Software Asset Management, Cloud Transformation and the Cost of Compliance in 2016: Enterprises exposed to a 'Black hole' of Risk

Crayon and Vanson Bourne

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Foreword

Rather than being a panacea for IT, the reality of today's hybrid cloud environment for CIOs is that businesses appear to be significantly struggling with it. With multiple clouds and multiple vendors the options are often confusing, as many firms share data and resources across multiple domains and providers.

That disparity makes the whole concept of Software Asset Management (SAM) ever more difficult to comprehend and manage in-house, as IT wrestles with the demands placed upon it to optimise technology investments, whilst at the same time striving to remain compliant.

Indeed, it appears that delivering a secure IT environment in the modern hybrid world is further complicating the issue of SAM and software licensing for beleaguered CIOs and IT managers who are seeking specialist help in the quest for intelligent cloud optimisation and reduced total cost of ownership (TCO).

Introduction

> ***"[I would describe software asset management as] a world of confusion, audit, difficulty, misunderstandings and technicalities"***
>
> *Anonymous IT asset manager*

A bold statement, but certainly one that is echoed by many IT directors and managers dealing with software asset management as a side distraction to their main responsibilities. As for many, that is what software asset management currently is.

Without dedicated roles assigned to software asset management, and with ever-increasing licensing complexity and request for audits, businesses are often struggling to cover the basics – just ensuring that everyone in the company has what they need, and are able to use it compliantly. Further complications arise from the adoption of hybrid cloud infrastructure, meaning businesses may need help in aligning all of their licensing across cloud and legacy IT.

But that doesn't mean SAM isn't recognised as a value-add to the business, with many believing that it can improve organisational efficiency. The challenge for many businesses now is to position software asset management away from a back office function and into the spotlight of strategic decisions, while simultaneously keeping on top of audit and avoiding the 'black hole' of licensing.

Summary of key findings

- Reducing licensing costs (39%) and mitigating the risk of non-compliance (32%) are key goals for the minority of respondents' organisations; improving IT efficiencies are a key goal for 61%
- A catch-22 develops - software asset management has increased the investment in cloud for 72% of respondents' organisations, but the increased migration to cloud has complicated software licensing for 67%
- Investment in cloud service providers, and software publishers looks set to increase in the next 12 months, further complicating the IT estate
- An increase in software publishers will put organisations at more risk of audit failure – already costing respondents' organisations $750,000 and 129 resource days
- Only 12% of respondents' organisations have a dedicated software asset manager, with the responsibility spread around IT more generally
- Significant proportions are not considering outsourcing various elements of their software asset management, despite only around a quarter (26%) who completely agree that they have the time to do it in-house

The IT environment

The IT department in any organisation is tasked with so many different objectives – from security, to purchasing, to maintenance and more. They have many key goals to achieve, but according to respondents in our quantitative study, software licensing and general asset management is not often a goal that is top of mind. Only around four in ten (39%) report the reduction of software licensing costs to be a key goal of the IT department in their organisation over the next 24 months, and only around a third (32%) report the same for the reduction and mitigation in the risk of licensing non-compliance. Additionally, where these are key goals, only the minority are actually completely confident they can be achieved (37% and 38% respectively).

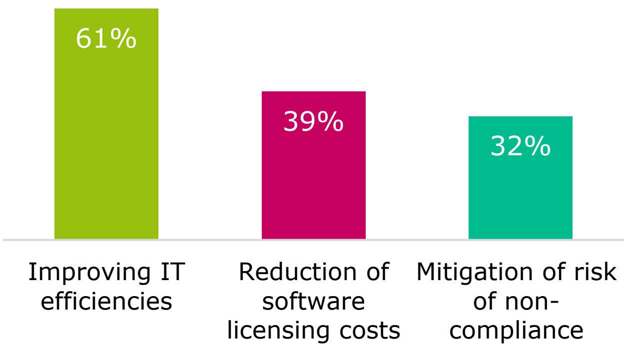

Figure 1: *Analysis of the percentage of respondents who believe the above areas are key goals for the IT department in their organisation over the next 24 months, asked to all respondents (575 respondents)*

This demonstrates that not only are software asset management goals a relatively low priority for IT, but that even when they are focused on, most organisations are not aware of how to best achieve them, leading to a lack of confidence in their ability to do so.

