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Best Practices for Confirming Software Inventories in Software Asset Management

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This research discusses the best practices that software asset managers should apply to maintain accurate and current inventories. This enables organizations to reduce audit risk and gain control over deployed software for more-sustainable asset management.

Key Findings

- Often, software vendors and their customers' inventories differ because neither organization adequately prioritizes IT asset management.

- It is easier to confirm new purchases on a regular basis than to research purchasing records that are five to 10 years old.

- The cost of implementing an asset management program to confirm software inventories is usually significantly less than the out-of-compliance and additional license fees due to an inaccurate inventory and vague usage rights in licensing agreements.

- The best time to verify an organization's inventory is before the due date for annual software maintenance and support, or license fee renewals.

Recommendations

Software asset managers should:

- Verify the organization's inventory on an ongoing basis to ensure accuracy and reduce software license compliance issues.

- Establish process guidelines for maintaining inventory records so that software is consistently recorded in an IT asset management system.

- Verify that new purchases are reflected in the software vendor's inventory on a regular basis, but at least once a year.

- Include a clause in new or renewed license agreements that requires the software vendor to supply updated software product names and license conversion information, as well as an annual inventory of all licensed products.

- Ensure that the vendor's and the client's terms for usage, descriptions and product numbers are consistent.

ANALYSIS

Organizations expect software audits to determine whether they are in compliance or out of compliance. Unfortunately, for most clients, many software vendor audits find organizations out of compliance due to poor asset management. Organizations that have not emphasized asset management, and have not verified their inventory with the software vendor for several years, are at the greatest risk of audit exposure. It is, therefore, more important than ever for organizations to proactively verify inventory procurement records with their software vendors.

Based on an analysis of client activity during the past 24 months, Gartner believes that every client can expect at least one audit during the next 12 months. At Gartner's Infrastructure and Resource Management Summit in June 2008, we asked the attendees if they had undergone a vendor software audit in the past year. About 38% of the audience had or were undergoing an audit. These figures, previous Gartner research and client inquiries indicate that audit activity is increasing (see "Gartner Predicts Increase in Vendor Software Audits").

Audit activity appears to be increasing during the economic downturn as software vendors audit customers to generate revenue to make up for the drop in the number of licenses they are selling. This exposes organizations to increased audit risk. In fact, the latest polls in Gartner webinars from March 2009 reflect the situation for more than 200 participating organizations and reveal that more than 60% of clients have faced an audit from one of their major vendors.

Software asset managers should follow the best practices in this research to mitigate this risk by confirming their software inventories.

Verify Asset Records Regularly

When organizations do not regularly verify and update their inventory procurement records with their software vendors, they can find it difficult to produce the required documentation later on.

Common problems include:

- Buyers have coded software license purchases as education and training expenses to get them through their systems.

- When the client organization's and the vendor's inventory records differ, the vendor requires the client to produce documentation that verifies that it has properly licensed the software it is using.

- It can be time-consuming and difficult to verify information dating back years.

Software asset managers can simplify the verification process, if they follow these best practices:

- Never assume that the software vendor's inventory is accurate. Vendors have the same problems tracking license sales and product name changes that a company has in tracking license purchases.

- Set up procedures to ensure that an asset management organization verifies all software purchases.

- Record the assets in the organization's asset management system, and verify the assets that the organization procured with the software vendor at least once a year.

- Require the software vendor or reseller to list all the assets the client owns annually to help validate the organization's records.

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Centralize Procurement

When procurement or inventory processes are not centralized, and different groups in a company purchase software licenses, the organization's asset records are likely to be inaccurate, unless the company has put a strong software asset management program in place.

Common problems include:

- Organization names may vary from purchase to purchase. For example, one purchase agreement may reflect a company's full name, while another document may reflect a subsidiary or alternative business name.

- Some organizations have several different inventory and asset management systems, with "standards" of how to document inventory varying from system to system. For example:

  - One asset management system may say "Software A purchased on 20 January 2009, four copies."

  - Another asset management system may reflect a slightly different name, current version of the software and a packaged price, rather than individual component pricing.

Software asset managers can make it easier to compare discrepant records with the software vendor's inventory, if they follow these best practices:

- Consolidate the inventory weekly or monthly across multiple asset management systems, if the organization plans to continue distributed procurement.

- Establish standards to maintain a central master asset management system wherever possible.

Verify the Inventory Directly Through the Value-Added Resellers

When value-added resellers (VARs) handle purchases, they may not always accurately report all the license purchases to the software vendor.

Common problems include:

- The VAR sells incorrect license models to the customer, which leads to discrepant inventories.

- The vendor's systems no longer list legacy products, even though the client organization continues to pay maintenance fees.

- The client tries to verify the inventory with the software vendor, but this may result in additional license fees.

- The customer never specified to the VAR what data it wanted the VAR to capture on invoices. As a result, the client obtains incomplete data.

- VARs may not capture OEM license purchases (unless the OEM is also the VAR).

