Best in Class SAM Practices in a *changing* Software Industry

January 2008

ISAM

software asset optimization

We Search. You Save.

Agenda

- Introduction
- Industry Trends
  - Hardware
  - Software
- Best in Class Software Asset Management
  - How good is best in class?
  - How did they get there?
  - How good can they get?
- Conclusion

Definitions

- Unit costs = annual maintenance / total installed mips
- PILS™ = acronym for Product Image License
  - 1 PIL represents one product running on one CPU
- Core products – those products that are core to the mainframe operation

Data Mining Background

- Data comes from database containing over 7 million data points
- Data includes over 300 ISV price books and IBM published pricing
- Companies sampled are from every industry and size
- Usage data from SoftAudit
- All companies are based in North America

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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

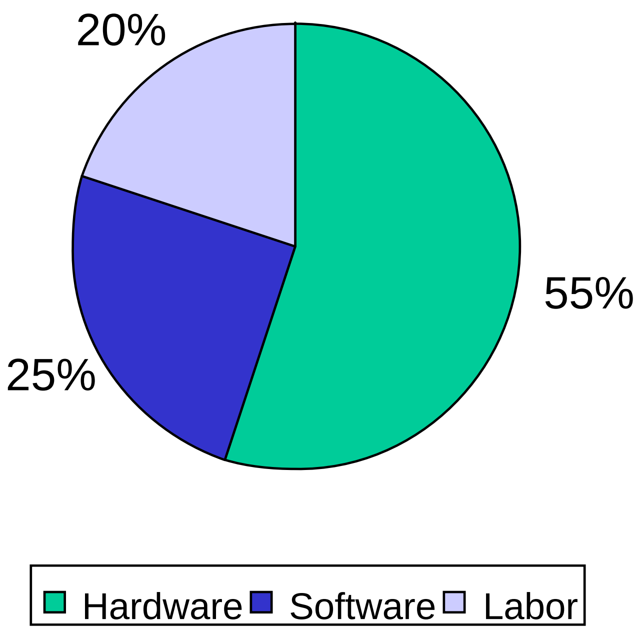
IT Cost Background – cont.

- Mainframe **Software**
  - Consistent price increase over time
    - 5% to 10% per year
  - Governed by Vendor's Law
    - Charge what the customer will pay
  - Average $11,000 per MIPS today
  - Maintenance 18% to 20% per year

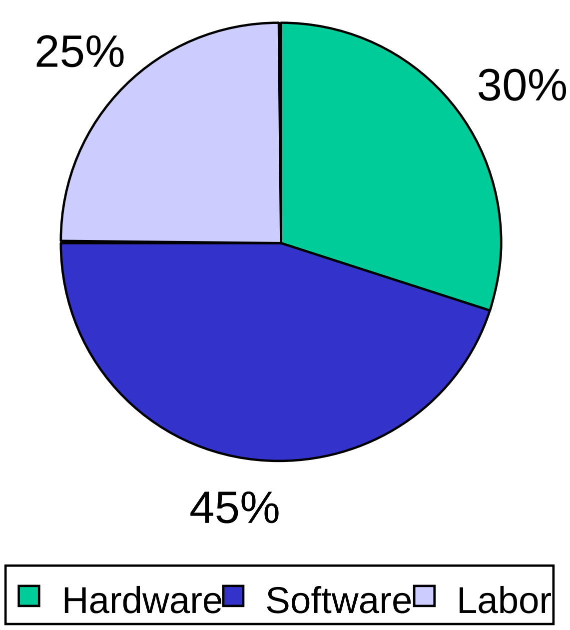
Software costs are taking a bigger piece of total data center costs

Total Data Center Costs

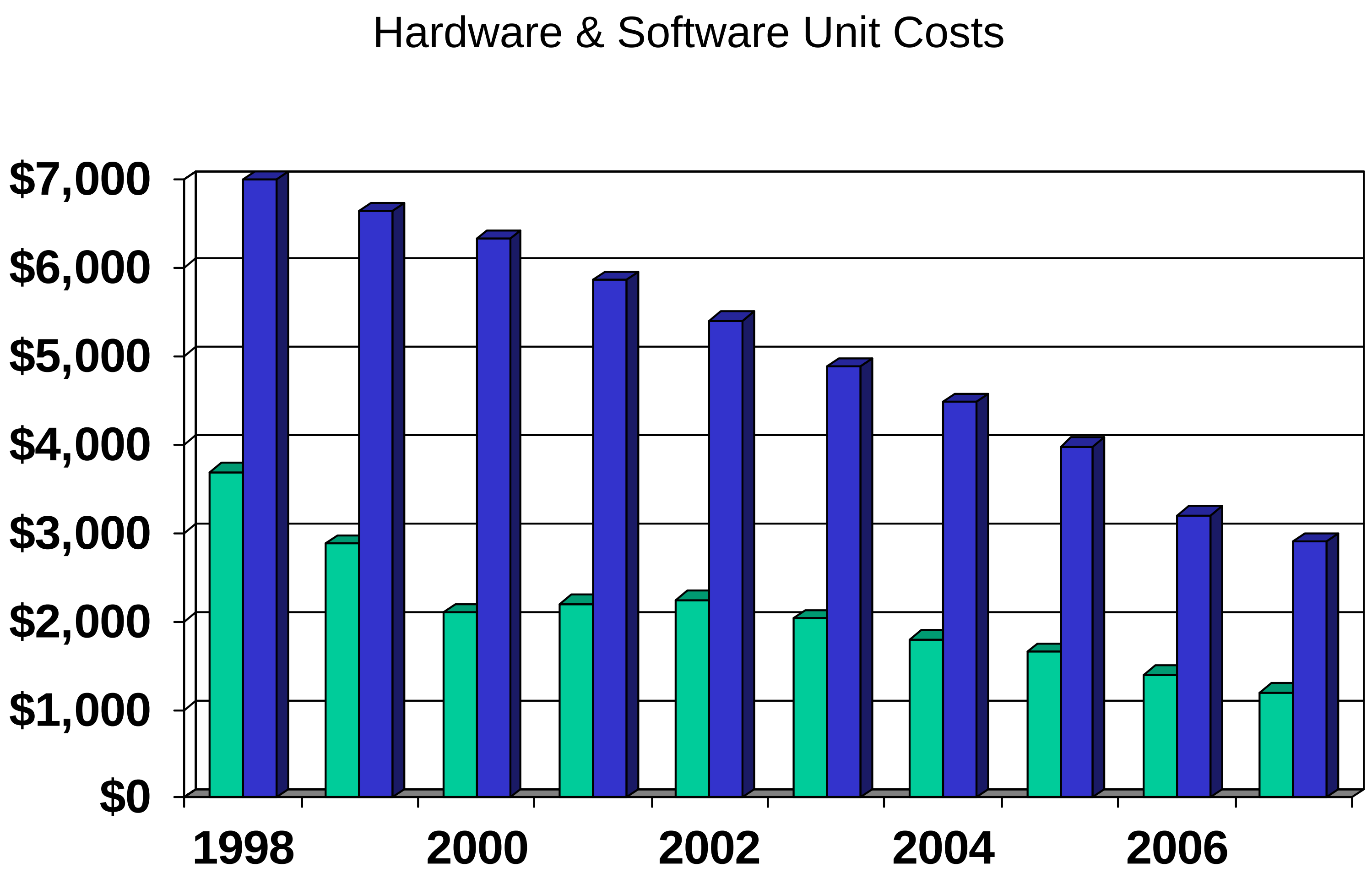
1995



2005



Software unit costs are falling rapidly



IT Industry Impact on Software 1997-2007

- 64 bit CPUs - 2000
- IBM WLC - 2000
- Hitachi & Amdahl exit mainframe CPUs - 2001
- Growth in internet - 20xx
- The end of Y2k
- Mid-range Server Growth - 20xx
- IBM SMPO - (1999)
- IBM buys Isogon - 2005
- Hitachi builds large Trinium mainframes - 1999
- Linux on the mainframe - 2002
- BMC buys Boole & Babbage - 1998
- CA buys Platinum - 1999
- ASG buys Viasoft & Landmark – 2000/2002
- CA buys Argis - 2002
- IBM buys Candle - 2004
- SEC launches software revenue accounting investigation - 2004

