White Paper

Cisco Enterprise Agreement: Meeting the Challenges of Shifting Business Trends

How Product and Service Purchasing Must Evolve to Meet Modern IT Requirements

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Overview

With today's rapid pace of business, modern IT organizations are constantly encountering new deployment challenges not covered in a traditional enterprise licensing agreement (ELA). ELAs have been commonly used by IT to acquire discounts, predict costs, attain business flexibility, and comply with software licensing agreements. While these may be some of the conventional benefits, they do not fully address the changing needs of contemporary IT. Numerous problems can and do arise, from reliance on multiple architectures through the need for real-time software fulfillment—to maintaining distant relationships with vendors who are viewed as just "fulfillers of orders."

Nowadays, organizations purchase software for a variety of consumption models (on-premises, in the cloud, or through service provider- or partner-based consumption models). Businesses must be agile to stay competitive, so deployments have become increasingly flexible. The assumptions that IT originally formulated about deployments can easily change over time. In large part, these factors have made it increasingly difficult for IT to effectively predict an organization's consumption (and, to the chagrin of the finance department, costs) ahead of time with a large degree of certainty. Thus, it should come as no surprise that these challenges can provide IT with massive headaches, e.g., redirection of already strained resources, slowed productivity and time to market, and fewer resources to focus on value-added initiatives.

Traditional Methods of Purchasing Aren't Working

In the past, there were two traditional methods of purchasing software—the transactional method, and via ELAs. Transactional purchasing means purchasing goods (in this case, licenses) as they are needed. For certain organizations, the transactional method did not work well for a number of reasons. Instead, organizations used enterprise license agreements (ELAs) to establish long-term relationships via long-term business agreements with providers. The long-term ELA offered organizations the potential to yield higher benefits (think volume discounts). Thus, these ELAs served customers well, especially when it was easy to predict the number of licenses to be used during the term of the ELA. For example, if IT could foresee using 1,000 units, an organization would then make a commitment to use that amount over the course of three years—and would benefit from a discount. However, this form of purchasing did not always provide IT organizations with sufficient flexibility—particularly when a customer was required to commit to a long-term business agreement.

Times have changed, and many organizations find it harder to predict the number of licenses they will need over a certain period of time. For growing firms, there is a temptation to purchase a greater number of licenses than is required prior to actually needing them—but doing so negates the original purpose of purchasing licenses to meet the current demand. Reverting to transactional purchasing is not a viable option since it negates the discounts enterprises had managed to acquire using ELAs. If transactional purchasing and traditional ELAs do not provide the flexibility the modern IT organization requires, how can businesses get what they need when they need it—without forgoing the opportunity for better business value?

Shifting Enterprise Requirements Drive Changes in IT Deployment

Rapid changes in market trends have driven rapid changes in business needs—in turn driving changes in IT deployment models. For example, in the past, perpetual licenses were popular for purchases of on-premises server software. Subsequently, cloud-based SaaS solutions have become more common, replacing on-premises data deployments. This has led to subscription-based pricing (even for on-premises deployments). And, with the rise of virtualization, licenses based on the number of physical CPUs associated with a program have been replaced by licenses based on the number of virtual machines for which the software is licensed.

Nowadays, the number of methods used to purchase software can add to the complexity of the procurement process. This can increase the time and resources required to deploy a solution. It stands to reason that increasing time to deployment has the potential to negatively affect productivity, and, ultimately, the bottom line. So it makes sense that one of the primary goals of many IT organizations is to streamline the deployment process. But how? While it sounds like a thankless task, in large part, it's all about friction (yes, friction).

Reducing Friction in Software and License Purchasing Processes

Organizations need to go back to the beginning, looking at possible areas where they can reduce friction in the software and license purchasing processes—such as simplifying procurement, achieving flexibility in deploying new solutions, and seeking value through nonconventional purchasing methods. Here are three fundamental ways organizations can reduce friction:

> Three fundamental ways organizations can reduce friction in the software and license purchasing processes include: simplifying management and procurement processes; having flexibility in deploying new solutions; and seeking value through nonconventional purchasing methods.

- **Simplifying management and procurement processes**. One way for enterprises, especially larger enterprises, to simplify their processes is to reduce the number of key technology partners with whom they work. By choosing a key technology partner that can provide a wide range of offerings (rather than many that may offer single solutions), organizations can streamline their management and procurement processes.

