

How to Thrive During an Economic Recession
Managing Cost and Increasing Revenue with
Strategic Partnerships

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SSPA and Convergys

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EXECUTIVE SUMMARY

It is unlikely that 2009 is going to be a banner year for anyone: while service budgets are under scrutiny and maintenance renewals become more difficult, customer expectations for better and more sophisticated service continue to rise. But that doesn't mean service and support organizations will be unable to meet these heightened expectations, or that big cuts to operational budgets will necessarily occur. Service revenues have become the economic engine for software and hardware firms, protecting support operations from indiscriminate cuts that would impact customer satisfaction and loyalty. The key to success is finding ways to further streamline operations, as well as increase service revenues—not easy after a decade of “working smarter not harder” has created highly productive, extremely lean service and support operations.

For many Service and Support Professionals Association (SSPA) members, the answer lies in strategic partnerships. Today's support executives understand that not all service operations are “core,” i.e., processes that must be owned and executed by company employees. This report will highlight examples of large technology firms that have embraced strategic partners to fill these gaps, providing best-in-class service delivery and revenue generation at higher performance levels and with lower costs than the companies could attain themselves. Support organizations should identify specific metrics and programs needing improvement and hold discussions with high-quality service providers to understand how investing in strategic partnerships can allow support operations to not only survive the recession, but actually thrive in this challenging economy.

SERVICES BECOME THE ECONOMIC ENGINE FOR TECHNOLOGY FIRMS

For high-tech executives, 2009 is going to feel a lot like 2001. As during the harsh economic times following the tech crash in 2001–2002, Wall Street's appetite for risk is low. There are fewer new customer deals, and each of those takes longer to close and may involve higher-than-average discounting. With revenue growth uncertain, all areas of the enterprise will be asked to cut costs and streamline operations in 2009. But unlike 2001, service and support organizations are much better positioned today to not only defend existing budgets, but also to push for incremental investments where the return on investment (ROI) will be fast and measurable. What has changed?

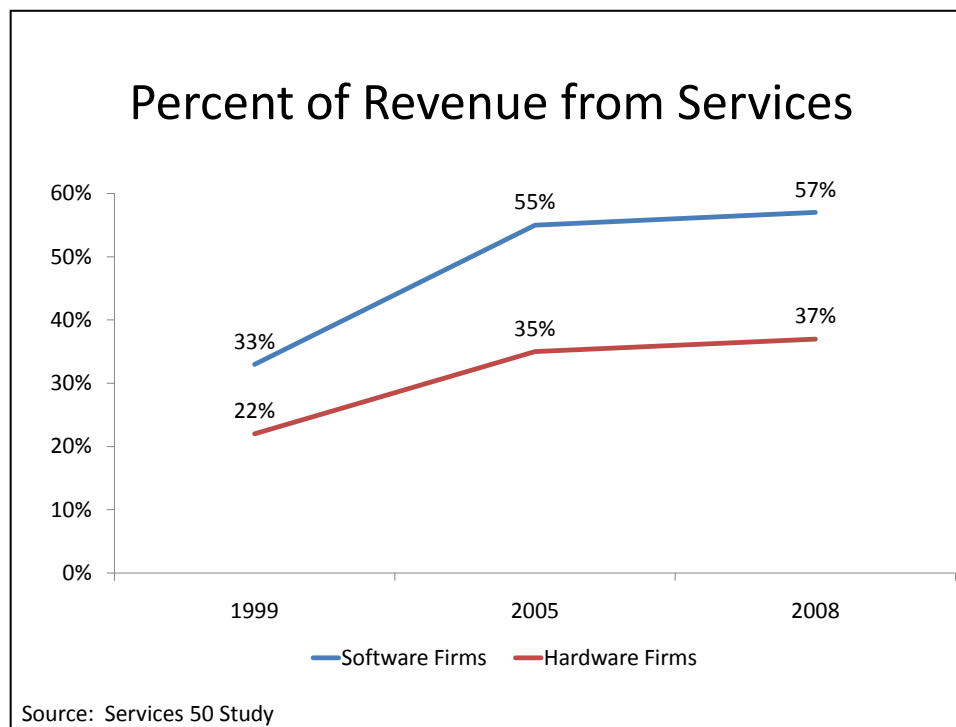
- **Services are the economic engine of technology companies.** Revenues from services have steadily increased, now representing over half of revenues for software firms and over a third of revenues for hardware firms.

- **Service and support's role in customer loyalty is understood.** Service and support are no longer seen as “break-fix” operations, and today they are tasked with helping customers speed consumption of products and services, moving them more quickly through the customer loyalty cycle toward repurchase.
- **Service executives redefine partner relationships.** The era of “low-quality” outsourcing to cut costs is over—the long-term impacts to revenue were too great. Increasingly, firms are looking to strategic partners to assist in customer support and revenue generation, building strong, long-term relationships with high-quality service providers.

