

Tips for Trimming IT Costs in a Down Economy

While companies strive to use IT as a competitive advantage, they are also looking for ways to streamline costs and the IT organization is often a good place to start. Within the IT department, software licensing is perceived as a confusing and expensive piece of the IT budget. But it's getting easier to decipher and IT managers, armed with a few tips, can learn to trim unnecessary costs. In order to effectively manage software costs, it's important to have a keen understanding of the elements that affect licensing expenses, such as, selecting the right product and licensing metric, and understanding the assortment of license terms, maintenance programs, financing options and available promotions.

Today, software vendors offer more options and flexibility than ever before and enterprises would do well to take advantage of new ways to get more value for the money they're spending. To do that, a customer must take the essential first step of evaluating their existing software licenses.

Just like every smart business tracks its physical assets, such as desktop computers and telephone handsets, IT managers should take equal care in tracking their software assets. That involves knowing how licensing agreements are set up, understanding how many workers are authorized to use the software and the conditions under which they can use it.

Once an IT manager has performed an evaluation of existing licenses, it becomes easier to determine if their current licensing configuration meets their needs. For some companies, something as simple as changing the type of the license from user based to processor based can save money or buying the base product compared to the premium product, which has features and functionality beyond a customer's current needs. Most reputable companies have migration paths that allow you to upgrade to a more advanced product with more functionality when you need to. While there will be additional licensing fees required, it's still cheaper in the longer run to buy what you need when you need it.

Many enterprises can also reduce software costs by choosing a term license instead of a perpetual license. Typically these licenses are a good value for corporate initiatives that have a limited scope and therefore they have a limited duration for the length of time the software will be employed. Other companies have used term license agreements for pilot programs that will initially roll out in only a few locations. Later, the customer can then upgrade to a perpetual license when the program is introduced everywhere. Again, you will be saving money until the upgrade to a perpetual license is truly needed.

Another opportunity to examine ways to cut costs is when big changes within the enterprise occur. In these situations, close coordination with the human resources department will help. With knowledge of employee movement, an IT manager might learn that at the same time the company is adding a new division, it's also cutting a different one. Instead of buying more licenses, the IT manager may discover that the license covering the old division will cover the new.

As international M&A activity continues over the next few years, we will see an increasing number of major acquisitions such as HSBC Holding's acquisition of Household International. There are often many opportunities to save on IT costs during such activities. IT departments of merged companies can often do a better job of managing the integration of potentially disparate licensing schemes. Instead of outright canceling a license with one vendor in order to standardize on another, IT managers should discuss the integration with the dominant vendor. Often vendors will honor pieces of an agreement with another vendor because they may gain additional users.

IT managers should also closely study the question of using multiple vendors versus standardizing on one. Rather than spending time and money trying to integrate applications from multiple vendors, it's often more efficient to consolidate under one. In addition to saving integration costs, which usually are significant, using one vendor can deliver other benefits. Many software vendors offer attractively priced bundles for customers that standardize on their products. Instead of buying three applications, enterprises may find that buying a bundle that includes those three will cost less and offer additional functionality as compared to buying the three separate applications.

Once IT managers understand all the costs involved, including those involved with internal workers, considering outsourcing some IT functions is often another way to streamline expenses. You'll recall, years ago many

enterprises found that it was more cost effective to outsource functions, like human resources and payroll, as compared to managing those teams and functions internally. Today companies are also finding other non-core functions can be handled outside of the company to gain operating efficiencies. As a result, many enterprises have found that outsourcing major software-based functions, such as customer relationship management functions, procurement or financial programs can significantly reduce their overall operating costs. To maximize your opportunity to reduce IT costs, outsourcing should always be evaluated as part of the standard procurement process. The cost savings to be gained in this area on both personnel and software licenses will pleasantly surprise most organizations.

Other Fees: Licensing fees aren't the only cost to consider when comparing software products and companies. One of the biggest ongoing costs is a maintenance program, which often varies dramatically depending on the vendor. Maintenance contracts can be invaluable if they allow the customer to call the vendor for help with problems or bugs. Without a support contract, customers are stuck spending time solving the problem themselves or hiring a potentially expensive outside consultant to do it.

Some maintenance agreements will include software upgrades or updates, another invaluable component. The costs for updates and upgrades in addition to the base support fees that cover bug fixes, etc. These programs are often worth the expenditure but the fees and what's included vary by vendor so it's important to closely scrutinize the agreement.

While historically it's been difficult to understand the pricing schemes of various software vendors, a number of vendors have made concerted efforts to simplify pricing structures. Fundamentally, much of the onus of studying existing software programs and potential cost-cutting changes is on the enterprise. Software vendors are increasingly working to make sure their customers understand exactly what uses are acceptable. For example, last year Oracle released the same pricing materials to the public that its sales people draw on. Equipped with the facts, IT managers can do their own research on the potential fees associated with whichever software package they choose. That makes it easier for customers to understand their licensing agreements and manage these assets more effectively.

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