Audio Announcement

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Participant Polling Questions

Do you need software asset management?

1. No, it’s unnecessary and expensive.
2. Our IT Strategy, Enterprise Architecture and project teams need it to plan capital budgets
3. We need it to check invoices, manage software maintenance and plan operating costs.
4. It’s essential to protect against unbudgeted costs following vendor audits
5. We couldn’t break down and report on costs by line of business without software asset management.

Please select all the option(s) that apply

Responses are completely confidential
## The Gartner Maturity Model For IT Procurement

<table>
<thead>
<tr>
<th>Level</th>
<th>0 Nonexistent</th>
<th>1 Initial</th>
<th>2 Developing</th>
<th>3 Defined</th>
<th>4 Managed</th>
<th>5 Optimizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>People and Organization</td>
<td>Individuals buy to meet need</td>
<td>Authorized individuals</td>
<td>Procurement office</td>
<td>Multiskilled team</td>
<td>Stakeholder virtual team</td>
<td>Sourcing team or office</td>
</tr>
<tr>
<td>Procurement Process</td>
<td>Annual budgetary</td>
<td>Corporate standards</td>
<td>Category management</td>
<td>IT asset management</td>
<td>IT asset portfolio</td>
<td>Project portfolio management</td>
</tr>
<tr>
<td>Financial Controls</td>
<td>Management initiative</td>
<td>Business case</td>
<td>Project business plan</td>
<td>Requirements management</td>
<td>Demand management</td>
<td>Spend management</td>
</tr>
<tr>
<td>Procurement Metrics</td>
<td>Nothing consistent</td>
<td>Basic cost-tracking</td>
<td>Cost reduction</td>
<td>Service improvement</td>
<td>Process efficiency</td>
<td>Business return</td>
</tr>
<tr>
<td>Technology Selection</td>
<td>Any technology, any supplier</td>
<td>Approved products</td>
<td>Approved sources</td>
<td>Contractual performance</td>
<td>Service performance</td>
<td>Business performance</td>
</tr>
</tbody>
</table>
Key Issues

1. How can organizations reduce cost and risk in software deals?

2. What are the hidden costs in SaaS agreements, and how can organizations avoid them?
Tell the difference between Spending and Cost

- Budgeted Spending
- Costs (TCO) possibly unbudgeted

Costs sink businesses, not capital expenditure but cash flow...

Findings From Inquiries: IT Spending Cuts Don't Always Reduce Cost
<table>
<thead>
<tr>
<th>List Price</th>
<th>Discount</th>
<th>Maintenance</th>
<th>Total Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>$100,000</td>
<td>59%</td>
<td>20.50%</td>
<td>?</td>
</tr>
<tr>
<td>$100,000</td>
<td>69%</td>
<td>23.00%</td>
<td>?</td>
</tr>
<tr>
<td>$100,000</td>
<td>79%</td>
<td>25.50%</td>
<td>?</td>
</tr>
<tr>
<td>$100,000</td>
<td>89%</td>
<td>28.00%</td>
<td>?</td>
</tr>
<tr>
<td>$100,000</td>
<td>100%</td>
<td>30.75%</td>
<td>?</td>
</tr>
<tr>
<td>Free Open Source</td>
<td>$30,750</td>
<td></td>
<td>?</td>
</tr>
</tbody>
</table>

- The lowest annual maintenance costs less in time
  - if you can limit any maintenance fee increases…
  - prevent erosion of value, forced upgrades, etc

Toolkit Sample Template - Manage the Software Investment Life Cycle G00153364
Guilty, until you prove yourself innocent?

Software license compliance risks

• ISO 19770-1 is a national/international standard.
  - Do you comply?

• Vendor audits are now commonplace
  - Avoid expensive mistakes!

Toolkit Best Practices: Preparing for a Software Compliance Audit
The Software Asset Manager Role

Manages Financial Compliance of Software

Accountable for financial planning, analysis and measurement of the IT organization

Responsibilities

• Manages the life cycle of assets
• Recommends an action plan for asset efficiency and effectiveness
• Measures financial compliance with budgetary targets
• Develops service pricing or chargeback models (value-based, cost-plus)
• Financial modeling and technology what-if analyses

Differentiators

• Budgeting and capital planning
• Cost analysis
• Financial modeling

Communicates With:

• CIO and Senior IT management
• CFO and Finance
• IT Service Managers

One version of the truth!
Participant Polling Questions

• How well do you manage your software assets?

