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FlexNet Manager® Suite

for Enterprises

WHITEPAPER

Strategic License Management

Maximizing the Return on Your Software Investment



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Maximizing the Return on Your Software Investment

Introduction

Managing software effectively means treating it as a high-value business asset. Managing software assets can be difficult to manage for two primary reasons — the increasing complexity of licensing and the lack of adequate software asset management tools.

According to IDC, 33% of software customers in medium and large companies now manage more than 70 software contracts.¹ Managing multiple software contracts requires constant negotiations as different licenses require renewal at different times.

There are a variety of software acquisition methods and license types which differ from vendor to vendor and even department to department. These include software pre-loaded on computers, software downloaded via the Internet, volume purchases made directly from publishers or through resellers and hosted applications.

Further complicating matters, licensing may also include multi-user software with enterprise, transaction, processor, concurrent user or named user constraints. Given these options and variables, it's no wonder that 70% of customers surveyed by IDC say the complexity of managing software contracts has increased in the past year.²

Until recently, effective software asset management tools that streamline management and prevent misuse have not been available. The resulting lack of visibility into how, when and by whom software is being used causes enterprises to over-license some applications and under-license others.

Faced with ongoing budget constraints, corporations increasingly recognize the value of software asset management. According to IDC, companies spend \$140 billion on software each year, and 65% of software customers surveyed state that it is likely they will start collecting more accurate usage data to help guide purchase decisions in the next year.³

To help IT managers navigate through the software licensing maze, Flexera Software is offering this guide to the business and IT communities. It includes a five-step implementation plan and management tool selection criteria designed to help managers maximize the value of their software assets. With an effective license management strategy in place, managers will be able to:

- Increase productivity through global license sharing/pooling
- Optimize IT spending with usage-based purchasing
- Simplify license administration by centralizing licensing operations

Pitfalls of Software Mismanagement

Ensuring applications will install and run predictably on Managing software assets effectively means minimizing costs while providing sufficient capacity and flexibility to meet business requirements. While most managers understand how to manage physical assets, 67% of companies polled noted that they do not track their software usage.⁴ Few know how to manage software licenses as business assets—despite the fact that they may be responsible for—tracking millions of dollars worth of software products.

Because IT managers lack visibility into actual software usage, they frequently overestimate or underestimate their software needs in their efforts to balance cost control and end user productivity. These mistakes can significantly impact the profitability of the entire enterprise, as the following scenarios show.

Excess licenses (“shelfware”). To ensure that users have access to all the software they need, IT managers routinely buy more licenses than their organizations actually require. This eliminates denial-of-service problems, as in situations where a user tries to access a license to a particular application but is “denied” access because other users have already checked out available licenses. But it also increases software costs and lowers corporate profits—not an acceptable outcome for most businesses.

¹ IDC Future of Licensing Study, 2004.

² Software Licensing, The Recognition of Value, IDC, May 2004.

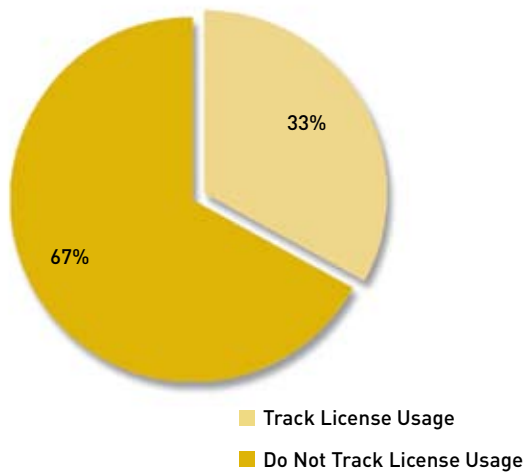
³ IDC Future of Licensing Study, 2004.

⁴ Ibid.

Insufficient licenses. To contain software costs, managers may purchase too few licenses. This often results in denial of service when end-users need access to applications. Although this approach cuts software expenses up front, it can create productivity problems that cause delays and erode profitability, as is the case when a product arrives late to market. Again, this is not a good outcome for most businesses.

Excess and insufficient licenses. Sometimes a software application is over-licensed by one department and under-licensed by another within the same organization. Sharing licenses would save costs and promote productivity, but most managers have only a limited, local view of their software assets, making it difficult to identify—let alone resolve—these kinds of allocation issues.

Figure 1. The majority of software customers do not track license usage.



