



BUILDING BLOCKS FOR SUCCESS

Defending and Enhancing the Value of Support & Maintenance

**SSPA
and
Tech Strategy Partners**

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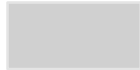
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Support Challenge Varies by Stage of Software Company

 Focus of today's discussion

	Accelerating growth phase	Slowing growth phase	Maturation phase
Growth profile	<ul style="list-style-type: none"> • Rapid license growth • Small installed base 	<ul style="list-style-type: none"> • License revenues still growing, but slowly • Large installed base 	<ul style="list-style-type: none"> • Nominal growth, flat or declining license revenues • Saturated installed base
Growth lever	<ul style="list-style-type: none"> • New customer acquisition is top priority 	<ul style="list-style-type: none"> • New customer acquisition • Increased penetration of installed base 	<ul style="list-style-type: none"> • Increased penetration of installed base
Key Support challenge	<ul style="list-style-type: none"> • Quality support and low TCO to enable product adoption 	<ul style="list-style-type: none"> • Increase share of overall revenue • Improve profitability 	<ul style="list-style-type: none"> • Sustain revenue growth • Maintain profitability



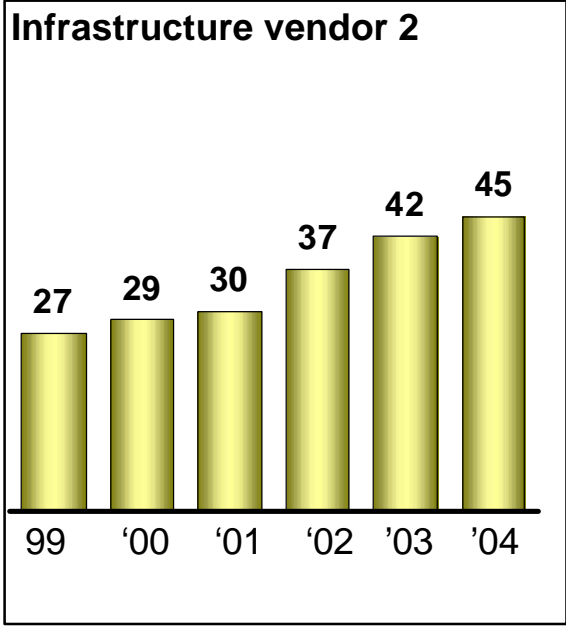
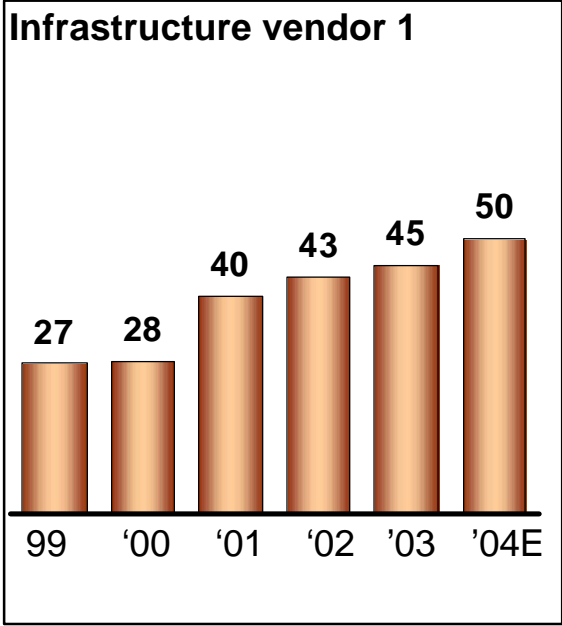
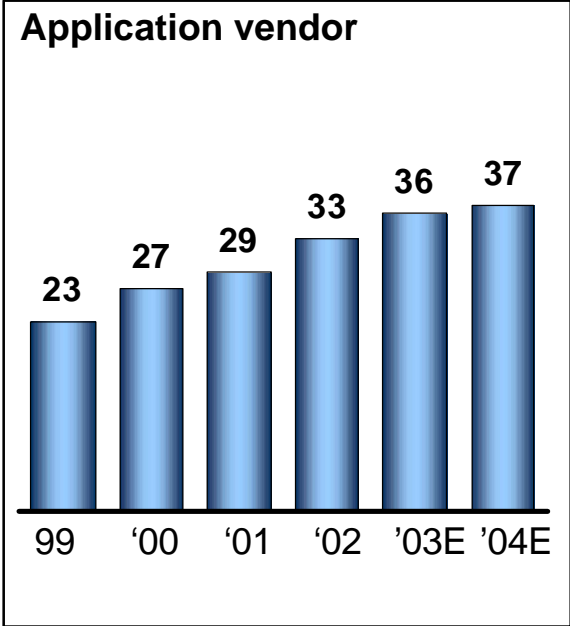
Source: Tech Strategy Partner Analysis

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MAINTENANCE IS BECOMING THE LARGEST SOURCE OF REVENUE

EXAMPLES

Support and maintenance revenues as percent of total revenues



- Majority of the license revenues for large vendors is coming from the installed base
- Maintenance becoming an influencing factor in new license purchases



