



Licence negotiation and audit services for ERP systems

ERP software represents a major financial and operational investment for any organisation implementing such systems. Given the long-term impacts of an ERP purchase, licence and pricing negotiations with an ERP vendor take on real significance, and should be handled with the same care reserved for other large, capital purchases. The Licence negotiation and audit services from Mencius Business Solutions set down solid measurement and management criteria for extracting maximum value from your ERP licence acquisitions. Whether you are an established customer worried about licence compliance, system expansion, upgrade, or are considering making a new investment, this service aims to position your organisation amongst the best-in-class licence agreements for cost and future protection.

Business Challenges

ERP licence and pricing negotiations can be particularly involved for many reasons, including the following:

- The technical, business, and financial complexities surrounding ERP systems make it difficult to negotiate these deals. Due to the wide range of functionality encompassed by ERP systems, licensing schemas can be vague and complex, with multiple metrics and measurement criteria.
- The implementation process itself can be long and cumbersome, increasing the purchase risk. The time lag between purchase and deployment can create issues around licence allocation, recording and management.
- ROI planning should address non-licence implementation costs, adding another layer to the negotiation.
- The cost, time, effort, and business disruption an organisation endures during an ERP implementation is substantial, meaning any incumbent vendor has a long-term negotiating advantage over the customer. This becomes important when negotiating licence extensions and needs to be addressed early in the decision making process.

The ERP Licence negotiation and audit services from Mencius Business Solutions address these points and more. Using detailed knowledge of the licensing practices used by ERP vendors, Mencius Business Solutions can create a framework which ERP purchasers can use prior to entering negotiations. This framework is not just a simplistic checklist, it presents systematic guidelines for approaching licence negotiations.

Details

An enterprise-wide ERP system represents the top one or two technology investments that an organisation will make over a 10-year period, and the ongoing maintenance consumes a significant portion of the annual budget. CFOs expect their vendor managers to keep these costs under control, yet they often have a weak negotiating position. A buyer cannot realistically threaten to switch to another vendor or cancel maintenance if the incumbent knows it is the customer's strategic platform. Adding to the complexity and fuelling companies' concerns, vendors do not often offer a detailed published price list, so buyers are left second-guessing as to whether or not they got a "good deal." The most common complaint heard is that ERP system pricing is complex and opaque.

This complexity increases throughout the software ownership life cycle, given that firms must live with the application for many years, often decades. Changes to the business over that time directly impact the number of users and the scope and validity of the licensing agreement. Many of the licensing problems encountered could be avoided if the risk had been identified and addressed during the original negotiations. Complaints often start with the phrase, "I would have thought that . . .". Buyers often make incorrect assumptions about how the vendor will handle future situations. By the time the licensing implications of a business change are revealed, it may be too late: The buyer has a much weaker negotiating position after the initial sale and may struggle to get any more concessions.

While many companies treat ERP software as another commodity purchase and focus all their bargaining energies on getting the best purchase price, the problems described above could cost an enterprise far more than the few extra percentage points of discount that they extract. Unfortunately, successful risk mitigation is far less visible than the headline discount percentage. Many of our customers have bought SAP licences worth more than €5 million at list price and had obtained an extra discount of up to 10% on licences over standard ERP discount rates (worth €500,000). In stark comparison, contractual issues encountered later have easily created liabilities for an additional 25% over and above the license original expense, which would cost €1.25 million.

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Process

Mencius Business Solutions follows a structured process, based on established project management principles, when working with clients evaluating either their existing contracts or new ERP negotiations:

- **1 - Discovery and Planning:** Mencius Business Solutions' experts work with the client to assemble a complete collection of negotiation documentation, contracts, exhibits, emails, letters, and other correspondence to provide a complete contractual inventory of the ERP environment.
- **2 – Contract mapping:** Via a series of interviews with stakeholders (procurement, system administrators, finance, HR, and other departments whose function is directly affected by the ERP system), Mencius Business Solutions provides a correlation of existing (and planned) usage of the system against the current licence position. At this point, licence exposure or potential savings can be identified.
- **3 - Negotiation:** Once the overall business requirements of the client have been documented, the ERP vendor is engaged. Depending on the situation, a licence audit is undertaken showing true licence usage, licence management techniques or contractual clauses are invoked, allowing the client to match usage to the actual environment and agreements, or contractual negotiations are started. Mencius Business Solutions' consultants are available to work with the client's staff throughout the entire contract negotiation lifecycle.
- **4 –Acceptance, sign-off, and Knowledge Transfer:** After the negotiation is complete and customer acceptance has been agreed, Mencius Business Solutions continues to work with the client to ensure that the processes are clear and that knowledge is transferred via a comprehensive set of documentation and work assistance practices for future audits and negotiations.

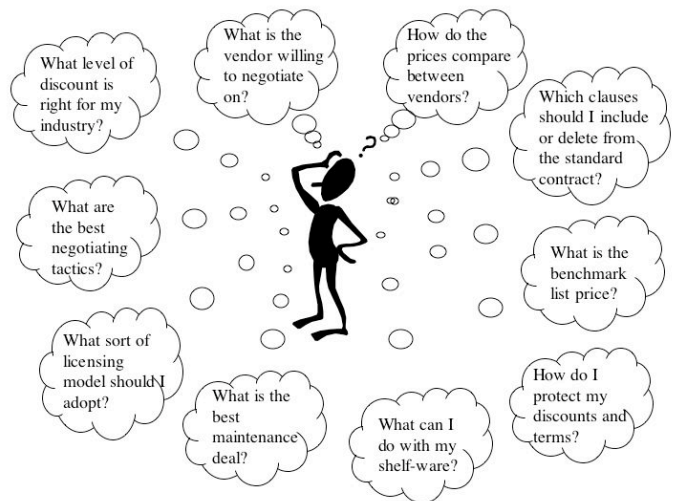
Added Value

The Mencius Business Solutions negotiation and audit services exist to add value to customer organisations:

- **Help customers** effectively assess and/or manage their ERP contracts and match them to the appropriate business need.
- **Assist customers** with the concept and strategy of negotiation with the ERP vendors, including vendor selection processes and contract terms & conditions.
- **Ensure customer success** by providing regular status reports highlighting any potential issues or pitfalls.
- **Assure** Quality of Service by providing benchmark data for similar environments
- **Improves** Asset utilisation

Summary

Looking beyond allowing the vendor to seal a quick win with a discount of a few percent off the initial licence purchase, these services give buyers the tools to help them evaluate their strategy and potential risks. By accomplishing this buyers can understand their own requirements, while remaining aware of the vendor's strategies and goals. Thus leading to a licensing deal providing both immediate value for money and reflecting long term business goals.



Find out more

To find out more about how to benefit from Mencius Business Solutions' negotiation and audit services for your existing or future ERP systems, please contact us on +32 2 375 6018, or via our website at: www.mencius.be.