# Usage-Driven M&E Management

## Company Overview

Mutual of Omaha, the Nebraska-based mutual company, provides individual health and accident coverage via subsidiary Mutual of Omaha Insurance; its United of Omaha Life Insurance unit offers life insurance and annuities. The firm also offers personal disability coverage, brokerage services, pension plans, mutual funds, and a range of employee benefits products and services. Mutual of Omaha, which is owned by its policyholders, offers its products mainly through agent networks.

$ 2004 Revenues: $3.66 Billion      2003 Employees: 5,847

Source: www.hoovers.com.

# USE ONLY AS DIRECTED

### Practice Background

Members report that software licensing costs make up one of the largest components of M&E expenditure. Failure to actively monitor and manage licensing not only exposes the business to legal risks, but also diminishes the savings promise of off-the-shelf software versus custom-built software.

When Mutual of Omaha decided, six years ago, to track software usage for the purpose of monitoring license compliance, certain issues with standard licensing agreements became clear. First, traditional licensing schemes do not account for varying usage levels between people, and treat all users as heavy users. Second, traditional licensing schemes also typically do not account for varying demand across the business.

Usage tracking as a route to license cost negotiation has typically failed due to the questionable accuracy of data. Among the difficulties that Mutual of Omaha encountered were:

1. Delay in usage reporting from disconnected clients (e.g., laptops)

2. Excessive usage reported from applications left open or unused

3. Inconsistency of usage tracking tools across Mutual of Omaha's 1750 platforms, ranging from Windows XP to 20-year old mainframe systems.

### Usage-Driven M&E Management

Mutual of Omaha's IT Asset Management group was initially tasked with resolving these data accuracy issues and setting up formal usage-based license compliance practices. However, over time, this approach evolved into a three-pronged strategy for proactively driving down M&E costs:

1. *Usage-Based License Negotiation:* Tracking application usage at a granular level allows for increased negotiating leverage with application vendors

2. *M&E Demand Management:* Detailed usage data enables objective prioritization of maintenance requests and optimal allocation of support resources.

3. *Early and Continuous M&E Planning:* Usage data informs M&E planning decisions at every stage of product development and integration.

# USE ONLY AS DIRECTED

## *An initiative to ensure consistency and accuracy of software license compliance…*

### Variations in Application Usage Across the Portfolio
*Illustrative*



Application Usage by User/ Terminal/ User Group

Portfolio of Applications
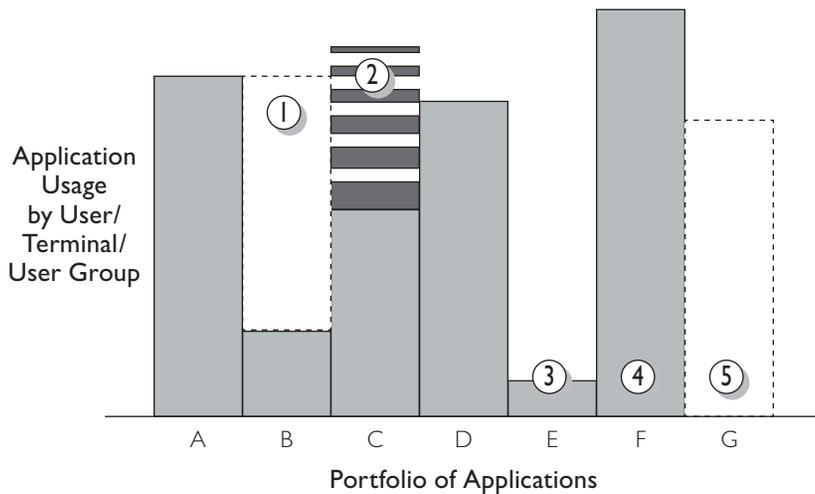
### License Management Issues

① "Light" users don't justify full license capacity

② Insufficient licenses to meet demand peaks

### Data Accuracy Issues

③ Usage of software on disconnected clients (e.g. laptops) is under-reported

④ Usage of software left open/ active but unused on client terminals is over-reported

⑤ Failure to report usage or inaccurate usage reporting on legacy platforms

## *…evolved into a strategy for actively driving down immediate and long-term M&E costs*

① 
### Usage-Based License Negotiation
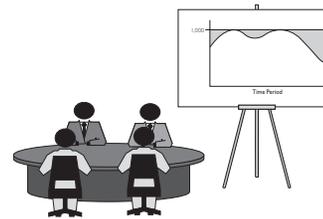


- Generate periodic and accurate usage reporting and analysis
- Conduct license contract negotiations based on usage analysis