Source: Company financial reports; Tech Strategy Partner Analysis

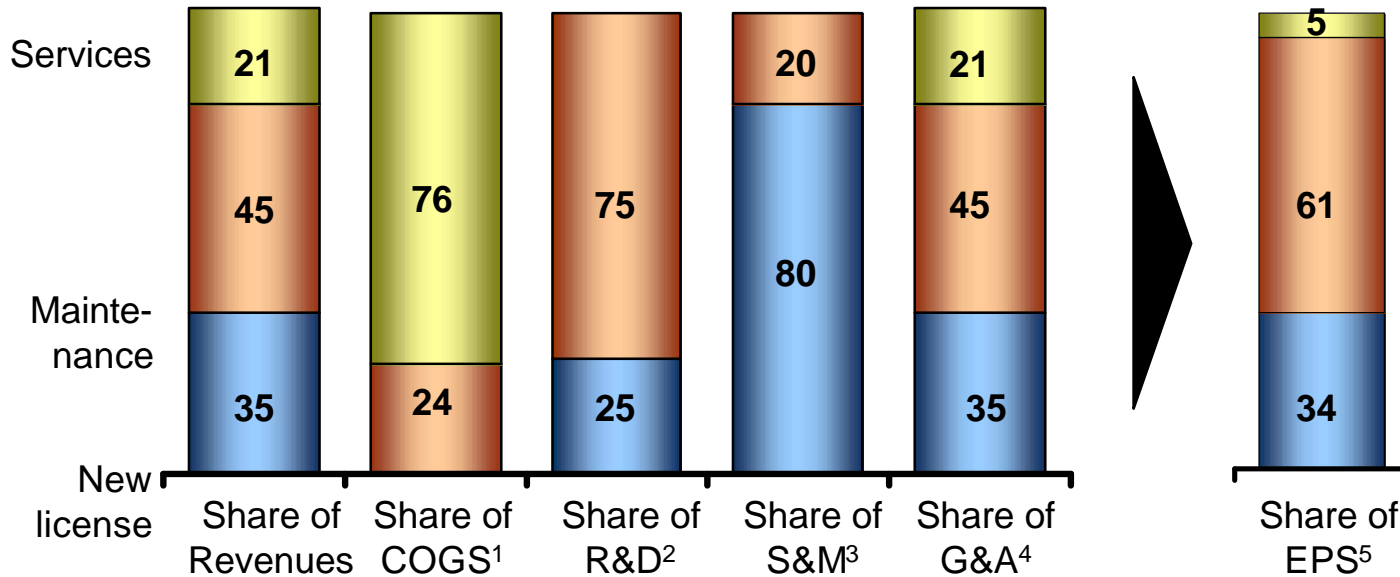
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MAINTENANCE IS THE MAIN PROFIT ENGINE FOR LARGE ISVs

FY 2004, ESTIMATES
INFRASTRUCTURE VENDOR

Revenue mix and cost allocation

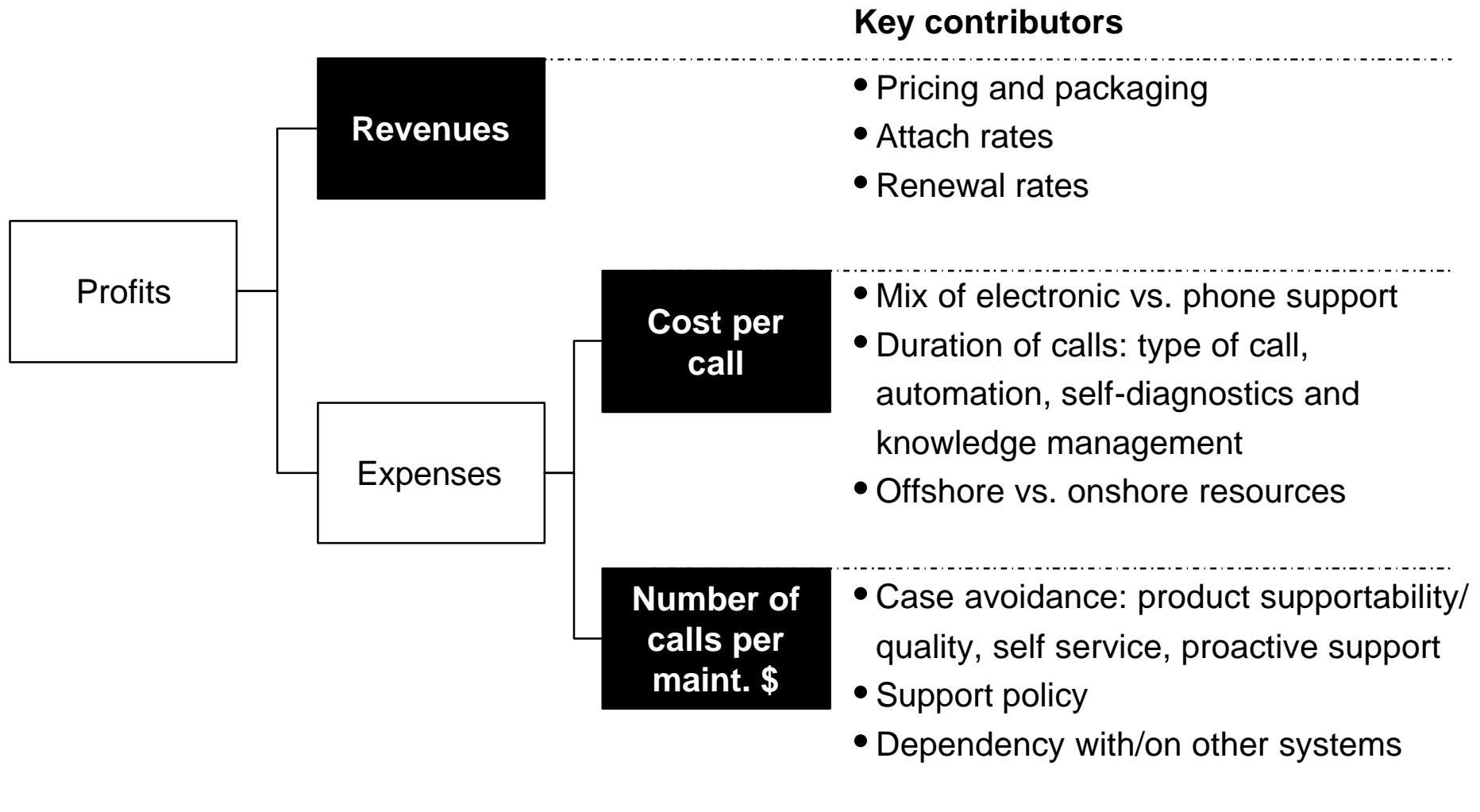
% share of the three revenue streams⁶



- 1 – COGS for support is cost reported in financial statements for software license updates & technical support
- 2 – Assumed that 75% of R&D for mature products is for updates, bug fixing, and non-revenue generating enhancements
- 3 – Assumed that 80% of S&M is towards new license sales
- 4 – Assumed in the ratio of the revenues
- 5 - Ignored non operating income, Number of shares outstanding 5.3billion, Tax @ 32%
- 6 - Numbers do not add to 100 because of rounding off

