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Software License Management:

Mitigating software subscription challenges in the networking industry

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Introduction

The IT Asset Management (ITAM) space has transformed enormously in recent decades. As enterprises have migrated from hardware-based IT infrastructure to hybrid environments with a significant software component, value-added resellers (VARs) and service providers (SPs) have had to adapt their management systems to meet the changing IT landscape.

A few decades ago, IT infrastructure consisted almost exclusively of hardware-based assets that were managed locally. At the time, only around 5-10% of the cost of an average telecommunications device was attributed to software. The shift in the industry toward public and private cloud environments, software-only virtual appliances and Software Defined Networks (SDN) changed how solution providers monetized their products.

> Revenue from software-licensed components has consequently ballooned — software now constitutes around 40-50% of total product cost, and it can even reach a full 100% in some cases.[1]

The rise in software infrastructure has come with the rise in software subscriptions. In this model, the user has a right to use the software for a defined period of time based on the terms of the software subscription. For the networking industry, the management of software subscriptions is becoming a requirement, and the industry is facing new challenges when it comes to software utilization and consumption. Unfortunately, in today's IT environment, approximately 30% of all IT software is underconsumed, resulting in overspend and underutilization of assets.[2]

Information about software usage patterns is more available than ever and can be used to the advantage of both enterprises and VARs and SPs. By utilizing proper ITAM practices, enterprises can turn an unexpected and painful operational challenge into a money-saving opportunity.

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1 Ben Strickland, Introduction to Software License Management, RAY ALLEN, Inc., August 2019.
2 Flexera, 2020 State of Tech Spend Report, 2019.
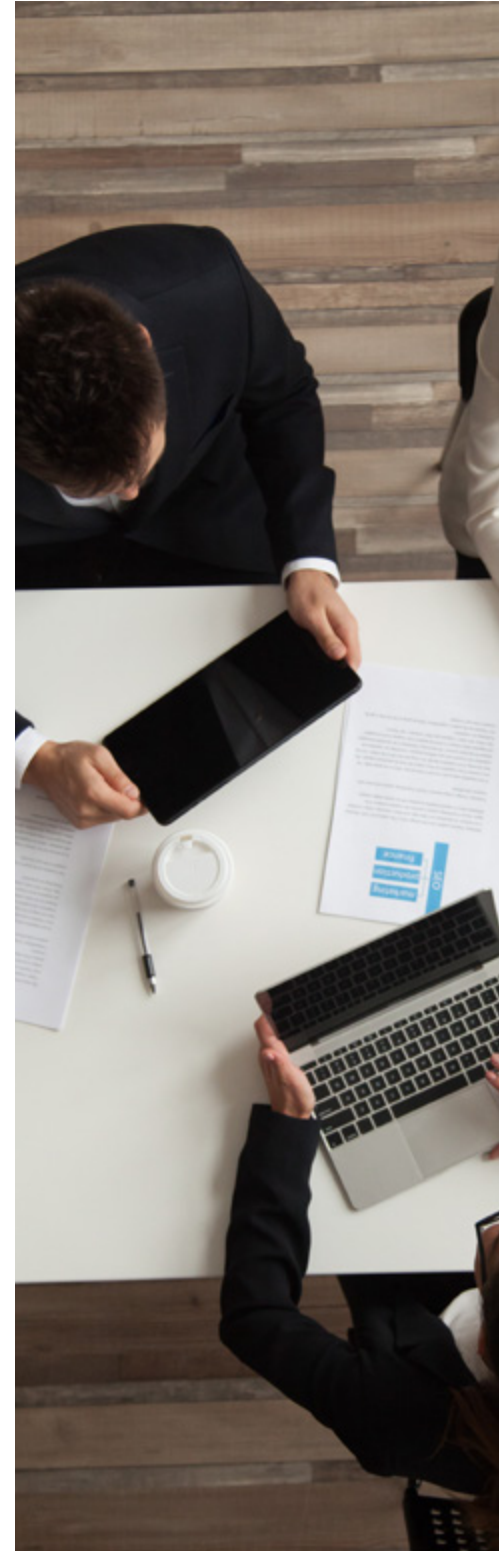
How Does Hybrid Networking IT Complicate Software License Management?

