

Management Update: Predicts 2005: IT Asset Management Adds Value, Lessens Risk

Frances O'Brien, Jack Heine, Alvin R. Park, Frank DeSalvo, Jonathan Mein, Jane B. Disbrow

IT asset management is receiving more attention as businesses continue to face cost controls and increased asset regulatory requirements. Implement sound programs that combine people, processes and tools.

ANALYSIS

IT asset management is receiving more attention as businesses continue to face cost controls and increased asset regulatory requirements. Implement sound programs that combine people, processes and tools.

Many Companies Are Highly Exposed

Most companies have implemented IT asset management (ITAM) programs with varying degrees of success. Gartner estimates that fewer than 25 percent of companies worldwide have an enterprisewide life cycle asset management program that can proactively address risk, minimize costs and improve the operational efficiency of their environment. This means that at least 75 percent of companies are highly exposed to risk, overspending on IT assets and not optimizing their IT operations. In many cases, companies underuse assets and maintain unproductive assets. Because of this, ITAM, although a mandatory business practice, should also be viewed as a long-term investment that will add significant value to the business.

Prediction

- Through 2010, customers that commit a minimum of 3 percent of their annual operating budgets to ITAM programs and tools can expect a 25 percent reduction in their total cost of ownership (0.8 probability).

Key Findings

Gartner research shows that less than 10 percent of its customer base is currently engaged in software asset management (SAM) programs at an optimized level.

Implications

If your business has not yet made a commitment to SAM, a significant opportunity exists to focus resources on this area and achieve a disproportionate benefit. Although a 25 percent reduction in total cost of ownership is not sustainable recurrently, it will make a noticeable impact on the bottom line during the five-to-seven year implementation period. Also, because any money saved through a SAM program is saved for the duration of the contractual commitment, companies that don't begin to manage these costs now will not be competitive in the future, because they will be building their budgets from a much-higher cost base.

Advice/Recommendations

Users: Build the foundation for an effective asset management program by:

- Obtaining management support and setting levels of procurement authority
- Creating a negotiation team with multidepartment representation, including members from technical, accounting, financial, legal and procurement areas
- Establishing centralized control of the operating budget
- Developing repeatable processes for acquisition, deployment, tracking and retirement of software assets with collaboration from the accounting department
- Developing a measurement system that will monitor your negotiating success

- Beginning a library of your organization's preferred contract language for "must have" and "nice to have" terms and conditions

By focusing resources and effort on the top 20 percent of your vendors, you should be able to manage about 85 percent to 90 percent of your total spending.

Vendors: Recognize that customers will be increasingly focused on SAM issues, and support their efforts by providing software tracking tools that can be packaged as a value-add to your product offering.

Prediction

- Through 2007, compliance requirements will be the key driver for ITAM programs (0.8 probability).

Key Findings

There is a considerable increase in government regulations worldwide dictating how enterprises should conduct business and safeguard the personal data they collect for their customers, their employees and their business partners requiring asset management. This has increased the need for compliance programs that adhere to these varying regulations, protect the company and minimize risk (see "Use IT Asset Management to Mitigate Enterprise Risks," TG-23-0774).

Implications

The trend for more regulation is expected to continue, with no relief in sight. Without ITAM, complying with many of these regulations will be difficult at best. At its most basic level, ITAM is about counting and tracking hardware, software, and service contracts or obligations associated with those assets. An effective asset management program will identify what IT assets you own or have responsibility for, what data is being stored, who has access to that data and where those assets are located. Without having this basic ability to view and report on IT assets, it is impossible to verify that your data is secure or that your fiduciary and governance responsibilities are being met. Auditors, managers, accountants and legislators have devoted increased attention to internal controls and process. A by-product of this increased attention for many company compliance initiatives has been to establish an internal audit committee to evaluate and report on company practices, processes and financial due diligence. This increasing corporate reliance on internal audits will highlight the deficiencies inherent in many ITAM programs.

Advice/Recommendations

ITAM is an essential ingredient for a good compliance program. To comply with the numerous and differing regulations, you must develop, monitor and enforce corporate governance, data security and provisioning policies surrounding the way you procure, maintain and retire IT assets. View an ITAM program as a process that enhances compliance activities, lowers cost, improves quality and will provide long-term benefits to the business. Whether you are just beginning an ITAM program or have established programs in place, begin an internal communication program with the stakeholders of the program highlighting how good ITAM can enhance compliance programs.

Prediction

- SAM will remain an immature practice through 2007 (0.8 probability).

Key Findings

For buyers, the focus of effective SAM is on managing the software life cycle not only to reduce costs, but also to reduce liability exposure, improve software compliance and better match use with contract terms.

Due to the complexity of creating a mature SAM solution, buyers look to the SAM area for assistance. The SAM environment is comprised of software vendors, ITAM tool vendors, software resellers, outsourcers, ITAM consultants, software trade organizations and buyers. Members of the SAM ecosystem depend on each other for their success and survival, collaborating to create a consistent approach to the development of cohesive merging of the physical, financial and contractual attributes of software to enable the delivery of cost-efficient, timely business solutions.

