits	FSE*	Full Enterprise
CP**	Payroll for Canada	FSE*	Full Enterprise
LRN	Learning	FSE*	Full Enterprise
MCNF	Media Cloud - No Fee	FSE*	Full Enterprise
REC	Recruiting	FSE*	Full Enterprise
FIN	Core Financials	FSE*	Full Enterprise
GM	Grants Management	FSE*	Full Enterprise
PLNF	Financial Planning	FSE*	Full Enterprise

Hazard – Do NOT apply Full Enterprise requirement to all SKUs

Baseline FSE Worker Count by SKU

SKU	Service	Baseline FSE Worker Count for Order Term
HCM	Human Capital Management	2,987
CCTPP	Cloud Connect for Third Party Payroll	2,437
USP	Payroll for United States	427
CCB	Cloud Connect for Benefits	427
REC	Recruiting	2,987

Solution – Tailor SKU quantity to need

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Beware Workday's Tactics for Increasing Client Spend – Cont.

SKU	Service
HCM	Human Capital Management
REC	Recruiting
FIN	Core Financials
PRJT	Projects
CCB	Cloud Connect for Benefits
CCTPP	Cloud Connect for Third Party Payroll
TT	Time Tracking
EXP	Expenses
PRO	Procurement
USP	Payroll for United States
LRN	Learning
MCNF	Media Cloud - No Fee
PLNF	Financial Planning

PRJT	Projects

Included with HCM

➤ Hazard – Do NOT allow SKU bundling

➤ Force single SKU per a customized FSE count

➤ Workday will frequently unbundle functionality and charge as a new SKU – Customers may be grandfathered into the old "bundle" or can negotiate the same

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The full-service equivalent (FSE) metric

- The FSE metric categorizes workers by type and assigns a percentage value by FSE category.
- Typical categories:
  - Salaried worker – 100%
  - Hourly worker – 100%
  - Part-time worker – 25%
- Negotiate for custom FSE categories and allocations (where appropriate).

- **Typical FSE calculation:**
  - Standard workers (full-time): 500 * 100% = 500 FSE workers
  - Standard workers (part-time): 1000 * 50% = 500 FSE workers
  - **Total FSE workers: 500 + 500 = 1000 FSE workers**
- **Custom FSE calculation:**
  - Standard workers (full-time): 500 * 100% = 500 FSE workers
  - Standard workers (part-time): 200 * 50% = 100 FSE workers
  - Short-term seasonal workers: 800 * 15% = 120 FSE workers
  - **Total FSE workers: 500 + 100 + 120 = 720 FSE workers**
- **This is a reduction in FSE count of 280 FSE workers!**

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Workday products are licensed via the FSE metric

Next, calculate and negotiate the full-service equivalent (FSE) formula.

FSE

- **The FSE formula** takes a worker category and multiplies the number of users by a percentage based on the level of value derived from the system and/or usage.
- **Ask/negotiate with Workday for visibility into the calculation** of applicable number of users and weight percentages, as these are negotiable.
- Worker categories are not limited to only those seen here.

Example Ordering Documents

Order Term Start Date	Reporting Date (30 days before anniversary of the Order Term Start Date)	FSE Count Date (60 days before anniversary of the Order Term Start Date)	Reporting Period (Year covered by the Subscription Fee for Additional FSE Workers)
July 1	June 1	May 2	July 1 through June 30

Worker Category	Applicable Number	Applicable Percentage	FSE Worker Calculation
Salaried Workers	2,000	100.0%	2,000
Hourly Workers	1,000	65.0%	650
Part-Time Workers	500	25.0%	125
Contingent Workers	100	25.0%	25
Seasonal Workers	100	15.0%	15
Former Workers with Access	0	2.5%	0
Totals:	**3,700**		**2,815**

Info-Tech Insight

Workday's current volume discounting tiers are as follows: Under 1000, 1001 to 3000, 3001 to 5000, 5001 to 10,000, 10,001 to 20,000, Over 20,000.