Software asset managers can confirm the inventory through a VAR, if they follow these best practices:

- Verify the purchased inventory directly with the software vendor.

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- Ask the VAR to verify the organization's inventory after every purchase, if possible.

Determine a Complete Inventory During a Merger, Acquisition or Divestiture

When a client organization or a vendor undergoes a merger, acquisition or divestiture, the companies involved often do not combine multiple inventories during or after the deal closes.

Common problems include:

- Multiple discrepancies can occur that are more difficult to reconcile years later. For example, if both companies hold licenses from an ERP vendor, such as SAP, then the definitions of limited professional users may differ. When the audit occurs, the vendor will only accept one definition for determining potential true-ups. Here, it is required to reconcile user definitions during the merger, thereby avoiding ambiguities about the entitlements and proper use of that limited professional user category.

- There may be missing copies of the original software license agreements.

- If the software vendor has been acquired, then the acquiring company will generally rename, rebundle or perhaps incorporate the software into its standard portfolio of products.

- When software vendors undergo multiple mergers and acquisitions, it is often difficult to track the history of name changes, rebundling and functionality.

- When customers undergo multiple mergers and acquisitions, it can become difficult to track the history of software entitlements.

Software asset managers can determine a complete inventory of software that they should transfer from one company to another, if they follow these best practices:

- Obtain copies of all original contracts and documentation.

- File a complete inventory after reconciliation with the software vendor.

- Check the contract for any required transfer processes.

- Track the history of product names.

- Verify the inventory on a monthly or quarterly basis.

- Understand that it may not be a good idea to transfer software. If the client organization only requires a few additional licenses, and the software vendor makes it difficult to remove partial licenses from support, then it may be better to purchase additional licenses than transfer significant "shelfware."

Improve Tools to Refine Software Licensing Tracking

When organizations do not maintain pace with new technologies, such as service-oriented architecture (SOA) and virtualization, they often have poor inventory tracking. They need the right tools to improve inventory and asset tracking, but face several challenges to select and implement appropriate tools.

Common problems include:

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- Most organizations lack visibility into asset records and make decisions based on inaccurate information.

- The tools used lack end-to-end software inventory visibility, compared with comprehensive software asset management tools that are available in the market.

- Companies use several inventory tools, so the data is scattered in many places.

- Software licensing and technologies change so rapidly that companies have difficulty selecting vendors that will innovate fast enough to easily discover and adapt to developments in licensing models, such as dual-core and multicore licenses, and technology, such as logical partitions, containers and virtualization on Unix.

Software asset managers can address areas of deficiencies if they follow these best practices:

- Centralize IT asset procurement and the view of inventory data to understand where the devices are and who is using them. This data does not necessarily have to expand to monitors, printers, networking devices or handhelds; however, most organizations find value in knowing about all the assets associated with a user or a specific project.

- Deploy dedicated personnel and use multiple IT asset management tools to track and maintain accurate inventories.

- Select an IT asset management tool vendor that has shown it can innovate fast enough to easily discover changes to licensing models.

- View inventory tools as disposable solutions until vendors begin innovating and adding new capabilities that address specific problems.

- Update the local software library as the company installs new software by regularly revising process design.

- Do not disclose improvements in the organization's tools to the vendor. Rather, use this improved functionality internally to discover discrepancies in the vendor's inventory statements.

Include Critical Rights in Software Licensing Agreements

When the organization asks the software vendor to verify that the customer and the vendor are reflecting the same inventory of purchases, the software vendor might decide to conduct a de facto audit. If software licensing agreement negotiators have not included critical rights in the agreement or defined usage rights, then the organization risks higher noncompliance invoices and audit costs.

Common problems may include:

- Inventory count discrepancies are uncovered that require the company to pay for additional licenses.

- The vendor requires additional negotiations on functionality that the client is using versus properly licensed functionality.

Software asset managers can benefit from initial contract or renewal negotiations if they follow these best practices and include the following in the software license agreement:

- Include a clause that requires the vendor to provide inventory verification in writing at least once a year.

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- Have the right to withhold payment until the vendor provides the client organization with written verification if the client requested verification at least 60 days before the maintenance and support fees are due.

- Add a statement that the licensor is responsible when shipping unlicensed software, such as, "Licensor shall not ship any software to licensee that licensee is not authorized to use."

- Identify what constitutes verification of inventory purchase orders — for example, a signed order form and canceled checks.

- Include language that requires the software vendor to annually provide documentation of name or rebundling changes for the organization's software licenses.

- Include a requirement to maintain copies of the following software vendor documentation:

  - Original documentation on functionality, which can give the client additional negotiating advantage when trying to update to newer software versions that the vendor has renamed or rebundled

  - Other documentation, such as RFP responses or PowerPoint presentations, which discuss functionality

RECOMMENDED READING

"Gartner Predicts Increase in Vendor Software Audits"

"Q&A on Dealing with a Software Audit"

"Responding to an Internal Software Audit"

"Negotiators Must Remind Users of Software Compliance Issues"

"Gartner 2007 Survey Shows Continued Software Audits"

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