STRATEGIC MARKET PERSPECTIVE

European Software Product Support, New Open Market Opportunities

Software Support Programme—Europe

European Software Product Support

New Open Market Opportunities

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Abstract

This report provides an executive perspective on the software product support market, the role of new value- or usage-based pricing and its effect on the decision making of software users and software vendors. It reviews the user's needs for better value and wider choice of vendor in the open market. It analyses vendors' objectives in changing pricing structures and the treatment of their supply channels.

European Software Product Support, New Open Market Opportunities identifies the potential for major structural changes in the demand and supply of software product support services. Users are beginning to seek greater choice of service and vendor, just as they already have in the hardware and software product sectors. As open competition emerges, software vendors can no longer rely on retaining a captive market for their support services.

New support pricing structures for software products promise to create major new opportunities for services vendors. The introduction of innovative support services for software products by some of the leading vendors is re-shaping support into an open multi-vendor market where competition promises better value for customers.

Free software support for PC users will soon be a thing of the past. On the other hand the high cost of mainframe software is encouraging IS management to downsize applications onto cheaper products and to search for better value from support contracts.

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**Software Product Support Programme—
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*European Software Product Support,
New Open Market Opportunities*

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Introduction

This report was produced as part of INPUT's Software Product Support Services Programme in Europe.

A
Purpose

The purpose of this report is to provide software product vendors with an analysis of the current status of software product support in the rapidly changing client-server market in Europe.

Software product support is an area of increasing importance, given the highly competitive conditions created by the open systems and client/server movements: in 1993, the European market for software product support was estimated to be worth $3 billion. Vendors from all sectors are now challenging for business in the *open services* market, within which software product support is expected to be a key contributor to success.

This report focuses on the support arrangements for *software products,* which excludes custom developed software either produced by a contractor or by in-house IS staff. The report analyses user issues concerning systems software support, and compares new support services currently offered by the leading product vendors in the European market.

B
Scope

INPUT defines the Software Product Support sector as software advice, guidance and maintenance activities that relate to both systems software products and applications software products. Included are associated support activities such as telephone support, problem analysis and software diagnostics. Exhibit I-1 illustrates INPUT's definition of the software products market.

Exhibit I-1

Software Products Market Segmentation

Customer Services
Systems Software Support

Software

Systems Software

Applications Software

Cross-Industry

Industry-Specific
- Insurance
- Medical
- Process Manufacturing
- Retail
- Services
- State and Local Government
- Telecommunications
- Transportation
- Utilities

Systems Control
- Access Control
- Communications Monitors
- Micro-Mainframe Links
- Network Control
- Operating Systems
- Security Systems
- System Library Control

Data Center Management
- Capacity Management
- Computer Scheduling
- Data Center Management
- Downtime/ Repair Monitoring Management
- Job Accounting
- Performance Monitors
- Tape Management
- Utilities

Applications Development

Program Development and Production Tools
- Application Generators
- Assemblers
- Automatic Documentation
- Compilers
- Debugging Aids
- Languages
- Systems Development Control
- Retrieval Systems
- Translators

Data Base Management Systems
- Data Base Management Systems
- Data Dictionaries
- Other

CASE Systems

Accounting
- Accounts Payable
- Accounts Receivable
- Fixed Assets
- General Ledger
- Purchasing

Human Resources
- Benefits
- Payroll
- Personnel
- Compilers
- Training and Education

Planning and Analysis
- Budgeting
- Financial Planning
- Forecasting
- Compilers
- Modeling
- Integrated Analysis Systems
- Spreadsheet Systems
- Graphics
- Other

Engineering and Scientific
- Structural
- Chemical
- Electrical
- Mechanical
- Piping
- Project Control
- Nuclear
- Statistics/ Operations Research

Education and Training
- Computer-Assisted Instruction
- Authoring Languages
- Video Instruction
- Live Instruction
- Other

Other Cross-Industry
- Administrative Services
- Corporate Services
- Sales, Marketing and Distribution
- Word Processing
- Other

Exhibit I-2

Information Services Market Segmentation

Information Services

| Equipment Services | Network Services | Processing Services | Systems Operations |

| Professional Services | Turnkey Systems | Systems Integration |

| Systems Software Products | Support Services | Applications Software Products |
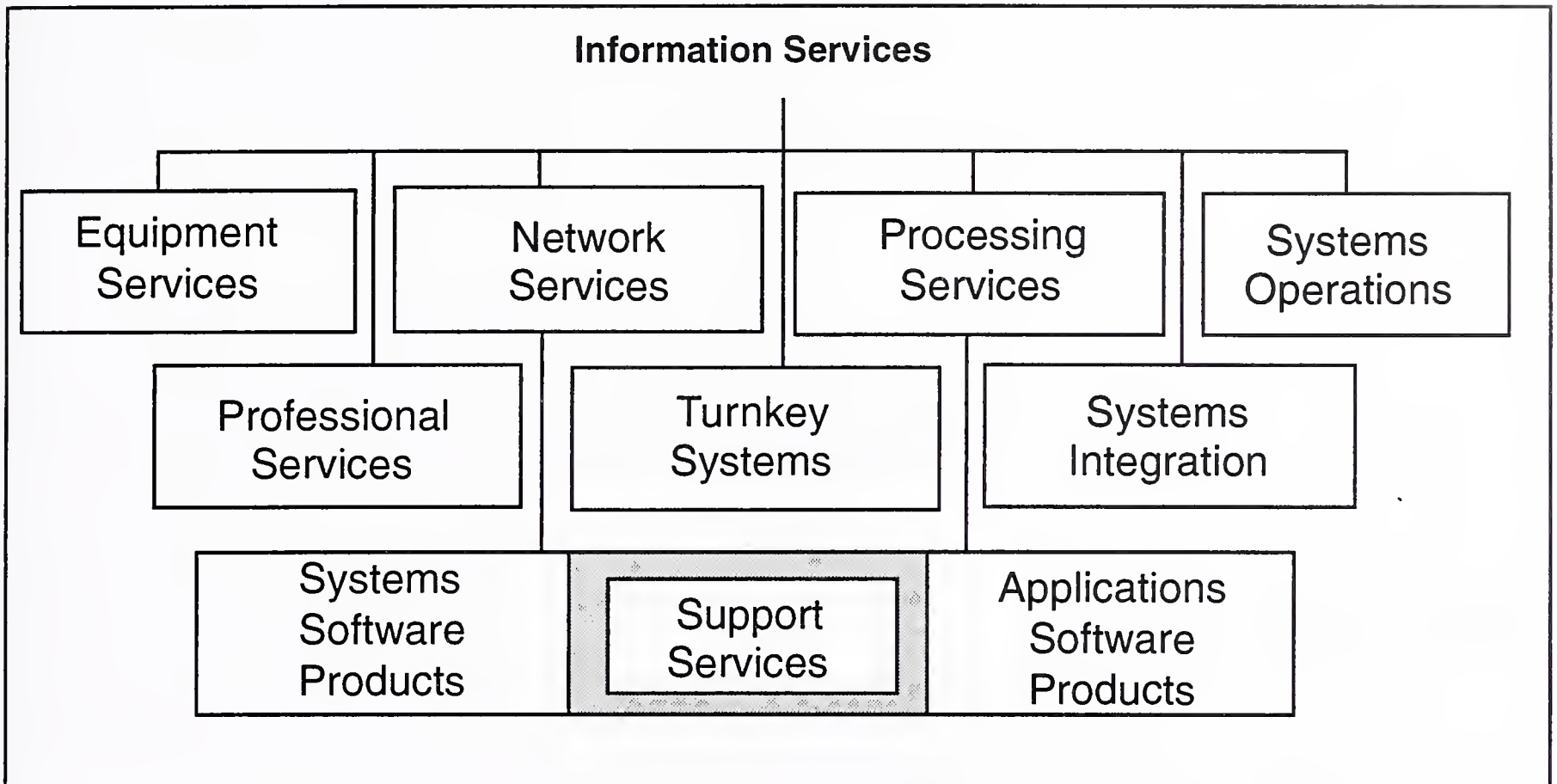
Exhibit I-2 shows the complete segmentation for the software and services industry used by INPUT in analysing the European and worldwide markets.

In each service sector, the definition of user expenditure includes only those services provided to users by an external organisation on a chargeable basis. Services provided by subsidiaries or internal resources are excluded from the open market.

For complete coverage of the entire software and services opportunity see the INPUT report *Software and Services Market Analysis and Forecast - Europe, 1993-1998 (December 1993).*

C
Methodology

The methodology used in the preparation of this report comprised both a user and a vendor survey supported by INPUT's continuous research of European software and services markets.

The user research was based on the use of a standard questionnaire (see Appendix A) designed to identify key user issues in respect of software support contracts and delivery. One hundred interviews were conducted by telephone in Germany, France and the United Kingdom during the three months up to January 1994. Respondents were selected to be a random sample of managers responsible for systems software products operating on mid-range computers and substantial network based PC installations.

The vendor data was obtained from direct communication (both telephone and face-to-face interviews) with 20 major software vendors operating within European the IT industry. This was in addition to INPUT's constantly updated database of information on vendors active in the European market

D
Report Structure

The remaining chapters of this report are organised as follows:

Chapter II is an executive overview that summarises the major findings of the research and INPUT's recommendations.

Chapter III provides analysis of the user research covering the topics of user support arrangements, the importance of various features of software support contracts, satisfaction with software support services and opinions on value for money from various types of supplier.

Chapter IV examines newly introduced software support offerings for the following vendors: Lotus, Microsoft, Oracle and SAP.

Appendix A contains extracts from the questionnaire used for the user survey

Appendix B contains extracts from the questionnaire used as the basis for vendor interviews

E
Related INPUT Reports

I-5

Further reports on aspects of the software support market are planned for publication. Details are available on request.

Recent INPUT reports which address topics related to the subjects discussed here include the following:

Software and Services Market Analysis and Forecast - Europe, 1993-1998 (December 1993)

US Systems Software Market - 1993-1998 (October 1993)

Database Migration (May 1993)

User Issues and Trends in European Customer Services (February 1993)

User Satisfaction in Europe - Mid-range Systems (March 1993)

Open Systems Services Challenges and Strategies - Europe (March 1993)

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II
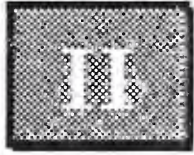
Executive Overview

A
New Open Market Opportunities for Software Product Support

There has been very little change in the proprietary nature of software product support over the past decade. In 1994 this is no longer the case. Open market conditions are beginning to give customers choice, with support vendors competing on services, price and performance. INPUT's research spotlights three key characteristics that vendors must recognise in exploiting these new open support market opportunities:

- Customers need tailored support contracts which match their situation

- Support services must be marketed to enhance their perceived value

- Competition will drive price/performance improvements.

Support services for both datacentre and desktop software products are undergoing radical changes in the hands of innovative lead vendors. Support will become a key vendor differentiator as customers begin to be offered a choice of service and a choice of vendor. The market is just starting its transition from a totally proprietary business, locked in to the product vendor, to one of open competition for software support contracts. Product and service vendors need to assess their position and ambitions in this new emerging market.

The key success factors in the open software support market will be: tailored service levels, value-based pricing and delivery cost containment. To exploit the emerging open support market, software and service vendors will need to implement the following recommendations:

- Introduce a portfolio of software product support services and service levels to match both current and future individual customer needs

- Actively price, promote and sell to customers the benefits and value of the support expertise from the vendor and networked partners

- Achieve continuous productivity improvements in the delivery of support services to counter price erosion from more open competition.

Vendors are very familiar with the impact on their business of the trends from proprietary to highly competitive open markets. Initially it was plug-compatible hardware products, then came third-party maintenance services, next it was software product standards. Now it is the turn of software product support to become the focus for open competition. Exhibit II-1 illustrates these four open market movements.

Exhibit II-1

Open Market Trends Reach Software Product Support
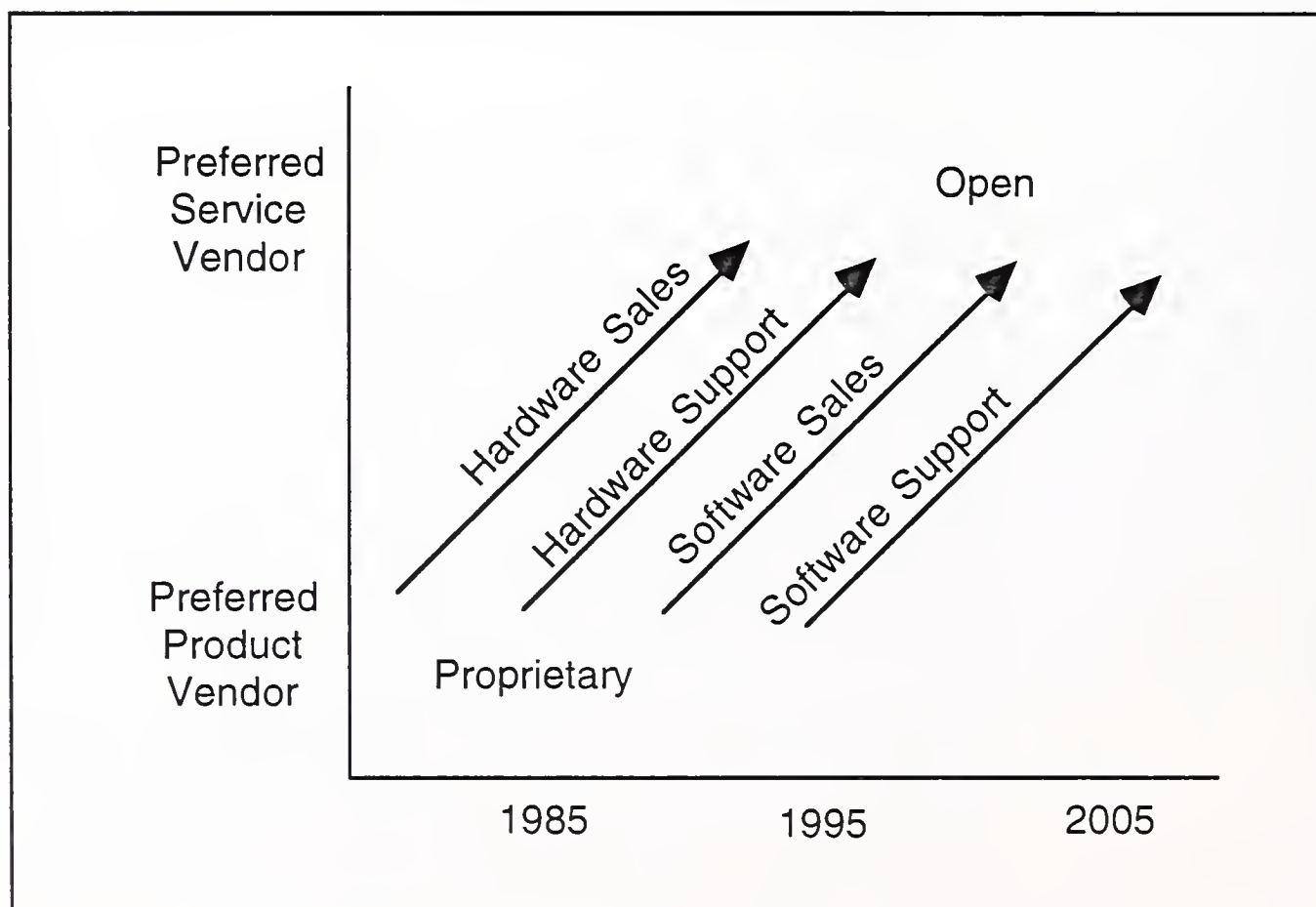
B
Customers Need Tailored Software Product Support

At the desktop, support has usually been a free service. In the datacentre environment it has traditionally been defined as an annual fee of around 15% of the software product licence. Little has been done in the past to relate the service offers to the individual needs of each customer. The only choice the customer had was to take the service or not.

A common profile of the demand for support is shown in Exhibit II-2. The initial need is very high and the knowledge transfer is steep. Once in operation the need for support falls, with just the occasional request. At the point of implementing a product upgrade a new surge of demand is created to overcome incompatibilities and renew the learning activity.

As yet, few vendors offer standard support services that recognise not only these obvious variations, but also the special needs of particular business or technical environments. For example, very expert users need support from equally expert vendor staff. A critical business application may need back-up support 24-hours per day at peak periods.

A portfolio of support services with a choice of service levels will allow a set of standard services to be tailored to each customer's needs.

Exhibit II-2

Variable Demand Requires Tailored Support Service
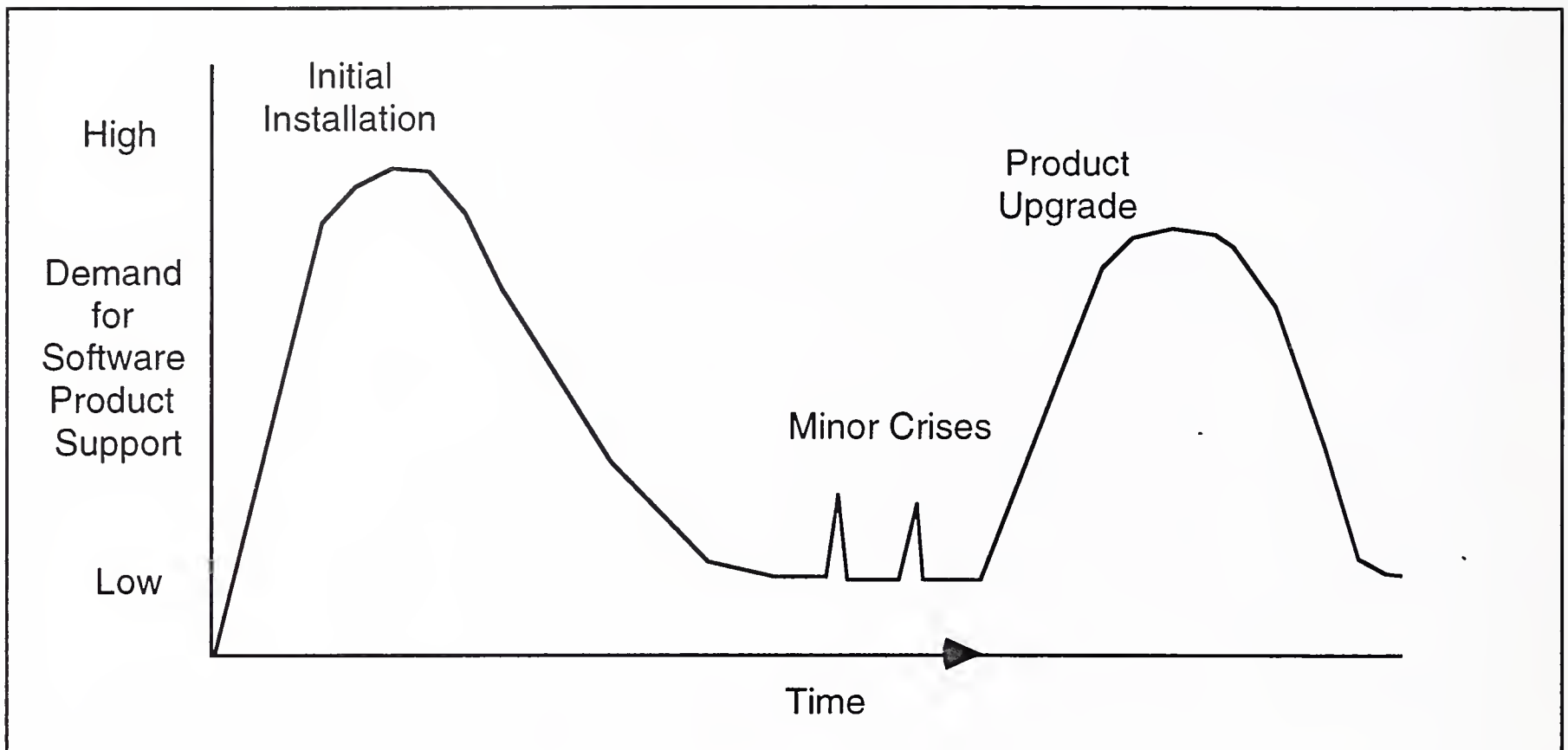
C
Support Services Must be Marketed

The market for support is becoming more open and customers are being exposed to more innovative offerings from competitors. As Exhibit II-3 shows, users do not have a high opinion of the value for money of their existing support providers.

