

**Department of Education
Office of Student Financial Assistance**

Financial Management System

Software License Pricing Analysis

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Distribution Limited To:

Jim Lynch
Linda Paulsen
Maureen Harris
Marguerite Roland
Carol Seifert



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1. Introduction

Objective

The purpose of this document is to analyze and recommend Financial Management Commercial Off The Shelf (COTS) software pricing and deployment options required to support Phase II of the Financial Management System (FMS) project. This includes a summary and comparison of the cost estimates for the required Oracle software. This document includes the approach used for the analysis, required software and number of users, and a brief analysis of the quotes. An overall recommendation for the FMS project based on these quotes is also provided.

This document is not intended to represent a recommendation for licensing software for the entire SFA organization. No analysis was conducted to determine other users of Oracle software outside of the FMS project. We recommend this analysis, which has been focused specifically on Phase II of the FMS project, be expanded to address the enterprise-wide SFA requirements. If additional requirements exist for these or other Oracle products, the optimal licensing strategy for the enterprise may differ from this recommendation.

Approach

The following section describes the approach that was used for this analysis.

Requirements

This analysis is based on the Phase II FMS requirements that have been documented through March 31, 2000. These requirements include the specific application and database software to be used as well as the number of users for the software and are shown in Table 1, "Recommended Software Configuration" on page 8. The complete requirements are defined in the FMS Technical Architecture document dated March 14, 2000.

This approach is based on Andersen Consulting's experience and knowledge capital developed through extensive exposure to other clients conducting software and pricing evaluations as well as contract negotiations. This analysis was conducted after reviewing the requirements gathered in accordance with Andersen Consulting's Business Integration Methodology (BIM) and includes all currently available licensing options.

SFA Licensing Options

This licensing analysis was intended to evaluate the following three options SFA has for licensing the required FMS software:

Option A - SFA can license the software using Andersen Consulting's Business Integration Provider (BIP) line of business.

Option B - SFA can license the software directly from Oracle Corporation.



Option C - SFA can license the software directly from KPMG or use Andersen Consulting to license the software from KPMG. As of April 7, 2000, KPMG has indicated that at this time they do not have any inventory of Oracle licenses to resell. Therefore no quote is included from KPMG. KPMG may be available to acquire licenses for resale later or assist in brokering the purchase of licenses.

Quotes

Quotes were requested from the Oracle Corporation, Andersen Consulting's BIP organization and KPMG based on the recommended software section of the Technical Architecture document dated March 14, 2000. The recommended software configuration included in the March 14, 2000 Technical Architecture document is shown in Table 1, Recommended Software Configuration, on page 9.

Analysis

A simple comparison was done to compare the quotes across vendors. Significant factors affecting the quote have been footnoted.

Recommendation

Based on price alone, the Andersen Consulting BIP quote is significantly more attractive. However, this analysis has been focused on FMS Phase II without regard to existing licensing agreements in place or other requirements that may exist in the long-term for FMS, SFA or the Department of Education. Given that, we recommend the following:

- a) Expand this analysis to include the 'end-state' requirements for FMS.
- b) Expand this analysis to include all requirements throughout SFA and ED.
- c) Evaluate the pricing and terms and conditions of the all existing licensing contracts between ED and Oracle. There may be terms in the existing contract(s) that could limit the value of making a purchase based on a new contract. Specifically, if SFA has existing licenses under contract directly from Oracle and SFA would like to upgrade those licenses via a new contract from Andersen or any other provider, the original Oracle may affect this option.
- d) Determine all available licensing options based on the enterprise-wide requirements and initiate licensing negotiations.
- e) If the above recommendations can not be completed in a timely fashion and in order to keep the FMS project on track, this purchase should be made based on the Andersen Consulting BIP quote. Additional requirements and other information obtained from completing the recommended activities described in paragraphs a-d above can still be addressed in follow-on negotiations and through contract modifications.



