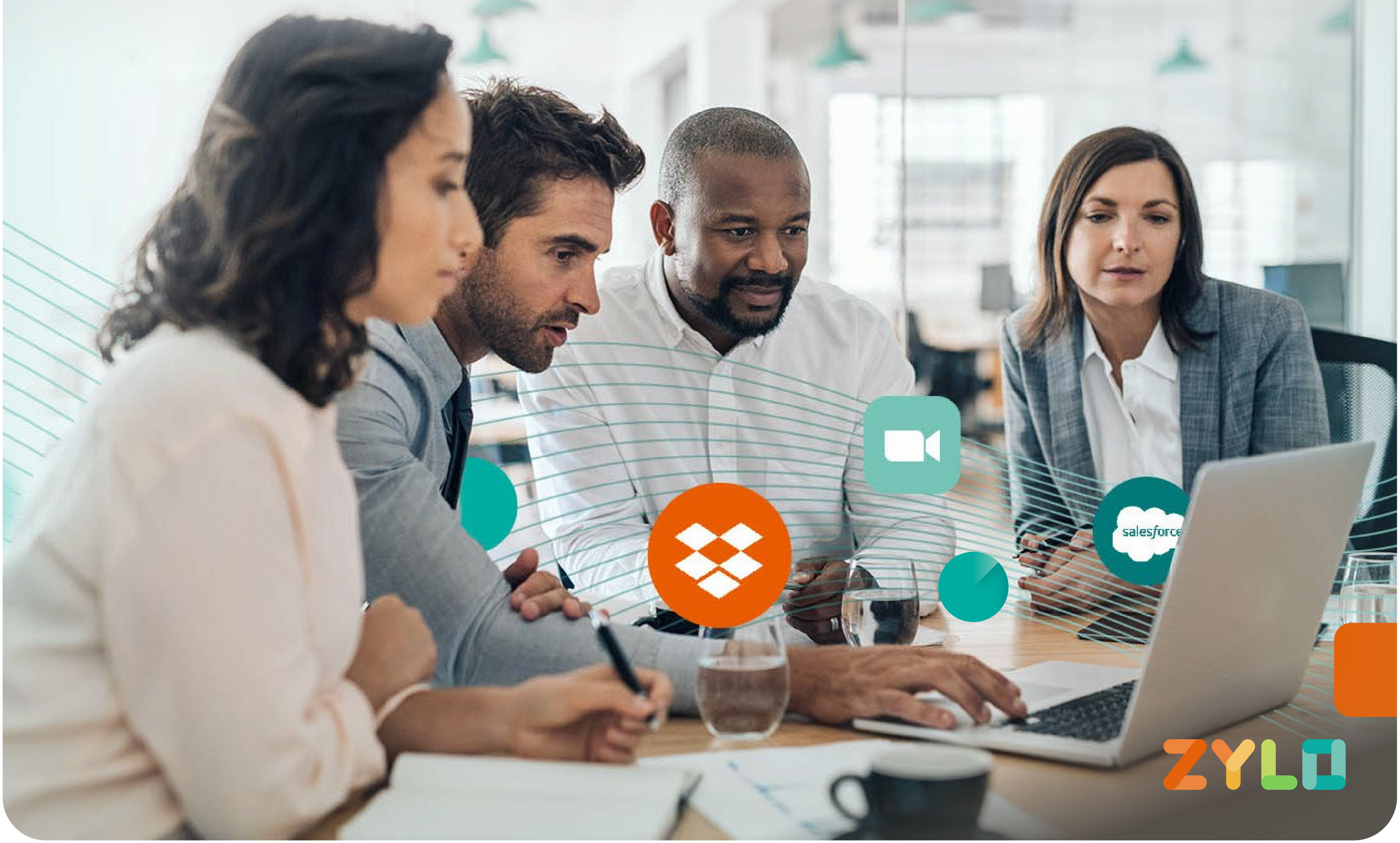
Guide to Cost Management

How to Make the Most of Your SaaS Investments



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Introduction

Cloud-based deployment is now the software deployment method of choice as more organizations recognize the tangible benefits of software without servers and with the convenience of subscription licenses.

Overall, the software-as-a-service (SaaS) industry has grown at a breathtaking pace in recent years, accumulating double-digit growth for several years. In fact, Gartner forecasts spending on SaaS to reach $171 billion in 2022, a 18.1% increase from 2021. Zylo research also finds that the average organization spends $65 million on SaaS annually — and even more for large enterprises at $243 million.

This unprecedented and rapid growth has left business leaders unprepared for a rise in costs, which can often be obscured by unmanaged employee acquisition of software applications and their expenses, so-called shadow IT. On average, about one in five employees will purchase a SaaS application using a credit card or expense reimbursement.

Discovering, rationalizing, and optimizing all software subscription purchases — whether from IT, lines of business, or individuals — is imperative to managing the bottom line. In short, that means establishing a SaaS cost management practice.

That requires managing your SaaS applications and cloud-based subscription software from a financial perspective. The process includes identifying all costs associated with SaaS applications, rightsizing licenses for optimal value, reducing unplanned expenses due to automatic renewals, and leveraging corporate buying power.