Source: Financial reports; interviews; Tech Strategy Partners Analysis

3 Key Drivers of Profitability of Support & Maintenance



Source: Tech Strategy Partner Analysis

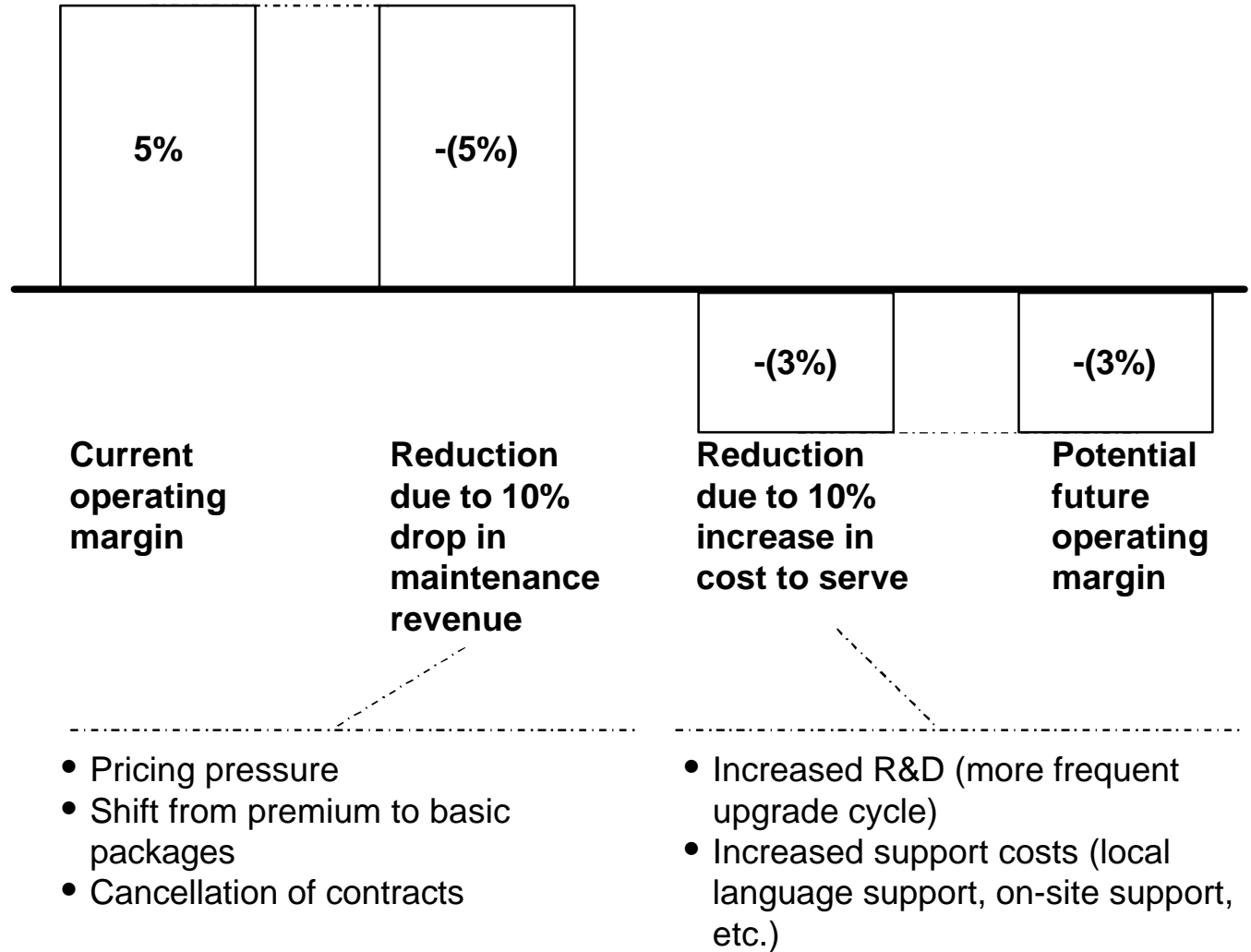
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Risk of Profitability Erosion

Operating margin
Percent

Company context

- \$300-500M in revenues
- Maintenance share of revenues 40-50%
- Maintenance operating at gross margin of 80% and operating margin of 25%
- Maintenance accounts for more than 100% of operating profits



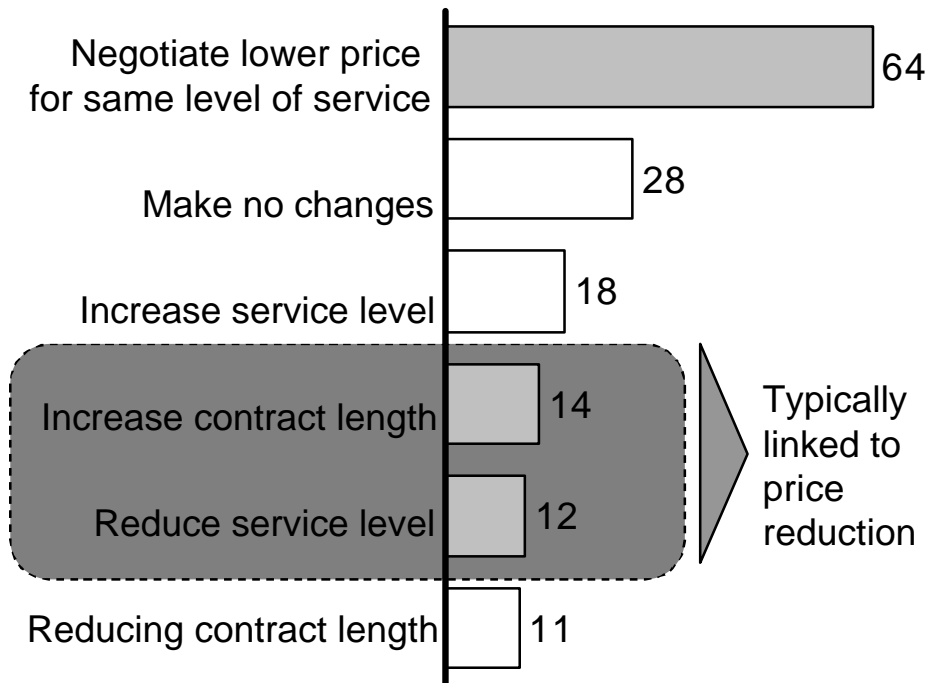
Source: Tech Strategy Partner Analysis

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Main Cause for Profitability Erosion: CIO Vigil on Support and Maintenance Pricing

