

Digging out of the Software Trap

Buying a software license is becoming a costly and complex process. A typical purchase means paying upfront for the license and then paying regular maintenance fees to cover software patches, upgrades and help desk support. Advances in hardware technologies have increased the license and maintenance fees—usually because of the underlying software licensing metric on which the software procurement contract is based.



For example, software license and maintenance fees are often based on the number of hardware processors that the software runs on. As the number of cores within the processor increase, the software fee could increase, whether or not the software application design leverages the multi-core processors to drive true business value. As a result, companies with software procurement contracts that are based on processor as the licensing metric, have a harder time predicting their annual software costs

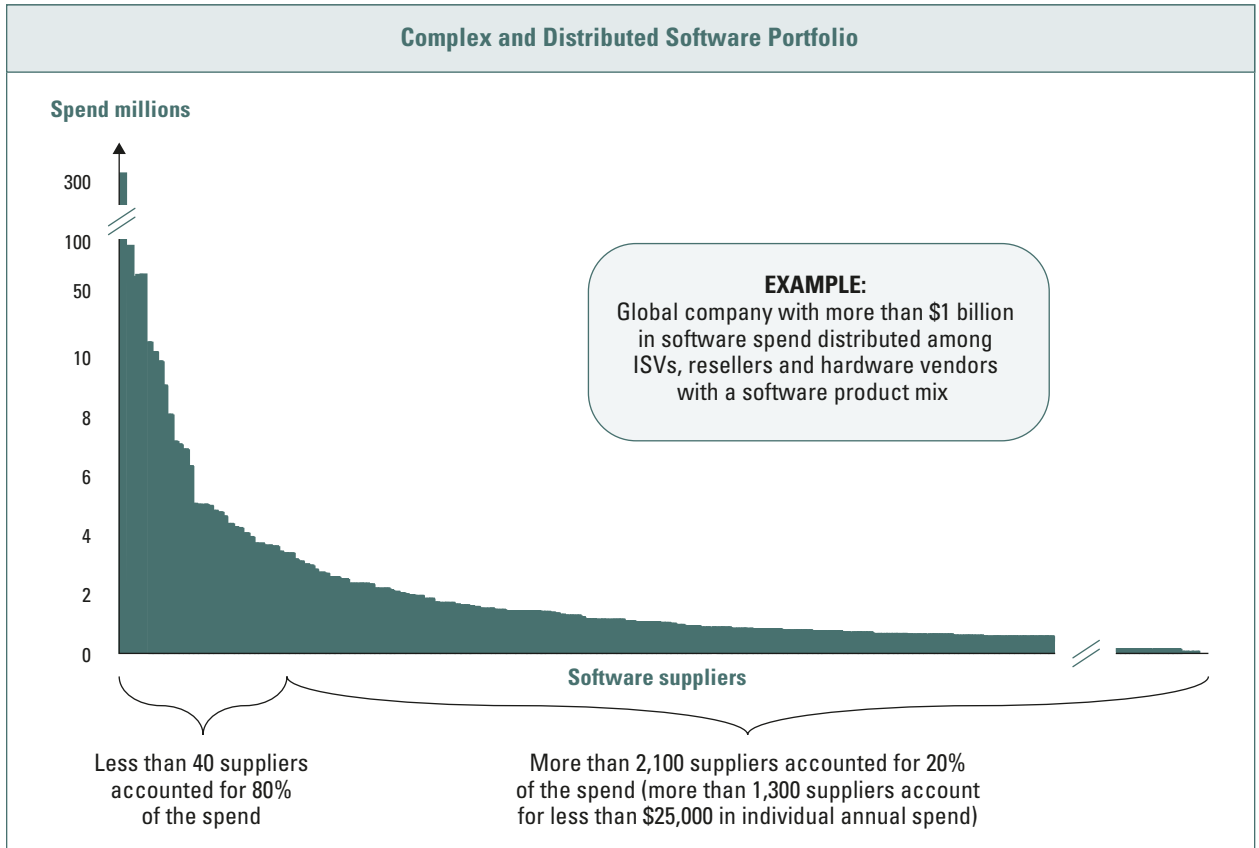
The problems are exacerbated by the proliferation of software applications. When employees can choose software based on their own preferences, it drives unchecked growth in the overall software portfolio. Also, lack of enterprise-wide standards on software products and vendors, and loopholes in procurement processes will increase the complexity in a company's software portfolio. Indeed,

one of our global clients had a \$1 billion software spend distributed among numerous vendors, including independent software vendors (ISVs), resellers and hardware companies that sell software products. When we analyzed their software portfolio, we found that less than 40 of these vendors accounted for 80 percent of the company's software spend, while more than 2,100 accounted for 20 percent of the spend. Out of those 2,100 vendors, more than 1,300 accounted for less than \$25,000 in individual annual spend (see figure 1).

