BUILDING THE NEW BUSINESS CASE FOR ITAM

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White Paper

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IT Asset Management (ITAM), as defined by ITIL, is the process for tracking and reporting the value and ownership of financial assets throughout their lifecycle. ITAM is a critical discipline that organizations should embrace to better manage and optimize their IT assets, because this practice leads to significant cost savings, risk reduction and greater business efficiencies. When organizations fail to take ITAM seriously, they are simply rolling the dice and leaving everything to chance.

Many IT Asset Managers wish to improve their ITAM programs; however they struggle with obtaining executive buy-in, sponsorship and funding to make this happen. What are the common internal obstacles? Do any of these responses sound familiar?

"ITAM is not on the priority list for our CIO."
"We don't have enough resources, and our existing team is already overburdened."
"We can't get budget approval to bring in better tools."
"There is not enough internal cooperation from other teams for our ITAM processes to be effective."
"Our leadership team doesn't see the benefits of investing in a formal ITAM program."

The underlying issue is that many senior executives view ITAM as a cost burden rather than an investment in their business. Due to this pervasive point of view, the IT Asset Manager must prove and communicate to the leadership team the ITAM value proposition: that a solid ITAM program will lead to significant cost avoidance and savings opportunities, and represents an investment in the business. The IT Asset Manager must develop a strong business case to gain executive buy-in and sponsorship, educating the leadership team about the organization's ITAM requirements, expected benefits, risks and ROI. What are the steps the IT Asset Manager must take to generate a new, more compelling business case for ITAM?

Industry Statistics

As a first step, let's review some important industry statistics that have appeared recently in the publications and presentations of a leading IT industry analyst firm:

- Year #1 savings from a robust ITAM program: 30%
- Software licensing and hardware maintenance charges for assets no longer in use: 20%
- Companies that fail software audits after implementing virtualization, due to poor ITAM programs: 70%
- Potential savings from unnecessary software maintenance and support: 10%–20% per year

Each of these individual statistics is compelling, but collectively they are staggering.

Another compelling statistic was presented at the SAM Summit 2013 in Chicago, where a panel of executives from Fortune 500 companies stated that their ITAM teams spend 50–70% of their time on software audits annually. These statistics alone demonstrate the critical importance of a robust ITAM program and can be incorporated into the body of a business case.

Savings from a Robust ITAM Program

A company that establishes a formal ITAM program will realize significant cost avoidance and savings opportunities. Let's examine where these savings can be found.

Software licenses and maintenance represent one of the greatest opportunities for savings. Many organizations enter into long-term enterprise agreements with their leading software suppliers and typically do not use all of the software licenses to which they are entitled. This leads to a surplus in software and annual support or maintenance fees on licenses that are not deployed in the environment. In another example, when one department within a company is unaware of an enterprise agreement that is in place with a supplier, they

may order software outside of the agreement at a price greater than they would pay under the existing contract. Understanding compliance helps organizations consolidate their licenses and avoid unnecessary costs amidst merger and acquisition activities. In summary, having accurate, complete information on IT assets at their fingertips ensures that companies will pay only for licenses and maintenance that they need and use.

Over the past several years, software audits have been on the rise. Organizations with a robust ITAM program will spend fewer resources and less time preparing for these events. As the Fortune 500 panel stated, their ITAM teams spend up to 75% of their time on lengthy and costly audits.

Accurate and complete IT asset tracking and management also leads to a reduction in helpdesk support and associated costs, because there is no effort required for the support representative to research asset history when an end user contacts the helpdesk with a hardware or software issue.

In each of these examples, the result was significant cost avoidance and savings, and increased efficiencies for the business.

Risk of Doing Nothing

Not only are there significant cost savings associated with improving an ITAM program, but there are also risks associated with doing nothing. What are the major risks?

Non-compliance with software supplier agreements presents a great risk. Companies that are found to be out of compliance with their suppliers can face financial penalties, exorbitant license fees that are not discounted and negative publicity. When organizations do not understand their compliance status with their software suppliers, they place themselves in a position of risk as they enter into contract negotiations and audits.

