



Running Support as a Business (or how to make your CFO love you) By Francoise Tourniaire

Hate cutting costs and having your budget slashed? Focus on the top line instead and increase your support revenue. More revenue means more resources to provide better support, and an opportunity to raise your support organizations visibility (and your's) in the company to boot.

Why bother? Simple: support is big money.

- | In established companies, support contributes a significant percentage of revenue, sometimes more than half. In the SSPA's recent Support Demand Research Series, support and maintenance contracts contribute as much as 60% to vendors' profitability.
- | Because support revenue comes largely from renewals, it's much more stable and predictable than license revenue. Stable because most customers renew from year to year. Predictable because the revenue recognition rules dictate that most of the renewal revenue to be recognized next month is already billed or even paid for.
- | Support margins can be comparable to license margins in companies with very large installed bases.

With a small installed base, contribution and margin for support are not as spectacular, but CFOs will always be enamored with stability and predictability. And if you care about long-term profitability, you must put systems for renewals in place to ensure and even improve your returns.

If support revenue is important, every company is watching renewal sales carefully, right? Unfortunately, support renewals are often politely ignored. In many cases, renewals are considered a simple invoicing activity, entrusted to clerks whose essential function and competence is to create accurate invoices. It's true that renewals require accurate license records. It's also true that renewals don't warrant the high-cost, direct sales, onsite approach typical of license sales. But if you want to maximize support revenue, you must abandon the low-level invoicing approach and move to sales-oriented model.

Renewals as a sales function

Renewals are a sales function. They're different from other sales activities in that they work with a fixed customer base but it's more than just invoicing customers and hoping that you get a check in response.

Renewals require a sales-oriented management approach. This means quotas for achieving revenue targets (the targets are easy to build based on what needs to be renewed and the historical renewal percentage). This means bonuses for achieving and exceeding targets (usually not commissions since renewals revenue is much more predictable than sales revenue).

Renewals require sales-oriented individuals. They need to be able to present the benefits of support contracts, to overcome objections, and to encourage customers to upgrade to higher support levels. They need to look forward to communicating with customers every day and to solve problems on their behalf. Typically, renewals are handled by telesales reps since onsite service is rarely required. If you have large named accounts, however, you may want the sales reps for those accounts to handle all transactions, including renewals. The renewals team may report into Sales or may report into Support or even Finance. I have a strong preference for having it report into Support, because who cares more about renewals than the group into which it feeds? Other reporting structures can work as long as there's enough emphasis placed on renewals.

Renewals require customer-friendly processes. Streamline renewals into one yearly bill, not a drizzle of bills that mirror the customers' individual purchases over the years. Create easy-to-understand invoices, not laundry lists of obscure items. Adapt to your customer's budget cycles. And synchronize renewals with the actual support processes so there are no awkward gaps.

Visions are good, practical blueprint are even better. Here's an overview of how to implement a sales approach for renewals.

Make sure you have the right support packages

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Support can sell itself, but only if it's packaged properly. Before you jump into a more aggressive sales approach, check that your packages are appropriate and desirable for your customers.

- | Do you offer a range of packages to match different customer segments?
- | Are your packages clearly defined, including SLAs?
- | Are you able to connect features of the packages with actual benefits to customers?
- | Is your pricing clear, understandable, and competitive?
- | Do contractual agreements match advertised features? Are there any long-term customers to whom you must deliver specific features?
- | Is the sales force trained to sell support? While renewals effort touch existing customers, starting with a solid initial support sale is best. It's difficult to get customers to switch support programs down the road.
- | Is there appropriate discipline to sell support at the right price during the initial sale? Customers who got a great deal on support for the first year will have a hard time agreeing to large increases later.

If your support packages are weak, strengthen them to meet customer needs and expectations – poor packages are a tough sell.

Settle channel conflicts

No other problem sinks sales initiatives faster than channel conflicts. Figure out who gets paid for renewals and how. Typically, first-year support is sold with the product and commission is paid to the person that sold it (and the sale may also count towards quota achievement), while support renewals are credited to the renewals rep's quota and count towards a bonus (or, more rarely, a commission at a lower rate than product sales since renewals reps can usually generate much larger revenue streams than a regular rep).

If renewals for high-end accounts are handled by field reps, determine whether they get full commission and quota credit for them (usually not, but then you have the problem of renewals being worked less aggressively than license deals).

And what if a renewals rep needs help from a field rep for a particular renewal? Will there be some type of revenue sharing? This is especially true for selling higher levels of support, when an onsite presence may be needed.

Beef up your tools and the data quality

Under a sales-oriented regime, renewals aren't a pure invoicing activity, but you still need to create invoices. What's more, the people who create the invoices focus on meeting their quotas, not getting perfect invoices. They don't want to search through old invoices to confirm user counts; they aren't patient with incorrect addresses and phone numbers; and they have little enthusiasm (and no incentives) to keep the customer data clean. So if you want to keep them productive and honest, chances are you'll have to improve your tools and processes.

If you're still tracking renewals on spreadsheets, see if your CRM system can handle them instead. And by all means invest in data cleanup if needed.

Transition gradually

You may need to hire new players to implement your sales-oriented vision. I wouldn't let the entire old team go, however. Some individuals may adapt surprisingly well to the new approach, and in any case, keeping some of the collective memory and experience will make the transition easier.

We'll discuss details in the second part of this article, to be published in an upcoming issue.



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