Industry Trends 1997

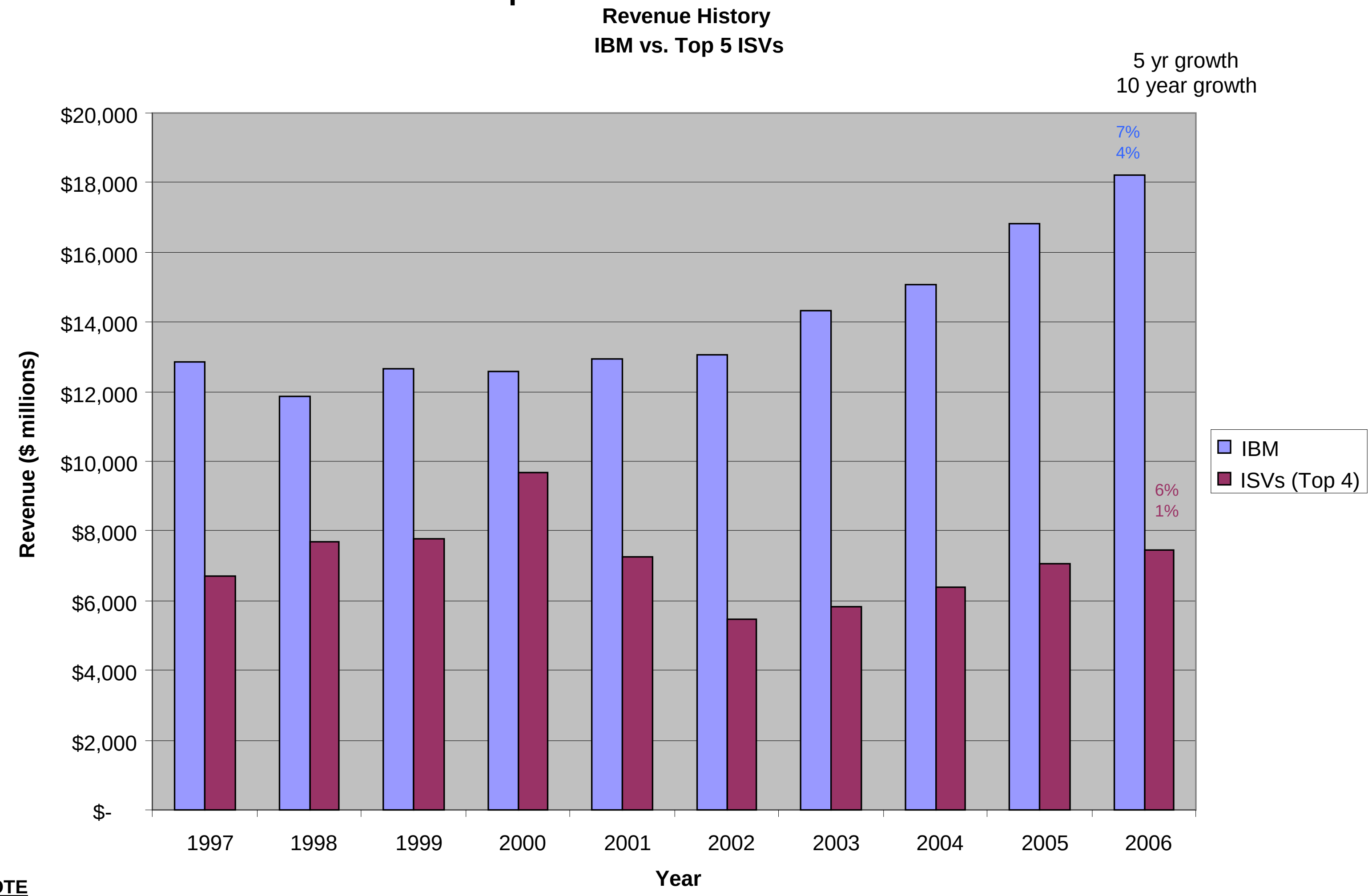
- Many software vendors
- Little correlation between data center size and unit cost
- Lots of products
- 5-7 year ELAs representing 70% of ISV budget
- Pricing based on MIPS or Tiers
- Little product substitution (high vendor retention level)
- Lots of CPUs and data centers
- Costs managed thru negotiation
- Average costs at $5500 per mip
- Best in class at $2500 mip

Industry Trends
2007

- Fewer software vendors
- IBM is in the replacement business
- High correlation between data center size and unit cost
- Reduced products
- 2-3 year ELAs representing 80% of ISV budget
- Pricing based on MIPS, Usage, Sub-capacity, value units
- High product substitution (low vendor loyalty)
- Consolidate CPUs and data centers
- Costs managed thru product management
- Average costs at $4000 per mip
- Best in class at $1300 mip

How much are the software vendors growing?

IBM has taken 88% of Top 5 vendor's increased revenue

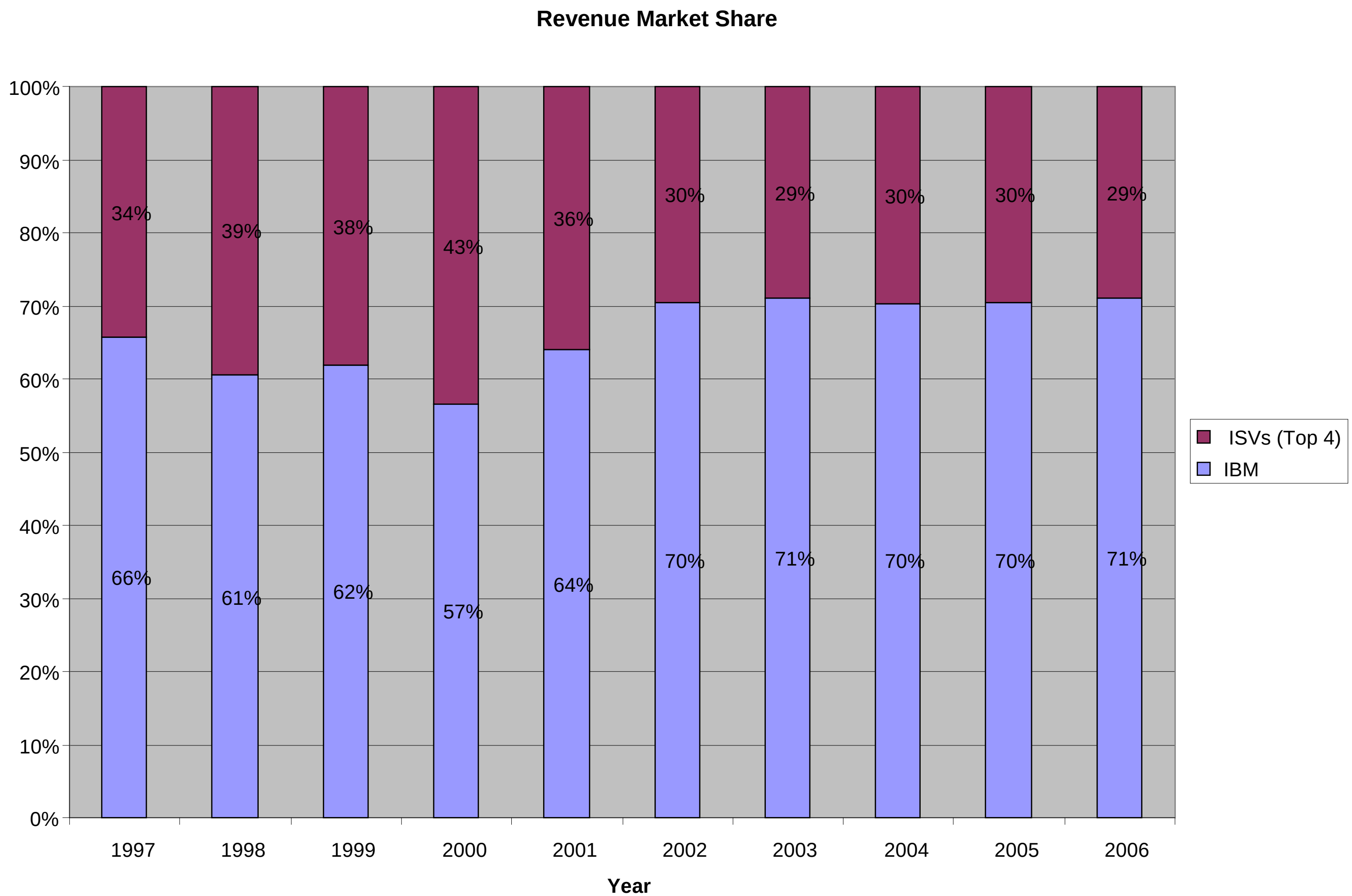


NOTE

Revenue data taken from annual reports. They may include non-mainframe software revenue. They may include fluctuations due to changes in revenue accounting.

How much are the software vendors growing?

Reduced market share from Major ISVs resulted in their revenue reduced by over $1.5 billion in 2006



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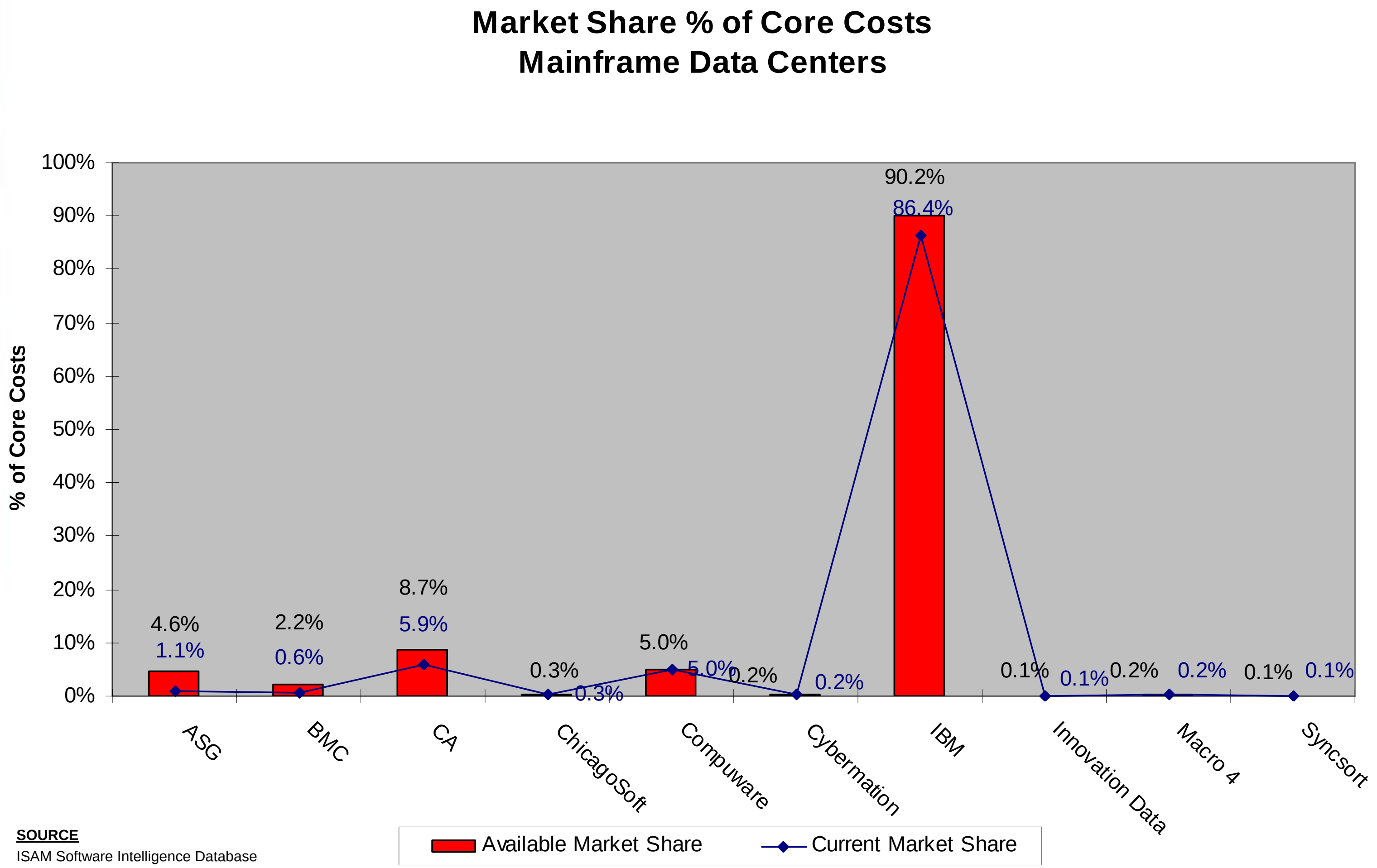
Market Share for Core products

