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The ABCs of Global Maintenance and Support Renewals

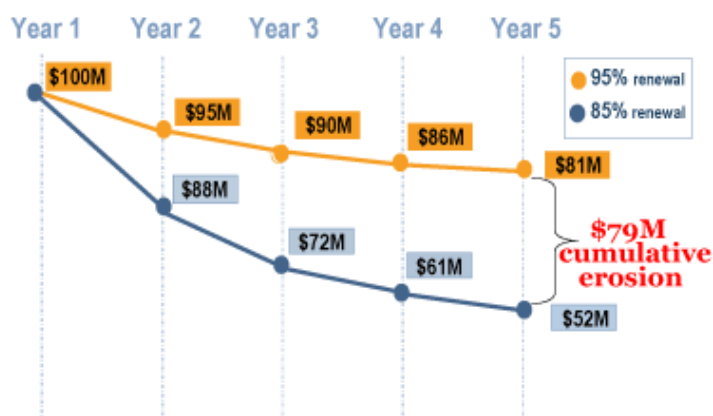
By Mike Smerklo, President & CEO, ServiceSource —



A proven approach can help technology companies with European operations address strategic challenges and maximize renewal revenue.

Support and maintenance offerings are the hidden gem of the technology sector. With product license sales continuing to remain sluggish, properly managing renewals can generate a significant boost to revenue. According to Gartner Dataquest, these offerings will generate about \$138 billion worldwide in 2006. Self-reported industry averages suggest that technology companies capture about 85% of their potential renewal opportunity. While these non-recovered amounts may seem minimal, consider the dollar amount they represent:

Performance Gap Erodes The SMB Annuity Stream



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For technology companies with significant European operations, the European maintenance stream has the potential to generate 15% to 20% of total worldwide revenue. Yet renewal rates for European operations are typically below

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the industry average of 85% and often as low as 45%.

Most companies miss out on this untapped revenue for one reason: overwhelming cost. For example, establishing a basic multilingual team can cost upwards of €500,000 annually:

Cost of European Operations

Native Language Capabilities	Minimum Headcount	Loaded Cost (€)
English	2	€160,000
German	1	€80,000
French	1	€80,000
Italian	1	€80,000
Spanish	1	€80,000
Nordic	1	€80,000
TOTAL	7	€560,000



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This substantial cost has resulted in some companies turning to alternative approaches such as auto-invoicing. These methods are not only ineffective but also hinder the growth potential of the customer relationship.

To truly maximize renewal revenue, technology companies must follow the ABCs of global maintenance and support renewals: **address** the differences in the European market, **better** manage underperforming channels, and **cut reliance** on auto-invoicing. In addition, these companies must find a way to execute on these principles in a cost-effective manner.

Renewal Challenges and Opportunities

A: Address the Differences in the European Market

Europe is a highly fragmented market with 45 countries and 20 native languages. Beyond the language differences, each country has unique business policies and a variety of currencies. Technology companies must consider the needs of each culture represented in their customer base in order to be successful.

Language and Culture

While dedicated multi-lingual teams are the solution of choice, this market-by-market coverage has traditionally been too cost-prohibitive. To make these teams affordable, companies often employ only one of each language speaker. However, this lack of redundancy leaves European operations vulnerable. Every time a team member leaves, the company is unable to serve an entire segment of its customer base during the recruitment and training cycle. In some cases, entire teams have resigned in the summer months when many Europeans are

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accustomed to taking extended vacations.

For companies willing to add staff, business volume rarely justifies the dedicated resources. To compensate, companies may split each team member's time between product and service sales. This simply recreates the challenge faced by many U.S. firms: teams focus on high-margin license deals ("cherry-picking"), leaving service as an afterthought. Or worse, renewal sales become an administrative function handled by contractors or finance personnel.

Other companies employ English-only speakers or linguists with varied skill levels. These companies miss out on the native speaker's understanding of in-country policies, language requirements, and business protocols. The value of native speakers cannot be overstated – ask any salesperson who has committed a cross-cultural faux pas. Organizations that rely on non-native speakers miss sales opportunities and frustrate customers.

Currency and Reporting

With a variety of currencies, Europe is an incredibly complex market when it comes to accurate forecasting, quoting, and reporting. Achieving a comprehensive view of a business' fiscal health and performance requires an understanding of the local currency and conversion policies. With so many competing priorities, few companies take the time to cultivate and maintain this expertise.

