

Fixing the Software Portfolio

Companies that follow a disciplined approach can reduce portfolio complexity and capture value

All businesses that use software know that the licensing process can be complex and time consuming. And while independent software vendors do their best to simplify the process, it is almost never enough. Software acquisition and maintenance costs are still skyrocketing, and it is increasingly difficult to keep up with new releases. Companies that want to solve complexity in their software product portfolios cannot rely entirely on their vendors. Rather, success depends on IT and procurement working hand-in-hand to fix the software portfolio.

Software product complexity is an easy trap to fall into. The rapid pace of consolidation in the software industry, the proliferation of “shrink wrap” software agreements, and the tortuous pace of application development make the licensing process quite a challenge. In addition, companies often suffer from complexity within, as different departments and employees buy software applications based on their own preferences. The lack of a single, consistent preferred product or vendor catalog, and ambiguity in procurement processes, often lead to off-contract purchases and an excessive number of products and suppliers. In short, unchecked software growth leads to ever-increasing complexity and strains software budgets.

Even if companies have a preferred product or vendor catalog, there are often loopholes that allow employees to work around the measures put in place to control software growth. Allowing individuals to make

purchases outside the guidelines leads to higher costs for labor to implement the software and manage the many different vendor and reseller relationships that are established as a result.

The solution for unchecked software proliferation and complexity is to get chief information officers (CIOs), chief procurement officers (CPOs) and business unit leaders to work hand-in-hand to develop software portfolio strategies, adopt consistent licensing models, and take advantage of economies of scale in purchasing. Doing so will not only simplify the software portfolio but also cut internal and external costs and improve service levels.

The Clean Up

Working together, CIOs, procurement professionals and business unit leaders can clean up the software product portfolio. Ideally, management will set clear goals, discover areas in most need of improvement, and create a sense



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of urgency to fix the problems. The following are successful approaches to the clean up:

- **Align** various stakeholders across functions, including global IT, procurement and business unit leaders, such as marketing and R&D, to define category objectives
- **Communicate** category objectives, roles and responsibilities, milestones, and targets to the software category team
- **Define** success factors for achieving objectives, such as reducing complexity and standardizing specifications for preferred vendors and products
- **Implement** rules of engagement and communicate periodically with engineers and stakeholders to assess specifications and ensure the software catalog meets business requirements
- **Use** performance monitoring and management dashboards to encourage taking a holistic, enterprise-wide view of the effort, rather than

considering only department-level implications

A European IT service provider provides a good example of how to

By centralizing management of licenses, the job of monitoring software purchases across business units becomes easier.

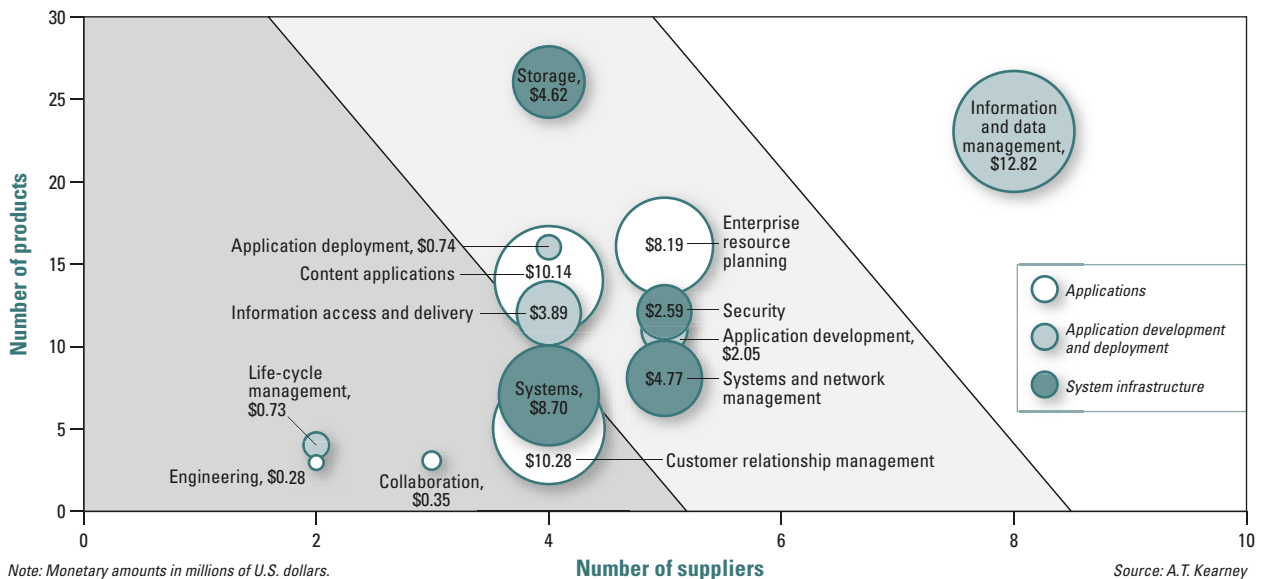
clean up a software portfolio. The company first identified loopholes in the procurement process and then took steps to ensure that purchases were made from the preferred product

and vendor catalog. The entire procurement function was reorganized to focus on global category management (based on industry best practices), identify savings opportunities, and secure preferential pricing and service levels for key software vendors. The CPO also consolidated the reseller supply base to redirect volume to its key software vendors, which gave the company more leverage in negotiations. The result: the IT service provider reduced its reseller footprint by 96 percent, cut addressable spending by 16 percent, and improved internal efficiencies.