Gartner forecasts spending on SaaS to reach $171 billion in 2022, a 18.1% increase from 2021

Source: Gartner

Sources of Growing SaaS Costs

Overall, spending on enterprise software has steadily increased, notably within cloud software and related services — and within the cloud market, SaaS commands the most spending. According to recent data from Gartner, SaaS will soon surpass more than $116 billion per year in sales, accounting for 43% of the total cloud market. Let's take a look at where this rise in costs is coming from.

Ease of user acquisition creates shadow IT — SaaS applications are so easy to acquire and deploy that they frequently escape detection. Without a way to discover these purchases, SaaS quickly accumulates as a hidden cost within organizations.

According to recent data from Gartner, SaaS will soon surpass more than $116 billion per year in sales, accounting for 43% of the total cloud market.

Gartner has estimated as much as 30 to 40% of technology spending results in shadow IT. Even when these transactions do appear in financial systems, they're frequently mislabeled or miscategorized. In fact, Zylo research finds that as many as 55% of transactions involving SaaS applications are not tagged as "software" in expense systems. With 77% of spend stemming from business units and individuals, costs associated with shadow IT are expected to grow.

Low cost per instance — With freemium options and low monthly recurring charges, SaaS applications are frequently acquired by employees without consideration of a centralized procurement or sourcing strategy. If a single employee subscribes to a $9.99 per month SaaS app — sure, no problem. But at scale, hundreds or thousands of employees at an enterprise paying that price can quickly create cost overruns.

Growing SaaS spend can be attributed to:

- Shadow IT
- Low cost per instance
- Duplicate purchases
- Multi-source spending
- Poor adoption or utilization
- Automatic renewals

Duplicate purchases - One-off employee purchases create increased costs in the form of unleveraged buying power. Let's say a business will require 100 user licenses for a project collaboration application. By purchasing end-user licenses or seats in bulk, the business can expect or negotiate a reduced rate. However, if 100 end-users purchased the same license individually, they would likely pay list price and overall spend more.

Multi-sourced spending - Consider a business that buys 100 seats to a project collaboration application via Accounts Payable or a direct supplier purchase. And then an employee purchases the same application as an expense. Now, the business has two instances of the same application in separate financial lines.

40% of all SaaS application licenses go unutilized or underutilized in a typical 30-day period.

Poor adoption or utilization - Regardless of acquisition source, when application licenses or additionally purchased features aren't used to their full potential, that spend is wasted. Zylo data shows that about 40% of all SaaS application licenses go unutilized or underutilized in a typical 30-day period.

Surprise renewals - Automatic renewals are a key feature in subscription software. Ostensibly, they ensure uninterrupted access to an application's services. But, because most applications require notification periods of 30, 60, or 90 days to signal a non-renewal, automatic renewals can come as a surprise. Underutilized or unnecessary applications that undergo automatic renewal can add to your cost burden.

Cost Reduction Starts with Visibility

Reducing SaaS costs can save organizations in both the short and long term. Savings are typically generated by identifying current sources of unnecessary expenses, rightsizing licenses and entitlements to meet current user needs, and building a robust rationalization process that can be applied to each application in the organization.

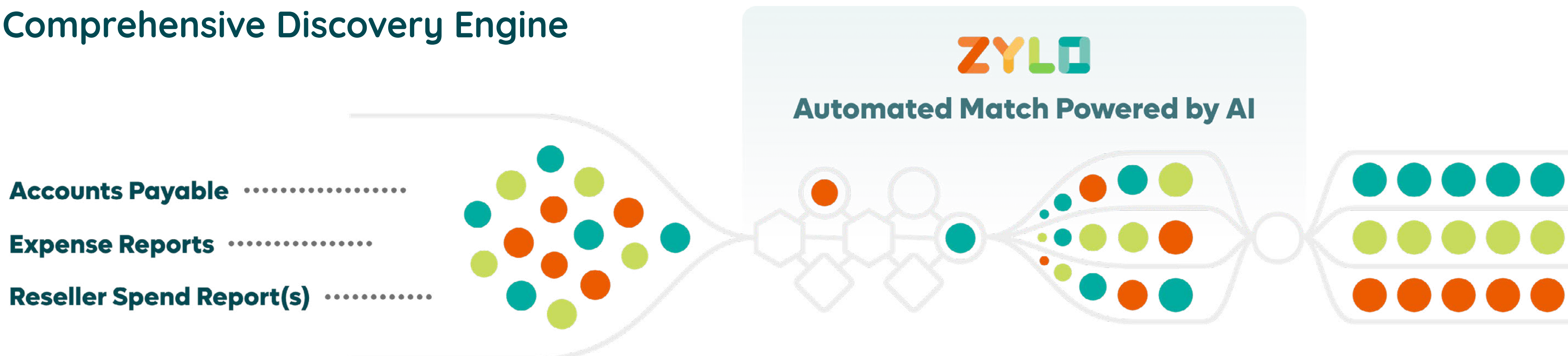
Discover All SaaS Applications

Identifying your current inventory is the first step toward generating cost savings on SaaS tools and services. Why? You can't manage or optimize what you can't see.

