

# Manage Software Renewals to Save Money Through Teamwork

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The approval process for software maintenance and support renewals is often seen as an administrative task that should be owned by the budget holder. Implementing consistent processes and governance and engaging stakeholders ensure that renewals are managed to maximize operational efficiency and value for money.

## Key Findings

- Team effort is required to manage renewals, as companies generally do not centralize all aspects of software support and maintenance payments.
- Lack of communication between those that negotiate contracts and those that manage renewals increases costs.
- Lack of teamwork results in renewing support and maintenance or subscriptions for products that are no longer used.
- There is significant potential for savings (against both budgeted and unbudgeted expenditure) from improved governance and standardization of processes, especially in the first two years.
- Renewal spending is rarely leveraged as part of negotiations on software purchases. New deals are an opportunity to improve support terms for the entire vendor portfolio.

## Recommendations

- Software asset management, procurement, finance, vendor management and any business application owners should collaborate to design, manage and control the renewal process.
- Start the renewal process well in advance of the cancellation period to allow full analysis of requirements and vendor quotations.
- Include contract review in the renewals process to ensure that costs align with terms and conditions such as price caps.

- Require a justification for the renewal and make the business owner responsible for budget-setting and authorizing payment and/or cancellation.
- Downgrade support levels to less-expensive options (at lower service-level agreements) if you are paying for a higher level of service than you need.
- Coterminate renewals where appropriate to reduce administrative overheads.
- Track the life cycle of the software so that appropriate planning, budgeting and upgrade work is done prior to the software entering costly extended or custom support phases of the vendor's support policy.

## Analysis

### A Lack of Teamwork Results in Higher Costs and Higher Workload

Invoice renewal is a common affair in business, and is often viewed as a nonevent. When organizations receive payment requests and renewal notices for software support, maintenance and subscriptions, there is rarely a clear set of responsibilities set out or a process in place to check the requirement and validate the quotation. In many cases, invoices are simply processed by an order desk on the assumption that, if budget is in place, the bill should be paid. Organizations often miss deadlines and opportunities to alter elements of the subscription or the support and maintenance schedule, or even terminate unnecessary contracts. The first step in improving the renewal process and moving toward efficiency is to recognize the importance of teamwork.

Business, procurement and IT users often manage renewals independently and in an inconsistent manner that can have operational impacts (interruptions in service, poor vendor relationships and the need to raise urgent payments outside of business hours).<sup>1</sup> Individuals may be reluctant to relinquish control over what they perceive to be "their" renewals. Renewal management should therefore be designed and marketed to stakeholders with this in mind.

Collaboration between all stakeholders, from finance to the operational managers of the technology, can result in significant financial, commercial and operational benefits. Adherence to price caps can be enforced on renewal, cancellation penalties can be avoided by canceling with sufficient notice, and late payment penalties can be averted by allowing sufficient time before the renewal date to agree and raise payment paperwork. Software entitlement records can be validated and updated as part of the process, and the operational impact of late payment or erroneous cancellation avoided. Improved understanding of renewals can in turn lead to more-accurate budgeting and a clearer understanding of the value derived from the relationship with the vendor.

### Identify Roles and Responsibilities in Each Renewal Management Team

The first step in improving renewal management is to identify the stakeholders that need to be engaged in the process. Agreement should be reached as to where ownership of the process and responsibility for managing governance and process compliance should sit, but this varies depending on the organization. Discussion with Gartner clients indicates that the majority of

organizations managing renewals effectively assign ownership of the process and governance to either vendor management or software asset management (SAM; see Note 1). However, here we review important stakeholders to consider involving in the process. In many organizations, more than one of these roles may be filled by a single individual, but due to the way in which organizational structures differ from business to business, they have been documented separately. When deciding on the structure of your renewal team, ensure that the responsibilities are appropriately assigned to avoid any gaps in coverage:

