CONTROLLING COMPLEXITY

5 reasons to manage IT assets more strategically
Why should organizations think more strategically about their approach to license and asset management? It’s a discussion that was initiated during an executive forum at Oracle OpenWorld, which included attendees from organizations ranging from Telefónica SA, Shell, and BNP Paribas, to US Magnesium, Rabobank and Cerner Corporation. The conversations led to some thought provoking conclusions and acted as the inspiration for further investigation. This paper is a direct result, exploring five key reasons that highlight how the growing complexity of IT architectures demand a more strategic capability for managing assets across their extended lifecycle:

- Improved use of IT resources
- Reduced cost and risk
- Dealing with disruption
- Achieving closer alignment with the business vision
- Improved IT investment decisions

The analysis of this subject ultimately highlights how technology is becoming indivisible from business strategy, how IT remains among the largest and fastest growing investment areas for most companies, and how it is fundamental to future growth.

This paper explores the value of unraveling this licensing dilemma to gain actionable insight into the balance between business consumption and IT service delivery. It will focus on both the challenges facing organizations and the benefits that can be achieved, if a more centralized, coordinated and proactive approach to license and asset management is adopted.

I hope it makes for interesting reading, and contributes to a conversation centered on improving the value, effectiveness and utilization levels of deployed IT assets.

Kind regards,

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Vice President, LMS, Oracle.
SHAPING THE FUTURE OF ORACLE’S INTELLECTUAL PROPERTY RIGHTS MANAGEMENT

An Oracle OpenWorld session that featured attendees from the following organizations:

- Accor SA
- Applied Materials, Inc.
- AUFO
- BNP Paribas
- Cerner Corporation
- Dot Hill Systems Corporation
- Equens SE
- FEMSA
- GE Healthcare Technologies
- IFFCO
- ITT Exelis
- Medica
- Natixis
- Olson Urban Housing, LLC
- Rabobank
- Shell
- S&C Electric Company
- Telefónica SA
- US Magnesium
- Vodafone Plc
“My organization is committed to providing better guidance and advice to business users, with the intention of empowering them to be far more self-sufficient. This means better tools and a clearer view of what functionality they have access to. We want to stop situations where a disconnect between IT and the business leads to maverick software access.”

“We had reached a stage where a software audit cost us on average half a million dollars and pulled in around 15-30 members of the department. Now this has been cut by half, and the underlying intelligence we have on assets is maintained by three people spending a few hours researching each week.”

“With the right tools in place you can significantly lower the pressure on people’s time—but only if you structure then correctly. Everything has to be based on validation, which is achieved through monthly meetings that roll up to an annual review. Previously, we probably reviewed our licensing risk once every three to five years.”

Views from Oracle OpenWorld:

The role of license and asset management for enhancing IT productivity, efficiency and effectiveness, comes from its ability to remove complexity. In fact, the intricacy of maintaining, migrating and constantly upgrading an organization’s installed base of IT assets is arguably the biggest barrier to aligning business demand and IT supply. Without a simplified view of the IT estate, usage and entitlements, IT lacks insight into whether individual tasks best serve strategic policy—while business users feel constrained by IT, whose resources appear incapacitated by a multitude of service requests.

This is hardly surprising as software licensing conditions are constantly changing—especially for organizations operating across a global footprint. Overlapping contracts, multiple license types and differing procurement procedures often add to a confusing licensing picture. The complexity in these deployment models comes from managing the financial liability of licensing, determining licensing rights and limiting licensing risks. It is a job function that challenges traditional IT management, and is again based on, indeed reliant upon, complete transparency of IT asset deployment, usage and entitlements. Ideally, this view will also be centralized to multiply the benefits of managing assets more efficiently, and to provide IT with the flexibility to shift spending to other areas, such as IT service automation and IT service portfolio management, without compromising quality.

The benefits of collecting the vast amount of data needed to effectively manage a software estate also extend to procurement. By closely integrating license management with this function, asset information is gathered at source, with additional data added by finance to take into account leasing details, depreciation of asset values, residual values, and tax issues. This integration can then be extended into the operational use of individual assets, allowing procurement to enhance their processes for configuration control, maintenance tracking, license rationalisation and asset planning.
REASON 2

REDUCED COST AND RISK

“Views from Oracle OpenWorld:

Few organizations recognize just how much money is tied up in their software licenses—and how much they could be saving. From this perspective, developing cost transparency from effective license management represents one of the few remaining ways to realize substantial IT savings.

In many instances, costs are primarily viewed in terms of purchase spend, but these upfront costs are only a fraction of the total cost of ownership. The real costs of an asset are associated with installation, change management, maintenance, service and disposal. Where IT lacks visibility into actual software usage, over or under-estimation becomes commonplace, with the associated cost implications. By contrast, managing software assets effectively means minimizing costs while providing sufficient capacity to meet business requirements. It also enables organizations to better balance infrastructure investment over time by utilizing unused or freed-up assets from other projects.