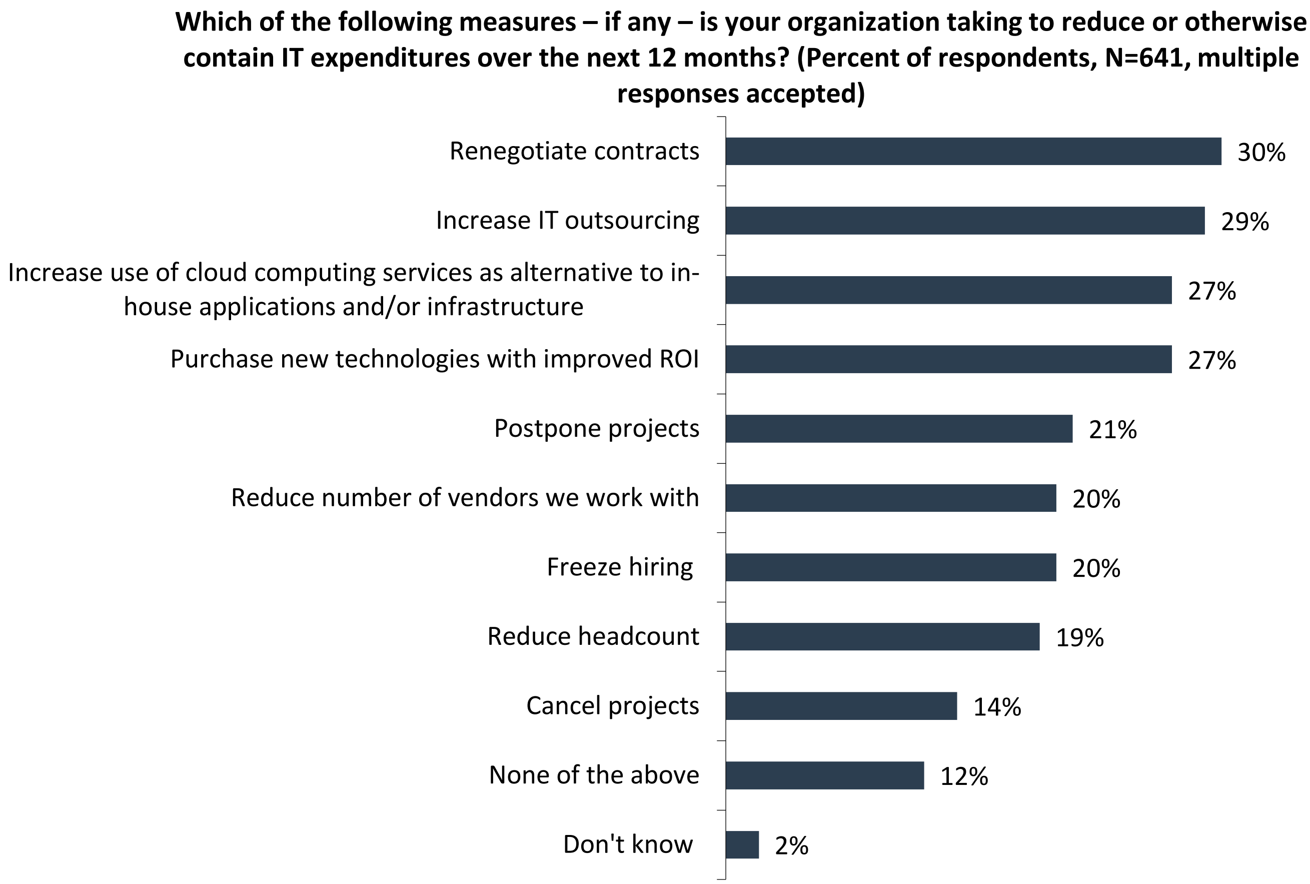
- **Having flexibility in deploying new solutions**. As needs change, enterprises must be proactive in figuring out how best to leverage the cloud, hybrid cloud, and variations thereof. And because of the rapid pace of business, organizations require the flexibility to deploy new solutions on an as-needed basis.