Users still show a preference for support from equipment vendors compared to independent third parties or ISVs (independent software vendors). ISVs rated the lowest satisfaction, as might be expected, since most ISVs focus on selling their products rather than making money from support.

Two particular threats exist for vendors with a customer base to protect:

• A customer may start to question the value of today's support service and consider moving to an on-demand contract

• A customer may be attracted to a third party for support which is cheaper or more relevant

Vendors can no longer rely entirely on the strength of their software products to pull in support contracts. Support must be actively marketed and sold to customers.

Exhibit II-3

User Perceptions of Software Support by Vendor Type, 1994

Sample: 100 European IS Managers
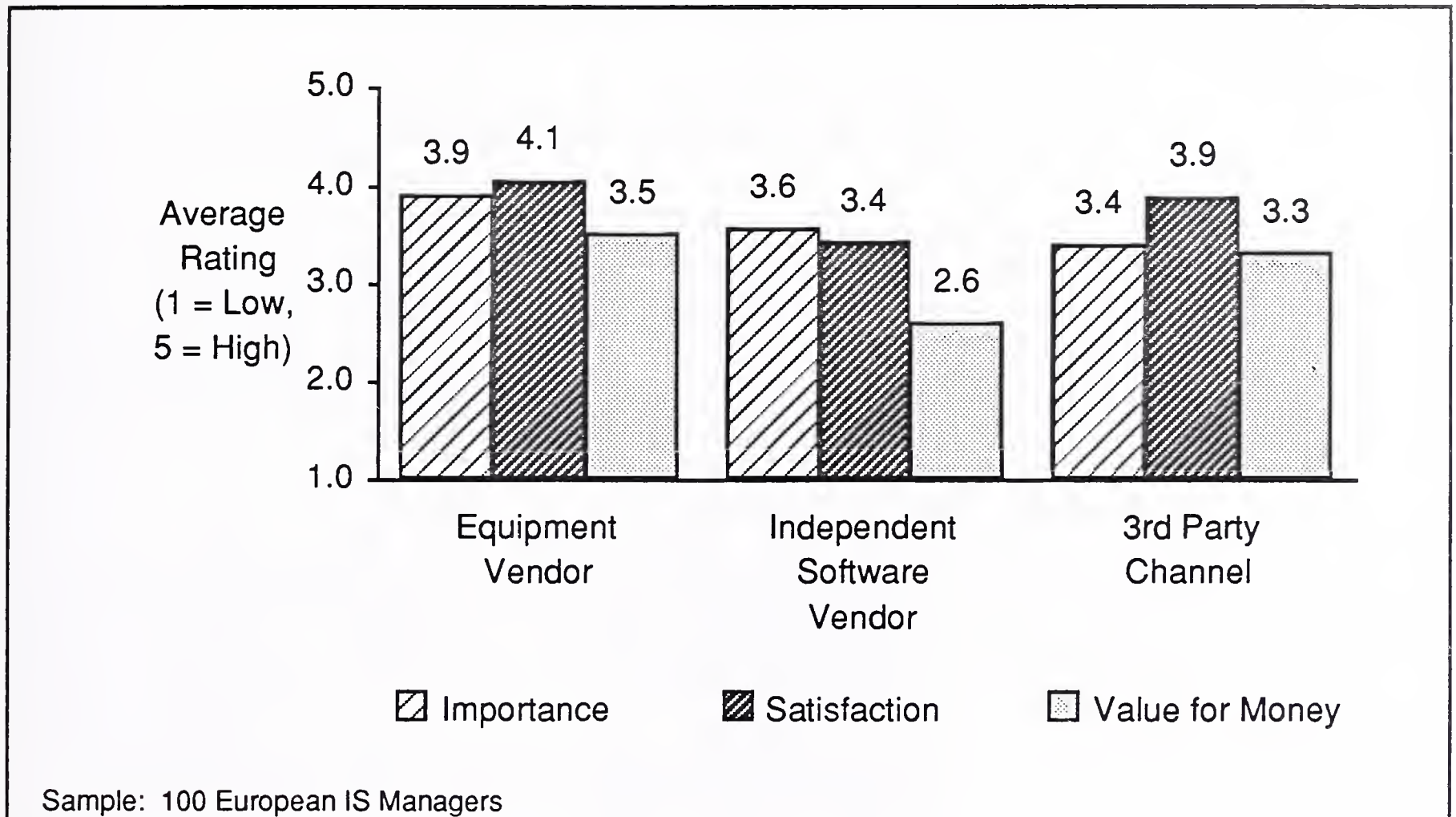
D

Open Competition Drives Price/Performance Value

As customers start to evaluate alternative vendors for support services, so they will begin to compare the value-for-money or price/performance offered in service level agreements.

Recent activities among leading ISVs will lead to the creation of new support service markets. Microsoft, Lotus and others have withdrawn unlimited free telephone support and are now charging different rates depending on the type of product and user. Oracle, Ingres and SAP, for example, have all introduced imaginative new support services to improve their product positioning.

Both these groups of leading ISVs are actively raising customer awareness of the need for and value of support services. In doing so the ISVs are creating a new market in which third parties can compete for support services. Exhibit II-4 shows the relationship between these support activities and their contribution to the ISVs' goal of selling more products.

Exhibit II-4

ISVs Create New Open Support Markets

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┌─────────────────────────────────────────────────────────────────────────┐
│                                                                           │
│   ┌──────────────┐      ┌──────────────┐      ┌──────────────┐            │
│   │  ISV's New   │      │  Increased   │      │  Improved    │            │
│   │  Support     │ ──►  │  Customer    │ ──►  │  Customer    │            │
│   │  Services &  │      │  Willingness │      │  Satisfaction│            │
│   │  Charges     │      │  to Pay      │      │              │            │
│   └──────────────┘      └──────────────┘      └──────────────┘            │
│                                                                           │
│      ISV              MARKET                                              │
│   INITIATIVES         MAKING                                              │
│                                                                           │
│         ┌──────────────────┐              ┌──────────────┐                │
│         │ Service Partners'│              │  More        │                │
│         │ New Third Party  │              │  Software     │                │
│         │ Support Services │              │  Product      │                │
│         │ Market           │              │  Sales        │                │
│         └──────────────────┘              └──────────────┘                │
│     ADDING-VALUE OR                         ISV GOAL                       │
│     COMPETITIVE TO ISV                                                     │
│                                                                           │
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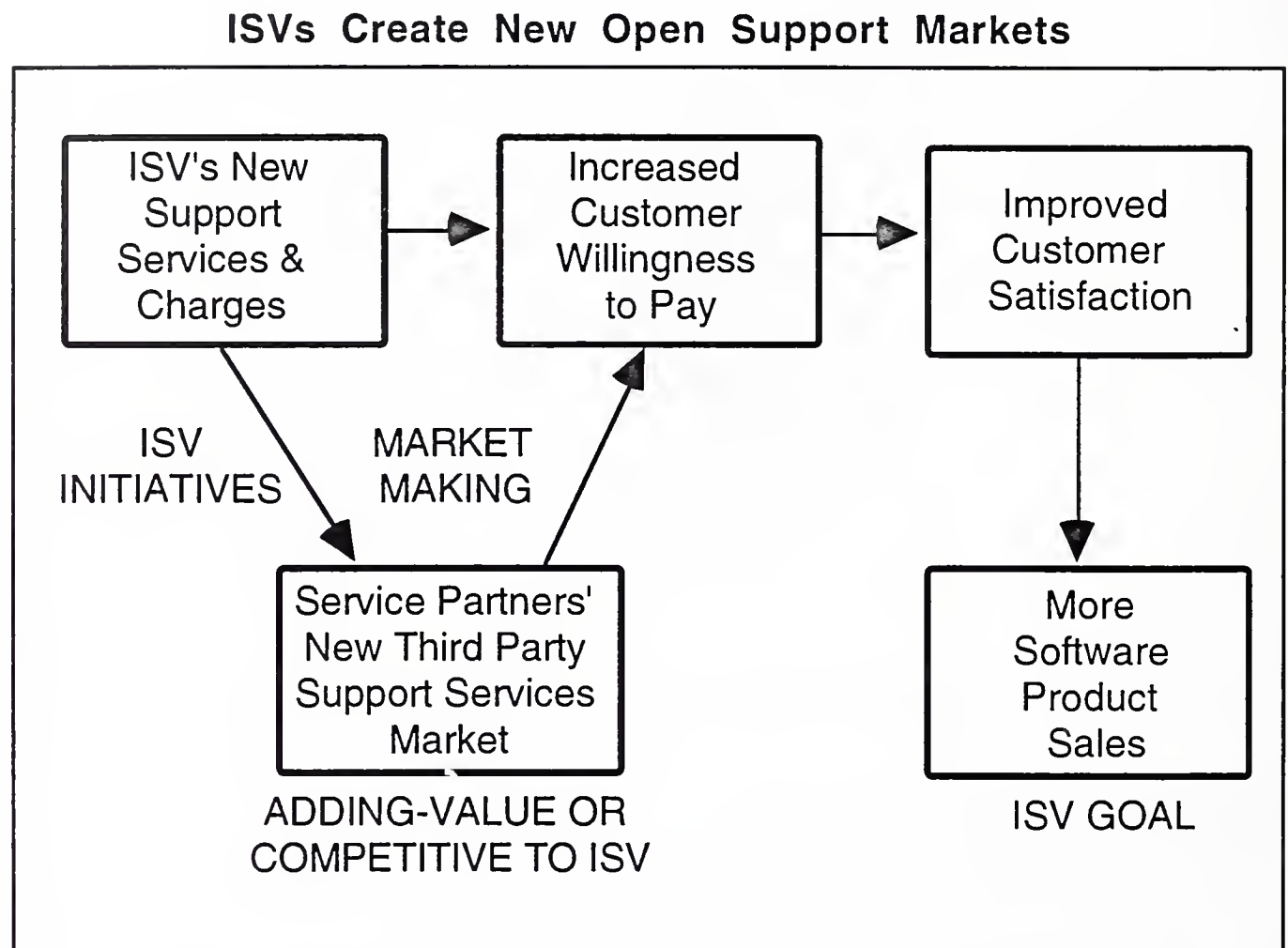
Source: INPUT

In an open market price erosion will be the norm. Around 50% of vendors now manage their software support business as a profit centre. If vendors are to maintain the profitability of support they will need to implement a continuous programme of cost reduction and service improvement. Examples of recent novel support services are:

- 24-hour support service on global networks

- Experts who speak the callers language

- Predictive alerts (e.g., warning of approaching system problems)

- Access to frequently asked question/answer databases

- Networked bulletin board user/partner forums

- Emergency services for business critical software.

It is too early to predict which vendors will best exploit the new developments in the software support market. The equipment vendors have already embraced the multi-vendor and enterprise-wide approaches to selling these services and have a natural advantage as preferred support vendor for the majority of users. The ISVs are generally looking for product sales, but may turn more to support service revenues if product prices fall rapidly. Business critical application ISVs and independent service vendors delivering solutions are well suited to deliver multi-vendor software support services, though most do not yet see this as the major business opportunity that it is.

The activity of all vendors will contribute to stimulating demand in a sector where support has always been free or always proprietary. It may be that users remain unconvinced that they need to buy support, in which case the quality and reputation of the whole software sector are likely to remain suspect.

This report is just one of a series that focus on the key dynamics of this software product support market.

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III
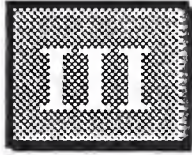
User Expectations

The provision of software product support to large datacentres has followed a familiar pattern for many years. Most vendors price their basic support service annually at about 15% of the full licence. Many customers barely question the basis of such pricing.

At the opposite end of the market, PC users have yet to discover the effects of having to pay for software support. It is only over the first few months of 1994 that PC software vendors decided to introduce a scale of fees for support.

Between these two markets are the mid-range and PC networked systems markets. IS managers for these systems have spent the last few years coming to terms with (or getting confused by) open systems and an ever expanding range of vendors to choose from for hardware, software, support and other services. INPUT has researched this server market in France, Germany and the U.K. to understand users' needs for software product support and their opinions on value for money.

A
Mid-Range Minority See *No Contract* As Best Value

A minority 20% of mid-range and PC network IS managers surveyed have no contract with an external vendor for software support. They also feel that spending only on time and materials support and nothing on a software support contract gives excellent value for money. This group represents a challenging opportunity for support vendors.

The first challenge for vendors is to match a set of support service offerings to the needs of this group. Their most important needs are:

- High demand for support services around the time of the initial purchase of a software product

- Much lower demand for support once the software is in regular use

- Contract pricing which reflects their actual usage of support services rather than representing it as an insurance against crises.

Secondly vendors will need to raise the perceptions of this group concerning the value of support services. Of those surveyed 30% felt they received good or excellent value for money from their existing support vendor. The remaining 70% (including the 20% minority without any contract) will need further education, with marketing and sales activity, if vendors are to increase the perceived importance of support and encourage them to buy more.

Overall, European managers of mid-range and networked server systems confirmed that they are unhappy with software update support. The difficulties they experience with updates contrasts strongly with the ease of initial installation of a new purchase.

For software product vendors this presents two further challenges:

- How to reduce their own resource costs for installation services

- How to reduce the customers costs when implementing software upgrades.

B

Over-Performing and Under-Performing on Support

A comparison of average user opinions on both the importance of support service elements and their satisfaction with them is shown in Exhibit III-1.

Overall the importance and satisfaction ratings are relatively high, indicating that those surveyed appreciated the value of the services received. However the exhibit does highlight both areas in which vendors are typically doing more than expected and some in which they are doing less.

The diagonal line indicates the point at which importance and satisfaction are equal. Results to the left of this line imply that users perceive this service to be worse than it should be. Those to the right indicate some degree of over performance. It needs to be pointed out that these differences are relatively small for a sample of 100 users.

As expected the skills of the support engineers are given high ratings for both importance and satisfaction. However product installation services are seen to be over performing, indicating a possible opportunity for vendors to reduce costs and reduce the level of service.

On product installation vendors are seen as over-performing, but for its counterpart, the provision of updates, they are definitely under-performing against user expectations.

Exhibit III-1

User Satisfaction Vs Importance of Software Support, 1994

Sample: 100 European IS managers
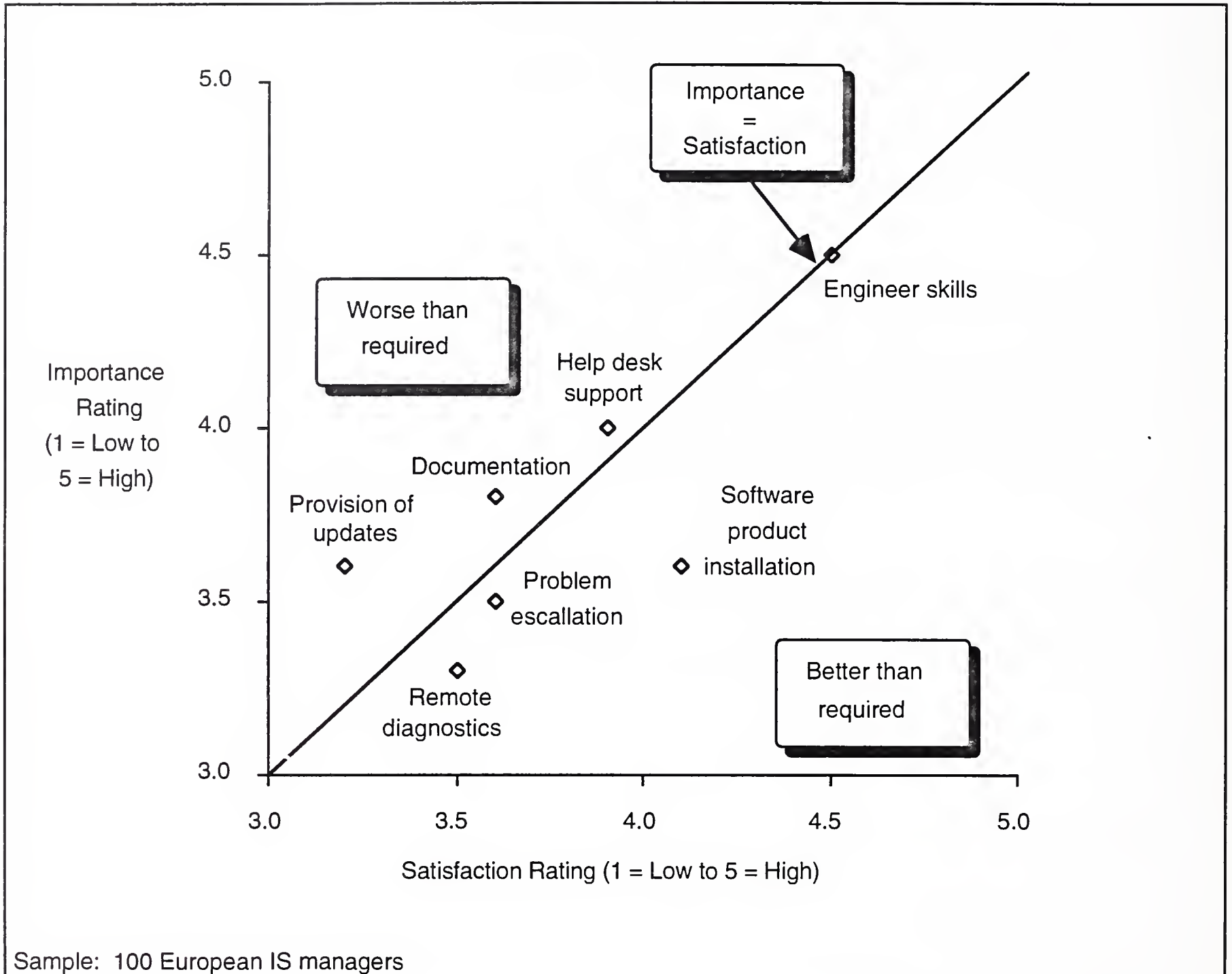
Vendors face a dilemma in providing software enhancements and upgrades. Existing users would like stability and reliability. In contrast new users can only be attracted by advanced features and competitive price offers.