Wall Street Takes Notice: Services Are Critical for Customer Success

A huge shift in revenue composition has taken place in the technology industry since 2001. Prior to that time, companies and investors focused primarily—if not solely—on product revenues, with industry analysts being suspicious of services revenue, considering an increase in services as an indicator of overly complex technology. As service revenues have continued to rise, Wall Street investors and industry analysts have changed their perspective on the value of services, now recognizing service organizations as critical to the long-term health of the customer base.

Figure 1: Growth of Services Revenues



As seen in *Figure 1*, in 1999 services revenue comprised a third of overall revenue for software companies and less than a fourth of revenue for hardware companies. As professional services organizations have matured, offering more comprehensive implementation options, and support organizations have introduced additional for-fee value-added services, services revenues have rapidly increased. In 2008, software firms recognized an average of 57% of revenue from services; hardware firms received 37% of total revenue from services.

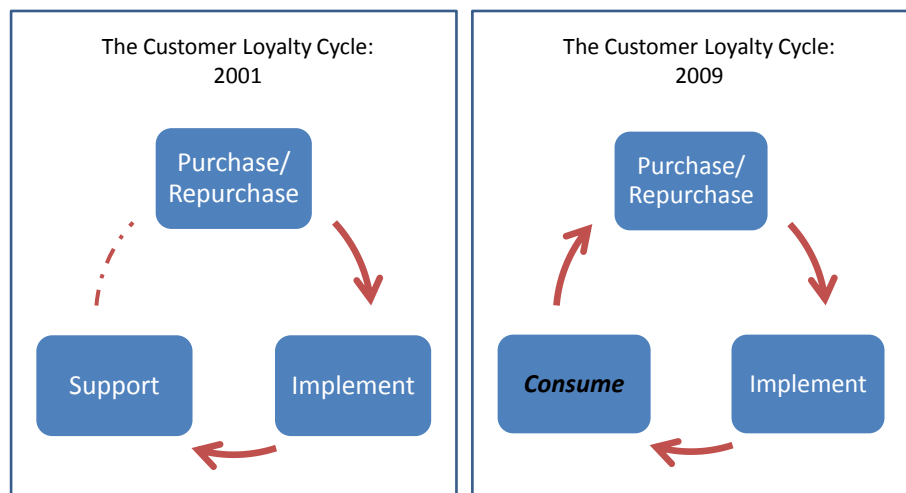
This shift puts service and support in a much stronger position than in 2001. As the primary economic engine for software companies, and a strong revenue earner for hardware companies, service and support is no longer a cost center, and investments in services cannot be dramatically reduced without impacting the company’s revenue stream.

Focus Shifts from Customer Acquisition to Customer Retention

During tough economic times, technology companies shift their focus from customer acquisition to customer retention. With fewer new customer deals, there is increased competition for each deal, and often the winner is the vendor willing to offer the deepest discount—making each new deal less profitable. With large portions of revenue coming from existing customers, shifting attention toward customer retention makes sense: not only are satisfied customers more likely to repurchase, they also serve as valuable references for both Wall Street analysts and future customers.

Figure 2: Support Evolves from Break-Fix to Product Consumption

Support’s Role in Accelerating Product Consumption



As seen in *Figure 2*, the role of customer support in 2001 was seen as break-fix, meaning support's primary job was fixing broken equipment and minimizing outages and downtime. Though these are definitely critical functions, they do not help to expand the customer's use of the products or services. The primary focus of innovative service and support operations in 2009 is finding ways to help customers consume products more quickly. This means making sure customers understand and leverage every feature, every integration option, and every user license as fully and quickly as possible. In this way, not only do customers receive more value from their purchase, but with faster product consumption, customers will shorten the Customer Loyalty Cycle and repurchase more products in a shorter time.

This push to increase product consumption has led SSPA member companies to create value-added support options. Common value-added support examples include:

- **Dedicated account managers.** A growing trend in tech support is providing dedicated technical account managers (TAMs) to customers. TAMs act as the customer advocate, becoming intimately familiar with the business problems and challenges of each account, and working with development and professional services to leverage technology to best solve these customer challenges.
- **Remote and proactive support.** A major step toward moving beyond a break-fix mentality is getting out of the cycle of failure and repair. Remote diagnostics, proactive monitoring, and remote support have all helped to eliminate problems from occurring and minimize downtime when problems can't be avoided. By minimizing service interruptions, support teams are enabling customers to focus on getting value from their technology investments.
- **Upsell and cross-sell.** Long associated with consumer support, upsell and cross-sell are important elements of value-added support and are now more common in business-to-business enterprise support. Reminding customers about applicable new releases, products, training classes, beta trials, etc., not only can drive incremental revenues, but when offers relate to a current service issue, customers perceive the offer as part of the service experience.