A common theme running from our qualitative study is that currently, the management of software assets is largely a compliance exercise, with little emphasis on efficiency optimisation. One respondent told us that their "*main focus of SAM strategy is compliance".* Even then, many organisations are not confident they can remain or become compliant. So why could this be? One possible theory comes from the very same respondent who reports compliance being the centre of their strategy and goes on to say that:

"ensuring we're compliant, it's always at the back of your mind, but until you get a knock on the door from one of the big boys, you don't really worry about it too much"

Ironically, the most common key goal over the next 24 months is improving IT efficiencies for 61% of respondents' organisations, and many organisations believe that having a successful, streamlined software asset management strategy and process will improve IT efficiencies:

"I think [software asset management] is probably a great opportunity for increasing efficiency if it were properly utilised"

Connecting the dots then, it seems logical to say that IT efficiencies; the reduction of licensing costs and risk mitigation are not mutually exclusive, but are intertwined. If businesses can successfully manage their software assets and close gaps in duplicate spending or non-compliance risk, then they will increase efficiencies by default.

Instead of utilising this connection, however, organisations and those in roles that deal with software asset management on a daily basis seem disillusioned by the task ahead of them and face poor support and a lack of understanding from their boards:

"[we don't have a software asset manager because] in terms of higher up, in terms of who creates the budgets and where the resources go, those people don't really understand, contextually, the organisation below"

Of course, organisations and their IT departments in general have a whole array of goals, KPIs and objectives to meet, and are therefore seeing software asset management fall by the wayside. But could placing greater importance on software asset management goals actually encourage other, wider-reaching benefits in the organisation?

Cloud concerns

Cloud technology has revolutionised the way that businesses handle their IT infrastructure, allowing greater flexibility and scalability, which in turn offers faster time to market and increased cost and process efficiencies. In order to remain competitive, businesses need to move with the times. This is evident within our quantitative study, where the vast majority (96%) of respondents report that their organisation has or will move 60% of software and infrastructure to a cloud platform, on average.

However, when you consider how infrastructure and the software and hardware that sits on it is changing, does it become more important now to make sure the business is covered from a licensing perspective, than it ever was before? Outside of the vast business benefits, cloud computing comes with its own set of problems for software asset management, according to respondents. Firstly, almost three quarters (72%) say that the investment in cloud technology has increased in their organisation following the deployment of a SAM strategy. And this comes full circle, with the impact of cloud adoption on software asset management evident in our quantitative study. Just over two thirds (67%) expect the complexity of software licensing to increase following further cloud migration.

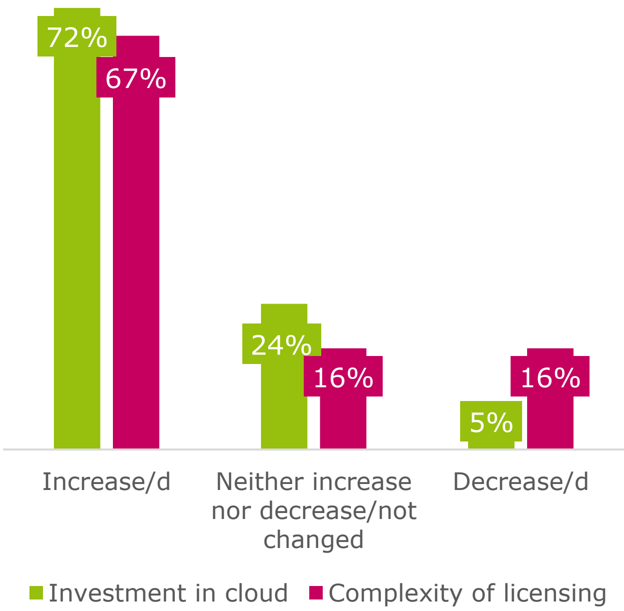

Figure 2: *Analysis showing the impact of the deployment of a software asset management environment on investment in cloud technology (asked to all respondents (575)), and the expected impact on the complexity of software licensing as a result of the adoption of cloud (asked to respondents whose organisation has or is planning to move software and infrastructure to cloud (554))*

One respondent in the qualitative portion of the study said:

> ***"With significant numbers of cloud-based applications, being able to manage and understand exactly who is doing what and using what is substantially harder"***

The dispersion of the IT environment across different infrastructure platforms is causing visibility issues, meaning IT departments with an already loose grasp on the licenses and usage in their organisation are struggling even more.

