# 8 Great Myths *of* Software Asset Management

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*software asset optimization*

*We Search. You Save.*

# Enterprise SAM in a Distributed World...

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# Agenda

- ✓ Software Asset Management
  - ➢ IT Cost Background
  - ➢ Benefits of SAM
  - ➢ Industry facts to think about
    - ➢ How good is Best-in-Class?
- ✓ Fun exercise in perception
- ✓ What are the 8 Myths of Software Asset Management?
- ✓ How can I get to Best-in-Class while avoiding the 8 myths?
- ✓ SAM Trends and Directions
- ✓ Summary and Conclusion

# Software Asset Management is…

Maximizing the value of the software portfolio

Managing Systems software as you would any other asset

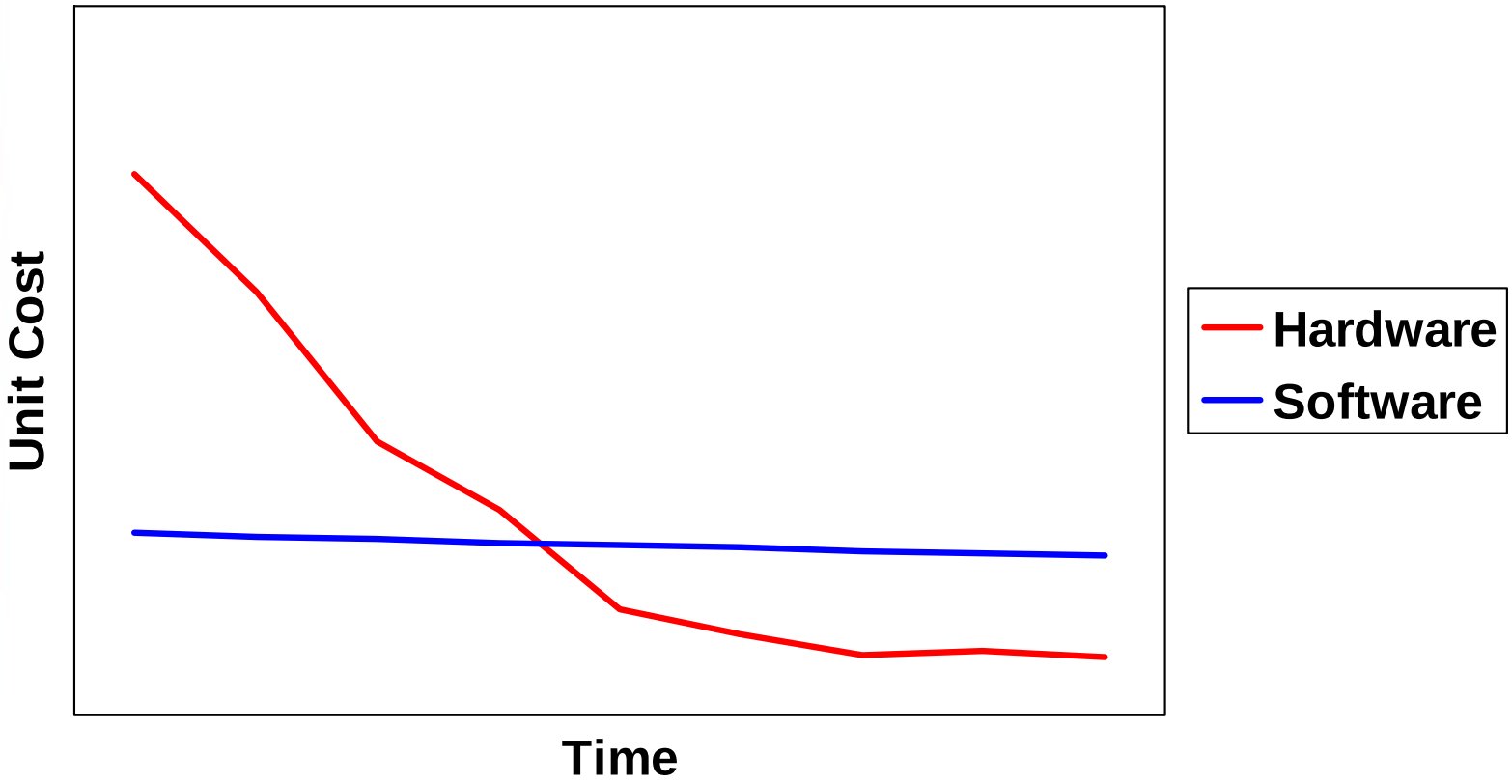
# IT Cost Background

- Mainframe Hardware
  - Consistent price decrease over time
  - Governed by Moore's Law
    - Power doubles while price decreases
  - Approximately $10,000 per MIPS in 1997
  - Approximately $2,000 per MIPS today
  - Maintenance 12% per year