Software vendors have heard the complaints and many have responded accordingly. For example, both Oracle and Microsoft have simplified their licensing models to address customers' concerns about licensing for multi-core processors. But the complexity of software portfolios and the predictability of license and maintenance fees must remain a key concern for CTOs,

More than ever, CTOs, CIOs and procurement professionals must work hand in hand to develop software portfolio strategies and adopt appropriate licensing models so not to strain their software budgets.

FIGURE 1: Software Portfolio Distribution



Source: A.T. Kearney

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Make Things Easier

There are some quick ways to extract a company from the software trap. For instance, optimizing software contracts with a mega software vendors such as Microsoft, Oracle, SAP or IBM can result in some quick savings. A company that spends \$40 mil-

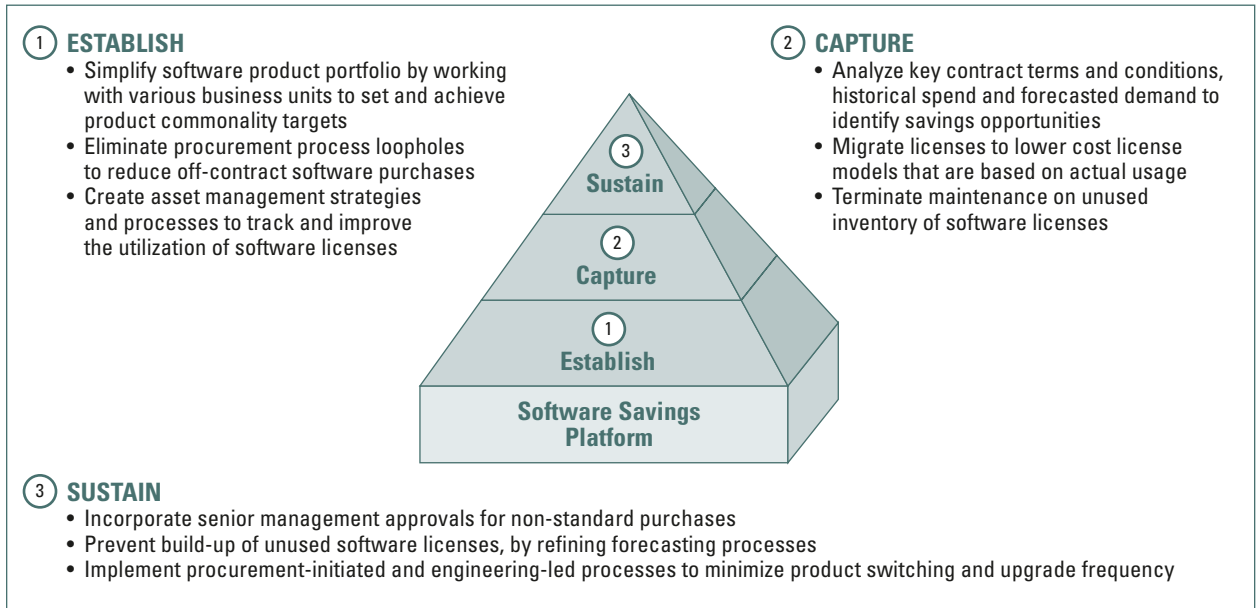
lion a year on a mega software vendor could quickly realize 10 to 20 percent savings on the addressable spend.

Longer term, however, companies will want to rationalize their entire software portfolio and standardize their applications. Rationalization efforts are usually based on application reduction targets derived from industry benchmarks and a holistic analysis of software portfolios according to supplier, product and spend concentration across various functional markets. Rationalization enables an optimized

cost structure and drives down software license cost through volume aggregation. Depending on the company, the savings can be in the range of 10 to 25 percent of a company's addressable software spend.

A simplified software product portfolio coupled with tight procurement processes and asset management strategies forms the basis for a software savings platform. Savings capture is usually achieved through a combination of optimizing contracts for new licenses and reducing maintenance spend on existing

FIGURE 2: A.T. Kearney Software License Management Approach



Source: A.T. Kearney

licenses. Process improvements in the areas of demand management are instrumental in sustaining the captured savings (see figure 2).

Essentially, there are five basic objectives:

- Reduce product portfolio complexity in accordance with enterprise platform strategies
- Eliminate unnecessary spend on

point software products

- Reduce “contract” portfolio complexity and internal procurement costs
- Achieve market-competitive prices and discounts to minimize costs
- Align software spend with enterprise cash-flow and financial objectives

Of course there is no silver bullet to getting out of the software

trap. It will require a disciplined approach, CEO commitment, and collaboration among the CTO, CIO and procurement professionals. But in the end, the effort will be worth the result—significant, sometimes double-digit, cost savings.

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