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Four Ways to Save on IBM Passport Advantage Renewals



Volume purchasing programs may make it easier to buy a vendor's offerings – but they also make it easier to overspend. IBM's Passport Advantage program is no exception. NPI estimates a large percentage of enterprise customers overpay on IBM Passport Advantage purchases and renewals. Here are four ways to avoid that outcome.

Compared to other legacy IT mega-vendors, IBM's evolution over the last decade has been less cohesive. The company has made more than 80 acquisitions across various IT subsectors since 2010, and has always had a broad product and service portfolio. The restructuring of IBM (both in 2014 and the pending spin-off of its IT services business) has done little to abate concerns that the business still seems fragmented to many – a dynamic felt acutely by those responsible for sourcing IBM's offerings and keeping spend with the vendor in check.

One way that IBM makes it easier for its customers to procure solutions and services is through its IBM Passport Advantage program. A relationship-based program for larger and multi-site enterprises, Passport Advantage uses a common set of agreements, processes and tools to facilitate the buying and renewing of certain IBM offerings. Eligible products available under the Agreements include software licenses (one-time charge and fixed term), software subscriptions and support, and IBM's appliances and SaaS offerings.

But like many volume purchasing programs, Passport Advantage can open the door to overspending for many enterprise customers. NPI estimates a large percentage of companies materially overspend during Passport Advantage renewal events.

TIPS FOR SAVING ON YOUR NEXT RENEWAL EVENT

Make sure your initial buy price is at fair market value. If it's not, calibrate during renewals. The most common contributor to overspending during IBM Passport purchase and renewal events is an initial buy price (from way back when you first purchased the item) that is above current fair market value. This overspending is compounded when IBM tacks on its annual maintenance/support price increases (typically in the ballpark of 5 to 7 percent). If companies want to avoid significant overspending, they

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need to perform price benchmark analysis to determine whether their initial purchase prices were aligned with fair market value. If not, this information can be used during renewal negotiations to bring current maintenance and support fees into alignment with current rates.

Manage your IBM estate cost to market – not budget. The typical IBM estate within an enterprise is large, decentralized and spans multiple layers of the IT stack. As a result, many customers manage costs to budget and in the process lose sight of savings opportunities such as leveraging total revenue commitment and capacity optimization. This cost control “blind spot” is only becoming larger as IBM’s offerings, pricing and licensing/subscription models evolve at a faster pace than many customers can keep up with. It’s important to remember that most IT vendors view a budget number as a revenue target. Customers that want to keep IBM spend in check need to regularly evaluate their entire estate for savings opportunities – especially in anticipation of renewal events. Price benchmark analysis at the line item level is critical for both new purchases and renewals.

Continue to bring competitive pricing to the table. IBM’s Passport Agreement makes it easy for enterprises to purchase/renew IBM products – but it also breeds complacency in price negotiations. Customers should continue to apply pressure on IBM by leveraging competitive bids on new purchases, and on renewals of “classic” products for which there truly are apples-to-apples replacement products on the market. Even if the enterprise doesn’t elect to change to the competitive offering, IBM will recognize it as a true threat because many companies have made the switch.

Keep an eye out for discount erosion. It can be stealthy. The Passport Agreement renewal process has become automatic for both IBM and its customers. The vendor’s licensing desk automatically generates a renewal agreement (usually inclusive of a modest annual cost increase) and submits it to the customer, which usually performs a rudimentary inspection and approves it. However, upon closer inspection of these renewal agreements, some customers have discovered that certain elements of their renewals that have been previously discounted are now priced at list price. For this reason, customers should carefully review their renewal agreement to ensure its integrity. Once these “mistakes” are hardcoded into the renewal cycle, they can be difficult to fix.



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UNDERSTANDING IBM’S MOTIVATIONS

IBM finds itself in a precarious position in today’s technology and business landscape. Its commercial cloud business hasn’t grown as successfully as many of its competitors, yet the vendor remains on the innovation forefront in areas like machine learning and blockchain. Meanwhile, it’s impossible to ignore that entire industries like finance and transportation still rely on IBM’s mainframe offerings to run their business.

This position is forcing IBM to improve upon what it has always done well – extracting large amounts of revenue from each and every customer. To counterbalance this dynamic, enterprise customers need to avoid the complacency that accompanies many Passport Advantage purchases and renewals, and perform rigorous price, discount and business term optimization for every transaction.

ABOUT NPI

NPI is an IT procurement advisory and intelligence company that helps businesses identify and eliminate overspending on IT purchases. We deliver transaction-level price benchmark analysis, license optimization advice and vendor-specific negotiation intel that enables IT buying teams to drive measurable savings. NPI analyzes billions of dollars in spend each year for clients spanning all industries that invest heavily in IT. NPI also offers software license audit and telecom carrier agreement optimization services. For more information, visit www.npifinancial.com.