- **Seeking value through nonconventional purchasing methods**. Since enterprises generally will seek access to new and innovative technology to help them stay agile and competitive, by purchasing a flexible enterprise license, organizations will be able to access the technologies they need, when they need them, without having to waste time, resources, and funds renegotiating new contracts.

In fact, according to recent ESG research, when IT professionals were asked about the measures their organizations are taking to reduce or otherwise contain IT expenditures over the next 12 months, nearly one-third (30%) of respondents cited renegotiating contracts, while 29% cited increasing IT outsourcing, and more than one-quarter (27%) said increasing the use of cloud infrastructure. In addition, 27% of respondents said they are looking to purchase new technologies with improved ROI, while one-fifth of those surveyed (20%) said they are decreasing the number of vendors they work with (see Figure 1).[1]

[1] Source: ESG Research Report, *2017 IT Spending Intentions Survey*, March 2017.

Figure 1. Measures Taken to Reduce or Contain IT Expenditures



Source: Enterprise Strategy Group, 2017

As the research illustrates, the needs to simplify processes, have flexibility in deployments, and seek greater value from technology appear to be trending among those IT professionals surveyed. But how can organizations effectively streamline processes, have the flexibility to remain agile, and find the right solutions to achieve better ROI? Enter the Cisco Enterprise Agreement.

Why Cisco?

Enterprises seek providers that offer a wide range of software products and solutions for infrastructure, collaboration, and security architecture. Together, these solutions provide a critical foundation for the digital transformation of enterprises, forming integral parts of business initiatives that drive IT spending. For example, ESG's recent IT Spending Intentions Survey indicated that 39% of respondents said that increasing cybersecurity would drive the most technology spending in their organization over the next 12 months, while 25% answered that improving internal collaboration capabilities would drive the most technology spending.[2]

Digital transformation often requires new and rapid changes to the traditional IT mindset. It's essential to use fresh and innovative approaches to deploy the right infrastructure, collaboration, and security software solutions. Indeed, this also means that customers will need to deploy and use new solutions and software in different ways. Cisco offers products across these areas, providing an end-to-end portfolio that serves the customers' changing business needs. Cisco also offers

[2] Ibid.

an easy way to provide and manage software—via the Cisco Enterprise Agreement. This new, streamlined means for purchasing acknowledges modern approaches in using and deploying software products and solutions, reducing the risk of license compliance audits—and ultimately meeting the rapidly changing demands of today's fast-paced enterprises.

Cisco Enterprise Agreement: Simplicity, Flexibility, and Value

For more than three decades, Cisco has been a leader in networking solutions, technology products, and services. Recently, Cisco introduced the Cisco Enterprise Agreement, a new software product and service purchasing program designed to simplify the often multifaceted (albeit complex) software product and service purchasing process.

Focusing on simplicity, flexibility, and value, Cisco's new offering can help organizations efficiently meet IT's real-time deployment requirements, enabling the business to be more responsive, and positively affecting the bottom line.

Simplicity in Purchasing and Managing Solutions

The Cisco Enterprise Agreement was designed to simplify both purchasing and managing solutions.

> With the Cisco Enterprise Agreement, a single agreement works across different architectures, eliminating the complexity of a less-than-viable situation.

Simplifying Purchasing

These days, it's not unusual for organizations to hold multiple software application, maintenance, and service contracts (consisting of different terms and arrangements) with numerous vendors. With this type of model, operational efficiency is less than optimal. With Cisco Enterprise Agreement, a single Cisco Enterprise Agreement works across various architectures, eliminating the complexity of a less-than-viable situation.

Simplifying Management

Multiple IT administrator portals are no longer a necessity for managing licenses and software. Organizations that are using multiple dashboards as a means to manage multiple purchases and contracts are wasting time and valuable resources—time and resources that could be focused on revenue-enhancing initiatives. The Cisco ELA Workspace is an easy-to-use, self-service management tool (portal) for license generation and entitlement management, offering organizations an efficient means of management and fulfillment for their Cisco software. Administrators can easily view software entitlements, and be alerted to updates and renewals in a timely manner.

Convenient Terms. The Cisco Enterprise Agreement offers a convenient, single term of either three or five years, payable at a fixed price for the term. This means that organizations will no longer be challenged with separate solutions co-terminating at different times. With just one contract (regardless of whether solutions are renewing in a rolling manner), there is no need to negotiate a new agreement.

