EXECUTIVE SUMMARY

Many large enterprises find themselves well into their second decade of using SAP software. Business is dynamic and change inevitable and a company’s SAP position should reflect this but the likelihood is that it doesn’t. Knowing what is needed today is more important than when the software was deployed in the past. Many organizations are now in a position where they are suffering from license sprawl and lack of insight into their licensing position. This can put them at a distinct disadvantage when the SAP auditors come knocking at the door. They have come to believe that buying more licenses is often the best option which although may seem justifiable to avoid even high financial spend in the shape of fines is only fixing the veneer of the problem.

It doesn’t have to be like this. Today there are new ways to negotiate with SAP and reshape the composition of the contracts and entitlements. But first a company needs to have a handle of what is actually happening – the ability for an organization to monitor underlying usage and compliance with their entitlements while also optimizing their costs has now become possible with automated metering and analytics.

This ten-minute guide introduces considerations you may want to take into account when developing a strategy and approach for SAP audit negotiations. Being better prepared, with deep insight and a comprehensive understanding of SAP usage will pay dividends. An optimized SAP deployment that is continuously maintained and managed will give an organization ‘the upper hand’ when faced with an audit enabling it to negotiate from a stronger position and indeed benefit by the tune of millions of dollars in savings.
According to Gartner¹, “Worldwide IT spending is on pace to total $3.8 trillion in 2014, a 3.2 percent increase from 2013 spending...in the enterprise software market, spending is on pace to total $320 billion.” Being one of the top-five largest enterprise software publishers in the world, software from SAP accounts for approximately €17.560 billion² ($21 billion) of that spend.

IT spending priorities have shifted dramatically over the past three decades. Most SAP deployments in large enterprises are well into the second decade of deployment. Looking across the landscape of larger IT Vendors, most are struggling to maintain their revenue streams as customers shift their spending priorities to cloud-based or SaaS-based applications for new capabilities with differing pricing and licensing models. Extra considerations include:

• An ongoing commoditization of hardware costs combined with increasing power shifting cost-focus over to software

• An overall shift in IT strategy and spending towards the “digitalization” of the enterprise, which manifests itself in tectonic spending shifts to advanced analytics, big-data and more direct connections to end-consumers through mobile and internet channels

Large vendors such as Oracle, IBM and SAP have collectively spent more than $100 billion in acquiring both legacy and leading-edge software companies in hopes of growing their businesses. Despite these large amounts, revenue growth from these vendors has been disappointing to the investors and below overall industry trends.³,⁴,⁵

Software publishers like SAP have tried to maintain a delicate balancing act of using their cash flow to largely acquire companies with software that is related to their core ERP (enterprise resource planning) business or represents new growth areas, and continue development of key technology for the future. In-Memory database product HANA is an example of a long-term R&D commitment on the part of SAP.

As with all balancing acts, something has to give. Most SAP administrators now see very long cycles between major releases of ERP products and a reduced commitment to innovation. This has combined with a new generation of IT leadership which has begun to question the relentless annual increases in SAP costs, and started to become more methodical about SAP contract negotiations.

Concurrently, SAP and Oracle suffered some meaningful legal setbacks around their software licensing policies in European courts. The combination of these legal rulings and an increasingly vocal set of SAP User Groups have nudged SAP towards a more accommodating position when it comes to licensing terms.

It is essential that CEOs, CFOs and CIOs as well as those in enterprises tasked with managing and negotiating with software vendors begin to understand how these changes will play into future negotiation activity with SAP.
In the second half of 2013, SAP publicly announced the introduction of a number of policy changes around software licensing and renewals that could significantly impact certain customers. They represent a higher degree of flexibility on the part of SAP, motivated in all likelihood from very vocal user groups and from recent unfavorable court decisions against SAP in Europe.

First, if a company has an excess of on-premise licensing and corresponding maintenance costs, they can swap those licenses for cloud-based subscriptions from SAP. SAP does not, in their stated policy, allow the exchange of on-premise licenses for other on-premise licenses. Our sense is that “horse-trading” of on-premise licenses, while not publicly sanctioned, does occur and should be considered as part of an overall strategy by SAP. However, to be clear, the public policy is focused only on allowing trades of excess perpetual licenses for cloud-based subscriptions.

Second, if a company has an excess of on-premise licenses, it can now choose to abandon usage rights for certain existing software licenses and request the corresponding maintenance termination without having to trade-in or purchase additional software.

The devil is in the detail. SAP will recalculate the contract values and volume discount rates to arrive at the new annual maintenance obligation. In no case can maintenance cost more, but in cases where there is probably less than 10% abandonment there may be marginal or no savings due to a higher recomputed contract cost. Not only is maintenance recalculated, adjusting for abandoned licenses, but so too is the prevailing volume discount. As such, the amount saved will depend on license thresholds after the license reduction.

SAP has, however, thrown an additional monkey wrench into the decision process. If the customer abandons the usage rights to, for example, 1,000 professional licenses, SAP will NOT be able to sell professional licenses back to the customer again based on their policies in place. Technically, SAP’s audit process precludes them from selling the same “part number” again. To get around this will require some intricate negotiations or, in some countries, ‘pre-owned’ licenses can now be purchased on the open market.