1. Our intentions are good, only there is no accountability
2. Our reseller/service provider does this, but we still pay the bill!
3. We understand our inventory well, but not the rights we bought so still risk being found out of compliance
4. We can identify the license terms allocated to each system or user and when it was purchased
5. Investment lifecycles are planned for all desktop and server software over at least five years

Please select the option that best fits your situation

Responses are completely confidential
Manage Software Assets, not just Inventory

First 100 Days as a Software Asset Manager
# Software Cost Optimization through SAM

## Software Cost Optimization Maturity Model

<table>
<thead>
<tr>
<th>Level</th>
<th>0: Nonexistent</th>
<th>1: Initial</th>
<th>2: Developing</th>
<th>3: Defined</th>
<th>4: Managed</th>
<th>5: Optimizing</th>
</tr>
</thead>
<tbody>
<tr>
<td>People</td>
<td>Diffused responsibility</td>
<td>SAM manager</td>
<td>Category managers</td>
<td>Project managers</td>
<td>Stakeholders</td>
<td>Budget holders</td>
</tr>
<tr>
<td>Policy</td>
<td>Only good intentions</td>
<td>Procurement only</td>
<td>User accountability</td>
<td>Budget-holder accountability</td>
<td>Business accountability</td>
<td>Vendor accountability</td>
</tr>
<tr>
<td>Process</td>
<td>None</td>
<td>Project procurement</td>
<td>Contract management</td>
<td>Entitlements management</td>
<td>Vendor management</td>
<td>Strategic vendor mgmt.</td>
</tr>
<tr>
<td>Technology</td>
<td>Nothing consistent</td>
<td>Basic discovery</td>
<td>IT asset repositories</td>
<td>Licensing rule base</td>
<td>Automated allocation</td>
<td>Portfolio analysis</td>
</tr>
<tr>
<td>Finance</td>
<td>Project budget</td>
<td>Licenses, maintenance</td>
<td>Version life cycles</td>
<td>Product life cycles</td>
<td>Total cost of ownership</td>
<td>Support IP management</td>
</tr>
<tr>
<td>Metrics</td>
<td>Only spend</td>
<td>% product coverage</td>
<td>% terms complied with</td>
<td>% life cycles planned</td>
<td>% costs budgeted</td>
<td>% licenses driving value</td>
</tr>
<tr>
<td>Risk Managed</td>
<td>None</td>
<td>Unfocused spending</td>
<td>License</td>
<td>Unmanaged life cycles</td>
<td>Unbudgeted costs</td>
<td>Misaligned spending</td>
</tr>
</tbody>
</table>

Source: Gartner (January 2009)

**Optimize Software Licensing Costs With Software Asset Management**
Perpetual Licenses have Limited Lifecycles

1. Select
2. Integrate
3. Operate
4. Renew
5. Migrate

- A defined depreciation period
Or Until:
- Support Ends
  - Or becomes too expensive
- Technically obsolete:
  - Virtualization
  - Cloud / Grid
- Commercially obsolete
  - Acquisition/Divestment
  - Outsourcing

Toolkit Sample Template - Manage the Software Investment Life Cycle
Build Leverage by Managing Demand

Plan Longer For Shorter Software Contract Negotiations
What are Good Contract Terms?

- Clear and comprehensive pricing - no additional fees
- Measurable deliverables that meet business requirements
- Lock in the value and limit any cost increases
- Mechanisms to drive value…

How do you get them?

- Leverage credible alternatives
- Negotiate with people in authority to give them
- Don’t spend all your bargaining leverage on pricing
- Know what to compromise on
- Walk away from a bad contract
Start with a Master Agreement:

- An “entire agreement” clause to make the hierarchy clear

Include all supporting documentation and examples!

Describe and measure the business result

- License functionality not product names
Watch out for “weasel words”

- declarations without consequences
  - include dispute resolution and redress
- relative and not actionable terms
  - “may”, “reasonable”, “mutually agreed”, “then current”
  - terms, conditions, interpretations on websites
    print and add them to the contracts bundle
- anything without a clear definition
  - don’t assume you understand what they mean
  - processor could mean CPU or Core
  - named user could exclude batch processing
  - in this agreement the word “yes” shall mean “no”…

Toolkit Template: Software Licensing Documentation Checklist

Gartner
Participant Polling Questions

- **When can you negotiate contract terms?**
  1. Always. Software vendors can only do business with us if they sign contracts on our own paper.
  2. Only with smaller vendors for deals over $200,000
  3. With any vendor if the deal is worth ~$1m or more
  4. Only with smaller vendors on deals worth ~$1m plus
  5. 100% discount, with maintenance at 30.75%

Please select the option that best fits your situation

Responses are completely confidential
Every Server Refresh Could Cost You More

Source: Gartner (July 2008)

Optimize Your Software License for Multi-core x86 Systems
Will Virtualization Save Me Money?