- The **budget holder** is expected to answer the following questions with the help of SAM inventory data: Do we need it? Do we need as much? Do we need the level of support we're paying for? The budget holder should also provide data to back up the justification for the renewal or cancellation, which should be held on file for future reference.
- The **technology manager** is most likely to be able to confirm whether the products and/or support and maintenance are still required (and may also be, or represent, the budget holder). They also contribute to the process by ensuring that the strategic, tactical or legacy implications of the software and its dependent systems are clearly understood and inform the decision making.
- The **finance team** must confirm whether the renewal is budgeted for, where it is budgeted, and the amount. Finance is responsible for the reallocation of costs if a single payment is made for something funded from multiple cost codes. Finance should also ensure that renewals are included in the budget cycle and involve all stakeholders in the budget process each year, and ensure that issues such as inflationary increases, currency fluctuation and midyear purchases are addressed.
- The **contract manager** should provide contract details (if any), including payment terms, and the cancellation notice period. He or she should take responsibility for checking that the renewal quotation is in line with contract terms, and provide formal notification of termination if the contract is canceled. This will need to be signed by an authorized signatory of the organization.
- The **vendor manager** should inform the vendors that they are expected to provide clear, accurate, and timely quotations on request and that they must comply with the organization's renewal and purchase-to-pay processes in order to ensure prompt payment. The vendor manager should also be responsible for providing and maintaining vendor contact details, managing and resolving commercial disputes, and ensuring that the vendor understands and complies with the renewal process. Additionally, the vendor manager should track support metrics such as the number of incidents, vendor response times, total resolution times and overall satisfaction rating to inform the renewal decision, and for use in renewal price negotiations.
- It is important that **project managers** understand the renewal process, so that new support and maintenance can be added to the process as part of project hand-over. A checklist or template can be used to facilitate this, to ensure that costs are budgeted for, that all the relevant paperwork is in place with all stakeholders and that the hand-over is carried out effectively.

- The **software asset manager** ensures that the licenses for which payment is requested exist and that vendor and customer records agree. In addition, any license keys, license documentation or software updates delivered as part of the subscription or maintenance and support contract should be managed through SAM processes.
- The **accounts payable department** is responsible for processing the authorized purchase order and invoice, and paying the vendor when authorized.

The importance of the various stakeholders in the process will vary depending on what organizations are looking to achieve. However, in most cases, the accounts payable team members will not be decision makers in the process, nor would they be required to sign off on the decision. They should, however, be aware of the process and the role that they play in it. Project managers will only be involved in the process for new renewals, unless issues are identified in subsequent years, in which case they may be asked to provide further input. Involvement from other stakeholders will vary based on the importance, value and nature of the renewal, as well as on the accuracy of the available data, both internally and from the vendor.

Some renewals will require more-detailed analysis and debate than others prior to making a decision. In many cases (particularly once the collaborative process has been in place for a year or two), the majority of renewals will require very little involvement from most stakeholders, as there will be a clear course of action. Even when issues arise, it is often obvious who needs to resolve them, and the remaining team members are simply required to provide sign-off once they are satisfied that any problems have been appropriately dealt with.

## Setting Up a Team to Manage New Renewals

Draw up templates for the process, roles and responsibilities of managing renewals. As part of the procurement process, any purchase that involves a renewal should involve inclusion in the renewal process and budgetary approval of any ongoing maintenance costs. Project management processes should include renewals in the hand-over process when new systems go live. It is particularly important to ensure that subscription licenses are managed through this process from the outset, as administrative errors in their renewal can result in systems being unavailable until the situation is rectified to the vendor's satisfaction. At this point, consideration should also be given to what the data will be used for and where the information will be held as new software is added to the portfolio or when existing software is brought into the process.

## Make the Team Responsible for Process Improvement

Task the team with making improvements to the renewal process. The quickest of quick wins is often to coterminate many renewals for each vendor into one single annual renewal. Make this a regular process as software vendors continue to acquire each other at a significant rate. Many vendors are happy to accommodate cotermination requests, as it also reduces their administrative overhead. Licenses may have been purchased on an ad hoc basis, so examination of the renewals and a decision to coterminate may result in a move to volume licensing. One client consolidated 54 separate renewals with a single vendor into a single annual renewal, a significant reduction in the administrative overhead on both sides, and also moved to a volume licensing agreement that reduced the day-to-day administration required for the products concerned<sup>2</sup>. Generally,

cotermination is a low-risk strategy, but some vendors may use it as an opportunity to eliminate rights or recalculate maintenance<sup>3</sup>, and therefore care should be taken when adopting this technique.

