Two in every three customers audited by their software vendors

A software management consulting group has found that almost two in every three software customers have been audited by their vendors in the previous twelve months. These surprise audits can often cost customers millions of dollars for which they have not budgeted, as well as being extremely disruptive.

Michael Lifson, co-founder of software management consultancy group, Software Sense, is an ex-CIO so he is sympathetic to the challenges facing CIOs in trying to manage their software assets. Even so, he says he is still surprised at how unprepared clients are when faced with software audits. "There is a common perception, even among very experienced CIOs that audits are unlikely and if they do happen that they are some kind of policing exercise; a test of your corporation's honesty. They are not. Large software vendors know their licensing is complex and that most of their clients will struggle to manage deployments resulting in revenue to be gained from common mistakes. From the day a contract is signed you can be sure your software vendor has an audit plan and revenue target".

Mr Lifson finds that customers are often unprepared for an audit since they don't have a clear idea of what they've deployed and because they didn't negotiate appropriate terms to protect themselves in the event of deployment discrepancies. He says that his own experience with vendor audits is what spurred him on to co-found Software Sense, specialising in Software Value Management.

"In many cases the first time the executive or board hears of any issue is when a vendor sends them a massive bill, often in the tens, even hundreds of millions." His key advice is not to panic. "You have to treat the situation very seriously and get expert advice before you settle. Don't be distracted by an attractive looking discount. It's an ambit claim. Expert knowledge of vendor practices and skilled negotiation can reduce that bill to a fraction, even eliminate it altogether in some situations."

There are two keys to successful negotiations with software vendors in Mr Lifson's view. "The first is to understand your own software environment. Sound software value management combines technical aspects with commercial and software licensing expertise which is often lacking in IT

departments. The second is to know how the vendor works. This is particularly critical. Everybody knows that all vendors have their own licensing methods but what is not so visible are their different priorities, processes and nerve points. There are some things vendors simply cannot give away because of their own internal controls but there are many others they will happily give away in order to secure a deal at a time that is critical to them. Understand your enemy", he quips, "monolithic software vendors are only human!"

At the same time Mr Lifson doesn't underestimate vendors' power or the difficulties facing IT customers. "When we founded Software Sense, we knew the kind of forces that vendors can marshal in an audit dispute and that we had to put together a team capable of matching them. So our principals include a senior technical analyst who has performed major audits for vendors, a lawyer who has written their contracts, a financial analyst who priced the software in the contract and a negotiator who closed the deals."

His parting advice is to be prepared. "Don't try to do it on your own, get expert advice to fully understand your own environment and doubly so before signing a new software contract or audit settlement. Your software vendor prepared for the audit well in advance, sometimes years ahead. So should you."

About Software Sense – www.softwaresense.com.au
Software Sense uniquely integrates software deployment data and contractual terms to achieve the best possible commercial outcomes for enterprise and cloud software procurement. Software Sense is independent of any vendors and has deep and broad skills from both the vendor and customer sides, including commercial negotiation, deal strategy, legal, IT strategy, software asset strategy and planning, software licencing and pricing, deployment assessment, data analysis, and project execution.

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