Software Industry for Core products dominated by IBM



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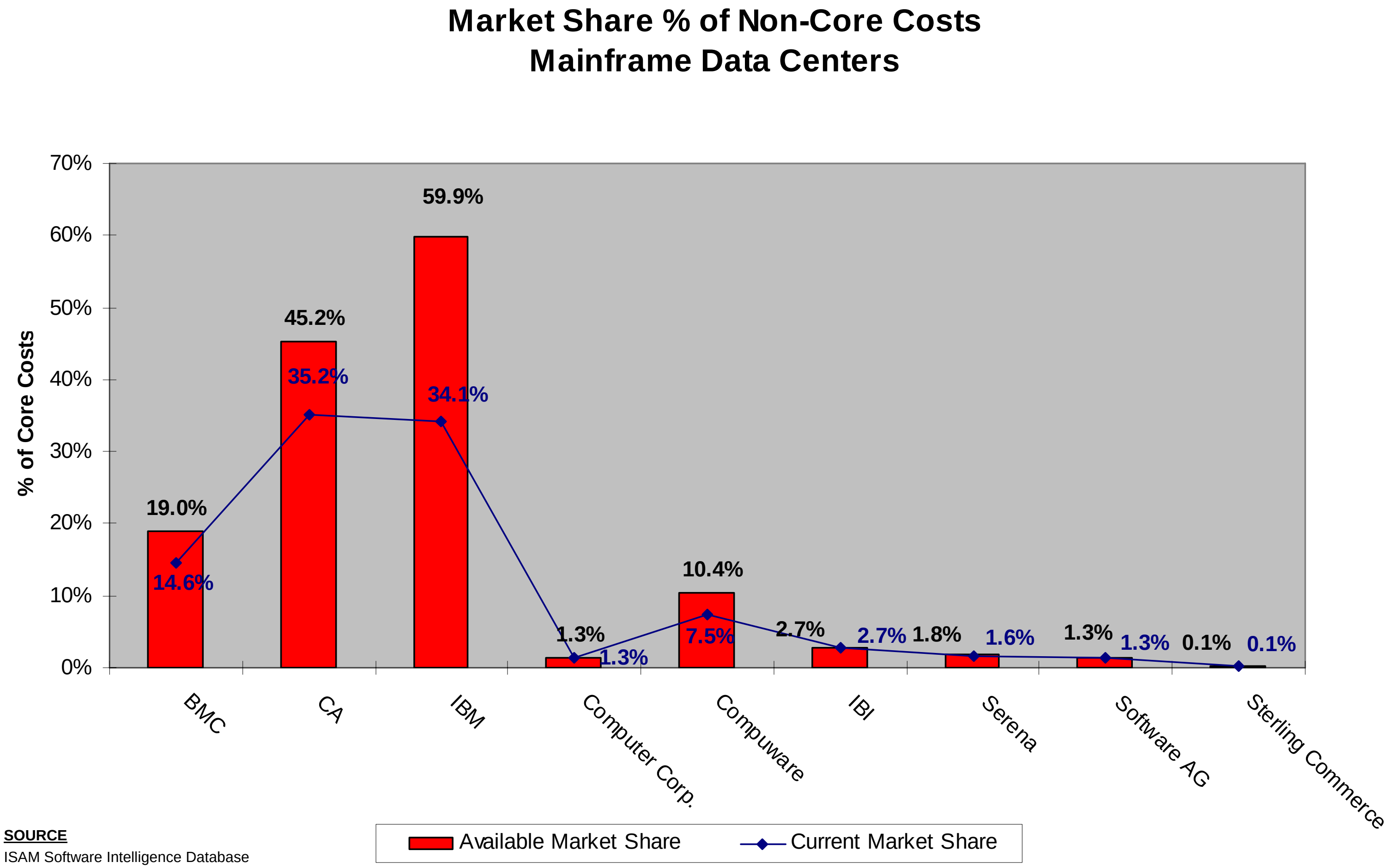
ISAM Software Intelligence Database

Market Share for Non-Core products

Non-Core products dominated by IBM, and growing



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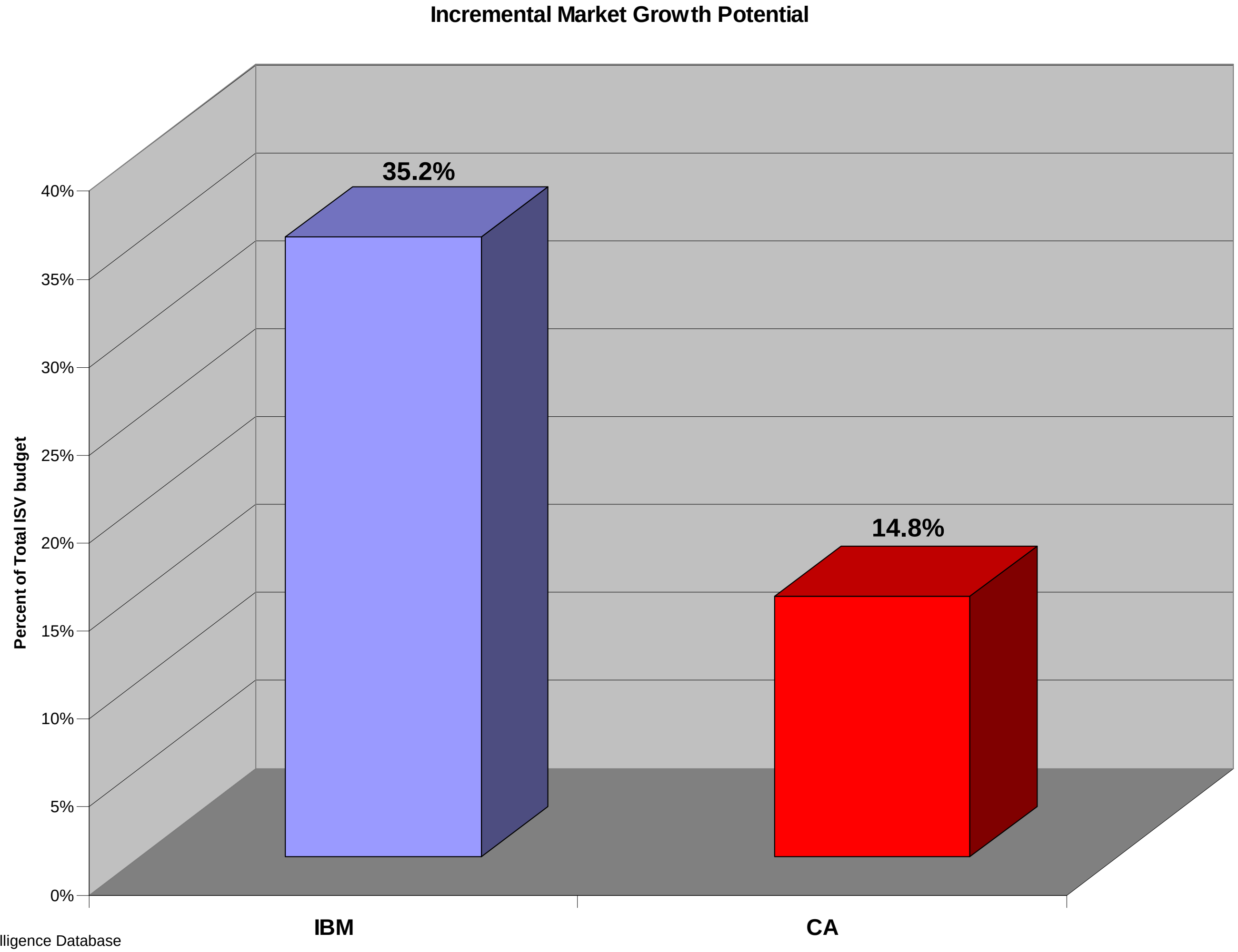
How much ISV product replacement is available?

IBM has the greatest potential on increasing market share



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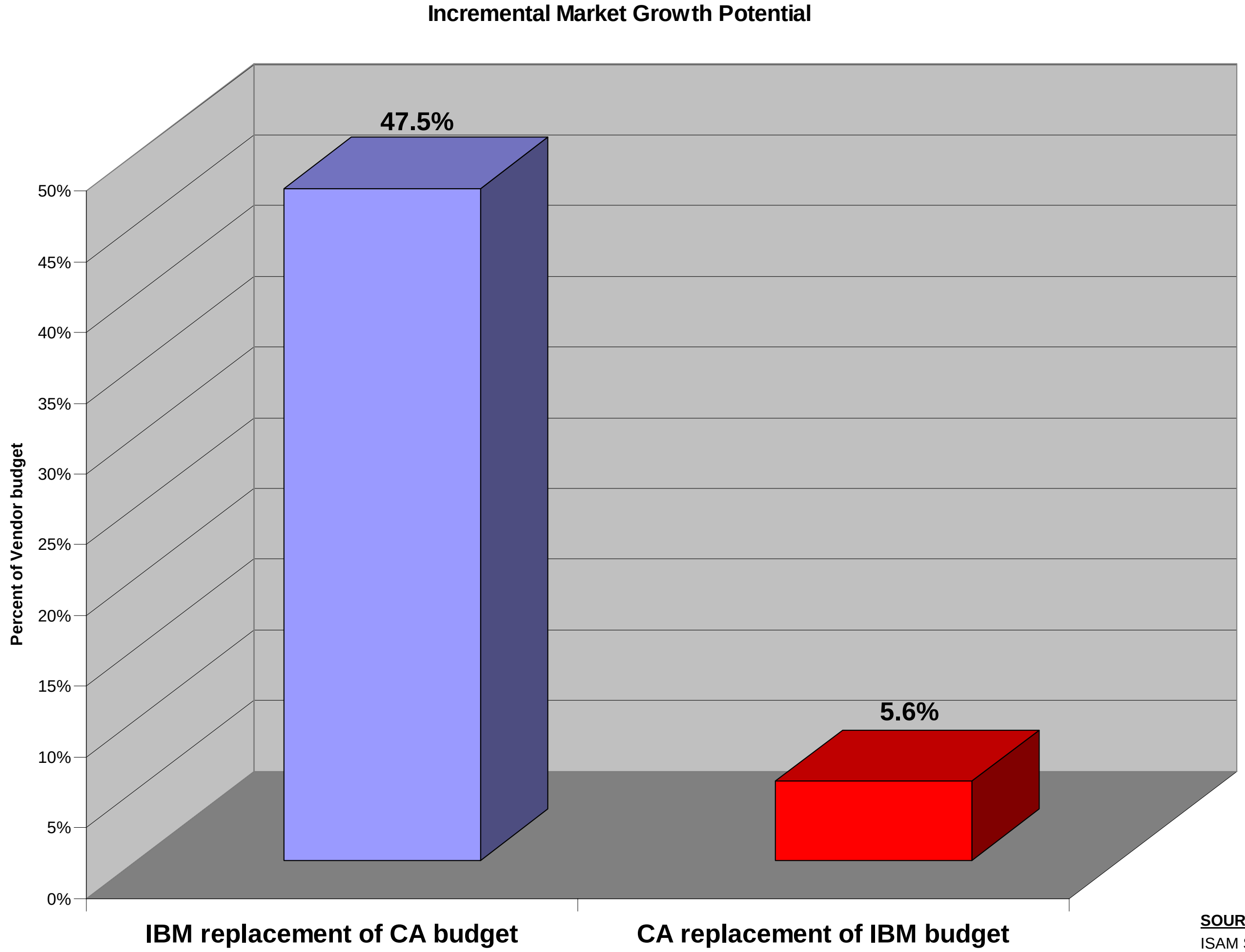
How much product replacement is available?

