

## Five Steps to Licensing SAP Business Functionality

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The five steps to licensing SAP business functionality provide procurement departments with a method to link their requirements to sufficient user entitlements based on SAP's information. User organizations that omit this critical, but onerous, exercise may expose themselves to overlicensing or extending the functionality scope beyond what they require.

### Key Findings

New users of SAP solutions are faced with a number of challenges:

- The vast variety of functionality for all sorts of business issues that can make it difficult to match SAP's functionality with business requirements
- Limited in-house knowledge of SAP terms and process heritage
- Tons of marketing-driven information from SAP that influence the assessment of the RFP responses
- Different terminology in proposals and unclear calculation of the application value-based license fee

These challenges are apparent for the customer and the SAP sales force, and require a fact-based methodology that will ensure a solid baseline for the negotiations.

### Recommendations

- Implement Gartner's five-step methodology to create a baseline that can be communicated to the business and the vendor.
- Ask the vendor to help you understand the licensing model and to leverage it to license the required functionality for the business at the optimum cost.
- Use the baseline to discuss and test alternative implementation road maps, as well as to optimize the total cost of ownership.

## ANALYSIS

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SAP application systems can support a vast variety of industries, business functions and their corresponding processes. This lays the foundation for a high number of application components. Their reuse for similar requirements in different industries leads to combinations that can be relatively complex. Customers need to take care that what they use is within the scope of what they are entitled to under their software agreements. The increasing number of software license audits and the interaction of users with this complex conglomerate of software (licensed scope may be less than delivered) may cause unexpected licensing costs.

When licensing SAP software, the customer and even the SAP sales force may find some challenges defining the right entitlements for potential users. New functionality and the hyped demand for new technologies can derail focus from the simple overriding question: Which components need to be licensed for a given RFP-defined use?

SAP does not provide comprehensive documentation that gives an easy answer to this question. The names, nomenclature and information content of sales collateral, online documentation, business map details and price list terms are not easily available and may be updated by different units of SAP's organization.

This research deals with establishing a licensing baseline that can be linked and traced back to the original RFP. Based on a five-step approach, procurement should be able to link its requirements to the information available from SAP. When completed, the method should provide a strong base for further communications and improvement of the vendor relationship. When applied properly, it will not only help in achieving the right baseline, but also provide a valuable piece of information for managing the SAP solution asset throughout its life cycle.

## Status Quo

When starting your journey into the world of SAP applications, the initial interest is usually based on an RFP and industry references. In most cases, the vendor delivers demo sessions, on-site or remote, and vendor sales representatives start the detailed discussions, accompanied by numerous marketing brochures and success stories. Typically missing at this stage of discussion is:

- A price list
- Master terms and conditions
- Functional reference lists

When making the first quote, SAP puts the proposal in a readable, but high-level, context of the customer's needs and suggests a high business value. To validate the value of this quote, you must perform your own assessment to see if the content of the offer is appropriate, complete and priced in a transparent way to start negotiations. If you fail to do so, then the licensed solution may turn out to be insufficient, and additional license fees may result shortly after implementation. In addition, the lack of understanding of the license items and their metrics that contribute to the application value may result in unexpected fees that are beyond forecast budgets. At the same time, a proper assessment helps to avoid overlicensing and spending too much on license fees and associated maintenance.

## Methodology

For the validation of SAP proposals, Gartner proposes a five-step approach. It enables you to identify the relevant business scenarios, establish roles and usage levels, identify the participating technical solution components and generate the expected user counts. It also provides the metric data that enables a spending forecast for the business scenarios. The clarity delivered by the methodology provides basic checks for right-sizing the deal and helps establish return on investment and chargeback parameters for internal portfolio management and IT controlling.

### Step 1: Evaluate the Solution

When looking at an RFP, every vendor has learned to identify easily the relevant components of its solution, including the coverage percentage. At that time, the vendor thinks in terms of capabilities that particular parts of the solution can provide to the customer, and breaks it down to the proprietary technical structure. In system demos, highly skilled system experts show how the business functions compose a scenario that addresses most of your needs. At this stage, you make decisions about shortlisting the vendor for your final RFP-based decision making. SAP's system experts will go beyond this goal and explain the associated business value and the expansion of business tasks in a holistic solution approach. Many enterprises find this extremely valuable, because they can better visualize how certain issues can be managed with a practice input from many other users. This practice has resulted in some customers abandoning the RFP process because they believe it will reduce their cost of acquisition and achieve quicker results. We believe that a solution defined by your RFP will prevent you from extending the scope beyond a defined requirements benchmark. Even if SAP is the preferred solution, continuing to consider alternatives will help you maintain competitive leverage. This first step provides you with a list of business functions and associated business processes that you will establish for your user community during the implementation.