Managing software consumption in a hybrid IT landscape involves a highly complex migration process that can consume huge amounts of time, energy and resources. A typical migration usually requires replacing products and network infrastructure, identifying which assets will be virtualized, and developing a new set of tools to understand how to manage new costs.

> For IT infrastructure relying on the subscription model, organizations must learn how to accurately track their subscription usage so that they know when licenses need to be purchased, renewed or terminated.

Enterprises must also decide which parts of their legacy infrastructure will remain in place. Not everything can be migrated to the cloud; often a large portion of physical hardware must remain after a full migration has occurred. This means that even within a software defined network (SDN), organizations will have a mix of hardware and associated software, as well as virtualized hardware. This hybrid landscape may contain a variety of different asset types, many of which may have similar functions but different Software License Management (SLM) requirements.

The timing of the migration is critical and can play a significant factor in the success and seamlessness of the transition. Enterprises must decide how long they will continue to use their legacy infrastructure and whether there will be costs associated with using this hardware for an interim period.

After completing the migration, there must be a system of governance and accountability in place to ensure that licenses are properly analyzed and the correct decisions are made regarding their purchase and renewal. Enterprises that complete this migration process must then be able to accurately identify what software they have purchased, what they are using and any discrepancies between the two. If this is not done properly, it can lead to a chaotic situation in which an organization's license estate has a significant over- and underconsumption of software subscriptions. This could cause a variety of negative business outcomes and wasted IT spend.

What are the Major Causes of Over- and Underconsumption?

As enterprises oversee the digital migration of their IT infrastructure, there are a host of potential pitfalls that could lead to both over- and underconsumption of subscriptions. Organizations that did not previously have to track, manage or analyze their software subscription utilization now find themselves in need of automated tools, operational staff and well-defined business processes. This is to ensure that they are receiving the full value and outcomes from their IT spend. Each of these three functional areas — people, process and tools — is an integral part of enabling proper software consumption.

People

Many organizations have not accounted for the staff needed to properly manage their software consumption. If there are no personnel responsible for the deployment and usage of software licensing, it leads to situations where local needs are solved with no regards to the overall license health of the entire organization.

Organizations can then end up with a huge disconnect between their procurement and IT departments. Without a clear plan, IT staff may pull licenses from incorrect sources, purchase new licenses when reusable licenses are available, set up unauthorized subscriptions and use Enterprise License Agreements inefficiently. At the same time, management may request new purchases from procurement even though there are licenses that are available and unused (and now underconsumed). As a result, the volume of software being purchased is completely unaligned with the software usage of the organization.

To resolve this disconnect, an organization not only needs people — it needs people with the appropriate ITAM expertise and skills to deliver the positive business outcomes it wants.

⚙ Process

Effective procedures and processes must be defined, developed and put into practice to enable the appropriate personnel to execute. The actual process of managing software consumption is often an afterthought, but it is a necessary part of achieving the desired business outcomes associated with reducing wasted IT spend.

The disconnect between the business outcomes and the processes needed to reach those outcomes is one of the primary challenges organizations face in instituting a solution that meets their business goals.

Appropriate processes will involve the relevant departments, personnel, third-party vendors and solutions, all working in tandem with high degrees of accountability to ensure ease and efficiency. It is important to remember that all of this will be compounded by the internal needs and complexity of the specific organization — there is no "one-size-fits-all" process that will solve everyone's challenges.

Each organization will need to take stock of their internal procedures, personnel and governance and evaluate if they have what they need to achieve their business objectives. This is a crucial step that is often overlooked.

An effective ITAM process usually also involves a well-defined collaboration process with

procurement. If the incoming funnel of software procurement is not aligned with the management of software consumption, the process will ultimately fail to achieve business goals.

⚒ Tools

Without the right tools to help staff execute procedures, the entire system will become so convoluted, manual and resource-intensive that the cost savings from an SLM practice will be consumed by the practice itself.

> What is the point of saving on IT spend if capital expenditure is going to simply be shifted to operational costs?

