

CONTRACT CONSULTING WITH BOTTOM LINE RESULTS

BUYER BEWARE

The software footprint at this Fortune 100 manufacturing company complicated preparation for contract renewal negotiations with IBM. Furthermore, Finance, Procurement and IT needed to quantify the impact of the new core based license metric. Recent IBM acquisitions, product migrations and changes to maintenance added even more complexity. In past negotiations, IBM provided deployment and entitlement data and “recommended” quantities and software titles for the contract renewal. But, there was a reluctance to rely on the vendor for this important information. Faced with a multimillion dollar renewal, the IT and Finance teams felt that an outside expert would help them get the best possible deal. Even a twenty percent reduction in renewal expense could save millions. The company turned to Siwel to help quantify actual expense and to advise on negotiation strategy.

BUSINESS AS USUAL

The client was uncomfortable relying on IBM to produce deployment and entitlement data, new product migrations, metric changes, and other information related to their software portfolio. Was IBM supplying accurate information on usage and entitlements? Were they including all packaging options? There was frustration at the lack of transparency from IBM. Licensing metrics had changed from CPUs to Cores. IBM's changes meant even their own team wasn't able to answer simple questions such as “How do the new metrics impact maintenance costs?” or “How does this contract compare to my previous one?” Understanding the net effect of these changes was important but difficult to calculate. Yet, answers were required to understand if cost targets were realistic and attainable. Siwel engaged with the client to provide objective and accurate answers.

ESTABLISHING THE ROADMAP

Siwel's Software Contract Advisory Services were employed to strengthen the client's negotiating position. The engagement required analysis of internal data, rationalization of licenses, advice on contract negotiations, terms and conditions and vendor tactics. Siwel established five goals:

- 1) Quantify and qualify deployments of IBM software across the enterprise. Determine an accurate accounting of entitlements including software titles of companies recently acquired by IBM.
- 2) Determine current maintenance support and forecast future license requirements. Contrast to IBM renewal proposal and identify opportunities for cost reduction.
- 3) Analyze the impact of new licensing metrics on deployments. Provide advice on strategies to mitigate any potential cost increase on licenses and maintenance.
- 4) Expand renewal negotiations to include IBM software for three entities acquired by client to leverage their combined value.
- 5) Advise on optimal terms and conditions.

OVERVIEW

Client: Fortune 100
Manufacturing Company
Number of Employees:
100,000+

THE SITUATION

IT budget cuts focused attention on the IBM software contract renewal. In five previous renewals the company handled negotiations in-house. However, scrutiny on any new spending led IT to seek outside advice to secure additional cost reductions.

THE SOLUTION

Siwel armed the client with better data on software usage and future requirements. We also provided insight on other IBM software negotiations. Siwel's assistance resulted in a 19% reduction in IBM spend.

“Siwel provided invaluable assistance in preparation for our IBM software negotiations. Their breadth of IBM related experience was a great addition to our internal team.”

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RESULTS THAT COUNT

Siwel’s main goal was to create a strong negotiating position for the client by providing greater insight to enterprise wide IBM software deployments and entitlements. Siwel drew on its experience from dozens of other IBM renewal negotiations to advise on market dynamics and contract issues. Siwel utilized its Entitlement Reconciliation Database to analyze shifting metrics and develop an accurate analysis of the impact of the new metrics. Siwel’s analysis and recommendations created an environment where IT and Finance were clearly in control. According to the primary negotiator from Procurement,

“IBM would not budge on all our requests, but with Siwel we were able to push the vendor in the direction our team wanted. We simply had more alternatives to present back to the IBM team... and more ways to meet our prioritized negotiation goals.”

Through the careful analysis of the portfolio, Siwel identified a significant number of unused and decommissioned licenses as well as several obsolete products. Redundancies from companies acquired by the client were also identified. Siwel provided an Entitlement and Reconciliation Report, analyzed metrics and entitlements from previous contracts, and compared them to the new proposed terms. This identified several disconnects and large, unjustified price increases in some areas, all of which the client was able to negotiate downward. Siwel was able to reduce the number of renewed products by 10% resulting in a cost reduction of \$2.8 million between licenses and associated maintenance costs.

Combining license ownership and requirements from the corporate parent, acquisitions, and subsidiaries into one master agreement allowed the client to negotiate even more favorable terms. This reduced costs another 9% or \$2.5 million. Finally, contract terms were negotiated that minimized shelfware by allowing greater deployment flexibility. By the end of the engagement, Siwel delivered savings of \$5.3 million while also helping to strengthen contract terms and conditions in their favor. According to the client, *“Siwel’s breadth of IBM related experience was a great help. Our new contract increased flexibility and surpassed our expense reduction goals. Bottom line—we got a much more flexible deal and lowered expense by almost 19%.”*

SOFTWARE ASSET MANAGEMENT FROM SIWEL

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