Ultimately, while software asset management is encouraging cloud adoption and likely demonstrating business benefits like faster time to market, cloud adoption is complicating licenses and therefore how well managed the software assets are.

While this finding was very evident in the quantitative study, upon further probing, this cycle of events becomes less straightforward. Interestingly, some businesses are finding the control of their software licensing easier, or at least the same, with the migration to cloud:

"[I think cloud has given] more options rather than more complexity…it's probably not made [software licensing] more or less complex, it's about the same"

"[Cloud migration makes software licensing less complex because it introduces] client side licensing"

So why could this be? Most commonly cited is the (almost unavoidable) middle ground of cloud adoption - hybrid cloud. As while some respondents in our qualitative study believed that the adoption of cloud eased licensing concerns, they also felt that businesses stuck in limbo between legacy infrastructure and cloud are very likely to suffer greater SAM complication:

"Especially if they are hybrid cloud environments…I think it can be complicated. If you add all the identification that's cloud based but you still have server licensing. I think a lot of people are in the in-between where they are doing it both ways"

There is certainly the hope from businesses that the increased migration of cloud will lead to less complex software licensing as businesses move from legacy, to hybrid and finally to a total cloud infrastructure:

"I would hope that [by adopting more cloud] we're not necessarily having to have the licenses ourselves, we'd use more of a third-party adoption model which would remove complexity"

Yet, regardless of the expected relationship between software asset management and cloud in the future, the reality is that the majority of businesses are in a cycle of increasing cloud migration, and increasing licensing complexity.

Cloud service providers

It stands to reason to assume that the more cloud adoption and migration occurs, the greater prominence cloud service providers will have in organisations' IT estates. Currently, Microsoft is the one of the most prominent cloud service providers for 64% of organisations, followed by IBM (33%), and Oracle (28%). Charting the rise of a newer contender in the cloud space, 25% say that Amazon Web Services is a prominent cloud service provider in their IT estate.

In terms of customer satisfaction, respondents report either a higher or similar level of satisfaction to the previous 12 months with each cloud service provider in use. For example, 80% of those using Microsoft as a cloud service provider, report being more satisfied than the previous 12 months, and 68% of those using Amazon Web Services are more satisfied. It is likely that the high levels of increased satisfaction will also encourage cloud migration and therefore lead to further investment in cloud. In fact, 71% plan to increase investment in Microsoft as a cloud service provider over the next 12 months, and 69% plan to invest further in Amazon Web Services.

Ultimately, investment into cloud, the prominence of cloud service providers in IT estates and the number of organisations with a hybrid cloud solution will increase. Considering cloud adoption is already complicating licenses, this increase will mean that organisations need to make sure they have the best strategy in place to avoid license duplication, costs and fines and to ensure they are able to optimise their cloud use in conjunction with legacy IT. One way to help with this is with the introduction of an intelligent cloud optimisation platform.

Software publishers and auditing

Removing cloud from the equation, IT is still tasked with maintaining the software assets on their own physical infrastructure. A very similar pattern emerges with the software publishers in IT estates as with cloud service providers.

Businesses have an average of three software publishers in their IT estate, with Microsoft coming out as the most common, present in 77% of respondents' organisations. Already, three software publishers introduces a high number of licenses that need to be monitored, maintained and updated.

Most respondents are either more satisfied, or have the same level of satisfaction with their software publishers as they did 12 months ago. For example, 56% of Microsoft customers are more satisfied with them as a software publisher than last year. There are admittedly, slightly lower levels of increasing investment with software publishers than with cloud service providers, although this falls in line with the growing prominence of cloud migration. All in all, 61% of respondents in our quantitative study are going to invest more in Microsoft as a software publisher. And overall, investment certainly is not going to decrease. This means that the average of three software publishers per IT estate seen currently is going to remain the same or increase.

