

## Case Study: IT Procurement Reduces Software Maintenance Costs at Deluxe Corporation

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This case study explains how IT procurement at Deluxe Corporation, one of the top producers of checks in North America, significantly decreased its annual spending of \$10 million on software and hardware maintenance. IT procurement, IT asset and sourcing managers can apply Deluxe's best-practice approach to achieving this cost reduction to transform the role of IT procurement in their organizations and reduce software and hardware maintenance costs.

### Key Findings

- Deluxe used the \$1.5 million it saved in the first year and the more than \$1 million in further reductions it achieved in each of the subsequent two years to support existing software and new technology projects. In turn, these savings enabled the organization to continue to transform and grow its business.
- An integrated approach to reducing software maintenance spending can lead to optimal results. For Deluxe, this approach involved centralizing IT procurement, taking steps to develop a formal IT asset management function, engaging key business and IT stakeholders and third-party expertise, as well as applying contract negotiation best practices.
- The IT procurement team can reduce maintenance costs most successfully when they establish IT procurement as a credible partner that adds business value. This credibility leads business stakeholders to engage procurement staff early in the procurement process so that they can deliver the most value.

### Recommendations

IT procurement, IT asset and sourcing managers should:

- Offer to take over and centralize the renewal process for IT software and hardware maintenance agreements and proactively manage costs and contractual changes throughout the IT asset life cycle.
- Make IT procurement a part of the senior IT leadership team and engage stakeholders to build relationships. Communicate how IT procurement can and has helped the business cut costs.

- Establish formal IT asset, demand and contract management processes to understand and manage what you have, what you need and related costs and risks.

## WHAT YOU NEED TO KNOW

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Deluxe Corporation is a \$1.34 billion company with locations in the U.S., Canada and Ireland,<sup>1</sup> It decided to enhance its existing IT procurement function to reduce operating costs and transform its business by improving support and cost-effectiveness.

## CASE STUDY

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### Introduction

Many IT procurement and asset management executives are challenged to reduce maintenance spending.<sup>2</sup> Deluxe's IT procurement team faced the same challenge and took a holistic approach to reduce its spending on hardware and software maintenance. This approach involved centralizing its procurement function, following industry best practices to review and analyze contracts, effectively engaging business and IT stakeholders and applying procurement contracting strategies.

### The Challenge

As the check market started to decline 10 years ago, Deluxe had acquired 47 companies in 11 years. As a result, it had many legacy systems to support and dozens of costs centers involved in decisions around software and hardware maintenance spending.

Deluxe's spending on software and hardware maintenance was increasing, but its budget was decreasing each year. Deluxe was spending more than \$10 million a year on new software and hardware purchases, which resulted in maintenance cost increases of \$2 million a year. This was over and above the average price increase of 5% on existing maintenance.

Significantly reducing maintenance spending enabled IT to fund existing maintenance and new revenue-generating IT projects. The increased cost efficiency allowed the organization to become leaner, while broadening its focus from check manufacturing to offer a range of business services.

### Approach

Deluxe implemented the following steps, some of which Gartner's cost optimization and procurement research recommends (see Recommended Reading section of this document).

#### Centralized Procurement

The IT procurement team made a case with the new CIO and senior IT leaders to take over the responsibility of all software and hardware maintenance spending from line-of-business departments and consolidate all the software and hardware maintenance costs in one cost center with a promise to reduce this spending by at least 10%. The new CIO also planned to raise the credibility of IT procurement in the business by obtaining external validation for the deals negotiated.

#### Reviewed and Analyzed Contracts

Deluxe had only a nascent hardware asset management capability. Once its spending was merged into one cost center, it started to establish its software asset management function. This initially involved collecting all entitlement information, contracts, purchase orders, maintenance invoices and other related documentation.

A procurement team of five shared the maintenance renewals and started reviewing the contracts to determine:

- License type (perpetual or subscription).
- Metrics that govern the maintenance (number of seats, employees and CPUs).
- Contractual allowance to reduce the metric (and corresponding fees) if usage decreased.
- Maintenance terms, including rights to downgrade support from premium to standard.
- Maintenance termination clauses.
- The ability to suspend maintenance and re-instatement fees.

The IT procurement team also created a report of this data and added fields for end users to complete to provide a more complete explanation of the relationship. They then used this data to evaluate the contracts and identify potential improvements for future agreements. The company's numerous acquisitions in recent years meant that staff had to analyze many contracts they had not negotiated themselves and with providers that were unfamiliar to them.

## Engaged Business and IT Stakeholders

The IT procurement team assigned each software and hardware maintenance contract to an IT owner (end user) and asked them to provide the following information:

- Whether they felt support should be renewed.
- The number of support calls placed in the last year.
- Version available and version deployed.
- The date of the next planned upgrade.
- Justification for spending dollars for the renewal.
- Support level required (24/7 or less).

