Cutting Costs while Driving Innovation:

How Evaluating ELAs Creates Financial Clarity

Do You Face Blind Spots in Your IT Infrastructure Spend?

At the beginning of every year, more than 80% of your annual IT spend is likely already committed – in the form of depreciation, maintenance, and support for infrastructure – inhibiting your ability to bring new, differentiating capabilities to the business.

Making matters worse, those dollars often lie hidden in the form of inefficient or ill-advised software license management. If you don't have the luxury of a large or mature vendor management function, you probably struggle to see the full picture of your maintenance costs for the next 12 months, let alone into future years.

LIMITED VISIBILITY

- Maintenance forecasts that look out only 1 year.
- Multiple invoices and formats from a vendor.
- Data not reflecting changes like upgrades.

PRODUCTIVITY BARRIERS

- Time spent managing multiple contracts.
- Inefficient one-off maintenance purchases.
- Expensive assets going underutilized.

RISK EXPOSURES

- Lapsed maintenance contracts.
- End user license agreement violations.
- Assets experiencing end of service life.

If your business doesn't have a clear view of committed costs, you probably don't have an accurate understanding of maintenance forecasts and software upgrades, let alone a comprehensive financial plan that allows you to make informed decisions. But even more concerning than this lack of visibility is the likelihood that you'll simply throw money away.

Enterprise License Agreements (ELAs) can be a large part of this financial picture, but determining the best fit is critical. And a lack of insight into your organization's roadmap only over-complicates this already involved process. The due diligence required to properly assess ELAs for your organization will conveniently necessitate you to establish an accurate financial baseline. This can save you time, money, and valuable technical resources by forcing you to analyze your current roadmap. This guide will walk you through the method for establishing that financial baseline and roadmap, as well as exact uses and benefits of an ELA, ensuring that your future spend will be transparent.

Finding The Right Tool To Accelerate Technology Transformation

YOUR ORGANIZATION MUST

It can be challenging for organizations to keep up with projects that are fundamentally changing how IT is delivered while also tending to traditional business operations. Balancing these aspects is an integral part of digital transformation.

Analyze, Adopt, and Accelerate projects

WHILE

ACHEIVING

Techinical, Operational, and Financial Goals

Enterprise License Agreements (ELAs)

Traditional software licenses are perpetual—or in the case of software associated with a hardware purchase, they are usually associated to the life of the hardware asset (frame-based). After the purchase of the license(s), a user will typically pay an annual service and support fee to continue to receive updates—and to be able to call for assistance if needed throughout the life of the maintenance period.

An ELA, in contrast, is a contract between a user and a manufacturer that provides an upfront bulk purchase of perpetual software titles, as well as support for the duration of the contract, which is typically anywhere from three-to-five years. The volume and diversity of included titles will vary by use case and technology platform(s), so every ELA will be unique, though there will be common elements across the industry. At the end of the contract, the user usually has the option to extend maintenance for an additional year at the discounted ELA price (This is typically called an “out year” or “grey year.”). After that year, the software titles revert to full-price support renewal costs—or a user can sign another ELA for a new term of use.

ELAs have been around for a very long time for traditional software providers, but recently a number of hardware manufacturers—including Dell EMC and Cisco—have started to leverage this method, as well. This is reflective of both the increasing amount of software in those companies’ portfolios, as well as market drivers to be discussed in further detail. The hardware manufacturers have introduced term-based offerings—as opposed to the traditional perpetual licensing structures—with the option to convert the licenses to perpetual at the end of the ELA, for a fee.

What are the Benefits of an ELA?

SAVINGS: ELAs are effectively a pre-buy of rights to all software the company intends to use during that term. As a result, the manufacturer is willing to provide a discount on the price of that software relative to the traditional purchase price. Depending on the client, scale of the ELA, and overall technology investment, a user could see savings of up to 25-to-30 percent for these agreements. ELAs are typically an unbudgeted event, so manufacturers will also usually offer generous financing terms. These agreements also consolidate multiple purchase and support contracts to simplify customer operations.

REDUCED CAPEX: ELAs from hardware manufacturers can also help organizations that are seeking to move from a CAPEX to an OPEX purchasing approach. From an accounting perspective, this type of agreement will typically reduce CAPEX, as it moves software that was traditionally capitalized—since it was tied to a frame—to an operating expense. This is especially important given recent accounting changes regarding operating leases. Finally, many of the agreements will have the ability to substitute license titles during the agreement, so that they have flexibility depending on how they grow.

PREDICTABLITY: These agreements give software and hardware providers visibility and predictable revenue streams for the duration of the contract. In addition—for software titles the user already owns and was paying maintenance for—the ELA allows the supplier to recognize that conversion as new license revenue, rather than maintenance extensions, therefore improving their revenue mix. Given that most ELAs include "growth" for software titles over the term of agreements, it is likely that the manufacturer will be able to sell more licensing through an ELA in one event rather than waiting for future agreements. These vehicles allow the manufacturer to bundle in additional titles, driving consumption of other product lines.

Are ELAs Right for Your Organization?

