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How the Economy is Affecting SAM

Michael Swanson
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NASHVILLE, TN
MAY 9TH - 11TH

Summary

- Global economic downturn will not mitigate demand for IT.
- Technology will continue to follow Moore's Law (roughly every two years, the number of transistors on microchips will double) will bring new capabilities and possibilities
- IT is neither fully mature in technology or market saturation
- Growth in IT maturity & saturation will lead to more software licenses to manage
- Growth in software will require smarter SAM

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Agenda

1. Global Economy
2. Technology Growth
3. How Does the Economy Affect the Software Asset Management industry
4. How Will the SAM Manager respond

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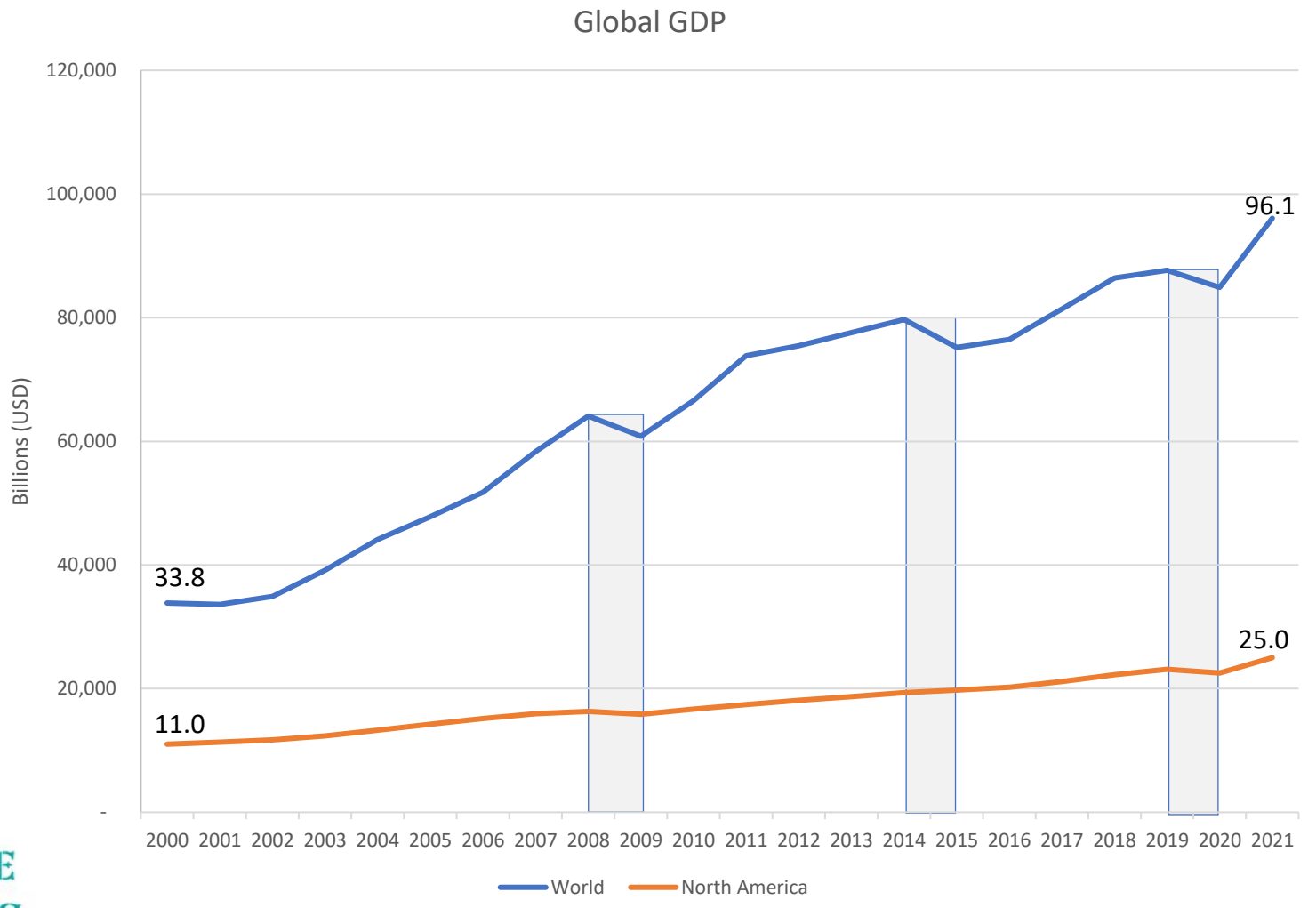
Global GDP is growing 5.1% p.a. since 2000
North America GDP is growing 4.0% p.a.



Source: www.macrotrends.net

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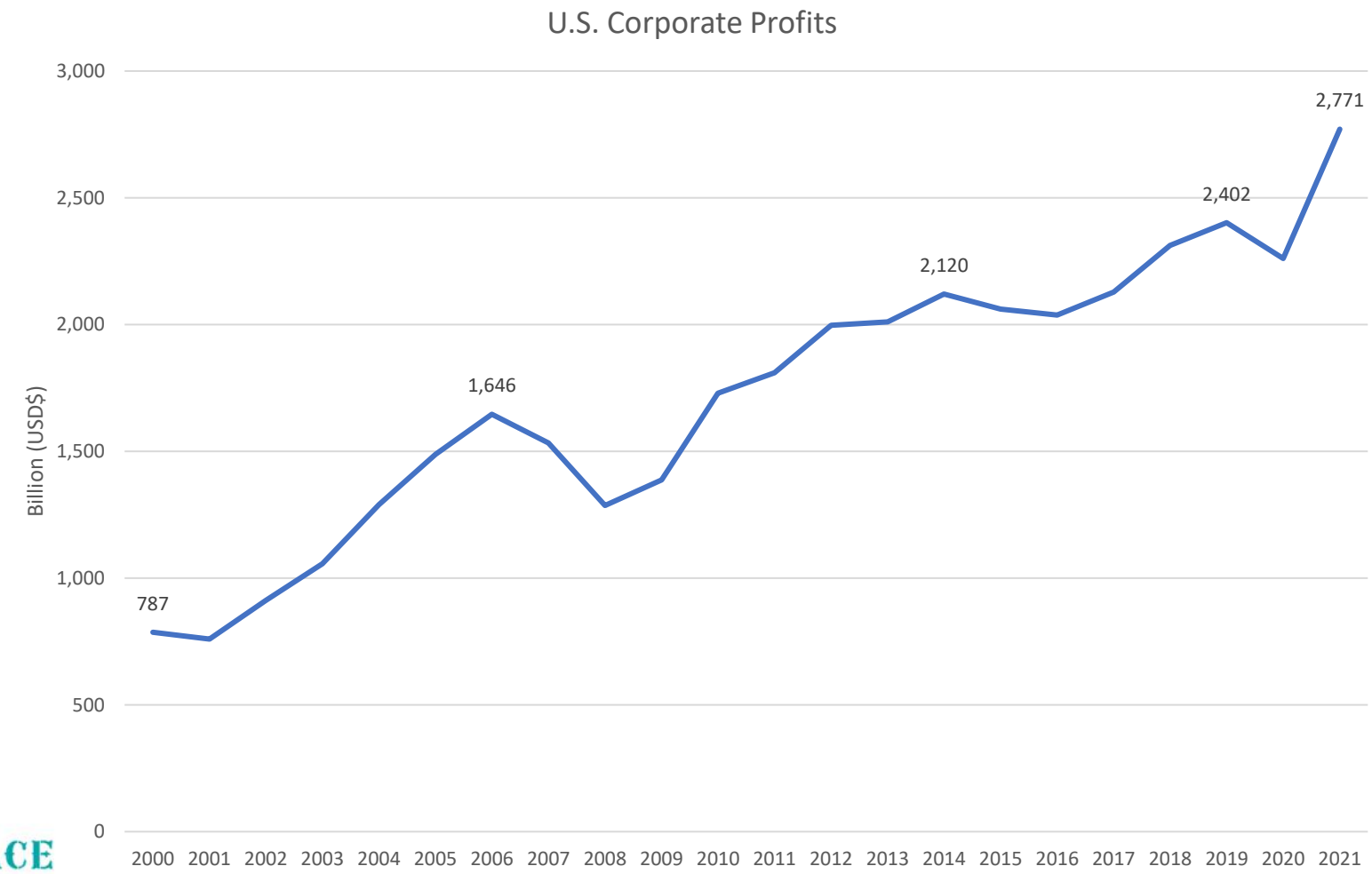
U.S. Corporate profits grew by 6.2% p.a. since 2000



