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White Paper



Break the Bundle

January 10, 2006

Printed in the United States of America.

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First Publication: January 2006

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About this Report

This "Break the Bundle" Business Strategy Report provides an overview of the practice of selling technology in bundled solutions, and outlines the disadvantages of this practice to the technology buyer. The report also discusses the financial and operational benefits to technology customers through the use of itemized solutions proposals, and provides strategies and tactics about how to succeed in getting a technology vendor to submit an itemized offering.

Who Should Read this Report?

The "Break the Bundle" Business Strategy Report will be useful for technology-savvy decision-makers responsible for purchasing hardware and software solutions, including those directly involved in or influencing the purchasing process.

Contents of this Report

- An overview of the practice of bundle selling
- Who benefits from bundled selling — the buyer or the seller?
- Problems when buying bundled technology
- Benefits technology buyers gain from "breaking the bundle"
- Key strategies technology buyers can use to "break the bundle"

Executive Summary

The "Break the Bundle" Business Strategy Report defines the practice of selling bundled technology solutions, offers reasons why this practice puts the customer at a disadvantage, and presents strategies and tactics for the customer to "break the bundle" and achieve an itemized technology solutions proposal.

Bundled selling is the practice of selling multiple technology products and services "bundled together" in an integrated offering and presented to the customer by a single vendor for a single fee. The proposal can vary in appearance, and may include some descriptive information about various components, but every bundled solution has one common feature: a single price for the entire technology offering.

With a bundled solution, the buyer lacks significant information about each component of the total offering, which makes any type of analysis a difficult, if not impossible, task. Customers can achieve various financial and operational benefits by requiring an itemized solutions proposal from the technology vendor. These benefits include the ability to accurately assess what the customer is purchasing now and in the future, fostering competition among technology vendors, and achieving the best possible price for the total technology offer.

Key strategies for breaking the bundle start with the customer telling vendors that they are looking at multiple options. Next, the customer needs to conduct some internal analysis to determine if they want to be "locked in" to one specific technology vendor by purchasing all their products and services from one source, which often is the unintentional result of a bundled solution.

To quickly determine the true cost of a bundled solution for a storage acquisition for example: customers can make the simple calculation of the total hardware price divided by the amount of disk space they are purchasing, which defines the price per gigabyte of storage. This price can then be compared against standardized disk space price reports. If the price is higher than the standard numbers, then the buyer knows that software is being bundled for a fee within that hardware purchase.

If a customer has to force a vendor to present an itemized proposal, the customer could open a purchase order (PO) for each software and hardware component within the total offering. Although this can be a cumbersome process for the buyer, the practice demands that the seller recognize revenue in specific, stated categories. The buyer would only have to engage in this process once for the seller to know that an itemized solutions proposal is necessary for making the sale.

Lastly, at least five lines of pricing should be included in every itemized solutions proposal. These are for hardware, software, services, maintenance and warranties, and future upgrades and purchases.

An Overview of Bundling Selling

Bundled selling is the practice of selling multiple technology products and services "bundled together" in an integrated offering presented to the customer by a single vendor for a single fee. Bundled technology solutions often include hardware, software, professional services, implementation services, training and education, and maintenance and warranty contracts. These bundled solutions can feature products and services from just one vendor, or the solution could be a collection of products and services from various technology vendors sold together for one price. A bundled solution proposal can vary in appearance, with the entire solution presented as one large line item, or with the proposal including subcategories of descriptive information for hardware, software, and maintenance components. Regardless, a bundled solution has one common feature: one total price for the entire technology offering.

The practice of single-vendor, bundled selling has become commonplace in the technology industry and is most prevalent in the sector where it started — server technology and storage solutions. Historically, a typical server sale would include some related software that was needed for the optimum operation of the server. Advancements of fiber channel technology made it feasible to physically separate storage from the server, although still within the same data center. Once storage started moving externally from the server, the practice of bundled selling became entrenched as a selling practice, by both server and storage providers. To further complicate the sales environment, many server providers also sell storage — either their own product offering or a storage offering from a partner company. Today's customers can encounter server vendors that bundle software with the server as well as selling storage bundled with yet more software.