Existing users also have contradictory needs. Firstly they would like to see improvements in features, performance and reliability. Secondly they would like a stable product on which they can depend and gain longer term financial benefit.

In general the software product vendors have not met this need. On the contrary they tend to insist that users keep up with new

issues and versions by withdrawing support for older versions after a relatively short period of obsolescence.

New users of software are only interested in the latest version. In fact they are often sold on the promised features of the next, not yet released, version. This type of competitive point-scoring pushes vendors into making substantial and often incompatible upgrades to software products. In turn this results in the user opinion that upgrades are among the least satisfactory of all support services.

C
Country Comparisons—U.K. Users See Less Value in Software Product Support

Most vendors consider the U.K. to be the most competitive market for IT in Europe. So it is not surprising to find that U.K. users are the most critical of the value of software support services. Exhibit III-2 summarises the average results on questions of importance, satisfaction and value for money analysed by country of respondent. Of the 100 responses 30 came from Germany, 30 from France and 40 from the U.K..

The results are very consistent across the three countries, with satisfaction being consistently above importance, indicating that the services being delivered are generally well above the customer's expectations. This indicates that vendors could take further action to reduce costs and service levels without having an impact on customer satisfaction. Alternatively vendors could pro-actively set about raising customer expectations for support services in a bid to improve perceived value for money and compete more effectively.

INPUT concludes that vendors should take action to raise customer perceptions of value-for-money for their own support services as a competitive move to counter price and service level pressures. Some vendors are already differentiating themselves with an innovative choice of support offerings.

Survey respondents in Germany valued the software support they are receiving higher than those in France or the U.K..

The ratings on value for money were always lower than satisfaction, with the U.K. respondents feeling that the value for them is well below that experienced in Germany. U.K. customers

are clearly more critical in their expectations of value for money. The U.K. market is likely to lead the rest of Europe in its demands for higher levels of support services and more competitive (lower) pricing.

Exhibit III-2

Perceptions of Software Support by User Country of Origin, 1994

Average Rating (1 = Low, 5 = High)

France: Importance 3.3, Satisfaction 3.9, Value for Money 3.5
Germany: Importance 3.4, Satisfaction 3.9, Value for Money 3.7
UK: Importance 3.4, Satisfaction 3.7, Value for Money 3.2

☑ Importance   ▨ Satisfaction   ▣ Value for Money

Sample: 100 European IS managers
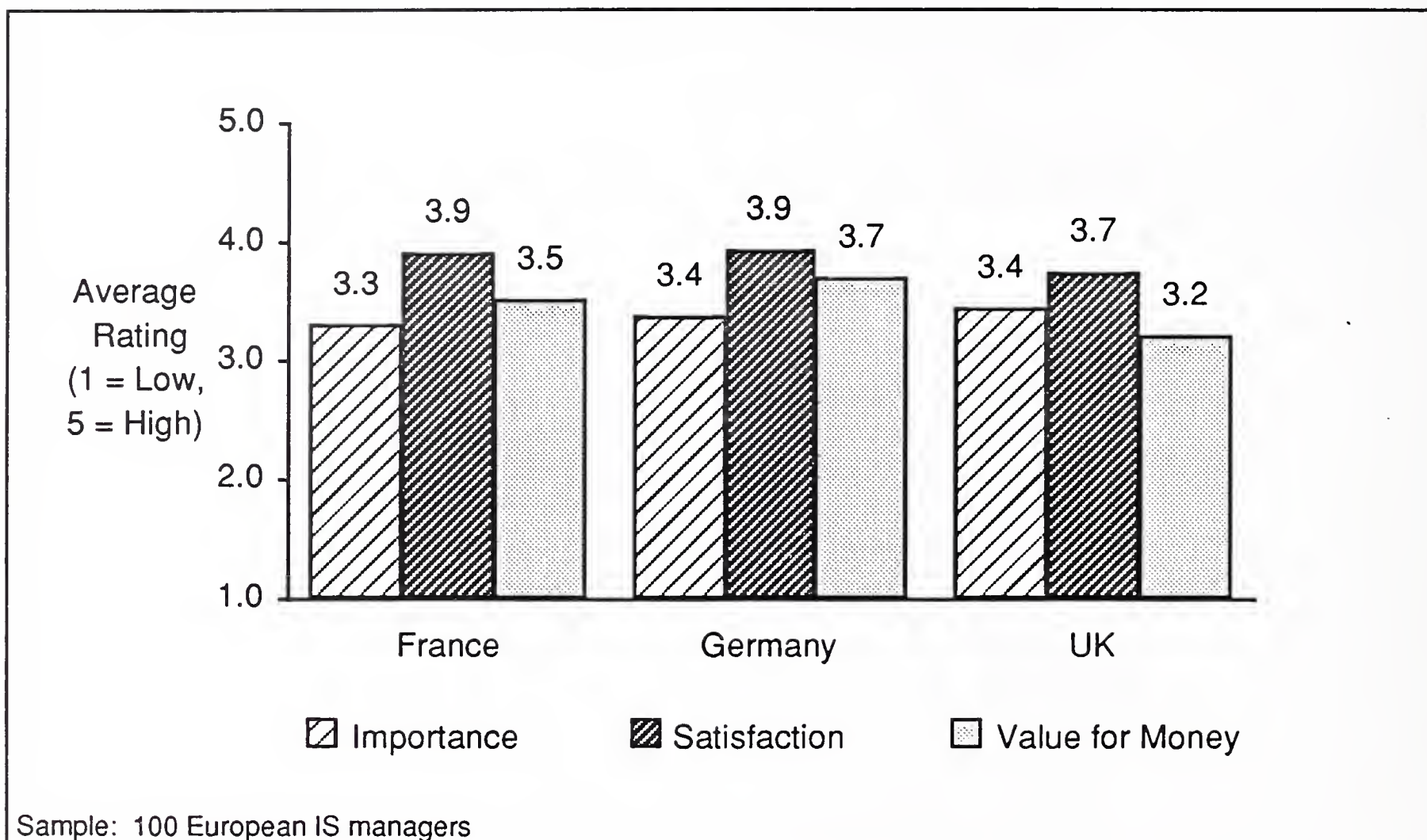
Source: INPUT

The distribution of responses on questions of importance and satisfaction in each country are illustrated in Exhibits III-3 and III-4. The French sample showed stronger positive and negative feelings about the importance of support, but still ended up with much the same average results as the other two countries.

The ratings on satisfaction show a much larger group (around 30%) of very satisfied users in France and Germany whereas U.K. users are more critical across all types of response.

Exhibit III-3

Importance of Software Support by User Country of Origin, 1994

Rating   ▨ 1   ▧ 2   ☐ 3   ▨ 4   ▨ 5
         (Low)   (High)

Country	1	2	3	4	5
UK	5	18	28	26	23
Germany	3	23	30	20	23
France	13	23	13	20	30

Percent of Respondents in Country

0   20   40   60   80   100

Sample: 100 European IS managers
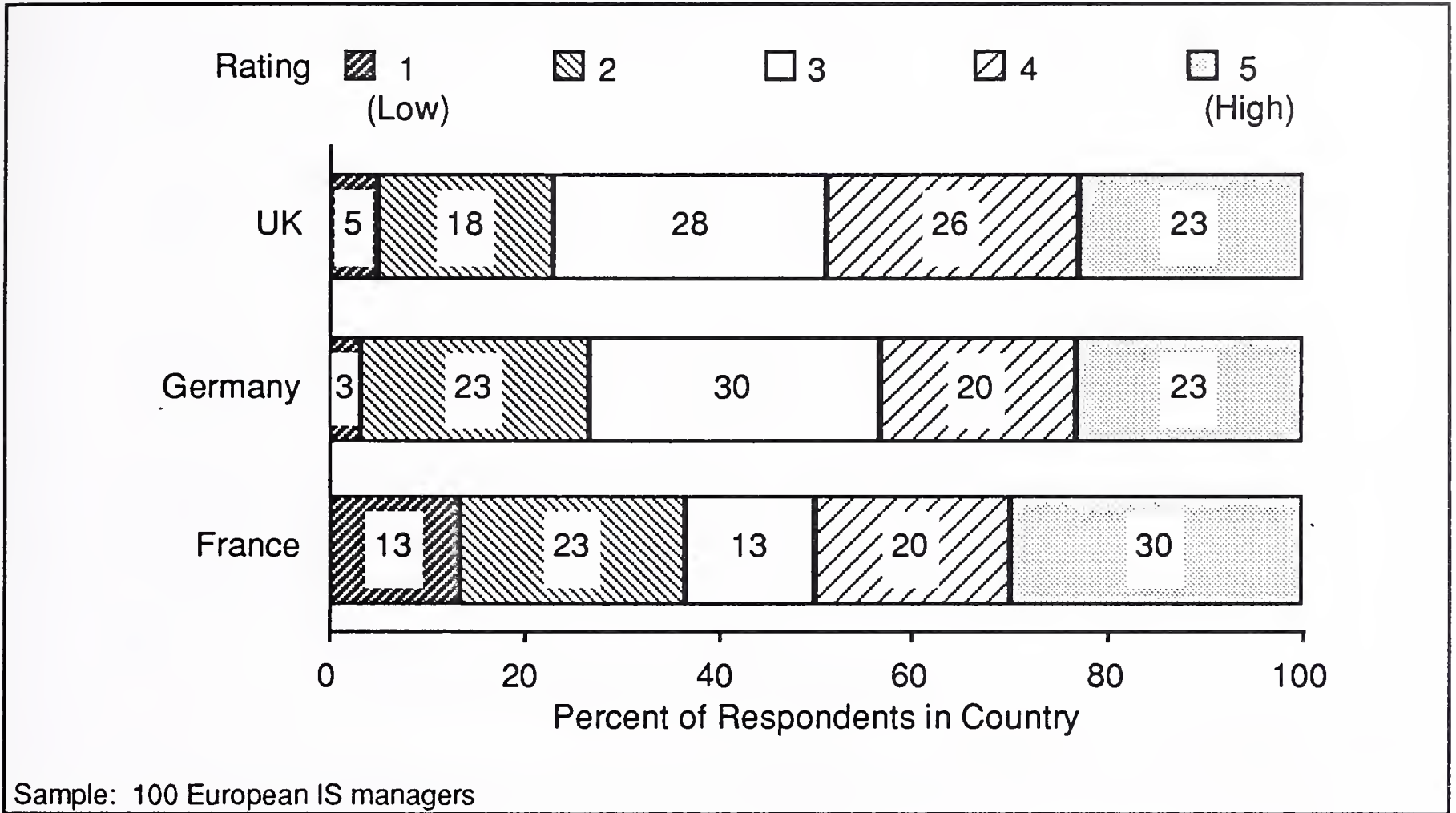
Source: INPUT

Exhibit III-4

Satisfaction with Software Support by User Country of Origin, 1994

Rating ▨ 1   ▨ 2   ☐ 3   ▨ 4   ☐ 5
         (Low)   (High)

Country	Values
UK	11, 24, 47, 18
Germany	3, 31, 34, 31
France	40, 30, 30

Percent of Respondents in Country

0   20   40   60   80   100

Sample: 100 European IS managers
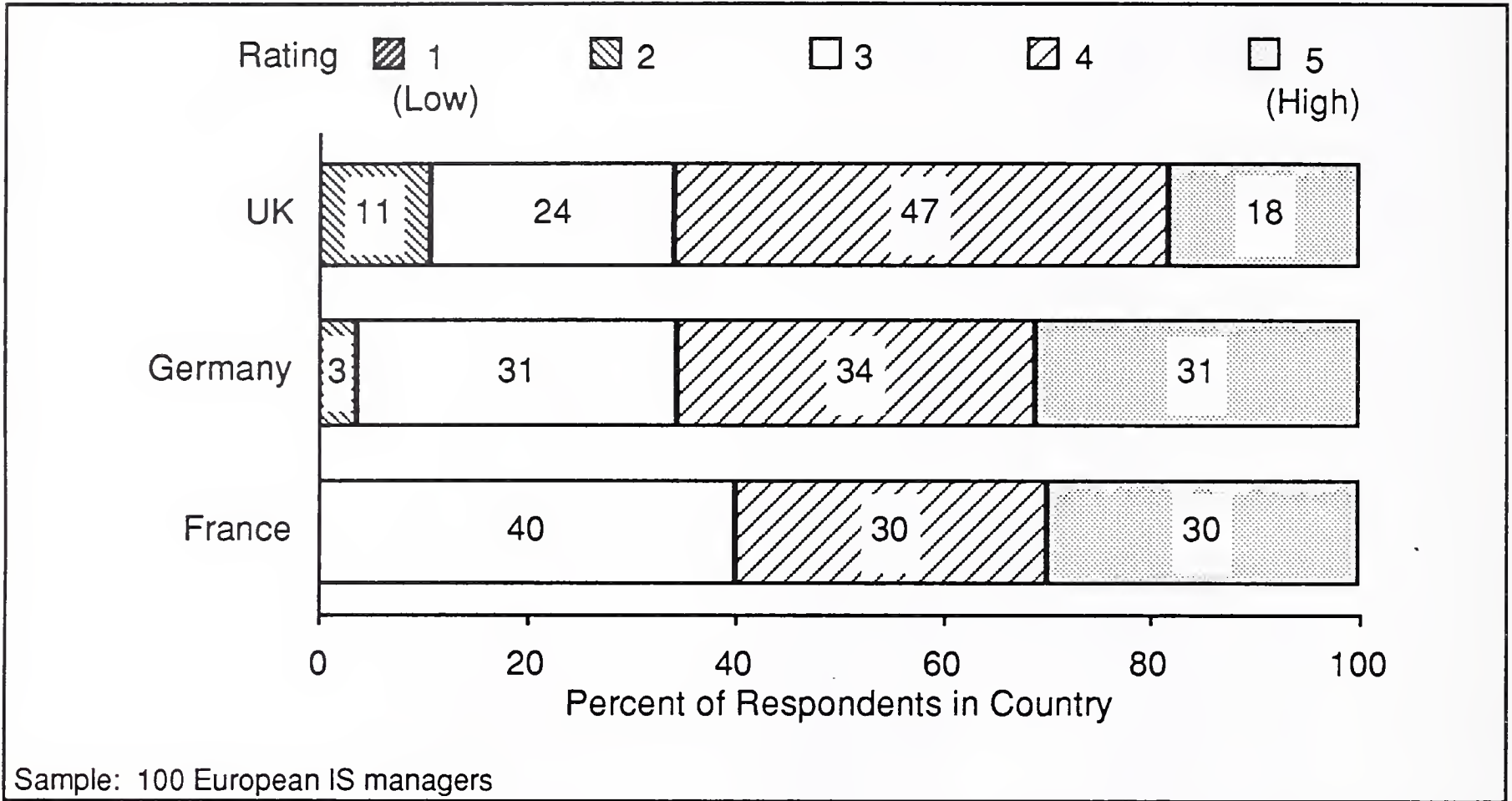
D

Vendor Comparisons—Independent Software Vendors Not Highly Valued

Analysis of responses by the type of vendor used for software support services indicates that equipment vendors are still the most widely used. Independent software vendors (ISVs), the originators of most software products, only represented 9% of the sample and were perceived as delivering less value for money than other types of vendor.

Exhibit III-5 shows the distribution of the sample by the type of support vendor used, or by the absence of any vendor support.