But it is the adoption of cloud into a legacy IT estate which is complicating software asset management, and not necessarily the introduction of software publishers. So why are increasing numbers of software publishers a concern for businesses?

Two words: software audits. Regardless of the software publisher in use, the vast majority of respondents report that their organisations have had an audit demand. For many, this has been in the last year. Therefore, for those with three or more software publishers in their IT estate, this has the potential for three or more audit demands per year.

This is bad news as dealing with an audit demand is very resource-heavy. Respondents in our quantitative study state that 129 working days were dedicated to complying with software license audits in the last 12 months alone – that's 25 weeks, or over 5 months!

Respondents in the qualitative portion of the study were initially generally shocked to see this on paper, but most, after further calculation, realised that this is actually not far off the number given to audit in their organisation. Perhaps because this is not often the responsibility of one person but is instead shared across the IT team and beyond, businesses are unaware of the collective time given over to audit and are therefore losing efficiency.

Not only is the process of being audited resource-intensive, but the financial impact can be high as well. Just under half (46%) of respondents in our quantitative study report that their organisation has been found non-compliant previously in a software publisher audit. The cost of this non-compliance is estimated to be $750,000 on average - three quarters of a million dollars.

For those respondents taking part in the qualitative study (none of whom admitted to having been found non-compliant), the perceived range of potential fines was wide, with many being surprised by the figure of $750,000. This suggests that, unless you have had the bill on the doormat, you would not necessarily know how much being non-compliant could cost you. In fact, one very honest respondent told us that he:

> ***"suspects there are a lot of firms that take the risk and decide that, you know, we'll try our best and if we are audited then we'll just pay up and move on"***

Aside from the impact this strategy could have on vendor relations, internal operations and inefficient use of the IT departments' time, it becomes a much more bitter pill to swallow if the average estimated $50,000 (collated from our qualitative respondents' answers) actually turns out to be 15 times higher than this.

With the average number of software publishers being three, and the potential number of audits per year being three (or more), running the risk of being non-compliant could potentially cost businesses well over $2 million. And this financial impact will continue to rise, with more cloud migration complicating licenses, and more software publishers being invested in and increasing the likelihood of an audit. So how can businesses successfully manage their software environment, with the move to cloud, the constant audits and risk of fines?

Managing SAM

First and foremost, the responsibility for implementing software asset management in organisations is spread fairly broadly across the IT department with 40% of respondents who say it is the responsibility of the IT director, 26% the CIO, and 22% the IT manager. Only 12% of respondents say this is the responsibility of a dedicated software asset or IT asset manager.

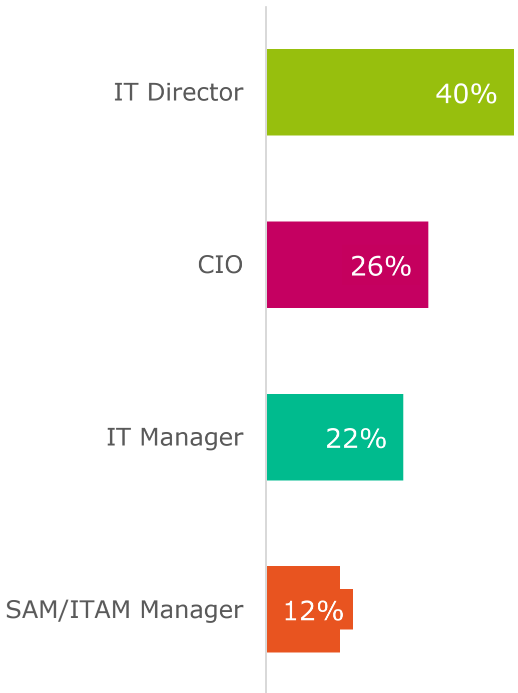

Figure 3: "Who is predominately responsible for implementing the SAM/ITAM program in your organisation?", *asked to all respondents (575)*

This finding is mirrored in the qualitative results, where nine out of 10 respondents report not having a full time person dedicated to software asset management.