The discovery of all of your SaaS applications should provide a real-time snapshot of current software costs and investments. That means a thorough analysis of all your financial transactions, including direct supplier spend found in accounts payable or purchase orders and all expenses from individual corporate credit cards, procurement cards, and employee expense reports.

We recommend examining about 12 months of transactions to gain an accurate picture of current spending and potential commitments created by renewals. It's for this crucial reason that your discovery method must utilize data sourced from both Accounts Payable and expense systems. Otherwise, you won't have a complete picture.

Comprehensive Discovery Engine



Organize and Map Spend Data to Every Application

For each application, every detail related to cost should be accounted for to manage overall costs and spending. Much of this information can be found in the application's original agreement or contract, as well as purchase orders, invoices, or other billing documentation.

Curating this information serves as a system of record for all SaaS-related applications, how they're used, and exactly how, what, and when they drive costs within the organization. A SaaS management platform like Zylo can automate much of these discovery, organization, and database-building processes.

In the absence of a SaaS management platform, this information can be manually curated into a spreadsheet. However, this approach is resource and time intensive and ends up out-of-date quickly given the dynamic nature of SaaS.

Take Action on SaaS Cost Reduction Insights

With all SaaS application spending and cost information identified, as well as each application's relevant data and attributes recorded, it's now possible to begin cost reduction activities.

Rationalize Your Portfolio

The SaaS application discovery process effectively answers, "What applications does the business actually have?" Naturally, the next logical question is, "What applications should the company continue to retain?"

Identify and Consolidate Redundant Applications

Review your full inventory and look for the SaaS tools that have significant functional overlap.

For example, we often find that collaboration tools such as workplace messaging platforms such as Teams and Slack tend to be an area with a lot of redundancy.

Then, consolidate by standardizing tools and going "all in" on a single or few key applications to serve that purpose. For example, switching to a single project management tool across the organization allows you to offboard other similar applications and negotiate a better rate for the tool of choice.

What does this look like in practice? It's a matter of reducing the number of tools with functional overlaps wherever possible. If the business has already determined specific tools to fulfill particular tasks, examine your SaaS inventory to find non-approved tools in use.

Standardize and Document Approved Tools

Once you've consolidated your inventory, you're able to standardize a set of approved tools for the organization. That creates a few benefits:

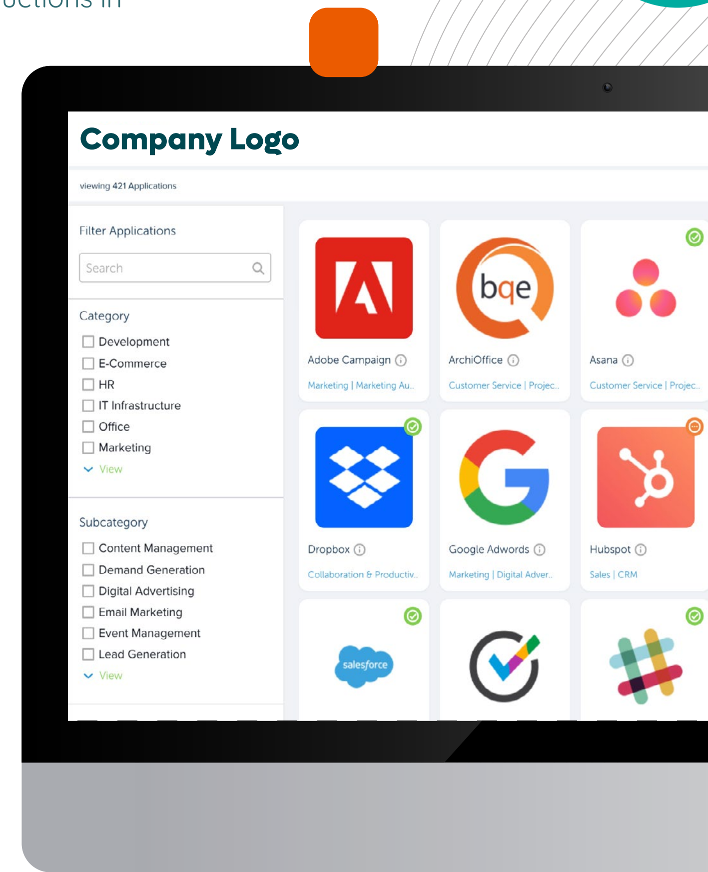
- Saves time
- Reduces the support workload for IT
- Streamlines communication and collaboration between business units

The standardization process is driven by developing an understanding of the preferences and requirements within the business, its teams, and its employees for SaaS applications going forward. Then, validate that feedback by closely examining utilization metrics to help determine which applications should make the cut.

Once you've set your application standards, publish the list of approved tools to the broader organization through an application catalog. Provide training on best practices for software acquisition going forward if adopting new policies to prevent future shadow IT. Many companies see significant reductions in unsanctioned software acquisition by implementing software review boards, prohibiting employee-led software purchases, or setting spending limits on expense reimbursements.