Source: IDC Future of Software Licensing Study, 2004

Using Strategic License Management to Optimize Expenses and Increase Productivity

Most IT managers currently make software purchase and renewal decisions by relying on whatever local usage information they have available. They allocate current licenses and “guesstimate” the number and type of licenses they will need in the future on this basis. This approach may sound reasonable, but in real-world terms it is fundamentally flawed. Without a global view of their licensing operations and actual usage data to base decisions on, they frequently miscalculate their licensing needs. As a result, they commit costly errors by buying too many or too few licenses, which perpetuates the self-defeating cycle illustrated in Figure 2.

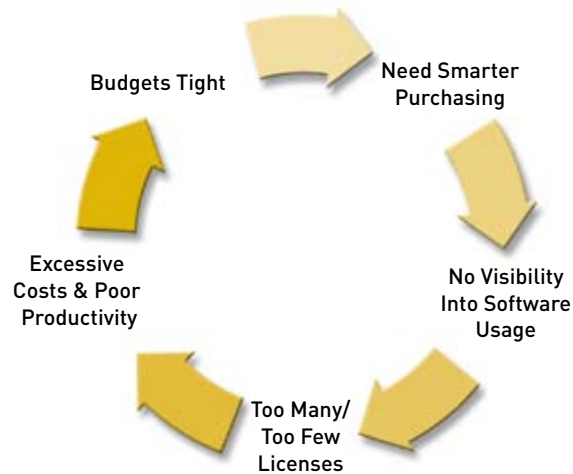


Figure 2. Inefficiencies driven by poor visibility into software usage.

The key to avoiding these and other costly errors is a strategic license management solution that provides comprehensive information about the organization’s actual license usage. Butler Group recommends the use of software asset management tools to centralize licensing operations, leverage usage statistics to track the number of licenses an organization holds, and determine the effectiveness of software.⁵

Implementing Strategic License Management: A 5-Step Methodology

The two main components of strategic license management are 1) license sharing and 2) usage-based purchasing. Simply put, these measures allow enterprises to purchase and pool software licenses in a way that corresponds exactly with their usage needs. No more money wasted on shelfware, no more productivity lost from denial-of-service delays. With strategic license management, organizations obtain the maximum return from their software investments by optimizing every dollar spent on software-related costs.

Following is a 5-step methodology for implementing strategic license management that illustrates the value of license sharing and usage-based purchasing across the enterprise. At each step, unnecessary spending is reduced, under-utilized licenses are redeployed, and end-user productivity is enhanced.

Step 1: Centralize All Licensing Operations

Decentralized licensing, a common feature of today’s IT landscape, makes it difficult to see how, when and where licenses are being used. This lack of visibility can result in too many or too few licenses purchased (see Figures 3 and 4). It also has the unfortunate side effect of forcing multiple administrators to become licensing “experts”, resulting in staff redundancies and operational inefficiencies.

⁵ Pressure Forces Flexible Software Licences, by Arif Mohamed and Steve Hill, August 4, 2003.

Distributed retailing offers an analogy regarding the problems of decentralized software licensing. Some large chains found that, in decentralizing operations to regional warehouses, it was necessary to maximize stock to make sure that there was enough merchandise on hand to satisfy demand. But demand for products wasn't equal in all areas. This resulted in overstocking certain items in one region, while understocking the same items in another.

Retailers solved this problem by consolidating and centralizing warehouses. Using the retail experience as a guide, centralizing software licenses means that headquarters and satellite facilities can pool their licenses so that enough are available at all times—particularly during periods of peak activity—without buying more licenses than are actually needed.

By centralizing their licensing operations, IT managers and administrators gain a single console view that allows them to manage and maintain licenses and servers across the global enterprise. This in turn allows them to inventory current software assets to see (a) which licenses are available and (b) when they will expire. Underutilized licenses can be re-deployed or shared among departments, eliminating shelfware and unnecessary purchases while boosting end-user productivity throughout the organization.

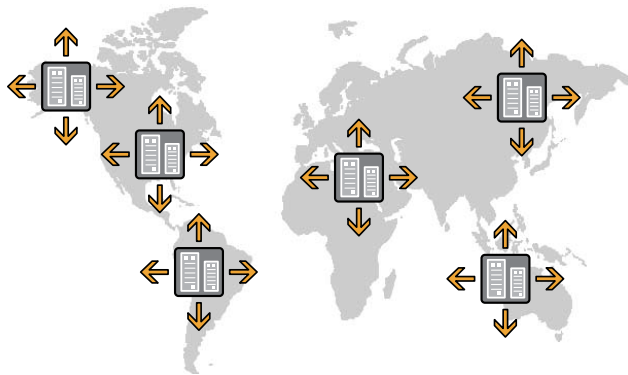


Figure 3. Decentralized licensing requires extra inventory and can result in excess licenses and denial-of-service delays.

