Cutting the Cost of Software for State Government

Software asset management tools and benchmarking data help states reduce spending on software licensing and compliance.

Software licenses consume a significant portion of a state's IT budget. The difficulty of managing hundreds or thousands of licenses for software running on both physical and virtual platforms across a large enterprise often inflates those licensing costs.

In 2015, International Data Corporation (IDC) predicted that in 2016, complexity in software licensing would cost organizations an average of 25 percent of their software license budgets. "Complexity leads to cost when organizations 'license up' to mitigate compliance issues," said IDC's Program Vice President Amy Konary. "Costs are also incurred because of noncompliance, and complexity in licensing makes this harder to avoid."[1]

Major software vendors approach license negotiations from a position of vast power. Their software comes with long, intricate lists of terms and conditions, and pricing models vary tremendously. States often enter procurements with no idea of what other states are paying for the same products.

Compliance challenges have grown even tougher because vendors are conducting more audits to confirm customers are obeying all the details of their licensing agreements. A state that fails an audit might lose millions of dollars in fines and supplementary fees. Reducing software costs is particularly important for states under tight budget constraints where savings can be redirected to other critical IT requirements, including, but not limited to, security, development and data warehousing.

Here's how two states are leveling the playing field in their negotiations with software giants.

Illinois

The Illinois Bureau of Communications and Computer Services (BCCS) provides IT services to state agencies, boards and commissions. While it already manages many agency IT assets in its data center, the BCCS will become a fully centralized IT organization in 2016 and take a new name, the Illinois Department of Innovation and Transformation (DoIT).

In an ongoing effort to reduce software costs, BCCS recently partnered with Minneapolis-based software asset management consultant ISAM to strengthen its position in license renewal negotiations with a business software corporation.

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"Our challenge was that the price tag was too high and the licensing model was very confusing," said Scott Norton, chief of enterprise infrastructure at BCCS. "We engaged ISAM to help clarify the licensing options and offer other options that were more cost effective."

To help evaluate the vendor's initial proposal, ISAM drew upon data from GreenBook, its proprietary database of product usage and pricing at data centers of many different sizes. Using this benchmark data, Illinois compared the software vendor's proposal with agreements that other state governments had forged with the vendor.

"Ultimately, we worked through a spreadsheet that also contained the options for certain license configurations, along with seat license counts that varied across the enterprise," Norton said. BCCS used this information to create several licensing scenarios that the vendor could use to develop alternative quotes.

"The data that was most interesting and useful was the clear presentation of what each license type provided for each user," Norton said. "By the end of the process, we decided to purchase fewer licenses of the more expensive product for one-third of our user base across the enterprise." BCCS will have to upgrade those licenses in the long run, but it will not do so until end users actually need the costlier features. That strategy potentially saves the taxpayers of Illinois more than $12 million, Norton said.

Arming itself with benchmark data not only helped Illinois negotiate a much better agreement, it also saved BCCS a great deal of time and effort. It used to take weeks of back-and-forth

communication to negotiate a software license, Norton said. "It consumed and eclipsed other work." With a consultant as a partner, BCCS started making substantial progress within days. The negotiating team gained a better understanding of the vendor's proposal than it could have in the past, he said. "We also knew that we had options that were never presented by the vendor sales team."

This was not the first time BCCS used benchmark pricing data and related services to strengthen its hand in negotiations with a large software vendor. For example, the same strategy helped Illinois save: $1.4 million on an enterprise licensing agreement (ELA) for enterprise software in fiscal year 2012 and $1.7 million in FY 2014; $80,000 on security software; and $300,000 on legacy modernization software and services.

Montana

An evolving technology environment is driving changes in how Montana state government manages software. Although computer hardware prices continue to fall, software licenses remain expensive, said state CIO Ron Baldwin. That's driving the state to become more sophisticated in how it oversees software resources.

Software asset management (SAM) is part of Montana's three-prong strategy for reducing and managing software costs. First the state designs enterprise solutions that maximize the use of shared platforms and licensing. Next, it negotiates proactively. The state's contract manager enters discussions armed with detailed information about vendors and licensing options. Montana has implemented a SAM solution to ensure the state complies with vendors' terms and conditions to reduce the liability of software audits.

"The complexity of licensing software in a complicated enterprise, and in virtualized environments, is driving our need to be more rigorous in how we manage software as an asset," Baldwin said.

With guidance from a consultant, Montana purchased a SAM solution several years ago. "It's an automated software inventory and monitoring tool that also allows the input of terms and conditions to help monitor compliance," Baldwin said. The tool helps the IT team ensure that Montana implements and uses all of its software in compliance with vendor agreements. The SAM tool also helps the state demonstrate its compliance during an audit.

In addition to helping choose and implement a SAM solution, the consultant also guides the state in implementing policies and best practices for passing software audits. And the company provides direct assistance when those audits occur. "They help us to transparently divulge everything we have and how we use it, and also help us understand how to work with the vendor to come into compliance if there are compliance issues," Baldwin said.

Because vendors keep stepping up the frequency of audits, and because the IT environment keeps growing more complex, it's hard to make an apples-to-apples comparison between the way Montana handled audits several years ago and its success in that arena today, Baldwin said. But the new protocols certainly help the state keep pace with the accelerating challenge. "We're making sure we can withstand any audit that comes our way."

By rigorously tracking how and where the state uses software, the SAM initiative also helps Montana purchase the right software, and the right number of licenses, for future use. "We're making sure what we have is fully utilized, so we don't overbuy," Baldwin said. "If we buy software for one agency, and if it could also be used in another agency, we try to negotiate that license so we can leverage the software more broadly across the enterprise."

Turning the Tables

When you know the pricing and terms that other states have obtained from major software vendors, you gain the power to control costs while negotiating contracts that best meet the needs of your state. And when you have a detailed view of your software assets — what you've implemented, where it's installed and exactly how you're using it — you gain the power to succeed in an increasingly complicated compliance environment. With effective tools and strong advice, a state may cut its software costs by millions of dollars.

This piece was developed and written by the Center for Digital Government custom media division, with information and input from ISAM.

Endnote

1. Amy Konary, "IDC Software Licensing and Pricing Predictions 2016: Top 10 Predictions," November 23, 2015, https://www.linkedin.com/pulse/idc-software-licensing-pricing-predictions-2016-top-10-amy-konary

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