White Paper

Solving the Top 5 Enterprise IT Infrastructure Software Management Challenges

Sponsored by: Cisco

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IDC OPINION

As enterprises move quickly to plan and execute strategies for digital transformation, the presence of software at all levels is growing considerably. Unfortunately, keeping track of all these software solutions continues to be tedious, difficult, and confusing. And while adopting cloud solutions can help with deployment, it often only adds uncertainty to this process. Managing and optimizing usage of software assets across the enterprise continues to present significant challenges, even for the most sophisticated IT organizations.

To help address these issues, forward-thinking software vendors are changing their approach to pricing and licensing — especially in volume license agreements. While readily apparent in cloud software, traditional on-premises software license agreements are changing as well. IDC has observed the following regarding recent updates to volume licensing agreements:

- CIOs and IT managers face many challenges when managing software licensing, from optimal asset management to navigating contract terms to identifying and resolving compliance issues. With multiple software providers in the enterprise, each with its own packaging, terms, and pricing, IT organizations struggle to unravel the perplexing landscape of software licensing — with inadequate results for IT operations, budget, and resource management.
- Software vendors trying to address these challenges are updating their license agreements significantly, with a focus on improving the customer experience at all levels of the engagement. The leading software vendors are delivering increased flexibility, improved contract terms and conditions, and advanced services to help manage entitlement access and optimization across the enterprise. IDC believes these changes can help customers better manage their software assets and improve budget and resource allocation over time.
- The new Cisco Enterprise Agreement (EA) was designed to help customers manage these complex software licensing agreements. The Cisco EA includes several forward-thinking approaches to software licensing that apply across the Cisco software portfolio: an allowance of 20% growth that is included during the contract with no additional fees, a "True Forward" event that doesn't charge for past usage but only modifies the payment structure going forward, and a single agreement with co-termination available across the software portfolio. IDC believes these features are a sign of significant positive changes in the software volume licensing market and can be suitable for customers looking for an updated approach to software asset management.

SITUATION OVERVIEW

For most IT organizations, managing the software assets that span their IT environment throughout their life cycle is a daunting task. And with the pace of digital transformation accelerating, overseeing software licensing and contracts will only grow more critical and complex over the next five years.

Top Software Management Challenges Facing CIOs Planning for Digital Transformation

Over the years, software providers have offered formal volume licensing programs to help enterprises manage complex software environments. These programs include the enterprise license agreement (ELA) and are intended to simplify license management for software providers as well as help CIOs make sense of their software licensing landscape. However, the proliferation of software providers has created a complicated web of license management that can confuse even the most sophisticated IT organization. The sections that follow identify the top software management challenges for enterprises facing digital transformation.

Asset Management

It's no secret that the explosion of software across the enterprise has complicated asset management for CIOs and IT managers. IT organizations are managing extensive legacy software assets on-premises supporting critical business processes while adding more and more cloud solutions across all lines of business. The complexity and variation of these license agreements, coupled with the persistent lack of visibility into how the software is deployed and used, make optimized asset management a difficult proposition.

Compliance

As more IT organizations face tighter IT management processes, compliance is now a critical skill set. Unfortunately, complex licensing schemes can make it very difficult to remain compliant. Tracking and monitoring usage and employee access are tedious and burdensome, and continually checking these statistics against paper contracts and legal entitlement rights is even more challenging. In fact, IDC estimates that software license complexity indirectly costs organizations an average of 25% of their annual software license budgets — not a trivial amount. Understanding and utilizing entitlements appropriately and correctly can be a full-time job — one that most IT organizations cannot spare resources for.

Managing Contract Terms Across the Software Life Cycle

Because changing the user experience is a daunting task, enterprise software tends to have a long shelf life. That leaves most CIOs with a complex mix of contracts, terms, and agreements from an enormous number of software providers. Each provider includes complex terms, outdated conditions, specific legal terminology, and clauses that differ — making management and optimization difficult and time consuming. It is not uncommon for contracts and entitlements from the same vendor to start and end at different times, with no standard approach for co-termination. Combined with hit-or-miss efforts to reach out for renewals, this can leave customers with no coverage or access at critical times.

