Research Brief

Cost Control Through Asset Management: Easy Pickings

Abstract: *Y2K compliance made asset management obligatory in 1999, but maintenance of asset databases has since taken a lower priority. Now, however, such data could be the key to easy short-term cost savings.*

By Brian Gammage and Jon Mein

Key Issues

How will IT assets (both tangible and intangible) be valued, amortized and renewed?

What strategies will enterprises use to track, manage and optimize IT investments?

Strategic Planning Assumptions

- Organizations that manage their assets accurately will achieve 20 percent cost savings per managed asset within nine months (0.8 probability).
- Through 2002, organizations that fail to actively manage their portfolio of software licenses will be overlicensed by at least 10 percent for desktop applications and operating systems (0.8 probability).

Recommendations

- IT managers should revive and refresh any unused asset management databases created to ensure Y2K compliance.
- IT managers in organizations without a repository of asset management data should, as a priority, evaluate the return on investment from building one. This evaluation should be based on estimated project costs versus 20 percent of the total value of desktop hardware and software assets.
- All organizations should reduce the cost of refreshing their installed base of PCs by adopting longer PC life cycles. Where user productivity is limited by PC performance, memory upgrades should be made in preference to PC replacement.
- In light of Microsoft's 31 July 2002 upgrade deadline for volume licensing, clients that have yet to negotiate with Microsoft should ensure that they have full knowledge of their software asset registers before doing so.

Publication Date: January 14, 2002

Yesterday's Priority?

Most organizations created databases of their hardware and software assets during the late 1990s as a means of monitoring and ensuring Y2K compliance. Many did so as a purely defensive move to manage the risks of business disruption. With the start of 2000 the risks of noncompliance were perceived to have lessened and the maintenance of asset databases assumed lower importance for most IT managers.

During the first nine months of 2000, IT initiatives focused primarily on business transformation through e-commerce, further relegating asset management among organizations' investment priorities. The subsequent deterioration of the economic climate has subjected IT budgets to closer scrutiny, making asset management programs prime candidates for cost cuts.

In May 2001, Gartner estimated that only 20 percent of the Fortune 1000 companies were running asset management software (see "Asset Management: An Introduction" [DPRO-98126]). Despite this, Gartner believes that effective asset management is one of the best means of achieving short-term cost savings: it can yield cost savings of up to 30 percent per asset within the first year.

Cost Reductions and Hidden Liabilities

Enterprises that completed cost-cutting programs in 2001 focused on reducing their financial commitments, with many implementing workforce reductions. Such programs have concentrated on eliminating charges from profit-and-loss accounts, but many organizations have failed to apply the same rationale to their balance sheets. The result is a surplus of IT equipment, particularly PCs.

PCs are loaded with user applications, which carry software licenses that are also capital assets. If additional software is deployed elsewhere in an organization, the portfolio of software licenses is normally extended, even when appropriate licenses could be recovered from unused PCs. Ineffective management of license portfolios combined with greater vigilance by software vendors has led to poor license management by most organizations.

The greatest challenge most customers face over the next seven months is to re-evaluate their Microsoft licensing strategy. The 31 July 2002 deadline draws closer (see "Microsoft Makes More Concessions on Its Licensing Programs" [FT-14-7119]), but few customers are yet in a strong position to negotiate with Microsoft.

To achieve and maintain a strong negotiating position with Microsoft, customers need to understand their installed base from both the legal and the deployed perspectives. Only then will customers be able to determine the more appropriate type of software maintenance (Upgrade Advantage or Software Assurance) and the best volume-licensing agreement mix (Enterprise Agreement and/or Select). Good cost reductions should flow from this.

Other per-seat costs include service and maintenance contracts, which are usually billed according to the number of PCs covered. Without accurate information on the types of PC installed and their corresponding warranty entitlements, it is impossible to match provision of these services with precise requirements. This means that many organizations are overcommitted to support for desktop assets, even before taking into account any redundant PCs.