② 
### M&E Demand Management



Application A          Application B
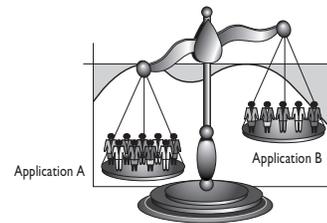
- Prioritize upgrades and enhancements based on utilization of existing features.
- Use utilization data to inform maintenance resource allocation

③ 
### Early and Continuous M&E Planning
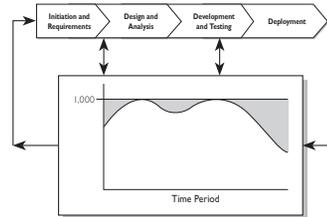


- Build usage-based M&E planning into application development processes

Source: Mutual of Omaha; Applications Executive Council research.

# Striking a Hard Bargain

### Strength Lies in Data

Traditional licensing schemes designed by vendors generally do not account for variations in usage patterns. Be it per-user, per-seat, or standard concurrent licensing, vendors assume that usage remains constant for the licensing period. Mutual of Omaha envisioned that a solid understanding of application usage across the enterprise held the key to negotiating better pricing with vendors. The objective was to pay for no more than exactly what was used.

While there are many methods of usage tracking, the most popular client-based monitoring software tools fall short when it comes to data accuracy. Mutual of Omaha worked with a third-party software developer to create a customized tool that eliminated known flaws in usage reporting. With this tool, they acquired the ability to track and report usage with a high degree of granularity—per-machine and per-person activity by the minute—which revealed patterns in software utilization, user behavior, and opportunities for license optimization. The data was customized for consumption by various groups, such as Applications Development, Infrastructure, the Project Management Office, business partners, and senior management.

### Aggressive Licensing

Vendors often have their own methods to monitor usage, but Mutual of Omaha gained a decisive advantage at the contract negotiation table by creating rich and reliable internally generated data. The asset manager actively participates in the negotiating team, along with the project manager, technical lead, contract manager, officer/product owner, legal representatives, and business representatives.
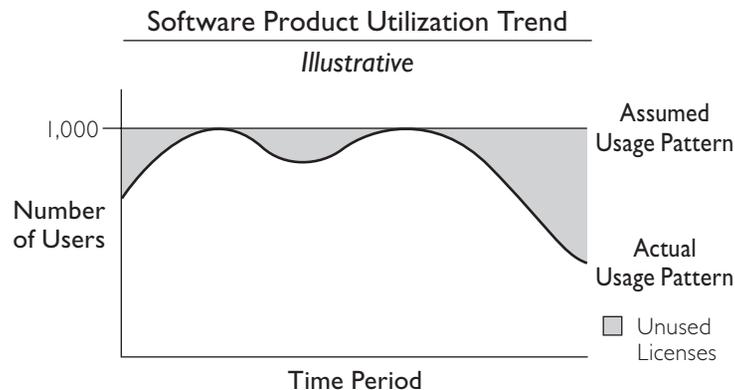
As testament to the efficacy of usage-based license negotiation, Mutual of Omaha was able to negotiate specialized licensing terms from preferred vendors, drive down rates on per-seat and per-user agreements, and obtain highly competitive pricing on maintenance contracts.

As Paul "Doc" Burnham, one of the pioneers of the usage-based licensing practice, put it: "We were able to strike unique contracts with some vendors by showing how much we use their software. That's not one of their standard licensing models. For example, one of our vendors has a product that they license only per machine or per user. We wanted concurrent licensing. We showed them what our total usage was and which group of people was using it. They let us use that product concurrently and they couldn't argue with us. It saved us about $200,000 on that product alone."
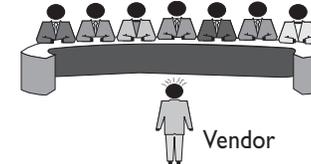
# STRIKING A HARD BARGAIN

**With data that provides visibility into actual versus assumed software usage…**

### Software Product Utilization Trend

*Illustrative*

1,000

Number of Users

Assumed Usage Pattern

Actual Usage Pattern

☐ Unused Licenses

Time Period

**…Mutual of Omaha's team of negotiators comprising IT, business, and legal personnel…**

Vendor

**Asset Manager:** Reviews cost and licensing conditions, recommends alternative solutions, provides budget impact analysis