Finally, for some contracts SAP has written-in “parking” rights to the software. While this is likely to be more the exception rather than the rule, those organizations that do have parking rights within their contract may wish to consider using them. Here, the customer would stop paying maintenance on those parked licenses. Should it need to reactivate them then it would have to “true-up” the past maintenance that was not paid and pay an additional 10-20% fee for re-activation/installation of the licenses. In either case, the customer should certainly try to negotiate parking rights on new contracts where possible.
CALCULATING THE ANNUAL MAINTENANCE CHARGES FOR SAP

SAP derives more than half of its annual revenue from maintenance and support fees, and the amount and percentage of revenue continues to increase each year. Therefore, while a lot of the focus during a contract negotiation is on the license portfolio and upfront cost, negotiations should primarily focus on the ongoing cost of ownership.

According to SAP, “For maintenance and support contracts, the annual maintenance fee is calculated as a percentage of the software contract value, which is the total value of all package and named user licenses minus applicable discounts. The annual fee is due from the first month after delivery and is to be paid in advance. Payment terms may differ from country to country.”

This generally means that the annual maintenance is based largely on the list price of a license. In most cases, volume and other negotiated discounts bring the actual license purchase price down considerably from the list – often by as much as 65-80%. These volume discounts, however, are effectively added back in when calculating the forward maintenance costs of the contract.

If, for instance, you are able to achieve a 70% discount volume discount on the licenses you are purchasing, and you pay 22% of the contract value, then the one-time purchase of the licenses under the contract are very close to the annual maintenance costs. For example, with a $300,000 software contract value, which includes the above 70% volume discount, the maintenance added to the purchase and for every year thereafter is typically $220,000 annually. In this scenario, in less than 18 months the maintenance costs exceed the license costs and continue for the duration of the contract which is typically three to five years.

PREPARING FOR THE NEGOTIATION PROCESS

In what we can term the “mature” stage for SAP’s ERP product offerings, enterprises should bring world-class best-practices to play in their contract negotiation process with SAP. Historically they have benefited from engaging specialized consulting firms with deep licensing and contracting knowledge. They no longer they have to rely on them alone, technology has a role to play and advantageously bring around a much faster ROI.

Today’s advanced Software Asset Management solutions, such as Snow Optimizer for SAP® Software, can be used to collect and analyze large amounts of user/usage activity rapidly. Indeed a large global fashion vendor was able to identify over 12,000 inactive users and reduce their true-up costs with SAP by more than 75% in less than a week.
BUILD A CLEAR AND ACCURATE BASELINE INVENTORY

There is a school of thought that believes the best way to be prepared for an SAP negotiation is to be well-organized with your SAP contracts, and to have a good understanding of the contract and its terms, then focus on pricing.

While we firmly believe that having a deep and comprehensive understanding of SAP contracts and entitlements is a necessity, we do not think that it is wholly adequate to produce the best outcome.

To complement the entitlement knowledge, we have found that enterprises that measure their actual SAP usage, and develop a comprehensive, accurate and optimized inventory of licenses as their baseline will gain a deeper understanding of the licensing position. Instead of seeking a good discount on licenses that an organization may not need, it is far better off getting a fair price on licenses it actually needs today and in the future.

SCIENTIFICALLY ASSESS THE BEST SAP LICENSE TYPE IS ASSIGNED TO EACH USER

By measuring all activity by all users across your SAP systems, and storing the precise history of that usage, you can “right-size” each license type for each user to ensure you are compliant and cost-effective. Generally SAP contracts involve a mix of license types that were selected before the actual deployment based on the sales process and the expected requirements.

Over a few years, actual requirements become more established and the license types can be fitted more precisely in an automated fashion. The required mix of license types is a key ingredient in the negotiations process. Finding that mix is a non-trivial exercise if done manually. Advanced SAM software, such as the Snow Optimizer for SAP® Software can be used to simulate “what if” analysis with remarkable precision and efficiency.

ASSURE THAT ANY INDIRECT ACCESS COMPLIANCE ISSUES ARE ADDRESSED

SAP has become substantially more vigilant in auditing enterprises and looking for the slightest evidence that may indicate unlicensed indirect usage access. Companies are increasingly having to provide, in addition to their LAW (License Administration Workbench), data known as an Architectural Review which highlights all external systems, such as third party and/or internal systems, that are interconnected with SAP.

With proper real-time metering capability, anomalous or suspicious SAP usage activity can be highlighted and researched to assure that the enterprise is not in violation of licensing requirements. Enterprises that are aware of such activity can take steps to understand if this constitutes a compliance violation or, if affirmative, take steps to assure compliance. This may require additional license requirements that should feature as a proactive priority in the negotiation process.

Snow Optimizer for SAP® Software has unique activity alerts that point to indirect access usage and help an organization to resolve the problem and ensure compliance.
By measuring usage, an enterprise can self-assess what its actual requirements are versus its contractual entitlements. This “gap” can take the form of an over-licensed (which is often the case with SAP) or an under-licensed condition.