Exhibit III-5

Distribution of Respondents by Support Vendor Used

Sample: 100 European IS managers
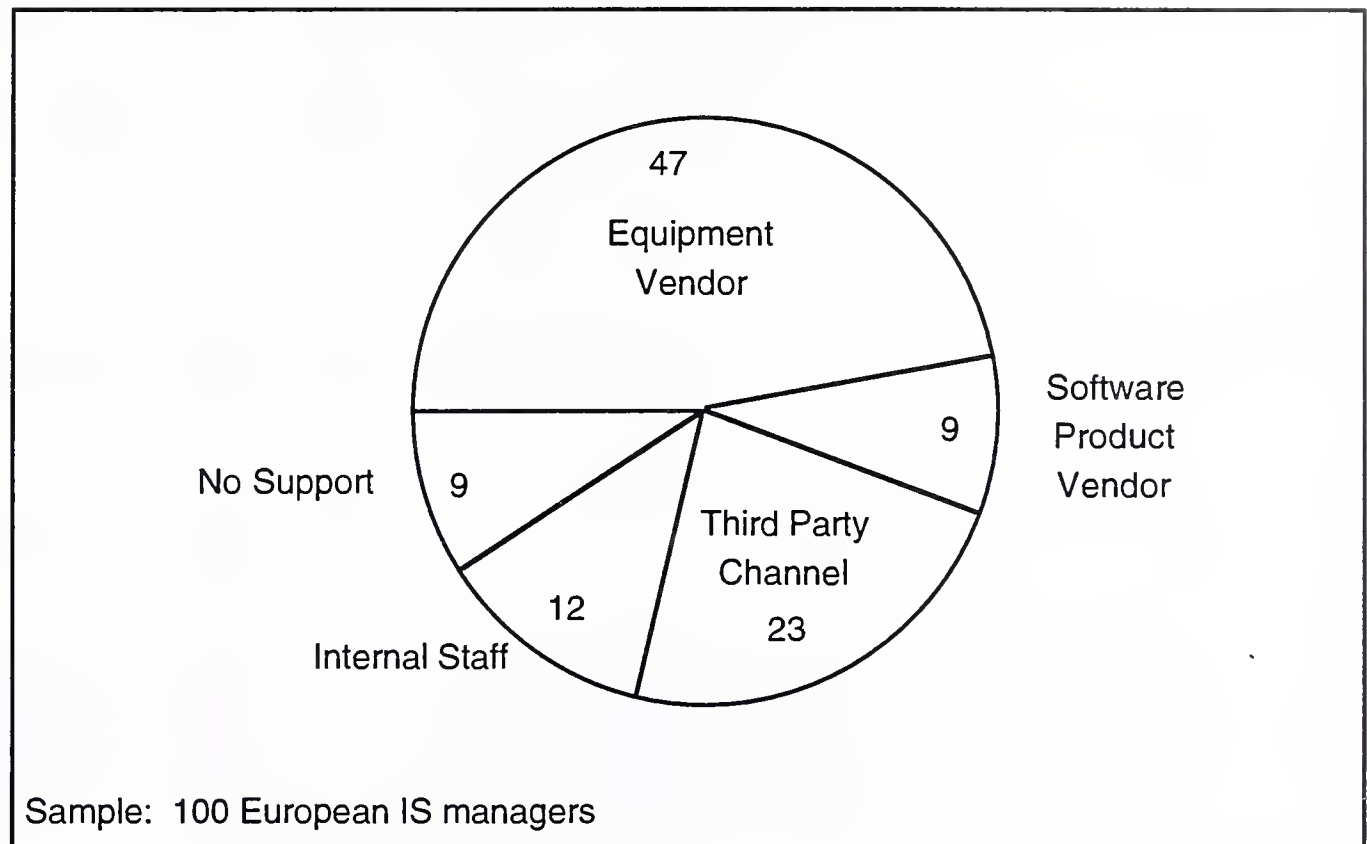
One in five of respondents either used their own internal staff or had no on-going contract with a vendor. In all cases they felt this gave them "best value for money". Some of their reasons provide useful guidance for vendors wishing to treat this group as a market opportunity:

- Heavy support is required around the initial installation of a product, thereafter the need for support is perceived as much less, but vendors still want to charge 15% of the licence fee per year

- Some users are happy to pay for support as and when it is needed particularly if they can purchase an extended *warranty* to cover their initial learning period

- The prospect of a "potential disaster" was not seen as a convincing way to sell a support contract, like an insurance policy against the risk of failure

- The price for supporting old/obsolete products keeps rising, whereas new products are much cheaper and more reliable, so the incentive is to use any funds to buy new technology products rather than to buy support for old technology.

Equipment vendors have made a good job of convincing users of the importance of software support services and in building customer satisfaction. Exhibits III-6 and III-7 show the spread of opinions on importance and satisfaction for users of each vendor group. Those using third-party channels, such as a local VAR or distributor, are less concerned with the importance of support, but they are well satisfied with the service they receive.

Exhibit III-6

Importance of Software Support to Users by Vendor Type, 1994

Rating   1 (Low)   2   3   4   5 (High)

Vendor Type	1	2	3	4	5
3rd Party Channel	4	17	35	22	22
Independent Software Vendor		22	22	33	22
Equipment Vendor		11	26	26	38

Percent of Respondents in Category

Sample: 100 European IS managers
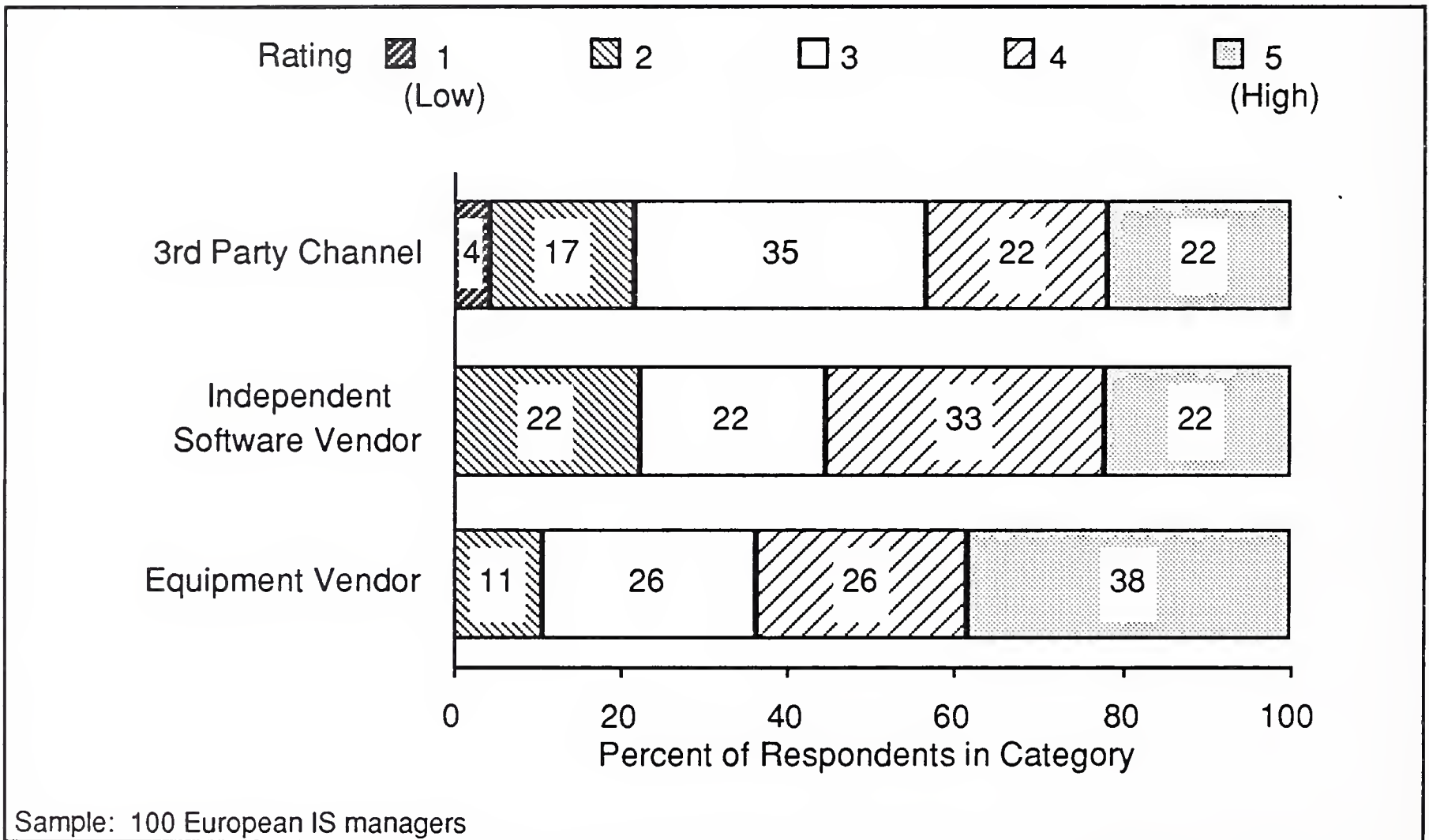
Source: INPUT

Exhibit III-7

Satisfaction with Software Support by Vendor Type, 1994

Rating ▨ 1   ▨ 2   ☐ 3   ▨ 4   ☐ 5
        (Low)   (High)

Percent of Respondents in Category

Sample: 100 European IS managers
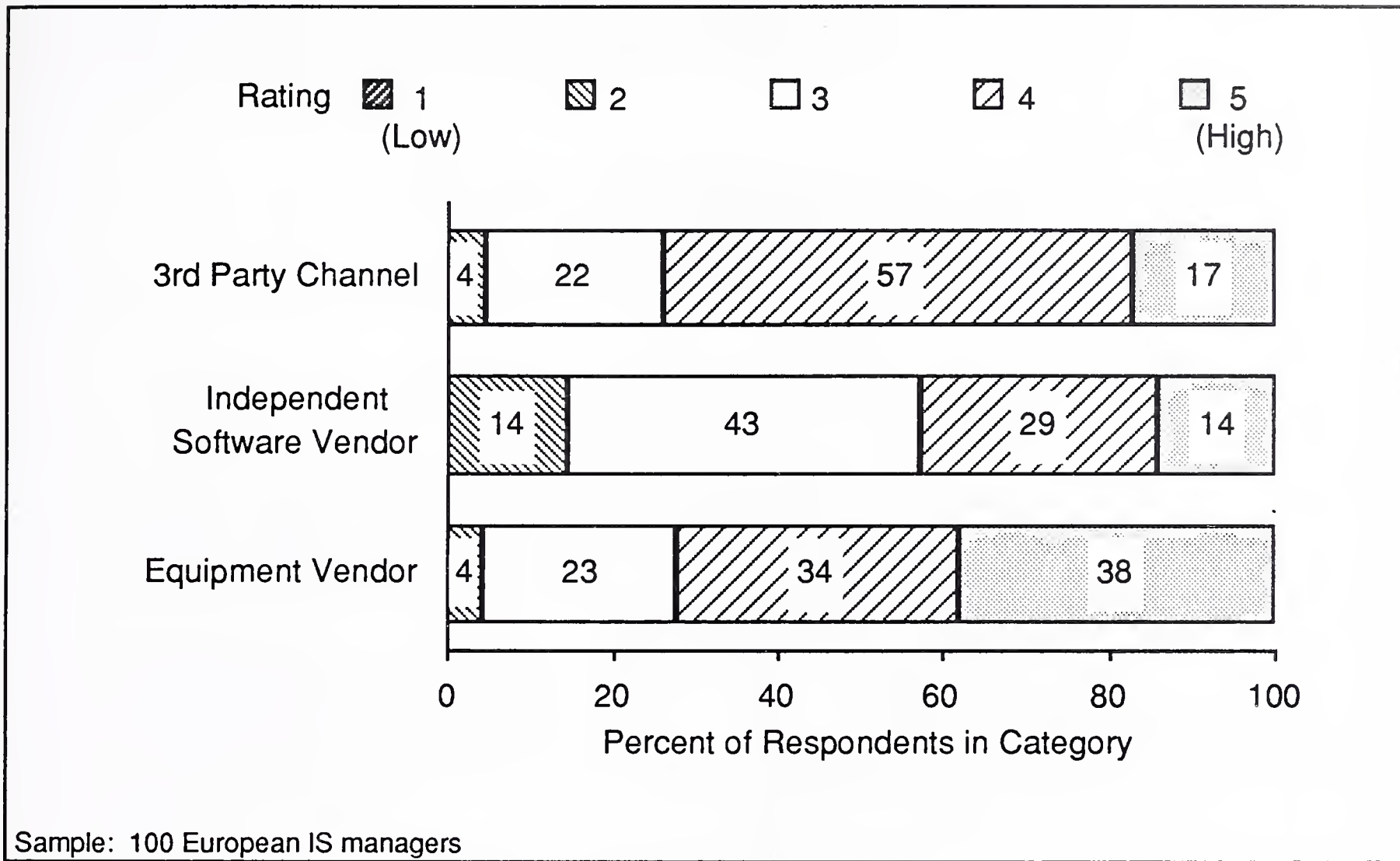
Source: INPUT

Around 40% of respondents used some IBM products. The importance IBM's customers give to support services (Exhibit III-8) shows just how much influence IBM still has in establishing market demand. Half of the IBM users gave importance a rating of four or more.

Exhibit III-8

Importance of Software Support to Users by Platform Vendor, 1994

Sample: 100 European IS managers
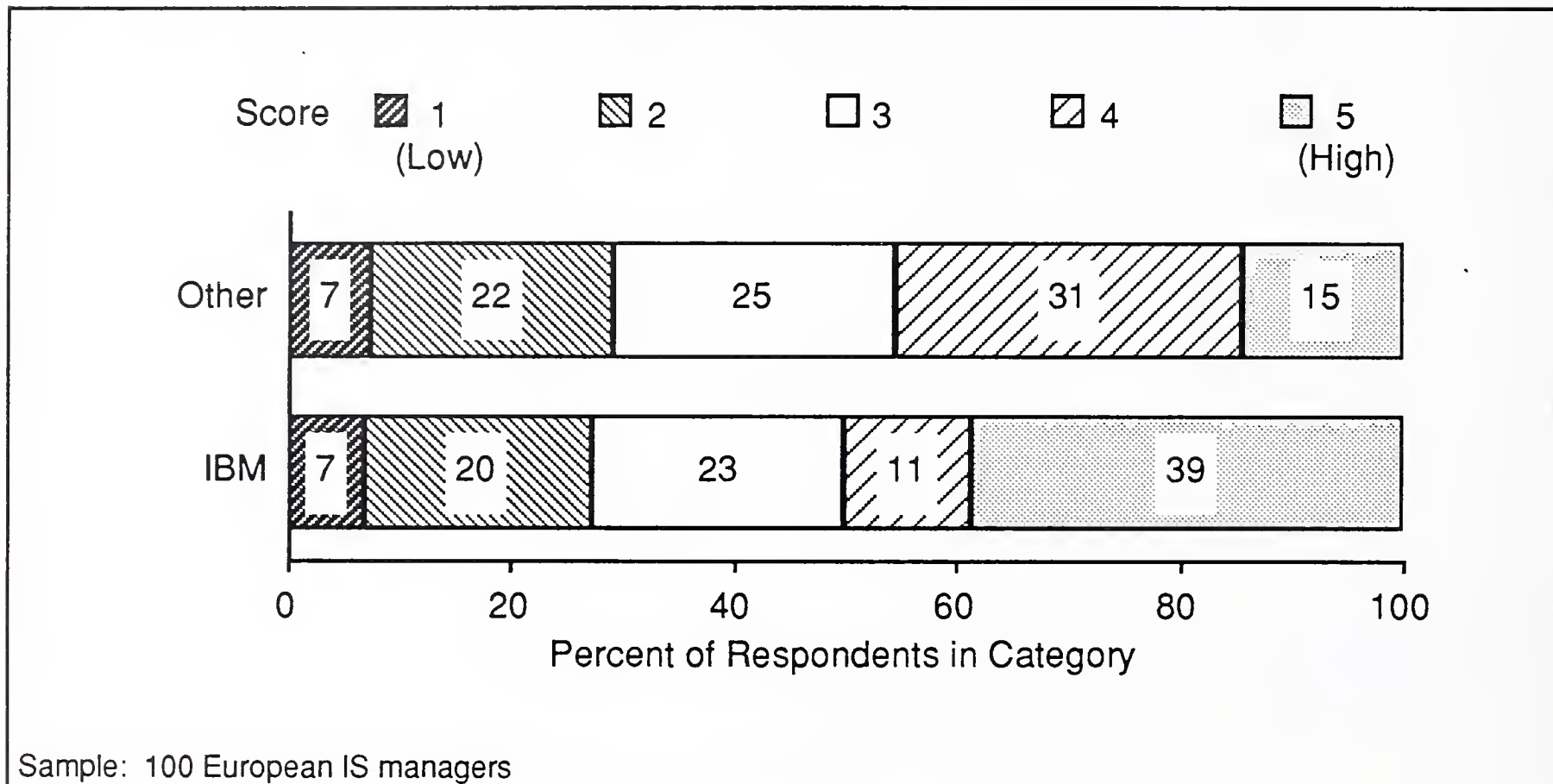
Source: INPUT

When it comes to opinions on value for money, Exhibit III-9, the ISVs have the most ground to make up if they wish to compete effectively against the other channels for support service business. The result states the obvious in showing that the best value is achieved by those who pay nothing and get no support! This is a major challenge for vendors as they will have to convince these users of the relevance and value of their services.

All product originators, including ISVs, differentiate themselves from competitors primarily with their products. In contrast, those vendors further along the channel (closer to the customer) must seek to differentiate themselves with their service offerings. This sample of users clearly indicates that the service vendors are already doing much better than the software product vendors.

Exhibit III-9

Value for Money of Software Support by Vendor Type, 1994

Vendor Type	Rating
None Used	5.0
Internal Staff	4.0
3rd Party Channel	3.3
Independent Software	2.6
Equipment Vendor	3.5

Average Rating (1 = Low, 5 = High)

Sample: 100 European IS managers
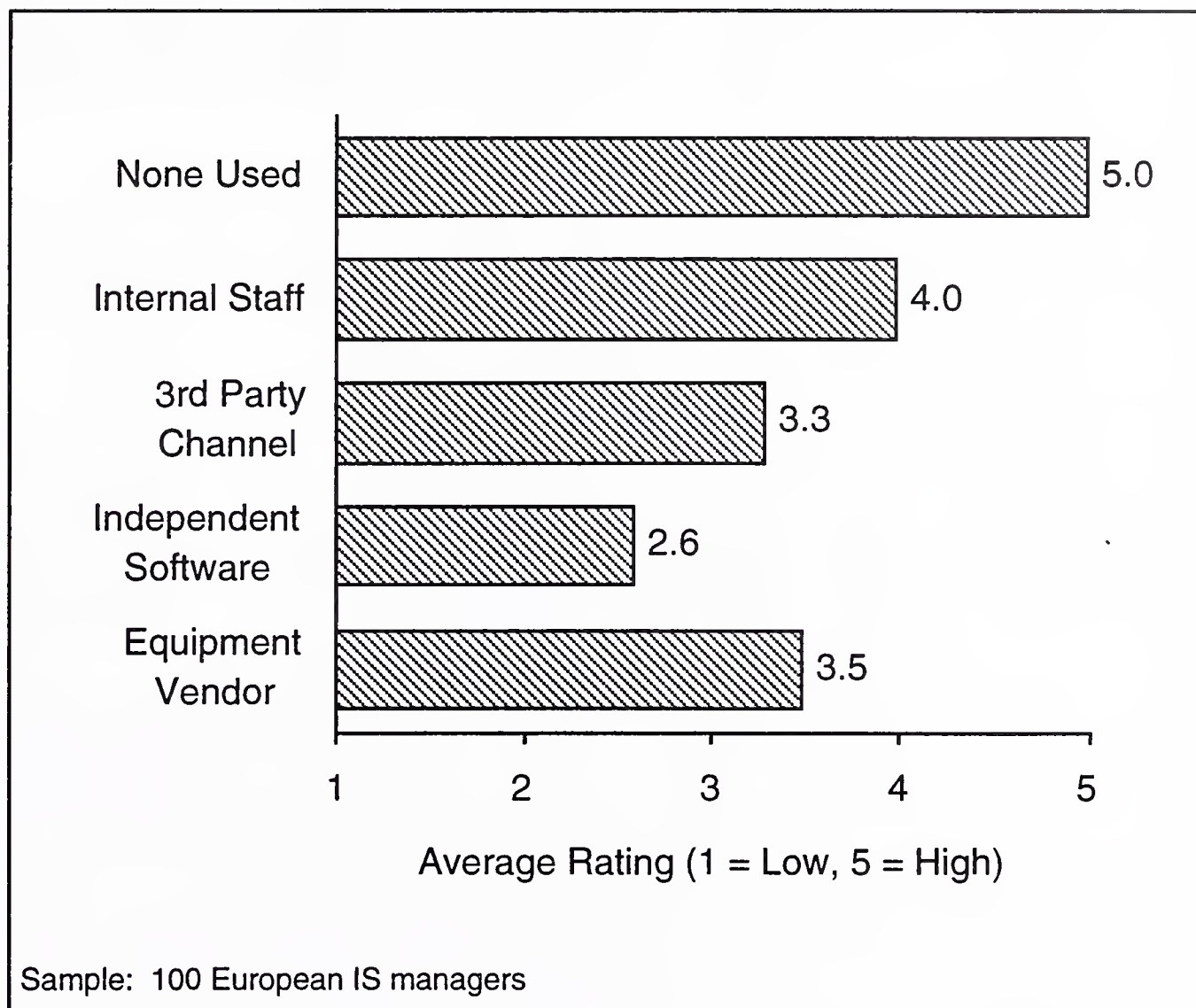
Source: INPUT

E

IS Architecture—Datacentre Support More Important

The sample of IS managers surveyed were selected as representative of the mid-range and small PC network server community. As such it was possible to split respondents into two architectural groups: centralised systems users and decentralised systems users. For the purpose of this analysis these are defined:

- Decentralised means the use of a network of computers including LAN connected PCs.

