How to Save on Software

3 Key Takeaways to Act on Now!

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Contents

Traffic Sources Overview
Map Overlay
Direct Traffic
3,097.00 (40.49%)
Search Engines
2,910.00 (38.04%)
Referring Sites
1,642.00 (21.47%)
Visitors Overview
Visitors
2,958

Introduction

Software plays a vital role in our daily lives. We got used to it through a variety of roles in organizations dating far back into the past century. Today we're used to more or less administrating everything we do in Software; from business and finance to pleasure and entertainment and everything in between.

The phenomenal growth in the Software Industry as a result does not come as a surprise. New applications, new companies are born every day. The exponential (global) growth is beyond compare to any other industry in modern history.

Organizations have come to rely heavily on the use and availability of software. The width and breadth of software-use covers each and every aspect of work, leisure, sports, family, in fact our lives. Prudent organizations keep rigorous Risk management. The availability of software (to execute and operate the company's value creation) has therefore become mission critical.

The Best Approach

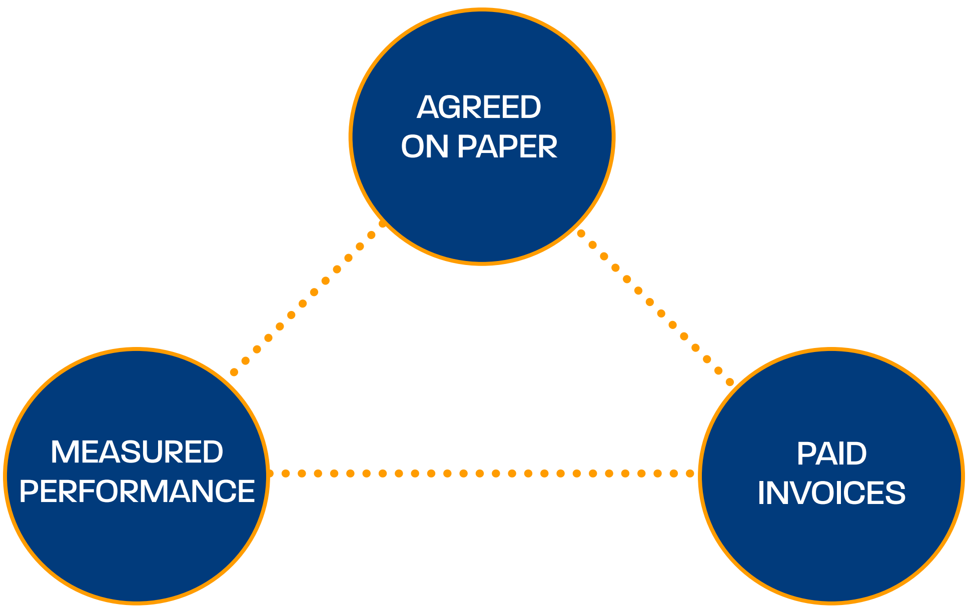
The ERA methodology is as rigorous as it is simple: analyzing the contracts, invoices and measuring the performance of the software. With nearly 30 years of experience, we've mastered the art. However when performing a scan yourself you should look at these aspects to make your best approach:

The contract you have (or what you think you have agreed to)

The payments you made (total costs; licenses, hosting, data, maintenance, assurance…)

The way you used the software (how many people use it, when, how long for etcetera)

Summarized in 3 P's: what is signed on Paper, what are you Paying and what is the Performance of what you bought. With that in mind we engage with our customers since nearly 30 years in over 35 countries worldwide. In the thousands of projects we did and with the numerous Software projects we engaged in we found some common denominators. These are therefor likely to occur in your situation as well. It has not happened yet that we found a company that's not subject to our key-findings, not even 'digital native' companies, and leave way for a potential cost improvement in every situation!