# IT Cost Background

- Mainframe Software
  - Consistent total price increase over time
    - 5% to 10% per year
  - Governed by Vendor's Law
    - Charge what the customer will pay
  - Average $5,100 per MIPS today
  - Maintenance 18% to 20% per year

# Mainframe HW/SW Price Over Time



# Benefits of SAM

| Hard Dollar Sources of Savings | Mainframe | Distributed |
|---|---|---|
| Audits - Are you paying what you should be? | X | X |
| Cost Avoidance - Are you using what you have? | X | X |
| **Soft Dollar Sources of Savings** | | |
| Compliance - Do you have enough licenses? | X | X |

# Industry challenges To Managing Mainframe Software Costs

- 84% of software budget going to 5 vendors.
  - 21% of ISV products are core to business.
- 44% of software budget spent on IBM.
  - 68% of IBM products are core to business.
- 21% of software budget spent on operating system and components.
- 73% of ISV budget locked to ELA.
- 22% of products can be replaced.
- Average data center has 151 products.
- Average data center has 28 vendors.
- Major ISVs have over 250 unique pricing tiers.
- Top 20 IBM mainframe products have 18,859 prices.

Note: Industry facts based on extensive research conducted by ISAM over several hundred companies.

# How good is "Best-in-Class"?

Data center sizes are broken into 3 groups:

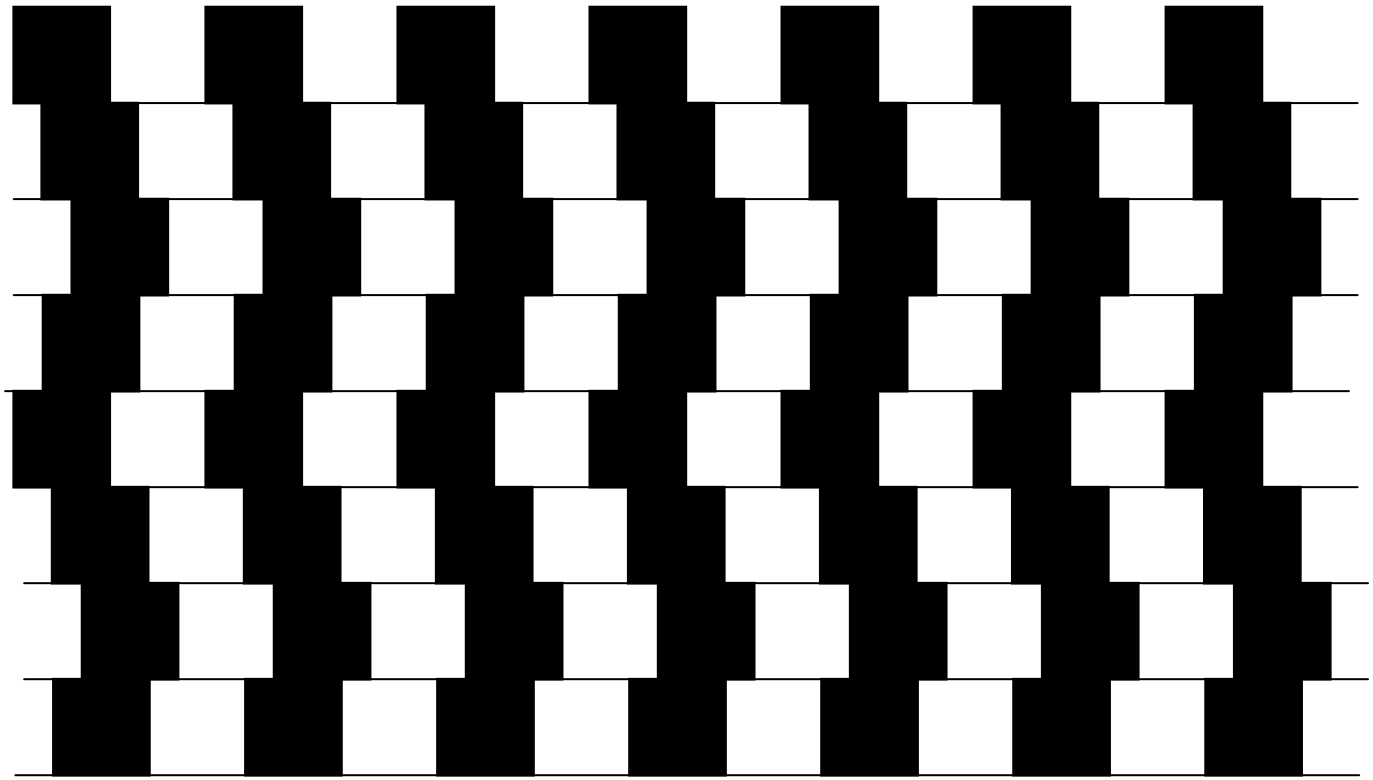
- Small: 1-500 mips
- Medium: 500-5000 mips
- Large: greater than 5000 mips