Source: Corporate profits with inventory valuation and capital consumption adjustments of the BEA. (www.bea.gov)

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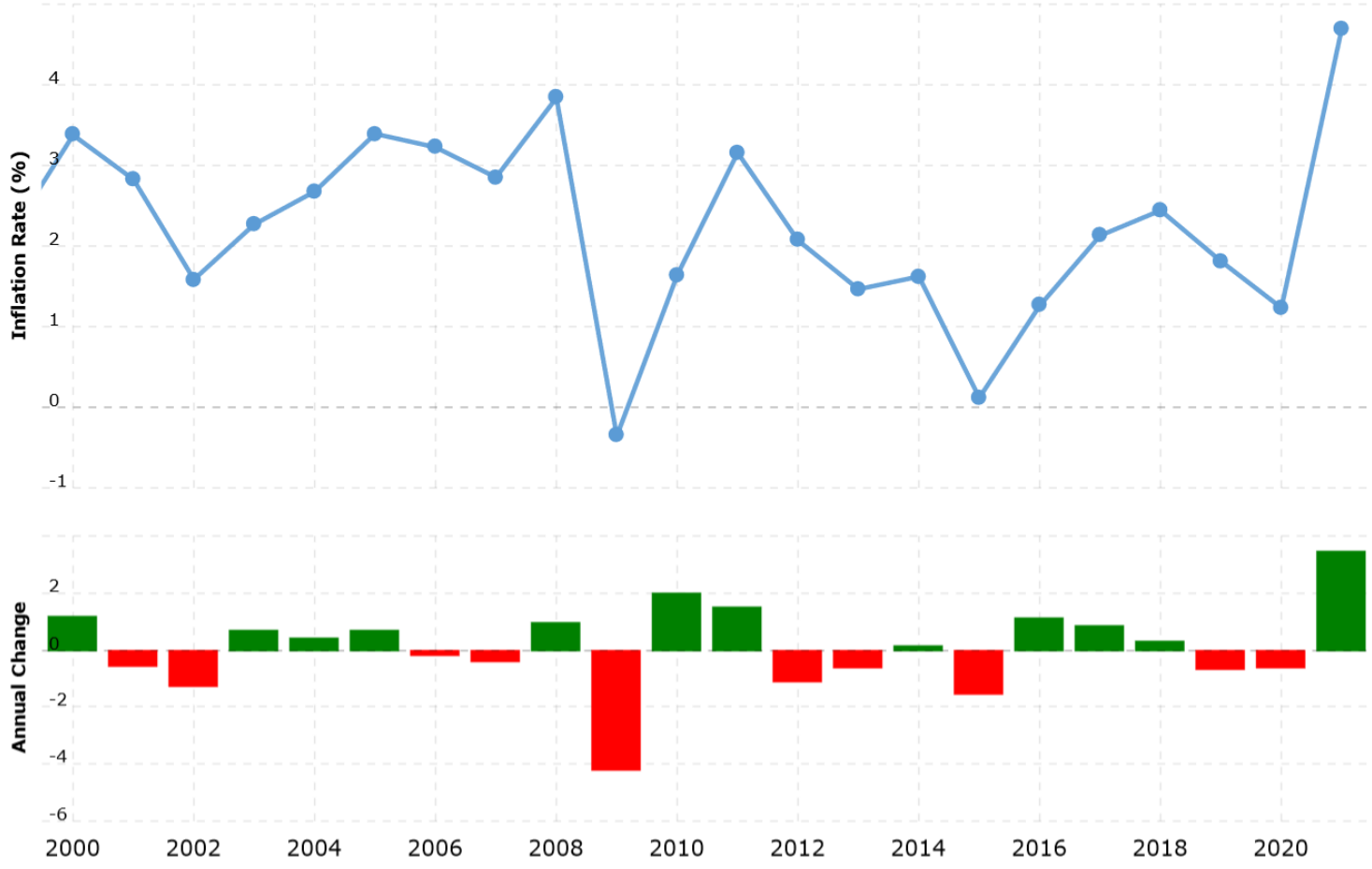
U.S. Inflation has averaged 2.2% p.a. since 2000



Source: MacroTrends / World Bank. (www.macrotrends.com)

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Dow Jones Industrial Average has grown by 5.3% p.a. since 2000 (11.8% p.a. since 2009)

Source: www.macrotrends.net

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Stock Market – U.S. Market

Sector Trends

Which sectors have driven the changes within the U.S. Market?

Returns | Valuation

7D | 1M | 3M | 1Y | 3Y | **5Y**

US Market	36.05%
Tech	95.51%
Healthcare	46.59%
Consumer Staples	34.30%
Industrials	26.93%
Utilities	26.72%
Consumer Discretionary	26.31%
Materials	24.01%
Financials	19.85%
Real Estate	13.94%
Energy	10.64%
Telecom	4.35%

Source: www.simplywall.st

Which sectors have driven the changes within the U.S. Market?

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Stock Market – Tech sector

Industry Trends

Which industries have driven the changes within the U.S. Tech sector?

Returns | Valuation

7D | 1M | 3M | 1Y | 3Y | **5Y**

US Market	36.05%
Tech	95.51%
Tech Hardware	178.47%
Software	117.01%
Semiconductors	87.94%
IT	51.04%
Electronic Equipment and Components	42.01%
Communications	20.85%

Source: www.simplywall.st

Which sectors have driven the changes within the U.S. Tech sector?

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Stock Market – Software sector

Industry Trends

Which industries have driven the changes within the U.S. Tech industry?

Returns | Valuation

7D | 1M | 3M | 1Y | 3Y | **5Y**

US Market	36.05%
Tech	95.51%
Software	117.01%
Systems Software	149.71%
Application Software	69.98%

Source: www.simplywall.st

Which sectors have driven the changes within the U.S. Tech-Software sector?