• Server and Storage Acquisition Costs
  - Consolidate, replace 10 servers with 1?
  - Also datacenter space, power and cooling

• Administration Savings
  - Automation tools?

• Software Licenses
  - Maybe, if you plan carefully…

Toolkit: How to Calculate TCO for Server Virtualization

No Easy Answers without IT Asset Management!
Winners and Losers

😊 “Why should I architect my applications and infrastructure to optimize my budget?”
- Vendors will respect your opinion, and charge you for it!

😊 “The virtualization salespeople gave poor advice, and now my software costs are much higher!”
- Choose your software licensing advisers carefully…

😊 “I consolidated my licenses with virtualization and even had some left over to implement failover…”
- Learn the rules and play to win!

😊 “If licensing is broken, then
- I’m taking full advantage!”
Metered Licensing Options

- “Pay as you go” or utility model
  - Virtualization can abstract all technical metrics, even users

- Who and How is it Metered?
  - Customer is legally responsible for managing software usage!

- Software Usage Tools
  - Which vendors will successfully establish their own metering tool?

- How do you budget?
  - Users can run up a bigger bill!

Will Pay per Use Help to Cut Software License Costs?
Un-metered Options

• “All you can eat”
  - Average US adult eats ~1.8kg a day
    • ‘All-you-can-eat’ restaurant food costs less than menu price / 2 kilos

• Enterprise License Agreements
  - Un-metered = maximum cost?
    • Read the small print carefully

• Use Free/Open Source licenses?
  - Support and maintenance metrics!
Can Alternative Pricing Models Help?

A Market Model of Software Pricing Dynamics

Source: Gartner October 2007
Licensing and the Supply Chain

Traditional Supply Chain

- Software vendor licenses enterprise
- Enterprise pays software vendor

- Service provider achieves economies of scale from licensing that IT cannot?
- Enterprise enjoys flexibility but loses control over assets

Optimized Supply Chain

IT Procurement Best Practice: Optimize Your Supply Chain as Part of Vendor Consolidation
SaaS – Test the Exits

• How easy is it to leave?
  - Conduct pre-flight checks
  - Get data back rapidly or
  - Keep a backup / archive

• How easy is it to stay?
  - not just software but a full service provider contract
  - “No surprises” inclusive prices and simple usage metering

IT Procurement Best Practice: Use a SaaS Pilot Phase
Recommendations

• Use your asset position as a negotiating position
  - Plan ongoing application lifecycle costs
  - Include vendor relationships in your strategy
  - Don’t plan entry without an exit strategy

• Manage software assets, not just inventory
  - Everyone shares responsibility for compliance
  - Validate vendor licensing rules independently
  - Play safe - short cuts can cost far more

Get in control of software licensing costs!
IT and The Economy

Cost Optimization

GARTNER IS UNRIVALLED WHEN IT COMES TO HELPING YOU REDUCE YOUR IT COSTS

1. Get the best pricing and terms for your IT purchases
   - Gartner ensures you get the best value from your IT purchases. Gartner analysts and consultants
     review thousands of vendor contracts and proposals each year. That expertise helps you:
     - Receive the best pricing and terms for products and services
     - Buy only what works and what you need, from functionality to service level
     - Avoid hidden costs and risks

2. Identify major cost-saving opportunities
   - Leveraging our proprietary data, Gartner shows you exactly where your spend is high relative to
     best-in-class peers. We also quantify the financial benefit and help you prioritize initiatives appro
   - Our IT Key Metrics Data (ITKMD) provides a comprehensive and granular database that helps
     make informed decisions about your biggest opportunities.
   - Our benchmarking services are leveraged by more than 5,000 organizations every year. They con
     the ITKMD, distilling implications and actionable recommendations for your unique situation,

3. Implement cost-saving technologies
   - Gartner ensures your success in implementing priority technology initiatives. Working with 10,000
     organizations around the globe, Gartner analysts and consultants know which technologies tru
     savings, in what time periods and with what risks. Our definitive expertise includes:
     - Virtualization
     - Application rationalization

4. Implement cost-saving process improvement
   - Gartner is your vital partner in achieving hard-dollar savings from process improvement. In the i
     alone, we answered thousands of critical client questions, authored hundreds of groundbreak
     documents and engaged directly with clients to deliver cost savings. Our definitive expertise inc
     - Project prioritization or portfolio management
     - Offshoring or outsourcing
     - Asset management
     - Workforce optimization

Visit gartner.com/economy now to see exactly how Gartner takes cost out of IT
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• If you need help with who that is, please e-mail: GartnerWebinars@gartner.com

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