Mitigating and Managing Additional Software Fees

Unfortunately, the world of enterprise software can be fraught with additional fees and penalties for both on-premises and cloud customers alike. Traditional on-premises license agreements are always subject to usage audits, a painful process that can result in substantial additional fees owed to the software vendor. At the same time, cloud users often face considerable charges at the end of the year for unanticipated expenses – the "true-up" conversation that many IT organizations dread. This can happen frequently when software usage changes dramatically over time – a challenging proposition when striving for predictable cost models in IT expenses.

License Management and Optimization

For most enterprise IT organizations, hybrid IT environments are now standard operating procedure. IDC research finds a broad mix of perpetual and subscription software, deployed both on-premises and in the cloud, run across heterogeneous integrated systems. This complex mix of hardware and software providers, each with its own business models and terms, has made the challenge of license management overwhelming.

Simply managing software licenses across the IT environment is not enough, however. Prioritizing how software licenses are used is a critical task, and ensuring end users are realizing the promised value of the solution is critical to IT service delivery success. Unfortunately, most routine and mundane licensing tasks require considerable time and effort – leaving little time for more important tasks like prioritization and optimization. Keeping up with the multiple and varied changes and new requirements across software assets is a critical ongoing challenge for CIOs and IT managers.

Key Features of Next-Generation Volume Licensing Agreements

Fortunately for CIOs, the rise of cloud solutions has brought dramatic changes to how software is packaged, priced, monetized, and delivered. Traditional legacy on-premises software vendors are even looking at new portfolio structures, especially if they also offer cloud/as-a-service solutions. Recent IDC research has noted the following key new trends in enterprise software licensing:

- **Flexibility in license agreements.** The top software vendors that want to improve the customer experience are allowing customers to mix and match products and licenses under the same agreement for both on-premises and cloud solutions. Bring-your-own-license programs are allowing organizations (typically those under enterprise license agreements) to move existing on-premises deployments over to the cloud. Software vendors are also pursuing policies that make it easy to acquire the licenses and easy to deploy the software and can allow a mix of agreements from short terms to long terms. Customers need the flexibility to help them plan for their environments that they know will be changing in the future.
- **Improved contracts and terms.** Software ELAs are moving toward simplified program structures and agreements, with shorter documents that are easier to read and understand. Software licensing programs are also embracing a comprehensive approach to pricing and contracts that can span multiple products, since most IT organizations use multiple solutions from a single vendor. Finally, more license agreements are delivering increased transparency across all aspects of the contracting process – especially around discounting, always a critical point of negotiation.
- **Entitlement management assistance.** With the enormous sprawl and complexity facing most IT organizations, managing assets and entitlements remains difficult. Forward-thinking software vendors are including tools and utilities as part of ELAs that can help customers see and manage all of the software licensing entitlements through one portal. Electronic capabilities for license management is also a key differentiator, especially for on-premises software. Software providers that can simplify the management process from implementation to support and renewal will be well positioned to serve customer needs going forward.
- **Additional options in pricing and payment terms.** IDC research has found leading software ELAs trying new approaches to pricing that include allowances for overages and new ways to

help customers manage unexpected usage. Customers have long been attracted to the subscription model because of the potential for cost predictability. However, unexpected usage has often left customers with sizable unanticipated charges. Flexible purchase options, such as new and different counting methodologies and varied financing options, can help customers prepare for the unexpected without surprises.

- **Value-added services to enhance the licensing agreement.** In examining software vendors embracing new licensing models, IDC research has also discovered expansions of advanced software asset management tools for resource-strapped IT organizations. These tools include access to license optimization, which can help customers keep close track of license usage and reduce the cost of software. Many software providers also include access to education opportunities as well as customer and partner portals that include support and services as part of the ELA. These items are typically offered exclusively to volume licensing customers.