IBM can take more from CA than vice versa



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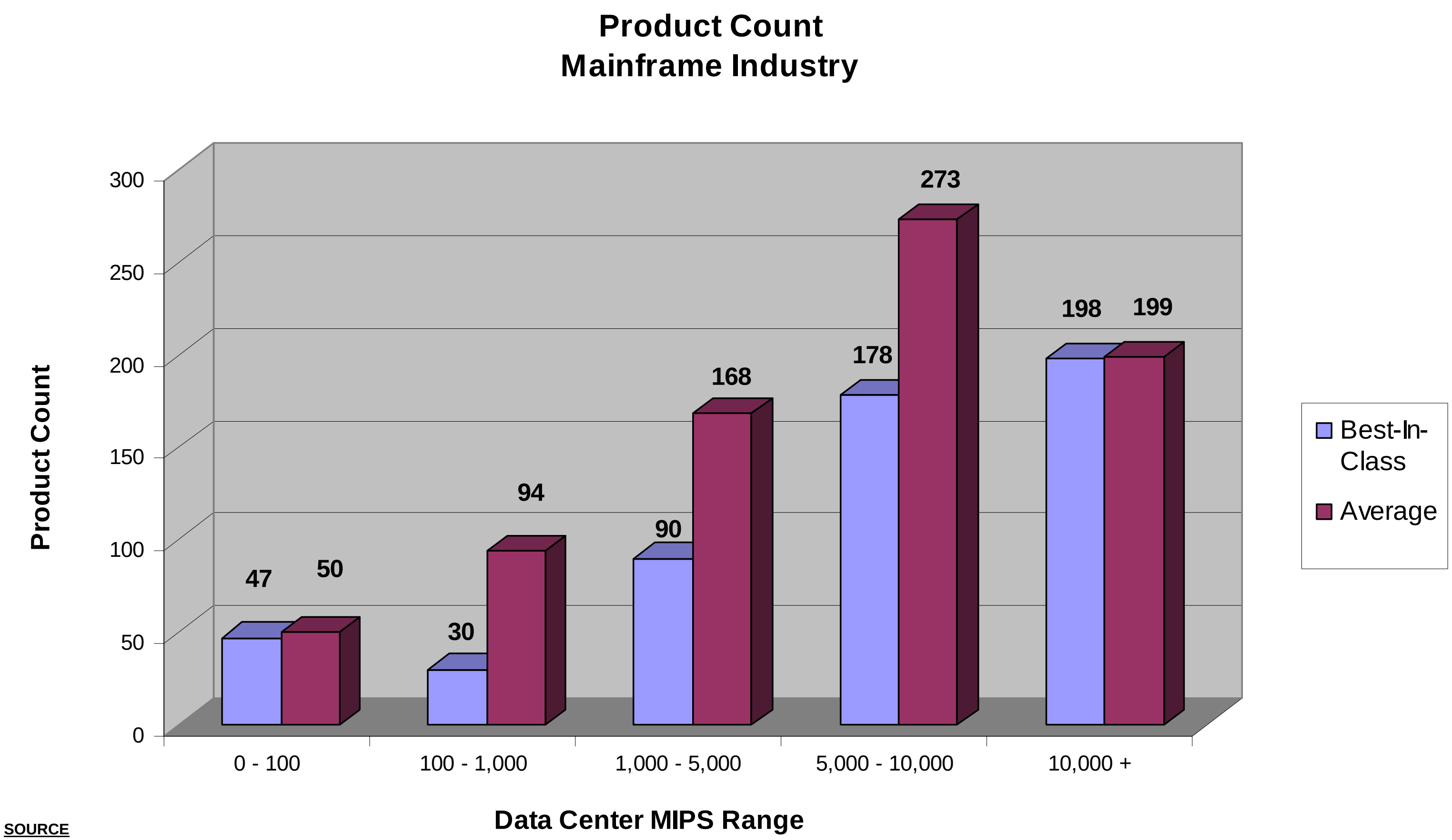
How Good is Best in Class?

Although larger data centers have more products …



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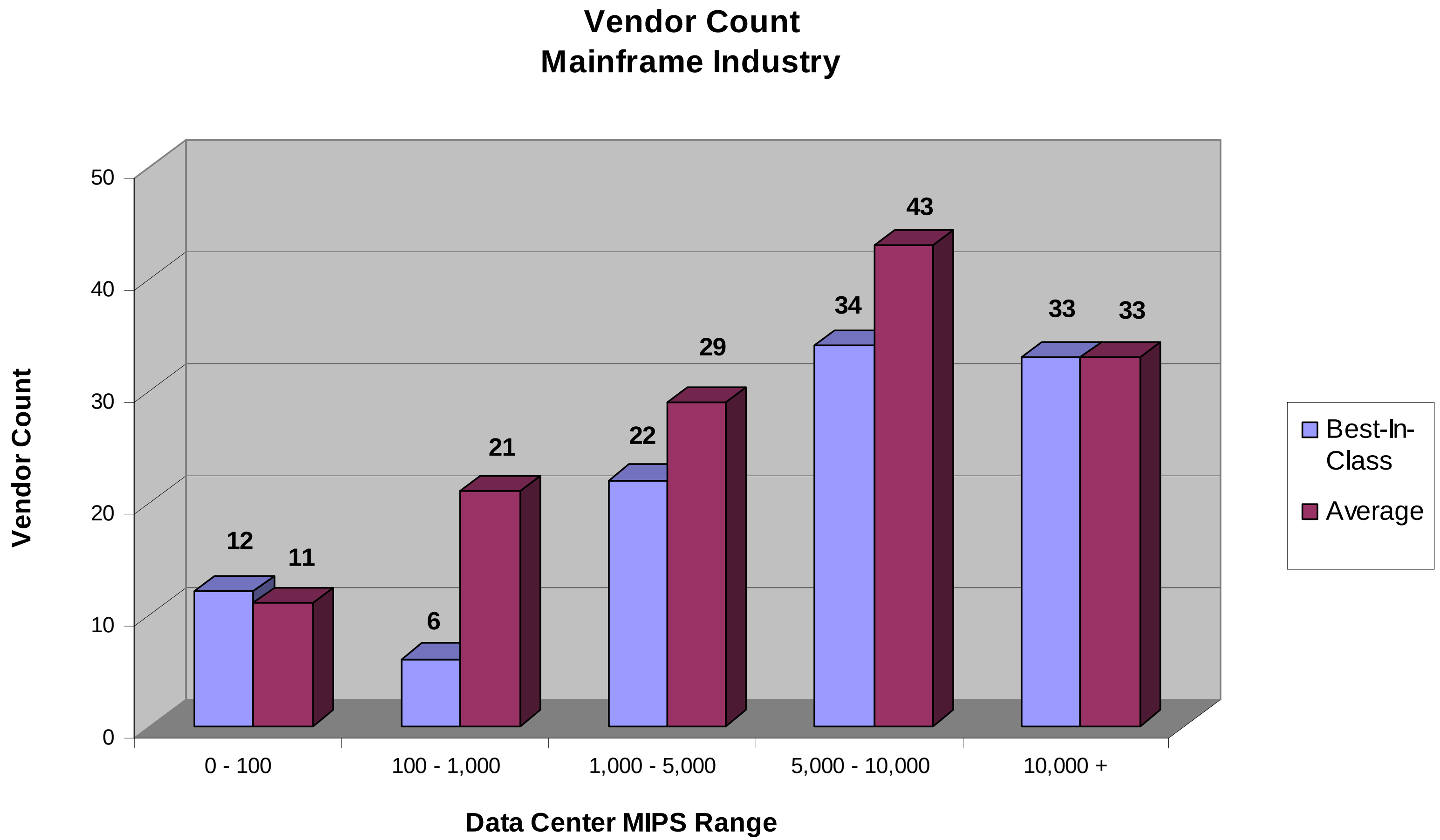
How Good is Best in Class?

