Analysis of Global Software Support Policies

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IDC OPINION

When organizations purchase enterprise software such as database management systems, maintenance and support offerings play a key role not only in the decision process and realized benefits but also in the overall solution cost. As a result, it is important to understand the policies that can impact the customer acquisition and utilization of support services from initial purchase through the life of the software. In addition:

- To understand what they are paying for, IT buyers are looking for better visibility into their maintenance and support entitlements, including inventory lists, coverage, and discount schedules.

- For their part, software providers have increased their efforts to continually educate customers (and partners) about support capabilities and deliverables. These offerings can range from marketing outreach through email and Webinars to onsite training and workshops to expand adoption and utilization of complex support tools.

- IDC believes that software support will become more important as the "software-defined" world moves ahead. Packaging, pricing, and entitlement practices are key to "Internet of Things" delivery. Patch and upgrade management will bring new challenges to nonsoftware industries. Finally, end-user adoption of support services will evolve over time with more automated and remote support options.

IN THIS INSIGHT

This IDC Insight examines some of the standard practices for licensing and supporting database software, identifying areas that have changed or will change in the future, and addressing specific vendor policies and practices when they differ from the standard.

SITUATION OVERVIEW

Key Trends in the Software Maintenance and Support Markets

Many of the industry-standard policies and practices for licensing and supporting distributed software are consistent across vendors and are well understood by customers. Vendors can gain deeper client intimacy through support, yielding additional sales. On the customer side, cost management continues to be top of mind in software support, as CIOs and IT managers look closely at services that typically make up more than half of their software budgets. Ongoing support costs are now one of the top 5 purchase considerations. Customers are also increasing their focus on TCO and ROI of maintenance and support. In addition, IDC is observing:

- **The convergence of maintenance and support.** As software vendors increase their focus on recurring revenue, growing the maintenance portion of their overall revenue mix is becoming more of a focus. To do this, in addition to focusing on renewals, vendors are elevating the level of service provided as part of a basic maintenance offering – and raising the baseline price. Companies are also moving away from the term *maintenance* because they believe the term undervalues the services they are providing.

- **A focus on customer retention.** Significant scale can be required to deliver support profitably. In addition, vendors can gain deeper client intimacy through support, yielding additional sales. Renewal rates are already generally high (90%+) across the industry. However, vendors have been focusing on making them even higher, especially trying to retain those maintenance customers that are running older software.

- **Move to software as a service (SaaS) and subscription.** SaaS has been around in the software industry for at least a decade now, and subscription even longer than that. While it's true that the pace of change in technology is quite rapid, IT departments can move exceedingly slowly. IDC research has shown that most customers that are shifting spending to SaaS and subscription do so gradually, supplementing existing software rather than ripping and replacing existing technology and software contracts. This can be especially true for large organizations with layers upon layers of legacy IT assets, where migrating will be a substantial burden and requires a wholesale shift in strategy.

- **Improved education on support entitlements**. Many customers do not know exactly what is included as part of maintenance and support contracts. This can result in benefits not being accessed or realized and will impact customer satisfaction and the likelihood of the services being renewed. Providers are also trying to make it easier to access support and have enhanced their mobile and social support capabilities.

- **Expanded support deliverables.** As more organizations adopt SaaS, software support deliverables are shifting away from supporting technology and toward more relevant business process support for line-of-business managers. In addition, the need for faster software adoption and expanded utilization has resulted in tighter integration of training into software support delivery.

General Software Support Practices

When customers purchase enterprise software for the first time, they typically also purchase maintenance and support contracts. It is usually required that customers purchase maintenance for at least the first year, and sometimes the first year of maintenance is included in the purchase price. Customers that wish to continue to receive support and updates thereafter must pay annual fees. While most enterprise software companies do allow license-only purchases, only customers purchasing maintenance and support can access patches and updates as well as support deliverables like knowledge base articles and self-help guides.

In addition, most database software companies require customers to carry the same level of maintenance and support across all the licenses of the same product. This is sometimes referred to as "all or nothing" or "matching service levels." Oracle, for example, words the requirement as: "You can either maintain the same level of support across all licenses of a license set (i.e., database and options) or maintain no support across all licenses, but nothing in between, such as maintaining support only on the licenses that are currently in use." SAP also requires customers to maintain a homogenous level of support across all SAP products within an enterprise IT environment. There are several reasons for this policy from a vendor perspective, including:

- It would be difficult for customers to know which software is entitled to maintenance and support updates and which is not. Since there are no controls built into maintenance patches or product updates that would only allow the updates to be applied to software that is covered by maintenance or support, it is easy for customers to fall out of compliance by applying updates to unsupported software.
- Given the tight integration of enterprise software, it can be very difficult for providers and customers to manage support for multiple solutions at different levels. With many layers of software responsible for a single business process, diagnosing and resolving complex issues with varying levels of support entitlement can be difficult.

Given the occurrence of mergers and acquisitions across industries, it is common to find different levels of maintenance and support on a mix of systems for newly combined enterprises. Most software providers address these situations on a case-by-case basis depending on the IT integration plan for the new entity. For SAP, if the newly combined enterprise intends to run separate IT systems, the maintenance and support contracts will be handled as if they were separate customers. Oracle typically requires the combined entity to repurchase the licenses and bring all systems current on support and maintenance. IBM offers some additional flexibility to database customers, with Informix support covering the licensed product regardless of where it is installed.