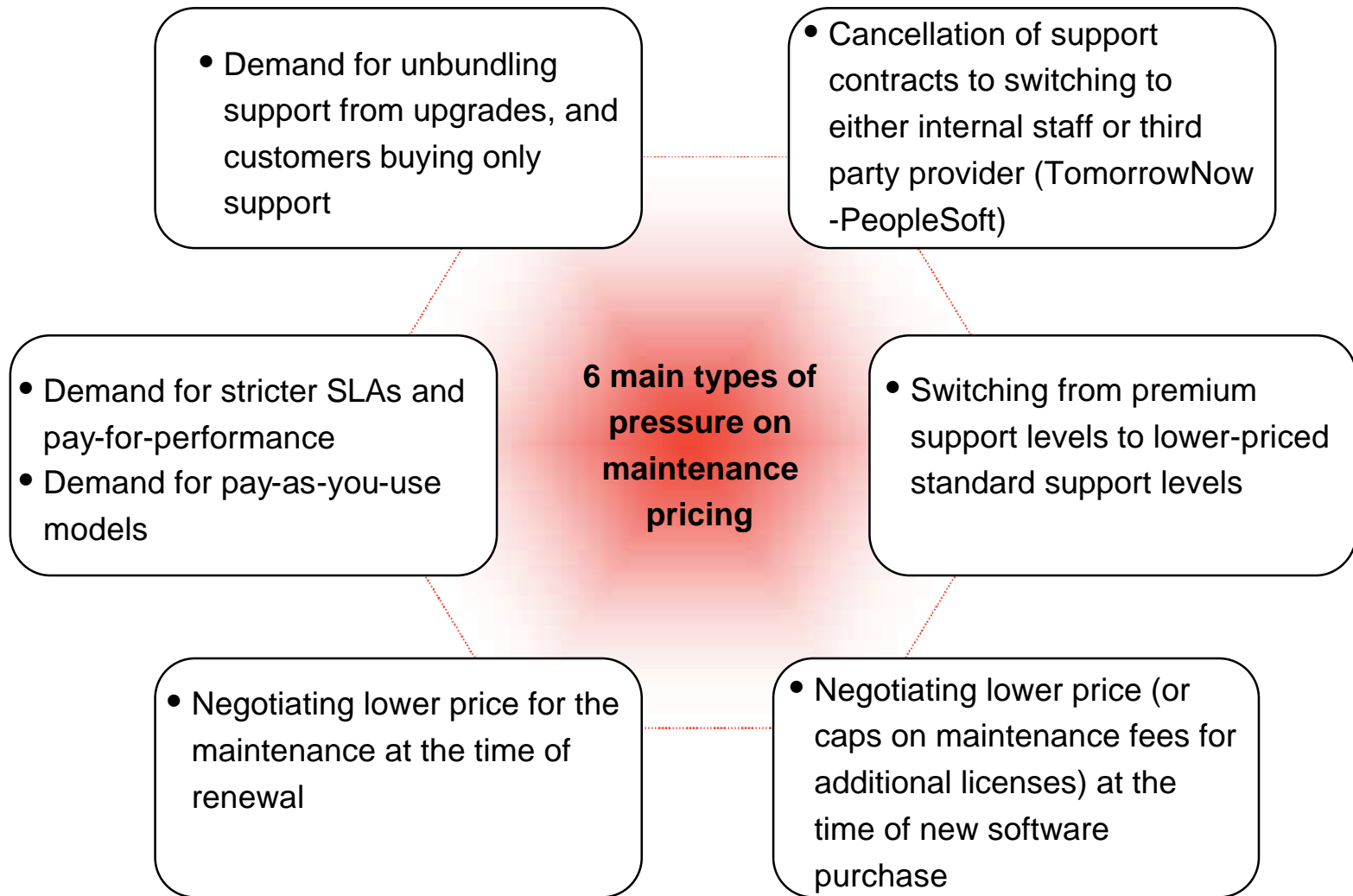
Objective of maintenance contract renegotiation

% of responses, multiple responses allowed, n = 193



- Customers getting increasingly sophisticated with pricing renegotiations
- Customers have greater leverage than before (buyers market) in pricing
- Cancellations still relatively rare, as yet

Customers Increasing the Pricing Pressure on Vendors



Vendors Forced to Offer Concessions

SSPA ROI COMMITTEE SURVEY QUESTION:

What % of Your Maintenance and Support Renewals Are Processed From Quote to Invoice Without Any Concessions to Your Renewal Policies or Prices?

