



Real experts.
Real data.
Real savings.

WHITE PAPER

How to Eliminate Toxic Spend on Large SaaS Estates

A GUIDE TO HELP ENTERPRISE IT BUYERS CUT SAAS SPEND WASTE

One challenge enterprise IT buyers face is SaaS spend governance, and that's evidenced by an increasing rate of wasteful spend on large SaaS estates. This white paper explores the following questions:

- What makes the SaaS licensing model so difficult to govern?
- What tactics can I use to optimize SaaS licensing?
- What value does SaaS license optimization deliver to the business?
- How can I prioritize which SaaS estates to optimize and how often?

The Relationship Between SaaS, Toxic Spend and IT Procurement

While the cloud has made it easier to procure IT, it's also made it easier to overspend – particularly on SaaS. Enterprise SaaS usage and costs are ballooning. In 2020, spending on SaaS was roughly \$103B. By 2022, it's expected to surpass \$145B – a 41 percent increase.¹

The explosion in enterprise SaaS investment has revealed vulnerabilities in how enterprises manage these costs. At the root of the problem is toxic spend. Gartner estimates 30 percent of cloud fees paid by organizations are for licenses or subscriptions that are dormant or for features that are not being used.²

SaaS cost waste – toxic spend – is a pervasive problem impacting large users of solutions like Salesforce, SuccessFactors, O365, Workday and ServiceNow, to name just a few. Left unmitigated, SaaS toxic spend will consume funds that would otherwise fuel critical IT initiatives.

Why is SaaS so difficult to govern?

Toxic spend is an insidious byproduct of the SaaS licensing model – one that's deceptively "simple" to consume but difficult to manage. Reasons include:

- **Sourcing often happens in the shadows.** SaaS vendors are adept at bypassing IT and procurement and engaging business users directly.
- **License management is inconsistent and distributed.** Who owns SaaS license management? In many organizations, the answer isn't clear. The responsibility is distributed across multiple admins, departments and business units. Those in charge often have varying skill levels and apply standards inconsistently.
- **Independent SaaS management tools are immature.** Software asset management tools have been around for a while, but SaaS-specific SAM tools are still nascent and ineffective. While some legacy SAM tools aspire to manage SaaS, few organizations have implemented them deeply enough to be effective. Many SaaS vendors provide their own tools, but those should be approached with caution – outputs are often inaccurate and almost always benefit the vendor.
- **Renewals tend to happen on autopilot.** SaaS renewal requirements are rarely validated based on actual usage. Instead, companies simply renew what they have and buy more. This makes it easy for bloat to occur over time – the SaaS estate quietly gets bigger and bigger while costs grow exponentially.

Toxic spend is an insidious byproduct of the SaaS licensing model – one that's deceptively "simple" to consume but difficult to manage.

¹ <https://www.gartner.com/en/newsroom/press-releases/2021-04-21-gartner-forecasts-worldwide-public-cloud-end-user-spending-to-grow-23-percent-in-2021>

² <https://www.gartner.com/en/documents/3894124/software-asset-management-for-the-cloud-consumption-mana>

Developing a SaaS License Optimization Assessment Strategy

To eliminate toxic spend on large SaaS estates, a thorough assessment of the current state of usage and ownership is required. The objective is to identify licenses that can be terminated or harvested for redeployment (thereby avoiding the purchase of additional licenses to support new users). Assessments should focus on two areas:

Rightsizing license assignments. Enterprise SaaS vendors typically offer a variety of license types with specific features and access rights. To keep things simple, customers will often deploy a standard license type with equal capability for all users – even if certain users don’t need certain capabilities. More often than not, this leads to a default assignment of the most expensive license type. Customers need to perform a deep-dive analysis into actual usage data to understand if there is opportunity to rightsize licenses for certain users. This information will enable stakeholders to rapidly switch to more cost-effective assignment of licenses.

Liberation of license currency. To liberate license currency, enterprises must have visibility into usage data to identify inactive licenses that can be terminated or redeployed. Inactive licenses typically fall into the following categories:

- 1 No-pulse users consuming valid licenses (e.g. licenses assigned to IP addresses like printers)
- 2 Former employees and/or contractors consuming active licenses
- 3 Inactive users (90 days) consuming valid licenses
- 4 Users assigned multiple active licenses
- 5 Disabled users consuming advanced threat protection (Microsoft only)

Are we using the most cost-effective license type for different user profiles?

Are there inactive licenses that can be terminated or redeployed?

Case Study: O365

CLIENT

Financial Services

SITUATION

- Client contacted NPI to perform an Office 365 license optimization assessment (LOA) prior to an Enterprise Agreement renewal
- Client purchased and implemented Zylo, a leading SaaS management tool
- They also purchased Aspera, one of the more prominent SAM discovery solutions
- Additionally, they engaged Aspera to provide SAM managed service

FINDINGS

- NPI identified 16% optimization
- The majority of which, ~\$900K, client confirmed relevant
- Provided data to support the development of user profiles