- Average mainframe software costs are:
  - Small: $6,902 per mip
  - Medium: $4,535 per mip
  - Large: $2,954 per mip
- Best-in-Class mainframe software costs are:
  - Small: $3,555 per mip
  - Medium: $2,036 per mip
  - Large: $1,904 per mip
- "Best-in-Class" companies have 80% fewer software Vendors and Products than average.

# Perception is not always reality.

***Example***

Are the horizontal lines parallel or do they slope?



# What one may perceive to be true may be completely different from another person's perception.

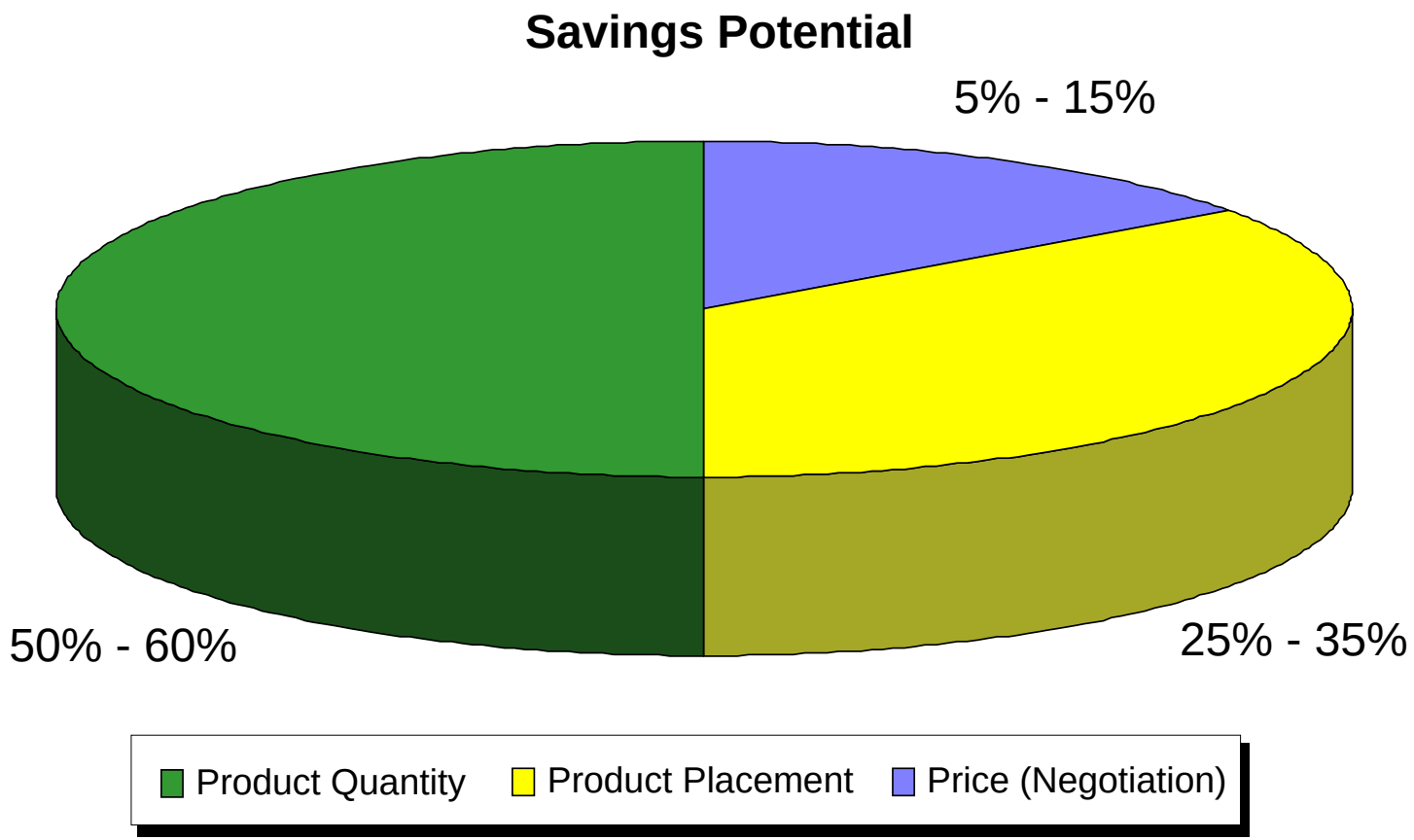
***Example***

Is the image -
Man playing the saxophone
*or*
Woman silhouette?

# What is the greatest area of impact in software cost structure?

A. Negotiation
B. Product Quantity
C. Product Placement

# The perception is a data center manages their software cost by good vendor negotiation; the reality is that a data center's savings comes primarily from factors outside of vendor negotiation



# What are the 8 Great Myths of Software Asset Management?

1. Low software costs come from data center size
2. Low software costs come from good negotiators
3. Low software costs come from good vendor discounts
4. Low software costs come from large number of ELAs with Best-in-Class Terms & Conditions
5. Low software costs come from Best-in-Class processes
6. ELA discounts, T&Cs etc. are restricted by SOP 97-2, SOP 98-4, and SOP 98-9
7. WLC will get me the lowest possible IBM software costs
8. Best-in-Class companies save the most money

# Myth #1

Low software costs come from:

- Data center size

**Reality**

- Small data centers are often more efficient in managing their costs.
- Larger data centers struggle to manage their inventory.
- Usage information, essential to Best-in-Class are unknown.

# Myth #2

Low software costs come from:

- Good Negotiators

## Reality

- Some of the best negotiators have the worst cost structure.
- They negotiate 50-90% discounts on artificially high cost scenarios.
