

Keeping your software license agreements on track

Every day, software companies are losing countless dollars without even realizing it. The reason? Companies that have purchased software may be using more than they are entitled to under license agreements or may have upgraded their software without paying maintenance fees. The use of unlicensed software can stem from either highly complex license agreements or from a company not having the proper processes to manage and deploy software. Whatever the cause, your ability to manage and monitor your customers' software usage is critical to achieving full control over your license and maintenance revenue.

KPMG is a market leader in software license compliance services. We have a well-established track record for delivering high results in return on investment (ROI), customer experience, and integration with internal stakeholders. We work with some of the world's leading software companies, bringing to bear leading approaches, capabilities, knowledge, and experience while successfully adapting to different visions, strategies, and corporate cultures. KPMG's Contract Compliance Services (CCS) professionals can help determine compliance of your third-party contractual relationships to help protect your license revenue.

Software license compliance engagements

While most licensees do not purposely underreport the amount of money they owe, KPMG estimates that as much as 70 percent of self-reporting by business partners or customers is inaccurate based on more than a thousand contract reviews previously conducted by our CCS professionals. Our professionals help software clients design, execute, and monitor license compliance programs to increase current and future licensing and maintenance revenue and improve control over software license entitlement tracking.



We seek out the root causes of underpayments and offer recommendations to help prevent future losses and strengthen the underlying licensing relationships. Our nonadversarial, facts-based approach helps identify significant cost recoveries or other improvement opportunities while respecting your vital business relationships. Key potential benefits of a KPMG CCS software license engagement include:

- **Improvement** of approach and controls in monitoring relationships
- **Greater** internal process consistency and enhanced controls
- **Visible** return on investment (ROI)
- **Better** protection of intellectual property.



KPMG's Contract Compliance Services

KPMG was the first “Big Four” accounting, tax, and advisory firm to set up a dedicated CCS practice. For more than a decade, our CCS engagements have been helping companies across all industries identify and recover millions of dollars arising from noncompliance. Today, more than 450 full-time contract specialists in KPMG member firms in the United States, United Kingdom, Australia, and across Europe, Africa, Asia Pacific, and Latin America help clients with their contract management in order to increase performance and decrease risk.

Our CCS assistance features:

- **Integrated international teams:** KPMG’s integrated international CCS teams comprise diversely skilled U.S. and global professionals with leading experience and in-depth industry knowledge of intellectual property and contract compliance issues.
- **Cross-cultural versatility:** We understand regional cultures and business practices as well as the language and cultural skills to operate effectively anywhere.
- **Contractual complexity:** We understand the complexities and nuances of a wide range of contract terms and conditions as well as the challenges of processes and procedures used by third parties attempting to comply with contractual requirements.
- **Multidisciplinary strengths:** Our professionals draw on skills from diverse disciplines—auditing, forensic accounting, information risk management, and complex data analysis, among others.
- **A nonadversarial approach:** KPMG structures CCS reports to present facts and critical details in a manner that facilitates resolution with your partners. Our nonadversarial approach helps avoid confrontation and mistrust, leads to quicker and more successful resolutions, and protects vital business relationships.

This approach has been successful on more than 1,000 CCS engagements.

KPMG’s software license approach

To get results, we arrive at an understanding of your organization’s license agreements with customers and with third-party software license distribution partners by obtaining answers to questions such as:

- How do you sell the software you publish? Do you sell directly to end-users? Through third-party resellers? Through channel/OEM partners who embed or bundle your software with their own product(s)?
- How do you license the software you publish? Is your licensing model on a per processor basis? Per named user? Per concurrent user? Per operating system environment?
- Do your license agreements contain any special terms intended to restrict the software’s use (i.e., for internal use, for development use only, etc.). Do they contain a right to audit?
- Do you have functioning technical controls in place within each of your software products to prevent overdeployment of licenses?
- Do you currently have a functioning software license compliance program in place? Which external compliance partners do you use, and are you completely satisfied with their performance?





Case study one

A FORTUNE 250 technology company engaged KPMG to provide assistance with analyzing licensee data for potential issues and to ensure audit closure and accurate reporting. The client requested comprehensive testing and validation of both supplier and licensee data through on-site fieldwork. An on-site engagement typically identifies undetected reporting errors such as overdeployed licenses or unpaid support fees. KPMG's engagement team used advanced data analytics for automated analysis of licensee's on-site usage. It captured and summarized customer entitlements across all software brands and aggregated contract and purchase history information across multiple systems and data repositories. This allowed the engagement team to achieve for the client an estimated annual recovery of about \$60 million—a 30 to 1 ROI.



Case study two

A major software company engaged KPMG to perform software end-user license reviews and help expand existing compliance capabilities. KPMG developed a set of tools and product methodologies to summarize historical spend to better understand the customer's risk profile and product scope. KPMG provided the client with a compliance model based on tools that summarize customer entitlements and red flags. We identified potential areas for strengthening contract terms and conditions and internal process improvements for our client. The results: KPMG has completed over 1,000 reviews, resulting in the collection of millions of dollars in overdeployed software. On average, clients' collections represented an ROI of 12 to 1.

Common errors

KPMG's Software License Compliance professionals have seen a pattern of customer oversights that deprive them of the revenue they are due, including:

- Misunderstanding of license metrics, such as counting servers instead of processors and cores, or confusing concurrent users with authorized users
- Not understanding usage terms, such as external users for published system reports that may need to be licensed in addition to internal users
- Not taking into account development, test, and staging environments that need to be licensed
- Not understanding the difference between various types of back up/recovery (e.g. hot/warm/cold). Each of these can have different licensing implications
- No awareness of minimum customer obligations necessary to qualify for reduced licensing terms, such as some vendors insisting on regular system reporting from virtualized environments
- Not understanding that the onus may be on the customer and not the vendor to demonstrate proof of entitlement

- Being unaware that servers have been missed altogether from a software deployment count (e.g. where agents from SAM tools are not installed, malfunction, or where parts of the network are heavily secured)
- Incomplete reporting from many SAM tools, such as too little information around deployment is captured to properly count license deployments
- Customer surprise at the audit result, despite having no regular software deployment and entitlement reconciliation process in place.

We emphasize strong communication

KPMG structures the CCS engagement to provide informed communication at all levels:

- **Planning and coordination:** We establish open communication and set client expectations.
- **Scope of work:** We determine key risks and agree on the scope of the engagement.
- **Pre-fieldwork data collection and analysis:** We gain an understanding of the agreement, obtain client and third-party documentation, conduct planning meetings, perform document analysis, and develop a detailed work plan.

- **On-site fieldwork:** We conduct an input meeting, remain in constant communication with the client, conduct interviews, document reporting procedures, perform tests to validate findings, and ultimately organize an exit meeting.
- **Post-fieldwork and reporting:** We finalize our deliverable and provide follow-up assistance as needed.

Our results can help benefit your business

If contractual partners have divergent understandings of key contract terms, they commonly disagree on amounts owed. Because KPMG's nonadversarial approach focuses on the collection and analysis of facts, we often can help the parties identify the source of disagreement, such as a previously unknown agreement, communication, or practice. This also enables the parties to more clearly understand the nature of their disagreement and focus their negotiation on the elements of greatest significance. Toward this end, clients sometimes request that we report our findings based on alternative interpretations of the contract.

In short, our nonadversarial approach can help business partners resolve different interpretations without conflict, helping to ensure our clients obtain full business benefits now with fewer compliance risks later.

Contact

The KPMG team will comprise individuals with significant contract compliance experience in your industry. We are one of the leaders in compliance with a global reach. For more information about software license compliance reviews, please contact:

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