

SoftSummit 2009

Preparing for a Software Vendor Compliance Review: Improving Response and Realizing Cost Savings Through SAM

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Software License Compliance Reviews

01



Software License Compliance Reviews

Overview

Software License Compliance Reviews are increasing in frequency and are being performed by more software vendors. They are:

- Establishing or actively enhancing software license compliance programs
- Focusing on a wider range of agreement types, products, channel partners and end-users

Reasons for increased focus include:

- Protecting intellectual property rights
- Increased emphasis on company's controls & business processes (i.e. SOX)
- Driving incremental revenue
 - Compliance programs pay for themselves with a 8-12x ROI of audit fees
- Addressing widespread issue of unlicensed/unauthorized software usage
- Increasing compliance and education of licensing requirements amongst end-users
- Increased visibility of other successful programs

Software License Compliance Reviews

Type of Reviews

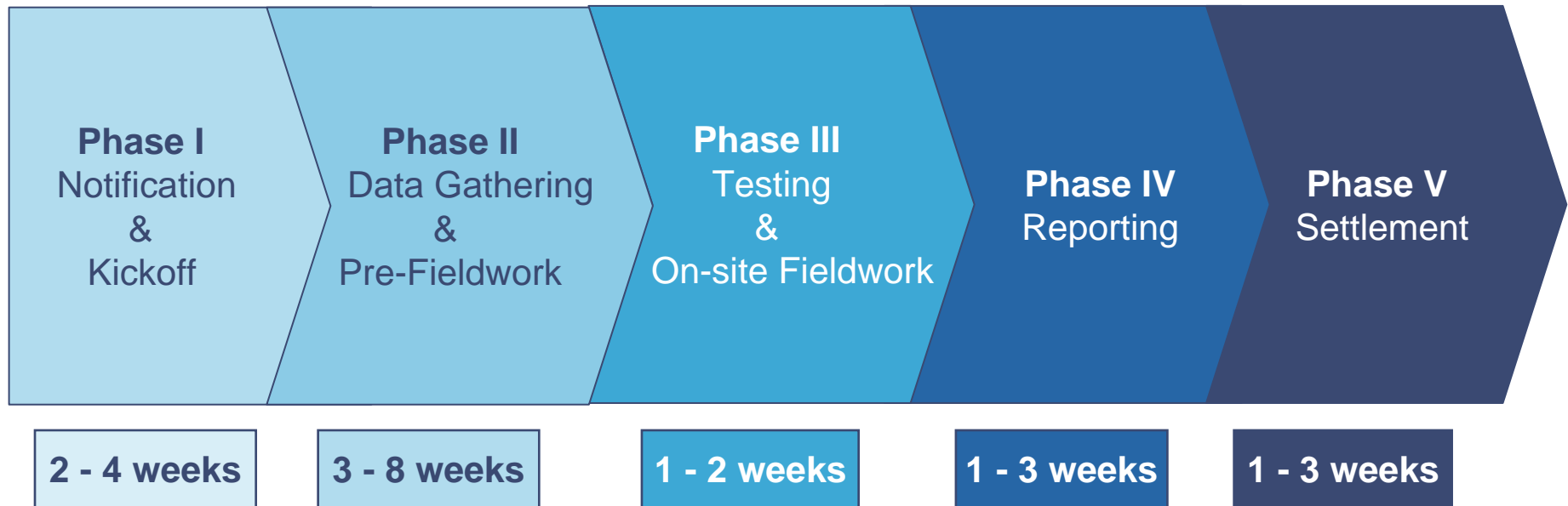
Software License Compliance Reviews differ in:

- **Scope**
 - License Agreements: All agreements or selection of agreements
 - Internal Usage License Agreements
 - Sublicensing Agreements
 - Embedded Product Agreements
 - Hosting or Service Provider Agreements
 - Product Portfolio: All products or subset of products
 - Geography: Global or select territories
 - Platform: All platforms or mainframe only or server only or desktop only
- **Review Approach**
 - Self Reporting: Customer self-reports deployment/usage
 - Remote Review: Vendor or the vendor's third-party partner (i.e. independent party) requests information from customer and verifies the completeness and accuracy of the provided reports without an onsite visit
 - Onsite Review: Vendor or third-party partner conducts a full review that includes an onsite visit to the customer's premises
- **Level of Effort and Time to Completion**