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Workday subscription pricing

Pricing	• Product metric – FSE • Non-public price book – different list prices by total FSE and term-length • annual subscriptions • Payable in advance
Term	36 or 60 Months
Discounting	Drivers are total list price, product mix, and term duration by line item
Tiered volume discount structure	• Pricebook divided into volume tiers • May be negotiated

- Don't get "bundled:"
  - Obtain line item pricing.
- Understand the impact of "deferred" and "ramped" payment schedules:
  - Deferred – back-end loaded ACV, which drives the renewal ACV higher.
  - Ramped – growing the subscription volumes over years; nets out to a lower term TCO.

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Beware the Workday Bundle

Bundling layers in additional costs and reduces flexibility.

Scenario	Example Ordering Documents

BAD
- Three products forced bundled into a single SKU
- Limits additional purchases to FSE's for all three products

GOOD

		Permitted Employers			Subscription Fees		
SKU	Service	Start	Added	New	Annual Rate (Per FSE Worker)	Prorated for Order Term	Prorated for Order Term (Discounted)
HCM REC FIN	Human Capital Management Recruiting Core Financials	4,518	3,500	8,018			
PRJT	Projects	4,518	3,500	8,018	Included with HCM	n/a	n/a
CCB	Cloud Connect for Benefits	1,597	0	1,597			
CCTPP	Cloud Connect for Third Party Payroll	1,597	4,821	6,418			
TT	Time Tracking	3,600	1,000	4,600			
EXP	Expenses	1,200	1,000	2,200			
PRO	Procurement	1,250	300	1,550			
USP	Payroll for United States	1,600	0	1,600			
LRN	Learning	4,518	3,500	8,018			
MCNF	Media Cloud – No Fee	4,518	3,500	8,018			
PLNF	Financial Planning	7,500	518	8,018			

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Workday Ramp vs. Upfront

BUY UPFRONT (NO RAMP)

Product	% Imp	Y1 Cost	% Imp	Y2 Cost	% Imp	Y3 Cost	3-Year Cost	
Core HCM	100%	$500,000	100%	$500,000	100%	$500,000	$1,500,000	
Time Tracking	100%	$250,000	100%	$250,000	100%	$250,000	$750,000	
Payroll	100%	$350,000	100%	$350,000	100%	$350,000	$1,050,000	
							$3,300,000	

RAMP MODEL

Product	% Imp	Y1 Cost	% Imp	Y2 Cost	% Imp	Y3 Cost	3-Year Cost	
Core HCM	70%	$350,000	100%	$500,000	100%	$500,000	$1,350,000	
Time Tracking	0%	$0	50%	$125,000	100%	$250,000	$375,000	
Payroll	70%	$245,000	100%	$350,000	100%	$350,000	$945,000	
							$2,670,000	20% Cost Avoidance

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Workday Deferred Payment Trap

Payment Schedule vs. Subscription Fee Schedule

Subscription Year	Default Payment	Deferred Payment	Subscription Fee Schedule
1	$1,500,000	$500,000	$500,000
2	$1,500,000	$2,000,000	$1,975,000
3	$1,500,000	$2,000,000	$2,014,500
Total Fees:	$4,500,000	$4,500,000	$4,489,500

NOTE

Note the pitfalls in deferred payment schedules:
- Simply defers existing payments to later years; Caution: CFO may like the cash flow short term benefit
- Innovation index of 2% is layered in years 2 + 3
- Final renewal escalation will be based on higher Y3 Subscription Fee Schedule

- Outyear increase at CPI (5%) + Innovation Index (%5) = $1,650,000 ($150k increase)
- Outyear increase for deferred payment schedule = $1,701,450 ($201k increase)

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Workday renewal caps & price protection

Renewal term	1 or 3 years
Standard uplift	CPI +5% Innovation Index (inflation + innovation index + random % add-on)
Discounting	Drivers are total list price, product mix, term duration by line item
Limitations	Must renew for at least same SKUs and FSEs

