

Tailored Fit Pricing

A sensible pricing model

Tailored Fit Pricing

Introducing Tailored Fit Pricing

Digital transformation has been a disruptive force across industries. Enterprise need to be agile and responsive and deliver new services while managing huge fluctuations in demand. Many of the core business services run on IBM Z® while others access data and transactions on the Z platform. The result of this is unpredictability in IBM Z resource demand and utilization patterns which can have a direct impact on IT costs.

IBM Z platform users have been used to managing their costs by capping machine usage. They have been traditionally achieving this by

- Executing batch workloads during off-shift hours,
- Reducing machine resources access to development and test,
- Not introducing new workloads or applications onto the platform even when it was the most logical technology for such workloads,
- Investing in tools and resources to manage sub-capacity capping,

These approaches while effective in predictable workload management have created a mindset that stifles innovation and limits the ability for businesses to leverage the full value of Z technology, especially now as they adapt for digital transformation and the journey to cloud.

IBM introduced Tailored Fit Pricing as a simpler pricing model to allow Z clients to better leverage their existing platform investments as their business requires, and in a more cost competitive way.

IBM's Tailored Fit Pricing model can address key concerns:

- Complexity of Sub-capacity pricing model leading to Z being managed as a cost center
- Difficulty in establishing cost of new workload deployment and the impact on cost of existing workloads
- Investment in tools and resources to manage sub-capacity that can inflate costs
- Lack of development and test resources

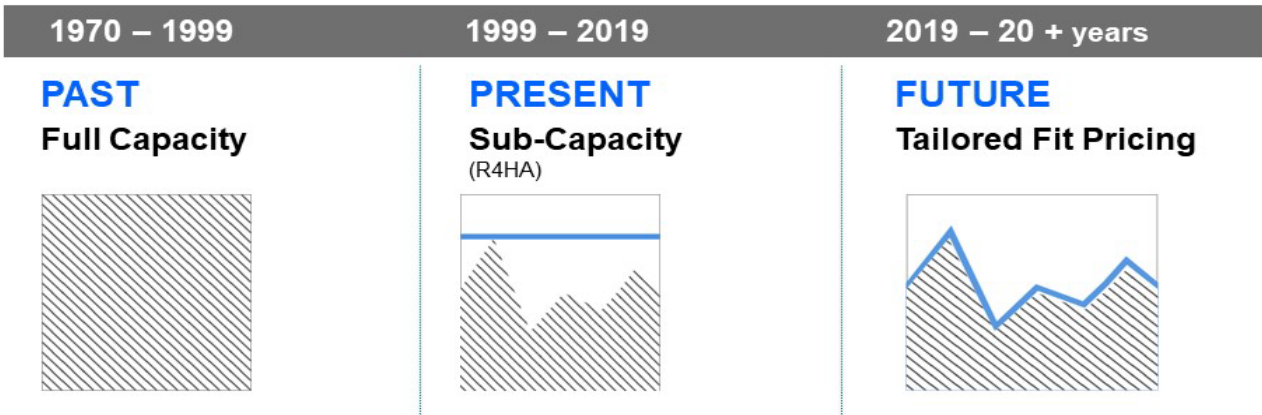
With simplicity as the core principle, this pricing model provides clients with an opportunity to more fully leverage Z capabilities and increase business value.

Why change was necessary?

Based on client requirements, IBM pricing models for Z have evolved over the years. From 1970 to 1999, a Full Capacity model was offered to provide clients the capability to leverage computing power of the entire infrastructure. As the Z hardware evolved, it offered better performance capabilities with each newer model, enabling clients to do more with less MSU consumption. This led to the Sub-Capacity Pricing model which allowed clients to manage their software cost based on the Rolling 4 Hour Average (R4HA) peak utilization.

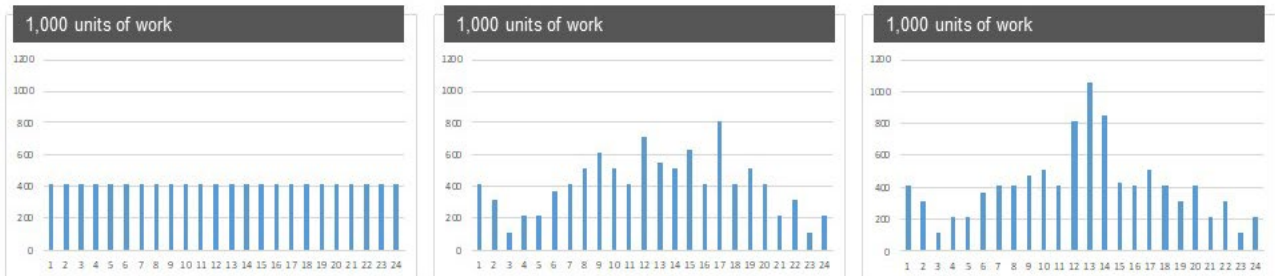
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This sub-capacity pricing metric was modelled in the late 1990's and assumed a 80% utilization of Z hardware and helped align software licensing to less than full capacity. Both of these models served their intended purpose based on client needs during their respective time frames. However, the world of IT is dramatically different now than in the late 1990s. For example, customer utilization is now typically much lower than 80%.



During mid-2010s, IBM noticed that clients were starting to experience increased challenges with sub-capacity planning irrespective of where they were in their digital transformation journey. Clients often fell into three broad categories:

- Those investing in the Z platform to solve new business requirements caused by an evolution of the API economy, DevOps practices and more as part of their transformation. These clients believed in Z platform; however, they did run into challenges of meeting their SLAs while maintaining sub-capacity limitations.
- Those that recognized the Z platform to be the right choice for building a hybrid cloud architecture around but were not able to move forward due to concerns over the impact on billing that new and unpredictable resource demands would bring.
- Those that are not growing or growing just organically, but with an increasingly spikey workload profile (see below) producing a disproportionate impact on billing through the R4HA.