Key Findings

1. Many vendors, many applications, many licenses

Or rather; most organizations have too many vendors, too many applications, too many licenses. Typically what we find in even smaller organizations is large amount of vendors and a large amount of applications. Even smaller teams need to manage massive amounts of tools in their organizations. Some examples from our daily practice:

Sector	Nr of FTE's	Nr of IT staff	Nr of vendors
Industry	~ 5.000	26	80
Healthcare	~ 3.500	12	73
Services	~ 3.500	17	92
Food	~ 15.000	91	821

When investigating deeper into these situations we find strong sales teams at software vendors (impressive at times) and seductive pricing schemes (free!). Often starting with "Freemiums" luring a 'functional' user (a marketeer, a controller,..) to 'try' a piece of software for them to start creating lock-in's and dependencies using the network-effect to drive the software to a commercially viable level. Once in; vendors will push (if they have it) more and more applications that are adjacent to the functionality or technology they sell (horizontal and vertical integration). Due to the low cost per user (usually a few dollars) it is easy to 'spread' the use throughout the organization and making the applications available to all employees. There is usually no performance metric associated with the use of applications. Normally the software supports a mundane task such as communication, planning, coordination or the like leaving an air of 'not-strategic' and 'too cheap to give it a good thought'. Business people are indifferent to it.

Cost add up. Of course only a majority of the actual licenses are used but not more than 60-70%. In some cases we investigated company-wide used applications (such as email, spreadsheet, document and presentation software suites) and found for example a company with 450 'knowledge' workers 'owned' some 3.900 licenses but when measured only 250 of their workers were 'frequent' users of the software (and that was the measured use of the 'most-used' module; the email application).

2. Confusing Contracts, Double-Dutch Line-Items, Misty Pricing

When performing an analysis as ERA, one of the first things we look at is the contract. Typically software contracts are agreed on for a (1-to-) 3 year basis. These long-time agreements need special attention to cover all sorts of potential changes that may occur over that period. These changes may apply to the product itself (bug-fixes, features, new-functions), the technology (the operating system(s) it runs on, virtualization or cloud-readiness, new network protocols like 5G) and of course your business! Typical provisions could include (but is not limited to):

- The actual end-user rights (Client License)
- A Server license
- Access to the server license (specifically 'indirect' users; like web-browsing users)
- Version upgrades
- Technology upgrades
- Service subscriptions (as in SaaS models) may vary and are subject to other pricing schemes (data volume, interactions,...) and other perhaps confusing conditions.

Next to the itemization of a software product, the pricing schemes are also driving purchasing; Leaving you with obscure pricing programs and giving you a hard time to reconcile your invoice-amounts with the contracted values. Numerous aspects can influence this:

- Volume rebates (you could do better to buy 10% more licenses to get a 15% discount)
- Freemiums; try out new software (end meet a lock-in when you do)
- Bonus schemes (give you discount if you use the tool more)
- Referrals
- Time of use/duration
- IP address/concurrent use/named use

Organizations find their employees lured in by free use of software. If the total cost of ownership's rule-of-thumb for Software applies it holds that license costs should be 20% of the TCO; No free lunch I'm afraid. Software producers use a multitude of channels to sell their products, usually not straight-forward how certain vendors or applications have actually entered into your domain:

- Online/direct
- Personal sales and service sales
- Automated sales
- Partner channel
- Retail channel
- Combined channel (e.g. with Hardware or other software)

Finally there is no right or wrong in this. It's an explosive market with vendors who have a really hard time in proving the added value to an increasing world of complexity and ambiguity. The best you can do is prepare and/or gauge. No matter how tight your control on purchasing is, today there will always be a way to find little loopholes and buy software. The web provides a massive source of (good and bad) referral sites for you to use to your benefit and understanding the competitive position of applications and vendors in use or on target lists (From big to small):

- Gartner Magic Quadrant (MQ) comparison on thoroughly researched vendors, applications and entire technologies at times mapped on a grid with one axe representing the product and the company's capability to implement, run and scale the product and on the other axis the relationship to the market needs in terms of current and future (visionary) capabilities and features.
- Forrester (Wave; comparative analysis matrix on 'offering' vs 'presence' where product performance and company strategy are discriminators for positioning).
- IDC (MarketScape reports; an overview of competitive 'fitness' of ICT suppliers in a given market.

