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# SmartSpend™ Bulletin

## IBM Mainframe Software Overspending is Rampant – How Do You Stop It?



One often overlooked area of IT overspending is mainframe software, particularly with IBM. Thousands of companies still rely on legacy mainframe applications to conduct business and there is widespread complacency in how this spend is managed. That's led many IBM customers to overpay for their ongoing software costs. Bringing transparency to this element of IT spend can deliver significant savings – frequently in the ballpark of seven figures.

Thousands of the world's largest companies still depend on legacy mainframe applications, which are purported to power over 70 percent of the world's transactions. While IBM may have its sights set on the competitive battlefields of cloud and AI, mainframe software continues to be a significant moneymaker within IBM's business.

There are other reasons why mainframe continues to play a material role in IBM's revenues. One is customers' complacency in managing recurring mainframe spend. IBM's monthly license charges (MLCs) for its mainframe computing solutions are notorious for their lack of granularity – and IBM is an expert on managing revenue-per-customer to each customer's budget. Another reason is the internal mainframe expertise within most enterprises is aging out of the workforce. More and more of today's companies lack the knowledge to adequately manage mainframe costs.

As a result, many companies are significantly overpaying for IBM's mainframe solutions – 10 to 22 percent in many cases, and as much as 50 percent in others. That level of overspend warrants closer investigation, particularly as these fees don't advance companies' digital transformation agendas (which typically entail a list of unfunded or underfunded projects).

**Line item analysis is crucial.** One customer learned their IBM Tivoli spend was off-the-charts over market – but it had been hidden for so long under a bundled maintenance fee that there was no visibility into this anomaly. This analysis helped the company save over \$500,000 annually on Tivoli alone.

## FOUR TIPS FOR ANALYZING IBM MAINFRAME SPEND

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To achieve material savings on IBM mainframe software costs, companies need visibility and validation of their current spend to develop a benchmark-based cost reduction plan. NPI recommends companies conduct an IBM mainframe software assessment that includes the following steps:

- **Inspect monthly license charges for errors.** IBM's MLCs are typically difficult to decipher. In many cases, charges fall under a broader, bundled, auto-pilot maintenance fee. This makes it easy for companies to miss billing errors – which are surprisingly common. The onus is on the customer to validate the accuracy of fees on an ongoing basis.
- **Confirm you're only being charged for supported products.** NPI has seen numerous cases where IBM charges customers for products it no longer sells or supports. Understand your spend at the line-item level to confirm you're not paying for unsupported products.
- **Conduct line-item price benchmark analysis on all elements of mainframe spend.** Pricing for mainframe solutions is complex. For many customers it's an "auto-pilot" budget item that recurs year after year, and no one digs into the details behind the numbers. IBM mainframe customers should benchmark current pricing against fair market value at the line-item level to identify overspending gaps while taking into account products, quantity, total spend and current market conditions. This analysis will yield specific cost reduction targets for each line item that will lay the foundation for price renegotiations with IBM.
- **Apply competitive pressure – whether or not you intend to actually switch vendors.** In addition to identifying over-market costs, companies should identify like-for-like replacements from rivals and model potential savings. Even if "only" used as negotiation leverage, this information is a powerful tactic for negotiating savings. However, in some cases, companies may find the savings offered by a competitor are incentive enough to switch vendors. In one scenario, an NPI client elected to switch one line item from IBM to BMC after realizing they could quickly and easily realize an 85% cost reduction (over \$1M in annual savings).

## NOW IS THE TIME TO CONDUCT AN IBM MAINFRAME SPEND ASSESSMENT

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For many IBM customers, mainframe software spend consumes much more than its fair share of annual IT operating budgets. While some customers have long-term plans to migrate away from the vendor's legacy applications, that doesn't mitigate the need to eliminate overspending between now and whenever those plans are implemented.

Companies that have never conducted a mainframe spend assessment, or haven't conducted one in the last 24 to 36 months, should act quickly. The potential for seven-figure savings is high for many customers, and that spend could be reallocated to unfunded IT projects in the queue.

## ABOUT NPI

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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](http://www.npifinancial.com).



### NPI Headquarters

3340 Peachtree Road NE

Suite 1280

Atlanta GA 30326

T 404-591-7500

F 404-591-7501

E [info@npifinancial.com](mailto:info@npifinancial.com)