- Most vendors can't tell you what list price is.

# Myth #3

Low software costs come from:

- Good Vendor discounts

## Reality

- A discount is relative to some cost structure utilizing a commonly accepted set of assumptions (i.e. inventory, capacity, price book).
- Although a discount may look good as presented by the vendor, they can, and sometimes are, above list price based on actual usage.
- Discounts can be regional.

# Myth #4

Low software costs come from:

- Large number of ELAs with Best-in-Class T&Cs

## Reality

- ELAs helped data centers during the high growth years of the 1980-90's.
- During recent years with low capacity growth, ELAs have often hurt companies by creating large costs for unused inventory and capacity.

# Myth #5

Low software costs come from:

- Best-in-Class processes

## Reality

- Good processes are essential.
- Software vendors don't reduce your invoice because you have a good process.
- There is no statistical correlation between processes and costs.
- Some of the most world famous companies utilizing Six Sigma, Balanced Scorecard etc. have the worst costs.

# Myth #6

ELA discounts, T&Cs etc. are restricted by SOP 97-2, SOP 98-4, and SOP 98-9.

**Reality**

- The AICPA, FASB, GAAP, SEC don't tell you how to price software.
  - They tell you how to recognize revenue
  - They provide guidance in cost allocation
- There are NO accounting rules that restrict your ability to negotiate or renegotiate the price and terms of a contract.

# Myth #7

WLC will get me the lowest possible IBM software costs.

## Reality

- WLC can reduce the price of some major products, but it can be more than offset by the price going up on other products.
- Over 80% of data centers are paying unnecessary charges that are not solved by WLC.
- April 2006 IBM price book listed 126,531 line items of software prices.
- Don't ask if WLC is a lower-price alternative than your current method, ask if it's the LOWEST alternative.

# Myth #8

Best-in-Class companies save the most money.

