

New mantra for support and maintenance – running IT systems cheaper and more reliably

As part of continuing effort to squeeze excess costs in a zero sum game, many CIOs are squaring off against vendors to squeeze maintenance fees. It is ironic that as systems mature and the focus of CIOs shifts towards operating their existing systems cheaper and more reliable, the CIOs see maintenance and support offering less and less value. Customers, however, can actually create a win-win arrangement to transform maintenance and take IT cost and performance to the next level. The trick is to redefine maintenance by making the vendors more accountable for the caring and feeding of their systems. The key to understanding the opportunity is recognizing that 81% of the “Total Cost of Support and Maintenance (TCSM¹)” is spent on activities other than what customers pay to vendors in traditional maintenance. Applying pressure to that 81% is where the opportunity lies. This will require a fundamental transformation of the customer support function from the way we understand it today.

Traditional support and maintenance contracts today generally offer diminished value to the CIOs. CIOs traditionally have bought support and maintenance contracts for the periodic upgrades and for insurance against product failures. Both the value of these have been diminishing in most software segments. First, value of the periodic upgrades continues to diminish. Functionality of many products has matured over the last few years and the incremental functionality packed in new upgrades is on a diminishing curve. The value of frequent upgrades is becoming largely limited to regulatory updates. Exceptions are more in infrastructure software such as security and systems management products and in relatively nascent vertical applications. The immensely disruptive upgrade process itself actually contributes to the perception that stability, not change, is more valuable. Second, value of support contracts as insurance against problems has diminished. Significant portion of the enterprise software has been installed and running for more than 5 years. Most bugs get uncovered during installation or during an upgrade. As these events recede into the past, the value of insurance declines. Many large customers have also developed in-house expertise. Likelihood of a catastrophic failure has gone down. Customers see less value in paying high-priced support fees as insurance against a diminishing risk, a growing part of which they can underwrite themselves with their in-house expertise

CIOs today are focused less on implementing new products or expanding functionality but more on improving the operations of their existing IT assets.

¹ Total Cost of Support and Maintenance is the variable cost of operating an IT system. It includes labor costs, costs associated with sub-contractors and outsourcers and the fees paid to product vendors. TCSM is not the same the Total Cost of Ownership (TCO). TCSM does not include cost of new projects, upfront licenses for products, cost of consumables (e.g., phone bills, printer paper, ink cartridges, etc.), and amortization & depreciation of hardware and software products and projects.

The top two operational priorities for most CIOs today are to make IT systems run cost effectively and reliably. The recently completed 2005 Support Demand Research Study conducted by Tech Strategy Partners and the SSPA surveyed 200+ IT executives and found that more than 47% of their IT budget is made up of TCSM. Continuous improvement in TCSM is one of the top priorities for CIOs. At the same time, CIOs are also focused on instituting management processes and discipline in the IT function so that IT systems operate as they are supposed to and meet the requirements of the business users reliably. The maintenance and support offerings of most vendors do not help the CIOs meet either of these priorities in any substantial way. Therefore CIOs sometimes view them as 'unjustified' cost line items and see limited return on their spending on this front. In fact, the 2005 Support Demand Research Study found that 42% of the respondents are renegotiating their vendor support and maintenance contracts. Price negotiation is the second most commonly used lever, after standardization, to reduce TCSM.

While this provides some tactical relief to the CIOs on the price front, this does not really help the CIOs "run their IT systems more cost-efficiently or reliably". Reducing the price on support and maintenance contract is not the main lever for reducing TCSM. Majority of the spending on operating and managing an existing system is internal. TSP estimates that even a 15% reduction in payments to the vendor will only reduce the total cost of operations for the CIO by only 3%. The 2005 Support Demand Research Study found that only 19% of the TCSM is support and maintenance fees paid to vendors. 71% is internal staff costs and another 10% is the fees paid to third party consultants. The internal staff costs are driven primarily by upgrades and migrations, performance management (i.e., monitoring, diagnostics and tuning), patch management, and helpdesk. Upgrades and migration have become a significant effort particularly for enterprise software. They account for almost half of the cost of operating a large enterprise application software installation. Performance management is a large issue for enterprise software as well as hardware. Many customers cite diagnosis and tuning of different systems for optimal performance as a large cost driver. Patches are more frequent and less complex than upgrades, but nonetheless require significant effort from the IT staff to make sure a patch works and does not break anything else and to roll it out to broadly.

What is required is a new focus of support and maintenance. The value of these contracts need to shift from access to new functionality plus insurance against product failures to services, tools and best practices required to improving the operational efficiency and effectiveness of IT systems. Customers need to take the lead and influence this shift, much like they did in the mid 90s with professional services. Then customers were struggling with implementing the functionality that they had purchased. Vendors played a limited role in implementing the software they sold to customers, most of which was done by third party consultants. As a response to customer demand for greater software vendor accountability in the implementation phase, the software vendors

increased their role in implementation, re-skilled their professional services organizations and developed standardized methodologies to guide customers and implementation partners through the process. A similar transformation needs to happen with customer support.

Vendor organizations need to modify the support programs they currently offer. They have to be willing to put their skin in the game and take responsibility for the performance of their systems. Greater emphasis needs to be placed in the support program on managed services such as managing customer specific help desks, providing both customer premise based & remote systems administration, performance tuning, customizations, etc. Vendors need to employ delivery models that allow them to effectively combine offsite services with onsite services to offer an integrated solution to the customer, regardless of whether the customer wants these services delivered on his own premises or from a remote location. In addition, the focus of education and training programs needs to expand beyond product functionality to emphasize operational and management best practices. There is a need to develop new tools and improve existing tools, where necessary, that automate the 'labor-rich' operational processes, such as monitoring, diagnostics, patch management, etc. The existing talent in support organizations needs to be re-skilled to provide these services. Customer support needs to absorb capabilities currently resident in field service, internal professional services organizations or even external service partners. This represents a dramatic shift from the current industry status. Customers can help trigger this shift by changing the way they set maintenance service targets, negotiate maintenance contracts, measure the effectiveness of the delivered service and reward vendor performance and behavior.

CIOs and their organizations have a lot to gain by encouraging product vendors to transform their support capability and offerings. Those that do not do so and view their relationships with vendors as a zero sum, one-dimensional price negotiation game will miss an opportunity to take their IT cost and quality performance to the next level.

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