It is cost prohibitive for customers to allow software to go unsupported if they wish to ever reinstate support or maintenance at some point in the future. There is typically a reinstatement fee in addition to fees associated with "back maintenance." Furthermore, the cost of maintenance and support going forward is based on list license price (when maintenance associated with initial purchases is often based on the net, discounted license price). This can be so costly that repurchasing the licenses is usually the better option.

In general, for most large database software providers, software support pricing is consistent across all versions of the software. Oracle offers Premier Support for its database products at a standard percentage of license across all products. SAP offers Standard Support and Enterprise Support, with each offering set at a standard percentage of license that applies to all products on the price list. IBM includes a mix of pricing options for Informix and DB2, with pricing consistent across support offerings. It is important to note that there may be exceptions from each provider based on the age of the product, as almost all software providers charge an additional fee to support software outside of the standard maintenance window.

Which Services and Software Are Included?

Years ago, maintenance and support contracts included bug fixes, patches, and updates, but major upgrades would require separate product purchases. Today, most maintenance contracts include major upgrades or new releases, and prices have risen over the years to reflect this. In fact, many software companies have moved away from calling their offerings "maintenance" in favor of

"subscription" or "software assurance" to imply that these offerings do more than just keep the lights on for customers that stay current. See Appendix B: Definitions in the Learn More section of this document for the standard definitions for maintenance and support.

Support services have evolved significantly over the past 10 years as well. Across the software support market, support no longer primarily focuses on addressing problems when they occur (break/fix). Support providers have expanded their offerings to include advanced proactive and preventive support capabilities, intended to diagnose and resolve problems before they can affect critical systems. The future of software support will include expanded services for problem detection and resolution, with an increased emphasis on predicative analytics and automated remote repair. The increased adoption of automated and remote support features will allow IT staff to focus on improving adoption and utilization, allowing the enterprise to achieve the business outcome intended from the technology purchase from the outset.

FUTURE OUTLOOK

Renewal rates for both software maintenance and support services continue to be high. ISVs have been successful in getting customers to adopt higher-priced maintenance and support offerings (after a rough start for some). In addition, third-party maintenance offerings, while an attractive idea for many customers, have not succeeded in making a sizable dent in even those software markets where those offerings exist.

The growth of cloud-deployed and cloud-delivered subscription models as an alternative to on-premises license plus maintenance models will impact maintenance and support offerings and policies. IDC expects that as customers start to track software license and support entitlements and utilization more closely, there will be pressure on software vendors to create more flexible policies. In addition, IDC anticipates that support offerings will continue to move away from technology-focused deliverables to support packages that can help achieve better business outcomes through software.

IDC expects that maintenance and support offerings will continue to evolve. Software providers should consider programs and initiatives that help customers measure better business outcomes and help drive alignment between IT and business managers. In addition, they should make sure that customer interactions with support staff are high-quality, high-value engagements to support customer intimacy and service stickiness.

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Appendix A: Methodology

The data and conclusions in this IDC Insight are based on in-depth interviews with large global software providers that took place in July 2015. These companies are well established around the world, with decades of experience in selling software to a global customer base. IDC has updated this information via ongoing discussions with these providers. In addition, IDC has relied on observations of the global practices of several other leading ISVs.

Appendix B: Definitions

- **License.** A license is a nonexclusive agreement granting rights to use packaged software or components of that software to a licensee. Software vendors aim to align their licensing

models with the measurement of customer value derived from the product. As such, a licensing model is simply a set of variables that are used to measure the value derived from a software product. The closer the measurement is to the actual value derived, the more fair the system is.

- **Terms and conditions.** Terms and conditions are the fundamental rules governing the usage of the software.

- **Ownership.** This refers to the measure of which party (or parties) holds the title to the IP in a software solution, taking into account the custom coding that goes into any software solution, as well as the fact that it can be leased, rented, or otherwise incorporated into a services-based contract.

- **Maintenance.** This refers to an agreement between the licensee and software developer through which the developer continues to improve the packaged software product by repairing known faults and errors or enhancing and updating the product. It may also include technical support and is generally priced as a percentage of either the net or list license cost. Definitions of specific maintenance activities are:

  - **Update.** An update is an interim release adding features or functionality to an existing program, which the ISV makes available for program licenses to its supported customers at no additional fee (other than shipping and/or media charges), provided the customer has ordered maintenance for such licenses for the relevant time period.

  - **Upgrade.** An upgrade is a subsequent major release of an existing program, which an ISV may offer for sale, typically at a discounted rate or free to customers of that program. Upgrades may be included in the continuing right to use (as is generally the case with software delivered as a service) or may be priced separately, as part of a maintenance agreement.

  - **Repair/patch.** A repair/patch is code that corrects specific bugs or faults in a software product. This is an interim release made available to all licensed users of a software product.

  - **Technical support.** Technical support provides remedial assistance for software end users and is generally provided either online or by telephone. Support may be offered as part of maintenance program or priced separately – or some combination of both.

- **Support.** Software support services are activities, expertise, and systems all aimed at providing the customer with proper installation and configuration of commercially available packaged software delivered either on-premises or "as a service." It also includes appropriate ongoing support and access to resources. Typical activities associated with software support services are:

  - Telephone support

  - Remote diagnostics and repair

  - Electronic support

  - Support-related software maintenance (when a software vendor provides, generally online or by telephone, remedial assistance – which may include a software patch or maintenance release – for software end users)

  - Onsite software support

  - Predictive and preventive monitoring and notification

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