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Reduce IT Spending on Software Shelfware Yearly Support Fees

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Analyst(s): Jane B. Disbrow, Peter Wesche

Many organizations still pay yearly maintenance and support costs on software that has not been put into production, is no longer used or is used so rarely that the yearly cost is no longer justified. This research gives recommendations and processes on how IT procurement and IT contracts can work together to locate such software and reduce ongoing maintenance and support costs.

Key Findings

- Many organizations are paying maintenance and support payments for software that can no longer be cost-justified based on the value received.
- Some vendors make it difficult to cancel partial licenses for maintenance and support, which makes savings difficult.
- One key reason for shelfware is that negotiations for new software procurements often include software that is never put into production.
- User organizations can save 5% to 15% of their maintenance costs during the next five years when canceling shelfware maintenance. The highest savings generally is realized the first year of this process (for example, a 5% initial savings) and a possible additional 2% to 3% per year afterward.

Recommendations

- Follow processes that help identify surplus licenses and their associated recurring costs.
- Establish "ownership" of each software product, and require a cost justification to renew yearly maintenance and support.
- Evaluate use probabilities during the next 12 months, including estimates of what can be redeployed.

- Review contractual rights, including discounts that may be reduced, to determine where problems may occur when dropping support for unused licenses.
- Negotiate contractual rights to drop support for partial licenses if they are no longer being used. Put pressure on vendors to be more flexible if their policies have an "all or nothing" requirement.

Analysis

Major Reasons That Organizations Have Shelfware

Every organization has changing licensing needs. Roles and behaviors may have changed, but the IT procurement and IT contract departments may not have been notified. Software may have been purchased but rarely used. In addition, the software's primary function may no longer be needed because the functionality is included in other purchased software, although some use of the old product lingers.

Personnel in organizations change, and the original reason for the software purchase may not be known to management now reviewing the software's value. Often, software maintenance and support payments are renewed automatically as long as the yearly increases are not significant. A recent assessment in a municipal IT department in a large German city showed that all desktop software procured, excluding the standard office application, had a usage average of only 73%. Highly efficient IT organizations reach a usage percentage of up to 96% for software licenses per user; the average is about 90%. Using this average, 10 % of the software maintenance cost is subject to possible reduction efforts.

For new software deals, a primary cause of future shelfware is how software purchases are occurring in the market. Major software vendors are driven by shareholder value monitored by the vendor's fiscal quarterly performance. The continual goal is to increase revenue and margins. This has resulted in the acquisition of perpetual software licenses in a race for the best deal, chasing the discount and often buying more usage rights than required. In return, these larger deals reward the organization with increased deal discounts, which appear as an achievement of a "great discount."

The downside of this practice is unused licenses, referred to as "shelfware," that never end up in production. Frequently, the reasons for the large purchase are aggressive growth projections, overselling by vendors of unnecessary functionality and a lower, per-seat acquisition based on a larger deal and higher discounts. Changes in project priorities, imposed budget restraints, prospective future competitive products and changed user habits or preferences sometimes decrease the use of the software even more and create a significant cost countered by an appropriate benefit. Buying licenses based on future use projection puts the burden of achieving these goals on the customer, not the vendor, which has obtained its license revenue and has locked in the customer to the products sold. It is the responsibility of the customer to ensure realistic license usage projections and to negotiate accordingly.

Use Software Asset Management to Establish Inventory

Regular software inquiries with user organizations show only fair results: Enterprises may know how many licenses they have purchased but not whether the established seats are being used, whether all users are sufficiently familiar with the solutions and whether they provide benefits. Therefore, customers must not only know what they have but also what they use and will use; these are key elements of software asset management. Accurate inventories not only help in audit situations but avoid the procurement of additional seats without having a need for them.

Identify Software Ownership and Establish Cost Justifications for Yearly Support

New procedures must be established to ensure ongoing monitoring of software maintenance and that such payments are reviewed with a new cost justification before the yearly maintenance is paid. In preparation for this, each software contract must be reviewed for the following information:

- What is the due date for the renewal of maintenance and support, and how often is support paid (for example, yearly or quarterly)?
- What are the notification requirements for support cancellations?
- What are the individual software products licensed from the vendor?
- What are the maintenance and support costs by component or license metric?
- Are there stated restrictions on dropping support that could make dropping partial support difficult or create hidden costs?
- Can a less-expensive support level be chosen as an alternative to dropping support?

To establish ownership for each software product, enterprises should establish a software committee to review the complete software inventory to find software that may no longer be used. The committee should comprise IT management, application developers, technical personnel and representatives from other business units, such as financial, so that these stakeholders are represented in discussions on software products that may be used in their departments. As with all "teams," representatives will vary depending on the software discussed, but an initial meeting to review the purpose of the committee and its goals should include documentation that reflects a complete inventory of all software licenses owned by the organization. Reviewing the inventory together often reveals possible reduction areas quickly so that they can be handled early in the process.

Once the committee is set up, much of the continuing review of software maintenance and support renewal can be done via e-mail notification, reducing meeting time and effort. Based on previously gathered contract information, a notification can be sent to the committee listing the software coming up for renewal and the support payments due (see Note 1). Because a software vendor may send an invoice listing only one maintenance and support line item, the vendor must be required to delineate the line item support cost; some components still may be needed, while others are not being used. At this point, someone on the committee must justify the support renewal by software product or by licensing metric (for example, the number of named-user licenses being used), or must suggest someone who can provide such information.