Working Across Architectures. The Cisco Enterprise Agreement works across architectures, which means it has the ability to incorporate solutions that may reside in the cloud or on-premises—with just one single agreement. For further convenience, the cross-architecture feature does not require a separate agreement for each deployment model, largely streamlining procurement. Essentially, the Cisco Enterprise Agreement helps to simplify how an organization consumes and accesses software, as well as how it receives upgrades and notifications of license renewals.

Flexibility in Procurement Options

One of the biggest headaches for IT and line of business managers is not having access to software when it's needed. For finance, it's not having visibility into operational and capital expenditures.

> Having access to different procurement options provides IT organizations with flexibility.

That's why having access to different procurement options provides IT organizations with flexibility. Depending on an organization's budget cycles or financial situation, payments to Cisco may be made upfront, or spread out via financing provided by Cisco Capital. If software is provided to an organization via a consumption-based model, organizations can take advantage of Cisco's subscription payment process.

License portability is also important in order for IT to have the ability to deploy software in a number of different ways across platforms (i.e., on-premises, in the cloud, or virtually). Similarly, the flexibility to upgrade to new versions of software (free of charge) is important as well, since being locked-in to a release does not allow access to necessary security patches or new features.

If organizations are looking for flexibility, it doesn't appear to make sense to bind software licenses to hardware—hardware refreshes occur on a regular schedule, and must also be done in cases of failures or repairs. With the flexibility of license portability, organizations can look forward to reduced service disruptions (no longer being constrained by inflexible licensing terms).

Added Value to the Business

For organizations to be agile and competitive, simplicity and flexibility in the purchasing process and in managing agreements are essential. And just as essential are the financial benefits. Financial benefits of a traditional ELA might include receiving credit for existing software licenses and applying the credit toward the purchase of an ELA. And, as with most traditional ELA purchases, a growth allowance is included with the purchase of a Cisco Enterprise Agreement. This means if IT cannot accurately predict the number of licenses needed for the term of the agreement (at the time of purchase), the organization will still be in compliance with Cisco as long as the growth stays within 20%.

The True-Up Process in Traditional Enterprise License Agreements

But, what happens if growth exceeds 20%? In a typical enterprise license agreement, there is a "True-Up" process. This means the customer is responsible for an annual software deployment inventory (i.e., reporting the number of its qualified users and devices). If a customer adds new devices and users during the year (exceeding 20% growth), then the traditional ELA is reset to the newly discovered scope of the deployment. This can result in an organization retroactively paying for a larger deployment. Although a traditional ELA provides organizations with discounts (compared with a transactional, one-off purchase), the retroactive charge appears to penalize an organization for inexact growth forecasting.

The True-Forward Billing Method in the Cisco Enterprise Agreement

On the other hand, the Cisco Enterprise Agreement includes an alternative billing method, named "True-Forward." True-Forward adjusts the contract forward, to the next business cycle—effectively renegotiating the terms of the Cisco Enterprise Agreement, based on usage audit—eliminating any prospect of retroactive charges. True-Forward appears to be a more reasonable way to do business (and provide value throughout the lifecycle) than a traditional ELA.

True-Forward adjusts the contract forward, to the next business cycle—effectively renegotiating the terms of the Cisco Enterprise Agreement, based on usage audit—eliminating any prospect of retroactive charges.

Key elements of the Cisco Enterprise Agreement, include:

- Standardized three- or five-year contract across multiple Cisco portfolios: infrastructure, security, and collaboration.
- A 20% growth allowance (free of charge), future proofing contracts, and adding value throughout the lifecycle.
- Annual True-Forward method of billing, adjusting the contract forward to the next business cycle, eliminating any retroactive penalties.

- Cisco ELA Workspace, offering self-service license fulfillment, real-time visibility into consumption, and simplified access- and device-management.
- Complete software support coverage across the organization, eliminating the complexity of individual “box-by-box” contracts.
- License portability across platforms (cloud, virtual, or on-premises), providing organizations with minimum service disruption.
- Ability to be sold by a partner as the lead provider.

How Cisco Enterprise Agreement Works: Real-life Enterprise Examples

But how does Enterprise Agreement really work? Let’s look at this real-life example.