2. Project Overview

Description

The primary objective of the SFA Financial Management System (FMS) is to support an integrated SFA FMS by providing cost accounting and full subsidiary ledger information to meet SFA accounting requirements. The SFA FMS will support SFA in achieving its three main objectives described below:

- ❑ **Improve Customer Satisfaction** - by making the process of applying for financial aid dramatically faster, easier, and more understandable for Customers and Partners as well as more accountable to taxpayers by providing a single source of current, on-line, accurate data and providing access to cross-program data.
- ❑ **Reduce Unit Cost** - by using information technology to provide easy access to cost accounting data, performance-based information, and analytical tools that assist in strategic decision-making and that enable SFA employees to identify and pursue potential cost savings.
- ❑ **Increase Employee Satisfaction** - by providing timely information retrieval and reporting to meet business needs which enables employees to make accurate decisions with complete and timely information.

The SFA FMS project is being implemented using a Phased approach. Each Phase will establish additional incremental benefit, will be built on prior phase success, and will move SFA closer to its shared FMS vision. The four Phases of the project are as follows:

Phase I

The initial task of the SFA FMS Integrated Product Team (IPT) was to review existing information from the Modernization Blueprint and develop a Concept of Operations. This Concept was then validated for consistency with Joint Financial Management Improvement Program (JFMIP) and Performance Based Organization (PBO) guidelines.

Phase I of the SFA FMS included validating the Concept of Operations, as well as preparing the SFA FMS design and implementation plan. Phase I ended on March 31, 2000.

Phase II

Phase II is defined as the implementation of the following three SFA FMS “pilots:”

- ❑ Federal Family Education Loan Program (FFELP) Guaranty Agency (GA) Payments,
- ❑ Leveraging Educational Assistance Partnership Programs (LEAPP), and
- ❑ SFA Operations - Fixed Assets.



Phase II began April 1, 2000 and will end September 30, 2000. Phase II implementation is October 1, 2000.

Phase III

Phase III will provide a fully operational SFA FMS which includes all Phase III required functionality and supports the five Loan Programs and SFA Operations activities. In order to create a fully operational SFA FMS within the given timeframe, the existing legacy systems that are not currently being (or planned to be) reengineered will be interfaced into SFA FMS. Those current systems that are being (or planned to be) reengineered will be designed to directly integrate into SFA FMS.

SFA FMS Phase III is scheduled to begin in the summer of 2000 and end on September 30, 2001. Phase III implementation is October 1, 2001.

