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Tailored Fit Pricing: (r) evolution of IBM software pricing – Part 1

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1. Introduction

For many years the z/OS software has been paid based on the size of the machine. This is still possible but, from 1999, most of the companies adopted the sub-capacity pricing. This evolution was, at that time, requested by most of the customers who wanted to pay for the CPU they used. The sub capacity pricing solution proposed by IBM was not exactly what customers expected. As you know it was based on the monthly peak of the CPU used, in MSU, calculated across a mobile average of 4- hours (4HRA). In addition, the products cost was determined by the CPU used by the LPAR where the product runs not by the CPU used by the product itself. This mechanism may easily produce uncontrolled cost increase due to anomalies or workload peaks, so IBM invented the defined and group capacity limit to allow customers controlling software costs through the soft capping function. The sub capacity pricing model has been successful for 20 years, but it has also been an obstacle to the introduction of new applications in the z/OS environment. To try to remove this obstacle, in the last years IBM introduced many additional and more favourable pricing options, such as container pricing for development/test environments and new applications[1]. However, the explosion of new applications, mostly generated by mobile devices, and of cloud computing made these efforts not enough. A revolution is needed to completely change the software pricing paradigm. On May 14th, IBM announced Tailored Fit Pricing (TFP). This new pricing model includes the following options:

- Enterprise Capacity solution
- Enterprise Consumption solution

Both options eliminate the need of measuring the 4-hour rolling average and the need of using the soft capping functions to manage the software costs. Both options will not reduce the customers current software costs. Consistent savings can be obtained in case of any type of workload growth, not only for new applications. This is clearly the IBM goal: making the z/OS environment a more attractive choice for all customers applications. Even if the adoption of TFP is not mandatory, we expect that, as it happened for sub capacity pricing, it will become the standard in the next years.

It's important to note that, at the moment, TFP can't be adopted by outsourcing providers. In this paper we will discuss the two TFP options trying to understand the benefits that customers can get and the capacity management issues they may need to address when adopting them.

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