So, why do organisations not have a dedicated software asset manager? Unsurprisingly, it is predominately cost-related. Respondents in the qualitative part of the study generally shared the opinion that in their organisation, software asset management did not warrant a full time position (not surprising as so many were shocked at the number of staff days given over to audit) and therefore, getting board sign off on a full time role would be too hard and budget allocated to a single person wage would be better spent elsewhere in IT.

But, all respondents in our qualitative study could see the benefit of having a dedicated software asset manager.

Considering this would be a job role with software asset management in the title, some of the obvious benefits cited include greater control of software licensing, stronger vendor relationships and greater visibility over efficiencies in software asset management. However, there were some less obvious benefits brought to light by respondents that perhaps outline deeper organisational issues.

For instance, one qualitative respondent suggested that his organisation suffered from a responsibility displacement where, because the job role is shared around the department, there was a feeling of avoidance and responsibility towards software asset management. Another cited benefit was that a dedicated software asset manager would take away the legwork from the IT team in general. This is no doubt a great benefit to come from having a dedicated software asset manager, but it highlights stress fractures in a department that is traditionally overworked in an organisation – perhaps IT want to give away this responsibility to a single person in order to free up their time away from licensing checks and updates? One final benefit outlined is a software asset manager being a spearhead of professionalism, demonstrating that the business has everything under control. This highlights the impact that failing an audit can have on a reputation, suggesting that the financial hit is not the only concern from non-compliance for organisations.

While the introduction of a dedicated software asset manager could be initially expensive, there are a wide range of benefits that could make themselves apparent.

And as IT estates grow and hybrid cloud continues to complicate software licensing, perhaps this role is inevitable:

> ***"I would say this is a growing concern for companies…and going forward, it's going to be needed. So 12% [is] probably as it is now…but that is going to change…within the next couple of years to come, we're going to see it a lot higher"***

SAM tools and outsourcing

Unsurprisingly, given the trends in cloud service providers and software publishers alike, Microsoft SCCM is the SAM tool that most respondents (51%) are familiar with and is the most likely tool in use by 40% of respondents' organisations.

Only 6% use an in-house solution for software asset management, which is expected to drop to 4% in 24 months' time. This predicted move away from in-house solutions is echoed in the qualitative study, where most of those using an in-house solution admit to being interested in moving to a third party but only, of course, if the price is right.

As well as 94% of respondents whose organisation currently uses a third party software asset management tool, over half (53%) of respondents are outsourcing at least part of their software asset management responsibility to a third party consulting partner, with a further 29% who plan to do so in the future.

Half or more respondents do, or would like to, outsource software inventory management (57%), hardware inventory management (53%) and software licensing management (53%). However, this means that in all instances, at least four in ten would not consider utilising a third party for these areas. Quite a proportion who are keen to keep their software asset management to themselves.

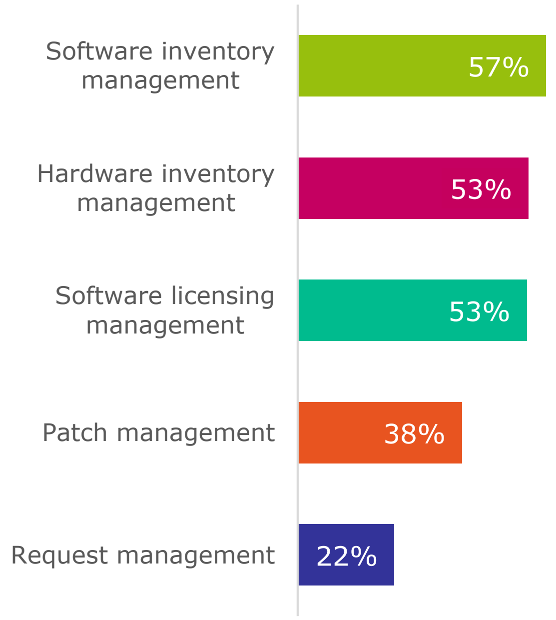

Figure 4: "What tasks do you outsource/would you consider outsourcing to a third party SAM/ITAM provider?", *asked to respondents whose organisation outsources at least some of their SAM environment, or who plan to in the future (467)*

But, it is only a quarter (26%) of the respondents not outsourcing, who completely agree that their organisation has enough time to monitor and manage the reporting generated by their reporting in-house tool. And while less of a concern, fewer than half completely agree that they have enough skills (40%), knowledge (38%), experience (37%) and financial resource (35%) in-house, to do this.