Same amount of work ...

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Additionally, these categories of clients were often affected by seasonal and business/economic events, which drove even more unpredictability in the usage patterns. As such, IBM felt a whole new cloud-like pricing approach was required and it was clear that any new pricing model would not include the sub-capacity (R4HA) metric and simplify quantification of all workload value in terms of system resource consumption.

IBM originally introduced DevTest Solution and New Application Solution in 2017 and this further evolved when in May 2019, IBM announced two significant additional solutions, Enterprise Consumption and Enterprise Capacity Solution, and all these options were gathered into a new family of Z Software pricing called **Tailored Fit Pricing (TFP)**. This paper will focus on the Enterprise Consumption Solution.

Enterprise Consumption Model

In order to meet the demands of modern workloads and to provide a commercial confidence to match the technology confidence, it's been no surprise that the Consumption Solution has been extremely well received and adopted.

We've seen three recurring reasons why clients typically transition onto TFP Consumption:

- a) It's a software pricing model better suited to today's workloads profiles, typically, where they are increasingly spikier. Also, it's a pricing model better suited to future uses, as an example, inclusion in hybrid cloud architectures.
- b) A client on TFP Consumption is able to confidently remove all forms of capping and expose all their workloads to all of the hardware infrastructure they own.
- c) Any form of growth (from a new workload to a 30-year-old COBOL application being used more often) qualifies for a much-improved Price per MSU.

One key concept in the Enterprise Consumption Model is client baseline. The IBM team works with the client to review it's previous 12 months' MSU consumption and billing, determine effective price per MSU and also establish variable price for all growth and discounted rate.

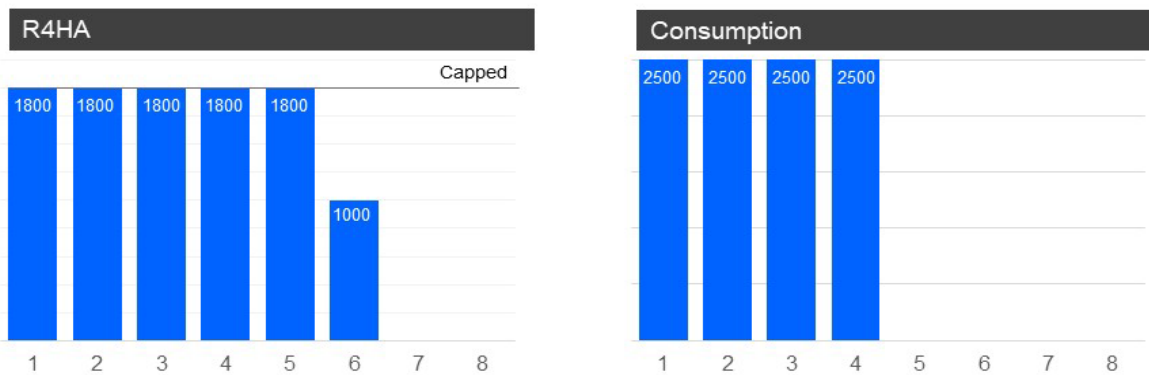
Example Consumption Charges:

Previous 12 months' MLC costs:	\$12,000,000
Previous 12 months' MSU consumption:	12,000,000 MSUs
Effective price per MSU:	\$1 per MSU
Variable price for all growth:	50c per MSU

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With the Enterprise Consumption model, there is no concept of peaks or white space that previously were integral to the sub-capacity-based model. This means that clients are free to remove capping and can utilize all of the owned capacity without worry of penalties for peaking or spiking. While a client does commit to an MSU baseline, should the MSUs for a particular year not get fully utilized, they are free to carry any MSUs unused over for use in the following year. TFP consumption encourages and rewards growth meaning that MSUs processed above the baseline are charged at a very aggressive growth price per MSU.

All workload processing can benefit by running with no capping and having all owned infrastructure available. Batch processing can also take advantage and reduce batch windows dramatically. Without capping in place, clients can expect jobs to finish faster yet at the same cost, and online processing can process more transactions simultaneously hence improving response times. This is simply a function of the new billing approach based on the amount of work done, rather than peaks reached.



To provide improved economics for growth, TFP Consumption clients will pay preferential pricing on the MSUs consumed above their baseline, irrespective of whether that growth came from existing or new workloads. There is no additional approval, qualification or processing required to take advantage of the growth pricing rate.

IPLA Software in Enterprise Consumption Model

IBM Z enterprise clients will often have One Time Charge (OTC) IBM products also running in the same environment as MLC products. With the Enterprise Consumption Model, IBM offers two choices for the handling of OTC software. A Full Capacity licensing model, and the option to utilize their existing OTC software entitlement in a consumption model, with the flexibility to use the consumption entitlement across a year, as business demands.

With coverage of both MLC and capacity based IPLA products, Enterprise Consumption Model offers a single and comprehensive software solution to IBM Z clients.

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Conclusion

Tailored Fit Pricing has been introduced to provide a more appropriate pricing model for the workload profiles of both today and tomorrow. Greatly improved pricing predictability and transparency as clients manage their existing workloads and introduce new ones on to the Z platform whilst they consider including IBM Z in future architectures such as hybrid cloud. The model enables clients to leverage all machine resources at their disposal as and when they need it without the limiting peak price factor. This will encourage IT departments to architect solutions based on technology and not cost analysis as they continue their Digital Transformation and Journey to Hybrid Cloud.

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