3. Software License Performance

Companies gather little information on performance of their Software Assets. Technical people use some metrics surrounding the application but normally they are not related to any business outcome rather to optimize maintenance and provide 'health' checks. Such metrics range from processer usage, memory usage and disk-time to response times and database locks. The goal of these metrics is keeping users happy and out of their face complaining about long loading times, poor response times or even black-out of an application.

However good business practice suggests software is bought based on a solid Business-Case. Therein presented an expectation towards costs (usually pretty accurate and very measurable post implementation) and of course benefits, at least that's what we believe. What "good" will the software bring to the company. Simple example: if creating an invoice would cost a Finance employee an hour to sort, aggregate and send (through proper approval channels of course), cost involved would be, say €70. Since they send 80 invoices a week, some 4.160 are sent each year. At € 70,- each a total cost of ~€300K per year. Any software program that can bring any relief would make a good business case. Let's say we can half the time spent per invoice by bringing in an application at a cost of 50K/year. That would earn the company 100K/year (150 in savings minus 50 in cost).

A good business case. But who will measure the actual time won? Once deployed do we check how invoices are being created (the old way or the new way), do we measure the number of unique records created in the database (as a count for invoices created)? Can we measure how many invoices are still produced the 'old' way? And do we know why? It is imperative to measure the performance against the business-case promise.

Enterprise Risk Management is most likely the closest to get to a business performance metric on software. Research by Gartner, IDC and Forrester shows time and again a massive impact on business coming from software failure. Underestimating the effect could be devastating on the overall business performance as shown in the quotes below.

80% Business People

Say a Mission Critical Software application slowdown will have big impact on business performance

$500K - $1M

Averege HOURLY cost of a Mission Critical application failure for a large organization

45 Hours

Working hour deficit with a 2% failure of performance with Mission Critical Software

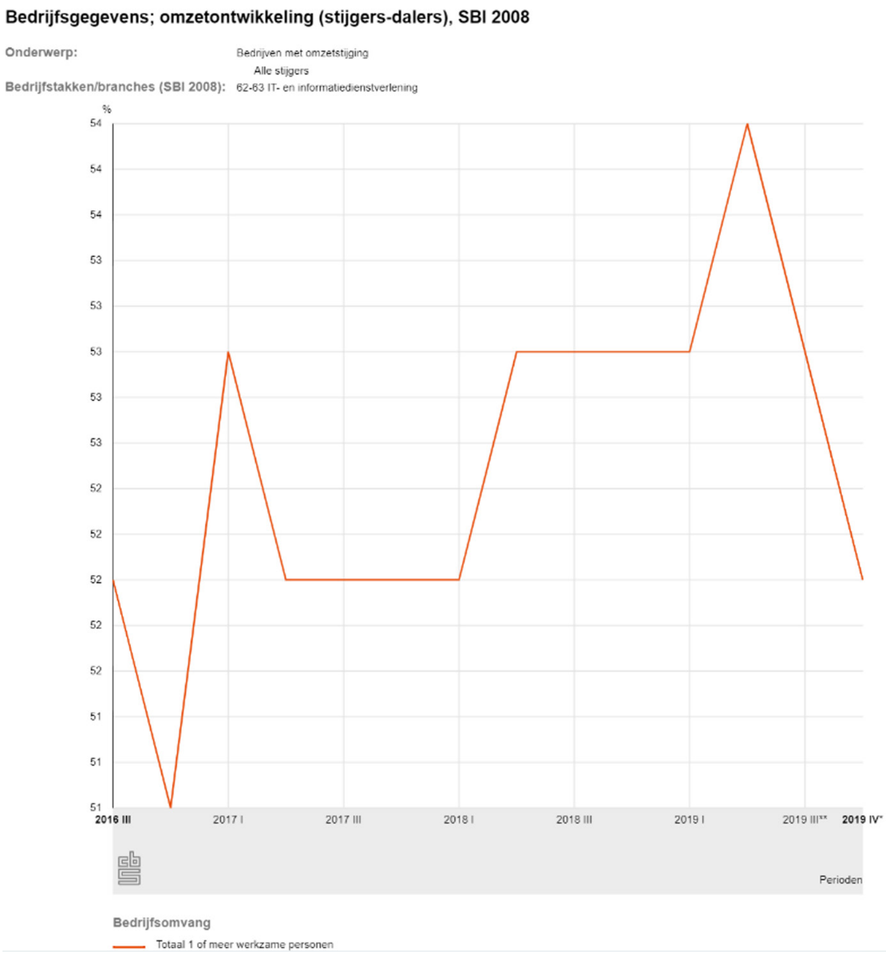
Most if not all business people know Mission Critical processes will not be executed without their supportive software. What they most-times don't know is how much that impact will cost. For larger companies this can easily ramp up to a Million per hour! Another key aspect to understand is availability. Being part of an application supply chain (host -> distribution network -> user) with a 98% uptime means 45 hours of tolerable downtime. If unforeseen and in a large company this costs a stunning 45 Million!