- Centralised implies a single mini or mid-range host treated as a datacentre and connected to non-PC terminals.

Exhibits III-10 and III-11 give the spread of results for importance and satisfaction against these two architecture types. Average value for money was about the same for both types, but respondents using the more traditional datacentre architecture were much more positive about the importance of support services.

Exhibit III-10

Importance of Software Support by System Architecture, 1994

Rating ▨ 1 (Low)   ▧ 2   ☐ 3   ▧ 4   ⬚ 5 (High)

Decentralised	15	23	28	21	13
Centralised	1 / 19	23	24	33	

0   20   40   60   80   100

Percent of Respondents in Category

Sample: 100 European IS managers
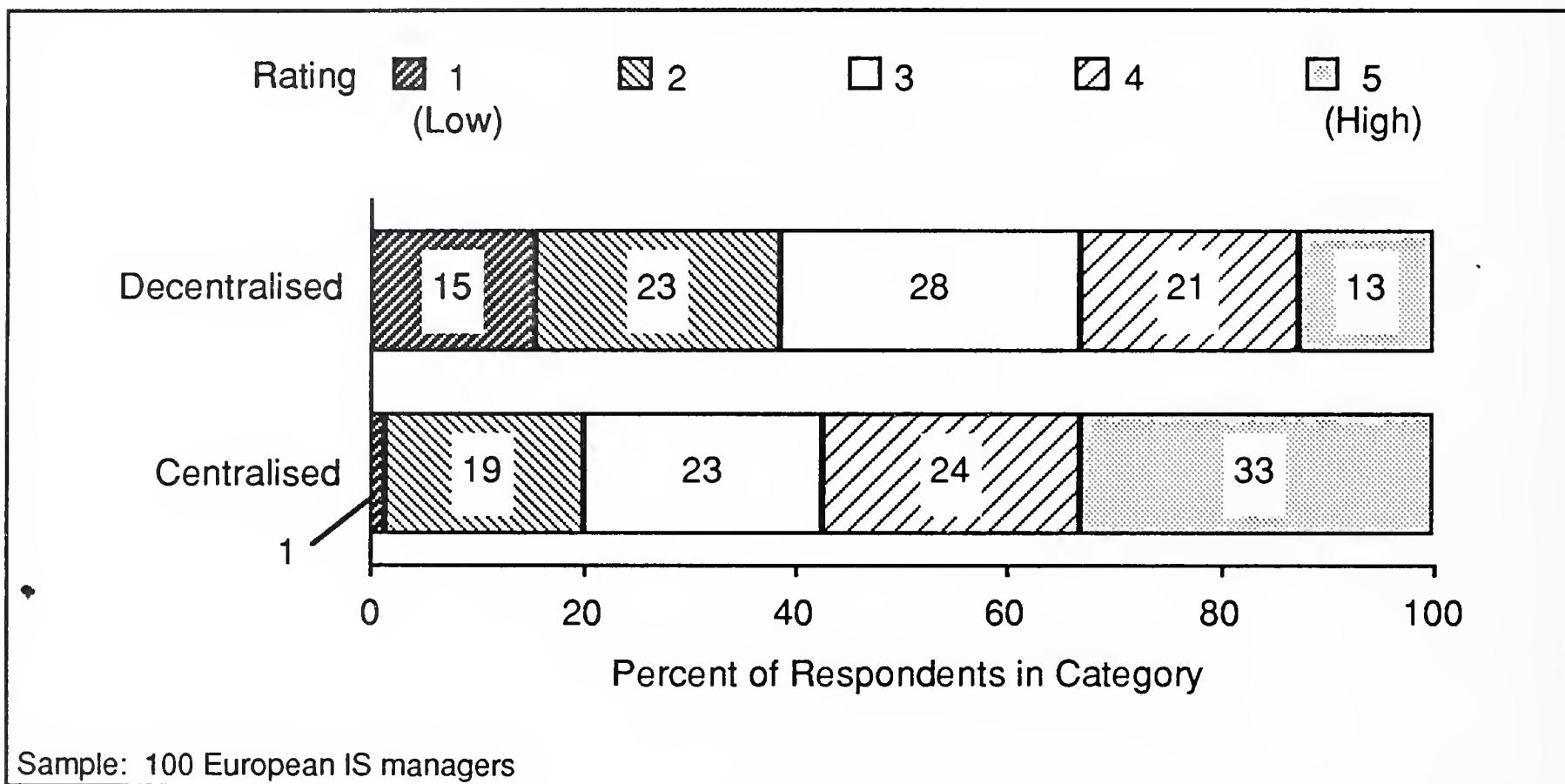
Exhibit III-11

Satisfaction with Software Support by System Architecture, 1994

Rating   ▨ 1   ◩ 2   □ 3   ▨ 4   □ 5
        (Low)   (High)

Decentralised   3   35   40   23

Centralised   7   23   39   30

0   20   40   60   80   100

Percent of Respondents in Category

Sample: 100 European IS managers
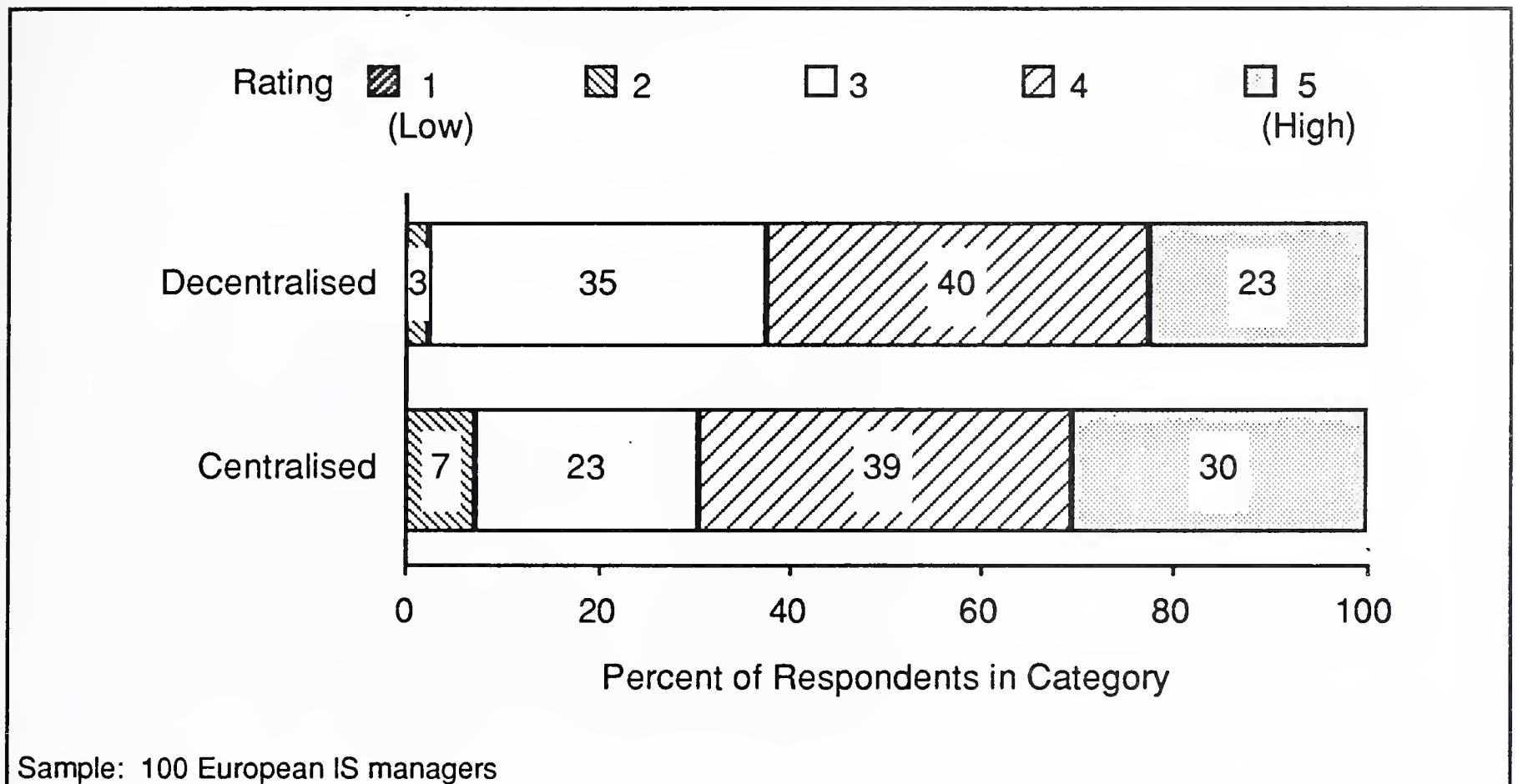
Source: INPUT

There is some threat implied in these results for support vendors. The continued trend to dispersed and distributed systems clearly leads to users being less convinced that support contracts are a necessity. Such services will need more customer education and selling if they are to regain their importance in future fragmented IS systems.

Exhibit III-12 compares the average responses between the two architectures confirming the challenge facing support service vendors in a distributed environment. The lower importance attributed to software product support by managers of decentralised systems does not result in any significant difference in satisfaction compared to managers of centralised systems. The inevitable trend towards distributed systems therefore threatens to reduce average demand for support services.

Exhibit III-12

User Perceptions of Software Support
by System Architecture, 1994

Sample: 100 European IS managers
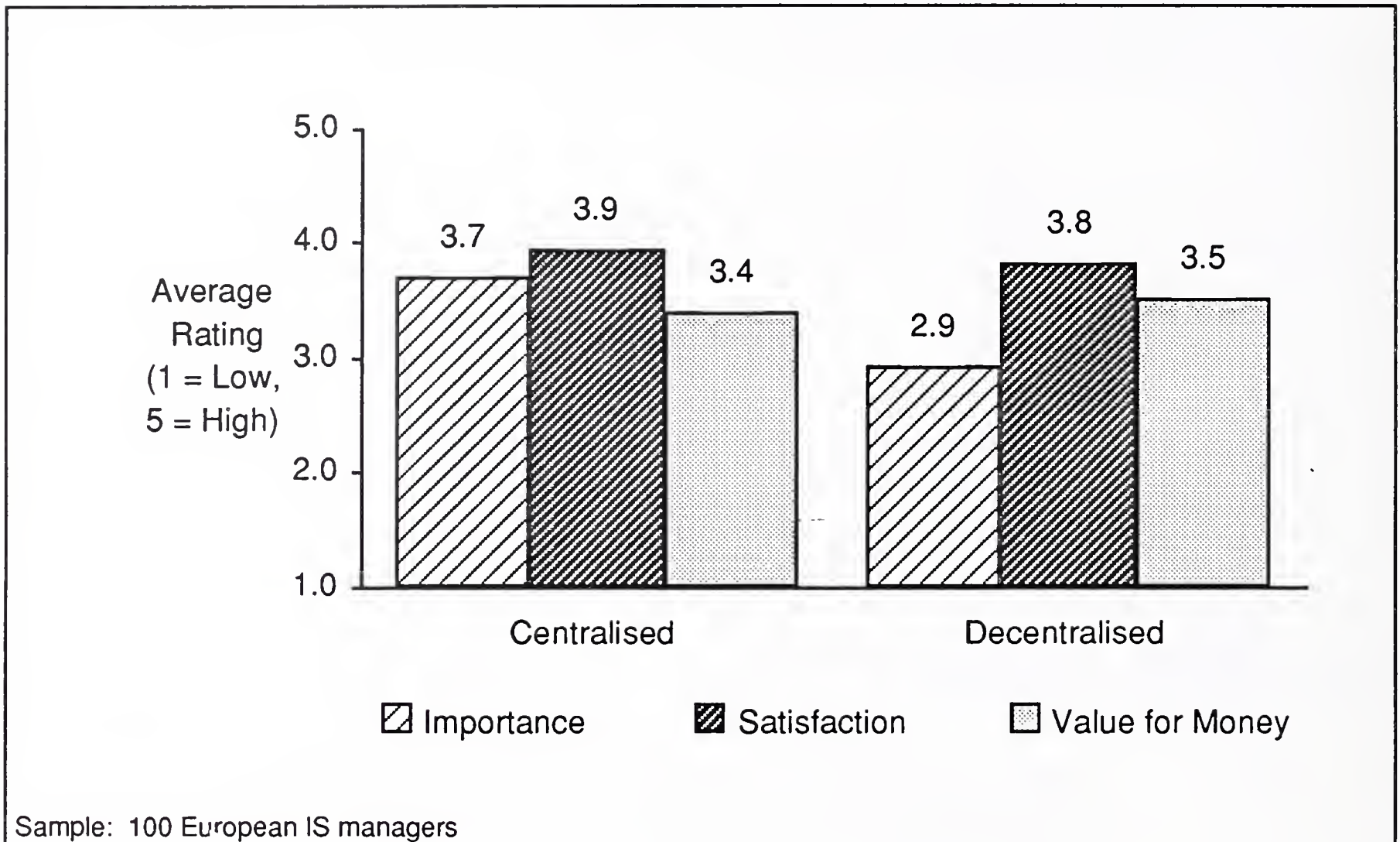
F
Opportunity for Applications Support Vendors

Vendors supporting core applications software products are potentially well placed to offer comprehensive system support contracts, including on-site support.

Mid-range and PC network system managers have been at the forefront of the open systems movement in Europe. For them open systems have for the first time meant a choice of vendor for almost any element of their system requirements. While this has been presented as "a good thing", for many organisations it has complicated their software and information system decision-making processes more than ever.

In the face of this complexity and resulting indecision users are turning back to the idea of having one or more preferred vendors. This represents a significant opportunity for vendors of application software support services, as they are well positioned to meet user needs for bundled support and more on-site services.

The search for easier-to-buy and easier-to-manage computer systems is reflected in IS managers' opinions on support contract features. Exhibit III-13 shows the relative importance they attribute to key support features.

Users are clearly seeking more service from their support contract. Naturally it can be assumed that they would also like to pay less for it though there are indications that price is not a major issue for many IS managers, 30% of those surveyed rated their existing support vendor between 4 (good) and 5 (excellent) on value for money.

An unexpected result of the survey was the strong preference expressed for the bundling of licence and support fees. The Open Systems movement has created a market environment in which the customer is offered maximum choice in terms of sources of products and services. In theory the customer should be able to choose different vendors for system elements. In practice this clearly does not reflect user thinking. Users prefer to buy product and support from the same source and within the same contract.

Exhibit III-13

Importance of Support Features to Users

Access to experts — 4.9
On-site service — 4.6
Support in licence fee — 4.6
Tailored contracts — 3.3
Network products — 2.7
3rd party products — 2.4
3-year+ contracts — 2.1

Importance Rating
(1 = Low to 5 = High)

Sample: 100 European IS managers
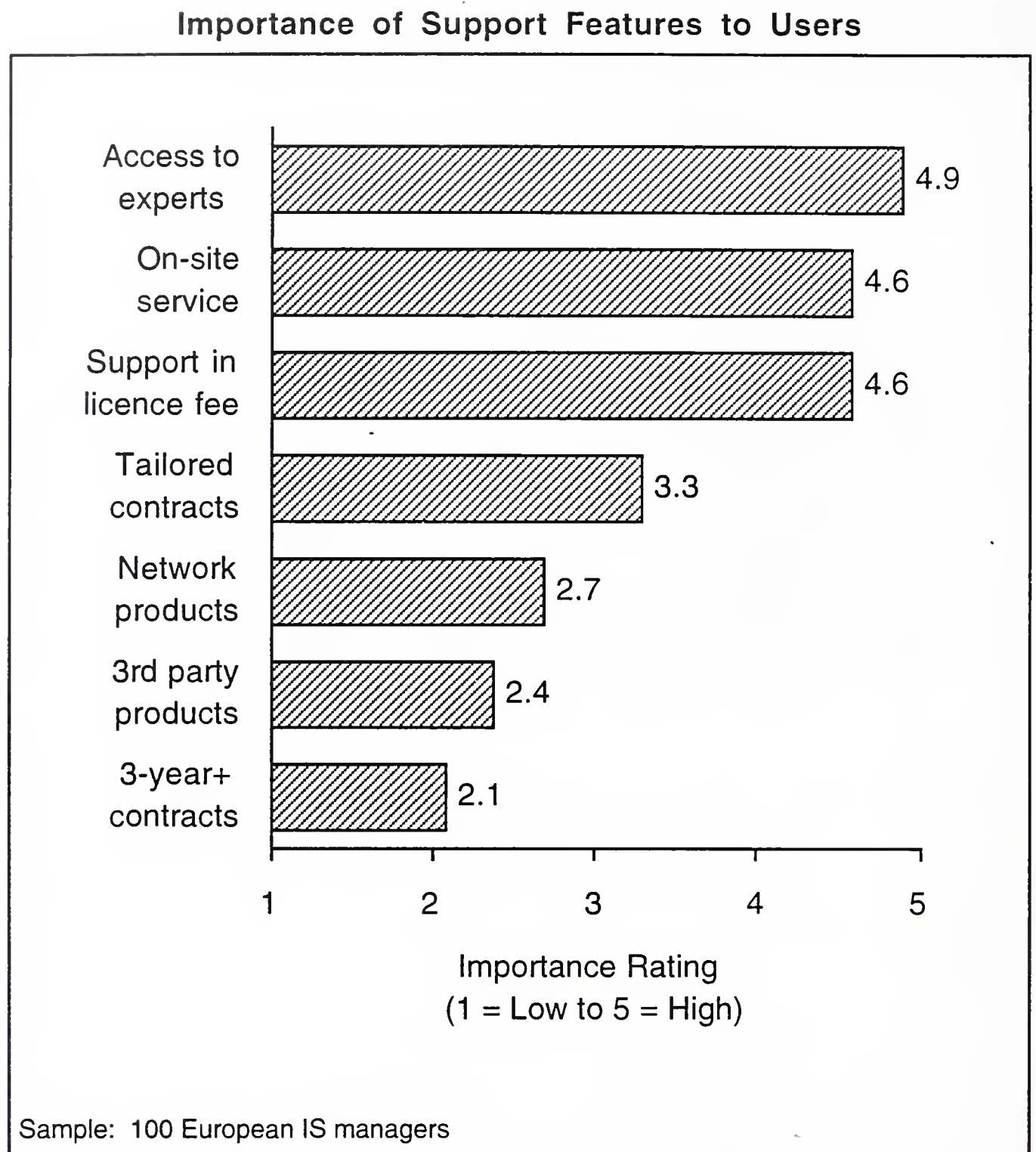
Lead vendors in the industry are busy introducing more and more modularity, tailored choice and network-accessed remote services. Meanwhile the IS managers INPUT surveyed are saying they want more on-site support and the bundling of licence and support fees and these are very important contract options. That is clearly what they feel they want, however it is essential to look behind their answers to analyse the reasons for them:

• No price was related to these support features in INPUT's questions, so the answers have not been moderated by price considerations

- Real value from a support service may often only be perceived during an emergency requiring on-site help. Remote services are perceived by customers as ways for the vendor to keep costs down rather than as ways of improving the service the customer receives

- A bundled contract allows the customer to make one simple calculation as to the cost/benefit or value being offered. There is an implicit criticism here of the cost of on-going support contracts not being good value as a separate entity

- In many cases the respondents pointed out that they made no distinction between applications and systems software products, expecting their support vendor to handle all software within a single arrangement.