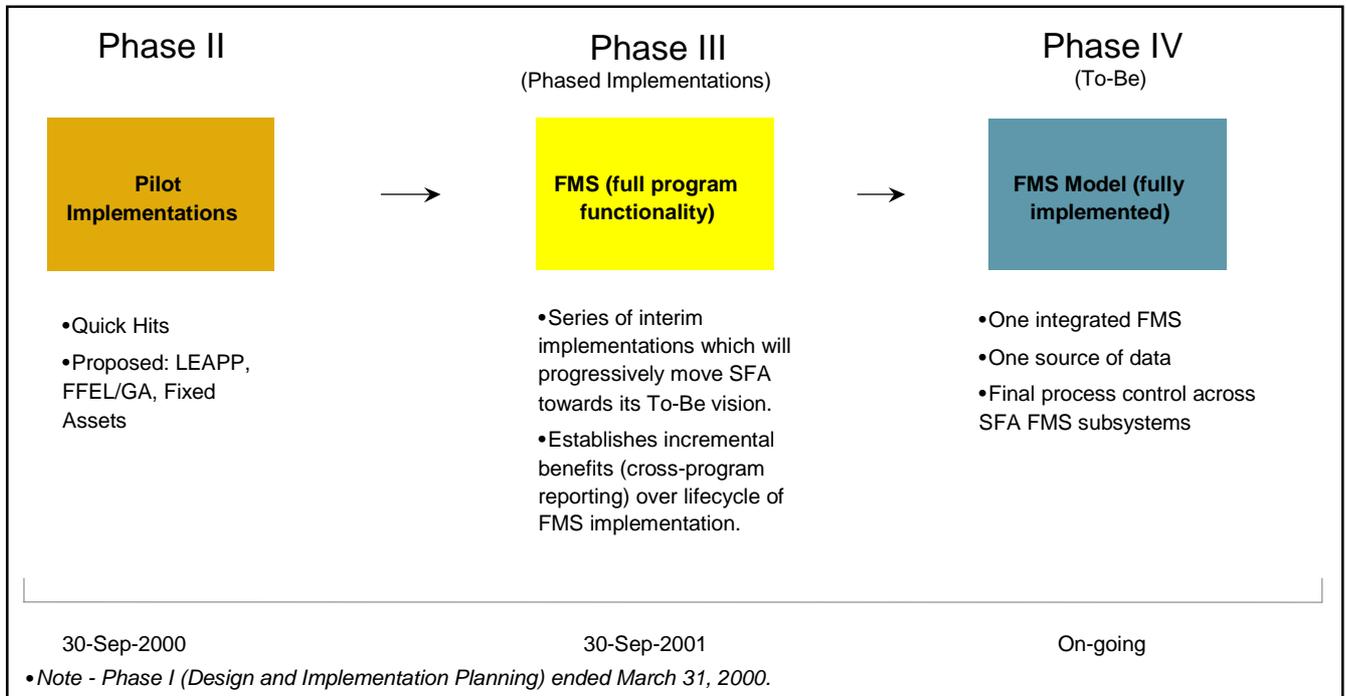
Phase IV

Phase IV encompasses an integrated SFA FMS that incorporates information and processes from SFA Operations and all SFA reengineered Program subsystems which will have replaced the legacy systems of Origination and Disbursement, Servicing, and Collections. In this phase, SFA FMS will include all major functions supporting both Programs and SFA Operations activities. Phase IV is scheduled to begin June 4, 2001. The end date for Phase IV is currently undefined because it is heavily dependent on other Integrated Product Team (IPT) initiatives which are in progress.



Timeline

The following chart depicts the remaining phases and timeline for the FMS project.





3. Assumptions

The following assumptions apply to this licensing analysis:

- ❑ The required software and the number of licenses is based on Phase II requirements as stated in the Technical Architecture document dated March 14, 2000.
- ❑ If requirements change or if a significant number of additional Department of Education users are identified, other licensing options may become more attractive.
- ❑ Terms and conditions of existing contracts between SFA and Oracle have not been considered. Existing contracts were not included as part of this review.



4. Licensing Considerations

The following section contains recommendations for SFA to consider if SFA moves forward with contract negotiations to license Oracle software directly from Oracle.

Vendor Quarter/Year-End

Oracle Corporation's fiscal quarters end in February, May, August and November and Oracle's fiscal year end is in May. Oracle will likely have a great deal of incentive to agree to aggressive SFA terms prior to their quarter-end/year-end. SFA should consider timing the final negotiations to coincide with the vendor's quarter-end/year-end for leverage if possible.

Vendor's Desire for a Large Account

Oracle likely has a strong desire to license their products to a customer the size of the Department of Education and SFA. Given the Department of Education and SFA's name recognition and the impact it may have on Oracle's customer list, Oracle may have a strong incentive to agree to aggressive SFA terms. Allowing Oracle to publicly list SFA as a client reference may be considerable leverage for SFA.

Vendor Sales Representative's Authority Level

The more aggressive the terms desired by SFA, the more necessary it is to negotiate directly with senior vendor decision-makers. The level of sales representatives and managers often involved in the negotiations typically do not have the authority to agree to substantial discounts and other aggressive terms. Reaching an agreement on aggressive terms under these conditions can often only be done with the involvement of very senior-level decision-makers. For the most aggressive terms on large deals, it is not uncommon that the final agreement would need to be negotiated directly with Oracle's President and Chief Operating Officer, Ray Lane. This is common practice for large corporate deals. However, this would only occur after reaching the highest possible level of commitment from the current vendor negotiators, including their managers, and resolving all but a few remaining issues. At that point, the vendor may bring a senior executive into the negotiation to resolve the final issues, which may include additional discounts on license fees, maintenance fees, and last minute "add-ins" (i.e. additional software modules, training credits, enhanced levels of support) to close the deal. If SFA considers this option, the SFA negotiator would of course have to have funding available and the authority to make verbal commitments on behalf of SFA that could be drafted into a contract.