CISCO ENTERPRISE AGREEMENT: AN UPDATED APPROACH TO SOFTWARE LICENSING

To accommodate these changing customer requirements, Cisco has recently updated its software licensing policy with a new Enterprise Agreement structure for software. This new policy will apply across Cisco's software portfolio of infrastructure, collaboration, and security software – including new solutions like The Network. Intuitive., Spark, and Umbrella. Cisco has designed the EA to help customers buy, consume, and manage Cisco technology across the software portfolio with a single agreement and unified terms and conditions.

Although the new EA spans all of Cisco software, purchases can be made by product suite and the additional suites added over time (datacenter, cloud, WAN, access for switching, access for wireless, collaboration, and security). In addition, when purchasing software, IT organizations can access Cisco ONE as part of their Cisco EA: a new infrastructure offering that includes license portability across multiple aspects of deployment and usage – across physical, virtual, and cloud.

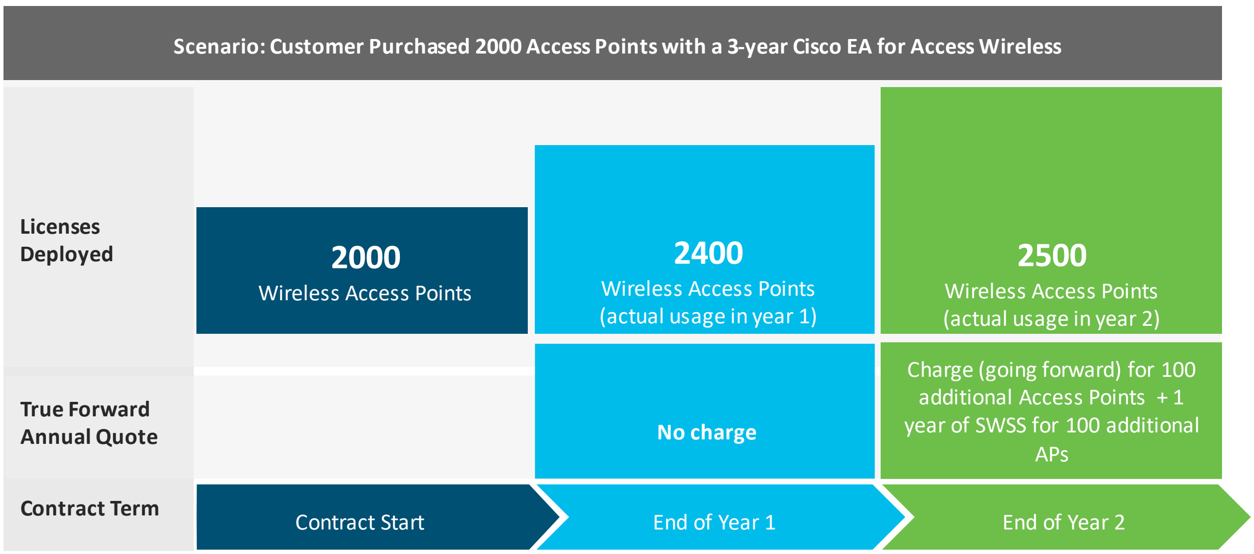
Key features of Cisco EA include the following:

- **All software will be licensed under a single agreement, with the same terms and with the same co-termination across suites – both on-premises and cloud.** All agreements will be available for three or five years, and any mix of architectures or domains are allowed under that same contract. Any new EA will also feature not-to-exceed (NTE) pricing, a guarantee that customers receive price predictability for products purchased under the EA, for the term of the EA — regardless of software price increases over time.
- **Cisco will allow customers to consume up to 20% of additional software and services for the life of the EA at no additional cost.** To help manage unanticipated overages, Cisco EA customers are entitled to an extra 20% of software and services over their initial quantity throughout the life of the EA without incurring any additional charges. If customers do exceed the 20% threshold allowance at any time, their usage will be evaluated by the Cisco EA team for the contract going forward.
- **Instead of true-ups at the end of each year, Cisco will apply the "True Forward" feature to review past experience and plan for the future**. Customers will never be billed for any usages or overages that have happened in the past. This is applied where customers have exceeded the 20% overage allowance on initially selected items and for any optional, additional software available under the EA. In either case, the EA will be updated to reflect the new usage level and the customer will only pay for that new level going forward. That includes software

subscription payments, which will also only increase in the contract going forward. Customers can consume additional items added to suites they subscribe to or try additions to product bundles over the life of their agreement when they need them – only paying for overages when the "True Forward" feature is applied (see Figure 1).

