

What is the Future of Support and Maintenance in an On-Demand World?

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At the turn of the 20th century, manufacturing businesses relying on their own power generation did something that may have seemed strange at the time. They shut down and disassembled their steam engines, electric generators and power looms. Just a few years earlier, this would have been unimaginable—manufacturers thriving in the Industrial Age considered private power generation the key component to running their machines and producing their goods.

As the new age emerged, a significant trend became the new business standard and ultimately changed the course of business history for industrialized nations. Independent electricity producers benefited from advances in technology which allowed them to distribute energy to far-off customers. Gigantic thermal turbines were developed, alternating current was introduced, and converters were developed to enable utilities to allow older equipment to be used in the new system. Manufacturers no longer had to maintain their own power supplies, they could simply buy the electricity they needed on an on-demand basis from the new vendors. The result was the obsolescence of private power generation, and the emergence of electricity into a centralized utility.

If you look carefully at today's on-demand model, it may seem like history is repeating itself. IT is shifting from being a costly corporate asset to a service purchased on a pay-per-use basis. Forrester Research calls this model "the third major computing revolution, after mainframes and the Internet" and the major players are already in the scrum. The on-demand model is one of the most compelling—and debated—concepts in the history of computing. On the one hand it offers simplicity and solves a lot of big problems companies have had with business applications. It spares corporations from a complex labyrinth of computers, software programs, data storage devices, and networks. It makes information technology as easy to use as plugging into an electrical outlet. Additionally, customers typically buy monthly subscriptions rather than purchase license fees or build out costly data centers that, for larger corporations, can run into the millions of dollars. On the other side of the coin we have a lot of unanswered questions. What's the business model? What are the procedural implications of switching to on-demand computing? Will there be an opportunity for VARs? As technology companies have made the move to services to insulate themselves from declines in product sales and margin erosion, what is the future as the IT paradigm shifts?

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5 Web Self-Service Pitfalls: What Every Contact Center & Helpdesk Manager Must Know

In this article, Part IV in the series "*Six Big Challenges Facing the Service & Support Industry*" we will answer the question: *What are the Implications to Support and Maintenance in an On-demand World?*

The Transformation

Analogous to the transformation of private power generation to centralized utility service, information technology's shift to the on-demand space will be nothing less than historic. It will alter industry economics, disrupt IT operations, and pose unpredictable obstacles to the way we do business today. It may also prove to be a competitive necessity.

In the recent past, IT infrastructures have been bound to the de-centralized model by the distribution network. Companies have been required to purchase the various components needed to use and support the technology, integrate that technology into their systems, and hire an IT staff for maintenance. Although the situation has proven to be ideal for suppliers, it has forced large investments, redundancy and overcapacity among purchasers. An IBM study of desktop computer usage estimated average capacity at just 5%¹, and Gartner indicates that between 50% and 60% of a typical company's data storage capacity is not utilized² which means that nearly half of all the storage at many companies is empty. Nick Allen, VP and research director of Gartner's storage practice, mentioned in a recent article that it's been less costly to purchase additional storage than to figure out how to use the unfilled space already on hand. "The infrastructure you have in place becomes inadequate, and you can't respond to the business needs that are ultimately driving that growth."

Software and labor are also subject to redundancy and overcapacity. Installations of identical software packages at thousands of different sites create inefficiencies in initial expenditures and ongoing support costs. The technical skills in IT departments are replicated from site to site and from company to company which represents significant redundancies in labor. In a 2003 Gartner survey, it was found that 60% of the average company's IT staffing budget goes to routine support and maintenance.

Now that central IT distribution is possible, companies interested in a true utility model are faced with abandoning their data centers in exchange for the savings offered with on-demand computing. Of course, the transformation of one paradigm to the next is no easy task, and in this case, will be a step-wise process—one of phasing out legacy systems and implementing new procedures while slowing putting the pieces together for full utility computing.

Implications to Support & Maintenance

The benefits of an on-demand IT delivery model are extremely compelling to the end customer—access to core business applications in hours or days versus weeks, months or more; immediate availability of a robust and secure computer infrastructure without the capital outlays and lengthy design and deployment cycles. But what does it mean to provide support and maintenance in an on-demand environment?

This white paper reveals 5 common myths and pitfalls in self-service strategy and implementation. Believe these myths at your peril; they are proven recipes for failure! Based on experience drawn from hundreds of world-class implementations, the paper provides a best-practice approach to web self-service that can dramatically increase adoption and maximize ROI.