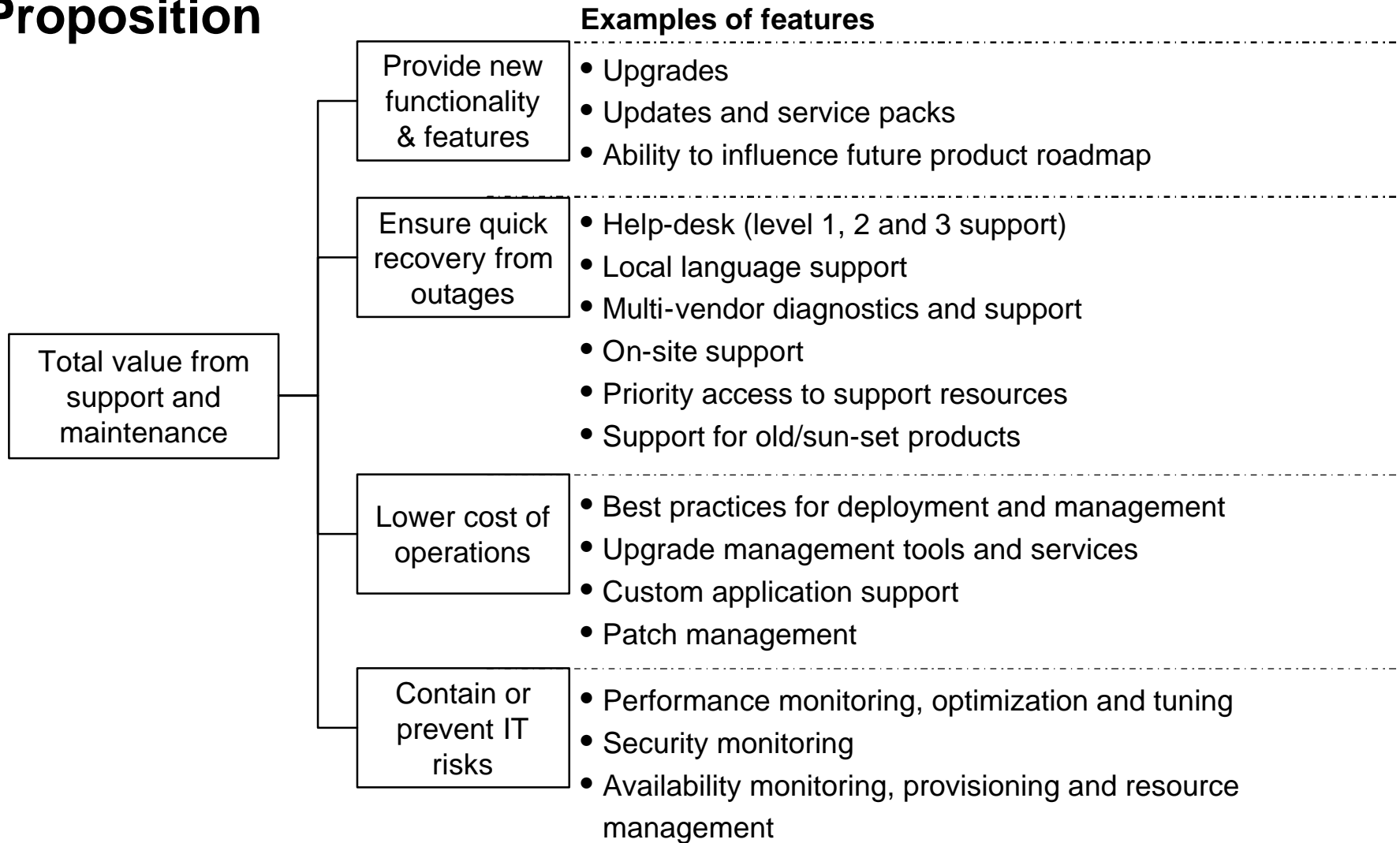
90-100%	27%
80-90%	18%
70-80%	18%
50-70%	9%
<50%	27%



Source: Survey of 20 technology companies, SSPA ROI committee

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Support and Maintenance Has a 4-Pronged Value Proposition



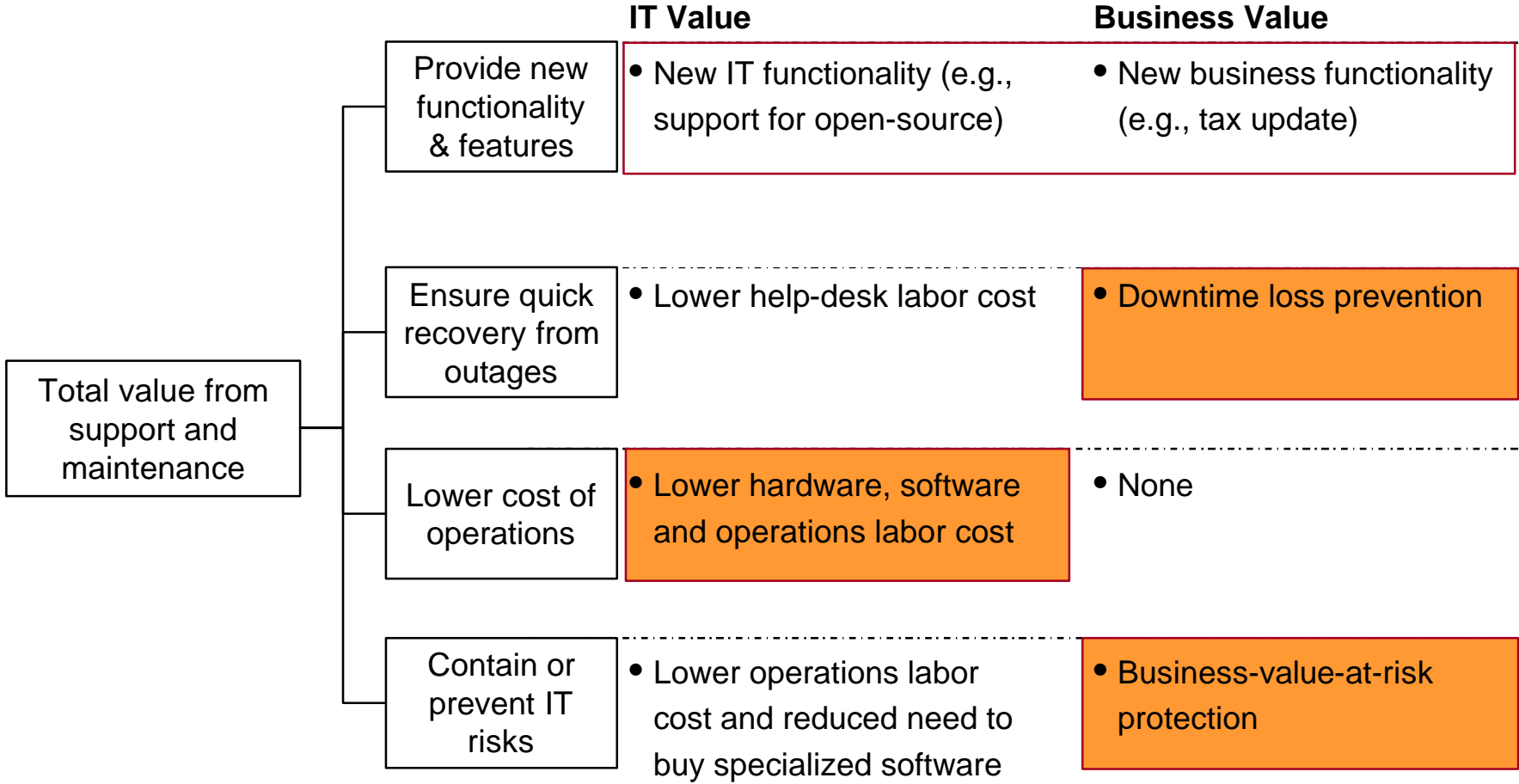
Source: Tech Strategy Partner Analysis and SSPA ROI Committee