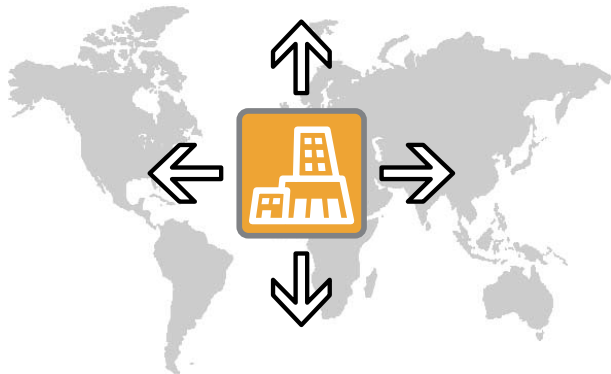


Figure 4. Centralization enables license sharing, eliminating shelfware and unnecessary purchases while boosting productivity.

Centralization also enables proactive management and usage alerts that notify administrators of potential problems before they affect end-users and customers. Resolving issues early helps ensure ongoing productivity and lower administrative costs.

Lastly, centralization makes much better use of valuable IT staff resources. Instead of managing licenses locally with multiple licensing experts, IT departments can now designate one administrator to manage all servers and licenses globally using a streamlined, web-based interface. This frees senior IT staff to focus on more mission-critical tasks.

Step 2: Leverage Accurate Usage Statistics

Managing user demand and optimizing software costs require absolutely accurate usage data. Relying on data that is accurate only within 4% to 5% can result in costly mistakes. Consider an organization with 4000 licenses, each costing \$5,000. A 5% error in peak usage data translates to over \$1 million of unnecessary costs.

But how do you get accurate usage data? Some software asset management tools do not monitor the use of licenses or specific modules, but monitor only when users install software on their desktops. Users can't "check in" a license when they are done with the application, which forces their companies to buy excess licenses.

These sub-optimal license monitoring packages present this information as a crude approximation of license use. This, however, is a grossly inaccurate usage estimate of anything but the most basic software licenses. For example, this approach does not accurately report on bundles of software sold as software suites. Managers should therefore avoid using this rudimentary approach to software asset management.

Few people will debate the accuracy and completeness of software asset management data when it matches the software vendor's license management results. Armed with insight into how many and what type of licenses they will need in the future, IT managers can base their purchase and renewal decisions on accurate data derived from historical usage over time instead of using best estimates.

Step 3: Analyze Usage Reports

By segmenting and analyzing usage data by project or user group, managers can gain granular insight into their organizations' actual software usage. This enables them to address key issues such as:

Reducing Spending on Unnecessary Software Purchases. Many organizations routinely pay periodic software update and support fees without reviewing how many users are still using the associated products. Eliminating or reducing update and support costs for unnecessary, unused, or under-utilized software is a painless way to reduce software costs.

Organizations can also recover value from shelfware and other software they no longer need. Vendors often sell software licenses at significant discounts if the licenses are purchased as part of a “competitive upgrade”. There is no better software to trade in than software your organization isn’t using.

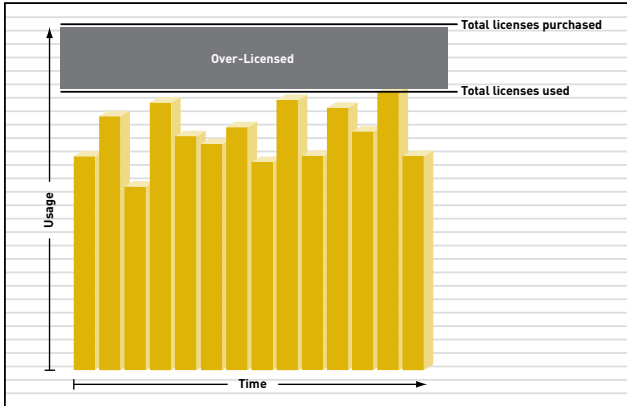


Figure 5. Overlicensing results when license usage falls below the number of licenses purchased.

Managing Peak Demand. The best way for managers to determine how many and what kinds of software licenses to purchase is to define their peak demand periods. A good operational definition of peak demand is any time 90% of available software licenses for a given product are being used. For example, if an organization has 10 licenses, peak demand occurs when only one or none is available.

