



# Getting Outside Help

## Billions at Stake in Software Licensing Knowledge Gaps

Most IT professionals – especially CIOs – wouldn’t bet their next paycheck on their company’s software licensing compliance today. Sadly, this is not a surprise. It is now common practice to set aside additional dollars in excess of the existing IT budget to pay for annual licensing and maintenance support fees. This year alone, companies will spend more than \$100 billion on enterprise software maintenance costs (including licensing fees) in addition to the nearly \$160 billion on software purchases. According to the IDS, that number will grow to \$137 billion by 2010, representing nearly half of software vendors’ revenue.

The fact is that software license management (SLM) is increasingly complex (Figure 1) and constantly changing. The never-ending acquisitions made by the software giants leads to inevitable changes in licensing agreements. Another contributor is the constant flow of newly created or revised licensing rules made within a year. Oracle alone issued nearly 400 pages of licensing changes last year.

There simply isn’t enough time in the day to master all the tortuous, arcane intricacies of today’s licensing and compliance knowledge silos. One experienced IT manager likened the task to mastering the U.S. Federal Tax Code! That’s why billions of dollars in potential savings are left on the table every year, with companies spending an average of 30 percent more than necessary on software licenses and maintenance.

### Common Reasons for Overpayment

According to the Gartner Group, for every \$100 a company spends on the initial purchase of software, they typically spend another \$500 for maintenance over the usual two to three-year life cycle of that program. Gartner has also determined that these ongoing maintenance costs can usually be reduced significantly.

However, corporate IT departments continue to play a guessing game when it comes to the number and type of software licenses required. Few internal people have all-inclusive or cross-functional knowledge to understand licensing rules and reliably track software deployment and

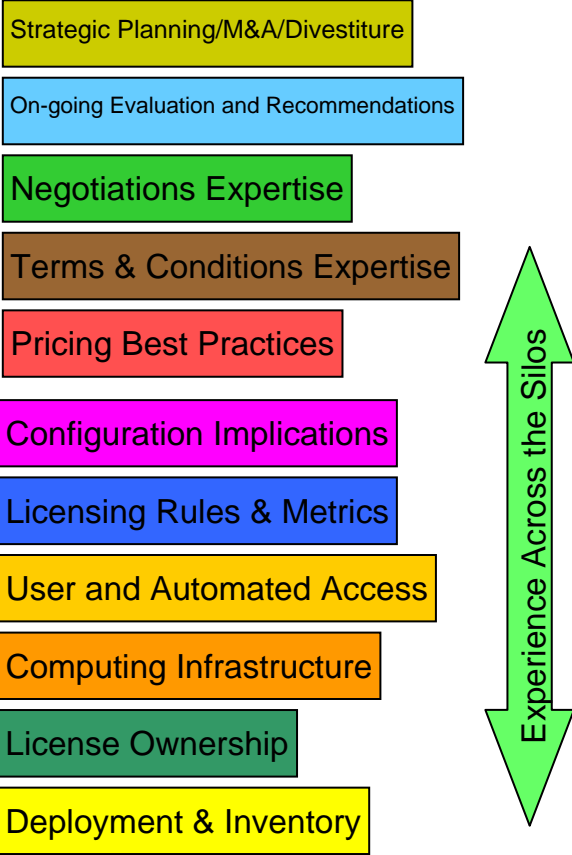


Figure 1: Software Licensing & Compliance Knowledge Silos

Source: Miro Consulting, Inc.



usage. They often pay for licenses *they think* are required and rely on the vendor's salesperson to arrive at the "best" price for them. It should be noted that licensing fees and maintenance support account for a substantial portion of profits for many enterprise software companies, as well as the salesperson's final tally.

This strategy invariably ends in a no-win situation for the company, which finds that if it doesn't correctly purchase the right software licenses out of the starting gate, it will either over-pay for unnecessary licenses or end up in hot water due to licensing shortfalls. This shortfall can result in potentially huge fines combined with the need to spend unbudgeted dollars to cover the shortfall.

There are four common software procurement practices that lead to over-spending. By identifying these issues, IT departments can save on maintenance costs and avoid penalties.

**1. Over-procurement of licenses based on "per project" or "per application" purchasing,** which invariably becomes shelf ware. Corporate IT frequently purchases software applications when a need arises. Most often this is caused by last-minute requests made by managers working on a time-sensitive project or to quickly meet another pressing issue.

**2. Failure to follow (and be in compliance) the ever-changing licensing rules.** In many companies, the most commonly repeated form of non-compliance is when new applications and hardware platforms are deployed.

**3. Ignoring non-production and/or temporary servers that may be needed during O/S or systems migration.** In other words, managers neglect licensing issues for internal and/or beta testing applications.

**4. Procuring licenses without establishing a firm compliance verification process and a future self-audit date to validate.**

### Negotiating a Better Deal

With better management of enterprise software licensing, companies can easily avoid overspending on licensing and stop worrying about surprise compliance audits by a vendor for improper product use. Once a company has defined what is needed – and what is *not* needed – contract negotiations become a critical step toward optimizing the total cost of ownership (TCO). As with any legal process, miscalculations can be costly. As a rule, IT managers should try to avoid:

1. "All you can eat" licensing agreements, which cost about 20 percent more than "pay as you go" agreements, and invariably include shelf ware.
2. Long-term agreements that invariably fail to anticipate actual three-year or five-year needs. As Yogi Berra said: "Avoid making predictions, especially about the future!" Instead, look at short six-month agreements since licensing rules will invariably change.
3. Handshake agreements based on "good relationships." Verbal understandings are fragile at best. Unlike a fine wine, human memory does not improve with age!

