DISCUSSING LICENSE COMPLEXITY

View and opinions from the LMS Steering Committee Held at Oracle Open World, San Francisco, 2013

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LICENSE MANAGEMENT SERVICES

A BRIEF INTRODUCTION

An Oracle LMS Steering Committee session that featured attendees from the following organizations:

- Amadeus Data Processing GmbH
- Anglepoint
- BNP PARIBAS
- Cerner Corporation
- Cisco
- Dell
- Deloitte
- Express Inc
- IAITAM
- IBSMA
- KPMG
- Loblaw Companies Ltd
- ONX
- OpenText Corporation
- Reed Elsevier Inc
- S&C Electric Company
- Wharton School

Why license complexity? We chose the topic because in our view it is central to the challenge of managing, and more importantly making the most of, your IT investments. Uncovering the causes of complexity does not require an extensive search – as any typical license agreement will demonstrate. Yet controlling this complexity is a business imperative spanning both cost and performance considerations. For IT, the issue is intimately connected with budgeting and resourcing issues. For the business, alongside cost concerns is the dependence on adequate licensing to deliver the capabilities required by the extended organization to function.

Software purchases account for a significant percentage of corporate expenditures and any mismanagement of these applications can prove very costly. Obviously, a sound procurement policy is needed to ensure organizations only buy what they need and only use what they have. However, a majority of IT departments do not manage these vital applications as part of a broader, centralized software asset management (SAM) ecosystem. This results in isolated procurement of the tools they need – and ultimately in excessive costs which cannot be tolerated in a highly competitive marketplace.

To gain some fresh insights, 'controlling complexity' was the topic investigated at the latest LMS Steering Committee. From the discussions, members highlighted five key challenges caused by excessive complexity:

Budgeting – the difficulty of balancing compliance versus contingency

Reporting – the necessary insights into asset use and costs to measure overall value

Planning – maintaining license visibility to accurately define future procurement strategy

Migration – ensuring the adoption of new technologies is not hampered by license structures

Stakeholder support – how the above can limit executive involvement

The conclusion from the session was that the difficulties associated with managing the software estate are stimulating efforts to optimize license management. Over the next few pages we'll zero in on the main issues, and detail examples from Committee members as to how organizations are responding.

I hope you find these insights both interesting and thought provoking.

Kind regards,

Jonathan Koop
Vice President, LMS, Oracle

FRAMING THE PROBLEM

Budgeting

It is an interesting dilemma for organizations that the very software that is essential for day-to-day performance also happens to be among the most difficult types of assets to budget for. Business users consistently demand more tools and service capabilities, while static or shrinking budgets demand less. Such conversations are also occurring at a time when the increasing complexity of IT estates and software contracts are denying many organizations an accurate record of their deployments. This can result in a lack of preparedness for vendor audits, and missed opportunities for saving money.

So where does this leave both IT and the CFO? Broadly speaking, three options exist:

The contingency budget

With contingency budgets, Finance sets aside funds on the assumption that the business will inevitably be out of compliance in some areas. With audits representing a significant and growing cost to the business, this contingency allowance in itself is hard to judge accurately. In addition, it represents a static pool of funds that are not directly contributing to business performance, and remains open to 'raiding' by managers looking to fill other budget shortfalls.

The Unlimited License Agreement (ULA)

Through a ULA arrangement, organizations pay a single upfront fee for access to as many licenses as they want for a specified set of products, over a fixed time frame. The most common ULA term is three years, and for companies that grow during this prescribed time frame, the ULA can offer considerable cost savings compared with purchasing individual licenses up front. From a license perspective, ULA's promote convenience and simplicity – and insurance against being out of compliance.

The proactive management stance

This can be seen as the most costly and time consuming option of the three – certainly in the short term as you ramp up improvements in compliance processes, and instil greater maturity around SAM practices. However, as new procedures are imbedded, the involvement from IT and Finance moves from building a proactive monitoring capability to maintaining it – which greatly reduces the weekly commitment.

Reporting

Another challenge is that of reporting the value delivered by IT investments – a calculation based on output versus cost. Software remains one of the largest line items in any IT budget. Industry estimates put it at over 20% of total spend, approximately 35% of which goes on infrastructure software – including databases, application servers and other middleware. Yet the increase in IT purchasing and high levels of M&A activity in recent years has left many organizations with surplus and duplicated infrastructure software.

