UPS Promotes Barnes to CIO

United Parcel Service Inc. named David A. Barnes CIO and senior vice president, replacing the retiring Ken Lacy. Barnes, a 28-year UPS veteran, was previously vice president of customer and operations application portfolios in UPS's information services department. In his new role, Barnes joins the UPS management committee.

AMD Plans to Host Developer Show

Advanced Micro Devices Inc. plans to host its own developer conference this year, after years of holding meetings with analysts and the media at rival Intel Corp.'s conferences. A source said the conference will be held in the second quarter, right around the time that Microsoft Corp. is expected to release a production version of 64-bit Windows.

Spyware Bill Gets Second Chance

Congress will vote again this year on amended antispyware legislation that would call for fines of up to $3 million for makers of software that can steal personal information from a computer or hijack its browser. A similar bill was passed by the House last year but rejected by the Senate. The new bill addresses the objections of vendors that complained that the original bill could make their services subject to fines.

IBM Tools Aid in Federal Compliance

IBM this month will roll out its Solution for Compliance in a Regulated Environment, or Score, a middleware suite including document- and data-management software plus application integration, business process management and collaboration tools. The system is intended to help companies comply with the Sarbanes-Oxley Act and other federal regulations. Pricing hasn't been set.

IT Execs Divided on Software Cost Trend

But most expect continued hikes in application maintenance, support fees

BY THOMAS HOFFMAN

FOR THREE YEARS, enterprise customers have had the upper hand in business application price negotiations.

From 2001 to 2003, IT spending cutbacks let customers negotiate as much as 50% discounts off the list prices for software. Continued weakness last year forced vendors to boost those discounts to the 65% to 70% range, said Gartner Inc. analyst Jane Disbrow. Maintenance fees grew during the downturn, she said.

Looking out into 2005, IT managers and industry analysts said it isn't clear how software pricing will go, though some noted that a variety of market factors could slow the discounting trend and in some cases even lead to increased prices. At the same time, most IT managers interviewed last week said they expect maintenance and support costs to keep growing as they continue searching for software cost certainty.

Validating Price Hikes

John Schille, CIO at American Fidelity Assurance Co. in Oklahoma City, said he expects a "moderate" increase in application costs. He said vendors may justify cost increases by improving base functionality.

Vendors will have to validate the need for any price hike, said Dan Demeter, senior vice president and CIO at Korn/Ferry International, an executive recruitment firm in Los Angeles. "I think vendors are going to be careful about raising prices in a noticeable way," he said.

Since 2001, application vendors have generally raised maintenance and support fees from 14% to 15% of annual licensing fees to 18% to 20%, said Disbrow. In recent months, though, vendors have shown a willingness to negotiate lower maintenance costs by charging a percentage of the discounted price rather than the list price, especially for customers buying new licenses, she said.

At Microsoft Corp., though, maintenance discounting isn't a common practice, said Sunny Jensen Charlebois, product manager in the worldwide licensing and pricing group at the company. "If we discount, we undermine the value of the software," Charlebois said.

Barry Cohen, vice president of applications management at Wells Real Estate Funds Inc. in Duluth, Ga., said such deals are unavailable to companies that aren't buying new applications. His software vendors typically tack on 4% increases in annual licensing fees, which lead to increases in maintenance costs. "The biggest pain point I see is on the maintenance," Cohen said. Vendors are "very aggressive on the initial pricing" but not on maintenance.
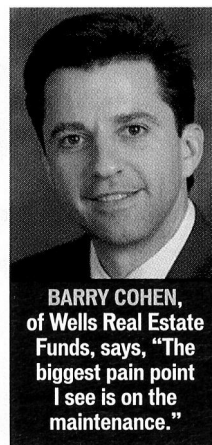
For its part, Ameritrade Holding Corp. is forced to pay "hefty" sums for maintenance of mission-critical applications but is less willing to do so for noncritical systems, said Jerry Bartlett, Columbia, Md.-based vice president of application development at the online stock brokerage. Bartlett also looks for new payment options from vendors. "Not everyone is going to be willing to pay for gold- or platinum-level support," he said.

BARRY COHEN, of Wells Real Estate Funds, says, "The biggest pain point I see is on the maintenance."

Meanwhile, Meta Group Inc. predicts that application software costs will fall over the next three to five years as a result of increased adoption of low-cost operating platforms such as Linux and a trend among enterprise customers to leverage Web services and service-oriented architectures to build applications and functionality on top of existing business applications, said analyst Dale Kutnick.

Whether application costs rise or fall, enterprise customers share a common goal: they want their software costs to be predictable, said Frank Enfanto, vice president of operations delivery at Blue Cross and Blue Shield of Massachusetts Inc. in Boston.
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Gartner/Meta Deal Subtracts Opinion

IT EXECUTIVES and industry experts expressed concern that another independent voice has departed the IT scene in the wake of Gartner Inc.'s agreement to buy rival Meta Group Inc. for $162 million late last month.

In interviews last week, officials said the joining of the Stamford, Conn.-based firms not only signals the continuing consolidation of the IT market research industry but also reduces the number of opinions available for IT managers to seek out when plotting their technology strategies.

"It's always good to have a couple of strong companies with opposing views," said Frank Enfanto, vice president of operations delivery at Blue Cross and Blue Shield of Massachusetts, which subscribed to services from both companies.

"It just means we have fewer and fewer sources – just like in the software industry," said Dan Demeter, senior vice president and CIO at executive recruitment firm Korn/Ferry International.

Frank Koelsch, executive vice president at Info-Tech Research Group Inc., an IT research firm in London, Ontario, that caters to midsize businesses, is sour on the deal.

"This consolidation is bad for clients in that one of the major competitors is no longer available as a matter of choice," said Koelsch, who ran Gartner's Canadian operations from 1984 to 1997.

"It's no different than having a meeting within your organization and with people around the squawk box – you want divergent opinions," said Sam Whit- more, editor of Beverly, Mass.-based Sam Whitmore's Media Survey, which tracks technology, trade publications, and industry and IT market researchers. "You might not want wildly divergent opinions but degrees of difference."

Executives at Gartner and Meta, which expect to close the deal this spring, declined to be interviewed for this story.

Barry Cohen, vice president of applications management at Wells Real Estate Funds, said he wasn't too concerned about the continuing consolidation of the IT market research industry.

"There are so many articles, so many magazines that there are enough sources of information to get fair and balanced reporting on IT trends," Cohen said.

– Thomas Hoffman