**Project Manager:** Manages overall process

**Technical Lead:** Defines technical requirements

**Contract Manager:** Reviews contracts to ensure that required items (T&C, SLA, etc.) are in place

**Officer/Product Owner:** Responsible for the asset life cycle

**Legal Representative:** Provides final review of the contract

**Business Representative:** Provides internal customer requirements

**…carves out specialized, more advantageous pricing terms with solution vendors**

| ① **Specialized Concurrent Licensing** | ② **Software Rental Model** | ③ **User-Segmented Aggregation** | ④ **Minimal Maintenance Contracts** | ⑤ **Periodic Fee Revisions** |
|---|---|---|---|---|
| Hard usage data forces vendors to agree on a specialized model where fewer licenses are purchased for concurrent use within a user group. | The license grants rights to use the software but pricing is linked to quantity and frequency of usage. | Licensing based on average usage of heavy and light users lowers costs while allowing the company to keep the full product suite. | Proving low or absent usage makes it possible to lower or eliminate ongoing maintenance and support fees. | Standard per-user and per-computer license contracts are revised periodically to reflect usage fluctuations. |

## ON OUR TERMS

"Vendors have their own usage reporting tools, but our information is more accurate and they find it hard to disagree. Not a lot of vendors are prepared when you walk in with usage data. We also have some excellent negotiators who are not afraid to use that data."

Dave Mansfield, CSM
IT Asset Manager, Mutual of Omaha

# Driving Objectivity into M&E Decisions

**Usage as an Indicator of Business Value**

While usage-driven license contract negotiation is an external facing activity, it is possible to use the same data to drive internal-facing negotiations in managing M&E demand. If business units seem to make unprincipled demands for upgrades and enhancements, it is often because they do not have visibility into utilization of existing IT capabilities across the enterprise.

By providing a window into usage at the functionality and capability level, Mutual of Omaha can demonstrate alternative scenarios to the business, as illustrated in the following three examples:

1. *Objective Validation of Enhancement Requests:* When a business request for an application upgrade is honored, Mutual of Omaha can start to track usage at the feature level. If the new features are insufficiently used, that fact is brought to the attention of business unit heads. The business may then campaign to improve utilization of their software assets, or in the case of third-party applications, may choose to roll back to the previous version. In the latter case, Mutual of Omaha can estimate licensing cost avoidance to aid the decision.

2. *Resource Allocation by Application Criticality:* The criticality of an application is a measure of how essential it is to the conduct of business. Usage data is an indicator of how severely an application's outage can affect the business. Based on an application's criticality and usage, Mutual of Omaha prioritizes resource allocation. These decisions include support staff availability (between 24-hour critical support or support only during regular business hours) and between dedicated or part-time resources.

3. *Redeployment of Software to Higher Utilization Areas:* One of the usage-based M&E management decisions that Mutual of Omaha performs on a regular basis is redeployment of software to ensure maximum utilization. Observing usage patterns over a rolling 13-month period enables accurate assessment of when software can be revoked from one area and redeployed in another where there exists greater need.

# Driving Objectivity into M&E Decisions

*Innovative Approach to Usage Analysis Allows for Better M&E Demand Management*

| Objective Validation of Enhancement Requests | Resource Allocation by Application Criticality | Redeployment of Software to Higher Utilization Areas |
|---|---|---|

**Objective Validation of Enhancement Requests**

Application X · Version 4.4
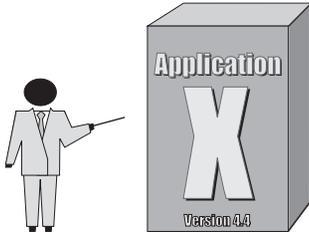
Filter enhancement requests by highlighting opportunities for improving utilization of existing functionality and quantifying license cost avoidance due to foregoing an upgrade

**Resource Allocation by Application Criticality**

Maintenance Staff Prioritization

High

☐ 24/7 Availability
☐ 15% Dedicated Staff

Usage

☐ 8/5 Availability
☐ 10% Part Time Staff

Low       High

Criticality

Disaster recovery planning and prioritization of resources incorporates usage-based application criticality criteria.

**Redeployment of Software to Higher Utilization Areas**

☐ Licenses in Use
☐ Unused Licenses
☐ License Shortage

Business Unit A    Business Unit B
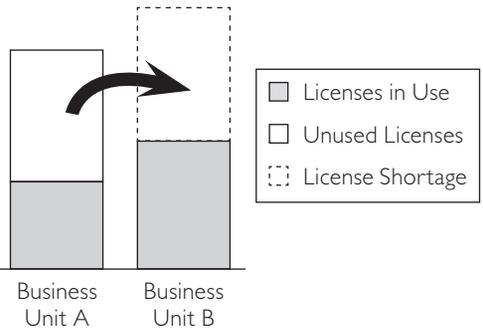
Licensed software is redeployed from an area of low utilization to meet demand in another area. This is informed by data from a rolling 13-month period.