Who Benefits from Bundled Selling — the Buyer or the Seller?

Single-vendor, bundled selling is a well-known practice within the technology industry. But who does it benefit? In nearly all cases, bundled selling inherently benefits the seller. Customers may hear that a solution "has to be bundled" because the server works best with its own software. While that may have been true in the past or with a select few current offerings, many independent software solutions provide the same or better

capabilities on various platforms. Customers may also hear that they are getting a "better deal" through a bundled solution, but then the proposal will lack detailed information that confirms the price advantage of that deal. The lack of detailed information, especially line-item costs, gives the seller a significant advantage over the buyer. In the highly competitive technology market, which by its nature should be more advantageous to the buyer, the technology seller gains a significant edge if allowed to utilize bundled selling.

Problems When Buying Bundled Technology

The practice of bundled selling poses two major problems to the technology buyer: lack of sufficient information about what components are included in the sale, and a lack of understanding about the true cost of each component of the sale. This is a two-part problem because the customer has to know the specific components of the total offering in order to conduct any type of analysis regarding price, functionality, and business benefits.

- **Lack of information.** In the bundled solution, customers buying hardware can literally not know what software is included in the solution because each software package is not defined as a line item. Without this information, purchasers could be buying software that they do not need, already have installed, or will not use within their existing infrastructure. What's worse: a customer could inadvertently purchase redundant products due to the software included, but not identified, within a bundled solution. And maybe most importantly, with a bundled solution, purchasers forego the option of buying the best point solution for each component in the total technology offering.
- **Not knowing the true cost.** Even if the bundled solution includes subcategories with line items per software package, this information remains less than useful without an associated price. Without a line-item cost for every product and service within the total solution offering, a customer lacks the full capacity to conduct any type of meaningful analysis regarding the price. If "free" software is something the customer does not need and will never use, how valuable is free? If a discounted price includes software that requires an additional purchase in order to operate properly, how much of discount is that? Without an itemized solution proposal, customers cannot make an "apples-to-apples" comparison regarding the price for each component, including hardware, software, and services.
- **Paying today and tomorrow.** And finally, without an itemized proposal, the customer cannot fully understand the total cost for the technology solution today, much less any future costs. The customer has to fully understand the warranty and maintenance program as it related to every piece of hardware and software within the total offering, as the cost of these services (both now and in the future) are linked directly to the original purchase price.

Benefits Technology Customers Gain From "Breaking the Bundle"

Customers can achieve financial and operational benefits, both now and in the future, by "breaking the bundle" and urging technology vendors to provide an itemized solutions proposal, one that includes a specific cost for each line item. By breaking the bundle, technology customers gain a better understanding of what they purchasing, which ensures that they acquire the best total solution at the best price.

- **Know what you are buying.** With an itemized proposal, technology customers can accurately assess exactly what hardware, software, services, and maintenance and warranties they are purchasing-both now and in the future. Customers can accept the components they want, eliminate the parts they do not want or need, and replace parts with the best point solutions per component. With an itemized proposal, customers will know exactly what they are buying now and what they will be buying three to five years from now for maintenance and upgrades. This information allows the customer to make a realistic and accurate price comparison regarding each component in the total technology solution.
- **Know the true cost of your purchase.** Armed with detailed information regarding every aspect of a total technology offering, the customer is in a prime position to achieve significant cost savings. By breaking the bundle, customers can eliminate unnecessary software, services, or management fees, which may already be addressed by their current technology infrastructure or is just not needed. With detailed information about their purchase, customers can achieve greater peace of mind and greater confidence in their purchasing decision. They even the playing field with the technology vendor and open the door to competitive offerings, which ensures that they receive the most appropriate technology offering at the best price. An accurate assessment of each vendor's offering, especially as the offering relates to cost, can only be achieved with an itemized proposal.