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Vendors Need to Stress the Main Source of Value



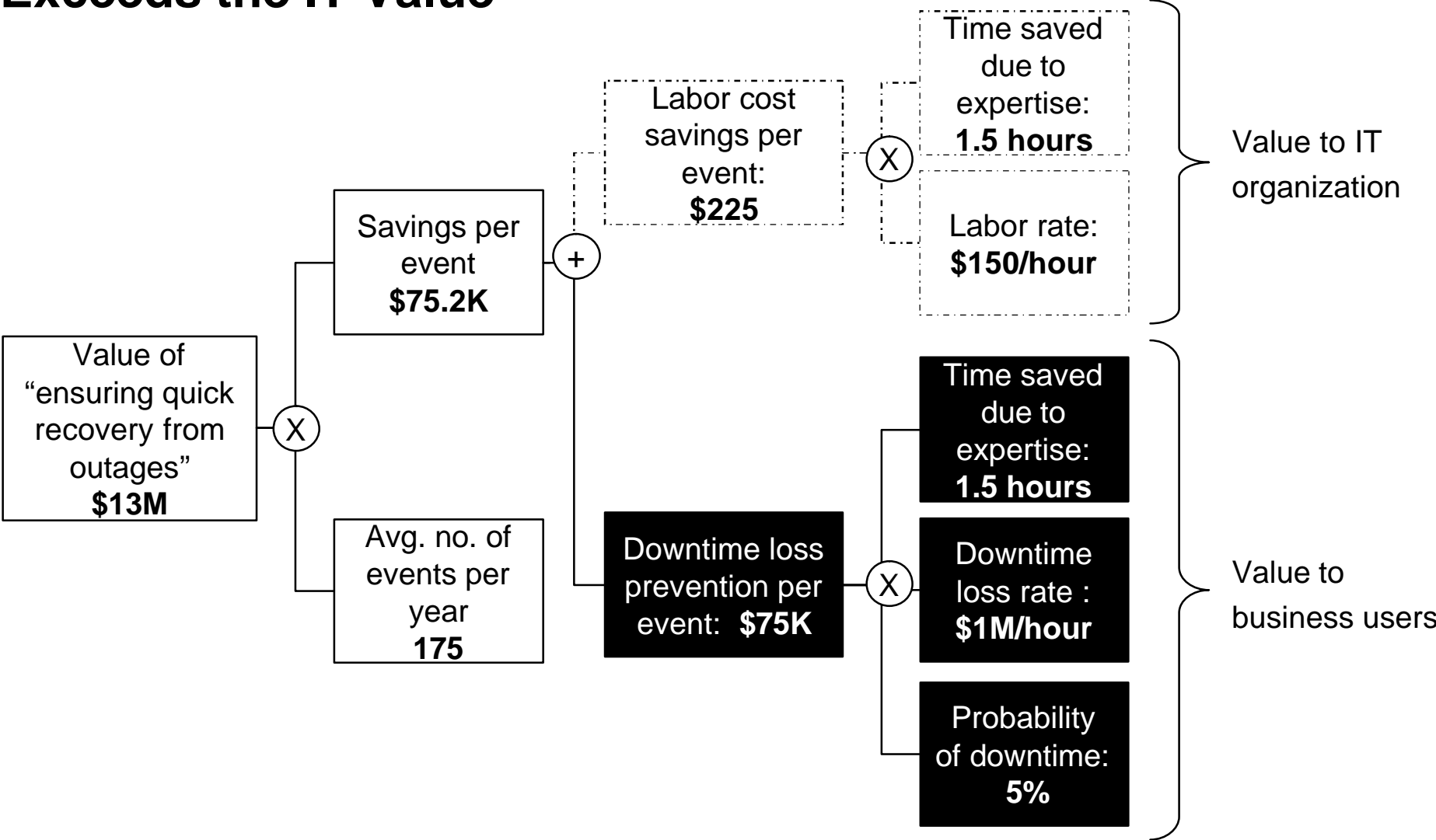
Most compelling source of value



Source: Tech Strategy Partner Analysis

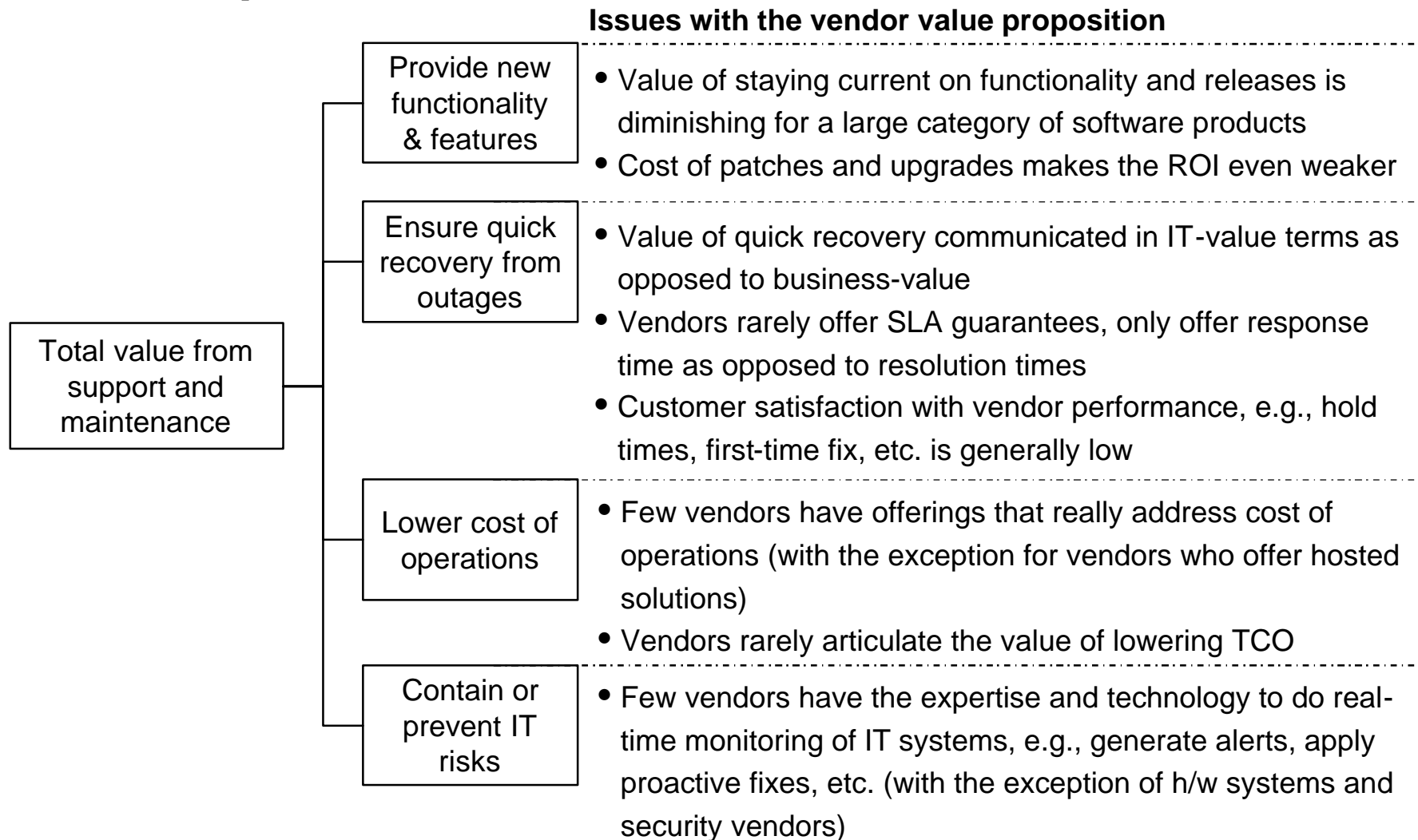
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For Example: Business Value of Quick Recovery Far Exceeds the IT Value