Additional Software Licenses

SFA should consider negotiating agreement on prices for all software modules available, even if there is no immediate intent to purchase them, if there is a reasonable possibility SFA may want to purchase additional modules in the future. Specifically, there is currently no SFA requirement to buy Oracle Discoverer, Financial Analyzer or the Data Warehouse module. However, these products may be considered and may become a requirement in the



future. The price to be paid for these products could be negotiated as part of this negotiation and future purchases could be made when needed without additional negotiation. This may help achieve additional volume discounts. If many user licenses are being purchased, a graduated or tiered pricing structure could be used so that the license fee per user declines as predetermined quantities of licenses are purchased.

User-Based Licensing Versus Enterprise Licensing

Depending on the type of product being licensed (i.e. application software or database software) and number of users anticipated, it may be more beneficial to negotiate an enterprise license agreement that allows an unlimited number of users. This is also easier to administrate since there are no requirements for tracking the number of licenses in use. Given the current requirement on the number of users for Oracle Financials is a relatively low 150, a user-based licensing structure is recommended. However, depending on pricing and if this analysis is expanded to the entire SFA enterprise which may require additional products, an enterprise agreement may be more beneficial. If SFA enterprise-wide requirements are currently unclear, SFA could negotiate a user-based license to support SFA now and renegotiate an enterprise agreement to incorporate additional requirements later.

Timing of License Purchases

User licenses should typically not be purchased until they are needed. Only 50 licenses required for the project team immediately should be purchased for the development, test and installation phases. Once the application is ready to be implemented, additional 100 licenses should be purchased (at previously agreed-upon prices without additional negotiation) for users to access the application. This eliminates paying both licenses fees and maintenance fees for licenses that are not being used. For a relatively short project duration such as FMS Phase II (i.e. 6 months), this is not too significant. However, for longer timeframes with large purchases this becomes more costly.

Server Restrictions

Most contracts require the licensee (SFA or Department of Education) to specify the specific server(s) that will be used to run the software by serial number, type, size and location. In many cases, the size of the server is used to set the price of the license fee, and more importantly, the software may only be licensed for that specific server. In this case, the licensee may be required to get approval from the vendor to move the software to another server (including upgrading to a faster server) and may require paying a fee to do so. The license agreement should allow the licensee to change servers, as well as the location of the server, as needed without approval or additional fees. SFA should ensure the contract does not prohibit this flexibility.

Software Maintenance Levels and Fees

For the Oracle Financials application software, Gold level maintenance (i.e. 24 hour, 7 days per week) is not required while the application is in development. Gold level maintenance is typically only required for mission critical applications in production and often for the first year only. Software maintenance for all licenses used during development should be Silver level support. This is due to the fact that the development team has extensive product expertise and will only require the minimum amount of Oracle support.



It is possible to cancel maintenance support completely but this is not recommended because once the application is put into production, maintenance support will be required. Gold support may be required during the first year of production. However, depending on the skill-level of the technical staff supporting the production application, Silver support should suffice. The decision on which level of production support to purchase does not need to be made until the application is ready for production; however, all costs and other terms and conditions regarding support should be negotiated at the time the software is licensed.

If the decision is made to cancel software maintenance during development and then reinstate maintenance prior to production, vendors typically charge a fee for “back maintenance” to re-activate maintenance. The fee is typically calculated based on what it would have cost to maintain the software maintenance through the cancelled period. The specific terms of each level of maintenance as well as costs should be thoroughly understood before the decision to cancel maintenance is made.