### Winning the Compliance Game

Mitigation of license audit costs and ongoing compliance assurance are two of the most important reasons companies need to seek outside help from an IT cost containment specialist. Last June, *Computerworld* magazine stated that for most companies, a software audit is "inevitable ... a virtual certainty."

These audits often take companies by surprise, and can be very costly. Not long ago, a leading retail chain had their Oracle database software audited and received a quote for more than \$800,000 to "true-up" their licensing rules and regulations. Stunned and bewildered, the retailer looked for expert assistance, and we were able to find a legal alternative that lowered the true-up tab by more than \$500,000. This level of savings is a little higher than usual, but the circumstances are not unusual at all.

How does a company with experienced IT professionals fall so far out of compliance? Typically, it's a matter of static contracts that do not adapt to constantly evolving licensing models. IT managers often develop a false sense of security because they periodically track their licensing on a spreadsheet. What they learn the hard way is that those beautiful spreadsheets usually do not reconcile company assets to the stipulations in the licensing contract. Nor do they keep up with the hundreds of ongoing changes that software companies make every year.

There are many other ways that companies fall out of compliance. It can happen when servers are updated or architecture is consolidated. Compliance can be compromised when a company initiates web-enabled applications, out sources various functions, adds a significant number of new employees, or changes their disaster recovery plan. All of these factors, and dozens more can put an enterprise out of compliance without the IT department realizing it.



One of the most effective tools for avoiding this is a thorough but “friendly audit” by an outside IT cost containment specialist, independent of any software provider. These friendly audits should pay for themselves in dollars saved, not to mention peace of mind. The chief deliverable of a friendly audit is, in effect, a “report card” that indicates precisely where a company is, or isn’t, compliant with a specific software licensing contract. This is invaluable information given the legal and financial liabilities involved.

In addition, every company should establish best practices for software asset maintenance to ensure license and Sarbanes-Oxley (SOX) compliance, thereby eliminating unnecessary costs. Among the best practices for corporate IT departments to consider:

- Establish a repository for software asset management information, such as proofs of purchase, license agreements, and ordering documents.
- Provide scripts, commands and/or reports (if applicable) for validating usage of software programs.
- Develop an automated database and applications management system that can maximize flexible operations and feed asset management data into the repository.
- Self-audit at least twice a year, which becomes much easier with the systems listed above.

**Vigilance Pays Off ... But Sometimes You Need a Little Help**

Even the smartest IT departments are stretched thin on resources, with little time or manpower to establish in-house software license expertise. Understandably, more and more companies are turning to independent experts to help them save time and money, and to avoid the costs and perils of non-compliance. The challenge then becomes how to select the *best* consultant for a company’s specific needs.

Software resellers will loosely claim they are software licensing experts. Another conventional source for licensing agreements is a lawyer. Though often advisable to have legal counsel on any contract, it is best also to have a specialist in licensing “best practices” review all the terms and conditions

The primary core competency in any outside SLM expert is the ability to identify, plan and implement the lowest possible total cost of ownership (TCO) strategy for your immediate and long-term software needs. The best IT cost containment specialists tend to focus their expertise on a limited number of software companies in order to keep abreast of the myriad changes issued each year, so beware of firms

that claim to “know it all” or “do it all.” This is something akin to a restaurant that “specializes” in Italian, Japanese, Mexican and Turkish cuisine all at once.

After determining that a consultant is, indeed, an expert in the software pertinent to the company’s needs, IT managers should also ask for a detailed, written audit report with a plan-of-action that spells out the services to be performed. Equally important, ask if the consultant will guarantee an overall cost savings and/or cost avoidance benefit equal to or better than their net fees.

Beyond the typical legal agreement and discount pricing, the optimal TCO begins with an understanding of what each organization requires from its enterprise software currently as well as forecasting future needs. Anyone dealing with software asset management and licensing agreements should ask (and be familiar with):

- Which license mode (enterprise, CPU, etc.) works best for the company, now and well into the future?
- What quantities are required now?
- What other software licenses are owned, and how do they affect the current negotiation?
- What terms and conditions are essential? Are price increases allowed? Do they include non-standard clauses? Which ones are overly restrictive, or superfluous?
- Which usage rights will define the license metrics?

**The Bottom Line on Consultants**

There are many ways an independent SLM expert can help with software licensing cost savings and avoid unnecessary compliance costs. Some of them are fairly obvious, but many are not. At a minimum, these specialists should provide four TCO deliverables to every client:

1. Negotiation of the best possible price, terms and conditions during initial purchase.
2. Reduction of your cost of ownership over time.
3. Mitigation of your license audit costs.
4. Ongoing compliance assurance vis-à-vis your software vendor’s compliance changes.

Finally, hiring an outside SLM expert should at the very least pay for itself, and perhaps save your company a great deal more in dollars, time and peace of mind.

*Scott Rosenberg is CEO of Miro Consulting, Inc*