Compare Renewal Dates and Billing Terms

Another critical element to consider when rationalizing applications is renewal dates. Prioritize the "keep or delete" process for applications with near-term renewal dates. Focusing on these applications first helps ensure an automatic renewal doesn't lock the business in place with an unwanted application or its costs. Any upcoming renewals also represent an opportunity to negotiate pricing and terms or seek new discounts.



App Catalog

Setting notifications around renewal dates is crucial in the process of terminating any application, as notice must typically be provided 30, 60, or 90 days in advance of the intended non-renewal. It's especially important to understand the terms around notification periods. Some renewal clauses include terms about not only when the vendor must be notified but also how (e.g., notice must be in writing).

Terminate Unnecessary Applications

Eliminate applications that are not essential or mission-critical to the business or do not pass the rationalization process. Provide notice to the vendor when necessary in the appropriate method.

To start, check that any provisions concerning business data are reviewed before termination to ensure any company-owned or customer data is returned to the business or deleted appropriately.

Prevent eliminated applications from re-entering the environment as shadow IT by rerunning the discovery process regularly. Vigilance is key and a reason why continual monitoring and discovery are a key part of Zylo's SaaS Management platform. It can also be prudent to set alerts in expense management systems to flag any new software purchases.

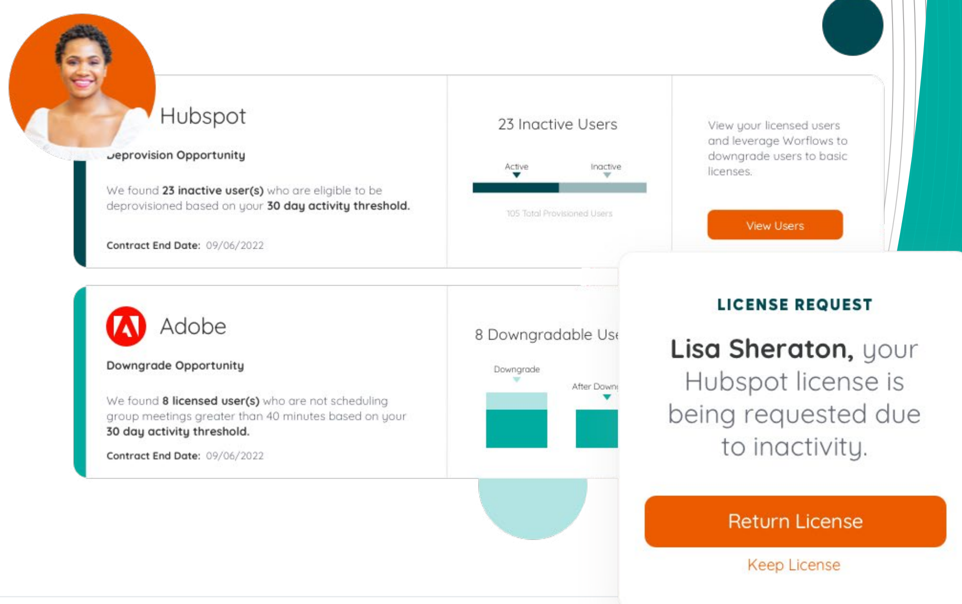
Rightsize Unneeded and Underused SaaS Licenses

In a typical SaaS application inventory, about 40% of SaaS licenses are under- or un-utilized, so it's important to build processes to reclaim lost value due to unneeded or underused licenses.

It's vital to periodically manage SaaS licenses and rightsize the count against actual need, as unneeded or underused licenses happen for a variety of reasons.

- Employees are provisioned with licenses but never use them
- Employees no longer require access to applications
- Employees depart the organization

In addition, you must also understand the use case for each app and define a standard utilization rate. For example, if a user signs in and utilizes an application at least once every 30 days, they could be considered an active user. However, application use cases vary widely, so tailoring standard utilization rates to account for typical user behavior is recommended.



Leverage Insights from a SaaS Management Platform

Through direct integrations with critical applications and single sign-on (SSO) tools like Okta, the Zylo platform makes it possible to manage multiple SaaS applications and licenses from a single central dashboard.

