

2011

VERSION 

Software Licensing Report

Are you licensed to use?



Introduction to the Report

About the Report

Software licensing is a complex subject. Just when you think you understand it and your organisation is licensed correctly, something will change. Business requirements are always evolving, so how can organisations be sure that they are not over or under licensed? This report discusses the key challenges and benefits of understanding software licensing, managing software assets and implementing an effective Software Asset Management programme.

About the Author

Version 1 Software Asset Management Consultant Derek Alexander has helped numerous Public Sector and Commercial organisations save hundreds of thousands of euro through licence optimisation and Software Asset Management. Formerly employed by Oracle to conduct Licence Reviews and Audits on organisations across EMEA, Alexander is recognised as a leading expert in the field. He has delivered a series of briefing on the subject to senior executives and has featured in numerous publications including *The Sunday Business Post*, *ComputerScope* and *Computers in Business*.

About Version 1

Founded in 1996, Version 1 is Ireland's leading IT Consulting and Managed Services Company with in-depth expertise across a range of technologies and extensive experience in Government, Utilities, Financial Services, Pharmaceutical, Retail, Education and Health sectors. Named 'Company of the Year' at the 2011 ICT Excellence Awards, Version 1 is Ireland's only Oracle Platinum Partner and was recognised as the 2011 Microsoft Country Partner of the Year for excellence in delivering customer solutions based on Microsoft technology.

Overview

Buying and managing software assets is very different from buying and maintaining other assets in your business. It is important to understand that you do not actually own anything, in most cases you are given a non-exclusive right to use a software vendors intellectual property. What you have bought is the right to use the software (a licence) – this is not as simple as it sounds, and is subject to restrictions and limitations. Unlike a physical asset like a server, software usage changes. Software can be copied and installed multiple times, wrong editions can be installed and users can increase or decrease, all without any notification that there may be a licensing issue as a result of the changes made. Moreover, replacing old server hardware with new can expose an organisation to compliance violations.

As traditional software vendors try to keep up with the constantly changing requirements of business and the continual evolution of technology, such as virtualisation and the cloud, they invent increasingly creative ways of licensing products, or simply ignore the changes and cling to a hardware centred licensing model.

In this dynamic environment, it is very easy for an organisation to find itself with incorrectly licensed software. Incorrect licensing can manifest itself in two ways: The software licenses can either be insufficient for the current levels of usage, unlicensed, or the existing licenses are in excess of that required for the current levels of usage, over-licensed.

It is worth pointing out that the actual licensing position often remains hidden from many organisations until they are audited by a vendor, or engage with an independent third party to assess their software usage.

“Irish Companies and Company Directors at risk of serious financial and legal penalties due to ineffective Software Licensing Strategies.”

Unlicensed Software

It has been estimated that the global cost of unlicensed software to the industry is in the region of US\$58.8bn (source: IDC 2010). This is a significant loss to the IT industry. In a business context in Ireland, most cases of unlicensed software happen inadvertently. However, in the eyes of both the law and the software vendors, neither negligence nor ignorance is accepted as a valid excuse for infringing copyright and breaking contractual terms and conditions. The onus is always on the end user to manage their licenses correctly, to ensure compliance and to be aware of when additional licenses are required.

Given estimates of the amount of unlicensed software being used globally, most enterprise software companies have become more active in conducting Software Usage Audits, the impact of which is now being felt regularly in the Irish market.

It is worth noting that none of the software vendors with an in-house compliance team has ever scaled back their operations in this area. Indeed, the practice is now seen almost as a go-to-market strategy, one that can have a positive impact on the vendor's revenue generation. Figures vary, but it is estimated that a strong compliance team can increase sales figures for vendors by between 15% and 25%.

As economic conditions become tougher internationally, organisations will scale back their IT investment and focus only on 'must have' projects. This will have an obvious impact on the sales of enterprise software companies. As it gets harder to obtain sales from new customers, vendors will need to maximise revenues from the customers they currently have. In recent years, it has become apparent that an increased focus on licence auditing or compliance is one sure way to maintain revenues.

When the licence compliance teams from software vendors conduct audits they tend to give little notice and take a fairly inflexible line on any additional licensing required. They are not obliged to show customers the most cost effective way to become compliant either.

In addition to demands for unplanned (and unbudgeted) expenditure to resolve the under-licensing – these audits tend to be very disruptive to the IT department. In a large enterprise, it is not uncommon for audits from one vendor alone to continue for the best part of a calendar year, diverting employee’s time and energy into what is often a confusing and stressful exercise.

It is also not just the prospect of large and unexpected bills from the software vendor that customers need to worry about. The protection of intellectual property rights in Ireland is enshrined in The Copyright and Related Rights Act of 2000. This provides a legal framework for the whole area of software compliance by:

- Making the deliberate or negligent misuse of software by businesses a criminal offence.
- Extending that criminal offence to the directors of the business (potentially leading to up to 5 years in prison and a €127,000 fine).
- Permitting surprise “raids” on businesses to examine potential violations.
- Allowing the imposition of heavy fines in civil cases.

What does all this mean for businesses? One of the key elements of the 2000 act is that it makes reference to negligence – in other words, it is not enough to say “I didn’t know”.