Key Strategies to Break the Bundle

A variety of proven strategies have helped customers break the bundle and force technology vendors to provide itemized solution proposals. These include better communication with technology vendors, making internal decisions regarding technology dependence, and instituting various tactics to achieve an itemized solutions proposal. All of these strategies help the customer acquire the best overall technology solution for their business needs at the best price.

- **The perils of single-source technology.** The first step is for the customer to tell the vendor that they are looking at multiple options and that they have more than one source. Next, the customer needs to decide if they want to build their entire business process around one technology or vendor offering, which often is the unintentional result of purchasing a bundled solution. While it can appear to be advantageous to work entirely with one vendor, the customer needs to be certain that they will want to continue to use that same vendor for the next five years. The major disadvantage with using all products and services from one vendor is that the customer is literally "locked in" to that system for a significant period of time, regardless of the customer's changing needs or the advances technology will achieve in three to five years. Plus, the customer loses all competitive advantage when the seller knows that their client has to purchase from them over an established period of time.
- **Compare component pricing.** The quickest way for customers to determine if they are actually paying for software within the hardware bundle is to conduct a cost comparison of discreet components based on standardized (or published) pricing. For a storage area network solution, the customer can take the total price of the hardware and divide that price by the amount of disk space they are purchasing to determine what they are paying per gigabyte for storage. Standardized disk space prices can be found in various industry reports (such as Gartner's Disk Storage Price Forecast, Jan 2005), which allows the customer to compare their per gigabyte price to a standardized cost. If their price per gigabyte is substantially higher than the standard, then the customer knows that the hardware costs include fees for bundled software.
- **Open a PO for each component.** If the customer has to force the vendor to present an itemized proposal, that customer could open a purchase order (PO) for each software and hardware component within the total offering. Although this can be a cumbersome process for the buyer, the practice demands that the seller recognize revenue in specific, stated categories. In a bundled solution with one price for the total offering, the seller has the ability to "move around" revenue to take better advantage of quotas, promotions, and points, all of which are corporate incentives for the seller. By opening purchase orders for each component, the buyer makes the seller reveal the actual price of each component and recognize that revenue accordingly. The buyer would only have to go through this exercise once for the seller to know that an itemized solutions proposal is necessary for the sale.
- **Five lines of pricing.** Once a customer has succeeded in securing an itemized solutions proposal, they should look for five lines of pricing for hardware, software, services, maintenance, and warranties (including future upgrades and purchases). Buyers should look for line-item pricing for hardware because different products have different price points. Customers need to know these price points so they can accurately determine what their future hardware upgrades will cost. Any and all installed software should be spelled out and priced in its own subsection of the

proposal. The services section should include all information and pricing about professional services, installation, and education and training.

A fourth section should include all maintenance and warranty information for both the hardware and the software. Maintenance costs are typically 18 percent of software costs, so the customer needs to know actual prices to correctly calculate maintenance—both now and in the future. Much hardware typically comes with a three-year warranty, but customers should negotiate up front warranty coverage for years four and five, regardless of whether they plan to keep this system for that long. And finally, customers should have the seller include information about costs for future purchases on hardware, annual price declines for hardware, software upgrades, and discounting.

Conclusions

This report has shown that vendors' practice of selling bundled technology solutions creates a significant disadvantage to customer. Without an itemized solutions proposal, the customer lack critical information about each component of the total offer, which makes any type of price comparison or analysis a difficult, if not an impossible, task.

The report also outlined specific benefits to the customer when requesting an itemized solutions proposal, such as the ability to accurate access what they are purchasing both now and in the future, fostering competition among technology vendors, and achieving the best possible price for the total technology offer.

And finally, the "Break the Bundle" Business Strategy Report offered specific ways to force technology vendors to provide itemized pricing, including suggestions about what content that should be included in every itemized solutions proposal.