



The Need for Visibility and Control of Software Assets

U.S. companies are overspending an estimated \$12 billion on commercial software each year. Here is how software license optimization programs and solutions can significantly change that scenario.

Many large enterprises have only a limited understanding of how many software licenses they have purchased, how much of their licensed software is actually being used on a daily basis, and where or how much they are overspending or underspending on commercial software.

At a time when information technology (IT) organizations are operating on tight budgets and so many technology projects are being closely scrutinized by the finance department to keep costs down, this lack of visibility and governance into license compliance and software spending is counterproductive. Furthermore, the lack of insight into an organization's license position also presents serious risks associated with software vendor audits.¹

Companies need to institute a software asset management and license optimization program that includes not just a technology solution, but also a change in processes and the addition of people who are experts in software governance and licensing. This kind of thorough program can help organizations improve their management and use of software

licenses. As a result, they can potentially save huge amounts of money. At the same time, these programs and technology solutions can help enterprises maintain license compliance and mitigate risk.

CURRENT SOFTWARE LICENSING ENVIRONMENT: LOTS OF WASTE

Software licensing can account for a significant share of all IT spending, **as much as 30 percent** according to some estimates. While business software is clearly a strategic asset for companies—running operations such as finance, human resources, sales, customer management, distribution, etc.—many organizations do not have a program in place or a commercial solution to manage and optimize software license spending.


Instead, they rely heavily on manual processes. Due to the complexity of today's highly dynamic, virtualized IT environments, combined with

¹ Software vendor audits are not related to AICPA audits.

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the complexity inherent in license agreements and models, companies are not able to achieve the goal of effectively managing software assets. Even those organizations that do have a software asset management program in place in many cases have not combined their efforts to entrench both people and processes into that program.

“Software license complexity will indirectly cost organizations an average of **25 percent of their software license budgets by**



“SOME OF THE BEST POTENTIAL COST SAVINGS AND NONCOMPLIANCE RISK REDUCTION CAN COME FROM BETTER MANAGEMENT OF DATA CENTER SERVER SOFTWARE. THIS IS ESPECIALLY TRUE IF YOU HAVE A LARGE, HIGHLY VIRTUALIZED DATA CENTER.”

—Paul Baguley, KPMG LLP

2015,” says Amy Konary, research vice president at IDC.²

A survey by independent research firm Opinion Matters shows that companies in the United States overspend on commercial software by an estimated **\$12.3 billion each year.**³

Organizations in many cases are not able to answer even basic questions about their software, such as which assets they own, how and where they are deployed, how much the assets are costing the company, and whether they are licensing and using software in a cost-effective manner.

This is particularly true in the datacenter server environment, where software is typically expensive and the IT infrastructure can be highly complex. Trends such as the growth of server and storage virtualization, the use of server clusters, and the need for high availability have added to the complexity of data centers in recent years. Along with this infrastructure complexity comes license model and software product use right complexity, with rules for virtual use, backup/failover rights, and more.

While licensing models for datacenter software might become less daunting in the long run with the advent of cloud subscription services, for the foreseeable future there will be a complex mix of licensing metrics and software delivery models companies will need to manage. For example, some software applications will be on premises, some will be on private clouds, and others will be on public clouds.

When companies do attempt to manage their software licenses today, in many cases they do so in a disjointed and often highly manual way. Individual processes throughout the software life cycle are handled by separate departments within the company, and as a result are often inconsistent, disorganized, and disparate.

This results in inaccurate data about software license entitlements, deployment, and usage. Having inadequate tracking processes can lead to inconsistent software versions and ineffective software patching and support. Furthermore, not having a full understanding of which software is deployed, and where, can increase the risk of security breaches as well as license compliance issues.

Without centralized governance and management of software licenses, it is easy for companies to over-purchase software and difficult for them to reharvest unused, transferable licenses. That leads to significant wasted spending. Business units and subsidiaries also end up buying software outside of negotiated corporate agreements, which means they miss out on opportunities for the lower costs made possible with volume discounts. There is also a risk of having lots of “shelfware,” or purchased software applications that are never deployed.

In addition, a poor understanding of software maintenance agreements can add to costs over time. Organizations often acquire different maintenance agreements for multiple instances of the same software application at disparate prices, or enter into maintenance agreements in which the annual cost continues to increase.

For example, many companies fail to leverage license entitlements called “product use rights,” which can allow software to be installed for nonproduction use under the same license as the production server. This adds unnecessary software expenses. Other use rights allow software to be installed on multiple virtual machines under a single license and allow use on a desktop and laptop that have the same primary user, for example.

In general, a lack of software license governance can lead to misaligned policies and processes, and can make the ongoing management of software a challenging and costly endeavor for any organization. Industry research indicates that companies are wasting a lot of money because of software license management shortcomings.

² “Market Analysis Perspective: Worldwide Software Licensing and Provisioning, 2014” presentation, December 2014, posted on IDC.com.

³ Software Efficiency Report 2011, conducted by Opinion Matters, published by 1E: Empowering IT Efficiency on May 25, 2011.

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The move to the cloud and software-as-a-service (SaaS) might alleviate some license compliance concerns. But there are still major challenges around cost control. And the emergence of public and hybrid cloud environments as part of the IT infrastructure present significant visibility and control challenges.

SOFTWARE LICENSE OPTIMIZATION CAN LEAD TO BIG SAVINGS

Enterprises that are grappling with these challenges today can deploy an on-premises or cloud-based software license optimization and asset management solution, which provides the proactive management of a company's software estate and offers increased visibility into software licenses.