Caution: Cost Cutting Ahead

While it is true that service and support organizations today have more visibility and influence than in years past, these departments are not immune to the impacts of a down economy. In fact, a recent informal poll of SSPA members indicated that a full 80% have been asked to amend their 2009 budgets due to the current economic recession impacting North America and spreading to Europe and Asia.

After years of process refinement, today's service and support teams are already lean and efficient, and there is very little waste left to eliminate. According to PricewaterhouseCoopers, 74% of CFOs admitted that their companies often get cost-cutting priorities wrong by cutting what is easy to measure rather than what is most needed—and few departments in the enterprise are as easy to measure as metrics-heavy service operations. Your job as a service executive is to:

- **Invest in core.** First, identify the processes and tools that are absolutely core to success. For these areas, understand where efficiencies can be improved and where additional investments are warranted to remain best in class or improve competitive positioning.
- **Remove cost from context.** Non-core functions should be trimmed and consolidated to reduce costs. Remember to evaluate the customer impact of any change up front, and proactively notify customers if they will detect any difference in support due to the change.
- **Reinvest savings strategically.** Reinvest savings from streamlining and consolidation in critical, strategic business assets and partnerships. This cycle enables continual improvement to core areas that most impact consumption of products by customers.

A NEW ERA OF STRATEGIC PARTNERSHIPS

With the adoption of value-added support, the scope of service and support operations has expanded. More customer intelligence is required to provide personalized service. Improving product supportability means allocating resources to work with development, sales, and professional services. Managing distribution partners, services marketing, and maintenance renewals push support into new and unfamiliar roles. And all the while, the phones never stop ringing. In fact, as technology grows more complex, average incident volume has been increasing dramatically year over year.

For large enterprises, it is no longer possible to be an expert in all areas of today's support operations. Best-in-class service and support organizations must leverage strategic partnerships to extend the reach of the organization and ensure the quality of every customer interaction. Like many of the factors already discussed that have changed since 2001, the role of service providers has dramatically shifted in the last decade. The low-quality and low-price outsourcing contracts of 2001–2002 gave the service and support industry a lot of bad press, from which some companies are still recovering.

NetApp Success Story

NetApp's business challenge was one common in the high-tech industry: consolidation creates overnight growth. NetApp had never outsourced any portion of its technical support and wanted to be sure such a move would not have any negative impacts on customers.

In fact, the opposite occurred. Within six months, Convergys had 110 support engineers providing Web and phone support for NetApp customers. Today Convergys owns the initial customer response of NetApp® support for Priority 1 issues as well as proactive customer contacts. Throughout the transition the level of service remained at or above goals for service quality.

This rapid, successful transition of support to a service provider was possible due to NetApp and Convergys working closely together as strategic partners. The two firms have a shared vision of success, with clearly defined processes that are consistent across all support centers.

Based on interviews with SSPA members, companies are now looking for service partners with whom they can form tight, collaborative, long-term relationships. Successful strategic partnerships with service providers in 2009 will be defined by:

- **ROI up front.** Technology and services with a fast and easily measured ROI will be in demand. If a proven track record for results is not available, look elsewhere. 2009 is not the year to help a young service provider learn a new industry.
- **Flexibility is key.** Demand will be high for flexible, highly-scalable, and fast-to-go-live solutions. As 2009 progresses, companies may need to make sudden shifts to strategy in response to market conditions, and service partners must be adaptable or a more accommodating partner will be identified.
- **High quality, high value.** In working with a strategic partner, quality and value will be more important than ever. Low-quality and low-price outsourcing contracts will not succeed in this economic environment, and technology companies that repeat the low-quality mistakes of the past will find customers marching en force to a competitor.

A change must take place so companies view partners as a core part of the team, not an adversary. With years of experience with service operations of different sizes and across industries, service providers have a great deal of insight and experience to help you succeed. Having an ongoing, active dialogue with your strategic partner around shared vision delivers larger results.

Beyond Cost Cutting: Leveraging Partners to Drive Revenue

Long-time support executives tend to have a fixed view of the value of service provider partners, primarily related to handling customer technical problems. While the return on investment for sending technical support volume to a strategic partner may be well known, partners also can make a significant contribution in other areas of support profitability. During an economic recession, one area in which companies need to closely engage with partners is revenue generation.

