



Save money by better managing software licence costs

Unlocking the full potential of effective Software Asset Management (SAM)

February 2021

Overview

In this SAM bulletin we discuss how your organisation could save money by better **managing its software costs**. We will explore the benefits to the organisation of **building financial management into your SAM function** and the foundations a SAM function needs in place to develop its financial management effectiveness.

What is financial management?

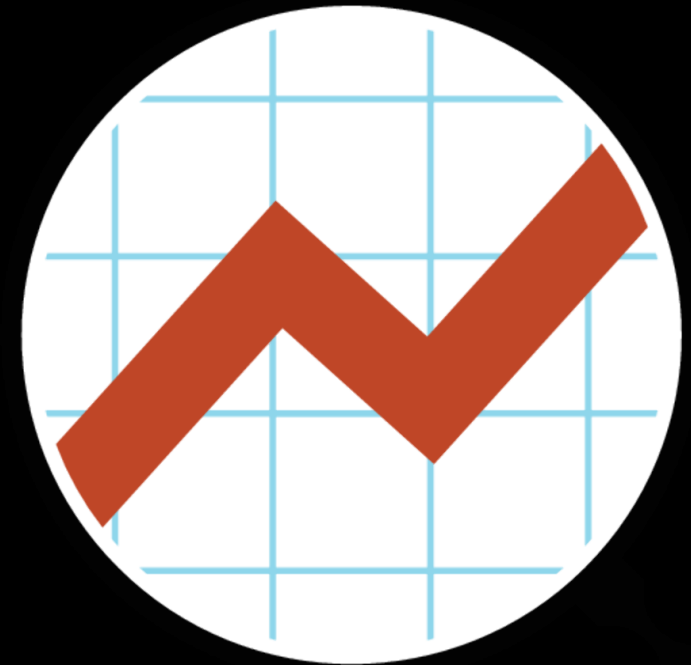
There are various ways an organisation can **save software related costs**. One of the most important and often overlooked areas is building financial management practices as part of SAM.

Financial management, in the context of SAM, is the set of activities performed by an organisation to **efficiently and effectively manage the money spent on its software assets**. In our experience, organisations can be more effective at managing software-related costs **across the entire software lifecycle** - from demand origination to disposal - if they consistently apply and perform financial management activities as a part of SAM activities and within the necessary controls. Through an effective financial management framework, you identify the business need for every part of the organisation's software spend, provide individual business units with the cost of their software consumption and promote alignment to the strategic objectives of the organisation.

What are its main objectives?

Effective management of software costs can provide a framework to identify, manage and communicate the cost of software provision, running and retirement by:

- **Forecasting and managing** software requirements and budgeting for the acquisition of software assets and related infrastructure costs;
- Assessing and communicating the **financial impact of new or changed projects** that impact software licensing;
- **Securing funding** for new/change projects that affect software licensing;
- Accounting for **software spend and charge back** to business units; and
- Identifying **cost optimisation and recovery** methods.

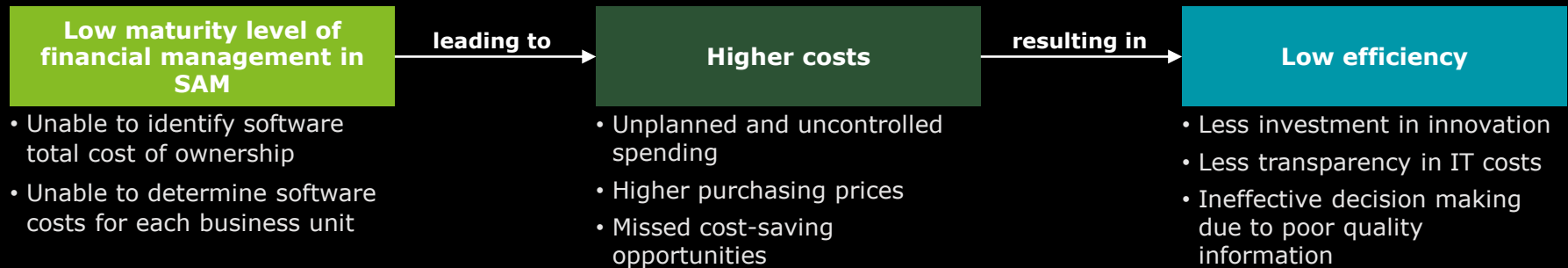


Financial management: An essential component

Software is an asset with increasingly high value for organisations; in software licence assessments Deloitte has performed, we found **clients spend an average of 22%¹ of their total IT spend on software**. Whilst individual business units may be responsible for their own software consumption, they are often unable to understand the costs of their consumption without effective financial management from a SAM function.




What are the risks without it?

Inadequate financial management of software assets may lead to a risk of excessive spending on software licences and other IT support costs:



The purpose of financial management in SAM

Along over 20 years of helping clients achieve their SAM objectives, we have noticed how, often, the singular motivation for an effective SAM function is **software licence compliance**. This makes sense – over the last two decades, organisations have woken up to the significant **financial and reputational risk** software licence non-compliance exposes them to – however, compliance should not be viewed as the only benefit of SAM. In fact, the leading industry standard for SAM, ISO/IEC 19770-1, identifies three:

-  Risk management;
-  Cost control; and
-  Competitive advantage.