## Things Start to Change

"The business thinks their applications are fully utilized, and they just pay maintenance charges because that's the way business is done. Once you show that there's very little utilization on an expensive program with high maintenance costs, things start to change. This kind of information is something they've hardly seen before."

Dave Mansfield, CSM
IT Asset Manager
Mutual of Omaha

# The Key to Continuous M&E Planning

### Visibility Within Phases

With usage analysis informing external-facing vendor negotiations and internal-facing business value discussions, Mutual of Omaha goes one step further and supplies timely information to the Applications group to plan for M&E minimization during application development and integration.

**Note:** This case applies equally to both custom-built applications as well as package applications from third-party sources, as both undergo similar development life cycles. The difference lies in how the tasks are performed within each phase.

### Pulling Forward M&E Planning

From initiation to deployment, questions emerge as an application gradually takes shape in phases. For example, during initiation and requirements gathering, it would be useful to know whether an existing application can provide similar functionality, in whole or in part, to satisfy the requirement. The business would also like to see alternative cost scenarios for deploying a software package versus having software custom built. Here, asset managers generate usage reports for similar applications in the portfolio and predict ongoing costs of proposed alternative solutions to enable comparisons.

Other inputs from the Asset Management group include deployment reports of similar application types to show installations per terminal and per assigned user, which enables better release management and configuration planning.

Ultimately, Mutual of Omaha emphasizes that the right time to think about M&E cost reduction is not after deployment, but from the moment an application project is initiated. Over the long-term, pulling forward M&E planning enables Applications to accomplish the following goals:

- Identify the best licensing scheme or opportunities for potential cost avoidance

- Design applications to fit an optimal architecture and respond to user behavior patterns

- Perform air-tight user acceptance testing and performance testing

- Deploy applications to achieve maximum utilization

# THE KEY TO CONTINUOUS M&E PLANNING

*Asset Managers Support Project Development Phases with Timely Usage-Based Metrics
to Leverage Every Corner of Opportunity for Long-Term M&E Planning*

| Application Development/ Integration Life Cycle | Initiation and Requirements | Design and Analysis | Development and Testing | Deployment |
|---|---|---|---|---|
| **Common Unknowns That Impede M&E Planning** | • Is it better to custom-build this application or would a third-party vendor solution deliver greater advantage? <br><br> • Is there an existing application with similar features that can be redeployed to satisfy this requirement? | • What product features, interfaces, or design implementations are typically popular with users? <br><br> • If multiple technology platforms can be used, what are the long-term cost implications of each? | • Based on observed usage behavior, what are the appropriate criteria for user acceptance testing and performance testing? | • In what business units or user group can this software be deployed for increased utilization? <br><br> • How can an application be best configured for maximum usage? |
| **Asset Management Inputs to the Phase** | Usage reports that show the amount of time an application is being utilized (broken down by terminal and user for any specified time frame—daily, monthly, yearly) | Deployment reports from the asset repository to show software installations per-terminal and per-assigned user | Cost analysis based on various licensing models and vendor pricing comparisons | Contract analysis based on various Terms and Conditions |
| **Influence on Long-Term M&E Cost Reduction** | • Identify best licensing scheme or opportunities for potential cost avoidance | • Design application to an optimal architecture and respond to user behavior patterns | • Perform air-tight user acceptance testing and performance testing | • Deploy applications to achieve maximum utilization |

Source: Mutual of Omaha; Applications Executive Council research.

# Mutual Beneficiaries

### A Penny Saved is a Penny Earned

Through active asset management, IT gains by aggressively driving down M&E costs and getting the most competitive pricing from vendors. The business gains not only from the comforting thought of lowest costs, but also from having the means to justify IT spending against actual asset usage and utilization.

Asset Management has demonstrated cost avoidance from all of the following actions taken as result of usage analysis and reporting:

• Decisions taken by contract teams

• Savings that arise from vendor negotiations

• Deferral of software purchases

• Reduction or elimination of maintenance contracts

• Reclamation of unused software

• Identification of invoice errors

To keep the cost avoidance reporting water-tight, there are well-defined criteria for what specifically qualifies and what does not.