A natural conclusion here is that vendors who are prepared to offer applications software product support have a major opportunity to become the preferred vendor for support of all the software on a system.

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IV
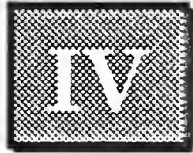
Software Vendors Create New Support Markets

A
ISVs Make New Markets in Software Product Support

Price erosion, firstly on hardware products and then on software products has put great pressure on vendors to justify the pricing of product support services. However support costs are very closely tied to people costs and the number of users, whereas product costs are more closely tied to material volumes and research and development expenditure. Support vendors are concentrating both on productivity improvement to contain costs and on increasing the perceived value of their services so as to justify higher prices.

Independent software product vendors (ISVs) are turning more and more to channel partners in the expectation that they can more readily meet customer demands for support services on the ISV's software products. A major change is underway to raise customers' opinion on the value of support and to reduce the inherent cost of supplying support services. This is resulting in the creation of a whole range of new support service opportunities for channel partners.

ISVs still have the luxury of deciding whether their support services should be run as a profit centre or as a cost centre. This choice is not really available to those offering services on other vendor's products, though INPUT's research still indicates that nearly 50% of vendors offering support services in Europe are still not operating support services as profit-oriented businesses.

The pressures of customer demand and competition are having similar effects both on those software product vendors selling to the desktop market and to those supplying large datacentres. In many cases it is the market-leading software product vendors who

are also leading the way in the introduction of innovative improvements to their support operations and to the marketing of these services.

Of course the vendor's motive is to increase customer satisfaction so that users will continue to buy more products. To do that they are planning to leverage their own scarce support skills with third-party resources. If they don't succeed then lack of support skills is likely to be the primary limiting factor in growing market share for their products.

All the largest vendors have a global support network in place that they expect to exploit and share with both partners and customers. The relationship between the key business factors is shown in Exhibit IV-1 as both PC software ISVs and data centre ISVs move to create a support services market for their trading partners. Their primary motive is to increase demand for more product.

Exhibit IV-1

ISV Motives for Creating New Support Services
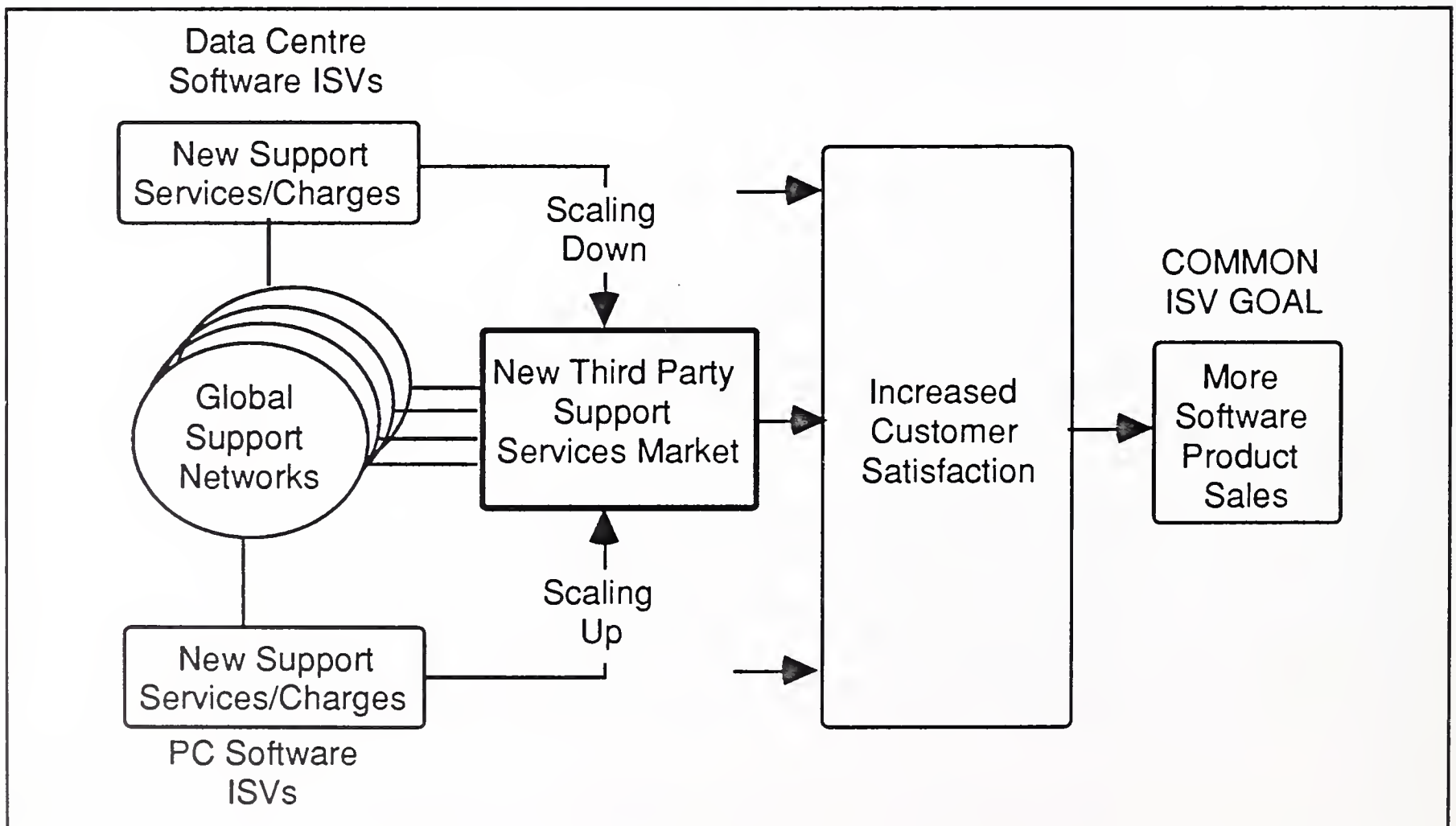
Source: INPUT

1. Desktop ISV's Put A Price On Support And Create Market For Channel Partners

The leading PC software product vendors have been forced by diminishing product margins to unbundle support services and charge separately for them. In doing so they are creating a major opportunity for their distribution and services partners to compete for this same support business.

Microsoft has followed Lotus in withdrawing open-ended free telephone support services. In their place both vendors have introduced a set of tiered support packages. These bridge the difficult gaps between the major corporation with complex networked IS, the small software developer and the individual office PC user.

In applying charges for support, Microsoft has stated quite clearly that it is hoping to encourage other vendors to compete for support business. The objective is to create a market that will stimulate both vendors and users to become ever more satisfied customers of Microsoft products.

Lotus has not taken quite such a strong stance and is more interested in being able to offer much more predictable responses to support users. Lotus reports that what its customers are seeking is quality, responsiveness and reliability of service. This is similar to the customer pressures on IBM four or five years ago encouraging them to start unbundling many services from their product prices.

Trading partners who are now competing for market share in this newly formed PC software support business include:

- Distributors. Novell's major distributors and resellers have already developed a solid business in Novell certified engineer training and support services. It would be a natural move for them to extend their expertise to increase their support of other software products.

- Value-added Resellers and Systems Integrators. Users indicate considerable preference for contracting to a one-stop-shop and vendors responsible for implementing key applications are well positioned to front system support services

- Equipment vendors. The large manufacturers are still first choice for many customers whether buying product or services. However their credibility as suppliers of PC software or support service does not yet compare well with their reputation in the datacentre.

2. Datacentre ISV's Scale Up And Down To Attract Partners

Software vendors traditionally operating in the large or small datacentre market have been investing to convert their product lines onto scalable open system platforms.

Market leader for open portable relational databases is Oracle. Scaling their products down to capture market share in the small PC server market has meant not only repackaging the product, but also re-thinking how to support such systems more cost effectively.

Oracle's strategy as it scales its products down is similar to that of Microsoft as it starts to scale products up into the same target market, the server. Oracle plans to stimulate their trading partners into developing and meeting market demand for support services. They are also introducing network-accessible support information sources similar to Lotus and Microsoft.

As leader in application software product markets, SAP is also introducing innovative new support services. Like the other vendors already mentioned SAP has a global support network. It has been adding prestigious service partners to help grow its business with multi-nationals on a global scale.

SAP however has so far kept all its product licence and support contracts to itself. It sees its own applications suite as a software platform on which service vendors can add value with industry knowledge or extended specialist applications. At this stage there seems little possibility that SAP's products will be scaled down to compete for small server business.

B

Lotus Restricts Free Services, Introduces Multi-Lingual Support Network

Lotus plans to invest over $100 million expanding its global support coverage in the next three years. It now has 10 Customer Support Centres (CSC) around the world, four in Europe (France, Germany, Sweden and the U.K.). All these centres are linked using Lotus Notes.

An automated answering system flags the country of origin and transfers the call to a support representative in the relevant CSC who speaks the caller's language. The call reporting system enables all enquiries to be logged and monitored from any location on the network. Responses to the most common calls are made available to remote user sites via a database and a monthly CD-Rom publication.

Support services available from this global network are itemised in Exhibit IV-2. Lotus has grouped its products into those for the desktop user (SmartSuite) and its communications products for the network user (cc:Mail and Notes).

These new customer services are complemented by Lotus Field Support services, providing on-site support. Field Support will operate alongside Lotus' partners and reseller when it is necessary to have expertise direct from Lotus.

Exhibit IV-2

Summary of New Lotus European Support Services

Contract Type	Lotus Product Category	
	Desktop Products (all SmartSuite applications)	**Communications Products** (cc:Mail or Notes)
Standard	90 days free telephone support, then free through a network of bulletin boards, Fax-on-Demand and CompuServe Forums	30 days free telephone support
Lotus Assistance	$110 p.a. per registered contact	
Standard Support Programme		$975 p.a. for 2 named contacts and up to 10 support incidents
Premium Support	$2,200 p.a. per named contact for up to 30 support incidents per year, and monthly CD-Rom support library	$4,800 p.a. for 3 named contacts for up to 50 support incidents, and read-access to on-line technical databases
Premium Plus Support	$5,900 p.a. per named contact for unlimited support incidents, monthly CD-Rom, on-line access to: database; query log; and copy of each core product	Price negotiable, contact-based, unlimited incidents, designed for each Major Account and combined with a product maintenance contract

Source: Lotus, INPUT

C

Microsoft Introduces Charges for Support, Creates Third-Party Opportunities

From the start of 1994 Microsoft has been restricting the availability of free support and introduced a choice of several relatively high-priced support packages.

1. Investing In Technical Support Services

When Microsoft launched their Support Network in March this year, they emphasised the freedom of customer choice that would result from a wide variety of available support services and suppliers. However, a clear motive for Microsoft was to distribute responsibility for world-wide support of its products more widely.

Microsoft is determined to improve its own reputation for customer support. For example in the U.K. it is currently investing £4 million to double the number of telephone support lines, and effectively increase the capacity to deal with calls by 40%.

Microsoft employs over 1,000 support staff across Europe. In 1993 they took around 20,000 calls per day and issued some 2,000 updates, software patches and peripheral drivers each week.

Bernard Vergnes, President of Microsoft Europe, told INPUT: "We do not see the support function as a profit-making part of our organisation, but we have priced our own services to create a competitive market for the support of our products world-wide." Exhibit IV-3 summarises the services and price structure for Microsoft's Support Network.

Exhibit IV-3

Summary of Typical Microsoft Support Services

Contract Type	Microsoft Product Category			
	Desktop Applications	Personal Operating Systems	Developer Tools	Advanced Systems
Standard	90 days free telephone support			
Priority Desktop	$224 p.a. per registered contact ($149 until 31/12/94)			
Priority Developer	$1,500 p.a. per registered contact			
Priority Comprehensive	$7,500 p.a. per registered contact			
Premier Comprehensive	$22,000 for four designated contacts			
Single Incident Pack			$75 per incident to resolution	$150 per incident to resolution

Source: Microsoft, INPUT

Priority support is a post-90 days telephone support service available to all registered users at three levels: Desktop (desktop applications and operating systems), Developer (desktop applications, operating systems and developer tools) and Comprehensive (all products).

Premier support is aimed at larger organisations, and offers comprehensive support for all product groups for four designated contacts within an organisation.

Single Incident Pack offers support on a per incident basis for support of development and advanced systems.

Microsoft is publishing response time targets and achievements for each service. Targets are:

- Priority - Respond within four minutes on average

- Premium - Respond within two minutes on average

- Single Incident - Answer call within three rings.

Overload contingency plans include contracting with Corporate Software (CSI) in the USA to offer a 24-hour back-up service. If the European support centre cannot handle the peaktime workload then calls will be automatically switched to CSI, at no extra cost to the caller.

2. Promoting The Value Of Support Services And Self-Help

Microsoft had a generally poor reputation for support when it was a free service. The company has a started a campaign to change this perception, to enhance the perceived value of support and increase users' own expertise:

- Microsoft promises to publish the response time performance of its support centres. Having set new targets it wants customers to see how it matches up to them

- The company is promoting the value of its Certified Professional examinations and certification, following Novell's success with certification, encouraging a rapid growth in the skill base for its products

- It is promoting Microsoft Plus, a user club which provides incentives to users to increase their knowledge and expertise in Microsoft Products. Exhibit IV-4 summarises the contents of Plus membership costing $35 to $45 per person per year.

Exhibit IV-4

Microsoft Plus Membership Benefits

- Bi-monthly magazine. 68 pages of news, comment, user suggestions and offers

- On-Line Forum on CompuServe. Thirty days "free" introduction, European and North American users self-help

- 25% training course discounts from selected VARs and 20% off Certified Professional Programme examinations

- Membership card doubles as discount card

- Microsoft Plus Points can be earned on each Microsoft purchase and redeemed for free software or other savings.

- Quarterly 12-page Hints & Tips supplements build into a reference collection.

- Microsoft product catalogues

- Membership enquiry line

D
Oracle's Desktop Product Strategy Promotes Third-Party Support

Following its success selling Oracleware with Novell, Oracle has announced a new version of its Oracle7 relational database management software aimed at the desktop client/server market and half the price of its previous offering. Key to success will be the building of a strong network of sales and support channels for the new product package.

Oracle's great strength in the past has been its direct sales force. Now it is turning towards new business opportunities which can only be accessed through the low-cost sales channels developed by the PC industry. These channels and their customers require

Oracle to create a different profile of product and a different profile of support services.

1. Rapid Take-up of UNIX and Desktop Versions of Oracle's Products

In the year to May 1993 Oracle's world-wide revenues grew 32%. UNIX revenues had grown 70% to represent 52% of all Oracle's product revenues. Desktop products had grown over 80% but were still only around a 5% share of total revenues as shown in Exhibit IV-5 .

Exhibit IV-5

Oracle Revenue Mix by Operating Platform, 1993-2000
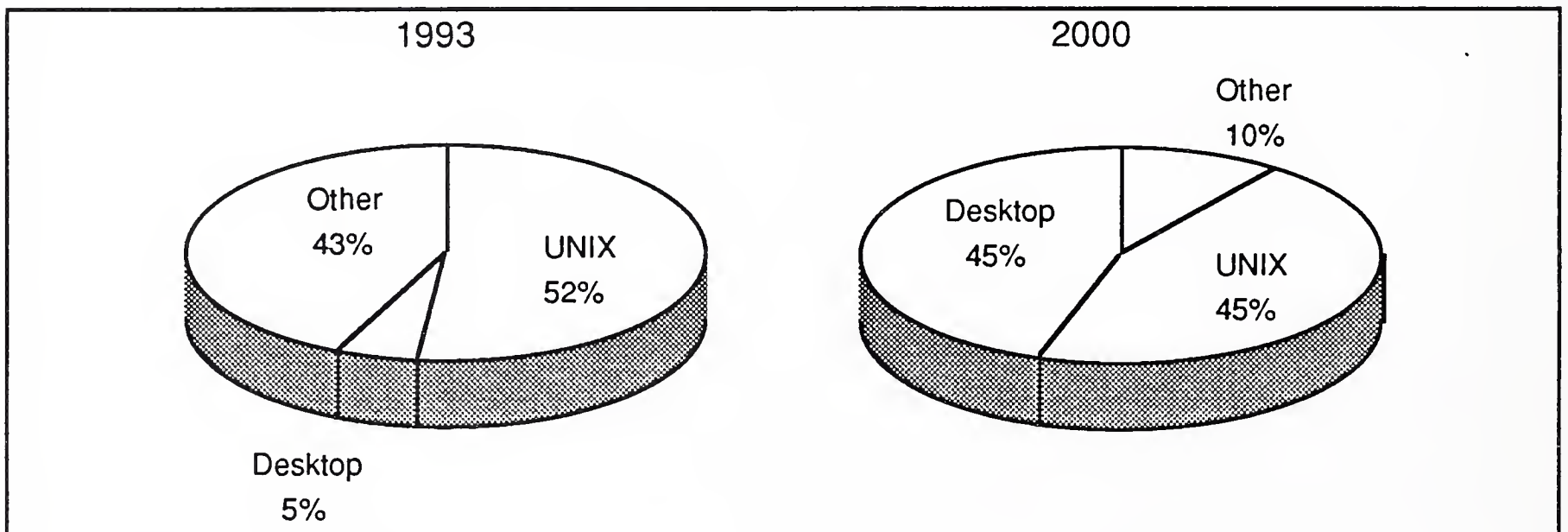
Source: Oracle and INPUT estimates

Oracle believes that the strategy of supporting all the major desktop operating systems will see desktop revenues catch up with or even pass UNIX revenues by the end of the decade. Exhibit IV-5 shows how the resulting change in revenue mix by platform will push proprietary platforms down from a 43% share to around 10% by the year 2000.