A Portfolio Makeover

Once the initial cleanup of the software product portfolio and reseller vendor base is complete, the next step is to make sure the effort is sustainable over time. This is accomplished by categorizing the portfolio, standardizing the purchasing process, and capturing long-term value.

FIGURE 1: Categorizing the software portfolio



Categorizing the portfolio. Software is categorized by supplier, product and spend concentration as illustrated in figure 1. When software is grouped according to industry standard taxonomy, it is easier to identify areas that do not meet benchmarks and to prioritize cost reduction opportunities.

Standardizing the purchasing process. Standardizing purchases

allows for volume discounts and more efficient procurement processes.¹ Some companies are continuing to use open-source products such as Linux and Apache as viable alternatives to proprietary products to maintain competitive tension during vendor negotiations. However, before moving to open-source products, procurement and IT professionals should thoroughly assess

the total cost of ownership and product-related risks.

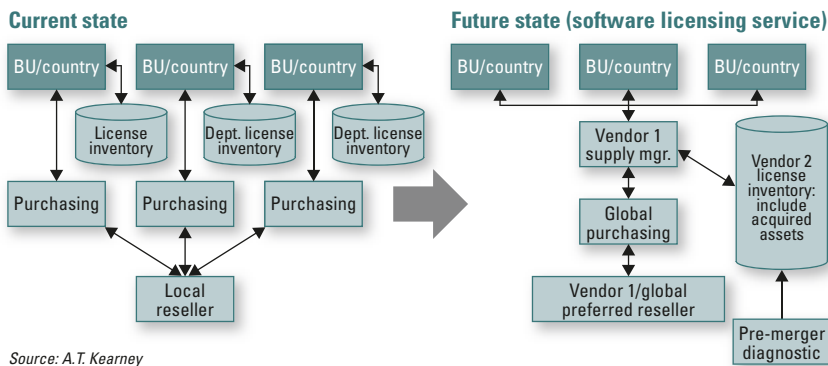
Capturing long-term value. Companies can save money by renegotiating contracts for new licenses and maintenance agreements on existing software licenses. It is a good idea to “base-line” the product portfolio periodically to industry standards, and identify software products that could be eliminated or substituted with existing assets (and thus eliminate ongoing maintenance costs). By centralizing management of licenses, the job of monitoring software purchases across business units becomes easier and prevents unnecessary build-up of software inventory. Figure 2 illustrates the difference between a typical licensing management model and one that is centralized.

Essentially, the software portfolio makeover has the following five objectives:

- Use fewer software products in accordance with enterprise-wide platform strategies
- Eliminate unnecessary maintenance costs by doing away with unused products
- Minimize licensing costs by purchasing at competitive prices and getting uniform volume discounts across the enterprise
- Minimize software maintenance costs by implementing appropriate support models
- Coordinate among different business units and departments to pursue “mega supplier” strategies for key large vendors such as IBM

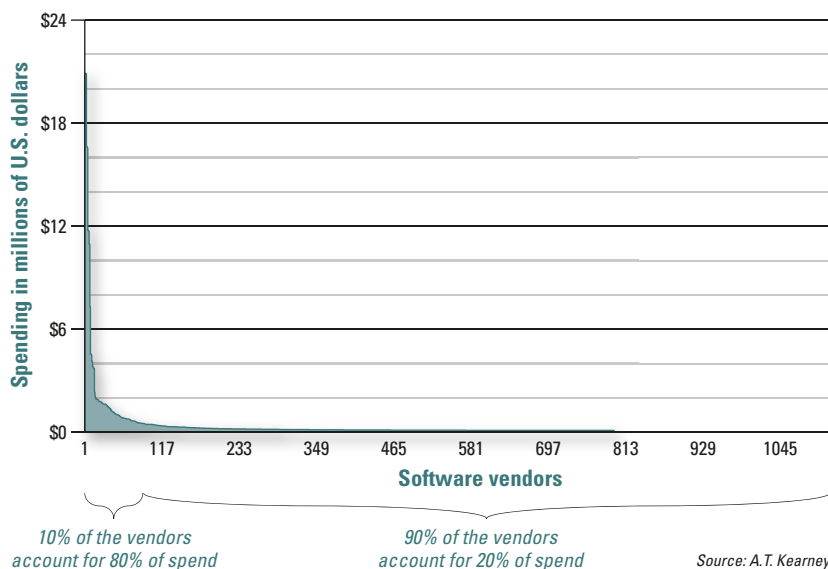
Lessons learned from our European IT service provider can be applied to other companies as well. For instance, the company’s software portfolio had more than 90 percent of

FIGURE 2: Centralized management of licenses



Source: A.T. Kearney

FIGURE 3: Concentration of software vendors



¹ For additional purchasing strategies, you may wish to read “The Purchasing Chessboard™,” available on www.atkearney.com.

vendors accounting for less than 20 percent of the annual software license and maintenance spend (*see figure 3 on the previous page*). This unnecessary complexity made the portfolio difficult and costly to manage, and impeded procurement's efforts to reduce costs via aggregated purchasing from key software vendors. By consolidating country-specific operations and estab-

lishing consistency in software standards, the IT service provider reduced software procurement costs and made better use of labor in this area.

Stop the Waste

Leading companies look within rather than to vendors for solutions to the complexity and waste created by unchecked software proliferation. These

companies understand there is no silver bullet for getting out of the software trap. It requires a disciplined, process-oriented approach to standardize requirements, aggregate purchases and improve asset utilization. In the end, the result is a cleaner software portfolio, a smoother procurement process, and significant (sometimes double-digit) cost savings.

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