Focusing solely on software licence compliance risk, organisations will only recognise the benefit of risk management. The reality is actually more complex: a SAM function needs to be effective at both risk management and cost control to enable it to realise the third benefit of competitive advantage, which is a complex task when considering the different licensing models, metrics and software licence contract types.

In our experience, financial management is the main difference between a compliance-focused SAM function and a truly **effective SAM function that provides a competitive advantage**.

¹ Source: Software licence assessments performed by Deloitte.

Financial management: Benefits

We discussed how a low maturity of financial management in SAM can lead to both high costs and low efficiency. The benefits of strong financial management, though, are not only the lower costs and greater efficiency, but also the enablement of improved decision making. Here, we explore some examples.

What does effective financial management enable?

- **Management Information**

One of the first benefits of effective financial management in SAM is the ability to offer meaningful management information to business units about the cost of their software consumption. This drives business units to **understand their software requirements**, allowing an organisation to understand, assess, and consequently manage, its complete software requirements centrally.

- **Efficient charge-back models**

Increasingly, the responsibility of SAM lies with each business unit. As consumption-based licensing models become more commonplace, effective financial management in SAM enables more **informed decision-making** by providing these business units with their software costs through **efficient charge-back frameworks**. This will encourage alignment between individual business unit's operations and the organisation's wider strategic objectives.

- **Cost optimisation**

Another potential win is the optimisation of an organisation's software licence agreements. For some software products, cost savings can be achieved by changing the licensing model used. Effective financial management enforces a **tight control over the organisation's licences** and enables an understanding of which business units are consuming them. With this **trustworthy data**, a SAM function can easily identify optimisation opportunities.

- **Software usage optimisation**

Finally, an often overlooked benefit of effective financial management in SAM is the **optimisation of parallel use rights and cross-deployment rights**. A greater understanding of the different business units' software requirements encourages an organisation to utilise its software in the optimal manner.



Achieving effective financial management

In the absence of effective financial management, organisations can be missing out on **cost savings and business efficiencies**. Here, we will explore some of the considerations to keep in mind when enhancing your SAM function for effective financial management.

How to build the foundations of financial management in SAM?

- **Create a roadmap to support strategic and long-range planning** – By planning goals smartly and by setting a reasonable timeline for when results can be expected, an organisation can start building a **future-facing SAM function** that goes beyond the traditional compliance reporting and provides direction, guidance and strategic planning to sustain business success.
- **Get SAM stakeholder involvement** – SAM cannot be effective if it is isolated. An organisation needs to involve IT, financial, commercial, application owners and other key functions to align on the strategy and to define what needs to be performed to achieve goals. All these stakeholders play a valuable and critical role in effective SAM.
- **Treating capital and operational expenditure equally** – As software vendors are gradually moving to **consumption-based on-cloud** models, software cost profiles will change as well. It is becoming increasingly vital to regularly track usage and the associated costs. In many cases, this change will make organisations resistant to on-cloud capabilities as their traditionally one-off capital expenditure (capex) will become much higher than operational expenditure (opex). An organisation can ensure the SAM function enables, rather than hinders, the adoption of new technical capabilities, by defining an effective charge-back model to make business units effectively distinguish between regular opex and one-off capex.
- **Continually review and revise the process** – Never forget to frequently evaluate the effectiveness of the SAM function as you progress along the roadmap, ensuring it is going in the same direction as the firm's strategy.



Conclusion

We have discussed in this bulletin how effective financial management can elevate an organisation's SAM function to realise benefits beyond software licence compliance. The leading industry standard for SAM, ISO/IEC 19770-1, identifies three main benefits of effective SAM: risk management; cost control; and competitive advantage. Yet, in our experience, most organisations' SAM functions continue to focus solely on achieving software compliance, whilst forecasting, controlling spend and budget optimisation have traditionally either been left to finance functions or fallen through the cracks. Organisations have to steer away from looking at SAM only as a compliance management function, and turn it into a means for financial management. The transformation itself is complex and requires the collaboration of different stakeholders, but the result is a structured approach in full **alignment with overall strategy** of the organisation. Effective financial management in a central SAM function may be a durable solution, which can be rewarding both in terms of **efficiency and cost-savings in the near-future** and the overall competitiveness of the organisation in the **long-term**.

References:

[ISO 19770 -1]
ISO/IEC stage 19770 -1 : Topic Maps — Data Model, 2017,
International Organization for Standardization, Geneva, Switzerland.
<https://www.iso.org/obp/ui/#iso:std:iso-iec:19770:-1:ed-3:v1:en>

Further reading:

<https://www2.deloitte.com/content/dam/Deloitte/uk/Documents/technology/deloitte-uk-capitalising-your-cloud-booklet.pdf>

For more information about this topic, or to discuss your SAM aspirations, please feel free to drop us a note at **UKSAM@deloitte.co.uk**

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