Therefore, it can be assumed that the apparent unwillingness to outsource stems from a lack of awareness and education, rather than a lack of desire. As software licensing becomes more complicated and IT environments spread across more cloud service providers and software publishers than ever before, an opportunity presents itself to educate organisations on what they could be outsourcing, and how this would help them to improve efficiencies, with software asset management, and within the wider business.

Conclusion

Software asset management is unlikely to ever be the driving force behind the IT departments' strategic decisions, but it should certainly earn its place to be considered, when so many organisations recognise its potential impact on business efficiency.

Avoiding the 'black hole' of licensing costs and ensuring they do not run the risk of fines should be a priority for businesses, but with the added complication of cloud migration (and hybrid cloud in particular), its not necessarily as straightforward as it could be. One way to simplify this is to have a dedicated role for software asset management, with one person or team who has complete visibility over the entire process. However, this is not often possible, and so time poor organisations could outsource the monitoring and management of their software asset management tool to a third party company.

The real question for businesses is whether they can afford to be swallowed up by the 'black hole' of software risk and licensing, and pay out a potential loss of over $2 million per year as a result of software negligence? Or is there a simpler way to streamline software asset management alongside cloud migration and technology optimisation? In other words:

How can Crayon help you?

As experts in optimising client ROI from complex technologies, Crayon is the global leader when it comes to software asset management, cloud and volume licensing and associated consulting services. As such many of the world's leading organisations trust us to keep them compliant in an ever-changing IT space.

We work on behalf of our clients offering the most comprehensive and structured range of license management and SAM consultancy services in the framework of a long-term strategic partnership in order to optimise ROI through realistic TCO reduction.

Our team of highly accredited consultants, along with our unique tools and systems, offers an all-encompassing range of SAM & License Management consulting solutions for our clients.

Research scope

Crayon commissioned Vanson Bourne to undertake the research that this report is based on.

In May and June 2016, the quantitative study was carried out, interviewing 575 IT decision makers with responsibility for software licensing or IT asset management in their organisation. Respondents came from the US (200), UK, France, Germany (100 in each) and the Nordics (75). Respondents were from organisations with at least 500 employees and could come from any sector. Interviews were conducted using a mixture of online and telephone interviewing using a rigorous multi-level screening process to ensure that only suitable candidates were given the opportunity to participate. Unless otherwise indicated, the results discussed are based on the total sample.

In August 2016, an in-depth qualitative study was undertaken, formed using the results from the quantitative research. 10 people were interviewed, from organisations with at least 500 employees and from any sector, from the UK and the US. In terms of job role, these respondents were made up of five IT directors, two IT managers, a program director, an IT compliance manager, and an IT asset manager. All respondents had decision-making, and day-to-day responsibility for the software asset management in their organisation. All quotes throughout this research are taken from that portion of the study.

About Crayon:

As the global leader in software asset management (SAM), cloud and volume licensing, and associated consulting services, Crayon is a trusted advisor to many of the globe's leading organisations. Through its unique people, tools and systems Crayon helps to optimise its clients' technology estates within the new mobile-first, cloud-first world.

Experts when it comes to optimising client ROI from complex technologies, Crayon believes passionately that organisations should only pay for the IT resources they actually need and use, but understands that in today's complex technology landscape that can be difficult to achieve. This is why Crayon has developed a unique methodology to deliver on its belief for its customers.

Headquartered in Oslo, Norway, the company has over 1,000 teammates in offices worldwide.

Crayon at a glance: http://www.crayon.com

About Vanson Bourne:

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