However, tools alone are not a "cure-all" for any organization. One of the common mistakes many organizations make is overvaluing the importance of their platforms and toolset. They assume that if they buy and are trained on how to use a tool, it will automatically solve all of their problems. In reality, it is the investment in personnel, processes and platforms, and the orchestration between these distinct functions, that is needed to actualize cost savings and proper license consumption.

How Does Software License Consumption Impact Business?

Depending on the maturity of an organization's SLM practices, software consumption can have a variety of impacts on both enterprise organizations and VARs and SPs.

Business Impacts for Enterprises

For enterprise organizations, incorrect software license consumption can **have clear downsides**, including:

- Wasted IT spend on licensing that is not needed or not being used

- Inability to properly scope new purchase needs

- Purchasing excess licensing that is already owned

- Manufacturer audits on overconsumption

- Costly true-up bills for Enterprise License Agreements

Business Impacts for Resellers and Service Providers

The challenges VARs and SPs face when it comes to their enterprise customers' business needs tend to relate to their overall recurring revenue streams. As the organizations reselling and renewing software subscriptions, they need to have an accurate picture of their end-customers' software usage and waste, otherwise it complicates and extends the renewal cycle. In many cases, VARs and SPs that do not have a mature ITAM practice are not fully capturing the needs of their customers, which impacts the overall customer experience and can drive customers to competitors.

When VARs and SPs provide their customers with incorrect subscription consumption details, it can lead to **such negative effects as:**

- Decreased customer satisfaction

- Extended renewal cycles

- Increased sales and support costs

- Potential competitive threats

- Loss of revenue due to overconsumed licenses

How to Optimize Software License Consumption

There are always both challenges and benefits that come with any large industry shift or evolution. The networking industry has been undergoing a large digital migration for many years, and the reality is that there is no turning back. Hybrid IT is here; it is no longer a future concept. The organizations that can rapidly adapt and adopt a mature ITAM practice will be those who are best positioned to thrive in the years to come.

The good news is that the challenges that accompany software consumption in the IT networking industry are solvable with an effective ITAM solution. To realize the benefits and business outcomes of such a solution, organizations must decide whether to purchase or build an SLM practice that works for their hybrid IT reality.

Although the optimization of software consumption is well within the grasp of many organizations, understanding how to make it happen is a critical first step.

How to Achieve Equilibrium in Software Consumption

As previously mentioned, a mature software lifecycle solution consists of three main components: people, processes and tools. Whether an organization decides to take the steps in-house to build out a practice from the ground up, purchase a platform they will use with internal teams, or outsource their practice to a managed service, the three key components that drive success – people, processes and tools – remain the same.

Once a mature practice is designed and executed, an organization can begin to realize the benefits. According to Gartner,

> "Clients who successfully execute ITAM [including SAM] as a discipline have typically achieved 30% cost savings in the first year, and at least 5% cost savings in each of the subsequent 5 years."[3]

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3   Gartner Inc., IT Asset Management Key Initiative Overview, G00214140, 22 July 2011.

Answer Key Questions

By adopting a robust software management platform that tracks and displays accurate subscription consumption data and is backed by proper processes and personnel, organizations can **start to answer the following consumption questions:**

- What software subscriptions have we purchased (or sold)?

- What software subscriptions are we using that we have not purchased (i.e., overconsumption)?

- What software subscriptions have we purchased that we are not using (i.e., underconsumption)?

- When do we need to renew, purchase and/or true-up our software licenses?

Achieve Positive Business Outcomes

When designed and executed properly, a mature SLM practice will **lead to a variety of positive business outcomes:**

- Proactive risk mitigation for costly audits for subscriptions and Enterprise License Agreements (overconsumption)

- Cost savings for over-purchase and over-entitlement (underconsumption)

- The ability to accurately view all licenses and version types within the subscription to ensure the software estate meets security requirements

- Comprehensive view of data relationships between hardware, software, licensing, contracts and subscriptions

Using a mature SLM practice effectively nets the organization a positive return on, and confidence in, their investment. If implemented correctly, the return on investment for a mature solution should be far greater than the operational or capital expense of instituting the practice.