4. Governance and software purchasing practices

Usually Organizations structure authorization relating to all procurement around purchasing value: for example: department managers to 50K, division directors to 100k and board members to 500K. Smart software vendors make the first deployment free of charge so basically everyone is allowed to 'purchase' that.

As said earlier; software vendors will leverage strategies to enter an organization, cause a lock-in and spread through network mechanisms. Not always a bad thing, but typically an ad-hoc thing. While such purchasing could be part of the overall strategy, it usually isn't. According to Gartner best practice holds that around 11% of your IT budget could be (should be?) allocated to innovation. A little democratization in this by 'crowd sourcing' best practices from new software by employees could very well be (a small) part of this. Some ruling and structure surrounding this is quite easy to construct and may very well save you a lot of money (spent in search, deployment, connecting/integrating, maintaining,..).

When in our work we investigate IT departments we typically find a host of suppliers as mentioned earlier. Because of the easy access they have to companies a phenomenal growth is seen in this industry. Below graph illustrates this; the average growth rate in IT and Information Services. For the past three years it hoovers between 51% and 54%; year-on-year massive growth!



Obviously this growth finds it way into your organization and likely your IT budgets have evolved in a similar direction. Granted; many of this software is valuable to your business and hopefully you're in a position to distinguish between the good and the bad (for you) while adopting new technologies.

Conclusion

Software Asset Management is a very complex topic with a high impact on profitability.

Vendors, particularly those partners of the big software companies, are now pursuing business. Typically they would use a mid-year closing of the books (June 30) and there is always a strong focus on making growth expectations in this time of year. A good chance your big license terms are signed in the 2nd quarter. Usually there are two occasions where you can (re)negotiate some of the terms and conditions to your software contract: at renewal and at the contract's birthday. That's why it is good idea to look at the contracts now.

Most organizations have started defining and implementing Software Asset Management in the form of processes, tools and licensing expertise. However many organizations are still confronted with incomplete or inaccurate information about their own software assets.

We recommend organizations to manage their licenses and software management based on the impact on overall costs and financial risk. Should you not have adequate data to build your own business case, we recommend you use figures provided in this report for a first draft or from known examples and references, or reach out to us for assistance.

Key Takeaways

Rationalize Software licenses, -applications and -vendors as a good first step. You will have too many licenses for any given software application. Too many software applications and too many vendors.

Appraise Software performance in business terms, not in technology metrics. Giving a great line-of-sights towards the added value any software application brings.

Structure consideration of new software-applications by making software a standard item on every department-meeting agenda. Discuss the onboarding with the IT department.

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Author

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After having worked more than two decades in deploying technology in favor of efficiencies, scale and productivity and having had the opportunity to running a business for nearly six years the role as partner with ERA is a beautiful combination of both.

I help ambitious CEO's, CFO's and Senior IT-Leaders to improve their IT-organization's financial performance on a no-cure/no-pay basis by methodically reviewing indirect costs such as IT with my colleagues helping me on car-fleet, catering, cleaning, security, insurance, banking, waste, office-supplies and up to 40 categories.

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