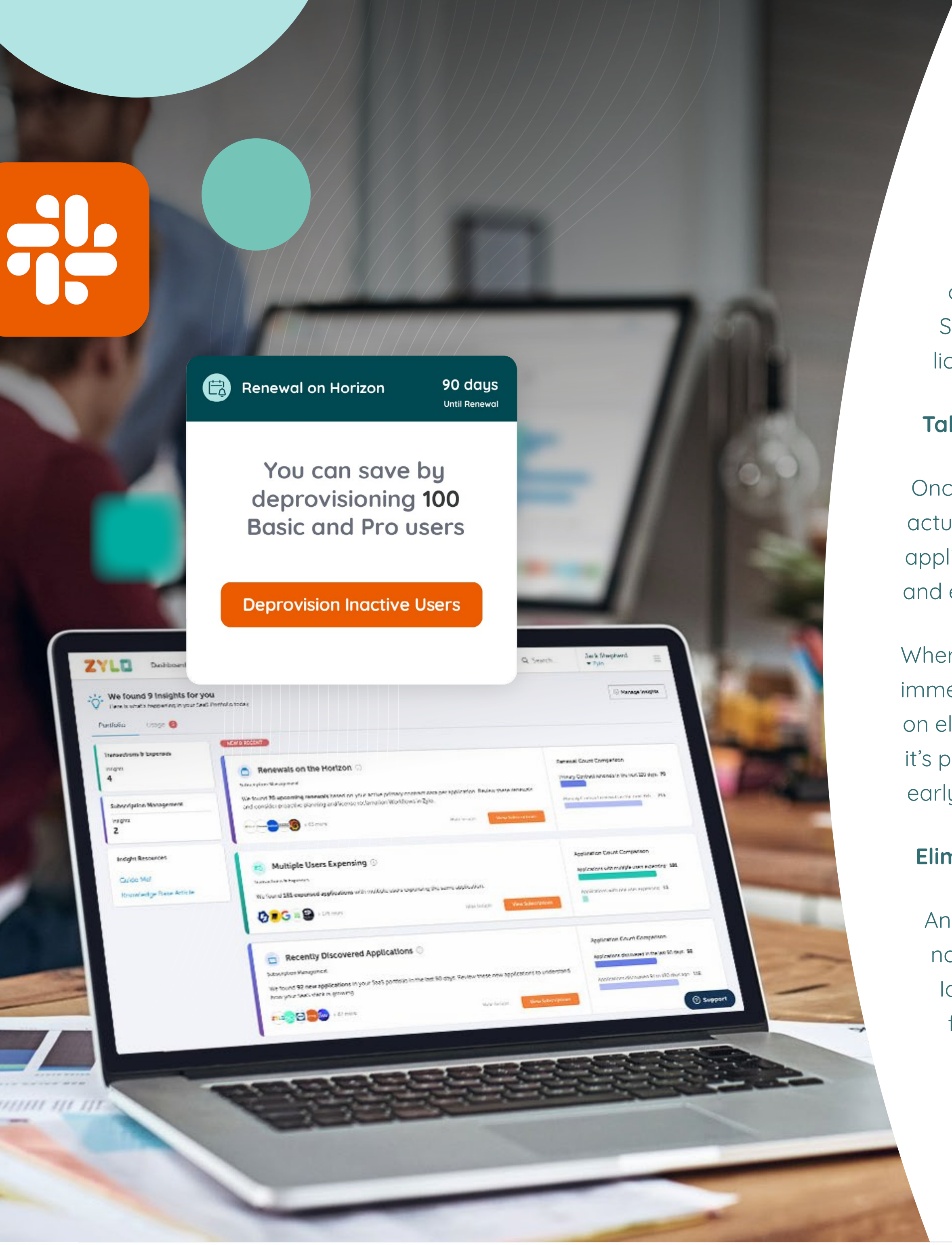
The ability to optimize costs for business-critical SaaS applications like Zoom rests on a comprehensive view of licensed users, their plans, and utilization data.

The dashboard offers insights into license usage by showing each application's provisioned users, granular license utilization data, and entitlements such as premium or advanced licenses.

Naturally, it's helpful to start with quick wins, but if you're looking to fully optimize spend, it will be important to rightsize your entire stack.

Start with Centrally-Managed Applications

One of the best places to start finding cost savings is with the applications that are widely deployed. Note the applications centrally managed by IT — office tool suites like Microsoft 365 or Google Suite, for example. Match the number of provisioned licenses to actual users by comparing your license inventory against the current directory of employees. If discrepancies exist due to employee transitions or departures, pull back licenses that are no longer needed and redeploy to users who may need them. Or, plan to adjust license quantity to match user count accordingly at the next renewal negotiation.



Leverage Single Sign-On

Another way to approach rightsizing is examining the data from integrating your SaaS Management platform with SSO. It can be especially helpful when considering the applications owned by lines of business. By integrating with SSO, your SaaS Management tool can give you a holistic picture of all the licenses managed by SSO and their utilization data.

Take Action on Insights

Once your license inventory is accurately compared against actual users and utilization, it's important to also examine each application's renewal date, license quantity, consumption metrics, and entitlement plan.

Where it's possible to reduce license quantity and costs immediately, do so. If license quantity is tied to an agreement, plan on eliminating licenses or features at the next renewal. However, it's possible to reach out to SaaS vendors to negotiate and renew early to rightsize license quantity.

Eliminate Applications of Former Employees

Another way to reduce SaaS costs is to eliminate applications no longer needed due to employees leaving the business. Ideally, this is done during offboarding. But, if you don't have a formal process, there's likely former employees still assigned to licenses.

First, check your application inventory against the list of employees who have left the company and then check with their manager to see if it's still needed by the team.

Next, determine how the application was purchased. This can play into adjusting future purchase policies to prevent orphaned applications from cropping up.