By understanding the usage patterns that emerge relative to time of day, week or month, IT managers can determine average duration of usage and decide whether to allow denial of service, and, if so, for how long. For example, a denial of service that lasts only a few minutes may be acceptable because it significantly reduces licensing costs. A denial of service that lasts more than an hour, however, may be unacceptable due to its adverse impact on users or customers. In both cases, analyzing usage data gives IT managers a choice in whether they manage peak demand by allowing or denying service, and provides the granular, user-level and department-level information they need to make usage-based purchasing decisions.

Managing software assets based on peak demand is most critical for shared licenses, such as floating, named-user and node-locked licenses. If an organization has enough shared licenses to meet peak demand, there will be sufficient capacity for off-peak times as well.

Another important strategy to minimize peak demand is encouraging users to change wasteful or inefficient behaviors without impacting their morale or productivity. These behaviors include license “hoarding”, which occurs

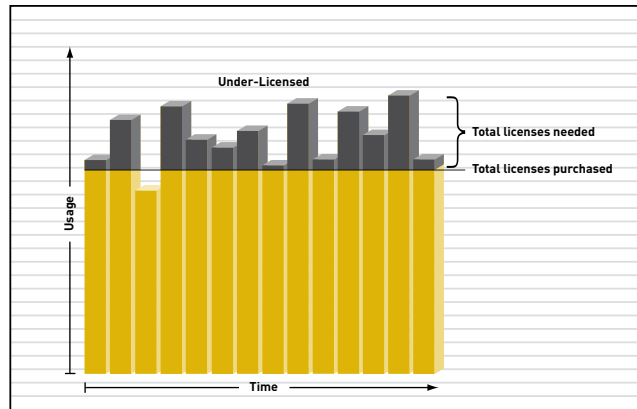


Figure 6. Monitoring usage for peak demand ensures end-user productivity.

when users refuse to exit applications not in use because they’re afraid they will be denied service the next time they try to access the application.

Optimizing Software Renewals and Remixes. Managers can also analyze usage data to help determine software renewals and remixes. Many organizations automatically purchase new updates or stay on annual maintenance contracts for all their software licenses. However, the number of licenses they actually use may have declined significantly. Making incorrect assumptions about usage can be a costly mistake. In fact, it’s been estimated that some IT departments spend 10-20% of their budgets on software updates and maintenance they don’t even need. Accurate data on actual usage, however, gives managers the information they need to negotiate successfully with software vendors, and get the most value from their software.

In addition, a robust reporting system that provides usage data over time can help managers verify whether shifts in usage trends are permanent or just upturns and downturns in the business cycle. This allows them to optimally remix (i.e., redistribute the mix of) software offered by a vendor. For example, a product design project may require one set of software tools to build a conceptual model, another set to build a prototype, and a third set to test the prototype. In other words, as the project lifecycle progresses, tool usage will change.

By analyzing usage data, IT managers can determine how best to weight the percentage of each software product and module within their remix. This ensures that users have the right number of tools available when they need them, and allows enterprises to derive the most value from their software contracts.

Step 4: Automate Licensing Operations

Licensing decisions aren't one-time events: so long as a company continues to pay maintenance fees, managers must constantly reevaluate their usage patterns and reassess their licensing needs. Once they have determined what statistics and reports they need to make informed business decisions, they can automate the collection and generation of information so that key usage data is updated regularly and always available.

For example, sharing expensive software licenses with other users or departments can save a lot of money, but internal departments must be able to cross-charge for the shared usage. However, managing these inter-departmental billbacks manually with monthly spreadsheets is extremely time-consuming and inefficient. Automating billbacks, on the other hand, makes it easy and cost-effective to share licenses while improving internal accountability. IT organizations can also use automated billbacks to allow individual departments to purchase specialized software while keeping them accountable for the cost.

Automated billbacks enable IT departments to establish shared license pools with prioritized resource allocation. This allows departments or users with high-priority needs to "reserve" a fixed number of shared licenses, ensuring software availability. The reserved licenses and any additional ones they use are billed back to them, providing better cost-efficiencies across the board.

Step 5: Select the Right Software Asset Management Tools

In today's corporate environments, managing software assets without effective tools is nearly impossible. Using the right tools not only makes managing software easier, it also reduces the burden on administrators and increases end-user satisfaction. But how can managers decide which software asset management tools to use? By requiring that they meet all of these selection criteria:

- Generates accurate and complete usage data, down to the feature and module level, that both software vendors and customers can trust.
- Gives license priority to critical users, or excludes unauthorized users from access to software licenses.
- Provides a "lights out" management approach that uses alerts to notify administrators of potential problems and job schedules to automate routine maintenance and generation of usage reports.
- Reduces the manpower and level of expertise required to manage license servers, software licenses and license usage reports.
- Generates advance warnings when licenses are about to expire.
- Allows administrators to stop unlicensed applications from running if such use violates licensing terms. This ability enforces paper license terms and reduces unlicensed use and attendant audit risks.