and larger data centers have more vendors …



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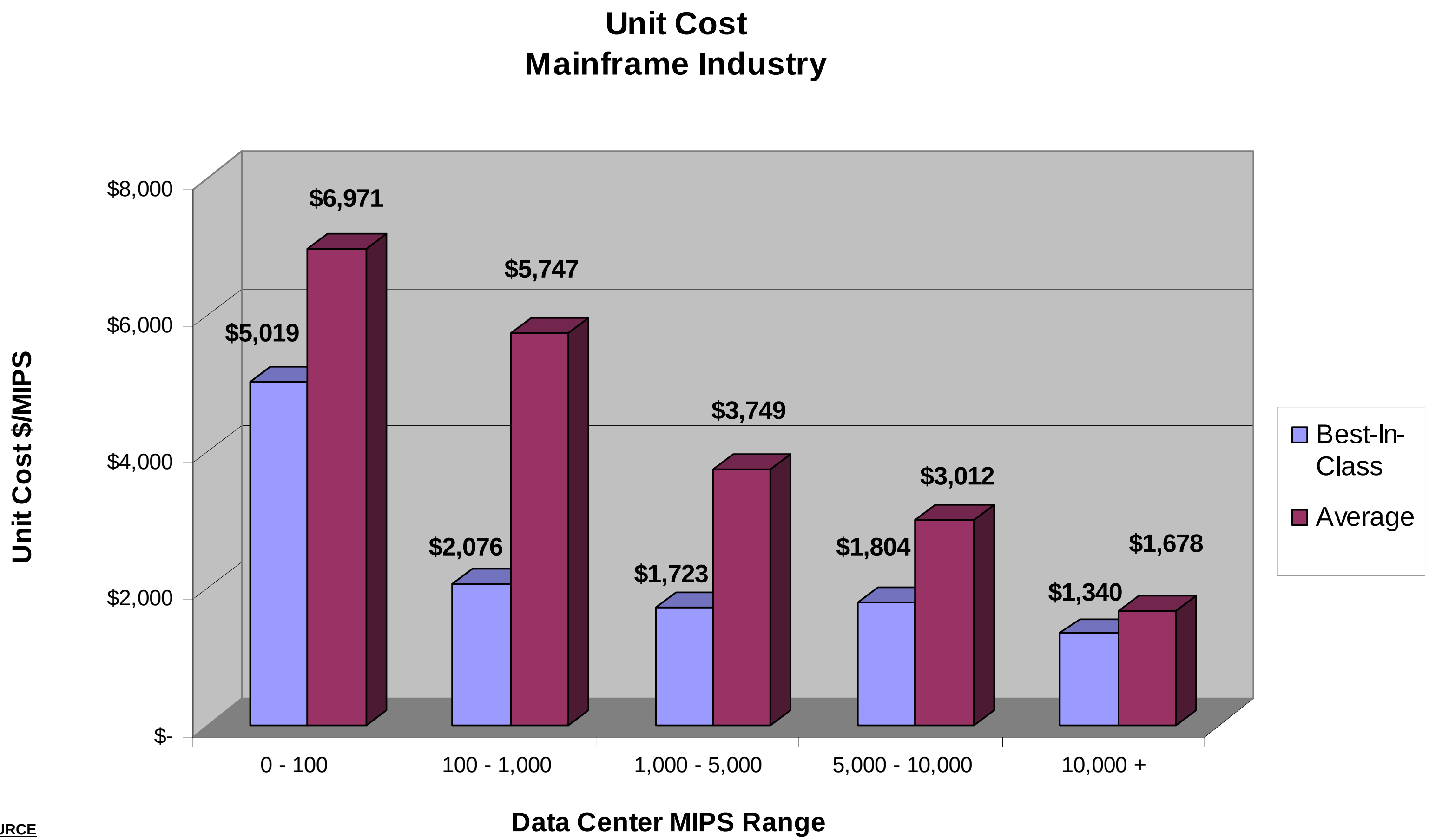
How Good is Best in Class?

Large data centers have lower unit costs.



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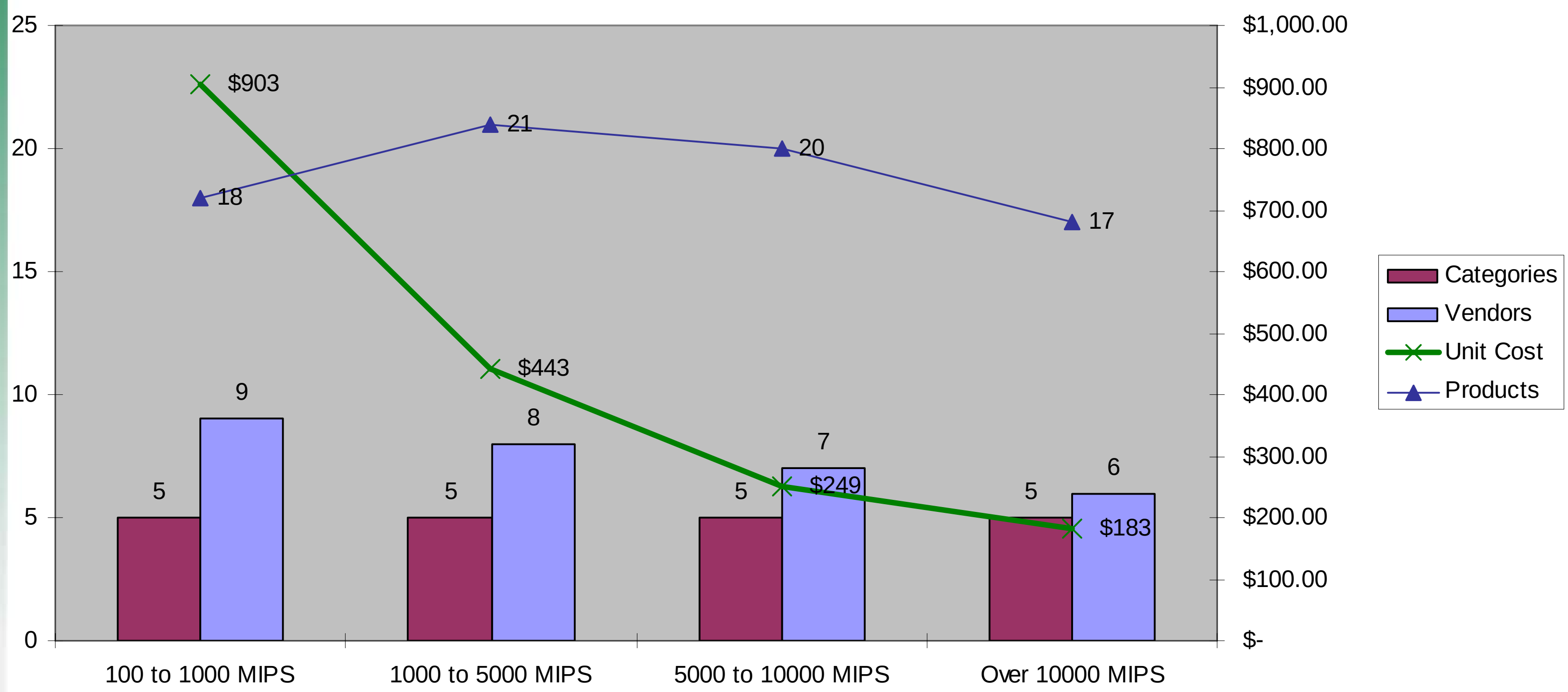
How Good is Best in Class?

Large data centers manage their core products to a lower cost.



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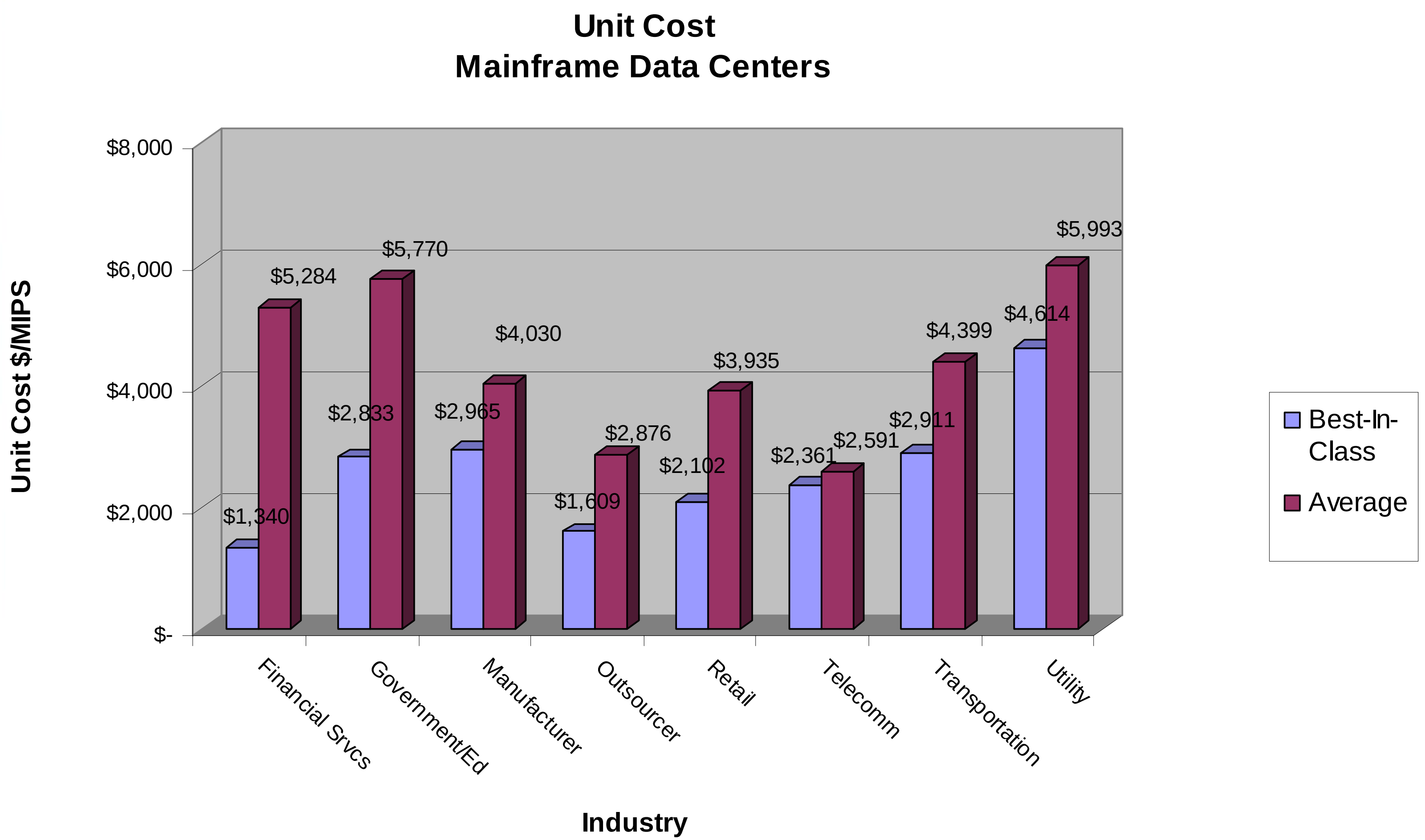
Best in Class is not Unique to an Industry



