



A guide to SAP Indirect Usage

What it is, what it means for you and why preparation is the key to a successful audit or negotiation

EXECUTIVE SUMMARY

Keeping on top of SAP® licensing is a time-consuming and often complex task. The correlation between licenses defined in an organization's contract and technical entitlement to use the SAP system has always been open to interpretation. The situation is exacerbated when it comes to indirect usage.

A simple example of indirect usage is where an SAP system is accessed or queried through a third-party application. The way in which that third-party system interacts with the SAP system and underlying data can have a significant impact on licensing requirements and financial exposure at the point of audit.

SAP is focusing more heavily than ever on audits which include analysis of indirect usage, so being prepared with hard facts is the key to minimizing financial risk. This information also empowers organizations to get the best out of contract negotiations with SAP.

This guide provides you with a brief history of indirect usage and how to identify it within your estate so you can go on to build a full architectural diagram in preparation for successful audit or license negotiation.



INTRODUCTION: TECHNOLOGICAL CHANGE

In the late 1990s, SAP systems were typically installed in an SAP-only environment. These systems generally did not communicate with third-party applications. As technology developed and evolved, different vendors created mechanisms to integrate their applications, systems and devices with third-party solutions.

Fast-forwarding into recent times, we are now in a period of Digital Transformation and the ever-expanding “Internet of Things”. This has seen an explosion in the amount of data and insights available to organizations. These insights are extremely valuable to modern organizations and taking full advantage of available technologies has become key to remaining competitive.

FINANCIAL IMPLICATIONS OF INDIRECT USAGE

Access to enterprise data managed by SAP generally requires a named user license. This is a unique license associated with an individual that can be used by them across any device and any location. If others in the value chain such as employees, contractors or business partners are accessing SAP-stored data through third-party software like Workday or Salesforce, or through a bespoke internally developed application, organizations must ensure that all the users of those applications have an SAP named user license of the right type provisioned for them.

Where previously almost all interaction with SAP data was through direct access by human users, there is a growth of machine-to-machine (SAP to third-party application) interaction. Integration connectors have enabled customers to use their solution as the system of record and platform for executing the operations of the company – financial accounting, manufacturing, procurement, supply chain management, channel and distribution management, human capital management and various other key processes. All of these are potential areas of indirect usage.

While indirect usage was not historically open to scrutiny, there is now more focus on it from audit teams as SAP looks to monetize the value it brings to third-party applications that use data supplied from SAP systems. This has required companies to step up their licensing requirements to remain compliant.

From SAP’s perspective, organizations are getting more value from their technology than ever before through the exchange of their data with third party applications. SAP, in turn, is putting more pressure on its customers and billing them for the value that they are getting out of indirect usage.

SAP is approaching an increasing number of customers for significant, unbudgeted license fees related to indirect use – Gartner ¹

¹ Gartner: SAP Indirect Access License Fees Can Be Significant and Unexpected - Roberto Sacco, Alexa Bona, Derek Prior, Lori Samolsky - 31 July 2014

HOW DOES THE SAP CONTRACT HELP?

In the standard clauses listed in SAP contracts, there is no specific definition for “indirect usage”. Where SAP customers are being presented with charges for indirect usage, most of the arguments presented by SAP are based upon an interpretation of the definitions of “Use” and “Users” within the contract.

Typically, if a third-party application accesses SAP data, the usage of that data needs to be covered

by an appropriate SAP license. To understand your position you should review the terms and conditions in your contract and refer to the SAP price list. If you have concerns or questions about what constitutes indirect usage for your organization, it would be a wise step to review your SAP architecture for third-party applications integrating with SAP. Snow also recommends you seek expert advice to mitigate potential financial and compliance risks.