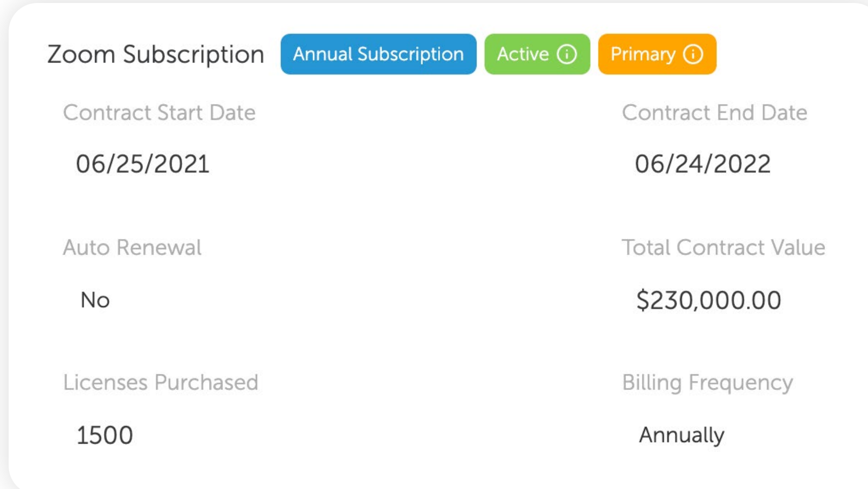
Last, take action based on your findings. If the manager wishes to eliminate the app, it's beneficial to provide non-renewal notification to the vendor to cancel it and prevent recurring credit card charges. In contrast, if it's a mission-critical app, consider eliminating or reprovisioning the license.

Modify Existing Terms with SaaS Vendors

Beyond rationalizing and rightsizing your portfolio, negotiating and modifying existing terms with SaaS vendors can reduce overall spend or help improve cash flow for the business.

Before reaching out to any SaaS vendor to negotiate, it's essential to gain a full understanding of each application's profile — especially for the most costly tools. This helps you prioritize concessions that will be requested from each vendor in advance of reaching out. Be sure to understand the billing terms, renewal dates, utilization rates, license quantity, total contract value, feature sets, and payment schedule.

Contract Details



Push for More Favorable Payment Terms

If the business requires drastic cost-cutting for SaaS applications, reach out to your SaaS vendors and request more favorable terms for payments. Improving cash flow health for the short term may provide the breathing room needed to sustain a crisis.

Consider requesting these terms:

- **Suspend or postpone payment obligations** for a six- to 12-month period until the economic situation resolves
- **Change annual payment terms** to quarterly or monthly payments in arrears to mitigate and delay impacts to cash flow.
- **Consider vendor or bank-backed financing** for short-term periods on big-ticket investments
- **Extend contracts on a month-to-month basis** to avoid long commitments and upfront payments until the economic outlook improves

Lower Overall Vendor Spend

If you've identified lower-than-expected utilization of SaaS licenses or features but renewal dates are in the distant future, it's still possible to reduce overall vendor spend. Consider these approaches:

- **Ask for flexible payment terms.** SaaS vendors may be willing to do this in favor of maintaining a long-term relationship. This could include a shift to flexible pricing metrics based on revenue, employee headcount, consumption rates, or utilization — or recalibrate terms if they already exist.
- **Review all SaaS agreements and contracts** to eliminate unnecessary SKUs, entitlements, features, or other upgrades.
- **Temporarily suspend professional services,** such as support and maintenance, to reduce costs.

Research SaaS Vendors

Many SaaS vendors make public statements in times of crisis, including economic downturns, about how the business will adjust its approach. If pushing for reduced costs from these vendors, consider researching press releases and other statements that outline their positioning.

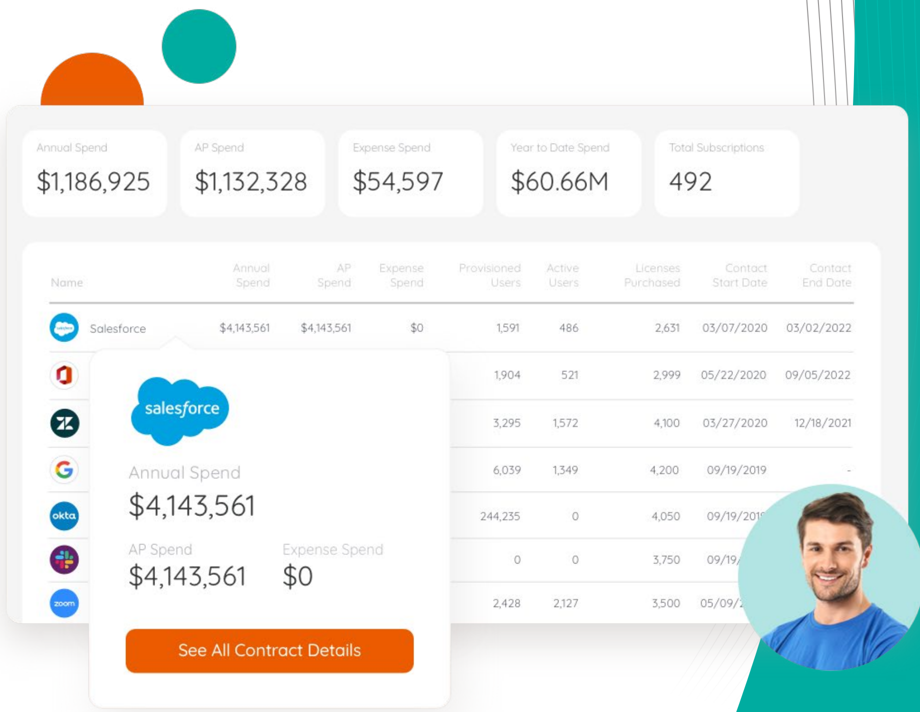
It can also be helpful to research how each vendor's business model recognizes revenue and prioritizes metrics. A vendor with a long-standing and publicly heralded focus on customer retention, for example, may be willing to negotiate on reducing short-term costs.