Software Maintenance Payments

In many agreements, particularly for large purchases, software maintenance fees do not begin until Year 2. Software maintenance is often not charged (i.e. “free of charge”) during Year 1, starting from the initial license date. It can be argued that maintenance fees are included in the license fee or that maintenance is provided “free” in Year 1. Regardless, if the exact license and maintenance fees per user are determined for the life of the contract, these costs can be evaluated, agreed to, and managed. SFA should attempt to negotiate that maintenance fees do not begin until Year 2.

Determining Software Maintenance Fees

Vendors typically quote software maintenance fees to be 20% to 25% of the list price of the license fees and Gold level support is sometimes often higher than this amount. SFA should attempt to negotiate significantly lower percentage costs, particularly for larger contracts. Different percentages are used for different levels of support and all vary by product. Given the maintenance cost is usually a percentage of list price, which typically increases each year, the software maintenance costs also increase each year. Software maintenance fees quickly become a significant portion of an IT budget when agreements are based on a percentage of list price.

SFA should negotiate to have maintenance fees based on a percentage of the purchase price, not list price. Purchase price does not change, unless tiered pricing (i.e. buying blocks of licenses at pre-determined prices which decrease as the number of licenses increase) is used, and maintenance expenses can be accurately projected, budgeted, and managed.

Regardless of whether the maintenance fees are tied to purchase price or list price, annual maintenance fee growth rates should be capped to ensure the cost does not increase dramatically over time. Annual maintenance fee growth rates for aggressive agreements should be capped based on an agreed-upon percentage (i.e. 3% - 10%) or possibly the Consumer Price Index. SFA should place considerable emphasis on negotiating these software maintenance caps because the savings, particularly for large purchases over time, are significant.



Concurrent Software Maintenance Renewal Dates

If additional licenses are purchased during the life of the contract, the annual software maintenance due date for those licenses will be set at one year from the purchase date for those licenses. Multiple license purchases will lead to multiple software maintenance payment due dates and difficulty administering the contract. When additional license purchases are made, the annual software maintenance fees should be pro-rated in order to have annual software maintenance due for all licenses at the same time, requiring only one maintenance payment per year and simplifying contract administration.



5. Quote Analysis

Requirements

The following table shows the products and number of users required for FMS Phase II. The pricing quote was based on these requirements.

Component	Version Information ¹	Installation Tier	Number of Users
Operating System	HP-UX Version 11.0 64-bit	Data and Application Server	150
Compilers for HP-UX	C/C++	Data Server	1 (Svr)
Oracle Applications <ul style="list-style-type: none"> • Oracle General Ledger • Oracle Payables • Oracle Receivables • Oracle Purchasing • Oracle Assets 	Release 11.0.3	Application Server	150 (75 power users; 75 casual)
Oracle Public Sector Applications <ul style="list-style-type: none"> • Oracle Public Sector General Ledger • Oracle Public Sector Payables • Oracle Public Sector Receivables • Oracle Public Sector Purchasing 	Version 3.3 for Release 11.0.3 of Oracle Applications	Application Server	150
Oracle U.S. Federal Financials <ul style="list-style-type: none"> • Oracle U.S. Federal General Ledger • Oracle U.S. Federal Payables • Oracle U.S. Federal Receivables • Oracle U.S. Federal Purchasing 	Version 3.3 for Release 11.0.3 of Oracle Applications	Application Server	150
Oracle RDBMS (Database)	Version 8.0.5	Data Server	25
Oracle Developer 2000 <ul style="list-style-type: none"> • Oracle Forms • Oracle Reports 	Version 1.6.1 Version 4.5.10 Version 2.5.7	Client	25
Oracle Application Server	Version 3.0.2	Application Server	5
Java-Enabled Browser²	Depends on Browser	Client	150

Table 1. Recommended Software Configuration

¹ These version numbers represent the software versions that are available and compatible at March 8, 2000. It is possible that by the time of installation and implementation newer compatible versions may be available.

² Either Microsoft Internet Explorer or Netscape can be used.



Analysis

The following table summarizes the quotes for licensing the software required to support the FMS Phase II. Prices for license fees and support are shown by product category for ease of comparison. Associated footnotes (a-g) are on the following page.