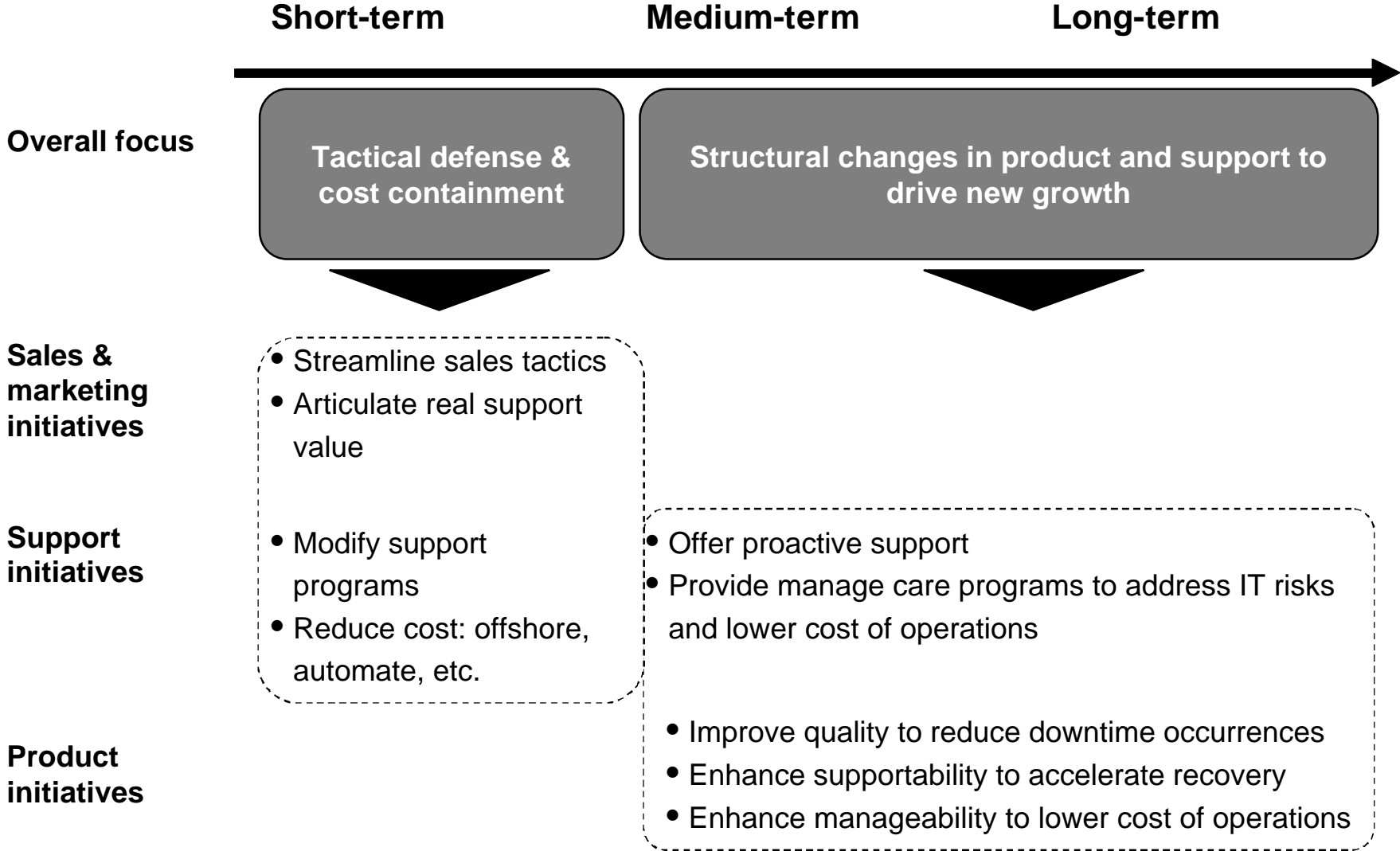


Source: SSPA ROI Committee; Tech Strategy Partner Analysis
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Challenges Vendor Face in Communicating a Compelling Value Proposition