Over-licensed Software

The other side of the software licensing coin is over-licensing. This can happen for a variety of reasons, such as:

- Buying more than is needed due to a lack of proper advice at procurement stage.
- Not re-using existing licensing when it is appropriate.
- Over bundling to protect discount – this can be self-defeating.
- Not having proper analysis of what users actually use.

Whatever the reason, the software companies are less enthusiastic about uncovering these situations than they are about finding cases of under-licensing. If an organisation pays support and maintenance contracts, related to an original software purchase, identifying support agreements that can be cancelled can often lead to significant savings.

Understanding Licensing

To avoid being penalised for under-licensing or to realise any savings from resolving over-licensing, organisations need to ensure that establishing control of their software assets is part of a corporate governance strategy.

Managing Software Assets

In 2006, the International Standards Organisation (ISO) published standard 19770 – Software Asset Management (SAM). The standard was an extension of earlier work carried out in this field as part of the ITIL Framework (IT Infrastructure Library) and is recognition of the unique nature of Software Assets.

The ISO standard defines SAM as follows:

“Effective management, control and protection of software assets within an organisation.”

The standard is an attempt to provide an internationally recognised framework for managing these often seemingly intangible assets and it is an excellent model for demonstrating good corporate governance in this area. However, it requires a serious commitment on behalf of the organisation and needs to be driven from the very top. It is also a project that does not have a defined end; it is something that an organisation has to keep doing.

There are, however, benefits beyond good corporate governance. Gartner estimates that the average saving for businesses in the first year of operating an effective SAM program are approximately 30% and in some cases might far exceed that.

An effective SAM program will allow organisations to budget more effectively and prepare you for vendor audits, mitigating legal and financial risks.

Core Components of SAM

A full SAM implementation may seem daunting to some organisations, especially if there is no current process for managing software licences and the compliance situation is largely unknown. SAM according to the ISO 19770-1 standard has 27 processes, which could lead to as many as 200 process outcomes.

The research firm Ovum has stated that “SAM needs to be addressed in a series of small projects for quick wins, which are aligned with a goal of full SAM control.” This is a sensible approach for the vast majority of organisations. The first steps that should be taken involve understanding the current licensing and deployment situation.

The four stage process should involve the following:



Stage 1: Contract Review

This stage is about analysing the software licence procurement process, establishing the terms and conditions of ownership and creating a centralised asset register of all software licences. This is the first step in understanding what is actually owned by an organisation.

Stage 2: Contract Analysis

This phase is critical in understanding exactly what usage rights the purchased software gives an organisation. Issues such as what restrictions are there on the licenses, is usage in line with stipulated terms and conditions and is licensing based on a per seat, per user, per processor or per server model should be explored.

Stage 3: Software Usage Analysis

Once an organisation understands software licence ownership, the next step is to look at what is actually deployed. Over deployment and under-licensing are the two main problems that an organisation will encounter. These issues tend to arise when any number of the following has occurred:

- Change of hardware.
- Installing the wrong edition.
- The wrong number of users, or the wrong type of user metric.
- Legacy licenses that don't cover current usage.
- Multiplexing rules.
- Disaster Recovery set ups.

Getting independent, third party, advice on software usage/deployment which is then cross-referenced with the licence grant is sound best practice. Networks and desktops need to be scanned or manually recorded and architectures analysed.

Stage 4: Licence Optimisation

The next phase involves optimising the licence estate, sweating the assets and having a good procurement strategy for any future licence purchases. This phase can entail:

- Advice on migrations and upgrades where applicable.
- Infrastructure consolidation.
- Advice on procurement strategies (volume licensing, discounts for example).
- Improved Total Cost of Ownership through the management of on-going support and procurement.



Managed Service or In-house project?

After this initial four stage project, there is still some work to do to meet all of the policies, processes and procedures necessary for a full SAM implementation.

At this point, an organisation can choose a managed, external service that will put in place some internal procedures while managing others externally at regular intervals or an organisation can decide to go for an in-house service. Either option will require expert, third party advice to maximise the benefits of a SAM programme.

Benefits of a SAM Programme

- Minimise risk.
- Meet Corporate Governance obligations.
- Cost Savings – reuse, recycle and retire software assets effectively.
- Improved, more transparent relationships with vendors.
- Optimise your CapEx and OpEx expenditure.
- Improve internal processes.

Conclusion

Vendor led software audits are increasing all the time, and a recent Gartner report confirms this trend:

“More than 50% of organisations have been audited by at least one software vendor in the last 12 months.” Gartner, 2009

As the incidence of audits continues to grow, having effective Licence Management is becoming crucial for organisations of all sizes. The consequences of not managing this critical and costly resource can be damaging for budgets, relationships with vendors and reputations.

The solution for organisations is to be more proactive in their approach to Licence Management at all stages of the software ownership cycle.

Unfortunately, there is no one size fits all solution to this. Each organisation will have its own unique mix of licensed software implemented across the enterprise, ranging from simple desktop applications to more complex IT architectures.

Engaging with an independent third-party organisation to secure integrated advice on effective optimisation, management, control and protection of your software assets can help organisations make sense of this often challenging area.



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