Software License Compliance Reviews

Approach: Onsite Review

Although each review can vary in scope and approach, a high-level overview of the phases encompassing a Software License Compliance Review is as follows:



Timeline provided is an estimate and depends on a number of factors including (but not limited to) scope, approach, complexity of customer's environment, and terms and conditions of licensing agreements.

Software License Compliance Reviews

Phase I

Phase I – Notification & Kickoff (2 - 4 weeks)

- ▶ Notification of Software License Compliance Review
 - ▶ Notification letter (typically) via certified mail, FedEx/UPS/DHL or regular post
 - ▶ Follow up via email or phone

- ▶ Kickoff meeting or conference call with Customer
 - ▶ Introductions
 - ▶ Role of Third-Party Partner (if any)
 - ▶ Overview of review process
 - ▶ Establish scope
 - ▶ Gain general understanding of Customer's existing SAM program including policies, processes, practices and tools
 - ▶ Discuss compliance review timeline
 - ▶ Determine primary contact(s) for review
 - ▶ Agree on communication protocol
 - ▶ Questions / address concerns

Software License Compliance Reviews

Phase II

Phase II – Data Gathering & Pre-Fieldwork (3 - 8 weeks)

- ▶ Vendor/Partner's information/data request
 - ▶ Deployment – Software installed within environment by product, edition, version and appropriate license metric (i.e. installation count, processor count, processor value count, etc.)
 - ▶ Usage – Software usage, as required, to determine usage based licensing (i.e. user counts, named user counts, etc.)
 - ▶ License Entitlement – Proof of licensing and purchasing records via volume licensing programs, Original Equipment Manufacturer (OEM), retail, and other channels
- ▶ Vendor/Partner's review of Customer's response to the information/data request and supporting documentation
- ▶ Follow up with Customer, as necessary
- ▶ Finalize dates and agenda with Customer for onsite field visit

Software License Compliance Reviews

Phase III

Phase III – Testing & Onsite Fieldwork (1 - 2 weeks)

- ▶ Vendor/Partner conducts onsite fieldwork
 - ▶ Onsite kickoff meeting with Customer
 - ▶ Interviews with individual key stakeholders (i.e. procurement, asset management, IT, etc.)
 - ▶ Data gathering to obtain additional:
 - ▶ Deployment and usage data, and an understanding of how the data was collected and validated by the Customer
 - ▶ License entitlement and proof of license information
 - ▶ Testing for completeness and accuracy of the provided information
 - ▶ Onsite closing meeting with Customer

Software License Compliance Reviews

Phase IV

Phase IV - Reporting (1 - 3 weeks)

- ▶ Vendor/Partner complies a report depicting Customer's actual software deployment and usage of products to license entitlement
- ▶ "Closing meeting" with Customer to obtain agreement on the Software License Compliance Review's findings
- ▶ Adjust findings as necessary upon verifiable information provided in "closing meeting"
- ▶ Follow up with Customer, as necessary
- ▶ Partner (if any) finalizes report for Vendor

Software License Compliance Reviews

Phase V

Phase V - Settlement (1 - 3 weeks)

- ▶ Vendor presents compliance review findings
 - ▶ Under licensed positions
 - ▶ Mis-licensing
 - ▶ Other observations
- ▶ Settlement request may include compensation for:
 - ▶ License purchases required for “true-up”
 - ▶ Back maintenance charges
 - ▶ Non-compliance penalties
 - ▶ Review/Audit fees

Common Challenges and Findings

02



Common Challenges and Findings

Common Review Findings

Our experience is that Software License Compliance Reviews usually uncover an over deployment and/or mis-licensing that results in a payment due to a software vendor

An under licensed or mis-licensed position is usually unintentional, but can be the result of a variety of factors including:

- A lack of understanding of software usage requirements
 - Complex usage metrics
 - Processor Value Unit (PVU)
 - Client Access License (CAL)
 - Counts per: Processor/core, user and device
 - System tiers and other classifications
 - Mixing and matching license types
 - Internal vs. resell vs. embedded vs. hosting services licenses
 - Production vs. development vs. disaster recovery licenses
 - Corporate vs. educational licenses

Common Challenges and Findings

Common Review Challenges

Some of the common challenges faced by organizations during a Software License Compliance Review include:

- Lack of executive sponsorship
 - Impacts ability to collect the deployment, usage, and entitlement information
 - Impacts potential settlement negotiations
- Lack of resources
 - Causes delays in completing the Review in an efficient and timely manner
- Lack of transparency in Review scope and process
 - Leads to potential mis-understandings of the fact-pattern and “surprise” findings
- Communication
 - Undefined communication channels leading to possible disclosure of mis-information
- Collection of accurate license entitlement records
 - Agreements and purchasing records maintained in disparate systems and/or difficulty separating hardware from software purchases
 - Numerous purchasing channels make compiling purchase records cumbersome
 - Retail, Original Equipment Manufacturer (OEM), Distributors, Large Account Resellers
 - Over reliance on third-party records (i.e. Distributor, Managed Service Provider, etc.)

Common Challenges and Findings

Common Review Challenges (Cont.)

- Inability to accurately track the deployment and usage of software products
 - Undefined or unenforced policies and procedures
 - Procurement – Decentralized, insufficient due diligence on license requirements
 - Deployment – Decentralized, no checks and balances before installation
 - Maintenance – No periodic survey of software deployment vs. license entitlement
 - Retirement – No license harvesting program or mechanism to transfer unexpired licenses
 - Inadequate technology to monitor deployment and usage
 - No software asset management tool(s) to electronically discover and track software
 - Inadequate tool coverage or lack of visibility across geographies and data centers
 - Conflicting or inaccurate tool output
- Technical architecture challenges
 - Distributed networks: May require multiple deployment/usage data collection workstreams
 - Virtualization
 - Many older licensing agreements do not consider licensing in virtual environments
 - Data collection requirements and/or licensing models may be different than non-virtualized environments
 - Multiplexing
 - Misunderstandings in licensing requirements
 - Many tools do not have appropriate usage metrics, metering, or visibility into actual usage

Improving Response

03



Improving Response

Items to Consider to Prepare and Mitigate Risks

Software License Compliance Reviews can require a significant level of effort from your organization depending on the scope of the Review, but there are steps you can take to prepare and mitigate risks:

- ✓ Identify appropriate executive sponsorship
 - Determine who within your organization is an appropriate sponsor to ensure an successful delivery of the review and a thorough analysis of the findings
 - Not uncommon for the CFO or CIO to be the executive sponsor
- ✓ Assemble a project team across the software lifecycle (and across geographies)
 - Executive Sponsor: Provides executive management support for the project in assisting the team gain the necessary resources, approvals, etc. for success
 - Project Manager: Develops a project plan, coordinates team's activities, resolves issues and drives project to a successful completion
 - IT: Knowledge of technical architecture, discovery tools, hardware and software deployments. Typically, this is more than one person depending on responsibilities for various platforms, software types, geographies, etc.
 - Procurement: Provides proof of purchase and license of software
 - Contract / Vendor Management: Gathers and reviews license agreements for key terms and conditions regarding licensing and conditions of the Review
 - Legal: Provides legal advice and support

Improving Response

Items to Consider to Prepare and Mitigate Risks (Cont.)