Company Z is a growing, medium-size enterprise relying heavily on wireless connections as opposed to traditional, wired connections. Based on the number of laptops and mobile devices, the IT department develops an estimate based on the number of access points needed. IT then purchases a Cisco Enterprise Agreement for software to deploy 2,000 wireless access points as part of the Cisco ONE software suite, choosing a three-year license period.

Year 1: Given the unpredictable nature of estimating the rapidly growing number of mobile devices, the company thought it had made a generous decision to license 2,000 access points since it only needed 1,200 at the time of inception of the Cisco Enterprise Agreement. However, the estimate was inadequate, and by the end of the first year, IT realized it needed to deploy 2,400 access points. (This increased number of mobile devices was due to merging and expanding existing offices, requiring the company to create a denser coverage.) In the end, the increased number is still within the 20% growth allowance (20% of 2,000 equals 400), so Company Z doesn’t incur additional charges.

Year 2: Growth continues at Company Z. By the end of the second year, IT must increase to 2,500 access points. (With a traditional ELA, IT would have needed to True-Up, and pay retroactive fees to cover 2,500 licenses.)

Year 3: With the Cisco Enterprise Agreement, the only charge incurred in the third year is the license for 100 access points.

Table 1. Traditional ELA Compared with the Cisco Enterprise Agreement

	Year 1	Year 2	Year 3
Cisco Enterprise Agreement *More value & financial predictability*	Purchase 2,000 licenses	Grow to 2,400	Grow to 2,500
		No payment necessary	Pay for only 100 units
Traditional ELA *Overpayments & time spent revising contract*	Purchase 2,000 licenses	Grow to 2,400	Grow to 2,500
		Revise ELA to 2,400 devices for all three years. Otherwise, perform transactional purchase for 400 licenses.	Revise ELA to 2,500 devices for all three years. This implies an overpayment for the first two years. Otherwise, perform transactional purchase for 100 licenses.
		Effort required to revise contract.	Effort required to revise contract

Source: Enterprise Strategy Group, 2017

Cisco Advanced Services and Lifecycle Management Partners

Deploying Cisco solutions on a wide scale involves potential benefits, as well as risks. At the same time, Cisco solutions that are purchased but never deployed will reduce any business value that would have been derived from those solutions, also reducing any discount originally budgeted. That said, Cisco Enterprise Agreement customers are encouraged to work with Cisco's Advanced Services, or Cisco lifecycle management partners, who offer a range of services to aid organizations when they adopt new solutions. In addition, to help shorten time to value, Cisco customers could benefit from a Cisco lifecycle management and business assessment.

The Bigger Truth

In today's dynamic business environment, both business and IT are facing numerous challenges they must address in order to grow and stay competitive. One of the prime challenges organizations will face is determining the appropriate option for purchasing, deploying, and licensing software. Within this overall challenge lie three sub-challenges: attaining better predictability and visibility into costs, maintaining flexibility in deployments, and seeking efficient means to attain quicker time to value from investments.

Traditional ELAs were designed during a period when IT environments were static, and focused on traditional, on-premises data centers. During that time, traditional ELAs offered box-by-box contracts (as well as the mandate for negotiating a contract for each type of architecture). This was the accepted norm, and organizations were grudgingly paying hefty penalties due to inexact forecasting of qualified devices and users. Nowadays, traditional software ELAs may have a tendency to inhibit businesses from purchasing and deploying software in a manner appropriate for a modern IT organization, lengthening time to value from investments, and hindering growth.

The pace of business has picked up considerably. New infrastructure architectures arrive and displace traditional devices. Licensing programs that do not recognize these trends will inhibit business transformations, acting as roadblocks to business growth, rather than enhancements.

Cisco understands the needs of a 24/7 market. With its considerable experience, Cisco recognizes that a modern, multi-platform data center must possess a simplified method of purchasing software products and services in order for organizations to easily embrace change, enhance agility, and realize faster time to value. Hence, the Cisco Enterprise Agreement was designed so that organizations could actually save time and money when negotiating a contract. That said, when it comes to purchasing and deploying software and services, organizations looking to remain competitive and focused on growth would do well to look at the Cisco Enterprise Agreement. For more information, visit http://www.cisco.com/go/ea.

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