FlexNet™ Manager

FlexNet Manager is a complete software asset management system that provides enterprises with a powerful set of tools to optimize the business value of their software licenses. FlexNet Manager helps IT professionals centralize all licensing operations, leverage accurate usage statistics, analyze usage reports and automate licensing operations.

Unlike products that only provide partial or snapshot information, FlexNet Manager offers direct access to license usage information, ensuring that IT managers have comprehensive management and control of their licensing assets.

FlexNet Manager provides administrators with a single console view of their software licenses and license servers across the global enterprise. Administrators simply identify their license server environments and immediately have a network-wide view of their license assets. From this management console they can:

- Monitor and manage license servers
- Set alerts to notify administrators of potential problems
- View in real-time what licenses are in use and who is using them
- Run historical usage reports to optimize software spending and simplify license administration

FlexNet Manager is the only solution fully integrated with FlexNet, the industry's only universal licensing platform. FlexNet's modular architecture supports a wide variety of licensing models and applications, allowing enterprises to implement the license management solution that best suits their administrative and reporting needs.

In Summary

The day is long past when IT professionals can leave the vagaries of software licensing to chance. The stakes are too high, the issues too complex and the downside too severe. With companies of all sizes struggling to squeeze every penny of value out of their assets, strategic license management has become a key element in the IT mix.

FlexNet Manager helps IT professionals to centrally track, manage and optimize licenses to maximize the value of their software assets. It provides unprecedented visibility into the licensing environment, as well as historical usage data over time. With this information, managers can better allocate their license and staff resources, and make valid decisions that help align IT resources with business objectives.

By following the five-step implementation methodology and selection criteria outlined in this white paper, IT managers can now extract bottom-line benefits from sharing licenses across the enterprise, re-deploying underutilized licenses, eliminating unnecessary software purchases, and enhancing end-user productivity.

Appendix: Cost Elements that Impact Software Expenditures

When considering software costs, most people only account for the two most obvious expenses: license and maintenance fees. But in order to fully understand the importance of strategic license management, it is essential to first identify and define all the costs impacting the corporate licensing environment. For most organizations, their software-related costs encompass all of the following elements.

License fees. The terms that form the basic pricing structure for the software purchased. Vendors frequently offer different types of licenses for the same product. These license grants may be site licenses, licenses specific to certain computers (node-locked), personal use licenses granted to individuals, licenses that float over a network, or usage-based licenses. A critical part of managing software licenses is purchasing the right mix of license types based on accurate usage data. This minimizes license fees while ensuring that employees have access to mission critical applications.

Update/Maintenance fees. Update fees are proportional to the value of installed software licenses, typically 10% to 20% of the license fee per year. Many organizations automatically purchase new updates or stay on annual maintenance contracts for all of their software licenses. However, the number of licenses needed may have declined significantly, or users may have migrated their use to some other product. Without visibility into how software is actually used, organizations may inadvertently spend a significant part of their IT budgets maintaining shelfware or other software that is no longer in use.

Service Denials. Real costs rise and productivity goes down when employees must wait for software licenses, or when the right software is not even available. These costs delay product development or manufacturing, and reduce customer and employee satisfaction.

Software support. Vendors frequently sell support for a fee proportional to the value of the installed software licenses. Support may also be sold on a per-user basis. Assuming that all licenses need support can be a costly mistake.

System administration. A typical decentralized licensing environment may require a whole team of “licensing experts” dedicated just to administering license functions. Maintaining multiple license administrators keeps headcount—and overhead costs—high, and may prevent highly trained IT staff from focusing on tasks that require genuine expertise. In a centralized licensing environment, system administration costs are much lower because a single administrator can manage multiple licensing servers using a console that provides a unified view of all licensing operations.

About Flexera Software

Flexera Software provides solutions that power the business of software for multiple customer segments, including hardware and software producers, engineers and developers, helping them uncover revenue opportunities, streamline their infrastructure and reduce costs. Flexera Software’s proven solutions have been simplifying the business relationship between software and hardware producers and their enterprise and government customers for more than 20 years, enabling Flexera Software to maximize the value of the software the world develops and uses. For more information, please go to: www.flexerasoftware.com.



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