Controlling and Managing Software Licenses and Subscriptions in a Hybrid Networking IT Environment

Enterprises need to take the following initial steps to establish an effective SLM practice and successfully manage their software environment:

1   Enterprises need to inventory their software license and subscription estate. What licenses do they have the rights to use? What are their entitlements?

    They cannot measure consumption without first knowing what their estate "should be."

2   Enterprises must identify an executive sponsor who will own the investment and institute processes that hold people within their organization accountable for software misuse.

    They should set up policies and procedures that do not allow human error to be the deciding factor in their IT budget.

3   They must obtain knowledge on the nuance of software within the networking industry. What are entitlements? How do they differ from contracts? Why can an organization purchase support on licenses they do not even own?

4   Enterprises need to assess and analyze the risks of not having a mature SLM practice in their organization. What happens to their Enterprise License Agreement true-forward bill if they do not manage it properly? What happens if the manufacturer targets their organization for an audit and they are not prepared for it?

5   Finally, they need to find the correct ITAM solution for their organization. ITAM is a rapidly growing industry with a variety of vendors that can deliver effective solutions. Enterprises must find the right automation, develop the proper processes and hire or contract the correct personnel to properly manage their networking software estate and achieve their desired business outcomes.
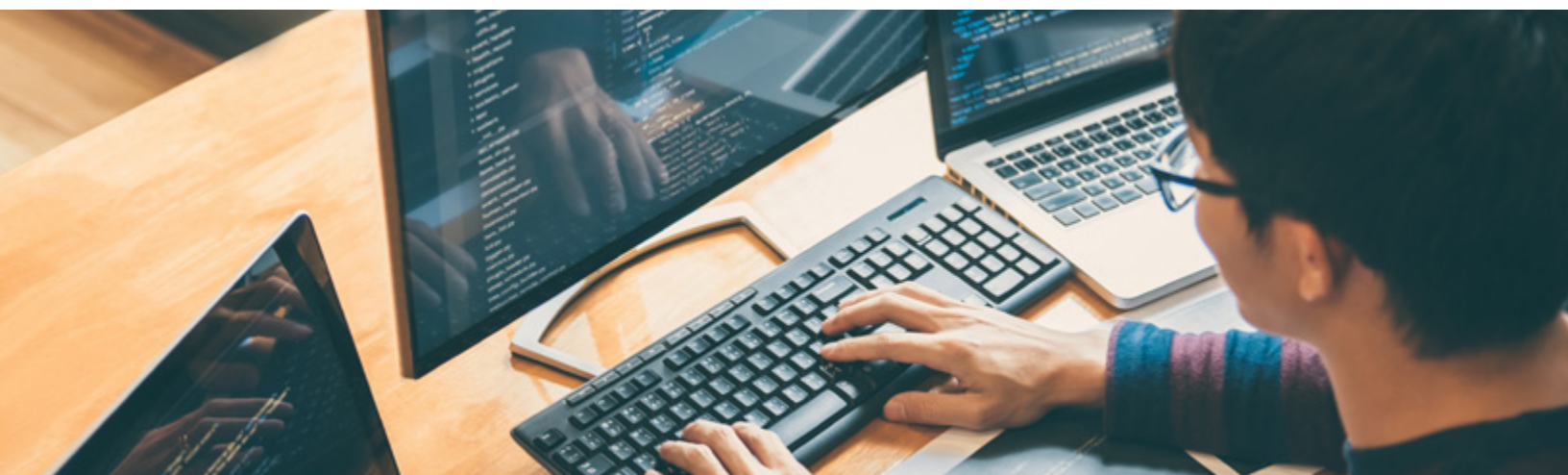
Partner with RAY ALLEN, Inc.

SLM can be a highly complex process, but with RAY ALLEN, Inc. on your side, it does not have to be. RAY ALLEN's solutions provide VARs and SPs with expert insights into their end-customers' entire hardware and software IT infrastructure, allowing them to effectively map out a robust and appropriate plan for purchasing and renewing software subscriptions.

To learn more and/or gain assistance with finding the correct ITAM solution for your organization, explore more RAY ALLEN articles or contact us to request a demonstration.

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