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ServiceSource Aims to Ease Renewals Challenge

The global services market is more competitive than ever, with cost pressure coming from offshore players and the aggressive entry of non-traditional outsourcing providers, such as telecom firms and the expanding services operations of the well known software and hardware companies. Not only is winning deals more difficult, but buyers are becoming shrewder with their limited IT dollars, demanding better returns and higher performance targets in contracts.

This squeeze has given rise to a new market, and two companies in the San Francisco area are right in the middle, staking their business on helping providers win more deals and manage them more effectively. For ServiceSource, this means helping technology providers generate more revenue from their support and maintenance contract renewals.

As product revenue has flattened, companies are looking to their support businesses to boost their revenue streams and provide higher margins, said Mike Smerklo, ServiceSource's CEO and president. But renewals have become tougher over the years, and almost every company has a few problem areas when it comes to resigning their support contracts.

"Five of six years ago a lot of companies were simply auto-invoicing their support renewals," Smerklo said. "But now end users want to see why they are paying for support. Return on investment and really looking at their budget spending are big priorities."

ServiceSource acts as an extension of its clients' sales team, usually starting several months before the scheduled date of a contract renewal by analyzing the sales data and contacting the buyer and relevant channel partners. Smerklo said it will look at the biggest gaps in their renewal revenue performance and start with the toughest places first, such as contracts in a specific geography or product line.

The company occupies a rather unique place in the market. Smerklo said there weren't any direct competitors, and while there are plenty of providers of contract administration companies - from niche firms up to Oracle - as well as sales lead generation providers, ServiceSource steers clear from these areas. Another defining factor is that the company only gets paid if its customers' support renewals go through - no renewal, no money for ServiceSource. But Smerklo said the business model has so far proved "incredibly successful," resulting in "significant improvements" in clients' renewal rates.

So far ServiceSource only works with technology providers, including Sun, Novell, CA, and BEA, not third party outsourcers or channel partners, although Smerklo said the company does work with tier-one hardware resellers such as AT&T and Qwest. Revenue, which on average has grown between 70% and 80% over the past four years, breaks down roughly 45%/45%/10% between hardware, software, and the health care sector, in which ServiceSource works for a large medical device maker, Smerklo said.

The company works with a range of contracts, everything from different tiers of hardware support to enterprise software deals. These contracts vary in structure from managed services, subscription-based, and Linux support, and now some software-as-a-service deals.

The primary source of ServiceSource's growth is expanding the scope of its customers' support contracts, Smerklo said. But there's plenty of geographic expansion these days, too. "A lot of licenses begin with support in one region and expand into others over time."

One of the biggest trends is the expansion of contracts to cover the EMEA region, Smerklo said. In Europe, for example, it's tough for a company to have the necessary language skills among its sales staff to penetrate the entire region. But ServiceSource's European operations can support 20 different languages, he said. And the \$66m the company raised earlier this year from General Atlantic LLC will help it expand into the Asia-Pacific region.

Software vendor Digital Fuel takes a different tack, focusing on contract management for services firms rather than the sales stage. The company's products allow providers such as IBM and EDS to manage and analyze the service level agreements, performance measurements, and billing provisions in their outsourcing contracts, said president and CEO Yisrael Dancziger.

"Services customers are much more sophisticated now, and they're past the honeymoon stage of early outsourcing growth earlier this decade." Dancziger told *Global Computing Services*. "They've had services deals for a few years, and have maybe changed a vendor or two. But now they're not going to pay for service if it isn't prime quality and aligned to their business objectives."

Another trend driving contract management spending, he said, was that service providers today, much like the telecom sector, are intent on standardizing and centralizing their business processes into repeatable, industrialized practices. A third factor is the need for providers to not only manage their own work but a group of contracts with their consortium partners or subcontractors.

For example, if three big services vendors are partnering for a contract, with one company providing application hosting, another handling server maintenance, and the final one managing the network, there may be a network problem. If the network problem means the first company can't deliver its application services under the contract, the company can trace the problem back to the network provider and see that any penalties or credits under the contract reflect that, Dancziger said.

Services companies were the first to adopt Digital Fuel's technology and they still make up the bulk of its revenue. But in the last year or so, internal IT and other departments have also signed up to track service levels, since companies often measure their performance according to the same standards used with a third party provider, Dancziger said.

On the buyer side, there isn't a big market for contract management, he added. In cases where a buyer has only a few suppliers, the buyers may demand that the suppliers use software such as Digital Fuel's to manage the contract. But for huge firms with a portfolio of vendors, there is a definite need to manage all the relationships and track metrics across product lines or regions, Dancziger said. He named GE, Capital One, and Proctor & Gamble as some of these customers.

Dancziger said the company runs into competitors such as Oblicore and Clear IT, and that big software names such as HP, IBM, BMC, and CA are all trying to establish their own services management businesses. He said it was too early on in the game to see any real consolidation but expects some acquisitions to begin in this space to possibly begin in the next several years.

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