Gartner research shows that the ecosystem is not working other than to drive increased compliance for software vendors. There may be some co-operative marketing (such as Altiris and Microsoft combining in 2004 to promote a SAM solution for small and midsize buyers in the North American market), but overall, collaboration remains poor. For example, software vendors generally do not work with tool vendors to ensure that the tools can manage any newly defined licensing metric. Because manageability is one of Gartner's five criteria for a good licensing model (see "Framework for Evaluating Software License Models," DF-11-5413), this omission can leave buyers struggling to remain compliant when introducing software with a new metric. Therefore, buyers face a higher risk of noncompliance because of poor communication between vendors.

Implications

Due to this lack of collaboration and a limited focus on compliance, SAM will not move beyond its current adolescent stage of evolution through 2007 and will not become an off-the-shelf solution. Until the ecosystem proactively works together, SAM implementations will struggle to deliver the expected benefits. The mini-ecosystem will continue to work as it does now — meeting the needs of software vendors, not buyers.

Advice/Recommendations

Evaluate your position in the ecosystem. It is currently robust in terms of numbers of members, with new entrants appearing all the time. Working out which other members of the ecosystem you need partnerships with will be important. Effective collaboration can overcome several conflicts of interest by delivering good solutions balanced with integrity. The link between tools and software vendors is crucial to the efficient functioning of the ecosystem: tool vendors should develop strong co-development-based partnerships with key software vendors to create tools that effectively address the complexity of SAM processes. Buyers should evaluate which of the tool vendors are developing links, not just marketing, with software vendors (and vice versa).

Prediction

- By 2008, purchasing software maintenance will be mandatory (0.8 probability).

Key Findings

Software maintenance revenue, as an annuity revenue stream for software vendors, has increased in importance during the past several years, because "new" license revenue growth has become harder to maintain over time. From a contractual standpoint, most software vendors' licensing models enable a customer to choose whether or not to purchase maintenance on their software licenses. From a practical standpoint, they have gradually changed their models in such a manner as to make it virtually impossible to run their software without it. Some of the changes incorporated by major software vendors that have coerced customers into this position include:

- Instituting mandatory maintenance charges for new licenses for an initial period
- Eliminating maintenance reinstatement options other than a new license repurchase
- Pricing reinstatement options equivalent to three years of maintenance charges
- Requiring maintenance to be in effect to receive “bug fixes” or patches to the software
- Gradually increasing maintenance charges as a percentage of the licensing cost over time

Implications

Expect to pay software maintenance charges in the range of 15 percent to 30 percent of the total cost of all licenses, depending on the software vendor’s maintenance pricing models, with the average being around 22 percent. Those that have been acquiring maintenance on only a portion of their software licenses and were expecting their maintenance cost to remain relatively flat as a result will see their software maintenance budgets continue to increase as they are forced to put ever increasing numbers of their licenses under maintenance.

Advice/Recommendations

Expect continued upward pressure on software maintenance cost and budget accordingly. As a result, when negotiating all new and renewal software contracts, vigorously negotiate maintenance pricing and content. Build in future price protection, not only for the term of the contract being negotiated, but for the “out years” on its termination. Since maintenance is usually pegged at a certain percentage of the net discounted licensing cost, aggressively negotiate lower initial license fees. Make sure that maintenance is not pegged to the “then current list price” or that it doesn’t revert to that price on termination of the current contract or previously negotiated maintenance caps. Negotiate maintenance and support entitlements so the software vendor cannot reduce the level of support (see “Negotiate Software Maintenance Terms and Conditions,” TG-22-5453).

Prediction

- By 2009, the shift to a more virtual working environment will force a strong asset management program to be an imperative component of IT operations (0.7 probability).

Key Findings

The need for knowledge workers to physically report to a prescribed work location is diminishing. For all the benefits this movement toward a “virtualization of the workforce” will bring (little or no travel time to work, increased work flexibility, reduced office space requirements and more), a significant downside will be problems with network security, configuration management of remote devices and general management of mobile IT assets. Just within the confines of national borders, virtualization of the workforce will stress established IT operational systems.

Implications

Organizations that have had only marginal success in establishing an asset management discipline will find virtualization of the workforce a significant roadblock in maintaining any degree of operational efficiency and effectiveness regarding mobile devices, let alone maintaining accurate asset records. Current and future legislation governing the accurate reporting of asset use, coupled with increased scrutiny of licensing compliance, will present significant financial risk to organizations with poor ITAM processes and tools.

Advice/Recommendations

Enterprises that have a significant knowledge worker component to their staffing must establish a highly accurate, flexible, and automated IT asset-tracking system to meet future management needs. At a minimum, for an organization of 2,500 professionals, establishing a solid ITAM process will require 18 to 24 months (depending on the maturity of their current processes) and will require an ongoing investment of 3 percent to 5 percent of the annual operations budget for ITAM resources.

Bottom Line

- No single out-of-the-box solution exists for IT asset management.
- However, by implementing a sound ITAM program that includes a combination of people, process and tools, you can maximize your IT investments and minimize corporate risk.

Written by Edward Younker, Research Products

Analytical sources: Frances O'Brien, Jack Heine, Alvin R. Park, Frank DeSalvo, Jonathan Mein and Jane B. Disbrow, Gartner Research

For related Inside Gartner articles, see:

- "Management Update: Tune Up for Increased Activity in Asset Management," (G00121490)

This research is part of a set of related research pieces. See "Inside Gartner Top View" for an overview.

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0069

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. Nações Unidas 12.551
9 andar — WTC
04578-903 Sao Paulo SP
BRAZIL
+55 11 3443 1509