- ✓ Understand scope
 - Organizational entities (and legacy firms and divestures) and business units
 - Geographies
 - Products
 - Look-back period (if any)
- ✓ Understand vendor's approach
 - Self-report, remote or onsite? Sampling? Extrapolation? Tools/scripts?
- ✓ Develop a workplan
 - Include key tasks, milestones, responsibilities, assumptions and dependencies
 - Hold regular status updates with project team and drive towards committed deadlines
- ✓ Review all license agreements
 - Gather and review all the license agreements for the software vendor
 - Make sure to consider a vendor's acquisitions (i.e. Oracle/BEA Systems)
 - Understand obligations regarding any Review
- ✓ Assess existing SAM and discovery tool capabilities
 - Understand what tools may already be within your environment collecting (or able to collect) the deployment and usage data for the review
 - Identify any limitations of tools and review output against the review's requirements

Improving Response

Items to Consider to Prepare and Mitigate Risks (Cont.)

- ✓ Be cooperative
 - Ensure concerns regarding scoping, approach, analysis and others are addressed in a cooperative (and professional) manner
 - Past relationship history is important context to any review, but don't recite a detailed history in front of the third-party partner
- ✓ Communicate
 - Request that the vendor/third-party to be transparent about approach and be transparent about your process to collect and validate required data
 - Establish periodic internal team and review team project status updates
 - Express concerns, risks, issues to get resolution as soon as possible

Software Asset Management

04



Software Asset Management

Overview

Software Asset Management (SAM):

“Software Asset Management is all of the infrastructure and **processes** necessary for the effective **management, control** and **protection** of the software assets within an organization, throughout all stages of their lifecycle.”