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Technology Innovation is impacting every part of society

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Growth in Commerce follows Transportation modernization

Transportation Modernization → Commerce

1700s: Stagecoach travel across U.S. took 25 days or 6 months by wagon

mid 1800s: Railroad, 4 days to cross U.S. by 1880

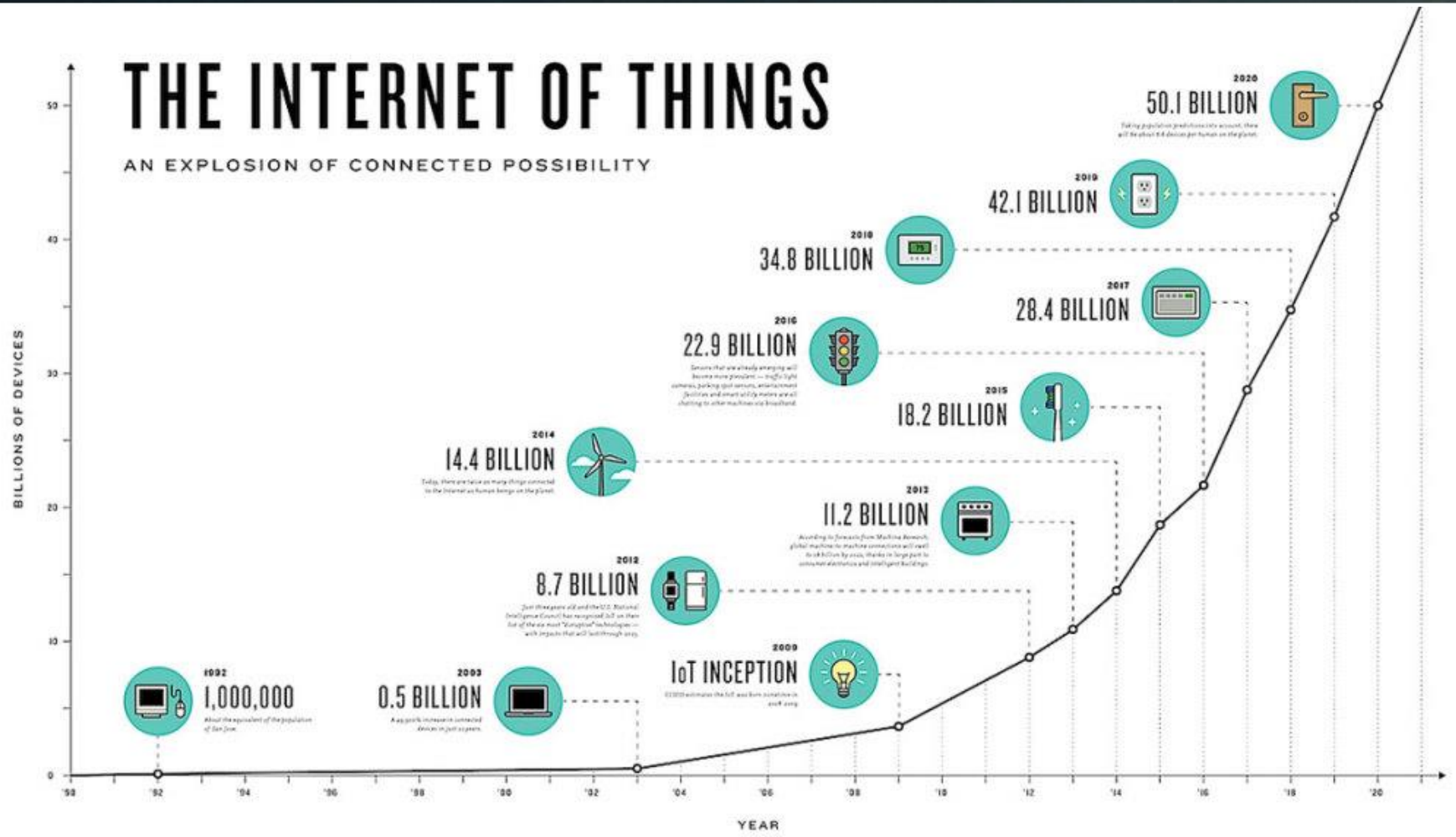
1913: Ford Motor Company introduced assembly-line mass production

1956: President Eisenhower signed legislation funding the construction of the U.S. Interstate Highway System (IHS)

1978: Airline Deregulation Act

1991: World Wide Web introduced

Growth in IoT has exploded from 0.5 billion devices to over 50 billion since 2000



Source: Internet of Everything: The IoT Market Is Projected to Expand 12x from 2017–2023 (www.medium.com)

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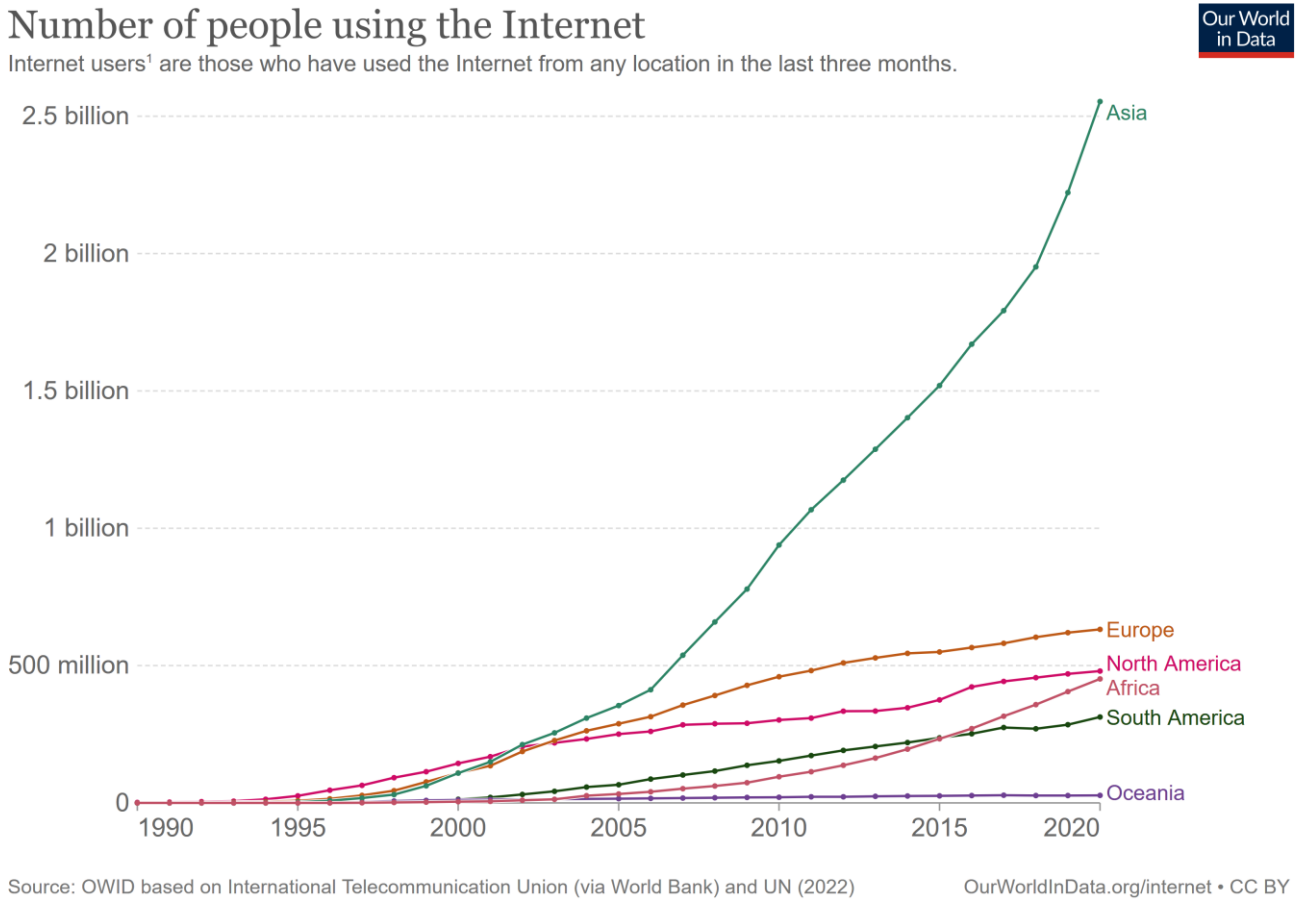
Internet usage has grown from 248 million to 5.5 billion users (2000 - July 2022)