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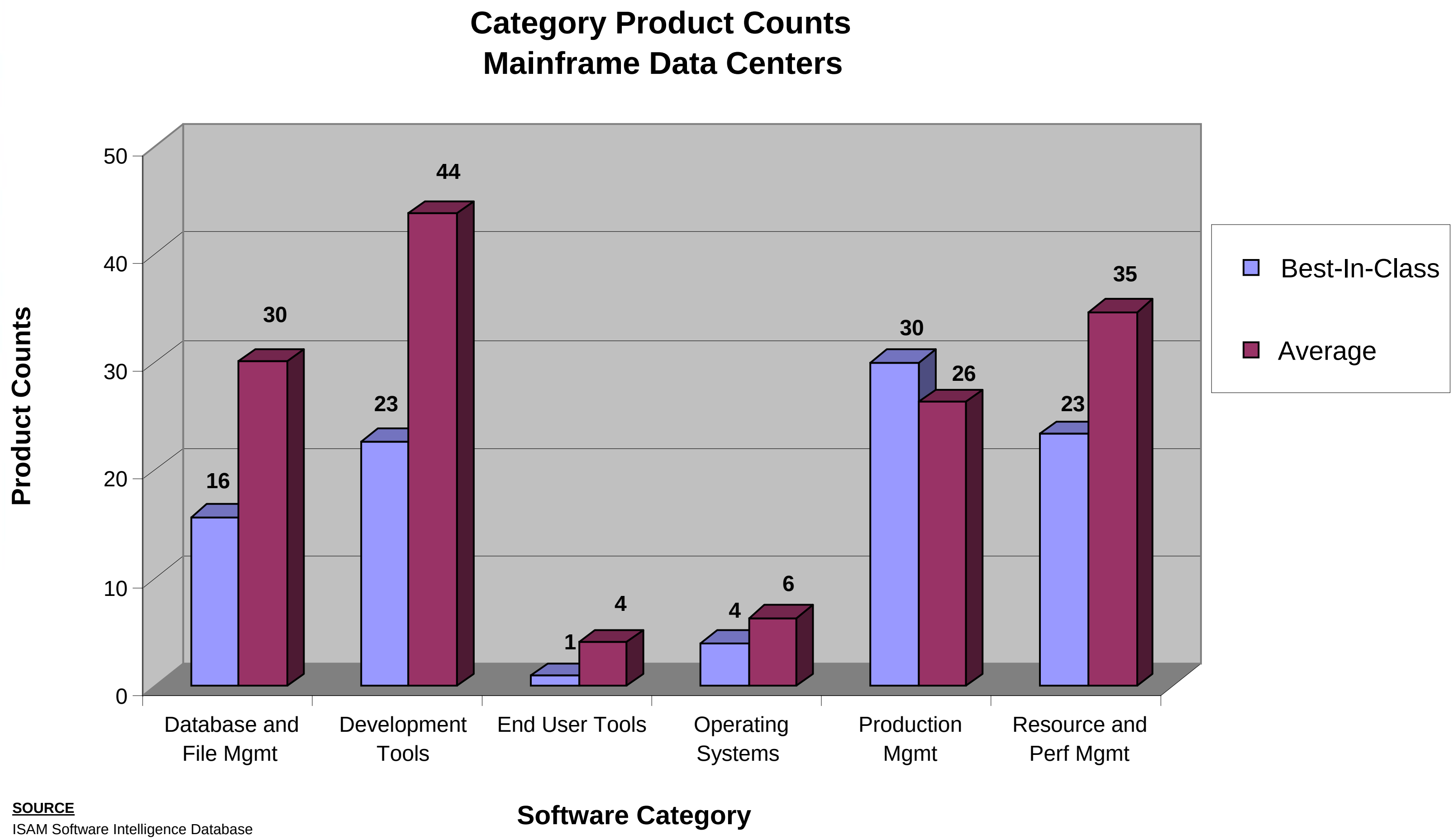
How did Best in Class get there?

Best in Class managed their product count



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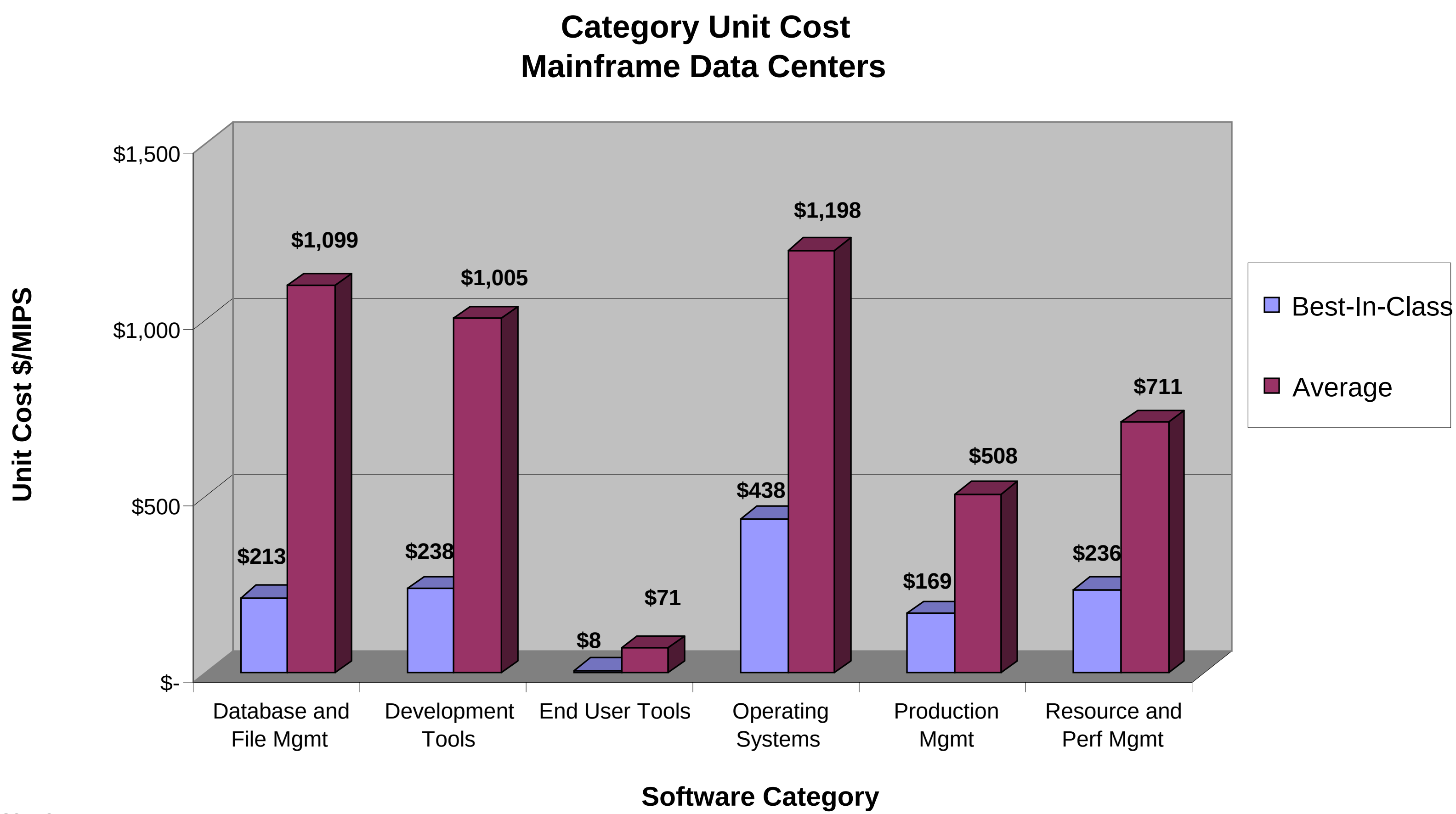
How did Best in Class get there?

The lower product count resulted in lower unit costs



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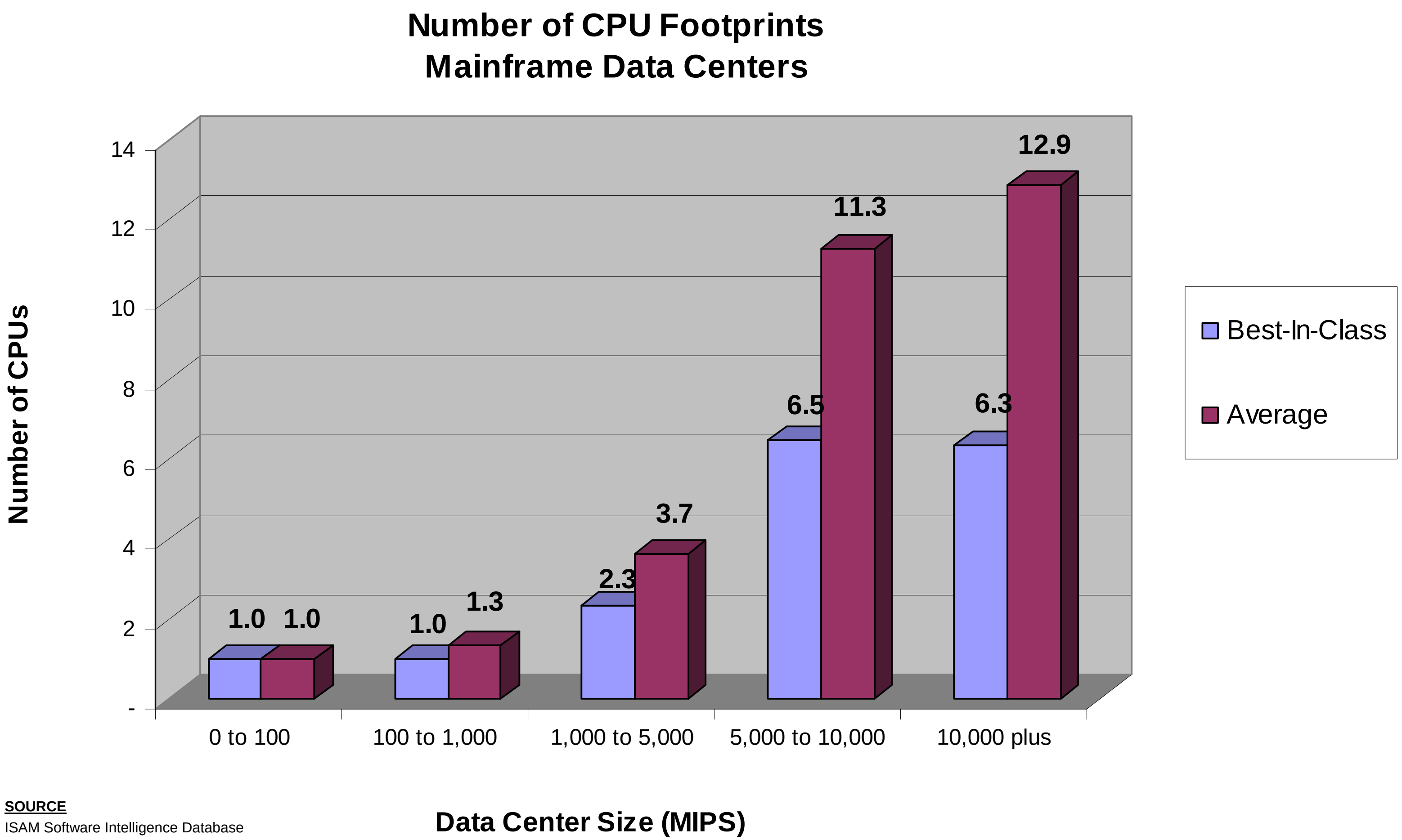
How Good can they get?