To ensure near simultaneous availability of a new version of Oracle software on many different platforms, the company has five different profit centres with responsibility for porting: IBM, Digital, minicomputers, UNIX and desktop platforms.

The company's desktop business unit has ambitious plans to deliver Oracle's products in high volumes to PC networks and servers. The desktop business unit manages all the major desktop platforms except UNIX, including: Windows NT, OS/2, Netware,

Apple System 7 and potentially Taligent. The new product, known as Oracle Workgroup Server, was launched with the following objectives:

- Protect Oracle's UNIX business in the data centre

- Develop new markets and end-user business

- Enable third-party integration with more suitable technology.

Oracle7 is the market leader in UNIX RDBMSs in Europe. The availability of a low cost desktop server version (yet with all the functionality of the main-line product) could start to erode the revenue of the UNIX business.

The pricing strategy adopted for this product is geared to achieving high volumes through third-party channels:

- One world-wide price

- System developer kit at $995

- Half-price trade-in upgrades

- 10, 25 concurrent user versions

- Upgrade price equals price differential.

The pricing will be kept very competitive on smaller or development configurations where Microsoft's SQL Server is strongest.

2. New Desktop Product Support Services

Channels will be encouraged to sell and support. Education and training will still be provided by Oracle from their existing education centres, though in time a third party market may develop.

Oracle doubled its revenue targets for third-party reseller channels in 1993/4. It deals with about 100 value-added resellers (VAR's) or systems integrators in Europe so far. The company is also seeking more independent software vendor (ISV) partnerships. A royalty scheme already exists to encourage ISV's to deliver Oracle-based software packages.

The current one-year support contract is too expensive for many PC developers. They can now use CompuServe for EMail and gain access to free software patches and notes on support topics. Developers can access Oracle Forum via a CompuServe bulletin board.

Free services include:

- Product information

- Frequently asked questions & answers

- Patches posted for downloading.

Only maintenance (bug-fix) issues will be free, enhancements will be priced as upgrades. Electronic support via CompuServe and ` Internet will be charged. The full Oracle support service is available for escalations and issues, but the channel will be expected to provide first line support.

Oracle is clearly intent on reaching customers it does not already serve. In doing so Oracle risks losing some of its direct sales and support revenues. However, the reward could be a far larger market penetration and the establishment of a powerful distribution network of sales and support channels.

E
SAP Signs Global Service Partners and Expands Own Systems Support Role

To support the rapid take-up of its R/3 product SAP has added a pro-active support service to its portfolio. The objective of this networked Early Watch service is to alert customers to potential system management problems before they occur, reducing the number of crisis situations handled by the support centres and customers.

SAP's target market is medium and large organisations seeking to support changing business processes with modular client/server core business applications. The business critical nature of these software systems and the multi-national requirements of many large customers have resulted in SAP establishing:

- Global delivery channels, multi-language and multi-currency product functions and multinational account management

- Long term partnerships with global and local professional service and technology vendors

- 24-hour global support operations, pro-active support alerts, user-oriented help-desk services with application systems and platform expertise.

1. Global Business Strategy

In 1992 SAP put plans in place to establish R/3, its client/server integrated business applications product, as an international software platform on which SAP's partners could build added-value services business.

R/3, like R/2 its mainframe-based predecessor, is now implemented in over 1,000 sites across Germany and round the world. For a large proportion of these sites the SAP package is, or is becoming, mission critical as it supports the core business applications (see Exhibit IV-6) in major companies.

SAP has positioned its R/3 product as an application platform which offers the scalability and flexibility to match a continually changing businesses environment. SAP are exploiting the high levels of public debate and customer interest in business process re-engineering and client/server architectures. They are positioning their platform as a stable bridge between these two fast changing environments.

Exhibit IV-6

R/3 Product Integrates SAP's Mission Critical Applications Modules

- Distribution
- Financial and cost accounting
- Human resources
- Logistics
- Manufacturing
- Sales

Source: SAP

SAP's global ambitions were originally visible in it's R/2 product with multi-national features such as:

- Multi-language user interfaces

- Multi-currency accounting for subsidiaries, customers and suppliers.

- Exchange rate movement tracking for volatile currencies

- Local tax office certification for national accounting principles, followed by conformance to new EC regulations.

Catering for multi-national and national customers needs seems to be really paying off for SAP as their business outside Germany is growing fast.

The attraction for global customers is further enhanced by the existence of market leading global service partners.

2. Joint Investment With Global Partners

SAP's past success and the competitive functionality of R/3 means that potential partners are queuing up. However SAP has decided to avoid only short-term tactical relationships. Close business alliances have been formed with the vendors listed in Exhibit IV-7 . These partnerships are built on the mutual sharing of business

plans enabling both SAP and the partners to implement realistic development and investment programmes.

Exhibit IV-7

SAP Global Partners

Support Partners	Platform Partners	Technology Partners
• Andersen Consulting	• Bull	• Apple Computer
• Cap Gemini Sogeti	• Digital Equipment	• Informix
• Coopers & Lybrand	• Hewlett Packard	• Microsoft
• Deloitte & Touche	• IBM	• ORACLE
• Ernst & Young	• Sequent	• Software AG
• KPMG	• Siemens Nixdorf	
• Price Waterhouse	• SUN	

Source: SAP

SAP works alongside these partners, dealing directly with the customer. Only SNI has been licensed to sell R/3 independently of SAP.

In many sales situations SAP are now finding that the choice of hardware platform and even software technology is one of the last decisions made. A clear sign that at last customers are making decisions based on their business process application needs, rather than feeling constrained by their incumbent equipment vendor.

Putting the applications first has also affected the type of support service SAP offers.

3. "Early Watch" Is A Pro-Active Alert Support Service

Because of its role as provider of core business applications, SAP's is usually the first number called whatever the user's problem. SAP then decides just where the problem lies and what expertise is required to resolve it. Sometimes this will involve third parties, but many clients are surprised to find that SAP can handle many of the system-level problems using its own staff. For example it's help-desk service is not only manned with R/2 and R/3 experts it

also has database and operating system specialists for users to call upon.

Part of the reason for this high quality of support is the size of SAP's own development team. Some 1,200 staff work on client/server software development at the company's Walldorf headquarters in Germany. Supporting these users and their systems in meeting tight deadlines is a good proving ground for the support team.

Many support problems fall into the category of crises. Crisis management is a key skill of any support service organisation especially when dealing with mission critical systems. SAP now offer a pro-active service aimed at avoiding many crises, by alerting system managers to potential resource bottlenecks before they occur.

SAP's Early Watch technology is a monitoring system that electronically links R/3 users with SAP support experts. By monitoring customer sites from SAP's control centres around the world (USA, Germany and Japan), SAP Early Watch experts are able to alert customers to network and application processing problems, improve work flow and identify potential trouble areas.

Each customer sets up a "budget" of standard levels for different system resources. Early Watch examines the customer's system automatically at fixed predetermined times to analyse its current state and the expected future behaviour of system resources. SAP's support personnel are then able to alert the system administrator with recommendations on ways to avoid bottlenecks before they appear and to fine tune the system.

Early Watch is the most recent example of SAP's ability to implement a programme to improve its global delivery capability. Just like the service partnerships Early Watch allows SAP to get greater leverage from existing expertise to support multi-national customers.

V
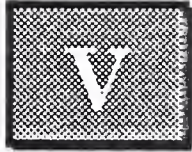
Conclusions

A
Open Markets for Software Product Support

Users have persuaded vendors that software product pricing based on the type of hardware platform must be replaced by pricing which also reflects usage or numbers of users. Similar concerns are emerging around the price of software product support services. Support services are moving from a proprietary market, where they are captive to the product vendor, to an open market where the customer has a choice of support vendors for any popular software product.

The creation of these new support markets depends on the success of three key market elements:

- Software product vendors need to create a broad choice of support services appealing to different levels of user expertise

- Users must be persuaded to pay the price of expert support services possibly having been unhappy with the old offerings

- Software service vendors must enter into open competition for support of popular software packages with innovative valued services.

Support service vendors are preparing for open *competition*, especially for desktop, network and server software product support contracts. Erosion of desktop software prices and the growing cost of supporting complex high volume products is leading PC software vendors to unbundle their traditionally "free" support. In unbundling they are creating new demands for support, and making new markets.

It is still too early to judge whether support charges for desktop and network software will prove acceptable to customers. However INPUT's user research indicates that the new support service portfolios, from vendors like Lotus and Microsoft, do address the main requirements of users. The key outstanding task is to raise user opinion of the importance of support by delivering quality and value.

The value of this new market is heavily dependent on the success of the product and service vendors in stimulating the market to see the value in a range of support services and pay reasonable prices for them. User expectations will need to be completely changed to put a monetary value on desktop support services otherwise lack of support may limit customer satisfaction and even reduce market demand for new products or upgrades.

Professional services vendors have not been strong in software product support in the past. Users stated preference for support from their primary applications provider implies that there is a major opportunity for these vendors to exploit the new markets being created.

In the simplest terms the software product market can be considered as dividing into three sectors:

- Software for the traditional mainframe or mid-range datacentre

- Software for the PC, workstation, desktop or mobile

- Software for the open systems server.

Vendors active in each of the first two sectors have their eyes firmly set on gaining a leading position in the server sector as illustrated in Exhibit V-1. The clash of such different vendors is upsetting the status quo for both groups.

Exhibit V-1

Software Vendors' Client/Server Focus

DataCentre	Server	Workstation

OLTP ⟶ ⟵ Groupware

Batch ⟶ ⟵ Workflow

DSS ⟶ ⟵ Multi-Media
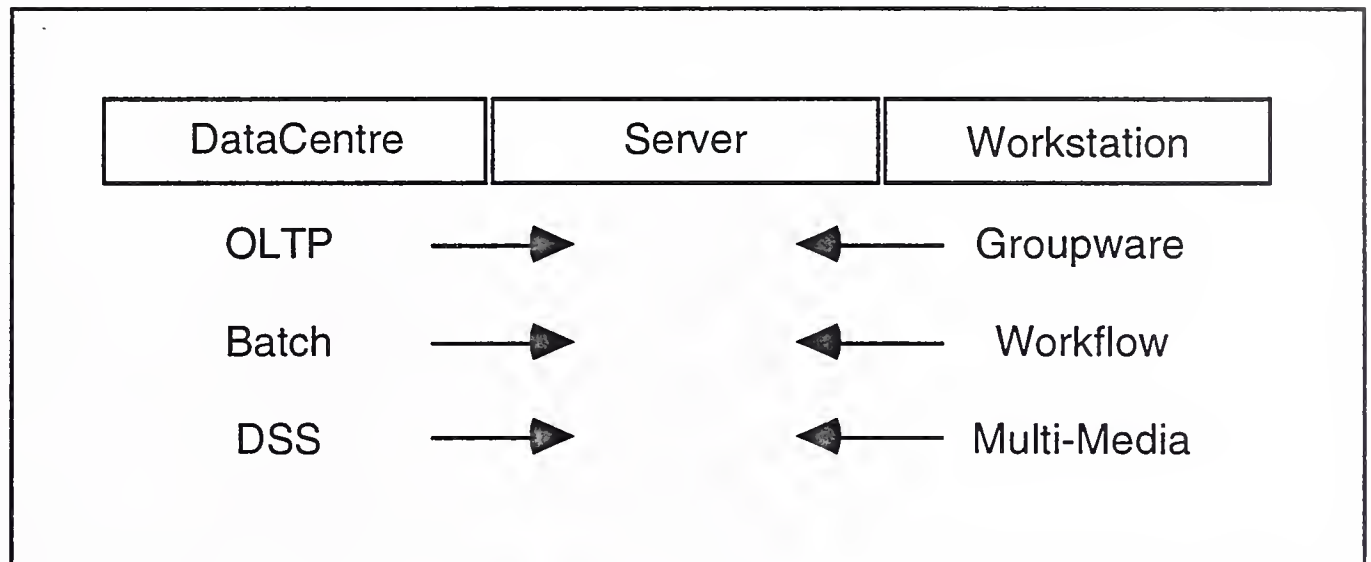
Source: INPUT

Vendors moving from the datacentre are having to re-engineer their support services to be more suited to high volume markets and less expert users. Workstation vendors are introducing more specialist support services to meet the needs of more expert users. Both are entering relatively unknown server territory where the customer still has to be fully persuaded that he should pay for software product support.

B
Will Server Software Product Users Pay for Support Contracts?

Opinions on value-for-money are readily available. In contrast, measures of value-for-money are rare. Qualitative responses to questions on the value of support services used were analysed. The analysis identified that user perceptions of value were interpreted from user perceptions of choice. In other words, value was determined by comparisons: comparing one set of options against another set. No quantitaive measures were identified.

Managers of PC and midrange information systems rated two other aspects of software support services: importance and satisfaction. The results for all three factors are summarised in Exhibit V-2 comparing the responses according to the type of support vendor used.

Exhibit V-2

User Perceptions of Software Support by Vendor Type, 1994

Sample: 100 European IS Managers
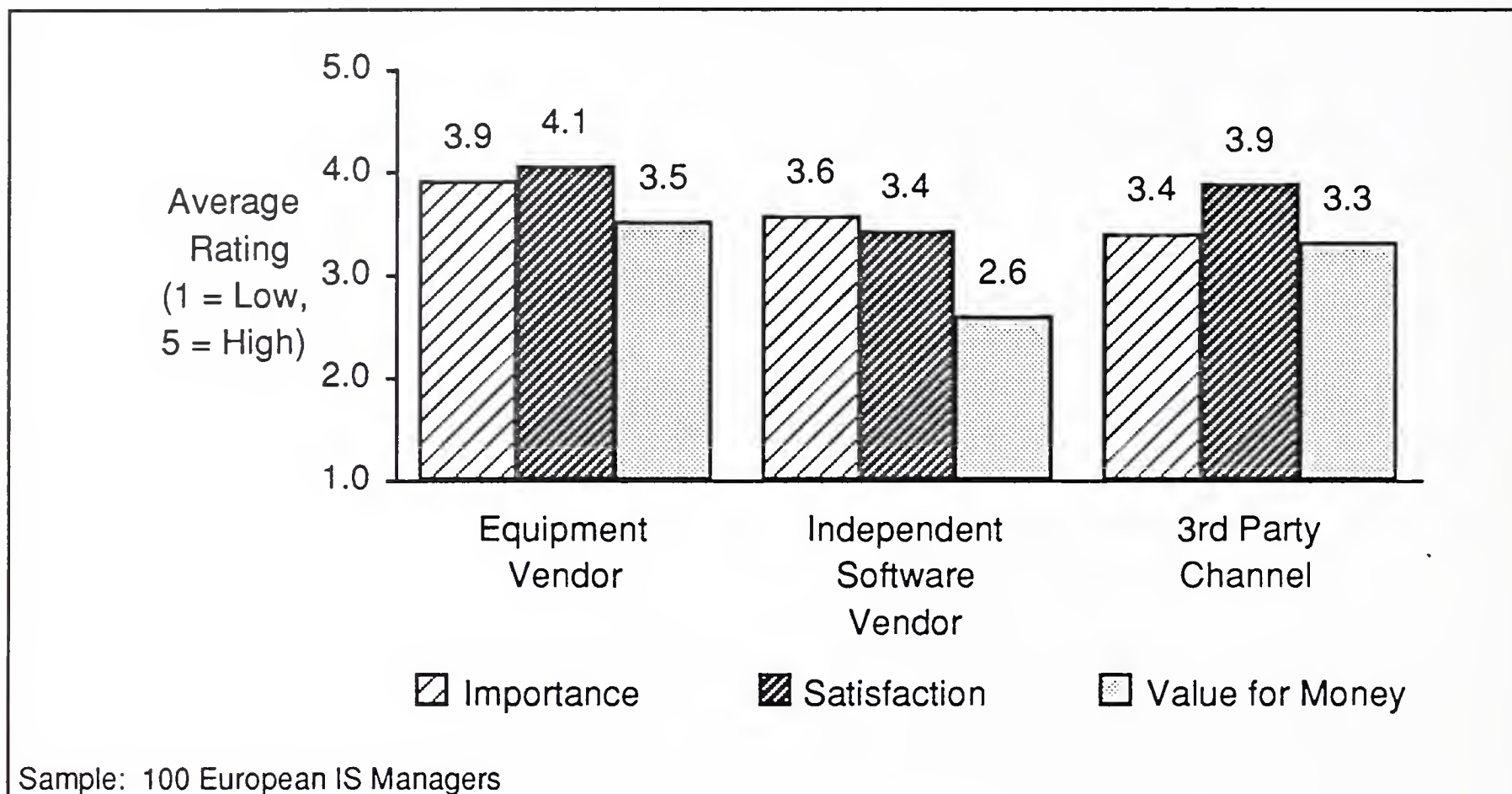
Equipment vendors currently set and achieve the highest customer expectations for software product support. On smaller systems customer preferences turn towards the use of third party vendors for support. The originators of software products, the independent software vendors or ISVs, are the least favoured of these three groups.

It seems sensible therefore that some ISVs are now setting out to positively encourage third parties, especially their own product channel partners, to meet the market demands for support on their products rather than keep the market exclusively to themselves.

Exhibit V-3 shows the four major factors identified as contributing to the value of software support services among the IS managers surveyed. The tangible choices are those offered explicitly by a service contract or service level agreement. The intangibles are secondary benefits or factors offered implicitly by the purchase of a support contract.

