

Dealing With Next Software Renewal Call from MS, Oracle, SAP, IBM

Description

IT departments are being subjected to ruthless tactics by software sales teams when they renegotiate contracts with the big four suppliers – but the CIO can fight back.

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IT departments are being subjected to ruthless tactics by software sales teams when they renegotiate contracts with the big four suppliers – but the CIO can fight back.

Addressing delegates at the Gartner Symposium in Barcelona, Gartner research vice-president JoAnn Rosenberger said the big four mega-suppliers – IBM, Microsoft, SAP and Oracle – are the toughest to negotiate with.

“You are at a disadvantage because they have highly skilled legal teams, deal-makers and sales teams to negotiate software deals, whereas you may only renegotiate the contract every couple of years,” she said.

Gartner managing vice-president Alexa Bona said IT staff often feel locked into agreements with **IBM, Microsoft, SAP** and **Oracle**.

Moreover, according to Bona, changes in supplier licence agreements can lead to increased licence fees. For instance, a tweak in SAP licensing could lead to massive costs for CIOs.

“There have been massive changes to licensing,” she said. “New pricing bundles mean SAP has eliminated light-user and shop-floor-user type licences, and is moving to revenue-based licensing.”

Bona estimated that the move from SAP Limited Professionals to SAP Professional Licence will result in a 146% increase in costs.

A push to cloud computing

The major suppliers are pushing cloud products. But often, helping the customer get ready for cloud computing is one of the techniques software suppliers use to conduct an audit.

An offer to help the customer calculate software entitlements or make the organisation cloud-ready is just a guise for conducting an audit, Bona warned. “We are seeing a lot more audits from vendors.”

When moving enterprise software to cloud subscriptions, in Bona’s experience, all mega-suppliers are offering three-year cloud contracts, but “there is no clarity on how the price will increase in year four”.

Given that cloud software is charged for on a subscription basis, the customer will automatically be

charged on the renewal date, and users of the software have to give the supplier 60 days' notice prior to the renewal date if they wish to terminate the agreement, she warned.

Tackling rising licence fees

CIOs risk massive escalation in licence fees if they allow staff-owned devices under a bring-your-own-device (BYOD) scheme to connect to enterprise software, such as Microsoft servers, according to Bona. On 1 December 2014, however, Microsoft will be introducing user-based client access licences, which she said could work out more cost-effective for some organisations.

Maintenance is another money pit for IT departments, and it is hard to terminate, Bona warned. For instance, many customers struggle with Oracle shelfware, and end up paying high maintenance fees for products they never use. "Make sure you do not buy licences you do not need – maintenance is the inheritance gift you give your grandchildren," she said.

Bona explained that one way out of paying maintenance is moving to a cloud subscription model. "Oracle is introducing a cloud programme. You terminate current shelfware, put the software in the cloud, then cancel after three years, which is cheaper than paying maintenance," said Bona.

With SAP, Bona said there is no licence for supplier relationship management (SRM) software: "You have to buy a bundle. But old MySAP software entitlements are vastly larger than what is available today." As a result, the software packages that made up SRM were previously much more comprehensive than what is available now.

Bona recommended that CIOs document licence names and key entitlements covered by their software contract, so at the time of licence renewal they can extract the best value based on the existing contract.

Leverage points

To maximise their bargaining position, Gartner analysts recommended that CIOs create a competitive environment, such as aligning software renegotiations around the suppliers' fiscal quarter dates.

IBM's fiscal year end is in December, and it likes to bundle software, said Rosenberger. "If around 15 December you haven't called IBM, they will call you," she said.

Rosenberger suggested this is a good time to speak to IBM to get greater clarity on the contract. "Say you need the information for capital expenditure analysis," she said. "This information is essential to negotiate a better deal."

Another strategy when dealing with the mega-suppliers is sending out a request for proposals (RFP) and running a competitive tender process, as in government.

Looking at investor relations sites can help the CIO understand what areas a particular supplier is making a big push into. These new market opportunities are the areas sales people are incentivised to sell, so there is an opportunity to strike a good deal if the product fits in with the CIO's strategy.

For instance, Rosenberger said CIOs talking to IBM should ask about IBM financing. She said IBM

likes to bundle, so IBM Finance may be able to obtain a larger discount if the CIO shows an interest in using financing to buy more. “Forecast your requirements and get IBM to prove the value of a long-term contract. This can give you greater discounts.”

Negotiation tips

Power is shifting and a recent survey from Gartner reported that 70% of CIOs said they would change their software providers as the big suppliers did not meet the future needs of their organisations.

“It is rare for big suppliers to reinvent themselves, so if you are signing a five-year deal they may have less influence,” said Bona. “Think about a shorter renewal cycle.”

The analysts recommended that IT departments look at renegotiating software contracts early to get a 5% discount. This works even if the new licence fee is not paid until later.

Finally, with Microsoft, or other major suppliers whose software is sold through the channel, the analysts recommended that CIOs speak to their authorised reseller. With Microsoft, for instance, the reseller can talk through any changes to the Microsoft Software Assurance Programme.

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