1. Internet user: An internet user is defined by the International Telecommunication Union as anyone who has accessed the internet from any location in the last three months. This can be from any type of device, including a computer, mobile phone, personal digital assistant, games machine, digital TV, and other technological devices.

Source: Our World in Data (www.ourworldindata.org)

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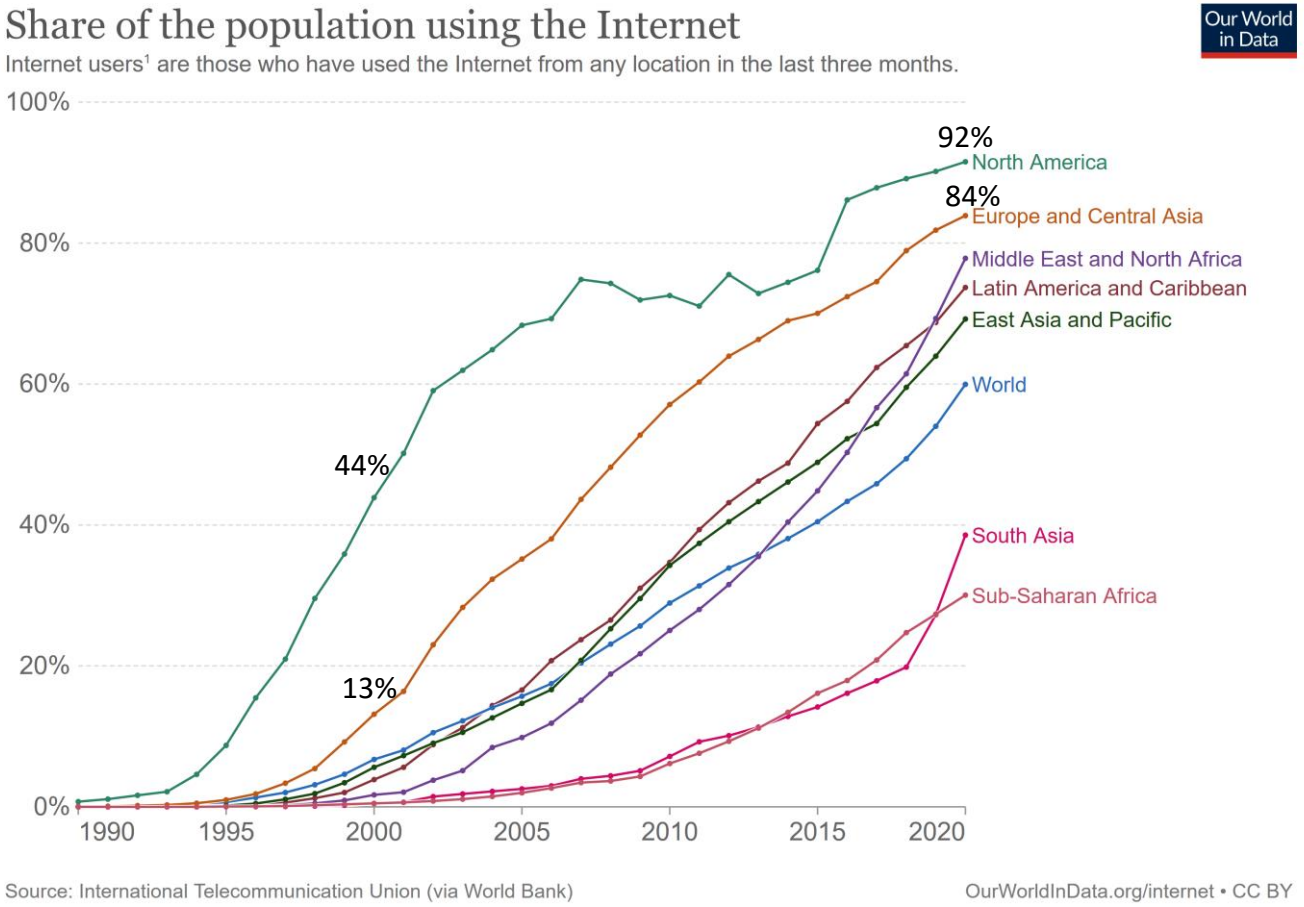
Internet usage has grown across globally with North America having the highest usage as % of population



