



Contract Consulting With Bottom Line Results

Buyer Beware

The software footprint at this Fortune 100 manufacturing company complicated preparation for IBM negotiations. Finance, Procurement and IT had a limited understanding of new and complex licensing metrics. Clarity was handicapped even further by the addition of a Point Value System, recent IBM acquisitions, bundling, and maintenance costs. In past negotiations, IBM provided deployment and entitlement data and “recommended” quantities and software titles for the contract renewal. But, a corporate mandate required significant cost reductions which created a reluctance to rely on IBM. Faced with a new multimillion dollar renewal, the IT and Finance teams recognized they needed assistance if they were to comply. The company turned to Siwel to help develop a negotiating strategy, determine organizational requirements, and provide guidance on contract terms and conditions to protect the company and reduce expense.

Business As Usual

The client was trapped in an all too common scenario — they relied on IBM to produce updated deployment and entitlement data, product packaging changes, metric changes, and other information related to their software portfolio. However, relying on IBM for negotiations required major assumptions. Was IBM supplying accurate information on usage and entitlements? Were they including all packaging options? What about software companies IBM had acquired, were those products and licenses included? Should they be?

There was a high level of frustration at the lack of transparency from IBM. Licensing metrics had changed from CPUs to Cores. IBM’s change to Power Value Units and a Point Value System meant even the IBM team wasn’t able to answer simple questions such as “How do the new metrics impact maintenance costs?” or “How does this contract compare to my previous one?” Understanding the net effect of these changes was next to impossible. Yet, answers were necessary to understand if cost targets were realistic and attainable. Siwel initiated a project to find the answers and develop tactics that would meet the client’s goals.

Establishing The Roadmap

Siwel’s Software Contract Consulting Services were employed to add strength to the client’s negotiating position. Each company and team has different needs. Some teams need access to better data on deployments while others may only need advice on shifting metrics. For this client, the engagement required analysis of internal data, rationalization of licenses, advice on contract negotiations, terms and conditions and vendor tactics. Siwel established four goals:

- 1) Determine an accurate accounting of entitlements including software titles of companies acquired by IBM. Quantify and qualify deployments and forecast future license requirements. Contrast to IBM renewal proposal, find areas of misalignment, and identify opportunities for cost reduction.
- 2) Analyze the impact of new licensing metrics on deployments. Provide advice on strategies to mitigate any potential cost increase on licenses and maintenance.
- 3) Expand renewal negotiations to include IBM software for three companies acquired by client. Establish one coterminous agreement and leverage the combined value to negotiate a higher discount and eliminate redundant purchasing.
- 4) Leverage Siwel’s experience from other negotiations to advise on contract terms and conditions and maximize software flexibility while reducing risk.

Overview

Client: Fortune 100
Manufacturing Company
Number of Employees: 100,000+

The Situation:

IT budget cuts focused attention on the IBM software contract renewal. In five previous renewals the company handled negotiations in-house. However, scrutiny on any new spending led IT to seek outside advice to secure additional cost reductions.

The Solution:

Siwel armed the client with better data on software usage and future requirements. We also provided insight on other IBM software negotiations. Siwel’s assistance resulted in a 19% reduction in IBM spend.

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Results That Count

Siwel's main goal was to create a strong negotiating position by providing the client with greater insight to enterprise wide IBM software entitlements and deployments. Once established, Siwel drew on its experience from dozens of other IBM renewal negotiations to advise on market dynamics and contract issues. We initiated a process to reveal the current state and contrast it with the proposal from the software vendor. Siwel utilized its proprietary methodology and Entitlement Reconciliation Database to analyze shifting metrics and supply the client with an accurate view of the impact of the new metrics.

As a result of Siwel's work, the client entered negotiations in a much stronger posture. With a defined negotiation strategy and better information on their license needs, the client negotiated from a position of strength. They were able to draw on the intellectual capital Siwel acquired during other negotiations and refer to accurate metric comparisons. Not all approaches or requests were ultimately successful but Siwel's analysis and recommendations created an environment where IT and Finance were clearly in control. According to the primary negotiator from Procurement, "IBM would not budge on all our requests, but with Siwel we were able to push the vendor in the direction our team wanted. We simply had more alternatives to present back to the IBM team... and more ways to meet our prioritized negotiation goals."

Through the careful analysis of the portfolio, Siwel provided the client with the necessary data to make good business decisions. We identified a significant number of unused and decommissioned licenses as well as several obsolete products. Redundancies from companies acquired by the client were also identified. Siwel provided an Entitlement and Reconciliation Report, analyzed metrics and entitlements from previous contracts, and compared them to the new proposed

terms. This identified several disconnects and large, unjustified price increases in some areas, all of which the client was able to negotiate downward. Siwel was able to reduce the number of renewed products by 10% resulting in a cost reduction of \$2.8 million between licenses and associated maintenance costs.

Combining license ownership and requirements from the corporate parent, acquisitions, and subsidiaries into one master agreement along with Siwel's analysis of similar contracts allowed the client to negotiate more favorable terms. This reduced costs another 9% or \$2.5 million. Finally, contract terms were negotiated that minimized shelfware by allowing greater deployment flexibility. By the end of the engagement, Siwel delivered savings of \$5.3 million while also strengthening contract terms and conditions in favor of the client.

According to the client, *“Siwel provided invaluable assistance in preparation for our IBM software negotiations. Their breadth of IBM related experience was a great addition to our internal team. Our new contract has increased flexibility but the real benefit is we were able to surpass our expense reduction goals. Bottom line— we got a much more flexible deal and lowered expense by almost 19%. ”*

About Siwel Software Asset Management

Siwel helps companies realize true cost savings by using its experience and knowledge in Software Asset Management. Our solutions reduce costs by analyzing, strengthening, and building your SAM program.

Since 1998, Siwel has managed SAM programs for some of the largest corporations in the world. We directly manage over \$3 billion in client software through our SAM Outsourcing Services. As a result, Siwel has unparalleled experience and expertise in Software Asset Management. Whether we are involved in a consulting engagement or a complete outsourced program, Siwel will lower your costs and make you more efficient.