It may be an obvious statement, but companies do need to find new ways for effectively gauging software use – and they need to do it in a climate of shrinking IT investment. Unfortunately, many organizations have been slow to develop visibility into license usage and continue to suffer from massive shelfware. Thus, IT departments are denied the information they need on what assets they have, where they are, who is using them, the services they support, what they cost and how they are configured. Without these insights it becomes impossible to verify the true value being delivered by IT assets, and it also leaves the door open to consistent compliance controversy.

Planning

The spotlight on technology planning decisions has grown brighter in response to the increased percentage spend on IT and heightened expectations from the business. This trend is only set to continue with do-more-with-less mandates, an upsurge in compliance audits and the business placing greater focus on value delivery. However, few organizations can boast of an integrated, consistent knowledge base for decision-making around IT investment or divestment.

Without this visibility, how can planning predict capacity and determine future requirements? Any calculation – be it storage, networking, processing power or other elements of the infrastructure mix – requires a strong grasp of the existing estate and future business roadmap. Then there's changing cost models brought about by the general shift toward consolidation and virtualization which is changing the way businesses pay for IT services. These trends increase the pressure on businesses to adopt a more proactive approach to monitoring software assets, reconciling licenses with actual usage and addressing any gaps.

Migration

A logical extension of the planning dilemma is migration. When moving to new platforms or hardware, software licensing can easily be overlooked. However, the pressure to get this right is not going to go away – between market changes such as M&A, product end-of-life announcements, migrations, upgrades and patch enhancements, it's estimated that up to 30% of an organization's applications change every year.

Another aspect of the challenge is where essential migration activity is held up because the right license structure cannot be put in place. Before Cloud computing and virtualization entered the picture, software migration in general operated to a fairly consistent rulebook. Now, companies find themselves having to re-define best practice whilst struggling with continual migrations as standard. It's a situation that many CIOs and CFOs are not equipped to deal with. If we take Cloud as an example, the model provides applications and services on demand and is therefore billed as needed – rather than purchased as a packaged product. This is in itself a dramatic shift from traditional licensing and requires a new way of thinking about licensing concerns.

Stakeholder support

Galvanising executive engagement on the topic of license management challenges IT to clearly demonstrate the direct, causal link between hardware and software assets, business capabilities and the bottom line. However, the inability of IT to effectively plan, budget and report on current and predicted expenditure presents an immediate barrier to closer involvement. Yet greater executive involvement remains critical to ensuring the investment of available IT funds is aligned precisely to business need. This is the challenge of complexity, both in its abstract form as excessive detail preventing non-specialist access, and in its wider role for introducing potential inefficiencies that directly impact performance.

The majority of executives don't want to deal with licensing issues because they see their function as operational and strategic – not technical. As a result, education is essential for bridging this gap, and fostering the recognition that without an effective technological infrastructure executives don't have a business. The customer angle is equally important. With the criteria for building loyalty and engagement constantly shifting, companies are charged with going above and beyond to better anticipate their customers' needs. To do this requires the entire organization to realign its output to achieving these goals. Technology in particular has to optimize the tools needed to drive this experience, supported by a clear investment strategy. Clearly, executive-level sponsorship is needed to lead such change and to support business cases that will generate the expected return.

Licensing arrangements might well fall into the category of 'technical requirements', but they will quickly become a business issue if the investment models lead to under- or over-provisioning of essential capabilities. Complexity creates gaps, and gaps create a vacuum which can quickly lead to non-compliant software usage – and a regulatory headache.

The causes of complexity – a current snapshot

License complexity is influenced by a wide variety of factors. During the LMS Steering Committee meeting, we asked members to highlight what they view to be the most pressing elements:

The shifting nature of technology – and the move from older on-premise applications to new cloud-based services. This is a natural evolution for many organizations, but it is complicated by new computing paradigms:

- **Cloud:** particularly when moving to platform that introduces new features – how do you map old licenses onto the new structure?
- **Virtualization:** how can you ensure you're not paying for more than you use when a virtualized environment spans multiple machines?

A lack of stability in licensing metrics – this is a source of complexity caused primarily by vendor behaviour – including M&A activity and developments in areas such as virtualization, which is causing a constant re-evaluation of the metrics that measure license usage.

A language of confusion – each of the license agreements governing the thousands of assets that comprise an enterprise infrastructure contains complex terms pertaining to usage entitlements. Such language restricts efforts to effectively track and manage them to ensure compliance.

A decentralized business structure – including the management of uncapped usage by different departments/divisions/countries. This problem is made worse in a siloed structure, where the compliance initiative sits centrally but is effectively isolated from the individual divisions consuming licenses.