COMMON SCENARIOS WHERE YOU MAY BE LIABLE FOR INDIRECT ACCESS

- Customers using eCommerce platforms to place sales orders
- Partners and suppliers accessing inventory and running reports
- Field officers using mobile apps and devices to get new notifications
- Sales reps accessing and inputting customer-related data and running CRM reports remotely from a non-SAP interface
- Remote engineers accessing inventory and placing orders via a portal
- Third-party logistics suppliers / contract manufacturers consuming data from SAP
- Applications that use and share SAP’s data for product life-cycle management purposes

HOW TO IDENTIFY INDIRECT USAGE

The anomalous behavioural patterns that are typical indicators of indirect usage are generally very difficult and labour intensive to manually identify manually, especially when managing hundreds of SAP systems. Thankfully while some points of review must be performed manually, a great deal can be automated by solutions such as Snow Optimizer for SAP® Software. This solution consolidates data across all SAP systems and can detect precisely these indicators. They are:

- **Cross component usage** – Accessing multiple systems at the same time is unusual behavior for a “real” user.
- **Extended work time** – Even the most conscientious of users will not work continuously for 24 hours without a break.
- **Extraordinary volume of work** – Any user whose workload (i.e. number of transactions performed, CPU usage per day) is significantly above the average may indicate activity from a system.

By monitoring these unusual behavioral patterns, Snow Optimizer for SAP Software can highlight potentially unlicensed and non-compliant users that are accessing SAP systems. This enables organizations to take proactive remediation steps and avoid potentially significant (often unbudgeted) costs.

Through this data, users can maintain up-to-date details on which licenses are assigned and where. This enables SAM managers and SAP administrators to rebalance license allocations on the fly, and to right size licensing across the SAP landscape.

Snow Optimizer for SAP Software constantly monitors system measurements across the hundreds of SAP systems in an enterprise, aggregates that data and highlights key compliance concerns for the SAP administrators. Essentially, the technology becomes your own in-house SAP license optimization expert.

UNDERSTAND HOW APPLICATIONS ACCESS SAP

Once a list of possible access points has been established then, working with SAP System Architects and SAP Basis Administrators, a screening process must occur to identify the low- and high-risk areas of financial exposure. Many of the access points may be system-to-system integrations that only involve internal SAP applications. These are the low-risk access points but because they are automatically identified the process of elimination is far more efficient.

As the list is narrowed down, each application that is connecting through a particular suspect user ID should be mapped. Each application owner must be established and then interviewed to document what the application

is and does, who the users are, if those users have an SAP license and if so, what the license type is.

As part of the interview process with the application owner, an understanding of what the application and user are doing is important. This determines what license type is required. Within Snow Optimizer for SAP Software, the historic behavior of the application from an SAP transactional perspective can be isolated and determined. For instance, if the application is a query and solely provides read-only access for the user, then a special license type from SAP may be the best means of achieving compliance.

PREPARE MY FINDINGS FOR AN AUDIT / CONTRACT RENEWAL

For many enterprises, preparing for an audit or contract renewal where indirect access/usage is an issue becomes a four to six-month period with a significant diversion of IT resources. The use of consolidating and automated solutions like Snow Optimizer for SAP Software dramatically reduces the time and labor required to pull these requirements all together.

The preparation process involves achieving full transparency of your SAP deployment, understanding precisely how it is being used and having exact and detailed knowledge about indirect usage across your deployment. Detailed knowledge of indirect usage involves drawing up an architectural diagram specifically showing how the SAP system is interconnected to other third-party and bespoke applications within your enterprise.

The preparation process involves achieving full transparency of your SAP deployment

One critical part of the negotiation preparation is to look closely at each connected application and consider what the limit of value the application brings to the enterprise and if there is an alternative way to achieve the same outcome via an approach which doesn't require the third-party application. If there is a reasonably accurate value calculation, then this plays into a hard ceiling for the money your enterprise is willing to part with as part of the negotiation (see the case example).

Additionally, the way in which the application interfaces with the SAP system and what data it is permitted to access and manipulate can have an effect on the potential cost. Consider how you might change this technical integration or method of access to lower the cost.

CASE EXAMPLE:

Snow Software worked with a large global manufacturer of heavy machinery helping them prepare for an on-site audit with SAP around indirect usage. One application of interest was an application that allowed their dealer network to be able to validate a serial number.

By providing online access to this system, more than 5,000 dealers could now validate information 24 hours a day without a human invention/involvement in the process. When they looked at how much the manual alternative cost,

which was an outsourced 24-hour service based in India, it came down to approximately \$100,000 per year. That works out to about \$20 per user in cost and became a point of negotiation.