-- ITIL Best Practice guide to Software Asset Management

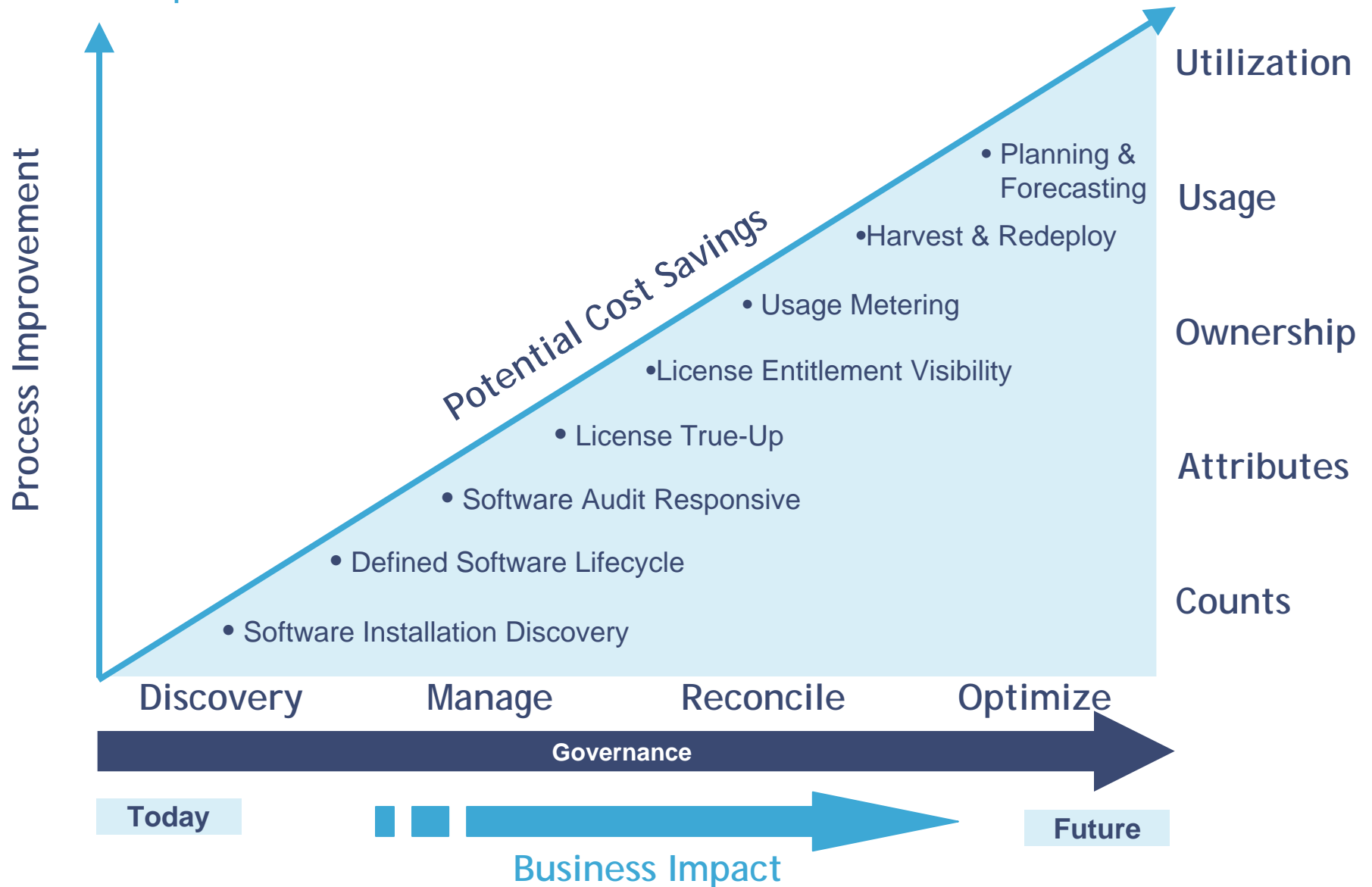
Software Asset Management

Benefits

There are many benefits to an effective SAM program:

- Ability to manage software assets in “real-time” leading to cost savings from:
 - Taking advantage of favorable licensing and maintenance pricing through vendor enterprise programs
 - Increased capability to “harvest”/reuse software licenses
 - Reduction of over purchasing of software
 - Elimination of purchasing redundant applications
 - Up to 30% cost savings in Year 1; 5-10% in annual cost savings in Year 2+
 - “IT Asset Management: Moving to Higher Ground,” Frances O’Brien, Gartner ITAM Conference, 2003”
- Risk mitigation for non-compliance with licensing and maintenance agreements
- Less disruptive, more coordinated and efficient responses to vendor audits/reviews
- Proactive management and a more collaborative vendor relationships

Software Asset Management Process Improvement



Software Asset Management

Phased Approach

Creating a SAM Program can be a multi-phased project:



Phase I – Current State Assessment / Identification of Quick Wins

- Objectives for a typical Phase I – Current State Assessment would include:
 - Gaining a better understanding of the current software license agreements, software purchases, software asset management policies, processes and technology
 - Benchmarking your organization’s SAM program against leading industry practices consistent with ISO/IEC 19770-1 (i.e. Maturity Model Assessment)
 - Identifying software vendors and products to be examined further for license compliance (based on “risk” factors) and potential targets cost savings
 - Developing a roadmap for an improved/new SAM program and areas for immediate improvement

Questions

05



About the Speakers

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About the Speakers

Profiles

Bruce Vanderbush – Partner

Bruce has been with PricewaterhouseCoopers for over 14 years and is a Partner in the Forensic Services Licensing Management and Contract Compliance practice in San Francisco, California. Bruce has assisted many companies with Software Asset Management and internal contract and licensing management compliance strategies as well as software vendors in establishing software license compliance programs and conducting forensic-based license compliance examinations. His client experience cuts across many industries including software, technology, aerospace, biotech, healthcare and semiconductors. Bruce holds a Masters in Business Administration from University of Texas at Austin and a BS from West Point, US Military Academy.

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Christopher has been with PricewaterhouseCoopers for over eight years and is a Director in the Forensic Services Licensing Management and Contract Compliance practice in San Francisco, California. Christopher specializes in Software Licensing Management Compliance and Software Asset Management. He has assisted software vendors in establishing License Compliance Programs and has led numerous project teams in conducting Licensing Management Compliance Reviews. Additionally, Christopher supports our enterprise clients across many industries with developing and improving their existing Software Asset Management programs. Christopher's experience and deep technical expertise has positioned him to lead international teams throughout the United States and Europe and includes submitting testimony to an international arbitration tribunal in a contract dispute. Christopher holds a MS of Information Management Systems from Carnegie Mellon University and a BS in Business Administration with a concentration in Finance from the University of Delaware.

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