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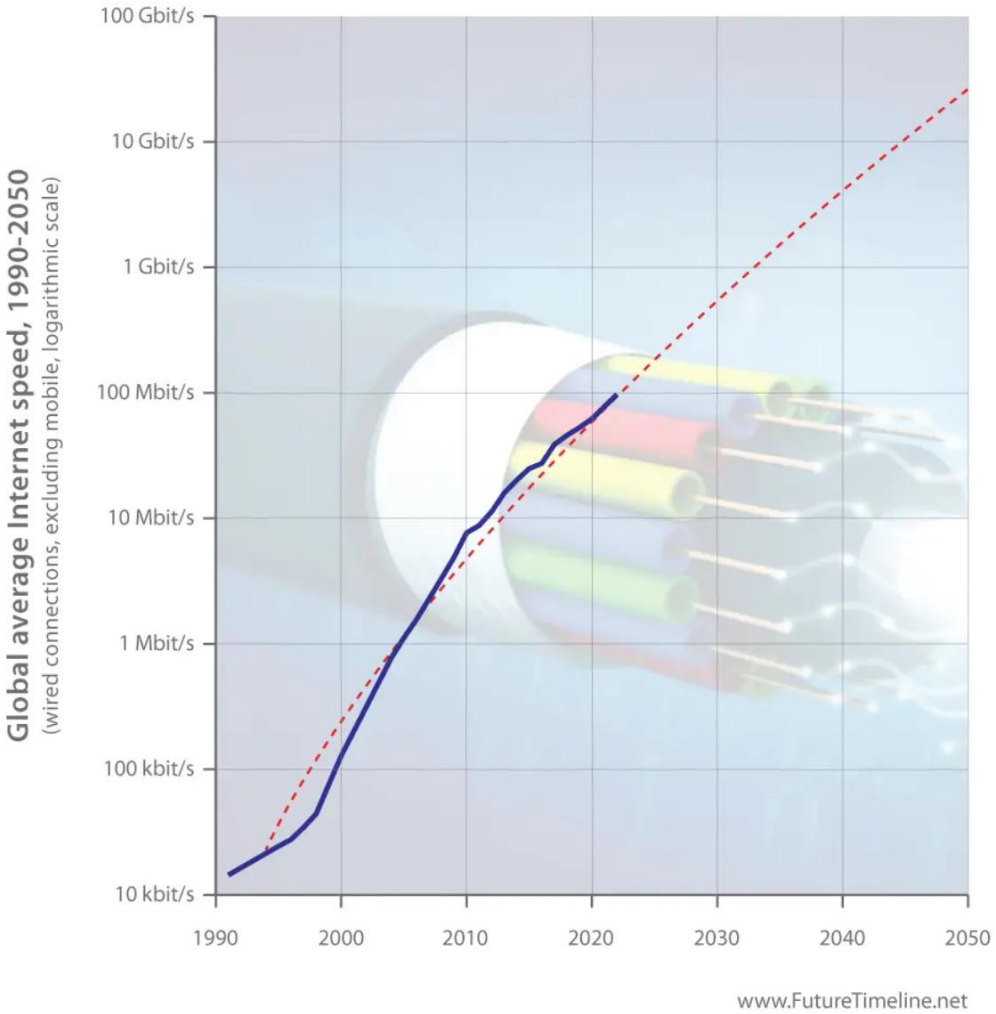
Average Global Internet speed has grown from 100 kbit/s to 100 Mbit/s – and growing by 20% p.a.

Global Average Internet Speed, 1990-2050



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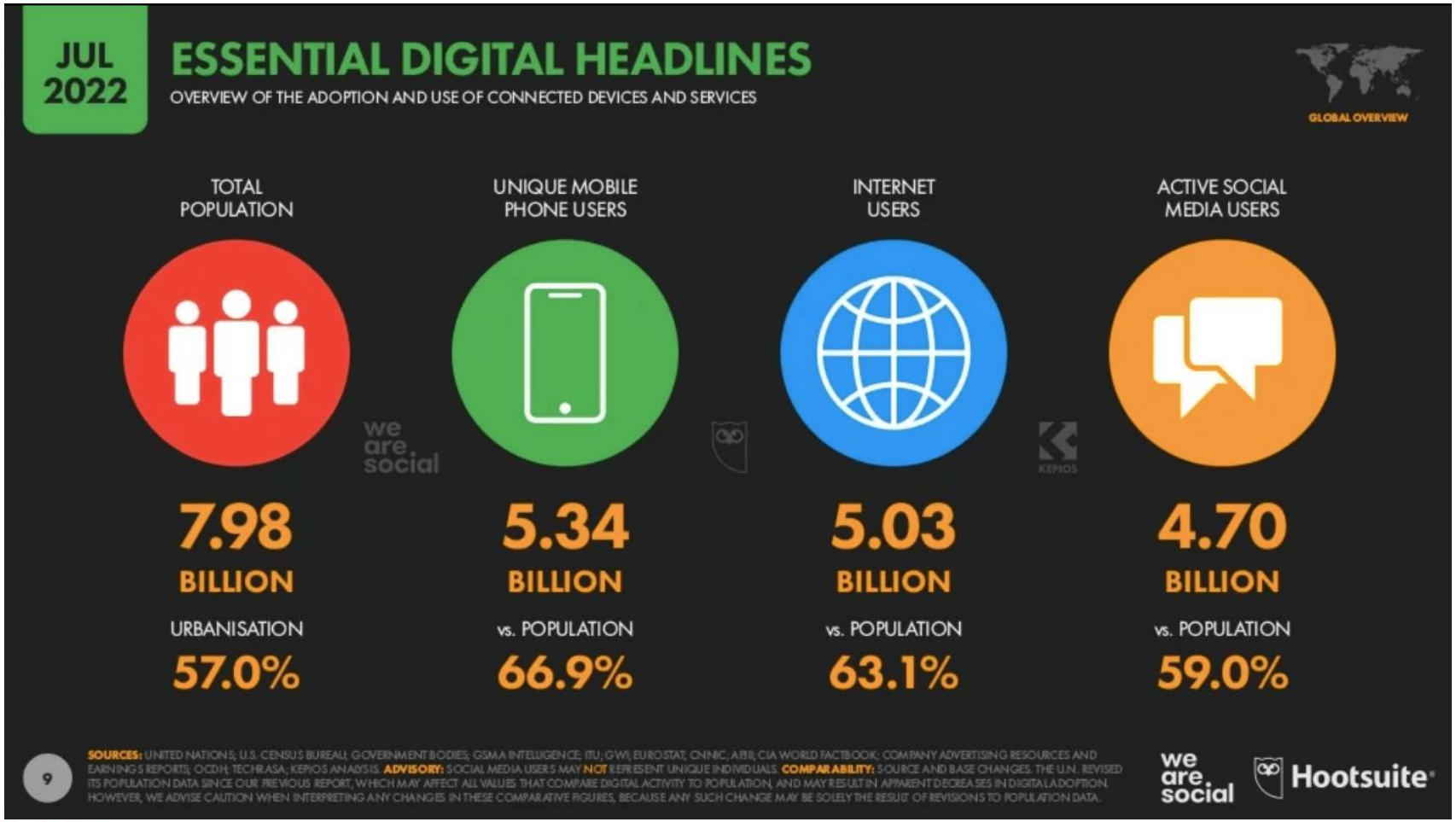
Growth in Technology is creating growth in: Mobile Phone users, Internet users & Social Media users



Source: Smart Insights (www.smartinsights.com)