A special license type was suggested at a very low cost per license that allowed read-only privileges to a very limited number of SAP transaction codes. This was an example of a win-win. By being prepared, the customer proactively presented their case for a certain price level, and presented the non-automated alternative.



HOW TO NEGOTIATE THE BEST OUTCOME

The goal in the SAP negotiation process is to shift the relationship from one in which it might feel like SAP is dictating the compliance terms to a discussion where both sides of the table can achieve a decent outcome that meets their long-term objectives.

Once a detailed picture of the SAP environment has been drawn up, the next aspect is to understand the priorities of the software vendor, in this case SAP, and what they will consider a 'win'. Surprisingly, in most cases it is NOT to gain the largest true-up cost as possible, as all licensing revenue is not treated equally.

Moreover, the typical SAP account executive is looking at the account relationship over a very long, multi-decade period and aiming to maximize company value over that time. Having said that, there is always sales pressure in SAP's fourth quarter and this strongly influences the number and intensity of software audits carried out by them.

Another crucial part of the preparation is to determine what the estimated value add is for a particular third-party or bespoke application. If the cost of the incremental SAP licensing dwarfs that of the value being delivered from the application, then one must look at the negotiations through a different set of lenses.

Finally, proper thought must be given for "horse trading" scenarios that are likely to be a feature of the negotiation process. SAP is well-known for using indirect usage compliance issues as a means to open up a more comprehensive set of horse trades which inevitably result in the customer spending more per year with the vendor. As long as this incremental spending is part of the strategic trajectory for the customer, this can be a win-win.

By being prepared with a full architectural diagram of your SAP system, outlining access points and interface mechanisms it's unlikely that SAP can suggest that you require the most expensive license type across the board to be compliant. In most cases, an indirect user is not accessing the SAP system at a level that requires a professional license, so this license would likely be "overkill".

Given your insights into the applications and usage of your SAP system that you have discovered through comprehensive investigation, it may be prudent for you to carry out an overview, workshop or provide a briefing document to SAP in advance. This is the strongest way to send a message about your intention for an amicable and mutually beneficial negotiation.

PLAN YOUR NEGOTIATION TACTICS

Thinking through various licensing scenarios is an important part of the preparation. One of the first tactics you should consider and ask for if not provided in its contract is information on “swap rights”, either for this particular negotiation period or for a longer duration of time. This allows SAP customers to re-balance their licenses to meet their current and on-going needs.

Many times companies are “over-licensed” with SAP in the aggregate (i.e. they have 4,000 more licenses than users), but they fall short on a particular license (i.e. they need 1,000 more professional license-type licenses). By being able to swap some of their excess licenses of one type for another, the enterprise is better served and SAP is still receiving the same maintenance revenue annually. This is another win-win scenario.

With an indirect access compliance issue, this may well be the case. If it can be determined that approximately 1,200 users need an SAP license because they are accessing SAP through a non-SAP application and they do NOT have a license yet, this represents a true-up cost. If some excess licenses which will not likely ever be absorbed can be swapped and credited towards the 1,200 licenses required for these indirect users, some or all of the cash outlay for the true-up can be deferred or avoided.



CONSIDER REVENUE “TYPE”

Not all software revenue is considered equal. A company booking Software-As-A-Service (SaaS) subscription revenue is valued often at twice the consideration of a company booking recurring maintenance revenue from a perpetual license sold years or decades ago. Cloud and SaaS are big buzz words that play into the value of companies today.

If you want to put yourself into the strongest negotiating position, consider that the real opportunity to horse-trade is to accept that SAP wants to move you to SaaS revenue models (ie. S4/HANA and other new licenses). When negotiating with ANY software vendor, understand what is important to them as a company, and bear that in mind for your negotiation strategy and flexibility.

REMAIN PREPARED

You need to give SAP the evidence that you have control of this situation. This means that you have processes and tools in place to assess your exposure, and you have a methodology for how to deal with unlicensed indirect usage. By setting up advanced solutions that monitor prospective compliance issues periodically (i.e. weekly or monthly), and by having the ability to show full transparency of your usage data and licensing to SAP, it will walk away more comfortable that your future negotiations and annual LAW audit submissions will reflect the use of these processes and tools.