### Step 2: Identify the Business Process Scenarios

SAP has assigned all business processes to its related business scenarios that yield a business value and are associated with traditional business roles, such as project accounting or inventory management. When packaging the solutions, it creates the technical bill of material to ensure that all required modules can be delivered and implemented. This is done in the software factory, part of the company's global support unit.

Based on your list of business functions discussed in Step 1, you will explore these business scenarios to understand the parameterization of the solution and to match the scenarios to the real world in your enterprise. If the parameters allow the adjustment of business processes to your way of operating, then you do not need to change your established practices. In some cases, you will find great value in reviewing the proposed standard ways of conducting certain business tasks, to make use of the flexibility that is built in. A thorough understanding of the business processes will help you leverage the best practices that SAP has built into the solutions.

At this stage, you should review the organizational schema of your administrative tasks and the roles that the users play. It makes sense to check the type of participation of each role in the process to gain an understanding of which user category to choose when licensing the entitlements, because SAP licensing always includes user licenses ("application users" or "platform users") by different categories (professional, limited professional [LP], employee and employee self-service) that are priced differently (see "Define User Categories to Reduce License Fees With Large Enterprise Application Vendors")

When you are already an SAP user, you may use the solution manager provided for the installed base as part of the standard support offering to conduct the selection of business scenarios and the user role definitions. For the new prospect, access to the SAP Business Community and the SAP Support Portal will be crucial to conduct the allocations (see Note 1).

### Step 3: Allocate to SAP's Solution Maps

To drill down to the scope of functions provided by SAP solutions, access the business maps, formerly referred to as solution maps, available on the SAP Web site (see Note 1). They are sorted by generic packages, industry packages and technical infrastructure. As a novice to SAP, you need to understand where to expect certain functionality. This is probably one of the hardest parts, because the assignments are not intuitive, but based on the long evolution of the solutions. Table 1 provides basic guidelines to a successful search.

**Table 1. Guidelines for Business Scenario Allocation to Solution Maps**

Business Scenario	Primary Solution Map	Secondary Solution Map
Generic ERP	ERP	SAP Manufacturing
CRM, Supplier Relationship Management (SRM)	Generic Package CRM, SRM	ERP
Industry Scenario	Industry-Specific Business Map	Cross-Industry Business Maps
Reporting	Industry-Specific Business Map	SAP NetWeaver Technology Map
Planning	Industry-Specific or Generic Map	SAP NetWeaver Technology Map
Workflow	SAP NetWeaver Technology Map	Industry-Specific Business Map
xApps Scenario	Industry-Specific Business Map	Cross-Industry Business Maps
Extensions	NetWeaver Technology	Real-World, Radio Frequency Identification and Event Management

Source: Gartner (May 2008)

The primary reason for allocating the scenarios to SAP's solution maps is the detailed information that can be found when clicking on the segment in the solution map. It reflects the most-accurate vendor information available in a written format and displays the nature of the scenario (if owned by SAP or a partner), its availability and the contained functional processes.

### Step 4: Cross-Reference All Required Products

At the level of each main process, there is a cross-reference of all subprocesses to the names of products (price list items) that need to be licensed to establish user entitlements. Even though there is no guarantee that the naming remains unchanged in the price list, this is the most-reliable link to set up the baseline for the software licensing, and the list provides the procurement team with the confirmation that the scenarios identified really require the modules contained in SAP's proposal. Reviewing the solution maps for all scenarios enables cross-referencing that can be used to establish a baseline and differentiate the "nice to have" from the RFP requirements. Within the cross-reference, you should allow for the grouping of your users in logically connected or dependent business scenarios. This gives you bundles of scenarios that can be implemented in phases and identifies the user groups concerned. At this point, you can validate the user counts and assign the roles provided by the business scenarios.

If you find inconsistency of terms, then you can ask the vendor specific questions and check off all issues that originally required "good faith."