Take the time to research vendor offerings, as well. It may be more cost-effective to consolidate the functionality provided by several smaller, discrete tools into functionality provided under the umbrella of a larger preferred vendor at a lower price.

Use Smart Negotiation Tactics

Defining the context and purpose for cost-reduction discussions with vendors may create a more partnership-driven and amenable approach to negotiations.

If your executives have mandated a cost-cutting program, share that with any SaaS vendor involved in cost reduction. Outlining the company's formal position shows that cost-reduction activities are taking place across the portfolio and that all vendors are under review.



Establishing that contract restructuring and requests for pricing flexibility are an executive mandate adds legitimacy to requests. It may also be useful to escalate the conversation to the highest management levels possible as senior managers or executives typically have more discretion and leeway to grant concessions.

Be willing to concede on terms that may be more favorable to the vendor, such as the willingness to extend a contract's term in exchange for short-term flexibility around payments or price reductions.

Build a Stronger Vendor Partnership

In times of crisis, many business relationships can be strengthened by a mutual understanding of what defines long-term success. Most vendors understand that a business relationship can extend beyond mere financial commitments.

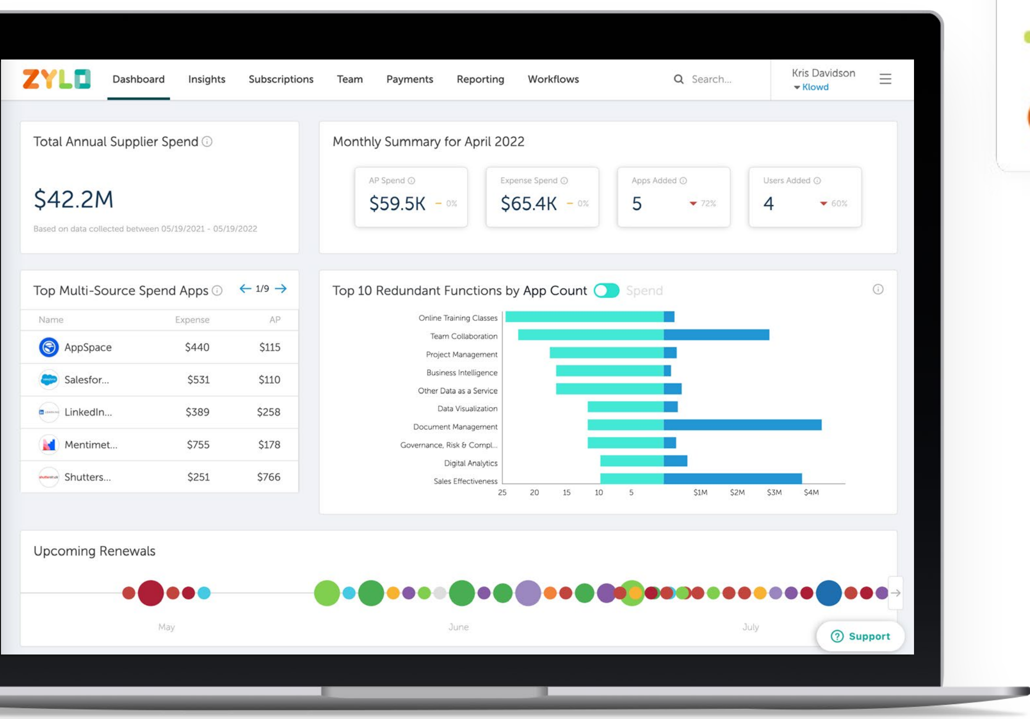
Structure the dialog about cost reductions or payment flexibility payments within the context of building a long-term relationship with the supplier. SaaS vendor customers can also offer to support the vendor in other ways.