## Report the Benefits of Teamwork

Reporting on the renewals process should form part of the governance. This has the advantage of providing a clear demonstration of the value that teamwork adds to the organization through the renewal process. If data is available to provide a baseline, giving a view of the situation before the collaborative process was put in place, then the impact of the reported benefits will be clearly demonstrated. Reports to consider developing include:

- **Waste reduction** — A reduction in or avoidance of late payment charges and cancellation fees incurred due to delays in decision making or responses on the part of stakeholders.
- **Variance to budget** — Both savings against budget and overspending (budget holders may otherwise attempt to disguise savings and use the excess elsewhere, or hide overspending). These reports will help to improve the accuracy of budgeting in future.
- Improved **data quality** (for example, missing data and inaccuracies identified — and hopefully fixed — during validation). Targets should be set for improvement in data quality and the process used to leverage information from stakeholders.
- **Cotermination** of multiple renewals per vendor to reduce administrative overheads and increase negotiating leverage.
- **Continuity** of subscriptions and support to protect operational continuity.
- **Cancellation payments and late payment fees** avoided by ensuring that these payments are justified in the same way as any other expenditure, so driving a culture of financial accountability (see "Create a Culture of Financial Accountability to Fund IT Through Chargeback").
- Improvements in **entitlement data quality** — the renewal process gives the software asset manager leads to track down entitlement, ensures annual validation of a significant proportion of entitlement records, and provides information to supplement and improve entitlement data.

Establishing a cross-functional team ensures that appropriate levels of reviews and scrutiny are applied to the renewal process. Customers that establish and effectively manage this process find not only the benefit of saving money, but also an optimized software environment that helps improve negotiation and planning activities.

## Recommended Reading

"Understand Oracle's Repricing Policy Before Combining Invoices for Prior Purchased Products"

"User Survey Analysis: Software Maintenance and Support Service Buying Trends, United States, 2009"

"Know Your Rights in IT Maintenance and Cloud Computing"

"Five Critical Success Factors for Advanced IT Asset Management and Successful IT"

"Five More Places to Look for Easy Cost Savings"

"Negotiating a Price Escalation Clause or Price Cap in a Software Contract"

"Application Software: Maintenance and Support Guidelines"

"Product Support: Demand Value, Not Just Discounts"

### Note 1 Software Asset Management Defined

SAM is a process for making software acquisition and disposal decisions. It includes strategies that identify and eliminate unused or infrequently used software, consolidating software licenses or moving toward new licensing models.

### Evidence

<sup>1</sup> A total of 233 conversations between Gartner clients and Gartner IT Procurement and Asset Management analysts during the past 12 months have raised specific issues and queries around software maintenance and support renewals across a range of vendors. These calls form the basis of this analysis to address these issues.

<sup>2</sup> Details of individual client calls are confidential. However, discussions relating to software asset management best practices and cost optimization frequently reveal similar opportunities for increasing efficiency and reducing costs by consolidating and coterminating software support and maintenance payments.

<sup>3</sup> Oracle's policy on recalculation of maintenance includes the following paragraph as of July 2010:

#### *Pricing Following Reduction of Licenses or Support Level*

Pricing for support is based upon the level of support and the volume of licenses for which support is ordered. In the event that a subset of licenses on a single order is terminated or if the level of support is reduced, support for the remaining licenses on that license order will be priced at Oracle's list price for support in effect at the time of termination or reduction minus the applicable standard discount. Such support price will not exceed the previous support fees paid for both the remaining licenses and the licenses being terminated or unsupported, and will not be reduced below the previous support fees paid for the licenses continuing to be supported. If the license order from which licenses are being terminated established a price hold for additional licenses, support for all of the licenses ordered pursuant to the price hold will be priced at Oracle's list price for support in effect at the time of reduction minus the applicable

standard discount (see [www.oracle.com/us/support/exadata-technical-support-policies-069177.pdf](http://www.oracle.com/us/support/exadata-technical-support-policies-069177.pdf)).

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