A lack of adoption of industry-wide standards – professional qualifications have yet to infiltrate the industry in any consistent manner. In addition, organizations are struggling to adopt the ISO19770 standard due to the complexity of IT infrastructures. Tagging was also highlighted as a potential remedy, but there was no evidence of widespread adoption – or indeed a compelling value-add for customers as enterprise software doesn't (currently) lend itself well to ISO19770 2 or 3.

The sheer scale of the investments being managed – with all members agreeing that IT estates are experiencing an exponential growth in complexity, monitoring usage and paying only for what's being used is becoming increasingly difficult – a challenge that gets even more complicated for organizations that sell services which incorporate IT licenses (here, the focus turns to policing how these end customers are using the services).

How are organizations responding?

There was universal agreement from the organizations present at the LMS Steering Committee that license management was an area actively being improved. Indeed, for many it was considered a key determinant to a well-run business.

When asked to plot their current progress on the path from 'reactive audit' to 'proactive SAM', the largest cluster was at the 20% mark with a spread reaching as far as half way. This supported the view that companies are generally heading in the right direction.

The main activities that were helping them achieve this shift were listed as follows:

Engaging with the vendor – traditionally a relationship permeated with mistrust, vendor license management teams are increasingly being seen as valuable partners, and a unique source of licensing expertise. The view was that work was needed to define these services more clearly, but those who have started to engage more closely were already experiencing better results.

Using M&A activity to promote the compliance agenda – it was felt that a one-off event such as an upcoming merger or acquisition was the ideal vehicle to inspire greater executive involvement in the licensing issue. A number of members detailed the value of gaining access to the sourcing/compliance team at the beginning of the process to raise license concerns when reviewing potential costs and liabilities – thereby gaining a platform for future engagement.

Utilizing third-party expertise – a number of practical points were also raised about working with organizations that specialize in license management and SAM. This typically led to a more comprehensive view of the assets being paid for and the assets in use. Tied to this point was a wider consideration related to improving training in these areas to increase the overall level of professionalism in the SAM discipline.

'Full compliance' teams – certain organizations also detailed their recent experiences of initiating 'full compliance' teams. The guiding principle behind this development was to move away from the need to insure against the potential for being out of compliance, towards being able to proactively manage licences.

A reliable foundation – visibility is of course the ideal solution to both complexity and executive involvement. A principal aid in improving clarity is a reliable foundation of known tools and costs that can be properly analysed to predict current and future demand. In part, this is also a challenge to IT vendors, to work with businesses to help simplify contracts and ease the regulatory burden.

A focus on risk – from a budgeting and planning perspective, collaboration between IT and Finance to quantify the full nature and location of licensing risk was considered essential for reducing/consolidating contingency funds to an acceptable minimum. This in turn helps transform static funds into available 'investment pots'.

The wrap up

As organizations navigate what could be a prolonged period of budget constraints, the obligation faced by executives is still to identify and remove all aspects of waste and inefficiency. Few areas of the business are immune to this evaluation, and certainly not the costly process for procuring and managing software applications.

Frequently, the ultimate cause of waste in IT investments the complexity introduced by license management – from identifying usage entitlements to planning upgrades – which also creates a barrier to executive engagement. The result is not only inefficient spend, but also a partial loss of control over this business critical resource.

In reaction, many organizations are adopting a more proactive approach to unravelling license complexity in order to gain a clearer picture of IT service delivery. This growing momentum behind better license management is also delivering an additional benefit – helping to build stronger relationships between vendors and the procuring organization. With a more concerted focus on compliance, commercial discussions can shift to business needs and required capabilities, allowing for fair and balanced negotiations.

This is a development that will enable companies to better optimize their existing IT assets and highlight additional hardware and software inefficiencies to generate cost savings. As a result they can reduce ongoing investment in non-critical systems, and free up available funds that can be funnelled to IT systems and processes that better support core business strategy.

ABOUT ORACLE LMS

Oracle LMS actively counteracts licensing complexity, with an approach focused on two primary outcomes:

- We help organizations proactively maintain compliance with Oracle licensing models and their contractual obligations to remove any financial, operational or legal risk.
- We quickly develop comprehensive insights into the deployed estate to reduce inefficiency, duplication and redundancy, and align licensing requirements to actual business need.

LMS can also help you gain a more centralized and coordinated view of your Oracle estate in order to make more informed business decisions. We can help you master the intricacies of maintaining, migrating and upgrading your Oracle assets to remove a significant barrier to aligning business demand and IT supply.

For more information, contact <insert contact details>

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