B: Better Manage Underperforming Channels

The European market is highly dependent on channel sales. For many channel partners, however, renewals are such a small and fragmented percentage of their business opportunity that it is difficult to justify the investment required to hire, train, and maintain an effective maintenance renewals team.

For example, say a channel partner does €10 million in business for a certain technology vendor. Roughly one-third of that business will comprise maintenance and support. In Europe, that opportunity may be dispersed across five countries, creating a €600,000 opportunity for each native language sales team member. Assuming an 80% renewal rate and a 15% margin, the channel partner has a potential revenue gain of €72,000 – the approximate cost of the dedicated native language speaker. It is understandable that channel partners can't justify the effort.

In addition, these sales teams sell hundreds of products, which further dilutes their focus on renewal revenue opportunities. Sales teams are designed such that team members will almost always pursue the higher-margin products sales to the detriment of the renewal revenue stream. Technology companies that want to maximize renewal revenue should focus on high quality partners that can deliver impressive results.

C: Cut Reliance on Auto-Invoicing

Many global companies have turned to evergreen contracts—those that are automatically renewed upon expiration if a customer doesn't proactively terminate it in writing. In theory, this approach circumvents the language issue

by eliminating personal contact with the customer. But it poses other more important challenges:

- *Customer Frustration*
Customers who are upset are unlikely to renew a particular service. Frustrated customers with evergreen contracts will be more aggravated that they are being billed without a chance to vent, and these customers often withhold payment or switch to a competitor.
- *Missed Customer Feedback*
In addition to finding out why customers don't renew, feedback is critical to helping strengthen product offerings and truly meet customer needs.
- *Missed Upsell Opportunity*
Those deploying evergreen contracts view renewals largely as an administration function. This is a sales function. The renewal is a key opportunity to discuss upgrade paths, confirm internal inventory levels, and cross-sell consulting and educational services.
- *Lack of Customer Budgeting*
Many automatic invoices are sent 30 days before payment is due. In these cases, customers may not have the expense built into their budgets.
- *Increase Days Sales Outstanding*
Without a proactive sales approach, customers are unlikely to renew on time. Technology companies using this method see receivables balloon as clients are slow to pay.

Technology companies that rely on auto-renewals place their own convenience ahead of their customer's needs, which hinders their ability to maintain and grow their client relationships.

Maximizing Renewals: Minding the ABCs

The difference between average and world-class renewals in a company's European operations is the difference in how closely a technology company can mind the ABCs when dealing with its worldwide customer base. Key differences include:

Average Renewals	World Class International Renewals
English speaking only	Native speakers with knowledge of local protocols
USD based	Billing and reporting in local market currency
Channel not properly motivated	Enabling partners with tools and training to make focus on service sales economically possible
Auto invoicing methodology	High touch sales model and opportunity to hear critical customer feedback

The challenge, of course, is how much investment your company is willing to make to capitalize on international renewals. If investment is limited, you should

explore ways to extend overseas coverage or leverage skills of an outsource provider.

Benefits

If your company can execute on the ABCs, you can expect the following benefits from your international operations:

- *Improved customer satisfaction and retention* . Customers have an opportunity to communicate their feedback, both positive and constructive, during the renewal process.
- *Greater predictability in revenue*. Service providers proactively manage renewal calendars, so there's greater consistency in fee schedules. These service annuities can offset intermittent, and sometimes volatile, license sales.
- *Greater visibility and insight*. Service providers deliver real-time reports on renewal results, performance, and trends analysis. This business intelligence is invaluable in strategic and fiscal planning and decision making.

To maximize renewal rates and revenue, technology companies with European operations must follow the ABCs: address the differences in the European market, better manage underperforming channels, and cut reliance on auto-invoicing. Leveraging the focus, expertise, and scale of an outsource provider can help boost worldwide renewal revenue in a cost-effective manner.

About the Author

Mike Smerklo has been the CEO of ServiceSource since 2002 and is responsible for advancing ServiceSource's vision to deliver world-class maintenance sales services to the technology industry. Under his tenure, he has architected a leadership team with deep experience in technology, outsourcing and client services and has consistently delivered 100+% year-over-year growth and exceptional profitability. Prior to ServiceSource, Mike served as part of the executive team at Opware (previously Loudcloud), driving sales, marketing and business development efforts. Before joining Loudcloud, Mike was with Morgan Stanley and Lehman Brothers, where he focused on corporate finance and mergers and acquisitions for technology companies. Mike holds an MBA from the Kellogg Graduate School of Management, where he graduated with distinction. He also holds a BS in Business Administration from Miami University and is an accredited CPA .

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