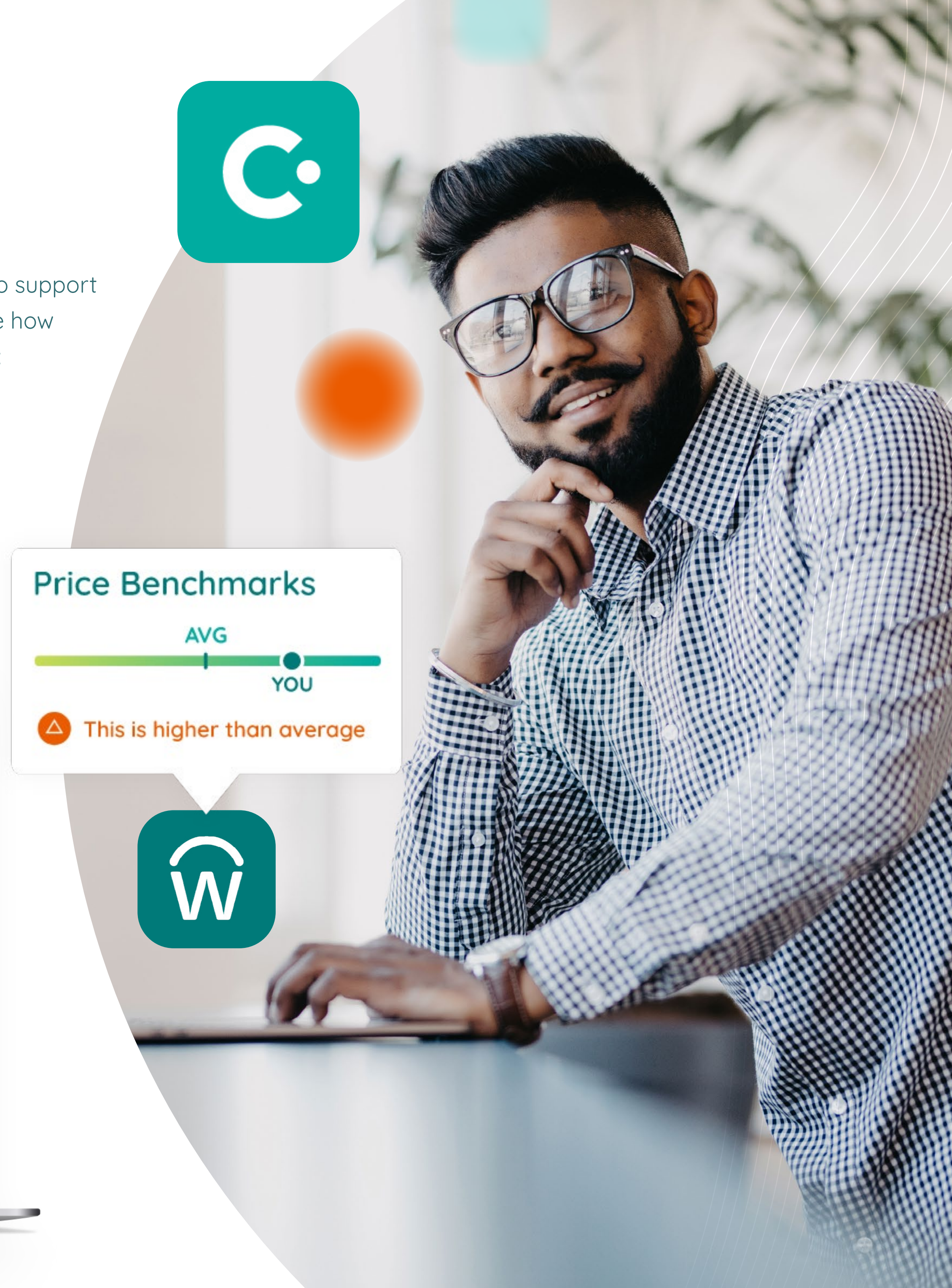
- **Volunteer to take part in a customer success story** in their marketing materials to create a tangible vendor outcome instead of payment.
- **Leverage network relationships** to benefit the vendor, including offering to appear on behalf of the vendor at speaking sessions, professional conferences, or trade shows.
- **Demonstrate your organization's lifetime value as a customer,** whether by leaning on investment to date or future investment.

Go from Insights to Action in an Instant.

While cost savings are a must for your bottom line, you also need to support your business users in the process. [Schedule a demo today]() to see how Zylo's SaaS management and optimization platform powers you to:

- Rein in waste with AI-powered search and classification
- Get personalized, prioritized views that make sense of your license data
- Confidently optimize your SaaS in minutes with workflows





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About Zylo

As the leader in SaaS Optimization and Management, Zylo empowers companies to discover, optimize, and govern their SaaS applications while elevating the employee experience.

Organizations large and small trust Zylo's enterprise-proven technology and unparalleled SaaS Management expertise to optimize more than 30 million SaaS licenses and $21 billion in SaaS spend.

Zylo's patent-pending, AI-powered Discovery Engine provides continual, frictionless monitoring of SaaS spend, licenses, and usage to create the industry's most trusted SaaS system of record. Fueled by more data than any other provider, Zylo delivers actionable insights that allow you to take action quickly to optimize growing SaaS portfolios.

To learn more about Zylo's SaaS Optimization and Management platform, visit zylo.com.

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