OBSERVATIONS

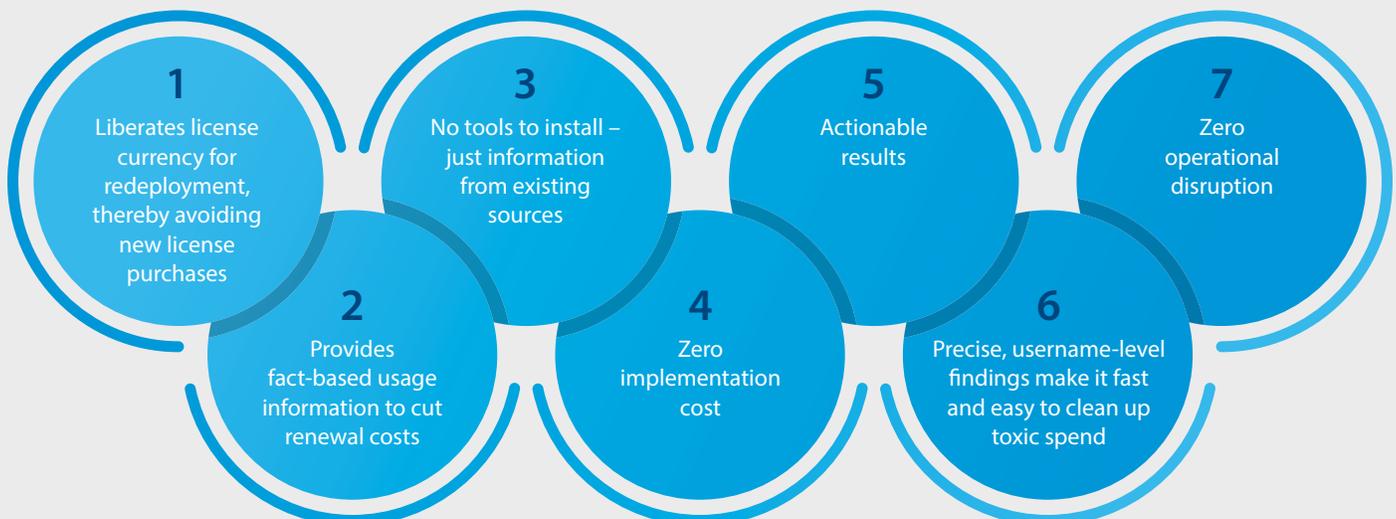
- We estimate Zylo’s contribution at a nominal 3-5%
- Workday is the primary upstream input to Zylo and their optimization efforts, but Human Capital Management (HCM) systems are isolated and have significant challenges managing license themselves

SaaS License Optimization Assessment Checklist

SaaS license optimization assessments are one of the most non-disruptive paths to IT cost reduction. They typically identify seven-figure savings (or more) on large software estates. At a granular level, what activities must be performed?

- ✓ **Consolidate and Normalize Entitlement and Usage Information**
 - What are your license entitlements?
 - Who's using what and how does that align with your license entitlements?
- ✓ **Categorize Users and Develop User Profiles**
 - What are the different types of users within your organization?
 - What are the unique user requirements per user type (or category)?
- ✓ **Filter and Analyze Usage**
 - Are you paying for inactive or improperly assigned licenses across the SaaS estate?
 - Are you paying for premium license types when a more cost-effective license type will satisfy usage requirements?
- ✓ **Quantify Optimization Opportunities**
 - Based on usage analysis, what opportunity exists for rightsizing license assignments?
 - What opportunity exists for terminating inactive licenses or harvesting them for redeployment?
- ✓ **Report Findings and Recommendations, and Establish a Baseline for Vendor Negotiations**
 - Which stakeholders need to be informed? What consensus-building needs to happen before approaching the SaaS vendor?
 - Is there opportunity to consolidate leverage among different business units/departments (if applicable)?

7 Benefits of a SaaS License Optimization Assessment



When Should You Perform a SaaS License Optimization Assessment?

Assessments provide a measurable cost avoidance by reducing and/or eliminating the need for purchasing incremental licenses as well as reducing demand for upcoming renewals. They can be performed at any time, but are particularly beneficial during certain inflection points.

<p>In Preparation for a Renewal</p>	<ul style="list-style-type: none"> • Establish fact-based usage baseline as input to renewal quantity definition • Validate user profile relevance and accuracy as input to renewal quantities
<p>In Preparation for Annual True-Up</p>	<ul style="list-style-type: none"> • Clean house before reporting true-up quantities
<p>Mid-term, but Buying More Licenses</p>	<ul style="list-style-type: none"> • Liberate existing license currency before buying more licenses

Case Study: Salesforce

CLIENT

Technology Company

SITUATION

- NPI was engaged to provide a SFDC LOA preceding a renewal negotiation
- Scope was Sales Cloud and Service Cloud
- Client under severe pressure to document 'save' and 'cost avoidance'
- Salesforce relationship 'owned' by IT
- Consolidation of multiple SFDC agreements due to acquisitions during contract term

FINDINGS

- LOA indicated \$1.6M (25% annual spend) optimization
- Identified additional 'unassigned' licenses increasing the potential reduction of licenses required
- Uncovered multiple platform items (Storage/SandBox) that were very expensive and had no usage
- Identified significant gap between Active Directory and SFDC license management

OBSERVATIONS

- The LOA process enabled the Client team to establish deep understanding of their current SFDC footprint based on usage with targeted optimization
- Confidence that supported a 'data-drive' negotiation with Salesforce

Partnering With You to Eliminate SaaS Overspend

NPI's turnkey [SaaS License Optimization Assessments](#) help enterprise IT buying teams quickly and easily identify cost savings across their largest SaaS estates – including Adobe Creative Cloud, Microsoft Office 365, Salesforce, ServiceNow, SAP SuccessFactors, Workday and more. We perform a non-disruptive, deep-dive analysis of usage, and provide user-level findings and recommendations. Seven-figure savings are typical. If you'd like to learn more about our services, [contact us](#).

IT Sourcing Insights Delivered to Your Inbox

NPI's SmartSpend Blog is a resource to help IT procurement save money on IT and telecom purchases. If you'd like to receive vendor-specific insights and the latest in IT procurement best practices, subscribe!

[Subscribe Now >](#)

About NPI

NPI is an IT sourcing consulting company that helps enterprises identify and eliminate overspending on IT purchases, accelerate purchasing cycles and align internal buying teams.

We deliver transaction-level price benchmark analysis, license and service 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.

For more information, visit www.npifinancial.com.