Exhibit V-3

Value for Money Factors in Software Product Support

Tangible
Choices

Intangible
Choices

Service
Levels

Business
Security

Value for
Money

Financial
Terms

Product
Performance.
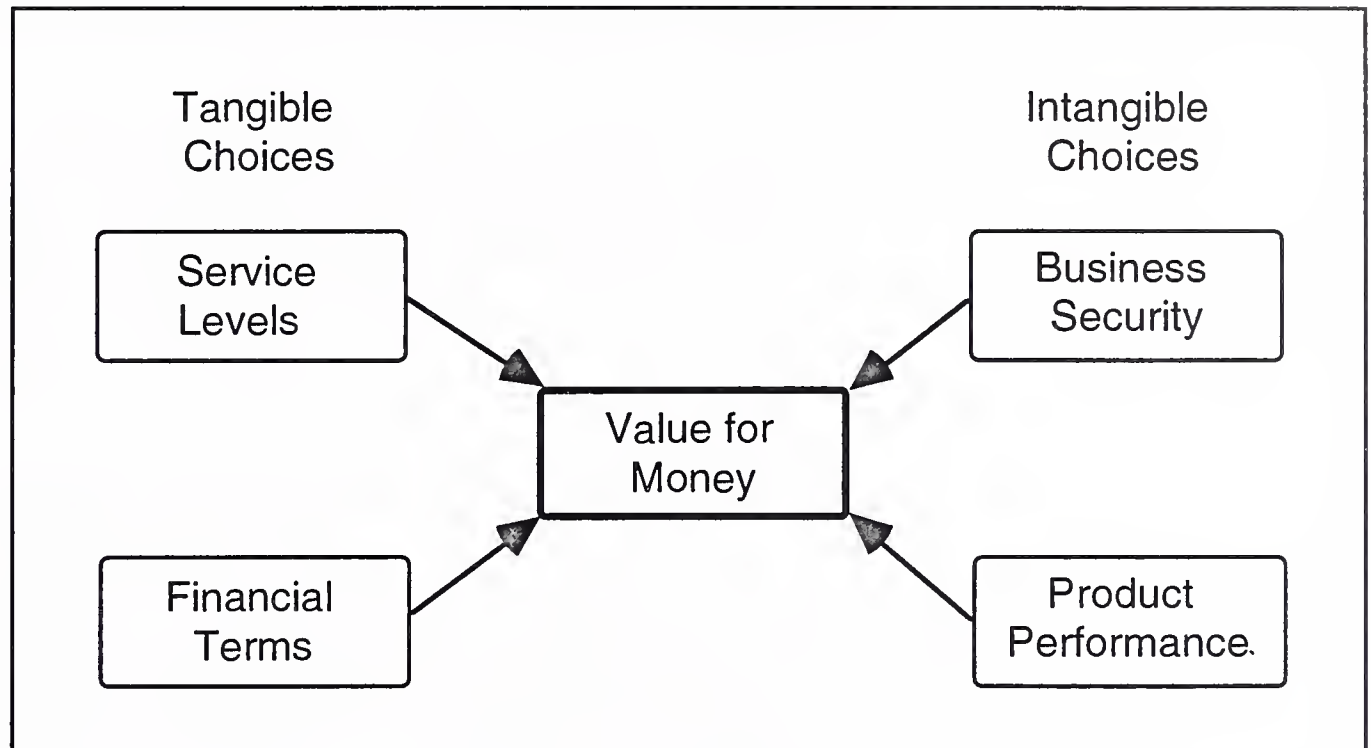
Source: INPUT

Without either a choice of support vendor, or a choice of service level, customers can make no comparative assessments of value for money. This has led to 20% of those surveyed choosing not to have any on-going software product support contract.

1. Attracting Users With No Software Support Contract

These 20% of the potential market represent a special opportunity for support vendors. These managers either buy services on a time and materials basis if needed, or they call on other in-house expertise. Before they can be satisfied with a support contract their expectations need to be raised so that they will consider a support service as potentially good value.

The key characteristics that deter them from support contracts in the first place, and undoubtedly also negatively affect the other 80% of the market, are:

- Support needs are greatest around the initial installation of new software, so support costs should follow this profile

- Extended warrantee is seen as a potentially attractive way of packaging support

- Charges should reflect usage of the service instead of inflating year by year rather like an insurance policy

- Continuously rising support charges on old products encourages users to buy new products rather than fund the support of old ones.

These points have been taken into account in the new support pricing policies of the leading PC software vendors. Other vendors need to review their pricing and packaging of support services to increase the customer's perceptions of importance and value. Application vendors are in a particularly strong position to achieve this.

2. Exploiting Preferences For Application Software Suppliers

Among the IS managers surveyed, those using an application software vendor did not distinguish between systems software and applications support. Their vendor supported all aspects of the application and the software platforms on which it was implemented. As the use of applications packages increases INPUT expects this type of "whole software system" support service to expand.

Those application vendors who have the critical mass to provide such multi-level support, over several platforms, will have two key advantages over those vendors who limit their support services to a single platform:

- High customer loyalty (potentially), with regular customer contact and liaison about changing application needs

- Natural first point of call since the majority of support calls are at the user and application level rather than within systems software or hardware.

Application solution vendors threaten to displace equipment vendors as the most favoured type of support vendor. Equipment vendors are already finding themselves pushed down the decision tree as product vendors. Customers are choosing applications packages such as SAP's R/3 before they choose the platforms on which they will be implemented. The same change could occur in the choice of support service vendor if the application provider can offer a system-wide support service.

3. Convincing IS Datacentre Managers To Pay More

For decades datacentre IS managers have budgeted to pay around 15% of the licence fee per year for a standard software support contract. Typically this has included: telephone help-desk access, bug-fixes, work-arounds and minor new issues of software. It used to include major software product upgrades, but most vendors now position these to generate essential extra revenues in their own right.

As the market for support becomes more open and more competitive then IS managers are going to become much more sophisticated in buying support, just as they have with buying products.

Once again "choice" is going to be the key attribute in adding to the value of support services for the IS manger with a datacentre culture. What is needed is an ability to match the individual customer's needs with a modular set of easily understood support offerings.

Some ISVs are already marketing innovative sets of support services with choices such as:

- Response times (e.g., 24-hour global service)

- Experts who speak the callers language

- Predictive alerts (e.g., warning of approaching system problems)

- Access to frequently asked question/answer databases

- Networked bulletin board user/partner forums

- Emergency services for business critical software

The modularity of the support services is important as it gives the opportunity to sell upgrades to the support contract. Software support has not often been "sold" in the same way as the original products. However this concept of upgrading (or downgrading) the agreed service level will be crucial in increasing the revenues and profitability of vendors' support services.

The result of these initiatives will be the end of the "15% p.a." support service. Just as the pricing of software products is moving

to a usage basis, so support vendors must offer a range of value-for-money services.

C

Large Independent Software Vendors Are Market Makers

The largest independent software product vendors (ISVs) are developing their own support services. In doing so they are creating new support markets around their products, encouraging service partners to compete for support business.

By restricting the type of free support available and giving their new support services relatively premium pricing, ISVs are expected to create market demand for competitive services. Their strategy is to improve customer satisfaction through the delivery of new support services. Of course their end objective or goal, as shown in Exhibit V-4, is to sell more products as a result.

In the past there has been relatively little marketing of software support services since each vendor had a largely captive proprietary market for support services on the vendor's own products. Today the situation is changing rapidly with support available on popular products from a variety of service vendors. Marketing activity has two roles to play:

- To stimulate demand for a range of priced support services from customer who have not paid in the past or who can be encouraged to pay more in future

- To differentiate one service vendor from the competitors when several are selling the same portfolio of software products to the same prospective customers.

ISVs need to leverage their own limited product and systems expertise through third parties and through their customers to increase successful exploitation of their volume products. An ISV's strategy for support generally reflects its business origins: datacentre or desktop.

Exhibit V-4

ISVs' Goal is Product Sales
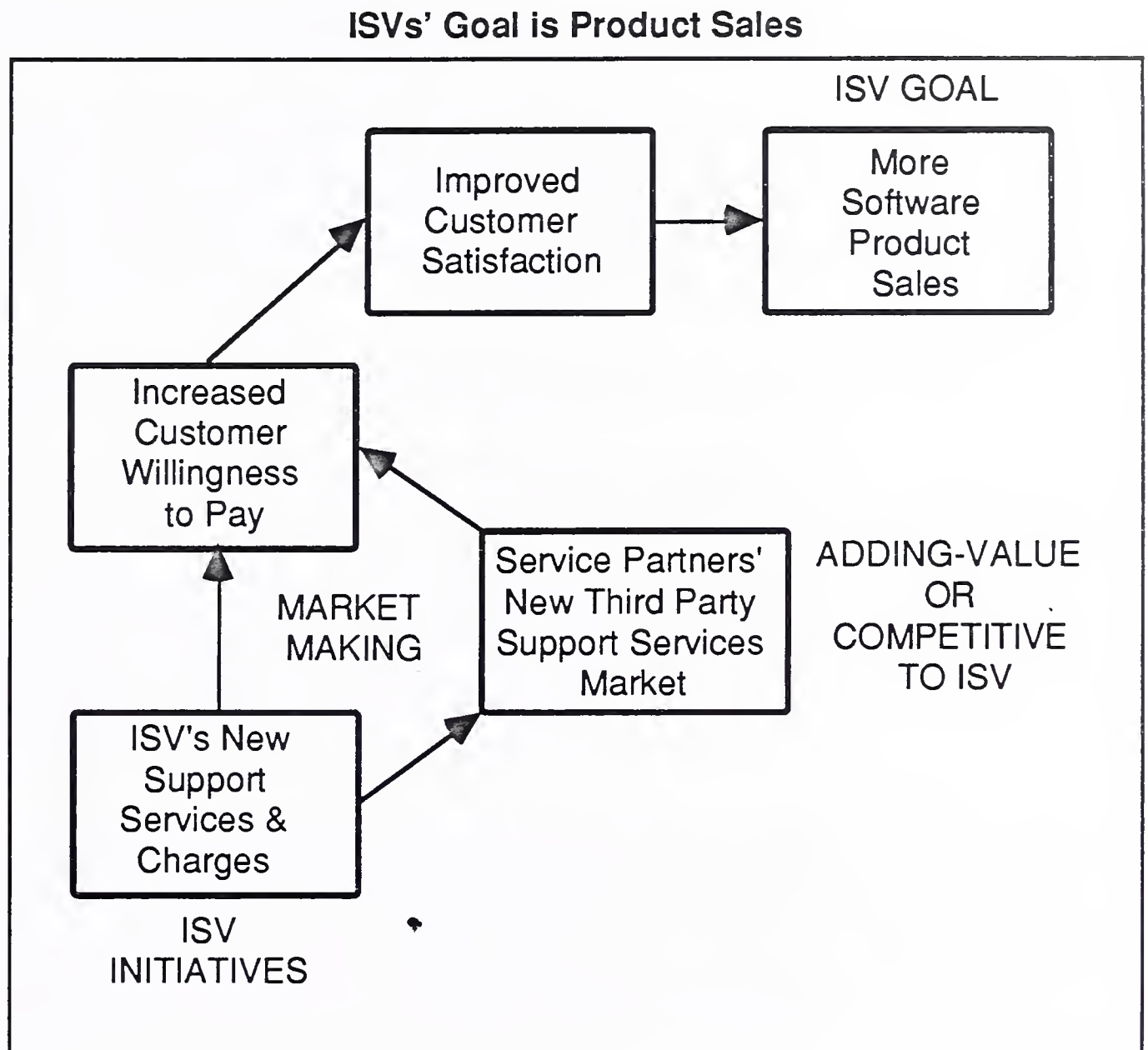
Source: INPUT

1. Datacentre Software Vendors Enhance Service Choices And Add Value

Vendors traditionally selling to the IS professionals in the datacentre are introducing more choice of contract and innovative new services reflecting customer needs, for example:

- Completely custom tailoring of a support contract

- Using a standard menu of options as the basis of a custom service

- Offering global support services for multi-national users

As ISVs build more long-term partnerships with service vendors (VARs and consultancies)

2. PC Software Vendors End Free Support And Set Channels To Compete

For many years there has been discontent among users with the free support services offered by the leading PC software vendors. Response times were often poor or very poor, common questions were then answered quickly, but the chance of getting specialist advice fast was slim.

All that is changing. Free support is being restricted to 90-days usually. Access to experts is now charged at a premium price. Marketing campaigns are underway to raise awareness among users of the value of the services.

Microsoft in particular is clear that it is still not looking to make a profit out of support services. It is looking to create a market for other vendors to compete in. In other words it is stimulating demand for chargeable support by offering premium services and withdrawing those that were free.

Many of Microsoft's partners see this as a major opportunity to build new revenue streams out of their own intimate knowledge of Microsoft (and others) products.

3. Server Software Vendors Scale Services And Charges

ISVs from both the datacentre and the PC markets are modifying their support offerings to compete for server software support business. In this relatively new market support for products like Oracle7 are being scaled down in price from their datacentre equivalents. For products like Microsoft's developer tools, support is being enhanced and priced well above that for the average desktop user.

All lead vendors are expected to introduce access to global support networks for customers and partners. ISVs look to gain leverage of their own scarce expertise through networking with experts among their channels and users.

For the other ISVs there is time still available to be innovative in support services, but once the value of this level of support for PC software has been established, those ISVs not offering something similar will be at a significant disadvantage. Support will soon become a normal part of each customer's selection criteria for preferred products and vendors.

D

Services Vendors Must Avoid Being Just Market Followers

If ISVs are the market makers, then services vendors are in danger of just being market followers. Services vendors who look to gain market share in software product support must also be market makers and help to create new demand for innovative support offerings. Market followers will have a far harder task establishing their credibility as a support vendor if they are entering the open market far behind the market makers.

INPUT estimated the total size of the software product support market in Europe for 1993 at $3 billion. The open market (where multiple vendors offer services for the same products) is currently only a small fraction of this value. But INPUT expects the open market to grow rapidly to about 25% of the whole market over the next five years. This represents a major financial opportunity for services vendors.

The services vendors can be considered in three groups: equipment vendors, independent professional service vendors (VAR's, integrators, consultants), and software distributors. Competition between these groups will increase as the market for support on popular software products becomes more open.

1. Equipment Vendors Will Need To Compete Hard To Remain Support Service Leaders

Equipment vendors have experienced the switch to open competition once before for UNIX and PC products. The original expectation was that customers would just buy from the lowest bidder in most cases. In general they actually found that customers used the availability of a wide choice of products to negotiate the best deal from their favourite suppliers. It seems reasonable to assume that this is also happening to support services where there is open competition and that users will normally stay with a good deal from their preferred vendor.

The result will be strong customer pressure for better value for money and a wider choice of services.

Equipment vendors have already positioned themselves for multi-vendor (open) systems support. They should use their large

critical mass to give customers access to a broad range of support specialists.

The majority of software support contracts are currently placed with equipment vendors. The major threats to the status quo come from the independent professional service vendors and from the application software vendors.

2. Independent Professional Service Vendors Must Give Support Services New Priority

Most professional services vendors have built their reputation with the development of custom application software solutions. Support services for these custom solutions have always been a natural extension of this business. The opportunity to provide chargeable support services for other vendors' software products is a relatively new one. (INPUT has reported elsewhere on the opportunities to support the customers' own in-house developed applications.)

The main reason for competing in this new market is the chance to become the customer's primary source for system support. The opportunities for repeat business will be higher if the customer's brand or product loyalty can be directed to the professional service provider. INPUT's user research has already shown that users have a preference for system support from the application supplier.

3. Software Dealers Can Provide Support Services To Add Value And Increase Customer Loyalty

Software dealers in the sales channel for high volume products already operate on very low product margins. If dealers can exploit the product expertise they already employ to sell packages, then the new support market should be an attractive addition to their business profile. Support services promise also to increase their customer's loyalty to them as a supplier.

With their low overhead structures software channel partners will compete aggressively on support service quality and value. The larger dealers are highly cost-effective and innovative in their business, presenting attractive alternatives to their high margin equipment vendor and professional service competitors.

The activity of all three parties will contribute to stimulating demand in a sector where support has always been free. It may be that users remain unconvinced that they need to purchase support, in which case the quality reputation of the whole software sector is likely to remain suspect.

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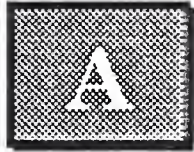
Appendix
User Questionnaire

Extracts from the questionnaire used to survey the opinions of 100 European IS managers. The target sample were managers of mid-range and PC-networked systems.

Platforms

Q1.   What are the main types of equipment for which you have day to day operational responsibility. Please complete the matrix below with the principle elements in each case.

	DataCentre/Server Client Wkstn/ PC	Network
Vendor/Model		
Operating Systems		
DBMS		

Vendors

I would like to ask you some questions relating to the support you receive for your systems software (operating systems, DBMS and utilities)

Q2.   What are your support arrangements and who are your principal suppliers? Which of the following statements best fits your situation?

Option	Description	Principal Vendor
1	One Vendor who supports everything on site.	
2	Several suppliers each supporting only their own products	
3	Some providers support products from other vendors; some support only their own.	
4	No contracted support service. It is provided on a time and materials basis.	
5	Other arrangements (please describe)	

Software Support Satisfaction

Q3   What is your rating for the importance of software product support overall to your business and how satisfied are you with your main vendor's performance? (1 = Low / Poor, 5 = High / Excellent)

	Importance (1 - 5)	Satisfaction (1 - 5)
Software product installation	....	....
Engineer skills	....	....
Problem escalation	....	....
Documentation	....	....
Remote diagnostics	....	....
Provision of updates	....	....
Help-desk support		
Other (please state)	....	....

Support Contract

Q4.   I would now like to ask you some questions about your software support contract. Please rate again on a 1-5 scale the importance of the following features to you

Importance (1 - 5)

Support included in the license fee   ....

Three year contract or longer   ....

Access to experts   ....

Service for other vendor's products   ....

Service for network products   ....

Tailored contract conditions   ....

On-site service   ....

Other (please state)   ....

Q5.   What aspects of your software support contract are significant issues for you? i.e. are there conditions/clauses which should be included/excluded?

1.   ....

2.   ....

3.   ....

Comments...

....

Q5.   Are there any changes to your contracted conditions that would make it more relevant to your business environment?

....

....

Value for Money

Q6.   On a 1(low) to 5(high) scale, to what extent do you consider that you are getting value for money from your systems software support contract? Access to experts

....

Q7.   What changes would markedly improve your perception of the value for money that you receive?

....

....

Thank you.