

## CRAYON

# Why License Management in Outsourcing Fails



## Recommendations for Working with an Outsourcer on License Management

With most customers already struggling to keep their licenses under control, a factor that makes license management and Software Asset Management even more complex is when the customer makes use of an outsourcer.

When looking at IAITAM's 12 KPAs (Key Process Areas), all of these are affected when a customer outsources (parts) of their IT. Policies, processes and procedures go across the customer and the outsourcer organizations and all should make clear what the roles and responsibilities are for the customer and the outsourcer.

Although complex, customers could be well rewarded for paying attention, because this is one of the most complex areas in IT outsourcing, and if you can achieve control of it, you have better tools and approaches to manage all of IT outsourcing more effectively.

### Not All about Hardware

Although in fact IT is mostly about electronic data and programs, there has always been a tendency to emphasize the hardware side. For example, hardware assets are typically capitalized and viewed as "assets" in every sense of the word. But software is typically expensed, and the mindset is often not there to consider it a real "asset". People (or "human resources") are often considered more as assets than the software they use to run the business.

Another reason for not focusing on the software may be the

complexity of managing it, especially its licensing. Out of sight is out of mind. This mentality has affected much of outsourcing as well.

The focus of most outsourcing is arguably on hardware and personnel, with many deals being structured primarily to reduce capital investment and staff costs. Organizations generally do not go into outsourcing deals to save money on software, and it just gets tagged on without much attention being paid to it. There will be a few clauses to address software, such as "the outsourcer will be responsible for all licensing", but the bottom line is that software is often not addressed in much detail.

Individuals who have worked in outsourcing may have significantly different perceptions about the extent of problems which result. Individuals whose focus is contract management in outsourcing tend to consider that there are not many problems with licensing. Individuals whose focus is licensing and license compliance tend to consider outsourcing an area with some of the worst examples of licensing non-compliance. This may reflect the respective experience bases of different people, and it is possible that outsourcing projects tend more to the extremes of good and bad performance than insourcing scenarios.

When looking for the root cause for why license management in outsourcing is so difficult, it becomes clear that two notable characteristics of how some organizations view IT outsourcing have a negative impact on license management. Both of these are linked to the negotiation mindset.

## Negotiation Mindset Issues

Outsourcing appears to be viewed by some end-user organizations as primarily a major negotiation exercise. Everything is negotiable, including the number of people and PCs to be recognized for pricing purposes. There appears to be little understanding in these cases that these numbers are important beyond their immediate purpose in agreeing to a deal.

There sometimes appears to be a strong expectation of “gentlemen’s honor” about what each side says, and that the other side will not push too hard for confirmation, or make much of an issue of it if differences are noted later.

In short, it is sometimes a case of “trust only; do not verify”. But then it all starts to unravel. The provider realizes that the actual values for hardware and deployed software are significantly above what was negotiated. However, the deal has been negotiated in such a way that correcting negotiated values is difficult, especially for per-unit charging purposes.

The unintended consequence is that software licensing is also not corrected. It is also possible that the original licensing situation was never under control, so what was outsourced as a mess remains a mess.

The best that the provider may be able to do is ensure that new licenses are purchased for new installs, but even then, the provider may not be able to control what end-users are installing. Yet the end-user organization sits securely in the belief that it has transferred full responsibility for license compliance to the provider, and doesn’t want to hear anything to the contrary.



## How the Relationship Goes Wrong

In a scenario of this type, licensing is typically not the only issue. The end-user in such a case was probably not in control of its software in other ways, such as not having control over employees joining and leaving; allowing multiple versions of software, alternative products, and outside software. The provider will want to achieve standardization as a way of improving security and reducing costs, but the end-user may not cooperate.

Likewise, the provider may want to reduce software costs by analyzing actual usage rather than just deployment, to redeploy unused licenses, but the end-user may not cooperate. The result in such a situation is that neither party will ultimately be satisfied with the outsourcing arrangement. There will be constant tensions. These may only come to the surface when the contract ends, when there is a merger/de-merger, or when there is a software vendor audit. Nobody actually wins at any time throughout, except for the people who signed the deal initially.

In conclusion, consider these key recommendations for license management in outsourcing:

- Treat software like an asset
- Obtain competence in licensing
- Look before you leap
- Adopt contracting best practices; negotiate as many variations as necessary
- Support standardization and optimization
- Minimize split ownerships and responsibilities
- Do not try to do it all by yourself

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