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Mayo IT Infrastructure Software Proposal - IBM SRO

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- Mayo Clinic is an integrated group practice of medicine

- Our mission is to provide the best care to every patient every day through integrated clinical practice, education and research

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Rochester, Minnesota

Scottsdale, Arizona

Jacksonville, Florida

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- Project Goals
  - More cost effective by reducing the rate of expense growth for Infrastructure Software
  - Standardize and integrate IT infrastructure software to increase service levels

- Replace a significant portion the existing infrastructure software portfolio with integrated IBM software solutions

- Does NOT cover all Infrastructure Software needs
  - Sun, Tandem, Oracle, HP, Business Objects - Crystal, and Microsoft not included

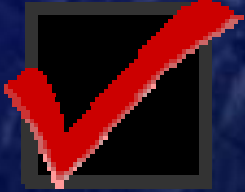# Why consider the change?

- Independent Software Vendors (ISV's) have not maintained their value
  - Many ISV's acquire smaller software companies to expand their software portfolio
  - License products based upon total capacity, not product usage with no incentive to change
  - "Cash Cow" syndrome - Limit investment in keeping the products current with technology changes
    - Even after 18 months, the ISV DB2 Tools did not support key functionality in DB2 Version 8

Why consider the change?

- Independent Software Vendors (ISV's) have not maintained their value
    - Inadequate effort to integrate products with others from their portfolio
    - Last 2 contracts have not resulted in any additional discounts in cost-per-unit of service despite volume growth

- Extrapolating 2003 cost-per-unit of service against anticipated capacity growth over next 7-years yields over 16% annual increase in software maintenance costs

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Why consider the change?

	Continue as we have been	IBM
Reduced Expense		✔
Increase Service Levels through Standardizing		✔
Ease of Implementation and Training	✔	

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Mainframe MIPS Growth
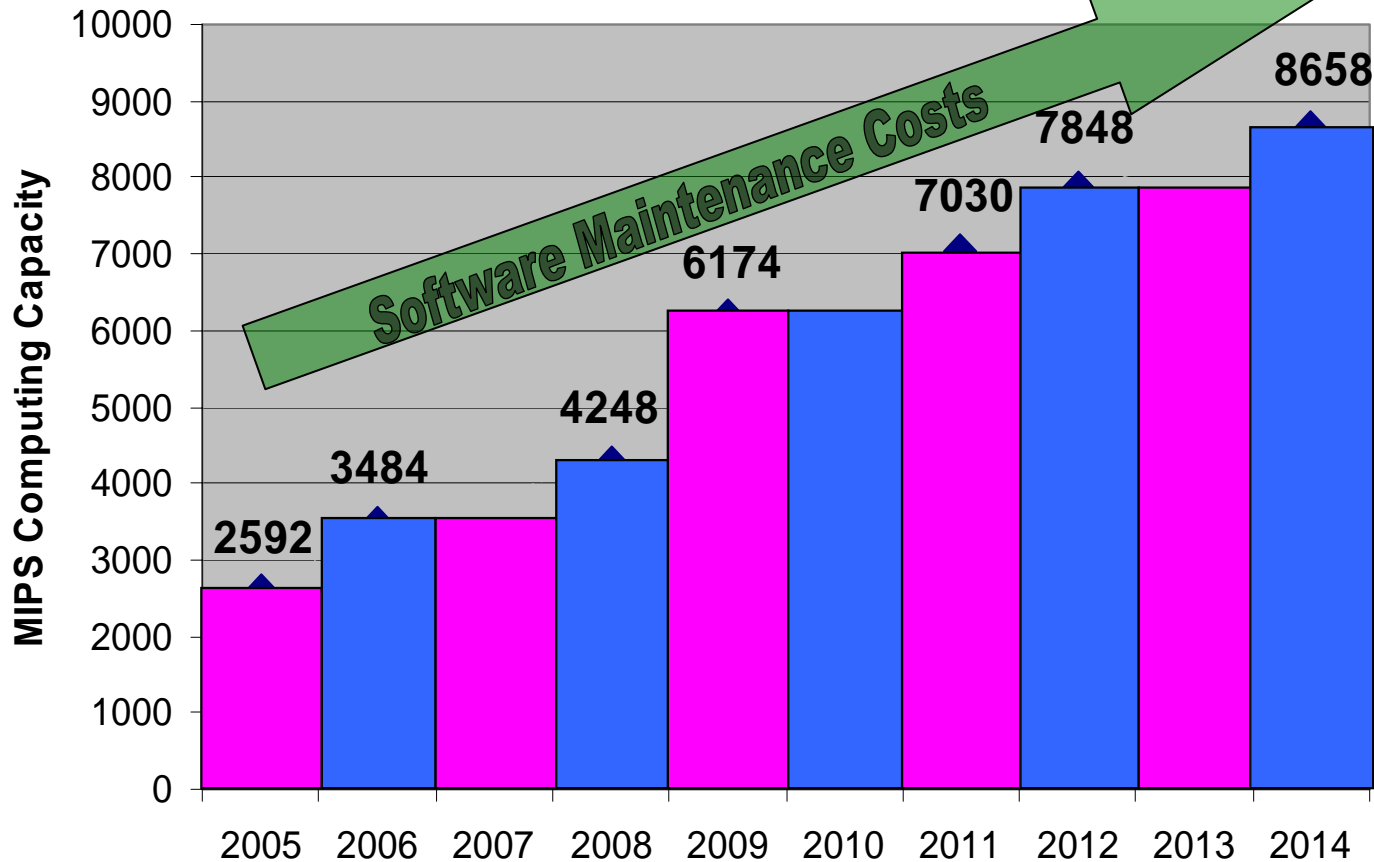
Analysis Assumptions