Buy Later, Save Now

Most organizations replace PCs at regular intervals. Replacements represent the majority of PC acquisitions for most organizations, unless they are computerizing manual processes or equipping an enlarged workforce (unlikely in the present economic climate).

The frequency at which PCs are replaced varies by organization: the average is estimated to be about three and a half years for desktop PCs and two years nine months for mobile PCs, but both increased during 2001. Historically, the target life cycle for desktop PCs has been three years, but increases in PC power in recent years have not been matched by the demands of user applications. Accordingly, enterprises should consider moving to a four-year life cycle for desktop PCs (see "Desktop PC Life: Four Years for the Mainstream" [T-13-8045]). Life cycles for notebook PCs can also be extended in many situations.

The savings from extended PC life cycles are easy to quantify. An organization working on a three-year life cycle has a nominal commitment to replace a third of its PCs each year. By moving to a four-year cycle, average annual PC procurement needs are reduced by a third. Moreover, the cost savings during the first year of the life-cycle transition can approach 100 percent.

Although they are easy to illustrate, these savings will prove elusive if there is no means of monitoring the life of installed PCs. Gartner believes organizations that fail to develop a holistic approach to managing PC life cycles will incur costs that are higher than necessary (see "Gaining Efficiencies With PC Life Cycle Management" [TG-14-5059]).

Extend Life Through Memory

The scope to extend PC life cycles arises from the processing power of PCs deployed in recent years, which is still sufficient to run most user applications. The same is not always the case with PC memory, for which application requirements have generally increased. Where user productivity is limited by reduced PC performance, it is probably because of a shortage of available memory — a problem that is easily solved for most PCs.

Expanding a PC's memory through a simple installation process can increase its useful life and avoid reductions in user productivity. Therefore, organizations looking to extend PC life cycles should, wherever possible, upgrade memory to solve performance problems among their oldest PCs.

Savings From What You Already Have

All IT equipment declines in value rapidly, so redundant PCs present two unnecessary costs: depreciation and the "opportunity cost" of underutilization. An effective asset management program will quickly identify unused assets and sell them at the best price. Accordingly, organizations should develop asset retirement strategies to minimize liabilities and recover as much of their equipment's residual value as possible (see "IT Asset Management: Reduce Costs and Minimize Risks" [TG-14-4503]).

Savings can also be easily made by eliminating the purchase of too many software licenses. Optimized license allocation requires accurate tracking of application usage and detailed records of current licenses. Autodiscovery tools can help here, but the organization must also build and maintain a full record of what is already legally installed. Without this, the need to avoid illegal software use makes

overlicensing almost unavoidable. In October 2001, Gartner estimated that most companies with more than 5,000 employees were overlicensed.

Gartner Dataquest Perspective

Management of hardware and software resources, plus any associated service commitments, requires a comprehensive repository of asset details. Only then will an organization be able to save money by eliminating under-utilization and redundancy of assets. The rate at which these savings can be achieved depends on the speed with which the organization acts upon the information in its database, but savings of up to 20 percent per asset can be obtained within nine months.

For organizations that have an asset management database, now is the time to use it. Even if it has not been updated since 1999, it will be an easier starting point than building a new one from scratch. Organizations that do not have a repository for asset data should start building one now, because the savings associated with proper asset management are real and easily achieved. Time is of the essence, and so clients starting or restarting asset management systems will benefit from viewing Gartner's "Asset Management Workshop — A Quick-Start Program" (ITSV-WW-PR-0044).

This document has been published to the following Marketplace codes:

HARD-WW-DP-0184

For More Information...

In North America and Latin America:	+1-203-316-1111
In Europe, the Middle East and Africa:	+44-1784-268819
In Asia/Pacific:	+61-7-3405-2582
In Japan:	+81-3-3481-3670
Worldwide via gartner.com:	www.gartner.com

103697