Product Category	Qty	Product	AC BIP Quote	Oracle Quote
Oracle RDBMS	25	Oracle 8i Enterprise Ed. (a)	\$ 12,721.88	0.00
		25 1 Year Silver Support	\$ 2,798.81	0.00
	150	WorKflow Enterprise Ed.	\$ 7,633.13	6,840.00
	150	1 Year Silver Support	\$ 1,679.29	1,732.50
		License Fees	\$ 20,355.00	\$6,840.00
		Support Fees	\$ 4,478.10	\$1,732.50
Oracle Developer 2000 (b)	25	Forms Server	\$ 1,611.44	65,538.00
	25	1 Year Silver Support	\$ 354.86	14,418.25
	25	Reports Server	\$ 1,611.44	43,663.00
	25	1 Year Silver Support	\$ 354.86	9,605.75
		License Fees	\$ 3,222.88	\$109,201.00
		Support Fees	\$ 709.71	\$24,024.00
Application Servers	25	Application Server	\$ 1,696.25	1,750.00
	25	1 Year Silver Support	\$ 373.18	385.00
		License Fees	\$ 1,696.25	\$1,750.00
		Support Fees	\$ 373.18	\$385.00
Development, Query and Reporting Tools:	25	Pre-Compilers (Programmer) (c)	\$ 21,118.31	21,788.00
	25	1 Year Silver Support	\$ 4,646.37	4,793.25
	25	Discoverer User Edition (d)	\$ 16,877.69	17,413.00
	25	1 Year Silver Support	\$ 3,713.43	3,830.75
		License Fees	\$ 37,996.00	\$39,201.00
		Support Fees	\$ 8,359.80	\$8,624.00
Financial Applications:	75	US Federal Financials (e)	\$ 203,295.56	183,525.00
	75	1 Year Silver Support	\$ 44,725.36	33,975.00
Public Sector Applications:	75	Public Sector Applications Read Only User of Above	\$ 76,076.81	78,525.00
	75	1 Year Silver Support	\$ 16,737.24	14,325.00
		License Fees	\$ 279,372.38	\$262,050.00
		Support Fees	\$ 61,462.60	\$48,300.00
	Total License Fees	\$ 342,642.51	\$419,042.00	
	Total Support Fees	\$ 75,383.39	\$83,065.50	
	Grand Total (f) (g)	\$ 418,025.90	\$ 502,107.50	



Footnotes for the above quotes:

- a) The Oracle database license quote is from Oracle is \$0 because the Dept. of Education already has database licenses under an existing quote.
- b) The Developer 2000 product consists of Reports Server and Forms Server. The GSA bundles these products at one cost.
- c) Programmer is a pre-compiler product. If the C/C++ programs will make Structured Query Language (SQL) to the database then this product is needed.
- d) It is likely although not certain that Oracle Discoverer will be used in Phase II.
- e) U.S. Federal Financials consist of Assets, Cash Management, General Ledger, Payables, Receivables, Accounting and U.S. Purchasing.
- f) This responds to the request of 75 casual users with the Oracle Applications. The AC BIP quote expires on July 3, 2000.
- g) The Oracle quote is based on the current request and existing contracts.

Recommendation

Based on price alone, the Andersen BIP quote is significantly more attractive. However, as mentioned earlier, this analysis has been focused on FMS Phase II without regard to existing licensing agreements in place or other requirements that may exist in the long-term for FMS, SFA or the Department of Education. Given that and based on the above information, we recommend the following:

- a) Expand this analysis to include the 'end-state' requirements for FMS.
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- d) Determine all available licensing options based on the enterprise-wide requirements and initiate a licensing negotiations.
- e) If the above recommendations can not be completed in a timely fashion and in order to keep the FMS project on track, this purchase should be made based on the Andersen Consulting BIP quote. Additional requirements and other information obtained from completing the recommended activities described in paragraphs a-d above can still be addressed in follow-on negotiations and through contract modifications.