Service providers have a great deal of expertise in handling outsourced customer support. But after more than a decade of working closely with global enterprise hardware and software firms, innovative service providers also have created strong practices around selling and renewing

Strategic Partners Drive Revenue

Another SSPA member, a global networking technology firm, was losing maintenance revenue from as many as 30,000 expiring service contracts each year that the company's own sales force didn't have the resources to shepherd through the renewal process.

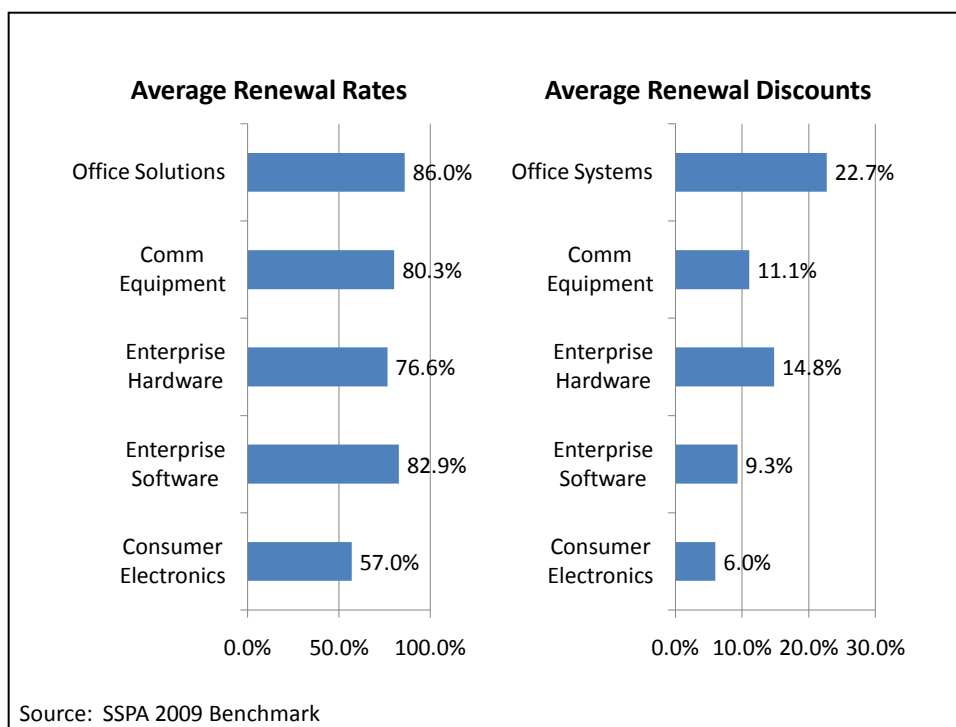
The company engaged with strategic partner Convergys, who drew on their experience with leading technology companies, to establish strategies to achieve the company's ambitious goals.

The results were fast and measurable. The value of maintenance contracts handled by the Convergys team has grown more than 60 times over. The program was so successful that it has now been expanded to Europe and Asia, and another phase will extend the Convergys relationship to include renewals for channel partner sales.

maintenance agreements—a pain point for many companies. There are multiple challenges involved in selling and renewing maintenance agreements, and based on member inquiries, technology firms particularly struggle with creating packages of service offerings to meet the evolving needs of customers and how to effectively market the offerings to prospects and existing customers.

In *Figure 3*, the average renewal rates and maintenance discounts are shown by industry. If your renewal rates are lower than average, or your average discount is higher than average, schedule a discussion with your strategic partners about their expertise in this area.

Figure 3: Average Renewal Rates and Discounts by Industry



THE SSPA RECOMMENDS

To maximize the value of strategic partnerships, companies must rethink partner relationships and programs to encourage collaboration and create a shared vision for success. The following recommendations will help transitioning service provider relationships from “outsourcer” to “strategic partner.”

- **You get what you pay for.** Low price and low quality go hand in hand. If you continue to select service providers based on the lowest transaction cost, you are damaging long-term customer profitability. The customer backlash against low-quality contracts is growing louder, now that social networking, discussion forums, and online product reviews are giving customers a voice that cannot be ignored.
- **Be involved; be visible.** According to SSPA members, you must be actively involved with the outsourced operations. Company executives, product experts, and team leads must make frequent visits to partner operations. Share your corporate culture and make the partner’s employees part of your team.
- **Offer cross-enterprise visibility.** Make outsourced employees part of the family by including them in company announcements, inviting them to company and user events, and allowing them to present ideas and report on progress to your employees.
- **Involve partners in your strategic planning.** Service providers have valuable insight from multiple companies to share, and they are more than willing to share this expertise with you. Involve them in conversations on best-practice processes for incident handling and talent management, and include partner executives in discussions on industry trends, enabling technology, and other longer-term strategic planning.

ENDNOTES

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