## Step 5: Create a Licensing Baseline Using SAP List Prices

If the price list is at hand, then you can establish a baseline that provides clarity and understanding for the total deal: Sum up all user counts with their associated products and define the level of use (professional user, LP user and so on). If you have high user counts for scenarios with limited use, then you may define special user categories to discuss with the vendor. Because the definition of "LP user" is rather vague in SAP's price list, the application of that user category can be better described when referring to specific business scenarios (see "Define User Categories to Reduce License Fees With Large Enterprise Application Vendors").

A general instruction for calculating the final contract value is contained in SAP's price list in the Terms and Conditions section (see Notes 2 and 3). If SAP does not provide its full price list (see Note 3), then ask for the list prices for all the required products cross-referenced in Step 4.

The users associated with specific business scenarios will drive the partitioning of your implementation in a way that you can use to create return-on-investment scenarios and a road map for a phased implementation. For each implementation phase, manage user expectations and leverage systems replacement without unexpected surprises because of a lack of process support or functionality. For the implementation project, the relevant user committees can be identified and the different groups can be involved when needed. For a more-detailed validation, users can access the original documentation from SAP's Help Portal (see Note 1).

The real benefit, however, is that you can augment your vendor relationship based on informed decisions. We expect this to improve the vendor potential for your business in the long run.

## Final Remarks

SAP's solutions have grown, and the sales organization has as well. Based on the tenure and experience of sales staff, you may find that occasionally the complexity of your requirements may not be fully understood. If gaps are subsequently identified in the validation process, then share your learning with the vendor. Most sales professionals are aware that trust is an indispensable asset for future sales and that an informed customer may be more difficult, but also more reliable and retainable. Do not underestimate the support you will get once you have proven to be on top of the matter. Do not underestimate the level of effort required on your part during your acquisition of SAP products. You will be expected to maintain that level of effort within your SAP center of competence. Factor these costs into your budgetary decision making.

## RECOMMENDED READING

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"Define User Categories to Reduce License Fees With Large Enterprise Application Vendors"

"Protect Yourself from Areas of Risk During an SAP Software License Negotiation"

"SAP Pricing in Evolution: Five Key Items to Negotiate with SAP"

### Note 1

#### Sources of Information

The following sources of information are required to conduct the five-steps-methodology:

- SAP's current price list — available on request via the SAP subsidiaries.
- SAP Service Marketplace (<https://websmp101.sap-ag.de/>) combines the access to the SAP Business Community, the SAP Help Portal and the SAP Support Portal. For access to the SAP Support Portal, you must register as an SAP customer.

- The business maps can be found under <http://www12.sap.com/solutions/businessmaps/index.epx>. You can download the SAP Solution Composer for offline analysis or use the browser to access the business maps by each area.

## Note 2

### Steps to Calculate the SAP Contract Value

To calculate the SAP contract price, apply the steps described in SAP's price list, section "Contract Value," in Chapter Terms and Conditions:

- Determine the SAP Application Value (SAV).
  - The SAV is determined separately for discountable and nondiscountable price list items.
  - Summing up Named User, discountable Product Option, discountable Industry Package and discountable Supplementary Product list prices yields the discountable portion of the SAV.
  - Summing up list prices of (local) nondiscountable items yields the nondiscountable portion of the SAV.
- Calculate the database price by applying the appropriate percentage to the SAV. The database price is determined separately for discountable and nondiscountable price list items.
- Determine the list price subtotal for items that do not contribute to the SAV (subtotal non-SAV items).
  - The list price subtotal for items that do not contribute to the SAV is determined separately for discountable and nondiscountable price list items.
  - Summing up list prices of discountable price list items that do not contribute to the SAV yields the discountable portion of the subtotal of non-SAV items.
  - Summing up list prices of nondiscountable price list items that do not contribute to the SAV yields the nondiscountable portion of the subtotal of non-SAV items.
- Add the discountable and nondiscountable portions of the SAV, discountable and nondiscountable portions of the database price, and discountable and nondiscountable subtotals of price list items that do not contribute to the SAV to arrive at the total list price.
- Determine the standard volume discount percentage according to the total list price.
- Applying the standard volume discount to the discountable portion of the total list price and adding the nondiscountable portion of the total list price yields the contract price.

## Note 3

### Pricing References

SAP has established price lists for all regions. However, it is important to understand that SAP's price lists are country-specific, and the possibility of securing a price list is based on local regulations and country laws. They are used primarily by the sales force and contain more than 200 pages, including terms and conditions. For public-sector proposals, some countries have

legislation in place that demands a public price list. Normal customers do not get the price list unless they ask for it and refuse a further relationship without it.

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