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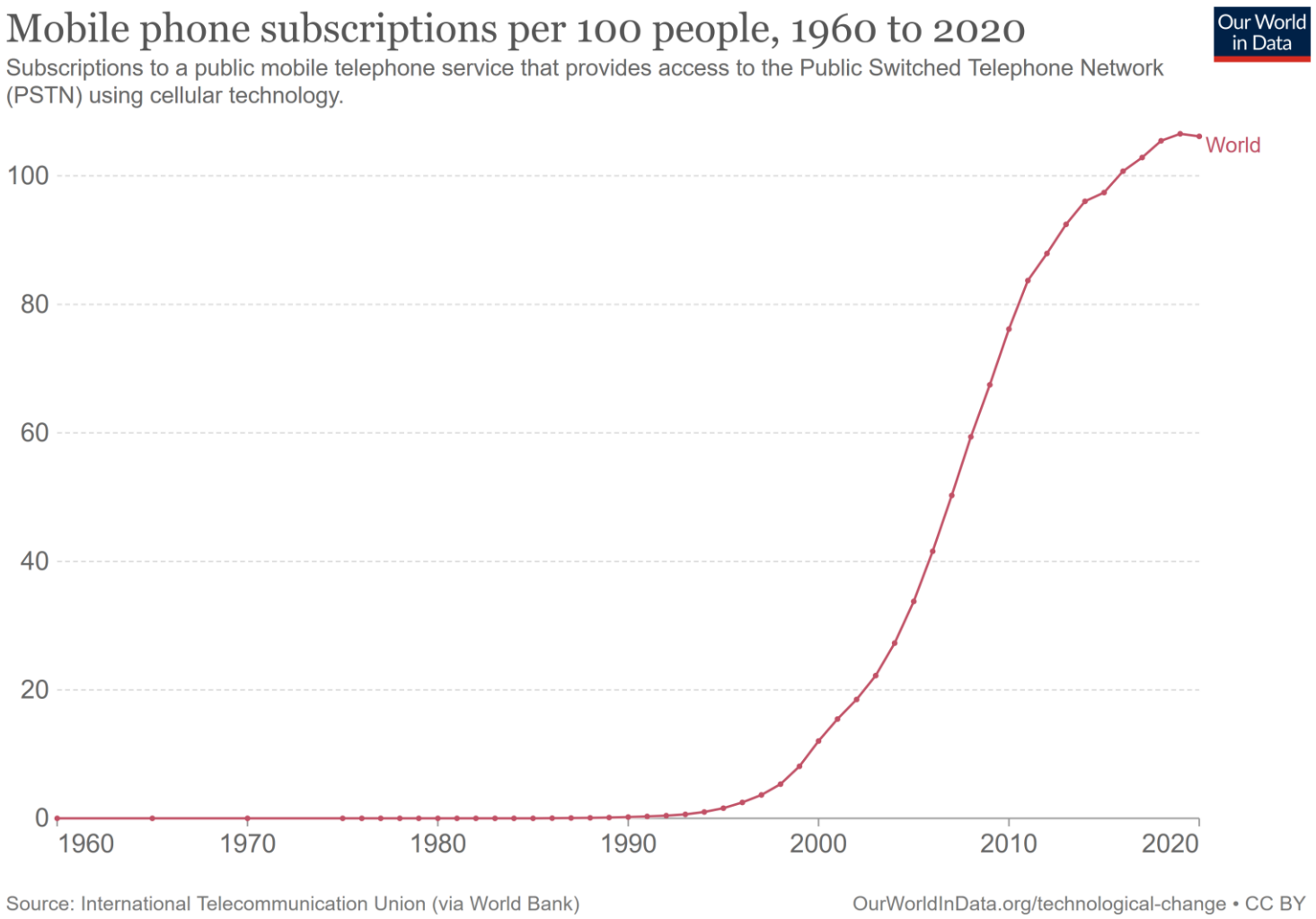
Mobile phone users have grown from 12 to 106 subscriptions per 100 people (5.3 billion users)



Source: Our World in Data (www.ourworldindata.org)

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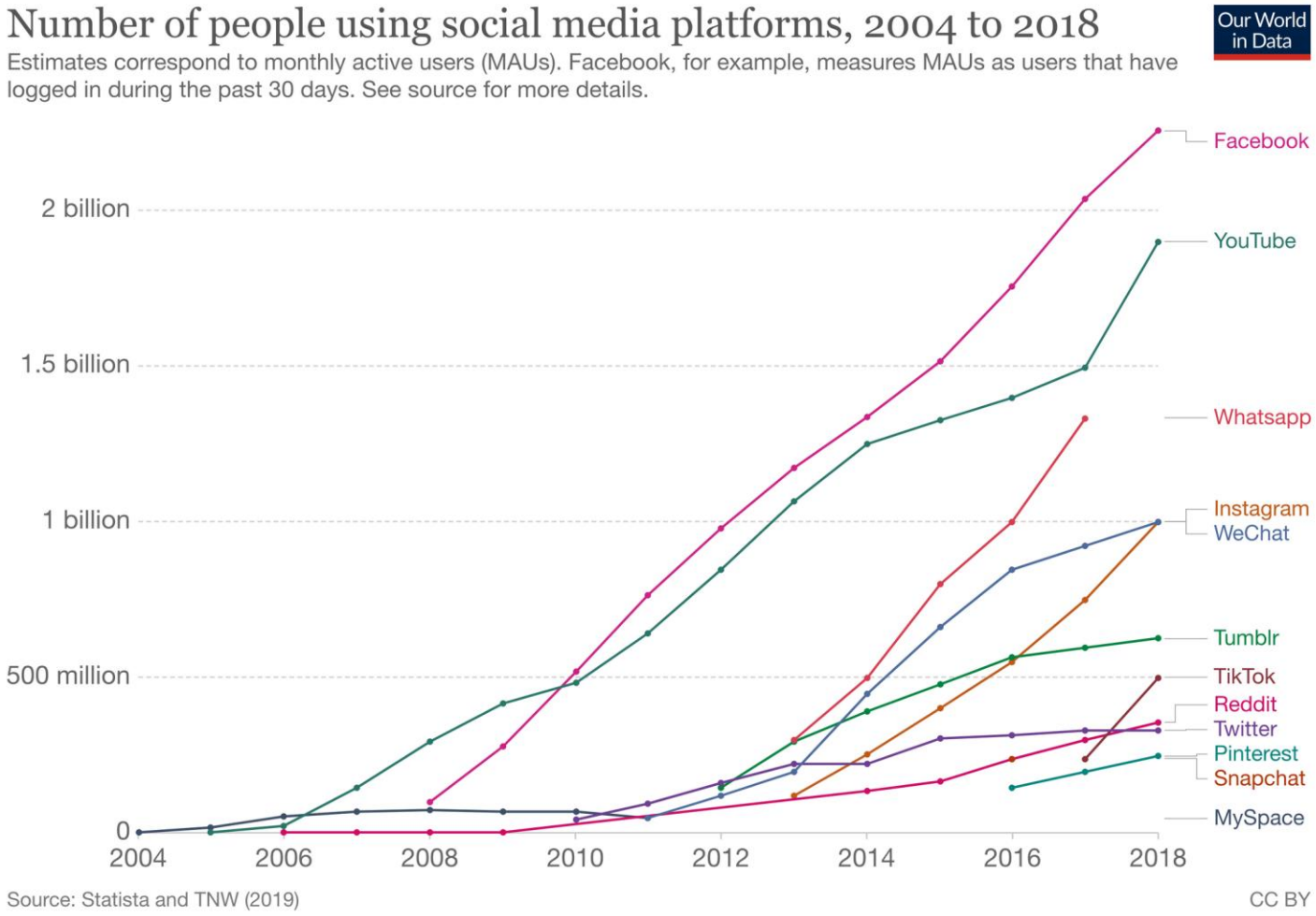
Social Media users have grown from 0 to 4.7 billion



The precipitous rise of social media over the past 15 years Image: Our World in Data

Source: Our World in Data (www.ourworldindata.org)

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Ecommerce growth has grown almost 3000% from $45 billion to $4.2 trillion since 2000

