

BlueCross BlueShield of Tennessee saves millions on mainframe software with IBM Portfolio Review Analysis.

Overview

■ **Challenge**

To reduce operational expenses to lower the rising cost of business transactions; maintain business flexibility without incurring excessive software re-licensing fees as business volume changes

■ **Solution**

A Portfolio Review and Analysis (PRA) conducted by the IBM Software Migration Project Office; IBM mainframe software solutions for IBM @server zSeries systems

■ **Key Benefits**

Reduced data processing costs by US\$14 million in 18 months—with anticipated savings of US\$25 million in four years



For healthcare insurers, the ability to process information quickly and put it into the hands of customers is essential in helping patients make quality healthcare choices.

Providing high-quality services while minimizing operational costs is a challenge BlueCross BlueShield of Tennessee (BCBST) is addressing head on. BCBST is the leading provider of healthcare financing in the state of Tennessee, delivering more than

“Without the Portfolio Review and Analysis from IBM, we wouldn’t have realized how much money we could save. Through the PRA and IBM mainframe software solutions, we’ve been able to cut our costs while delivering reliable services.”

—Bob Venable, manager of enterprise systems, BlueCross BlueShield of Tennessee

US\$5.6 billion in healthcare benefits to three million customers. Headquartered in Chattanooga, BCBST employs about 3,800 people and provides services for residents across all 95 counties of the state.

As BCBST transformed itself from insurer to information provider, the company experienced explosive growth in regard to the amount of data it had to manage. BCBST estimates it had to process more than 20 times as much data than it did just ten years earlier for the same number of customers.

Increased data volume and high licensing fees create a disadvantage

As the core of BCBST's information enterprise, the company's mainframe computer is vital to its success. However, as the volume of data rose, mainframe software costs skyrocketed and the company worried that increasing operational costs could put it at a disadvantage. Because mainframe-based software licensing contracts are set through negotiations and can vary, BCBST had no way to reconcile what the company was paying with what it could pay. Competitors with better vendor deals could lower their operational costs, which could adversely affect BCBST's business success. "One of the challenges is that you have no idea what is a reasonable price for mainframe software," explains Bob Venable, manager of enterprise systems, BCBST. "To gain competitive advantage, we have to understand what is possible in a negotiating stance."

With tremendous capital invested in building business processes on its mainframe system, BCBST needed to review what it was paying to each software vendor, compare that figure to what its peers were paying, and assess whether alternative software solutions would provide the same or better functionality at a lower cost.

Additionally, BCBST needed to re-evaluate how it licensed mainframe-based software. The company's existing contracts outlined specific monthly payments based on its processing requirements at the time the contract was set up, and included stiff fees for re-licensing the software when the volume of data grew. As a result, when business requirements changed and processing levels varied, the cost per transaction increased dramatically.

“If you look at the way business was two years ago versus today, it’s completely different,” says Venable. “We don’t know what the future will bring, but it shouldn’t matter how our business changes. We should only pay based on our usage.”

Evaluating costs objectively provides an advantage

To gain the upper hand in vendor negotiations, BCBST wanted to:

- *Understand the potential impact of processing growth on its future software budget*
- *Learn how the company’s current software expenditures ranked against its peers*
- *Review lower-cost software solutions*
- *Gain leverage for negotiating with potential vendors.*

To obtain the information required for its cost evaluation, BCBST called on the IBM Software Migration Project Office, nearly two years before its software contracts were due for renewal, to conduct a Portfolio Review and Analysis (PRA). A PRA offers predictive cost modeling for software running in IBM **@server**[®] zSeries[®] environments.

The PRA conducted by IBM showed BCBST what its costs would be for the next five years with the company’s installed software. Then, the analysis illustrated what the software costs would be if BCBST decided to migrate to competitive software solutions.

For each installed product under review, IBM provided BCBST with an alternative software solution that offered similar or better functionality at a lower cost. Information on each recommended product—such as product overviews, average migration and training costs, and software asset management tips and best practices—was outlined in a Product Detail Book. As a result, BCBST could evaluate products side by side. Without this data, Venable points out, his staff would have had to do the legwork, requiring considerable time and effort.

Because the evaluations are based on actual software costs, the IBM Software Migration Project Office provided a strict, comprehensive nondisclosure agreement that assured BCBST no one outside the PRA team, including other entities within IBM, could see what the company was paying—or even what software it uses.

“The IBM Software Migration Project Office gave us the trust to share sensitive data with the PRA team,” says Venable. “As a result, we could obtain exact figures of potential savings, while still keeping all the cards in our hand for future negotiations.”

Adapting to business change with variable pricing from IBM

Based on the information provided by the PRA, BCBST began negotiating with several vendors to explore options for migrating its existing mainframe software to more cost-effective solutions. The process wasn't easy, explains Venable: "We became frustrated with many of our mainframe vendors that refused to even participate with us in a re-evaluation of cost."

The company's existing contracts set forth a standard monthly payment and imposed a substantial fee when BCBST needed to increase capacity. One of the company's goals was to build a new contract that would provide sub-capacity pricing, so software fees would be based on actual usage.

Based on product evaluations and contract negotiations, BCBST decided to migrate its existing mainframe-based management software, including its decision support, workload scheduling, performance monitoring and database administration solutions to IBM DB2®, IBM Tivoli® and IBM WebSphere® software. According to Venable, IBM was the only vendor BCBST met with that was willing to support a variable pricing model.

"We had to fundamentally redefine the paradigm and only IBM would work with us to do so," says Venable. "IBM provided us with a flexible price for its software solutions so we could easily add or reduce volume from the mainframe. Now, as the business changes, our costs will change accordingly."

Strengthening availability and efficiency with IBM software

Reduced software licensing costs would benefit the company only if staff could maintain business continuity. BCBST was confident that IBM mainframe software solutions offered the industrial-strength capabilities required to deliver reliable, highly available business services. With embedded autonomic, self-managing features, IBM software solutions provide the predictive and self-healing capabilities to help BCBST improve mainframe environment performance and ensure continuous service availability.

"We need to spend our time solving business processes, not managing IT," says Venable. "IBM has been a leader among its peers in developing autonomic computing capabilities and delivering software that runs itself."

As part of the solution, IBM provided expert services and support to make the transition occur seamlessly. IBM staff members assigned to support the migration were trained in both IBM software solutions and the third-party installed solutions, and they were available 24 hours a day to help the company meet its tight migration schedule. As a result, BCBST could undertake this enormous transition with no disruption to its business.

IBM variable pricing and technology drive multimillion dollar savings

By following the recommendations of the IBM PRA and migrating several of its ISV products to a suite of IBM software solutions, BCBST estimates that it saved US\$14 million in mainframe software fees in just 18 months. In fact, during the transition, BCBST saved US\$12.5 million on one deal alone, thanks to a small-scale PRA performed by the IBM Software Migration Project Office. Within four years, the company expects its savings to rise to US\$25 million.

Venable stresses that some of the products the company replaced were foundational pieces of software that had been in place for almost 20 years. “We wouldn’t have been willing to make a change if it hadn’t been for the significant savings,” Venable explains. “Through the PRA and IBM mainframe software solutions, we’ve been able to cut our costs considerably while delivering reliable services. That is a huge business advantage.”

For more information

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