Once you begin pro-actively managing your SAP licensing – both direct use and indirect use – then SAP will have confidence that the self-audit data is a fair representation of your licensing usage.

Consequently, it will see less financial merit in coming on-site and digging deeper into your SAP usage looking for prospective compliance violations. This will go a long way to elevating the future discussions with SAP to a more longer-term, strategic one.

CONCLUSION: TARGET THE WIN-WIN SCENARIO

There is no doubt that SAP as a software vendor and your enterprise as a software consumer have opposed objectives to a large extent. The hallmark of a successful negotiation is to have both sides win some and lose some and to meet the strategic objectives both sides have in mind.

Historically, the battle was won and fought before either side sat down at the table. SAP had all the negotiation experience and contracting / licensing expertise and the enterprise had a highly limited understanding of what was really being used within its global SAP system, how it was being used, and if the provisioning and allocations of SAP licenses was done in a compliant and cost-efficient manner. SAP, not unlike other software vendors, would use this asymmetry to drive the negotiations process to an inevitable true-up of a meaningful amount and an ongoing step-up in annual operational costs due to the recurring maintenance costs or incremental subscription costs.

With Snow Optimizer for SAP Software, the company has powerful analytical capabilities that now provide far greater transparency and understanding of your estate. Moreover, the same solutions can automate the ongoing and continuous SAP license optimization at lightning speed and with substantially greater accuracy than any human or software vendor can achieve. Now, the playing field has not only levelled but has been tilted in favor of the SAP customer.

The hallmark of a successful negotiation is to have both sides win some and lose some

Indirect usage compliance is a complex, time-consuming and frightening area for many enterprises today. Some enterprises without advanced and automated tools are committing more than six months of each year just preparing for these more onerous audits and questions poised from SAP. It doesn't have to be that way. Enterprises can achieve their long-term strategic objectives as a firm and their licensing needs by being pro-active in their preparation for SAP contract renewals and renegotiations.

To find out more about Snow Optimizer for SAP software or to book a demo go to:

<https://www.snowsoftware.com/int/campaign/take-snow-test-drive>

Sos

Snow optimizer for SAP[®] software

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. It gives you an exact understanding of your SAP baseline inventory and entitlements enabling you to optimize your SAP expenditure and entitlements, potentially saving your organization millions in onling SAP costs and procurement.

Snow Optimizer for SAP[®] Software is a comprehensive, proven, license compliance and software license optimization solution that enables organization to maintain license compliance to reduce audit costs and risks. It provides a proven SAP-specific solution for bringing SAP software deployment into the enterprise SAM practice.

SNOW SAM PLATFORM

Slm

Snow license manager

With millions of licenses sold, Snow License Manager is the world's leading SAM solution.

Inv

Snow inventory

The true multi-platform audit solution designed to find devices, audit software installs and track usage.

Srs

Software recognition service

Recognize commercially-licensable applications across the network.

Sic

Snow integration connectors

Integrate Snow's SAM platform with existing Inventory, ITAM and Service Management solutions.

Om

Oracle management option

Cut the costs of managing complex Oracle licenses.

Sos

Snow optimizer for SAP® software

Manage SAP licensing to optimize one of the enterprise's largest software costs.

Vm

Virtualization management

Identify and manage virtual assets across the network.

Ap

Snow automation platform

Define and implement automated process to support software optimization.

Sdm

Snow device manager

A complete enterprise mobility management solution that handles the full lifecycle of mobile devices.

ABOUT SNOW SOFTWARE

Snow Software's Mission: To stop organizations paying too much for the software they consume

Whether it's through lack of control, lack of understanding or lack of compliance, Snow Software believes that most organizations today end up paying too high a price for their software.

To address this, Snow Software provides Software Asset Management (SAM) solutions designed to ensure that the \$326 billion spent every year on enterprise software is money well spent – ensuring organizations have the appropriate licenses for the software they use – not too many, not too few.

Today, more than 6,000 organizations around the world rely on Snow Software's on-premise and cloud-based SAM platforms to manage software licensing across more than eleven million devices, from mobile to desktop, datacenter to the cloud.

Headquartered in Stockholm, Sweden, Snow Software is the largest dedicated developer of Software Asset Management solutions, with more local offices and regional support centers than any other vendor.

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