

Are Software Discounts a Bargain?

Shop for Value, Not Just Percentage Discounts

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Everybody wants a good deal, but what is a deal? Most software “good deals” are expensive bargains where value per unit equates to a high dollar amount. With software assets, the initial “I’ll give you 22% off the top” often equates to an inflated recurring maintenance and support fee that balloons up like a bad HELOC (home equity line of credit). Why? One reason is unused licensing or shelfware.

If you’re working on any aspect of software asset management (SAM) or in any procurement capacity, you know that the executive team can be seduced by the traditional discount. It’s easily understandable because people can quickly and easily identify and recognize discount as being a percentage reduction from the total list price. Like I said, everyone wants a bargain and what sounds better than 20 or 25% off the top.

While discounting off the total price works well with many commodity products or services, especially luxury goods, it’s definitely a major issue with software licensing. If you’re seeking to buy a car, a stereo or even children’s clothing, a 20% discount is a great deal. The discount is just a discount. But with software licensing, a percentage discount should only be a small part in a much larger strategy (though there is some merit and value to a percentage discount). The discount is directly connected to the total cost of ownership (TCO) over the life of the software license contract. Basically, the TCO is the actual net price paid for a software license or solution over the life of the contract. This is where the real “discounts” emerge, if you know what to look for, and what to negotiate.

The real discounts can only be found through a comprehensive SAM process that:

- ◆ Achieves, manages and maintains compliance ◆

- ◆ Understands what assets you have, need or will need
- ◆ Recognizes the ebbs and flows within the system and what it means to software licenses
- ◆ Lowers and preserves the total cost of ownership through ongoing asset management

When it comes to discounts, there are only three questions that need to be asked:

1. What was the best (and smallest) discount our company received and what were our reasons for taking it?
2. Can you anticipate the next discount?
3. What concessions would be better for our company



other than, or in place of, a better discount level?

High Value Trumps Discounts any Day of the Week

During a software purchase, the initial list price is probably the least important factor being negotiated. Let me put it into context: would you rather pay \$1,000 for a product that solves the problem or \$500 for a product that doesn't (or even only solves a portion of the problem)? While the example seems overly simplistic, the scenario is quite real and businesses buying software make this same error on a daily basis. Why else would CEOs of software companies be among the richest men in the world? The discount or "great deal" is hard to resist. Paying \$200 for a \$500 dollar pen seems like an amazing bargain, but if the pen only writes half the time or not at all, the deal doesn't seem so much like a deal anymore.

This is where non-discount concessions come in. While many go for the percentage discount, the real bargain is what the added value non-discount concession brings to the table. It's almost always the most critical factor in shaping the initial TCO as well as savings over time.

Retail companies are a perfect example of where non-discount concessions provide real value. Unlike many other businesses, retailers have a seasonal ebb and flow. They know in advance that peak shopping seasons are during January,

February, July, November and December. The end of the year is the busiest time with few exceptions. If the stores normally use 100 customer service people, the numbers may triple during the holiday season. Based on this, retailers often make the mistake of purchasing the maximum amount of licenses to be used during the peak period for the entire year. Why would retailers do this? It's likely that they think or are led to believe that is what will keep the company compliant with the software vendor and that the 300+ licenses are necessary. And, let's face facts; it's probably the easiest answer for staying compliant (but the most expensive). A possible alternative scenario could be: using non-discount concessions, the retailer could grant temporary license uplifts for seasonal use in the agreement, thereby negotiating flexibility into the contract.

Discount Best Practices

While there are many best practices that should be considered during software negotiations, there are four that should be part of any software asset managers' DNA.

1. Be sure that your software procurement is aligned with your business goals. In other words, ensure that proper licenses are purchased based on what the business requires. If you follow this rule of thumb, the discount will always come. While it may not be as large as the

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One of the world's foremost experts on Oracle software licensing, Eliot Arlo Colon is responsible for the ongoing development and delivery of Oracle cost containment services for Miro. With more than 15 years experience in the financial and technology markets, Mr. Colon has assisted scores of companies with the configuration, negotiation and management of Oracle software licensing contracts. Mr. Colon holds a degree in Business from Middlesex College and a degree in Finance from Rowan University (formerly Glassboro State College).

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2. initial percentage discount offer made, the savings seen over time will double or triple expectations. Remember, the real value is found by ensuring that you have the appropriate licenses to begin with.
3. Be sure to understand what the actual market price is. The biggest issue with aligning licenses with business is the mentality companies have when they enter into the procurement and negotiation phase. Often, companies start with the artificial baseline from the list price, but the reality is that after a closer look (or research), the price in the market or in comparison to other vendors could be worth 25% less.
4. Non-discount concessions should be looked upon as high in value.
5. Don't get "the bum's rush." While the majority of companies let year-end and quarter-end discount opportunities dictate the software purchasing timeline, the reality is that this practice can result in low-priced

shelfware (but it's still shelfware!). This may go against the current conventional wisdom out there, but why set an artificial deadline? That's not to say that the quarter-end/year-end discounts aren't worth it...they can be, but take the time necessary to do a comprehensive analysis to validate buying decisions.

The bottom line: Discounts should not just be about the percentage savings because that usually leads to additional spending (the total opposite of what companies are trying to achieve during the software procurement and negotiation process). For software licensing, it's not about shopping at bargain basement prices, but about the value you receive for the dollars spent.