Price hold	Add existing and growth products to a price hold exhibit without commitment to buy – by line item SKU
BOM optimization	• BAU estimate – accurate without over-purchasing in later years • Future requirements – build product roadmap to maximize predictability
Business downturn	Negotiate a carveout for specific business downturn conditions (e.g. a pandemic clause)
Long-term plan	Build the contract for 10 years minimum

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Escalation Cap Analysis

Subscription Year 3 = $1,500,000 base

Standard Escalation vs. Negotiated Escalation Cap				
Subscription Year	CPI @ 5% + Innovation Index @ 5% - Annual Increase	CPI @ 5% + Innovation Index @ 2% - Renewal Term	Cost Savings	Cost Savings if Esc. Cap. @ flat 3% for full 3-Year term
4	$1,650,000	$1,605,000	$45,000	$1,545,500
5	$1,815,000	$1,605,000	$210,000	$1,545,500
6	$1,996,500	$1,605,000	$391,500	$1,545,500
Total Fees:	$5,461,500	$4,815,000	$646,500	$4,636,500
NOTES				

- Negotiate the Innovation Index down
- Negotiate a TERM renewal increase vs. annual increase
- Note: a flat 3% term increase would yield an annual fee of $1,545,500 or a 3-yr savings of $826k

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Additional nonstandard clauses Workday may be willing to negotiate based on your deal size

Ensure you keep your functionality and add-ons when a product gets repackaged or unbundled.	Per employee vs. Enterprise pricing	Negotiate unit-price reductions if the volume increases significantly in the future, as well as price holds for additional service lines.	Exchange Rights MAD Protections
Service-Line Re-Bundling Protections	**Shifting License Metrics**	**Unit-Price Reduction**	**License Swap Divestiture Protections**

Factors to consider when negotiating nonstandard requests:
- Positioning.
- Executive involvement.
- Empowerment of sourcing and procurement.
- Was the request written or simply oral?
- Was the request made prior to the knockout round?

Additional clauses that may need customizing for your organization:
- Reduction in fees if usage goes down.
- Payment terms and currency.
- Effective remedies if the SLAs are missed – Service Credits increase.

For more information please see Info-Tech's existing → *Negotiate SaaS Agreements That Are Built to Last*

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Five key terms to negotiate with Workday

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Negotiation & vendor relations process

	Action Required	**Outcome**
Business Goals & Drivers	Identify the goals of the initiative, forecasted benefits, and measures of success.	Strong foundation established around strategic business goals.
Key Requirements	Identify product requirements and relationship goals.	Strong foundation established around tactical objectives – contract and relationship.
Strategy	Develop your negotiation strategy, approach, and options **(Alternatives, Timing and Uncertainty factors).**	Established plan of attack and fallback options.
Communication Alignment	Identify internal stakeholders and their roles and responsibilities. Negotiation strengths/weaknesses.	Know your role and your story.
Contact Initiation	Communicate expectations and requirements to Workday. Track commercial terms negotiated throughout the process.	Establish and build the relationship between the C-suite/stakeholders and your Workday account team.

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Ask about nonstandard requests that Workday may be willing to negotiate based on deal size

Engage Workday, build strategic relationships, and leverage executive relationships to get buy-in.

- Request a copy of the price book, as there are differences in list prices based on volume.
- **Request renewal proposal protection for outer or renewal terms for the years of the agreement.**
- Request a long-term deal to lock in a good discount.
- Request service level agreements (SLAs) and associated credit structure (in case SLAs are not met).
- **Request a subscription fee ramp up** if the full value won't be derived during the initial year or two of the deal.
- **Negotiate implementation fees.** It's possible to negotiate with Workday services or a partner – each negotiated independently.
  - Discounts of up to 15% may be possible.

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Perform a T&Cs review and identify key "deal breakers" that require further negotiation before executing a deal

1. Use the ***Workday Terms and Conditions Evaluation Tool*** to assist in the creation of RFPs and to identify and prioritize the terms, conditions, and SLAs that are critical to your organization.

2. Aim for a "fair deal" set of clauses that will provide the required protection for the buyer and remain fair to the vendor/service vendor.

3. **Which terms and conditions are critical for the organization to include in the contract?**

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