In 2004 alone, Mutual of Omaha reported cost avoidance of approximately $5 million as a direct use of this practice, with a bulk of the savings due to reclaiming unused licenses and $400,000 attributed to the elimination of maintenance on a single application.

Dave Mansfield, head of Asset Management at Mutual of Omaha summarizes the impact of usage-driven M&E management in the following words: "Initially, application usage was merely thought of as a tool to ensure license compliance. Over the years, we have turned it around to actually save us money. In addition to compliance, we use our data to ensure that we are not overbuying licenses or overdoing maintenance."

# MUTUAL BENEFICIARIES

*Mutual of Omaha is able to demonstrate significant cost avoidance across several parameters...*

Renewed maintenance contract for product from $450 each (previous year) to $375 (current) as a result of documented usage. Signed a three-year contract.

Based on usage data, Product Owner did not want to renew maintenance for contract.

| IT Asset Management Business Value Report | | |
|---|---|---|
| **Action Type** | **Cost Avoidance** | |
| | **YTD** | **Total** |
| Contract Team | $7,419 | $38,000 |
| Vendor Negotiations | $116,500 | $195,600 |
| Acquisition Deferrals | $4,650 | $4,650 |
| Maintenance Change | $103,100 | $103,100 |
| Reclaiming Unused Software | $220,575 | $220,575 |
| Invoice Error Identification | $2,800 | $2,800 |
| Other | $0 | $0 |
| **Total** | **$455,044** | **$564,725** |

Delayed purchase of 110 licenses from February to June, based on growth pattern and usage data.

Reclaimed all software from 400 machines not being used and planned for redistribution.

*...by justifying all M&E decisions and contracts against actual application usage data*

— FROM REACTIVE TO PROACTIVE —

"Initially, application usage was merely thought of as a tool to ensure license compliance. Over the years, we have turned it around to actually save us money. In addition to compliance, we use our data to ensure that we are not overbuying licenses or overdoing maintenance."

Dave Mansfield, CSM
IT Asset Manager
Mutual of Omaha

Implementation Guide

# Business Value Definitions and Qualification Criteria
## *IT Asset Management Uses Defined Criteria to Quality (or Disqualify) Reported Cost Avoidance Actions*

| Action Type | Definition | Qualifies if... | Disqualifies if... |
|---|---|---|---|
| **Contract Team** | Financial quantification of value accrued to the company due to active management of contract acquisition and life cycle costs. This includes the following:<br>1. *Initial Cost Savings*—Difference between the vendor's initial offer and the actual price paid<br>2. *Terms & Conditions Financial Impact*—Costs avoided during the contract lifespan achieved by the inclusion of key T&C<br>3. *Proactive Renegotiations Cost Avoidance*—Costs avoided due to a decision to renegotiate contracts prior to the stated expiration or termination date. | Negotiation of a new contract or renewal of an existing contract results in improved pricing from a vendor's initial offer | Using list price to calculate "savings" when initial offer from vendor was less than list price |
| **Vendor Negotiations** | Non-contract related discounts obtained through interaction/relationship with the vendor | Non-contract related negotiations result in discounts in addition to vendor's initial offer. | Upfront payments made prior to any negotiation discounts offered on the vendor's list price should not qualify. |
| **Acquisition Deferrals** | Any action that postpones an originally planned asset acquisition | Acquisition deferred due to IT personnel action results in cost avoidance, e.g. tuning an application to avoid a processor upgrade. | Lack of resources to start a project delays acquisition, e.g. budgeted in February but software is not purchased until September |
| **Maintenance Change** | Any action that results in a change in current/planned maintenance of an asset | • A new version of an existing product replaces the necessity to carry maintenance on another product.<br>• Older hardware on maintenance replaced with lower cost hardware with a warranty<br>• Lowering support from 24/7 to 8/5 on hardware not requiring immediate repair<br>• Committing to a multi-year agreement as opposed to an annual agreement results in cost avoidance | Claiming maintenance savings on a product the vendor no longer supports |
| **Reclaiming Unused Software** | The removal of software installations that obviate the need for purchasing additional licenses | Removing software installations that, if not removed, would require the purchase of additional licenses | • Removing software installations to have "shelfware"<br>• Potential fines apply |
| **Invoice Error Identification** | Any invoice that does not match the price agreed between the company and a vendor | Invoices do not coincide with the contractually committed amount | Receiving multiple copies of the same invoice |
| **Other** | Does not fit the categories detailed above | Sale of old equipment | |