Both conditions play into the preparation for a contract renewal. In an over-licensed condition, the enterprise should determine if this is a permanent condition or one that will dissipate dramatically over the next few years with a broadened deployment. If over-licensing is a long-term issue, then usage rights abandonment and license parking may be worth considering. The license type “mix” can also be assessed to determine if some horse-trading makes sense. Only by doing the necessary legwork to make prior measurements and assessing them, can the true licensing gaps be understood and what negotiation tactics must be leveraged.

Snow Optimizer for SAP® Software can help connect the dots and assess various licensing scenarios which are key to both developing and supporting these strategies.

Enterprises must view the upcoming contract negotiations as just one or two chess moves in a game that endures for some period of time. Generally, an enterprise’s commitment to SAP is a permanent one, and the relationship they maintain with SAP is strategically important.

One key consideration to the strategy and approach to the negotiation process is defining what the top outcome priorities are. We have worked with enterprises which have consolidated/purchased dozens, and in some cases hundreds of companies to build their business. They are very large, have hundreds of SAP contracts and are generally over-licensed. In such a case, the overall cost of the contract may be the primary concern, and lowering the annual cost may be the most important outcome.

For some, it goes past the sole focus of the ongoing SAP costs from this specific contract. Their actual requirements may have shifted over the decades and they see a corresponding shift in the SAP requirements. For instance, they may want more real-time analytical capability of big-data and HANA may become the platform for that. Consequently, the ability to bring HANA capability into the enterprise in the most cost-effective manner may be a priority. In many cases, in an over-licensed condition, the HANA costs can be partly offset by reducing the excess premise-based SAP licenses that are no longer needed.

The negotiation strategy should be driven by a visualization of what the ideal set of outcomes are for the enterprise. Figuring this out before the negotiation process almost certainly results in an improved outcome.
Usually enterprises have clear visibility as to when SAP contracts come up for renewal. For those with a Q1 contract renewal, it is not unusual to see SAP attempt to bring the contract renegotiation forward to pull some revenue into their current fiscal year. Enterprises should, on average, begin their preparation efforts for a contract negotiation four to six months ahead of a renewal.

Better preparation, a contemporary understanding of the latitude for negotiations, and determining the top priorities and needs for the enterprise all come together to drive towards a better outcome.

Enterprises should leverage on their largest asymmetric advantages – that they have more information about their actual SAP usage, license requirements and future plans than SAP, which should be used to drive an overall negotiation target.

SAP must vigorously defend and maintain its overwhelming revenue and profit stream from its ERP business. The expertise and forces they bring to bear in the overall process should not be underestimated.

Looking at the contract renewal process with an updated prospective will likely improve the outcome. In particular, enterprises may be well served by having discussions with SAP Software Asset Management License specialists and tool vendors well in advance of their next SAP audit or negotiation to be best prepared.

Being well-prepared for an SAP contract renewal or audit is likely to pay significant benefits. In summary, the key elements to this preparation should include:

- Develop a comprehensive understanding of SAP contracts/entitlements including all amendments.
- Develop a deep and comprehensive understanding of SAP usage throughout the enterprise. Using SAM tools to determine the baseline inventory position, inactive users, and inappropriate license classifications/types.
- Identify and assess any anomalous or abnormal user behavior that make be indicative of indirect access by third-party applications or web portals.
- Evaluate the current mix of SAP license types assigned versus the optimal license types required for each user and assess if significant revisions to the license ownership is required from the current entitlements.
- Determine what purchases and/or trades would have to be accomplished to achieve a mix of SAP licenses that reflects the current and expected needs of the enterprise.
- Develop a strategy for how to begin shifting the contracts/entitlements to better reflect you current and future needs.
Snow Optimizer for SAP® Software enables companies to achieve the transparency and understanding necessary to actively optimize and manage their SAP deployments. SAP licensing is complex, and a lack of insight into SAP licensing can result in significant financial and legal liabilities and paying for assets that are not even utilized.

From the world's leading Software Asset Management (SAM) software provider, Snow Optimizer for SAP Software provides various analyses which identify and isolate named SAP users that are obsolete, duplicate or wrongly assigned. Integrating SAP into an enterprise SAM program requires a deep understanding of how SAP licensing works combined with proven processes supported by powerful software. Snow Optimizer for SAP® Software provides a proven SAP-specific solution for bringing SAP software deployment into the enterprise SAM practice.
ABOUT SNOW SOFTWARE

Snow’s Mission is to stop organizations paying too high a price for the software they consume.

To bring transparency and fairness to the licensing of software across the network, Snow provides on-premise and cloud-based Software Asset Management (SAM) solutions that safeguard the US $320 billion spent each year on enterprise software: ensuring organizations realize the full benefit of optimized licensing.

Snow is the largest dedicated developer of SAM solutions, headquartered in Sweden with more than 300 staff across 15 regional locations, three development centers and local support teams in seven territories.

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