## Reality

- You rarely hear stories from Best-in-Class companies.
- Best-in-Class companies don't want their competitors to know how good they are.
- Best-in-Class companies have already realized the large savings and have little or no money left to save.


MYTHBUSTERS

# How do I get to Best-in-Class while avoiding the 8 Myths?

1. Understand the SAM landscape.
   - Mainframe
   - Distributed
2. Determine your goals & objectives
3. Create a roadmap to Best-in-Class by imitating Best-in-Class data centers.
4. Reduce software costs through a strategic phased approach.

# 1. Mainframe SAM

## Current Situation

- Software stack is well organized and understood
- ELAs still present with ISVs, but no longer than 3 years
- Some ISVs are utilizing usage based licenses based on IBM's Sub-Capacity reports
- IBM is growing its stable of software

# 1. Distributed SAM

## Current Situation

- Highly unorganized
- Discovery tools are often cumbersome and don't work out of the box.
- Software titles are part of larger ELAs
- Pricing varies
  - Processor
  - Server
  - Site
  - Business Metrics
- Shear numbers of servers work against the process
- Server consolidation creates a many to one relationship that can make software licensing expensive.

# 1. Available Tools

- Mainframe
  - Usage
    - Tivoli License Compliance Manager (SoftAudit)
  - Discovery
    - Tivoli License Compliance Manager (SoftAudit)
- Distributed
  - Usage
    - Tivoli, SMS, others
  - Discovery
    - Tivoli, Eracent, SMS, others

# 2. Determine Your Goals and Objectives

- What cost structure are you trying to get to?
- Do you want to be better than your competitor or just reduce costs?
- Do you want to eliminate platforms?
- Do you want to eliminate a vendor?
- Do you have any current or future budget issues?
- Do you have any audit or compliance issues?

# 3. Create a Roadmap

- Assess your current situation
  - Software inventory
  - Hardware inventory
- Benchmark your software costs
- Build plan of attack
  - Identify savings opportunities
  - Assess your time
- Execute
- Measure and repeat

# 4. Strategic Phased Approach

- Immediate (Opportunistic)
  - Administrative review
  - License and invoice review
- Medium Term (Improving current process)
  - Software and Hardware configuration review
  - Software elimination and substitution
- Long Term (Reengineering)
  - Usage
  - Deployment
  - Consolidation and standardization

# Trends and Directions

- Further ISV consolidation
- Some ISVs will utilize mainframe usage based licenses based on their own tools
- More ISVs will utilize mainframe usage based licenses based on IBM's Sub-Capacity reports
- IBM will continue to displace ISVs, especially in the utility and monitoring areas.
- Automated installation across the distributed network
- Distributed usage based licensing
- Distributed open-source licensing
- Server consolidation will drive different licensing models

# Trends and Directions

- Capacity Management with an eye toward software costs will become paramount
- Software Usage and Measurement will improve and give leverage in negotiations
- With ISV consolidation, utilizing the Penalty Box will become even more important
- Penalty Box concept can be migrated to servers
- The lines in the data center will become blurred as servers get bigger and mainframes get smaller
- Distributed Systems will require SAM processes to mature quickly
- SAM will require deeper knowledge of applications and software titles
- Although some vendor consolidation will occur for distributed systems, it will be years because of the “PC” mentality.

# Summary

- Mainframe SAM is more effective
  - Smaller number of servers
  - Fewer titles
  - Ability to share components enables the Penalty Box
- Distributed SAM has more to gain
  - Customers must influence vendors to establish favorable licensing schemes
- An established program can be extended to include both platforms
  - Processes must be extended
  - Terms need to be compatible to that technicians know what they are to do.

# Conclusions

- Avoid the 8 Great Myths of Software Asset Management
  - Don’t focus on negotiating discounts
  - Focus on financial results not processes
  - Look at all possible IBM pricing options
  - Don’t feel like you have to imitate those that have just saved millions
- Create roadmap to Best-in-Class
  - Use a 3 phase approach
    - Immediate – Easy savings
    - Medium – Build for the future
    - Long – Take advantage of your environment
- Generate immediate savings and recognition of your Software Asset Management program
- Include all platforms in SAM program
  - Tools need to be interoperable
  - Server Consolidation can save money if designed correctly
- Assess your program often to ensure that you are meeting your goals

# *"Knowledge maximizes value…. Create Savings through Knowledge"*

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