ELAs are often a good fit for organizations who expect to grow during the term of the contract, but it would be misleading to make a blanket statement that they are right for all companies. There are nuances that must be understood in terms of how that growth is expected to manifest, the optimal term of the contract, and how the organization accounts for costs that must be analyzed in order to validate the potential benefits. In addition, due to the variances between manufacturer terms and ELA structures, it is possible that an ELA will make sense for one technology area, but not for another. It's important to have a consultancy in your corner that's built a strong financial services team who can help users sift through these details—and make the best decision possible. When creating a financial strategy and roadmap for your data center—or for an organization's aspirations to move to a hybrid model—it's critical to include analysis of acquisition models like ELAs to help maximize your spend, reduce your cost, and determine if they are feasible and suitable for your business.

Acquiring an ELA

CHALLENGES

- May have some amount of licensing to which you have the rights, but is not yet deployed.
- Mst deploy those software titles as quickly as possible so that you can leverage them for as long as possible.
- If no need for additional hosts until next year, it doesn't make sense to acquire more hardware just to run the licenses early.
- Worst possible outcome is to approach the end of an agreement with software that was never deployed.

OPPORTUNITIES

- Ability to develop a consumption or deployment roadmap for your IT environment for at least the duration of your ELA, if not beyond (better visibility and forecasting).
- Once roadmap is complete, you can begin scheduling your team and any required services resources for assistance.
- User organizations have a much greater choice of resources.
- Resolves potential resource constraints, and will allow you to accelerate the adoption of roadmap items.

Your multi-year roadmap should include:

The roadmap will be critical to ensure that your team is not overwhelmed and that you don't end up forgetting about a new capability due to the ongoing demands of environment administration.

Deriving Maximum Value From Your ELA

The reasons to consider an ELA are clear: You can obtain new software licenses at significant discounts, and you also get a significant discount on software support, as it's sold as a percentage of the purchase price.

Each ELA is unique due to the unique licensing and term requirements of each customer, and will generally consist of some combination of existing licenses, new licenses, maintenance, and renewal terms.

For those users considering a new ELA, first do the following:

ANALYZE YOUR CURRENT LICENSES Request an install report from vendors to ensure that their records match what you're using. Existing licenses and their maintenance, whether in use or not, establish the baseline of the business as usual or ELA cost, so validation is critical.

CLEAN UP YOUR ENVIRONMENT This is likely a good time to do some technical grooming to see if you can decommission old/unused software—or perform any host consolidation. A quick utilization assessment or review of reports could result in reduced forecasted need.

LOOK TO YOUR ROADMAP Since there is a minimum new license component to an ELA, it's important to understand which technologies you will be adding to your current footprint and when you will be deploying those technologies.

ESTABLISH YOUR BASELINE TOTAL COST OF OWNERSHIP (TCO) This is also known as your "business as usual" or "non-ELA" approach. A consultant's financial team can assist here, providing license and support cost models for multiple years. Only once you understand what your expected costs will be without an ELA can you determine if the ELA will be financially advantageous.

RUN SEVERAL MODELS This is a key step in the AHEAD process. Once your consultancy understands the basics, they can run several models for you based on varying terms and license volumes. It may be possible to vary the terms slightly and get to a new discount volume level, leading to potential savings.

PERFORM COMPARISONS Compare the ELA models with your baseline TCO—and include your finance team to create the correct payment structure.

The steps above are necessary to make an informed decision and select the right purchase vehicle for your organization. This can be a time-consuming process, but it can pay off in spades. Manufacturers often pitch license agreements in bundles, which is great if you're not looking to buy software under normal SKUs. But manufacturers generally don't have a view of your organization's roadmap, which should include your financial baseline. By purchasing these bundles without having first assessed your future needs, you are at risk for pre-buying into the wrong agreement.

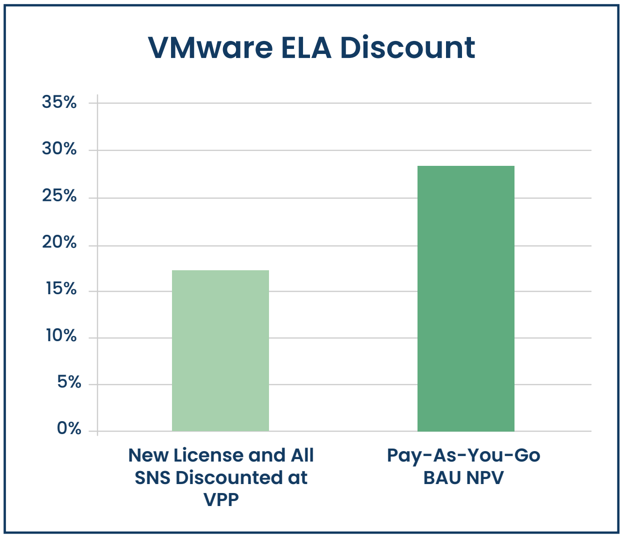
This could significantly tack on unnecessary spend, as there are multiple tenants that must first be considered when purchasing a license agreement. For example, you may be sold a bundle that isn't the right size for your organization, meaning you may be over- or under-buying. The duration of the agreement can also be incorrect, leading to superfluous costs or lack of maintenance support. Consumption options are key as well, and you'll need to know whether a defined or all-you-can-eat model is best for your business. In addition, you could end up purchasing the wrong license type for your company's current and future needs.