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Make no mistake; support and maintenance still plays an integral role in an on-demand model, but it's likely to be very different from the traditional role in terms focus, value proposition, execution and business model.

First, you will no longer have a discrete support and maintenance revenue stream since support is bundled into the subscription price, whether the model is based on a per-user fee as in most software as a service models, or on a per-hour per-CPU model like the Grid Computing offering from Sun Microsystems. The good news is that companies will no longer have to worry about selling maintenance and support as a discrete add-on to the product sale. Likewise, the concept of maintenance contract renewals becomes obsolete; this should bode well for your SG&A expenses. And while this may all be well and good, it may require you to re-think current approaches to revenue recognition, cost accounting and management now that the entire relationship is based on an ongoing service annuity.

Additionally, the types of support calls you field are likely to be very different. If you're providing software as a service, you will probably end up responding to a lot more calls from end users with questions about using the business application versus addressing technical problems with the software. So you may think about shifting emphasis to helping customers maximize the business benefit from their new utility service versus worrying about troubleshooting complex technical issues. This has significant implications for staffing, skill development, your knowledge base as well as how you package and articulate your new support value proposition.

Similarly, if you're delivering compute power on-demand, the services emphasis will likely shift and focus on migration, configuration, testing, tuning or performance monitoring.

In a recent interview with Aisling MacRunnels, Sun Microsystem's Senior Director of Utility Computing, I asked her about the role that the Sun Services organization plays in a Sun Grid engagement. "With the public Sun Grid, there's really very little role for any hands-on engagement, in that you go to a portal, get an account, purchase hours and just start using. Where there is more customization available through the commercial Sun Grid, the Sun Services team will engage to do whatever porting and optimization is necessary to get that application running at its optimal performance."

How far and how fast you need to evolve your support business is also a critical issue and requires companies to have a good understanding of how on-demand fits into their overall corporate strategy. To align yourself with the bigger company picture, here are some questions you should be asking:

- Is your company's core business built around an on-demand strategy like salesforce.com, or is this an alternative business model that sits alongside your traditional model?
- How quickly might your standalone support and maintenance revenue stream be subsumed into an all-included subscription?
- If your company plans to offer an on-demand model in addition to a more traditional approach, what is the intended mix and therefore how quickly do you need to evolve your support and maintenance

capabilities?

- How will revenue recognition and revenue credit be shared across the company?
- What new skills will you need to address the new technical support requirements for your on-demand clients?
- What new services do you need to offer to help customers optimize their new utility based computing model?

There is certainly a long way to go until the support and maintenance industry realizes the true impact of on-demand computing. It is a massive commitment—not only at the technical and monetary level, but possibly even more-so, culturally. Entrenched management will need to see the stability and benefits of utility computing clearly established with a practical roadmap for implementation. This initiative is too complex to play out overnight, but given the sweeping impacts to how we do business in this new IT paradigm, it's best to start the planning process today. As the earlier transformation of the fragmented Industrial Age suggests, radical changes in how we provide support and maintenance seem all but inevitable.

References

1. V. Berstis, "Fundamentals of Grid Computing," IBM Redbooks Paper, November, 2002
2. C. Hildebrand, "Why Squirrels Manage Storage Better Than You Do," Darwin, April 2002

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This is Part IV in a series summarizing the key services issues that our industry is facing. There's more to come—this series is only a brief introduction to the key industry issues the SSPA will be exploring in coming months. The SSPA strives to help you understand the emerging trends in the service and support industry, and to compliment that effort with effective solutions to your business challenges.

So far, we've looked at the following Critical Services Issues:

- [#1: Is the Service and Support Industry Running Out of Margin Improvement Opportunities?](#)
- [#2: How do we Defend Against Support & Maintenance Contract Price Pressure?](#)
- [#3: How do we Make Good Service Translate into Market Share Advantage?](#)
- [#4: A Support & Maintenance Imperative: Moving to a New Level of Value-Added Services](#)

This Issue: *What's the Future of Support & Maintenance in an On-demand World?*

Next month, look for the final article in the series in which will cover *"The Implications of Growing Technical Complexity: a Major Threat to Margins and*

Customer Satisfaction."

Comments? Suggestions? We would like to hear from you. Please email the editor at sspanews@thesspa.com.

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