Larger data centers have more, and larger CPUs...



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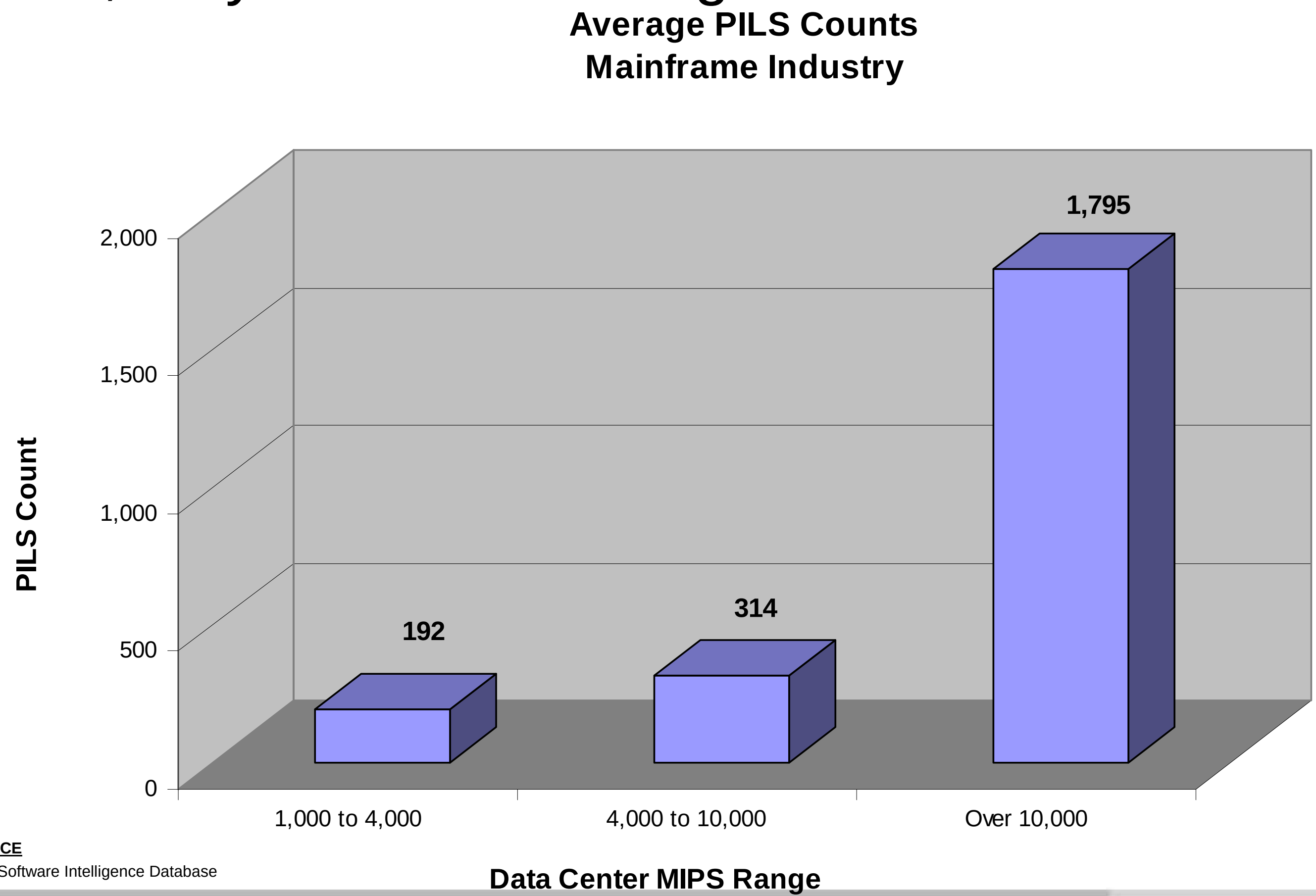
How Good can they get?

Although larger data centers tend to have lower unit costs, they are also running more licenses…



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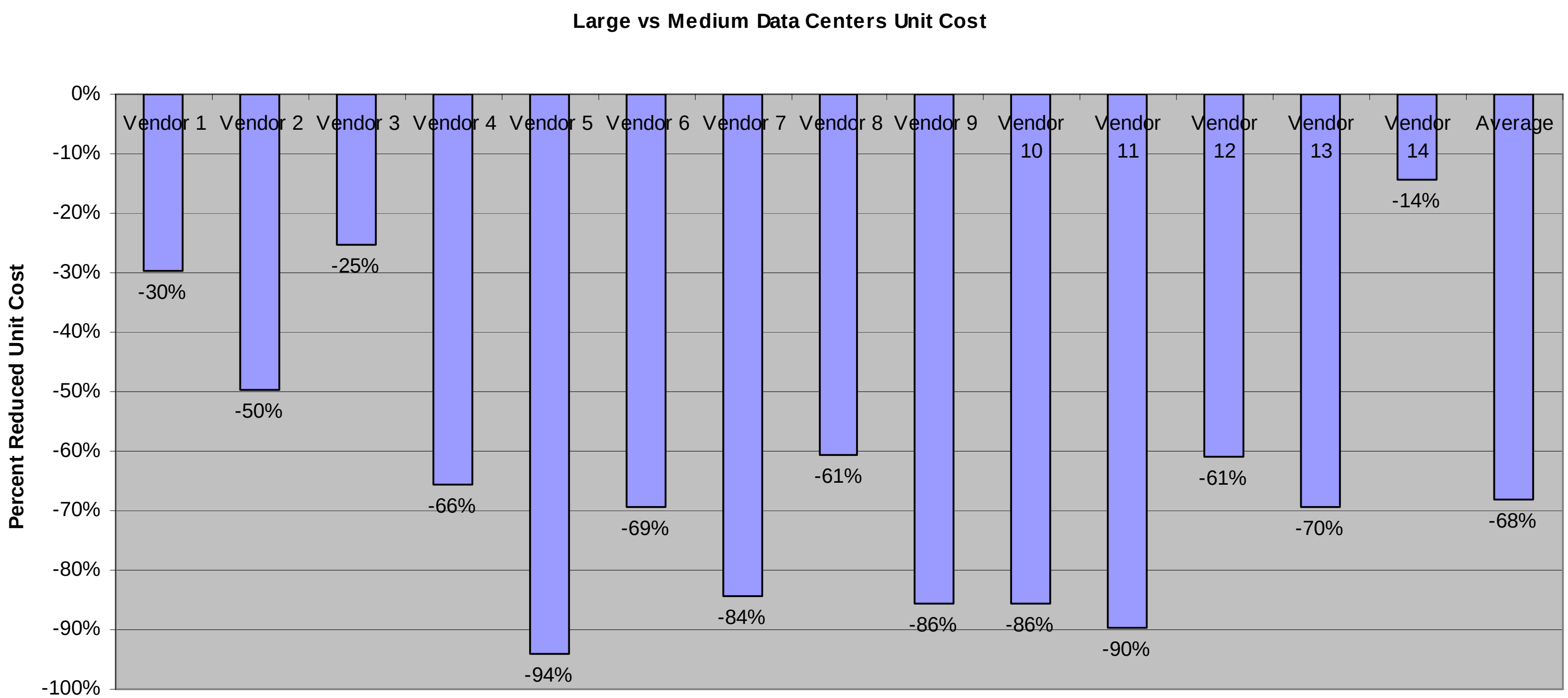
How Good can they get?