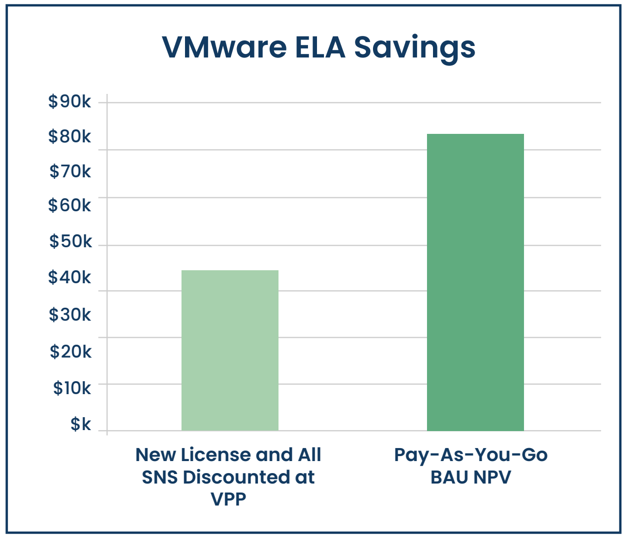
Even with a roadmap, there is a myriad of varying license agreements, making the purchasing process even more complicated. AHEAD is the expert in performing an unbiased future needs analysis, relieving your organization of much the burden.

Example of Bottom-Line Savings Potential

Below is a graphical example of how an ELA with VMware can cut costs.

VMware ELA Savings Analysis			
VMware ELA: Three-Year Bundle:		$205,000	
		VMware ELA Analysis	
Three-Year Comparison Scenarios	Total Cost	Discount	Savings
New License and All SNS Discounted at VPP	$249,798	17.9%	$44,789
Pay-As-You-Go BAU NPV	$287,158	28.6%	$82,158





Source: Gartner, INC

AHEAD can leverage license agreements to assess IT infrastructure, create TCO models, and identify savings, as we did in the below example for a large hospital system.

Client Services						
	FY18	FY19	FY20	FY21	FY22	Total
Cash Savings						
BAU	$9,987,272	$17,676,630	$25,537,012	$1,704,704	$3,614,088	$58,519,807
Refresh	$32,414,171	$852,968	$6,506,767	$1,262,878	$1,586,596	$42,623,380
Cash Savings	$22,426,797	$16,823,662	$19,030,244	$441,826	$2,027,492	$15,896,421
						27.16%
GAAP Savings						
BAU	$5,034,588	$8,396,091	$11,214,227	$9,827,155	$10,329,128	$44,801,189
Refresh	$4,383,288	$7,179,537	$8,174,866	$8,753,241	$9,827,160	$38,318,093
GAAP Savings	$651,300	$1,216,554	$3,039,361	$1,073,914	$501,968	**$6,483,097**
						14.47%

AHEAD helped one hospital system identify 27% in average annual cash savings and more than 14% in GAAP savings over a five-year period.

JOHN COLE,

Solutions Principal, AHEAD

Why AHEAD for ELAs

For customers without ELAs, we recommend starting with the license and technical grooming exercises suggested above. If you have an ELA, we advise you to evaluate any software that was purchased—but not yet deployed—and to create a timeline or roadmap to leverage that capability.

Our experts know the importance of first establishing a financial baseline before determining whether or not a license agreement is right for your organization. We're here to cut through the noise and assess your current IT spend to develop an effective roadmap using our proven method.

At AHEAD, we call this approach "Harvest to Invest." We can help you uncover your committed costs for both the current year and those elusive future years, then formulate a plan to harvest significant savings—savings that fall to your bottom line or into new initiatives that drive your top line. The process includes three key steps:

92% **have been surprised by a maintenance bill, according to a recent AHEAD survey.**

1 BASELINE

By assessing your environment and providing transparency into your committed maintenance, depreciation, and asset lifecycle data across a three-to-five year time horizon, we help you understand exactly what to budget for maintenance.

2 HARVEST

We identify your hard dollar savings. This may involve enterprise license agreements, multi-year maintenance renewals, and infrastructure replacement programs driven by the vendors.

3 INVEST

Using your strategic priorities and our Enterprise Cloud Delivery Framework© as a guide, we can help you identify where to reallocate your harvested infrastructures savings.

AHEAD's Complimentary Baseline Assessment

As a first step, let us help you develop a complete picture of your committed infrastructure spend, and simplify that picture in the process.

Using your own data, but primarily that of your vendors (trust us, they have it!), AHEAD data center engineers will analyze your install base across all platforms and divisions. We will:

- classify and simplify line items to make it easier to digest, as well as ensure complete accuracy in reporting
- identify assets that are currently expiring, or expiring in future dates, based on both financial and technical reasons
- provide accurate budget details for the upcoming year, as well as future years to inform your infrastructure strategy
- create a financial view by month, along with a view that shows assets under support, partially supported, etc.

Contact us to request your complimentary baseline assessment today.

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