Armed with this data, the IT procurement team held a series of meetings with the CIO and senior IT leaders (who were the owners of the line items) to assess and decide what maintenance support they really needed, so that they could make tough decisions. Savings were defined as dollars that were spent in the previous year, but not spent the following year. Only first-year savings counted.

Engaging the business led IT procurement to:

- **Consider negotiating partial year renewals or cancelling and repurchasing later.** In some cases, Deluxe had bought many more software licenses than needed, but could not terminate maintenance on some of the licenses without it affecting all licenses.<sup>3</sup> After careful analysis, the CIO decided to cancel all maintenance, rely on third-party support options for 24 months and then re-buy the limited number of licenses as needed. This reduced maintenance fees, which made the capital reinvestment worthwhile.
- **Reduce maintenance in line with decreases in use where possible.** If the company's use of an application had declined and the contracts allowed reduction of use with a proportionate reduction in maintenance fees, the company renewed less maintenance

coverage.<sup>4</sup> For example, if maintenance was based on the number of staff or devices and that metric declined, IT procurement reduced the maintenance under contract where possible.

- **Decrease the scope of its support.** Deluxe's default maintenance was often 24/7 because users had been unfamiliar with the maintenance support when it was first purchased. As the products matured and users became more familiar with them and the frequency of calls decreased, Deluxe had not scaled back the support to local business hours and had not amended SLAs to reflect the reduced need. By analyzing call volumes and the strategic nature of the product, Deluxe could switch some maintenance to lower-cost, standard maintenance contracts, rather than premium ones. In addition, where possible, Deluxe dropped development and test servers from contracts and used time and material contracts instead.

## Applied Procurement Contracting Strategies

Equipped with the necessary information IT procurement leaders could:

- **Cancel maintenance contracts for software and hardware it did not use.** Deluxe aimed to retire older hardware and redundant software and started turning off applications and hardware (for example, mainframes) and cancelling associated maintenance. If the organization planned to turn off something within a year, it decided to risk dropping coverage for that last year of a license agreement, since Deluxe did not have any upgrade or significant support needs.
- **Proactively contact the vendor for early renewal commitment.** When Deluxe knew that it needed a renewal on the same terms, staff proactively called the vendor three to six months before the renewal and asked what terms would be provided for an early renewal. Sometimes, this led to a further 15% discount. When near year-end, this technique can be particularly effective, but we recommend a thorough financial analysis if this results in payments earlier than expected.
- **Commit to renewing maintenance agreements for two or three years, instead of one.** Longer renewal periods were a good choice if the organization knew it wanted to use the product for that long and the discount exceeded the cost of capital investment. Where possible, the IT procurement team tried to consolidate and optimize spending through the manufacturer and/or reseller.
- **Use of third-party maintenance offerings to reduce costs.** The company used third-party maintenance for hardware and some telecom infrastructure investments, but found it more difficult to do so for software. Deluxe temporarily leveraged some third-party maintenance contracts for software, which halved maintenance fees during a two-year period when they were used.
- **Support its IT procurement function with external consultants.** As it became clear that Deluxe's procurement and asset management function was effectively optimizing cost and reducing risk, the team's workload increased significantly. Deluxe then engaged Trident Contract Management to negotiate some of the lower-value renewals. The third party took 25% of the savings it achieved on maintenance renewals, leaving Deluxe with 75% of the savings.
- **Co-term renewals.** Deluxe tried to negotiate co-termination of agreements, if the company had orders with a supplier that were renewing at different times of the year. This tactic did not result in immediate savings in the maintenance bill, but it reduced the amount of effort required to manage the renewals. The consolidation also meant that the

size of the renewals increased dramatically, in some cases from \$5,000 to \$1 million, which tended to garner more attention from the supplier.

- **Using an accounting pre-paid account.** For maintenance contracts that met a maintenance threshold of \$100,000, Deluxe established a pre-paid account, with monthly charges. This decreased the first year costs, helped level variations in monthly spending and moved some monthly charges to the following year.

## Results

Deluxe achieved more than \$1.5 million in cost cuts within one year, including a 67% reduction in the cost of an enterprise-level agreement. External advice helped Deluxe save more than \$1 million across several enterprise level agreements. The IT procurement team also exceeded its cost reduction goals of more than \$1 million each year for three subsequent years in a row.

## Critical Success Factors

### Developing a Formal IT Asset Management Function

Developing the IT asset management function involved creating an up-to-date inventory of existing software and hardware, creating a repository for the entitlements, understanding the contract terms and their impact on cost and reconciling those to what was installed and used and what was really needed.

### Prioritizing Demand Management

Deluxe researched its usage and analyzed what software it needed and wanted to upgrade and when. It then matched its demand to product life cycles. Deluxe looked at a particular enterprise agreement and reduced it to \$1.5 million by assessing the vendor's plan and managing Deluxe's demand to understand its actual deployment needs and use of other Software Assurance benefits. For certain products, Deluxe found that it was more cost-effective to re-buy licenses in three to four years than pay Software Assurance for that period. Re-purchase required capital, rather than operating expenditure and the \$3.5 million cut in costs was not pure savings. Deluxe would have to re-buy eventually, but the net savings were still more than \$2.5 million.