ECOMMERCE GROWTH 2010 - 2020

	2010	2020
U.S. Retail Purchases Made Online	$165.4 billion	$861.12 billion
Global ECommerce Sales	$572 billion	$4.2 trillion
Sales Made on Amazon	$34.2 billion	$386 billion
Sales Made on Alibaba	$845 million	$109 billon
ECommerce as a Share of U.S. Retail Sales	**4.6%**	**18%**

Source: www.redstagfulfillment.com

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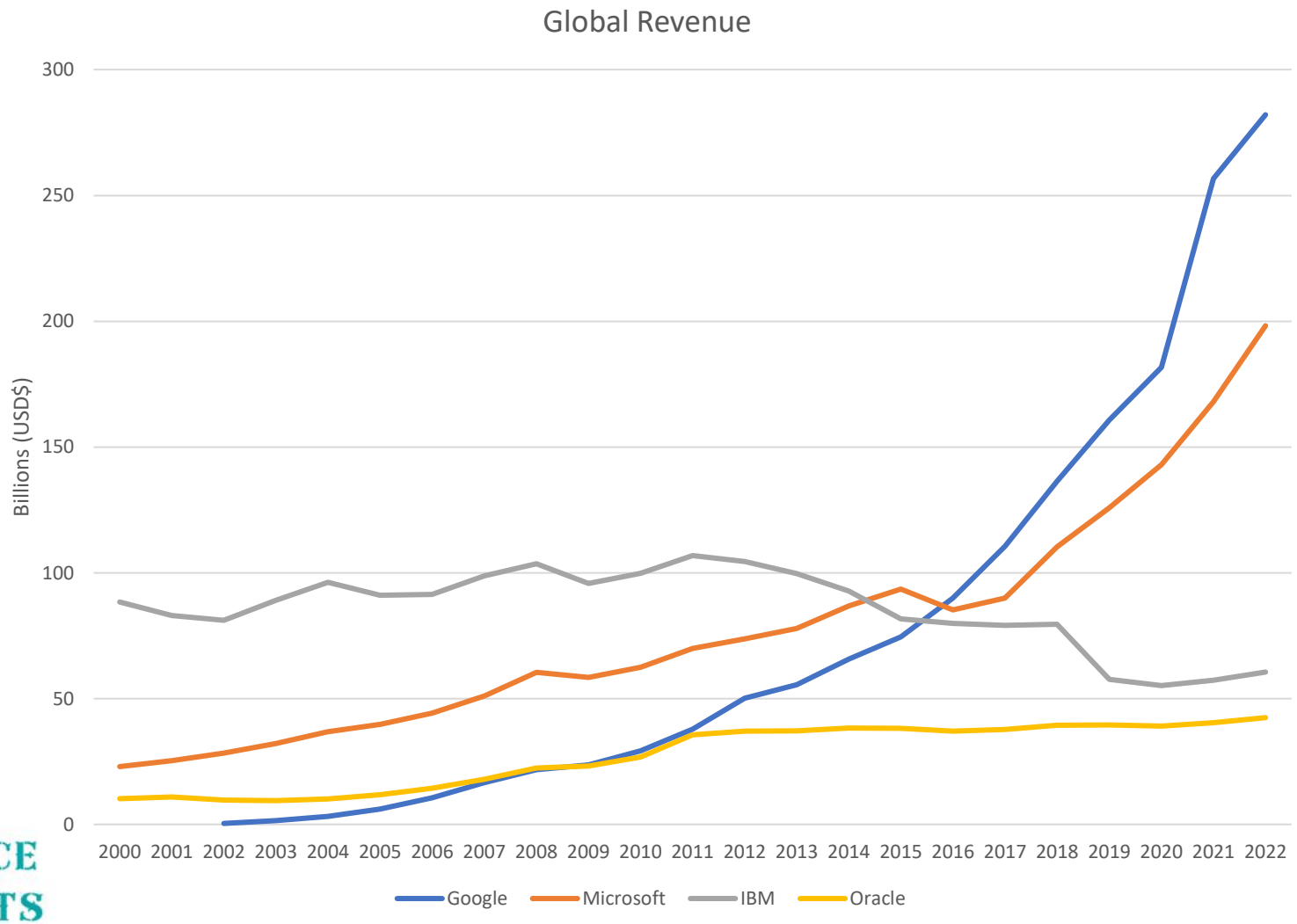
Software Revenue from 4 major vendors grew from $122 billion to $583 billion (7.4% p.a.)



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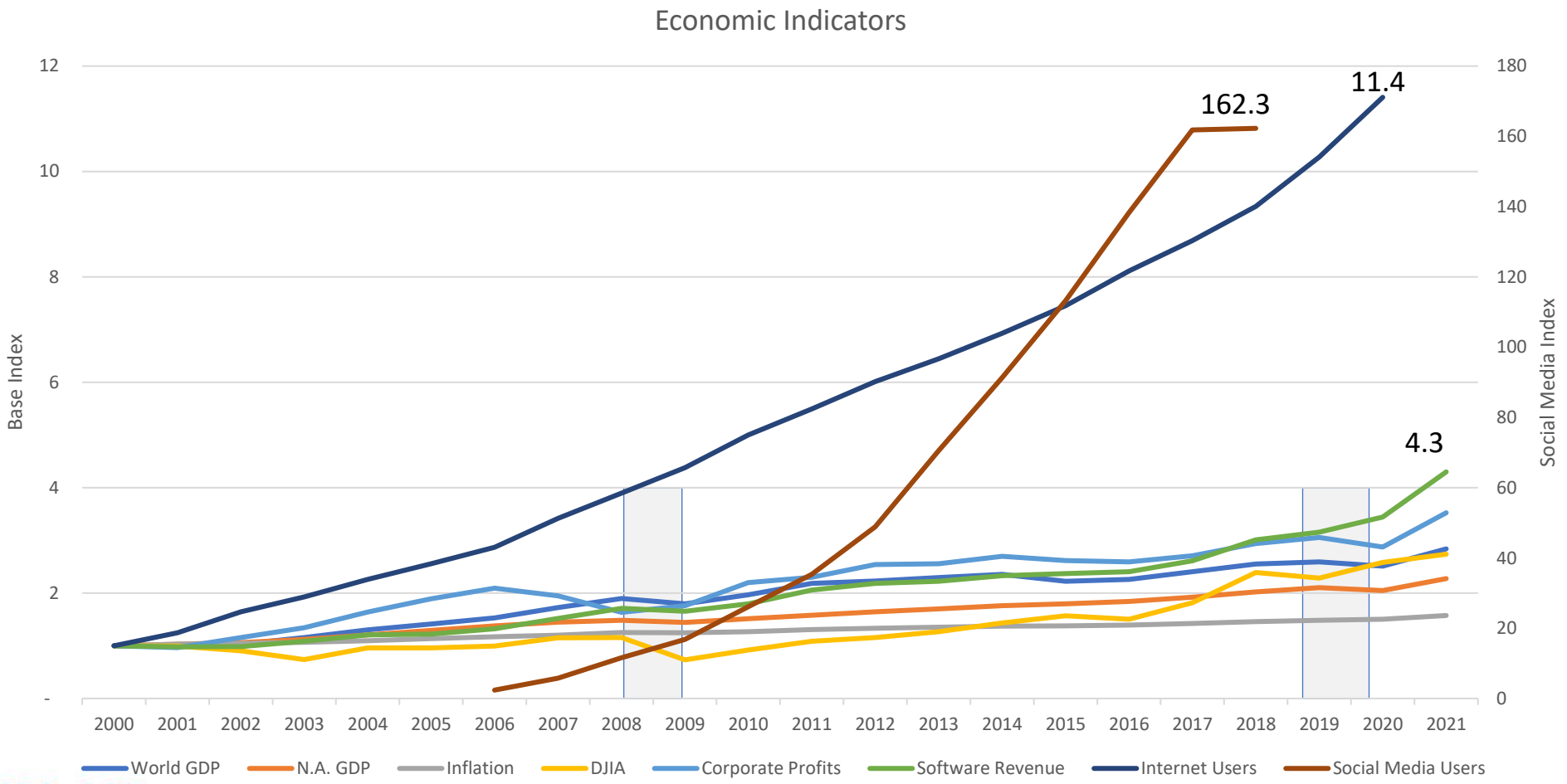
Economic vis-à-vis Internet Growth Comparison