Failure to arrange for secure IT asset disposal presents another risk. In the absence of a process or partner to perform this service, a company risks losing highly confidential information on their hard drives and disposing of computer hardware in an environmentally unsafe manner. Many times these situations end up highlighted in the public media which, once again, results in negative publicity for the organization.

Building the New Business Case

Now that we have examined the cost savings and risks, let's review the process for building the new business case for ITAM.

1. Find a Champion

The first step is to find a champion. A champion is a visionary, evangelist and strong advocate for the business case. He or she understands the need for the business case and serves as a catalyst to raise awareness about the initiative. The champion provides a sense of energy and passion, demonstrates why the business case is important, rallies support for the cause and helps clear the path that lies ahead.

2. Identify Specific Gaps in Your ITAM Program

Once you have found your champion, identify the specific gaps in your program that need to be filled. Do you have enough skilled resources? Does your organization lack processes to track and manage IT assets through their entire lifecycle? Do you need more robust tools to discover IT assets, manage contracts and software licensing, and meter software usage? Do you have a repository in place that houses all your IT asset records? Is there adequate integration of existing processes and tools?

3. Know Your Audience

After identifying the specific gaps that need to be addressed, take the time to fully understand the point of view of your audience so that you can tailor a sales pitch that will resonate. Who is your audience? Do you have one audience, or multiple targets? The CIO, CTO, CFO, VP of IT Operations, VP of Procurement and IT General Counsel are examples of possible stakeholders who will need to hear and respond to your message. It will be important to identify and understand their pain points or hot buttons to build a convincing case. Consider building a unique sales pitch for each target audience.

4. Calculate the Cost and Risk of Doing Nothing

Presenting the cost and risk of doing nothing will draw attention to your business case. For example, failing an audit leads to unbudgeted and potentially unnecessary spending. Overpaying maintenance on software that is not being used creates an unnecessary expense. Entering into a negotiation with a leading supplier without complete, accurate information about your IT assets will probably result in unfavorable terms and pricing. Finally, being found guilty of non-compliance can lead to financial and legal issues for your company.

5. Recommend a Pilot Program

The next step is to recommend a pilot program that will demonstrate a quick win. Determining your compliance position with a leading software supplier in advance of an audit or contract negotiation presents a great opportunity to demonstrate cost avoidance. Performing a self-audit for IBM, Microsoft or Adobe licensing is a great way to begin, since it will typically uncover some level of unnecessary spending. Is there a better way to demonstrate the value of your ITAM program?

Following the process we just described will help change the perception of ITAM from a cost center to an investment in the business. A cost center implies a reactive approach, while an investment involves the type of proactive approach indicative of the maturity level you will need to achieve with your ITAM program.
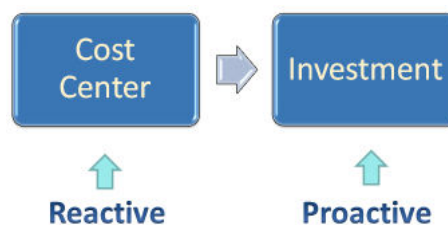
Components of a Business Case

What are the key components of a standard business case?

- *Executive Summary* – states the reason for the business case and a high-level description of the recommendation
- *Business Requirements* – describes the detailed needs of the business that must be addressed
- *Financial Analysis & Benefits* – calculates the expected financial savings and/or cost avoidance and includes the Cash Flow Analysis, Payback Period and Return On Investment (ROI)
- *Alternatives and their Business Impact* – presents additional options to the recommended approach and how these options will affect the business, both positively and negatively
- *Recommendations with Implementation Plan* – outlines the proposed approach and specifically how it will be deployed
- *Timeframe to Realize Benefits* – indicates the points in time that specific financial and soft benefits will occur

Typically, the Financial Analysis and Benefits component is the most challenging section to create. In this section, it is important to include a Cash Flow Analysis, Payback Period and Return on Investment (ROI). Here are some specific tips:

- The Cash Flow Analysis should consist of proposed as well as "business as usual" pricing, and answers to these questions:
    - What is the problem you are trying to solve?
    - What is the business opportunity?
    - What risks are associated with each option?
    - What is the risk of doing nothing?
    - What business value is generated from each option?
- It is imperative to use your company's standard Cash Flow Analysis model rather than create a new model unfamiliar to your Treasury, Finance and other Senior Executives.
- Know and understand how your company views real and soft savings included in your Cash Flow Analysis.
- Be aware of the business and budget planning cycle. Even the strongest financial analysis could be rejected if it is evaluated outside of your planning cycle.
- Produce both a summary and a detailed version of the Cash Flow Analysis, retaining the detailed model for non-executive discussions.
- The Payback Period should be 12 months or fewer, or the financial team may lose interest.
- The ROI section should include an assessment of cost and savings, measure real and soft ROI, establish a value to these measurements and provide both the Net Present Value and the Internal Rate of Return.

Selling the Business Case

Now that you have completed the business case, it is time to present it to your leadership team. Selling the business case is just as important as building it. It is important to understand and counter objections, understand each stakeholder's reservations and have a plan of attack to address each one. Work with your champion to continue to sell after the business case is approved. Finally, prove that the recommended pilot project is delivering the expected benefits.

Case Studies

The following are examples of actual companies that launched pilot projects which led to increased sponsorship and funding for their ITAM programs.

Fortune 1000 Pharmaceutical Company

A Fortune 1000 pharmaceutical company received a letter from an external auditor indicating that their software supplier was requesting an audit. Knowing that they did not understand their compliance position with this publisher, the company engaged an external consulting firm that specialized in software licensing. During the engagement, the firm determined that the company would owe their publisher $25 million if they did not change some of their licensing schemes. After some licensing adjustments, the consulting firm brought this exposure down to $500,000.

This particular scenario served as a pilot program for the firm to demonstrate the value of ITAM. The significant cost avoidance achieved caught the attention of the leadership team, who then allocated more budget to the ITAM program. This additional funding was used to determine their compliance position with their high-risk vendors and to revamp their Software Asset Management processes.

<u>Fortune 500 Telecommunications Provider</u>

A Fortune 500 global telecommunications firm has many large enterprise software agreements in place with leading publishers. It was challenging to track, manage and optimize the licenses associated with these agreements, so the company decided to try a pilot program, outsourcing the management of one of their largest enterprise contracts to an external Managed Services provider. This provider engaged their experienced contract and license analysts to help the company understand their entitlements, deployments and compliance position with the publisher. With a thorough understanding of software licensing as well as this particular enterprise agreement, these analysts uncovered a cost avoidance of $7 million in software licenses that the company believed they needed to purchase; however due to product use rights, the company actually already had access to limited use of the product they required. In another scenario, the license analysts discovered a harvesting opportunity whereby the company could reuse licenses that were deployed on retired computers; this saved the company $10 million.

This pilot program was so successful that the company was able to secure funding to outsource the management of their other large software contracts, which has provided significant cost avoidance on software licenses and maintenance, as well as the ability to reallocate resources to other important internal initiatives.

Summary

In conclusion, make sure that your business case addresses a pain point that the decision-makers are experiencing. Understand both the hot buttons and objections of your target audience and be in a position to address each one. Use a financial model to calculate the cost savings and factor in risk and compliance issues. Establish a pilot program that will quickly demonstrate value. Finally, measure and communicate the results of the pilot project to promote further executive buy-in and sponsorship of your ITAM program.

About Siwel

Founded in 1992, Siwel is a woman-owned business that has been developing and implementing successful IT Asset Management solutions for Fortune 500 and middle market companies since 1998. The Siwel team has learned that to be successful you must be "Data Smart" - your ITAM program must combine rich business intelligence with business analytics that enable your organization to support important strategic and financial decisions. Whether you engage Siwel for help with tools, data, contracts, processes, managed services or just industry best-practices, your organization will benefit from the support and services of the foremost experts in the field.

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