Invariably, there will be some products that no one on the committee has heard of or knows who is using them; therefore, before canceling support, ensure that this is not just a problem of finding the right person vs. finding shelfware. Ultimately, these "unknown" products should be relatively few in number, and the notifications can be escalated to a much larger number of company personnel until someone claims knowledge of the product or it is designated as shelfware with no user. Because notification of dropping support often must be done 30 to 60 days before the renewal, notifications should be sent to the committee 90 to 120 days before the renewal to have time to make the final decision on dropping support.

In some cases, a software product is being used, but its value is not being realized due to low usage. In this situation, rather than canceling support, you can consider increasing training. Primary examples of this occur in application development tools that only a few application developers have been trained to use, or in technical support tools that have limited usage due to a lack of training in their use.

Expected Time and Effort Required to Put Process in Place

The time and effort necessary to enact this process should be relatively minimal. There will be an increase in the time required for a review of the original contract to call the vendor, where necessary, to obtain line item pricing (if line item pricing is not available on the invoice), then go through the process of getting the cost justification. Although additional time is needed with the new process, the time required will be spread out during the year.

Although there will be an increase in personnel time to handle the additional review layer, by handling much of the notification via e-mail, there should be minimal cost in personnel time by the software committee, especially after the contracts have been reviewed, and the information gathered and documented. Organizations that already have good software contract management software in place and do not have to manually gather such information will find the extra time required to handle this process is minimal.

Negotiate Contract Terms and Conditions That Allow Cost Reductions

One problem organizations will have is verifying the rights to drop support, because many software vendors have the right to change their technical support policies on a yearly basis. For example, some software vendors make it difficult to achieve cost savings by making it harder to remove partial licenses from support by saying that the terms are "all or nothing." Some vendors are recalculating support costs on remaining licenses if partial licenses are dropped. It is difficult to determine how many vendors have these type policies, because there often is nothing in the software license agreement that addresses contract rights for maintenance and support, such as dropping support for partial licenses. This puts the customer at a disadvantage because the vendor can change policies to make the situation even more restrictive.

Accounting Issues Related to Software

Organizations have various accounting rules about the depreciation of software. In addition, software vendors have different policies about software being taken off support. If the software vendor requires that software removed from support be deleted from your inventory with no right to reinstate the licenses, then there may be accounting rules involved as to how this should be handled by your accounting department. "Writing off" such software may have an impact on accounting statements, so ensure that the process of removing licenses from support includes working with your accounting department before a final decision is made.

Usually "perpetual" licenses can continue being used and depreciated as long as the organization has such rights to the licenses. When the software vendor eliminates the "right to use," it's often because the organization has some licenses installed and in use, and the software vendor wants to ensure that the customer isn't dropping support for most of the licenses while still having technical support and upgrades for only a small percentage of them. For example, a company could purchase 1,000 named-user licenses, remove 800 from support and still keep 500 in production while only keeping 200 under the vendor support. In this case, the vendor would not know which or how many licenses are under support and which or how many are still being used under "perpetual" usage rights.

"Sell" the Reduction to the Vendor as an Investment Opportunity

Regardless of the situation, a reduction of maintenance and support must be "sold" to the vendor to avoid penalties and to progress with the contractual paperwork with minimal delay. Vendors are aware of the cost containment pressures their customers face. Therefore, new ways of supporting the business with different products and services may be a secondary measure to reduce costs after bringing the unnecessary maintenance costs down. Talk with your vendor about its road map for the next three to five years, of course, with the caveat of contingency. Let the vendor participate and "share" the burden of cost containment.

In some cases, the vendor will stand firm and will not agree to a reasonable concession in yearly maintenance and support costs. We have seen cases where organizations had so much shelfware from software vendors that it was less expensive to cancel support on all licenses and repurchase only those that were needed, even if the discount were far less, because the maintenance and support savings would pay for the alternative after a few years. Although this approach may appear extreme, if the inventory of shelfware is extremely high, then it may be the only alternative.

Recommended Reading

"IT Spending on Software Maintenance is Expensive, So Improve the Value Being Received"

"Five Business Application Software Maintenance Trends to Watch in 2007 and Beyond"

"Reduce IT Spending on Software Maintenance and Support"

"Management Update: Negotiate Software Maintenance Terms and Conditions"

Note 1 Example of Information to Send to Software Committee

Initial document for the software committee should include:

- Vendor name
- List of products, such as:
  - Financial = 250 users licenses: Cost for yearly maintenance and support = $150,000 (increase from prior year is 5%)
  - Supply Chain = 200 user licenses: Cost for yearly maintenance and support = $225,000 (increase from prior year is 5%)
  - HR = 3,000 employee licenses: Cost for yearly maintenance and support = $78,000 (increase from prior year is 10%)
- Please contact the IT procurement and IT contracts department with information about these licenses and to confirm that all line items are accurate in requirements and that we should continue to pay maintenance and support on these licenses.

Regional Headquarters

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
USA
+1 203 964 0096

Japan Headquarters
Gartner Japan Ltd.
Aobadai Hills, 6F
7-7, Aobadai, 4-chome
Meguro-ku, Tokyo 153-0042
JAPAN
+81 3 3481 3670

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Latin America Headquarters
Gartner do Brazil
Av. das Nações Unidas, 12551
9° andar—World Trade Center
04578-903—São Paulo SP
BRAZIL
+55 11 3443 1509

Asia/Pacific Headquarters
Gartner Australasia Pty. Ltd.
Level 9, 141 Walker Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600