### Approaching Vendors to Help Make Quick Wins

Deluxe offered to extend its enterprise agreement with a particular large vendor for two years, in return for a multi-year bundled agreement, with a significant bottom-line discount on new licenses and on future years' subscription and support fees. This saved about \$275,000 a year.

Another large vendor gave Deluxe a new, cloud-based suite of business collaboration applications as a concession for upgrading to a particular user access license offering. Deluxe determined that the new suite costs over the three years would be less than current spending and the licenses provided greater value than the on-premises solution.

### Obtaining External Advice for Large Vendor Negotiations

Gartner, International Computer Negotiations and other research organizations, helped Deluxe verify if the suggestions made by the vendors were in the company's best interest. These third parties also benchmarked costs and validated that Deluxe's approach to its enterprisewide agreements was appropriate, which enabled Deluxe to learn how other companies were trying to optimize the costs and terms of similar contracts.

## **Benchmarking, Measuring and Reporting Results**

Demonstrating the financial contribution the IT procurement team achieved, helped to establish this function's credibility. Greater credibility enabled the department to take ownership and control of negotiating software licensing and maintenance contracts and led to fewer cases of IT leaders bypassing IT procurement processes.

## **Lessons Learned**

### **Building Relationships Helped Establish IT Procurement as a Trusted Advisor**

The IT procurement team took the opportunity to win the support of the new CIO and the leadership team. The team communicated the various benefits of procurement, depending on which benefit — whether risk reduction, cost optimization or financial management efficiencies — would appeal most to the various individuals. Procurement staff also secured a seat at senior IT leadership meetings, which helped change the view of procurement as the "bad cop" that adds little value.

### **Changing Mindsets and Setting Expectations Improved Relationships**

As some business owners initially believed that any money the IT procurement team took out of deals would also disappear from the budget owner, they did not want to work with IT procurement. The IT procurement team set expectations that while it recorded its work effort, budget savings would be handed back to business owners and this, in turn, enhanced relationships.

### **Engaging Stakeholders and Winning Their Support Took Time**

In the first year, not all senior business leaders attended the meeting the procurement and sourcing manager set up with the CIO to discuss their needs and potential changes. The following year, the procurement and sourcing manager demonstrated the value of participating, obtained the necessary data from them before the meeting and informed business leaders of the meeting in advance.

### **Negotiating Contract Terms That Protect and Benefit are as Important as Reducing Cost**

Deluxe took a "fair deal" approach to negotiations as it didn't want to drive down costs to the point of jeopardizing value and increasing risk. This approach encouraged manufacturers and resellers to support the deal and go beyond the minimum requirements in the long term.

### **Analyzing Ongoing Cost of Ownership is More Important Than Initial Purchase Price Alone**

The price of a software license is only the start of negotiations. Fees for services, such as installation, integration, customization, testing, training and maintenance, can often exceed license costs.

## **RECOMMENDED READING**

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*Some documents may not be available as part of your current Gartner subscription.*

"The Advantages and Disadvantages of Different Software License Models"

"Manage Software Renewals to Save Money Through Teamwork"

"Toolkit: Software Asset Management; Manage the Software Support and Maintenance Renewals Process"

"User Survey Analysis: Software Maintenance and Support Service Buying Trends, United States, 2009"

"Reduce IT Spending on Software by Negotiating These Contract Clauses"

"How Flexible IBM, Microsoft, Oracle and SAP Have Been With Software Customers During the Economic Downturn"

"What to Do if Your Organization Has a Central IT Procurement Function"

"Issues to Consider When Deciding Whether to Renew a Microsoft Enterprise Agreement"

"Common Questions About Microsoft Enterprise Agreement Renewals"

## **Evidence**

<sup>1</sup> Details about Deluxe are available online at [Hoovers](#) (as of 23 February 2011).

<sup>2</sup> Between October 2009 and the end of 2010, Gartner' IT asset management and procurement team had 1,414 interactions with clients relating to software support, maintenance and subscription renewals.

<sup>3</sup> David Bauers, senior manager of IT procurement at Deluxe Corporation and Greg Oien, principal IT sourcing analyst, IT procurement at Deluxe Corporation, drove this initiative and the substantive changes and were a key source of the information used to create this case study.

<sup>4</sup> Some providers, particularly in the software market, make it very difficult to reduce the cost of maintenance if a customer has shelfware. For example, Oracle states in its [Technical Support Policies](#) (online as of 27 March 2011): "Pricing for support is based on the level of support and the volume of licenses for which support is ordered. In the event that a subset of licenses on a single order is terminated or if the level of support is reduced, support for the remaining licenses on that order will be priced at Oracle list price for support in effect at the time of termination minus applicable standard discount. Such support price will not exceed the previous support fee paid for both the remaining licenses and the licenses being terminated or unsupported, and will not be reduced below the previous support fees paid for the licenses continuing to be supported."

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