FIGURE 1

Cisco EA True Forward Process Example



Source: Cisco, 2017

Participation in the Cisco EA does include minimum purchase requirements:

- An EA including security software requires a minimum purchase of $250,000.
- An EA including collaboration software requires a minimum purchase of 250 or 1,000 knowledge workers, depending on the suite purchased.
- An EA including network/infrastructure software requires a minimum purchase of $250,000 per suite.
- Any cloud-based network or infrastructure software included in an EA requires a minimum purchase of $500,000 per suite.

The Cisco EA also includes access to the Cisco Workplace Portal, a software asset management tool that includes entitlement and support information for all purchased Cisco software. In addition, the Cisco EA allows customers to acquire applicable network hardware with EA-covered software within that hardware provided at no cost at the time of delivery. The EA-covered software in the hardware bundle is then tracked and accounted for under standard Cisco EA software terms, subject to the overage and "True Forward" approaches. Customers can bundle the hardware and software together under their current EA, with all of the relevant contract terms and conditions as stated.

CHALLENGES/OPPORTUNITIES

IDC expects that as more CIOs and IT organizations look for software providers with flexible, transparent, and easy-to-understand license management, Cisco will have the opportunity to strengthen its position in the infrastructure software market. However, IDC also anticipates that Cisco will face challenges with these new volume license agreements.

Opportunities

- **Solidify and expand standing in the infrastructure software market.** With the new EA announcements highlighted previously, Cisco is signifying a significant transition from a hardware company that sells some software to a hardware and software company. This transition began many years ago but is still taking shape in the competitive network infrastructure, security, and collaborative software markets. IDC believes these license management policies can help elevate Cisco's presence in the infrastructure software market and establish Cisco as a key player in the enterprise software space.
- **Set new standards for license agreements going forward.** IDC believes these new offerings can help raise the bar in refining and improving licensing agreements for enterprise software. There are several new approaches to ELA management in these announcements from Cisco. The addition of a defined overage allowance is not typical for large software providers, and moving from a "true-up" to the "True Forward" process is also very different for subscription software licensing. As customers look for improved software asset management through predictable costs, license flexibility, and improved contract terms, the components can help IT organizations transitioning to new ways of consuming and paying for software.

Challenges

- **Manage the tricky balance between flexibility and simplicity in the EA.** There is a natural tension between flexibility and simplicity in enterprise software licensing. Agreements that are simple and easy to understand mean a straightforward, transparent contracting process. However, these simple agreements often lack the necessary flexibility for customers that are looking for specific language in the contract, but adding that flexibility can make software agreements complex and hard to understand. Cisco will have to be careful to balance simplicity with flexibility in the EA contract process going forward.
- **Focus on improving the customer experience across delivery.** The move from traditional on-premises software to as-a-service solutions can make it much easier for customers to switch providers. This can be especially true in IaaS and PaaS. Cisco will need to make sure the overall customer experience remains well delivered and robust, which can help maintain and improve customer satisfaction and loyalty over time.

CONCLUSION

As CIOs and IT managers struggle to manage complex hybrid IT environments, they are looking for software providers with license agreements that are flexible and easy to understand and can accommodate their needs as they change over time. IDC believes that software providers with newer approaches to software licensing for both on-premises and as-a-service solutions will be well positioned going forward. IDC also expects that IT organizations will increasingly consider EA terms and conditions as differentiators as well as count on providers that can demonstrate an "ease of doing business." With the recent announcement of Cisco's updated EA, Cisco has designed its offerings to build in the flexibility, simplicity, and agility required to service today's demanding CIO customers. IDC believes the Cisco EA can be a suitable choice for customers that need an updated EA with flexible terms, allowances for overages, advanced tools and utilities, and other features that can help address specific IT and business strategies in today's complex IT environments.

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