From the analysts’ point-of-view, license management projects can lead to substantial savings. The Aberdeen Group projected savings of up to 35% of the total IT budget (Aberdeen Group, 2002) while Gartner estimated savings in the region of 30% (Gartner Group, 2007). KPMG quantified savings against the total cost of software in the first year in the region of 30%, and in the following years of between 5-10%. It must be taken into account, however, that all these savings won’t necessarily show a direct cash effect, as overall productivity gains and avoidance of costs for software audits are factored into the calculations.

“We are now much more proactive in our approach to license management. Previously, there was a lot of undefined risk in the area of contractors where we lacked the controls to check any licenses going out, or to check them back in again when they had finished.”

“Sometimes information is not clear about how we should be using software, or which things we should be using. Upgrading products has traditionally proven to be a complicated matrix of options and outcomes. There are no boundaries—you think you have the license to do what you want, but via an audit you find out you don’t.”
Some of these savings come from a reduction in maverick, ad hoc purchases, others from uninstalling obsolete software and cutting support. In addition, with accurate usage data, organizations can recalculate the volume assumptions written into outsourcing contracts. These are the most immediate savings, but in the longer term IT is more empowered to implement strategic license management in order to purchase and pool software licenses in a way that corresponds precisely with actual business need:

Reducing licensing miscalculations
Ensures users have access to the capabilities they need. The tendency for IT managers in many organizations is to purchase more licenses than actually required—creating the inevitable shelfware that increase costs and acts as a significant restriction on the overall efficiency of the IT budget.

Minimizing unnecessary purchasing
Many organizations routinely pay periodic update and support fees without reviewing how many users are still using the products. Identifying, investigating and reducing these costs offers a ‘quick win’, as well as the potential to recover value from shelfware and other assets no longer needed.

In addition to reducing costs, effective visibility into licensing also enables organizations to achieve the highest possible return on their software investments. Big gains also come from better planning, managing and replacing of assets, while simply tracking their location reduces security risks and the threat of fines and penalties due to compliance issues. The risk of software audits pose a real and present danger to organizations—any resulting fine or license ‘true-up’ is generally an unbudgeted cost that frequently runs in excess of $1m, and can consume internal resources for several months.

“Some software suppliers have very tight controls, which makes it difficult to maintain service agility. Conversely, others have good tools to help you control maverick deployments, but there’s still the unpleasant feeling that some users in the building are using unlicensed, and un-compliant software.”
**Views from Oracle OpenWorld:**

Today’s IT strategy has to remain adaptable to a host of disruptive forces introduced by shifting business priorities and policy. These include:

**Rapidly evolving business structures**—ranging from mergers and acquisitions to divestitures and joint ventures, which serve to further complicate license and asset management and are often initiated without direct IT involvement. Success metrics are typically focused on the transfer of employees, buildings, intellectual property and inventories, and less on ‘intangible’ assets such as IT, which can significantly impact the IT budget and the final cost of the activity.

**Cloud**—the growth of cloud-based applications is changing the way software is used and licensed. It is also challenging automated usage measurement as there is no evidence of software on local machines. This demands complex management and controls because the user no longer purchases directly from the software provider. They only pay for a capability when used, which presents new problems in terms of compliance and license management.

**Outsourcing**—for outsource contracts to be profitable they usually have to encompass a vast array of IT management tasks over the course of the contract. However, there are license management implications to outsourcing, particularly in how responsibility for managing software assets may be shifted to the outsourcer—but liability for license non-compliance is generally not. In most cases, the organization still owns the software licenses and accepts the license compliance risk. This complexity can create tensions between the enterprise and IT outsourcer and lead to significant financial burdens if delivered badly.

With each enterprise agreement having specific assignment provisions, understanding the licensing terms for each major vendor and (when necessary) the transferability of those licenses can be a daunting task. These challenges are magnified when operating structures are transformed through strategic activities, which only serve to impede flexibility, and drive up capital expenditure and operating costs.

However, most organizations lack a strategic capability for optimizing software licenses throughout their deployment lifecycle. By gaining greater transparency of the existing asset inventory to see what licenses are available and when they will expire, organizations can approach major systemic change with a greater degree of certainty. Under-utilized licenses can then be redeployed or shared among departments, eliminating shelfware and unnecessary purchases.

When devising business strategy, IT and business leaders need this improved licensing insight to appreciate the challenge of managing a dynamic application infrastructure. Technology comes and goes, as do staff, while the business vision is constantly shifting. The symbiotic nature of these three elements suggests IT needs to incorporate a more proactive approach to controlling the assets at their disposal.
"A common challenge is clarity, and in trying to define exactly what the business is asking for, what they are planning to do with it, and how much it will cost. Without a complete inventory of assets it is impossible to validate the direction of the strategic plan."

"Business alignment is fundamentally built on proactivity. What can hold us back and make us reactive is a lack of clarity on licensing rules, and a lack of dedicated resource for getting to grips with our global operation."

Views from Oracle OpenWorld:

The strategic nature of IT, in terms of both business enabler and financial consumer, places its current proficiency and future direction under the executive spotlight. The most frequent manifestation of this concern comes in the form of three prevailing mantras:

‘Align IT more closely to the business’
Turning business strategy into well-informed IT decisions is no easy task, with the level of meaningful engagement frequently set at too low a level and outside a collaborative roadmap. Instead, delivery teams adopt a narrow, bottom-up approach to developing the functionality requested by business users—a short-term investment mentality directed by product, sales, channel, customer or geographic considerations. The result: IT is restricted in its flexibility for delivering strategic initiatives, capital expenditure and operating costs are driven up, and critical objectives missed.