- Demand for increased computing capacity to serve practice and business needs will continue
  - Since 1995, mainframe capacity has grown approximately 20% annually
  - Distributed system growth has exceeded 22% each of the last 3 years
  - Infrastructure software costs have risen an average of 16% annually since 2001

- Standardized and integrated cross infrastructure management software tools are essential to information technology service delivery – automate technology management

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IBM SRO Proposal Summary

- Seven year project
  - Five year contract with 2 year price protection (not to exceed)
  - Quarterly payment stream to IBM for software licenses, professional services and software maintenance
  - Payment stream developed based upon expected utilization over the term
  - Offers $21.3 million cumulative cost avoidance when compared to current contract relationships over the same period
- Flexibility to change and amend agreement content to meet changing infrastructure needs during the term

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Proposal Summary

- Project Costs
    - New Commitments
        - Incremental software capital in 2005
        - $2.0 million contingency fund for conversion assistance in 2005 and 2006
    - Planned Commitments
        - Future allocated software capital in 2006 and 2007
        - Primary operating expense over next 7 years
    - Net Result
        - ($21.3) million in cumulative cost avoidance over the 7 year term

Mayo IT Infrastructure Software Proposal – Capital Lease

**Infrastructure Software Spend
(7-year Project - includes Planned Capital)**

Legend: With Proposal (blue) — Without Proposal (red)
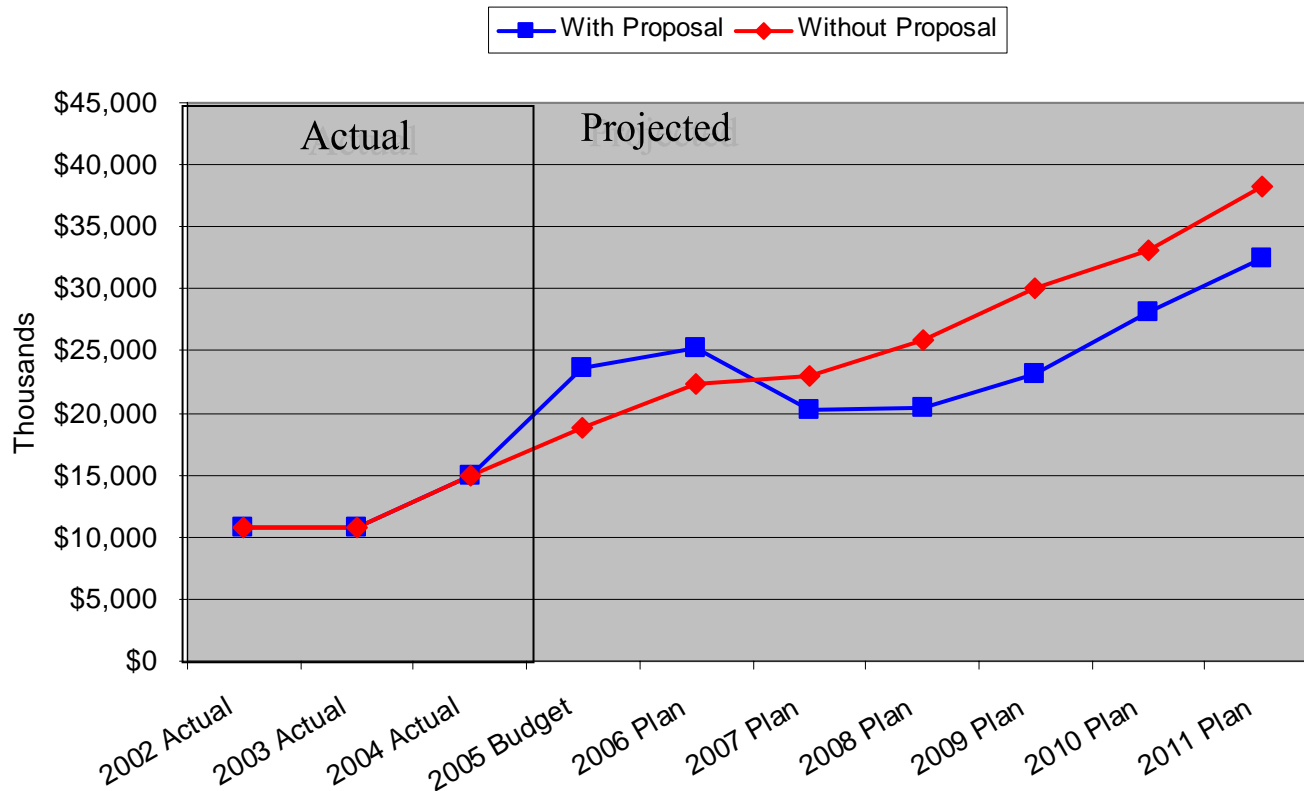
Financial Benefit – Project Timeline

- ## More cost effective
  - Provides a $21.3 million dollar cumulative reduction in operating expense over 7 years when compared to projected Independent Software Vendor (ISV) costs over the same timeframe

- ## Project Timeline (18 month conversion)
  - Start conversion to IBM software in June 2005
  - Complete all ISV software replacements before December 2006 when existing ISV contracts expire

Mayo IT Infrastructure Software Success Factors

- Functional review by IT user community prior to SRO content being finalized

- Include professional services into the SRO
  - SMPO office provided critical resources for both hands-on assistance and training
  - Full time professional Project Manager from IBM
  - Divided portfolio into 13 concurrent projects with both IBM and Mayo co-leaders

- Just-in-time Training

- Project sponsorship and broad based communication

- Commitment to change

Mayo IT Infrastructure Software Project Status

- Completed 12 of 13 projects by September 1, 2006 to accommodate z9 Hardware upgrade early
  - Needed additional computing capacity for ERP implementation Labor Day

- 13th Project (DFSMS Conversion) required too much data migration to completed early

- Renegotiated 1 ISV contract with 5 remaining software products (cancelled 34 products)

- Cancelled 3 ISV contracts in their entirety

Questions

Thank you for your time

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