Larger data centers consistently paying less…



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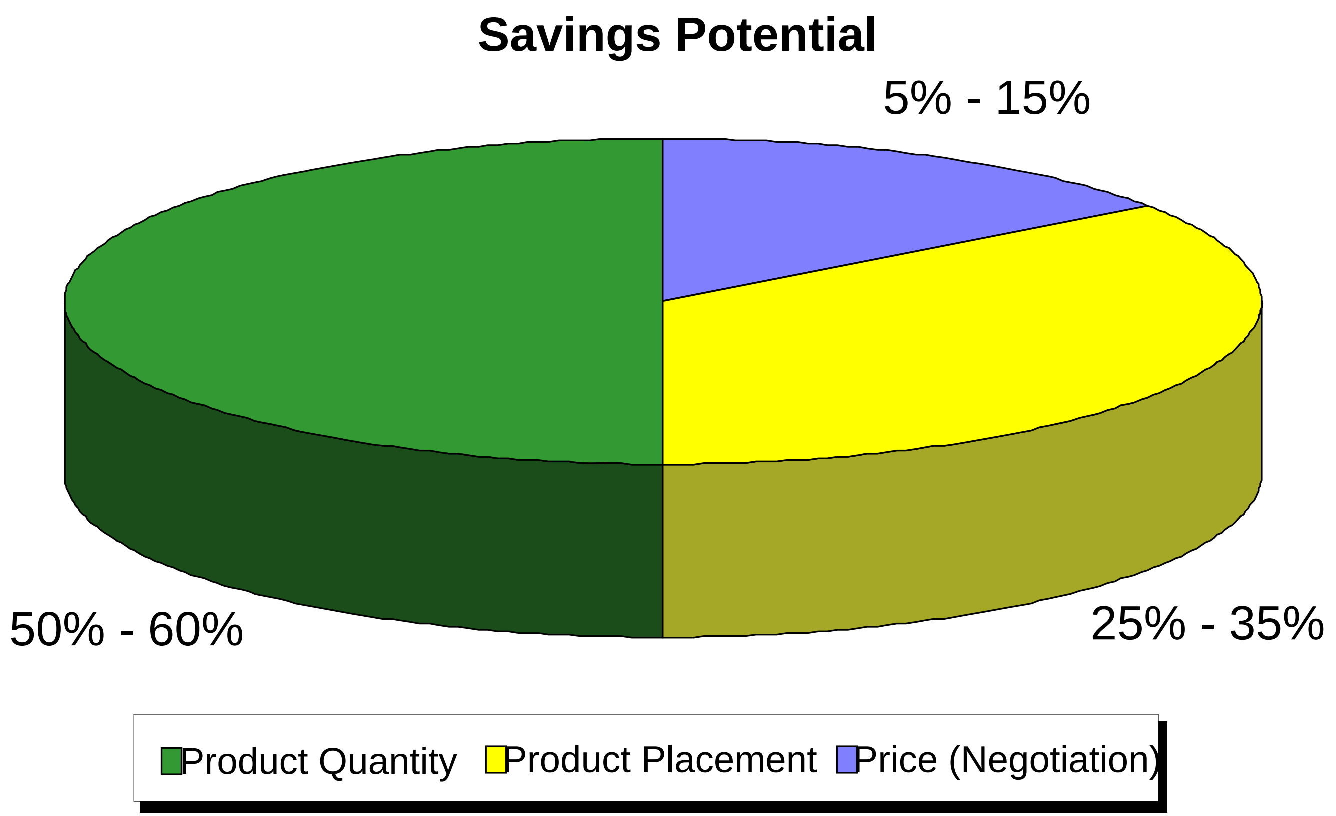
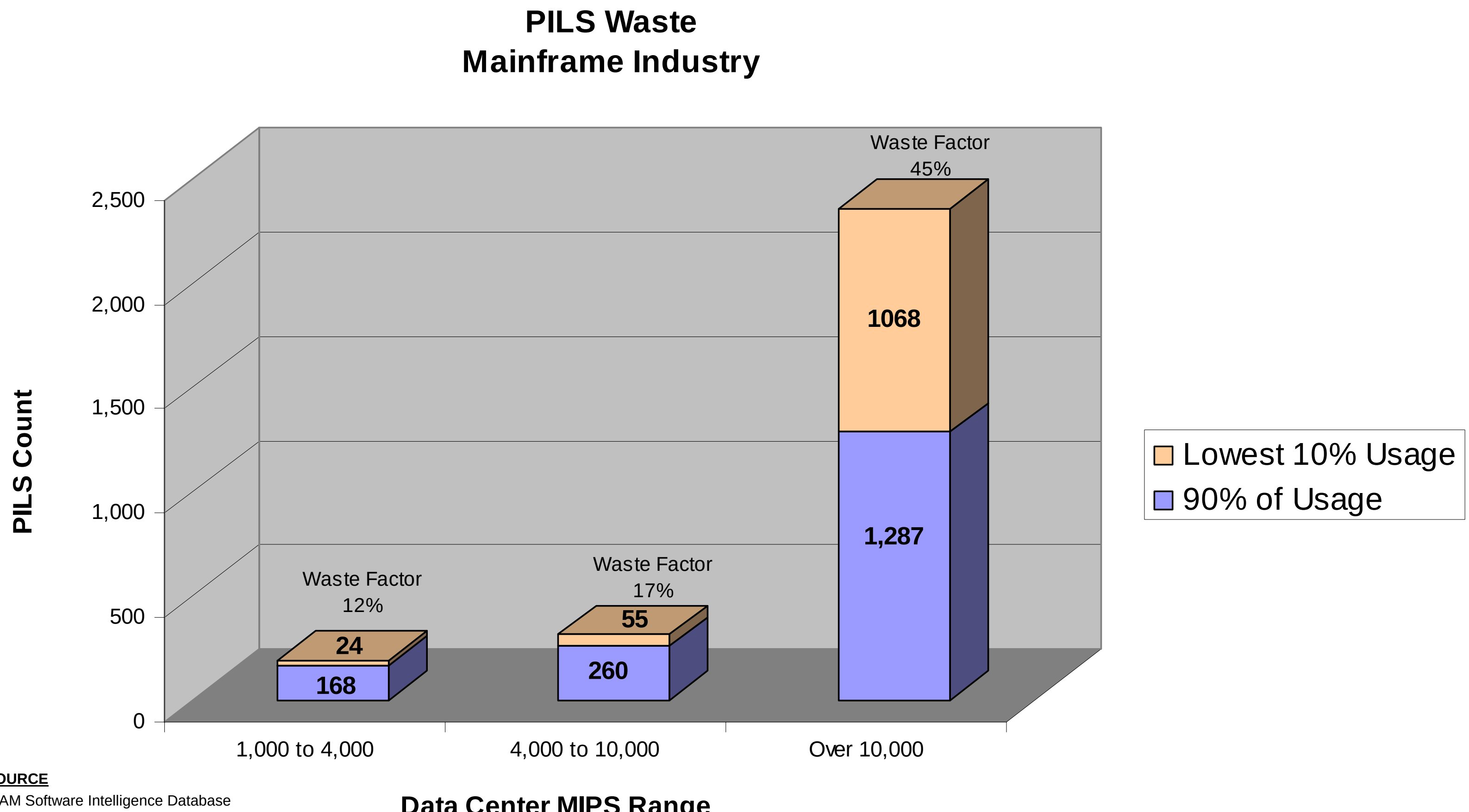
Best in Class manage Product inventory and placement

Savings from negotiations generate only 5-15% of total savings opportunities!



How Good can they get?

Larger data centers also have more unused & low usage products (waste)…



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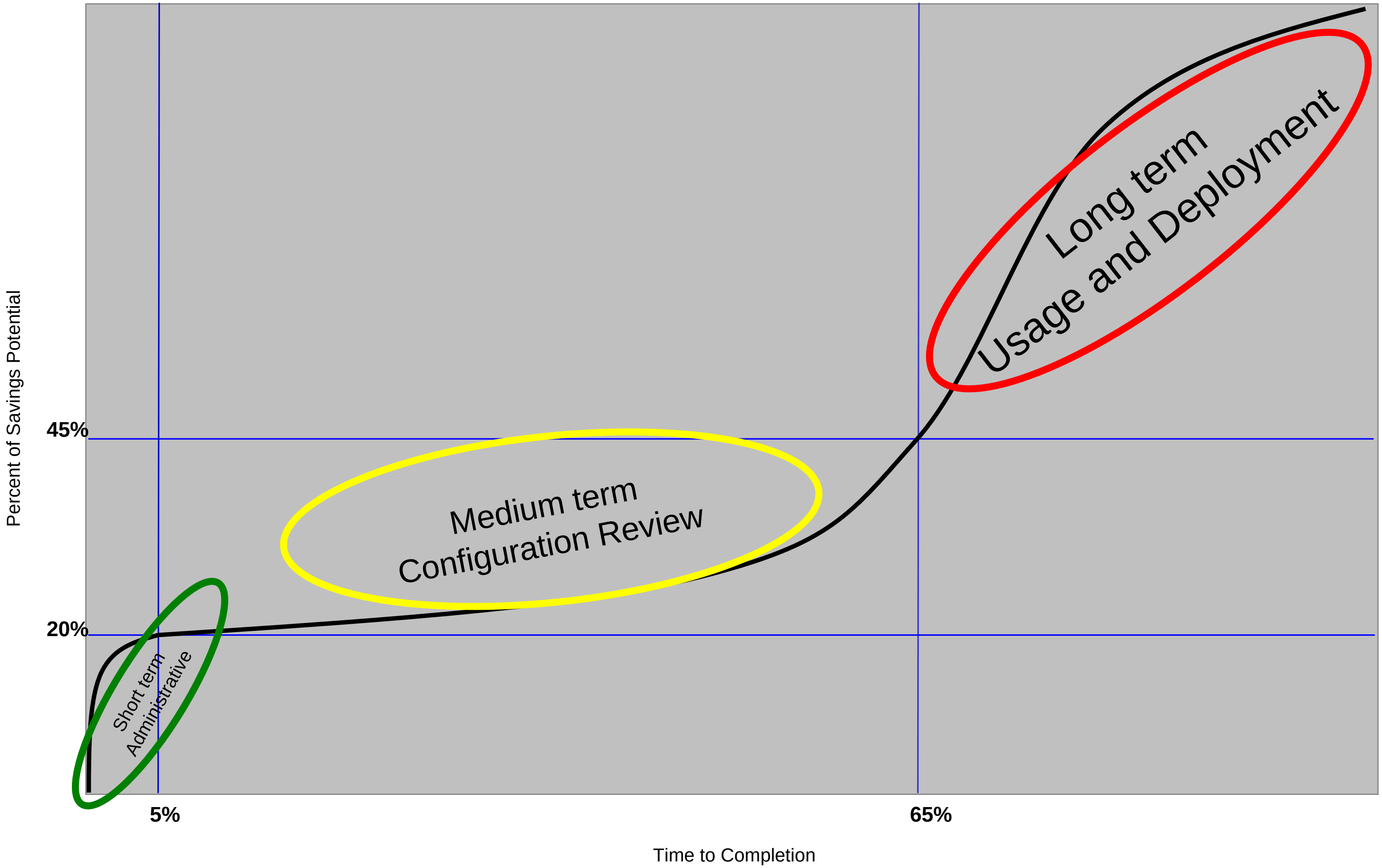
Best in class manage software costs in 3 strategic stages and activities



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Conclusions

- Software costs continue to rise
- Software unit costs are falling rapidly
- Software industry is consolidating
- IBM is growing its market share at the expense of ISVs
- Manage product inventory
  - Eliminate
  - Consolidate
  - Negotiate

"Knowledge Maximizes Value…. Create Savings through Knowledge"

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