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Economics Highlights

Growth in:

1. Global economy – 5.1% p.a.
2. U.S. economy – 4.0%
3. U.S. inflation – 2.2%
4. U.S. corporate profits – 6.2%
5. DJIA – 5.3%
6. IoT – 0.5 billion to 50 billion
7. Internet users – 248m to 5.5 billion
8. Internet speed - 100 kbit/s to 100 Mbit/s
9. Social media – 0 to 4.7 billion users
10. Mobile phone – 5.3 billion subscribers
11. eCommerce - $45 billion to $4.2 trillion
12. Software revenue from Big 4 - $121b to $583b (7.4%)
13. 2022 Global software spending - $784 billion (Gartner)
14. 2022 Global IT spending - $4.4 trillion (Gartner)

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Economics Highlights

1. Technology has pushed the global economy
   a. Technology growth has not slowed down by global or local recession
2. Technology has driven corporate revenue
   a. U.S. stock market driven by technology sector
   b. Technology sector driven by hardware & software
3. Internet has driven technology usage
4. Internet usage impacted by
   a. Mobile phones
   b. eCommerce
   c. Social network
5. Internet usage drives hardware capacity
6. Hardware capacity drives software demand

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How does the Economy Impact IT?

From 3 Perspectives:

1. **IT** Perspective – it DOESN'T!
2. **Corporate** Perspective – greater P&L management
   A. Expense reduction
      1) Rate management
         a) Vendor discounts
      2) Cost management
         a) Cost Rationalization
         b) Asset Management
3. **Software Industry** Perspective – greater P&L management
   A. Cost Reduction
   B. Revenue Growth

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How does the Software Industry enhance their P&L?

- **Reduce Expenses –**
  A. Payroll
  B. R&D
  C. Cost to deliver

- **Increase Revenue –**

  How does a software vendor increase revenue?

  A. Sell more

  Q: How do you sell more licenses at a greater rate than customer staffing?

  A: Split the licenses – turn one license into many, or license + service

  Example: traditional airline seat fee included free luggage & food

  B. Charge more

  Q: How do you charge more for existing licenses without angering customer?

  A: Obfuscate your pricing (change licensing rules to create non-compliance), bundle products, create new releases and/or products

  Example: When was the last time you sat next to a stranger on an airplane and paid the same price?

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How does a Software Vendor charge more?

1. More ELAs
   A. ELAs drive consolidation
   B. Consolidation drives volume
   C. Volume drives complexity
      a) Bundling
      b) Geography
      c) Licensing variability
      d) Usage types
   D. Complexity drives complacency
   E. Complacency drives waste
   F. Waste drives CO$T

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How does a Software Vendor charge more?

2. More Audits

What triggers an audit?

A. Increase ELA sizes increases risk of non-compliance
B. As companies are reducing costs, need to renegotiate ELAs will always trigger an audit
C. Acquiring new software
D. Don’t increase spend
E. Sales rep pressured to meet quota
F. “Reason to believe”

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Corporate P&L and Software Vendor P&L management requirements will conflict

How does the SAM manager satisfy both Corporate and Software Vendor P&L management requirements? **You don't!**

Q: With a growing demand in IT services coming from internet usage, social media, eCommerce, improved online customer experience etc., and the software industry looking to grow revenue, how will it affect Asset Management?

A: Asset managers will need to be able to manage corporate P&L requirements while avoiding the traps by the software industry to increase their profits.

- Organizations will put greater significance and importance to IT Asset Management.

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SAM will grow in importance for organizations to manage corporate P&L

How: Asset managers will need to be smart at cost reduction

1. **Buy less –** Traditional Supply Management will need to evolve to incorporate greater Demand Management -
   - ➢ Why am I purchasing this particular technology?

   a. Understand who are users. What are their needs? Responsibilities?
   b. Is the user count static?
   c. Are there unused licenses?
   d. What is the 36-month projected demand for which technical needs (products) by what type of user?

2. **Pay less –** What is industry best-in-class price for solution?
   - ➢ Solution isn't just knowing best price for a product, but best price for a technology solution.

   a. Benchmark Benchmark Benchmark
   b. What is the market rate for the product? Technology?
   c. Is your objective to buy discounts or manage costs?

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SAM will grow in importance for organizations to manage corporate P&L – cont.

How: Asset managers will need to be smart at cost reduction

3. **Discard more –** Decisions to discard need to be made technology, financial, contractual and operational considerations.
   - ➢ How are asset disposition decisions made?

   a. Know product end of life before the end of life.
      i. How many products can be discarded? Why? When?
   b. Differentiate between discarding product and technology.
   c. How can you discard product and not discard technology?
   d. Wash, rinse, repeat

4. **Know more –** Be centralized source of real-time information for senior management.
   - ➢ Do you know what you have, where, using by whom, at what price and why?

   a. Know business history
   b. Know technology history
   c. Know user history
   d. Know contract history

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Asset Managers will need to build an effective coalition

Asset managers will need to build an effective coalition of:

1. Discovery Tool(s)
   a. Mainframe / Distributed
   b. Deployment / Usage
   c. Entitlement
2. People
   a. Procurement
   b. Technical
   c. Financial
   d. Legal
3. Processes
   a. Full product life-cycle
      a. Acquisition thru Disposition
4. Experience / expertise
   - Likelihood of success is directly related to degree of using experienced and expert SAM managers.

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Conclusion

Q: How will the economy affect Software Asset Management?

A: It will force a transitioning from traditional reactive supply-side SAM to proactive demand-side management.

- Global economic downturn will not mitigate demand for IT.
- Technology will continue to follow Moore's Law (roughly every two years, the number of transistors on microchips will double) will bring new capabilities and possibilities
- IT is neither fully mature in technology or market saturation
- Growth in IT maturity & saturation will lead to more software licenses to manage
- Growth in software will require smarter SAM

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Questions

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For further information please contact:

Michael Swanson
Founder & President
952-322-4726
mswanson@isamgroup.com

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