‘Do more with less’
At the same time, few IT budgets have escaped the influence of a turbulent economic environment. For many organizations, this has resulted in nearly flat line spending on IT, which in turn has generated increased interest in processes for managing software assets—what do we have, where is it deployed, who’s using it, and is it contributing to defined business goals?

‘Change is the only constant’
Few would argue that this is anything new, although the rate and velocity of change could reasonably be described as unprecedented. The result from an IT perspective is frequent recalibration of priorities and reallocation of spend.
Collectively, these imperatives expose a central challenge in the delivery of business capabilities—how can services be organically molded around what users want, while at the same time reducing costs? Greater business alignment is not achieved by just adding new functionality, but also in extending the relevance and scope of existing investments. Core capabilities upon which organizations are built remain relatively stable, and provide a platform of support that warrants sustained investment. The challenge is therefore to identify these capabilities, understand existing coverage, and to plug any gaps.

Business appetite for IT is voracious, whether these services are performed in-house or outsourced, but over-consumption can also drive up cost. Managing demand and optimizing cost therefore requires accuracy when calculating usage patterns against other operational criteria, for example time of day, license entitlements and deployed assets, to determine both average duration and service criticality. This can prove an important metric when making purchasing decisions, as well as identifying wasteful and inefficient behaviour such as hoarding (users refusing to exit applications for fear of future service denial).

Usage data also provides the visibility to avoid costly updates and maintenance (Gartner understands the scale of the problem, it estimates that 10-20% of spend on software updates and maintenance isn’t needed). It can also support requests for new capabilities, providing data over time that can help verify whether shifts in usage trends are permanent, or just upturns or downturns relating to the overall business cycle.

This is the heart of the alignment conundrum and requires strong processes for selecting which hardware and software assets to upgrade, change, replace or add. Identifying preferences first requires an in-depth assessment of existing strengths and weaknesses—an end-to-end picture that provides a record of every IT asset, and how this inventory maps to business consumption.
“Organizations should look to transform their responsibility for declaring their actual software usage into an opportunity for pursuing best practice.”

“It’s a real challenge trying to create a forecast of what you need to spend to meet business demand. Get it wrong and you have a lot of budget sitting on the shelf that is fast becoming obsolete.”

“My organization recently went through an extremely painful license review. At the end, we were hanged for something installed that we hadn’t really used. What I need is the option to identify additional license requirements to cater for inadvertent software usage.”

The majority of organizations will perform some form of periodic review to focus their IT portfolio on the most critical capabilities needed to meet stated objectives. Any change introduced can quickly raise the profile of other capabilities, as well as identifying the level of unaligned IT costs that exist and are available for reallocation. Such insights lead to smarter investment decisions. Indeed, it is the subject of investment that clearly identifies where the disciplines of IT and finance most directly intersect. Accurate insight into activities with a financial impact; business outcomes such as ROI for IT and business projects; cost optimization through more efficient IT asset usage; and risk management will provide further reach as part of the decision-making process, affecting the overall financial lifecycle of the organization.

With access to granular level information that details total asset value as part of the underlying value of the company, finance can make more informed, confident choices at the planning stage for capital budgeting. Getting to grips with the full extent of the IT estate can therefore support the management of operating expenditure through enhanced visibility, and drive not just the quality of decision-making, but also its strategic relevance.
The days of leaving the vagaries of software licensing to chance are firmly behind us. The IT estate is simply too mission critical, too central to the business vision, and too complex to allow anything but expert manipulation. The IT architecture continues to change in response to emerging technologies and business imperatives, but there are also other forces at work. Principle among these is the values the infrastructure is measured by. Today, responsiveness and flexibility are equally as important as scalability, availability and robustness.

Any strategic decision taken by the executive has a direct impact on the capability matrix demanded by the business. How the infrastructure grows to accommodate this need, and the mix of existing capabilities and new investment adopted, are decisions that must be based on complete visibility. This is essential because the size of the investment is significant and impact not just IT, but finance, procurement and legal. Transparency of demand mapped to transparency of existing capabilities is therefore a vital first step in developing a coherent asset and lifecycle management strategy. Once in place, it empowers efforts to reduce the risk of unbudgeted or unnecessary expenditures, increases the accuracy of forecasts for future requirements, and provides a more detailed understanding of true total cost of ownership.

Get it right and organizations can greatly reduce waste by eliminating the misallocation of resources on lower-value IT initiatives. This also supports a greater awareness of capabilities and a more effective sharing of IT assets. But more than this, the optimization of enterprise licenses is a means of analysing software purchased, minimising license consumption and ensuring the most efficient allocation of software across the organisation. From this comprehensive view emerges more dynamic and informed decision making. Here, capabilities coalesce around core business processes, and even if under-licensing emerges, the organisation can adopt an implementation strategy to ensure installs are optimized before new purchases are made.