These solutions can help companies improve their asset utilization, cut costs, and maintain license compliance. They are designed to help reduce overall software spending, while at the same time managing the risk of noncompliance with enterprise software license agreements.

Software asset management requires the reconciliation of software inventory with license purchases, while taking into account the license agreements that determine how the software can be installed and used.

Software license optimization and asset management solutions provide automation around inventory, purchase order processing/entitlements, and apply use rights to reduce consumption during the license reconciliation process. In fact, automation is one of the key attributes of a software license optimization and asset management solution because it eliminates the need for cumbersome and error-prone manual efforts to track licenses.

These solutions can help enterprises to have much more visibility and control of their IT assets, which in turn reduces ongoing software costs and the risk of noncompliance with license regulations.

Software asset management enables companies to manage license data throughout the seven stages of the software life cycle, from the initial contract negotiation with a vendor to end of life of the software application. With an effective solution in place, companies can have a central point where data is gathered, monitored, and processed to allow for informed business decisions. They can therefore avoid the problem of having individual processes performed by separate departments, and the resulting inconsistencies and errors.

When choosing a partner that can provide and implement a software license optimization solution, it is important to select a company that has extensive experience with deploying software asset management and software license optimization solutions in a variety of industries and a range of complex IT environments.

Ask key questions, such as whether the vendor has a team of specialized software license management professionals who understand licensing metrics and software asset management processes, and whether the team can support the needs of a global business. Also, ask to see customer references, particularly in a similar industry. If the solution provider is working with a systems integration or consulting firm, help ensure that the companies work as a cohesive unit when deploying solutions.

BEST PRACTICES FOR DEPLOYMENT

When implementing the solution, consider taking a phased approach. This allows the organization to incrementally deploy capabilities of the solution and see benefits while gaining experience with the technology, before making a broader implementation to create more significant cost savings.

"It is a good idea to prioritize which software licenses you need to cover in the program," says Paul Baguley, a principal in KPMG LLP's (KPMG) Silicon Valley office and the U.S. lead for KPMG's Software Asset Management services. "It is not possible to cover everything, so prioritizing the high-spend, high-risk products is key."

As with any other major IT project, deploying this kind of solution requires having the right people in place and making the necessary changes in processes, adds Jim Ryan, chief operating officer at Flexera Software, a software licensing, compliance, and installation solutions provider.

"In my experience with companies that have leveraged this solution—whether it's a very large, multi-national corporation or a small department within a company—the key to success is clearly understanding everything you need to do to get the business outcomes you want," Ryan says.

"Like all projects, what you tend to see when things don't go well is an approach that includes buying the software and then spending a week or two tossing information into the solution and expecting it to magically spit out the answers you're looking for," Ryan says. "It's not that easy. You need people who can help you manage the project and who have some level of licensing expertise and know how the organization currently procures its software."

Ryan recommends that companies deploying software license optimization and asset management solutions involve not only IT management, but also senior finance and procurement executives.

And including process change is critical to success, Baguley says. "If you want to increase the value of these solutions you need to make sure you have business process change around the software life cycle, including license procurement, management, and retire-

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ment,” he says. “If you just put in a new solution with no change in processes, you are unlikely to have a successful implementation and really get value from the tool.”

A STUDY OF THE BENEFITS

Companies that have deployed these solutions are seeing significant benefits. One multinational corporation with operations in 130 countries has many independently operated business units, which makes IT asset management a huge challenge.

The company, which was overpaying for some software and also at risk of vendor license audits, wanted to reduce license compliance risk, more effectively manage IT assets, and be audit ready. It deployed a cloud-based IT asset management and license optimization solution, formed a group-wide asset management team, and launched a project plan to focus on five key software vendors and deliver consistent quarterly results.

Less than a year after starting the initiative, the company had realized multimillion-dollar savings for two key software vendors. A huge majority (95 percent) of its IT assets are now managed and have corporate-wide business unit transparency.

Another company, a global security vendor, integrated IT services for all business sectors into one IT organization. Prior to this, the company had disparate IT asset management and wanted to streamline for process efficiency and cost savings.

Among the challenges it faced were inconsistent hardware and software management, an inability to fully leverage IT procurement, and decentralized software contract management that limited the company’s ability to negotiate favorable terms.

The company implemented an asset management and license optimization tool, which enabled it to reduce license compliance risk and reduce spend from the desktop to the data center. By avoiding new license purchases, the company saved nearly \$1 million.

SUMMARY: NO TIME TO LOSE

This is no time for enterprises to be wasting money on software licenses or failing to meet license compliance requirements. Technology funding at many organizations is already tight, and IT executives are under pressure to keep costs down whenever possible.

Deploying a software license optimization and asset management solution can lead to benefits such as significant reductions in licensing costs by avoiding over-purchasing, increasing the ability to reharvest unused transferable licenses, and taking advantage of negotiated agreements that yield volume discounts.

This strategy can also help companies reduce their noncompliance risk and avoid the costs of noncompliance, by monitoring software license compliance and reports. They can also improve process governance and efficiency around the management and use of software from the time it is purchased until it is retired from use, leading to the possibility of redeploying IT staff resources for other business critical IT projects.

Surprisingly, many companies do not put a high priority on managing their software licenses. “It is an area that people do not pay enough attention to,” Baguley says. “There is always an assumption that someone is on top of this,” but that is often not the case.

IT and business executives have an opportunity to change that scenario with the latest software license optimization and asset management solutions.

To learn more about how your organization can benefit from deploying a software license optimization solution, visit www.kpmg.com/us/flexerasoftware.

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