Structuring a Program to Defending Value of Maintenance



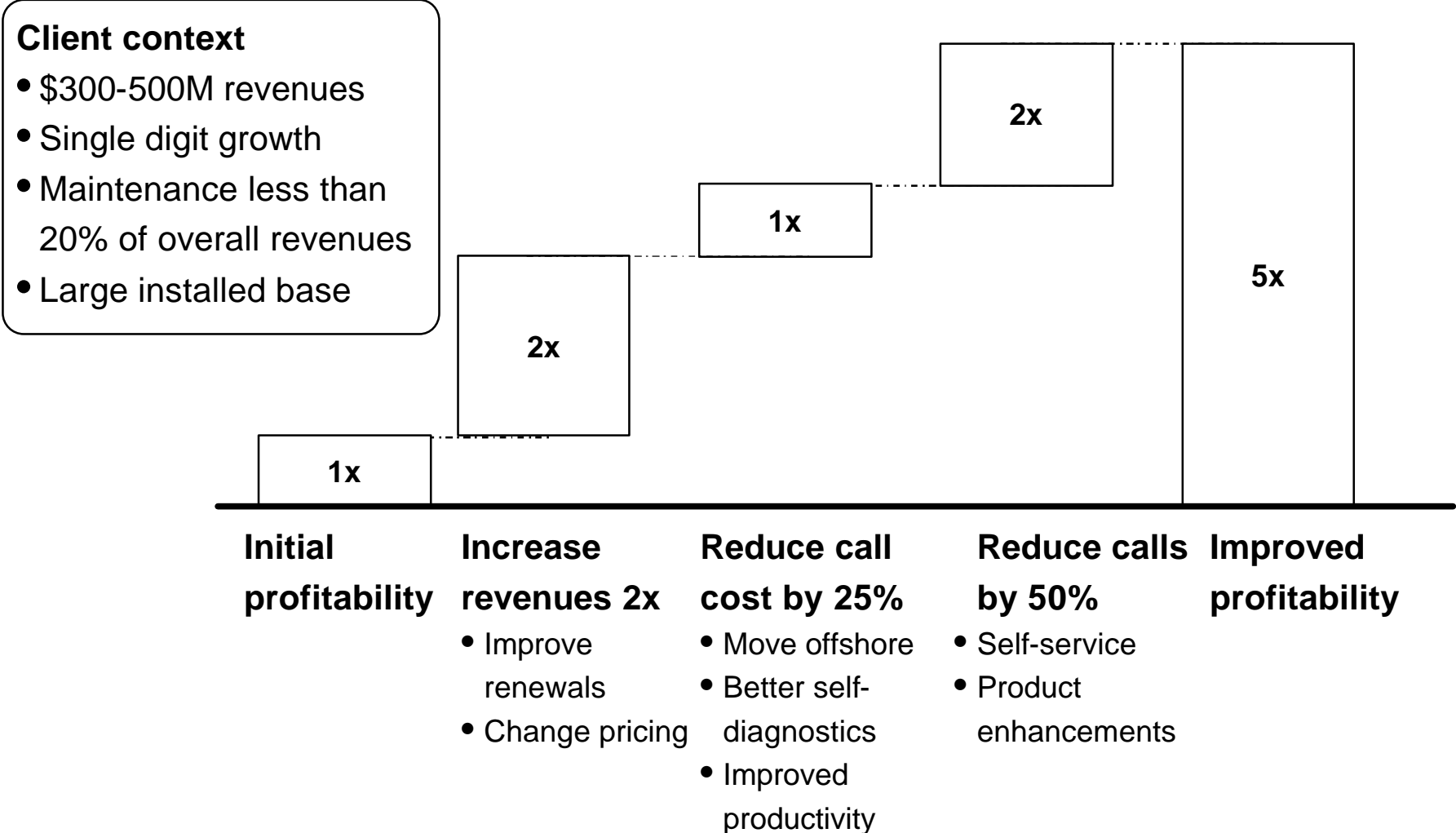
Source: Tech Strategy Partner Analysis and SSPA ROI Committee

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Back up slides



Potential to Increase Profitability of a “Growing Product”



Source: Tech Strategy Partner Analysis

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Support Offering Practices For Protecting the Maintenance Revenue Stream

Baseline: (Commonly done by companies regardless of effectiveness level)

- Multi-channel service
- Web self service
- Customer satisfaction surveys
- Enhancement request process
- Product related webinars
- Published escalation process
- Support of customized environment

Differentiators: (Done by companies that have high degree of success at preserving maintenance revenue)

- Customer specific reports
- Published product lifecycles
- Customer user groups
- Support certifications and awards
- Automated license tracking and renewals
- User friendly/environment specific release notes



Source: Survey of 20 technology companies, SSPA ROI committee

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Maintenance Policies/Practices Best Practices

- Requiring maintenance and support at the time of purchase
- Pricing based on net licenses fees:
 - Price based on list price invites discount negotiations
- Entitlement Enforcement
 - Key to demonstrating value
- No discounting:
 - only discounting occurs for multi-year deals
 - VP or above approval
- Maintenance and support increase caps
- Keep support offerings simple / bundled:
 - Fewer, clearly-defined offerings
 - If the range of your offerings is too broad and/or unbundled, it invites negotiation for higher level support elements to be included for lower level price



Source: Survey of 20 technology companies, SSPA ROI committee

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Sales Tools Best Practices

The Armed Sales Force

- Trained on support level offerings and benefits
- Solid, repeatable renewal process
- Current and accurate Entitlement reports
- Fact sheets and support collateral for customers
- Templates for: initial notice email, cancellation notices, shelf-ware, multi-year
- Proof or Evidence of Value
- Customer references, testimonials
- Satisfaction results at the event and executive levels
- Employee satisfaction, education, certification levels
- Industry certifications and awards
- Presentations on the value of the support organization



Source: Survey of 20 technology companies, SSPA ROI committee

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Vendors Fail to Articulate the “Hidden Value” of Support



Support features	Standard offering	Premium offering
Access to trouble-shooting expertise	100%	15%
Defect Protection	92%	17%
Access to Software Release Updates	85%	27%
Support for old/sunsetted versions	85%	9%
Multi-Vendor support	58%	29%
Local Language support	54%	0%
Access to Best Practices and Benchmarks	54%	57%
Support for customer’s customization	54%	57%
Manage upgrade process (project management)	46%	33%
Optimization and Tuning services	46%	67%
Access to Design & Development team	38%	20%
Priority access to dedicated support resource	33%	100%
Downtime Insurance	23%	100%