$250BN annual software maintenance market needs more scrutiny, a strategic opportunity for ITAM

Software Support & Maintenance Survey

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www.clearlicensing.org
Executive Summary

Many organisations spend a huge proportion of their annual IT budget on paying for existing software support and maintenance contracts. The market is estimated to be worth $250BN.

The typical survey respondent had no idea of support volumes, support quality or the strategic value of software maintenance renewals.

This research is a call-to-action for organisations to get a handle on this major area of spend and apply ITAM best practices to optimise spend and lower risk.

The key findings in this paper include:

• Software maintenance renewals need more scrutiny
• Security options need more clarity
• There is a strategic opportunity for ITAM to own the renewals process

Industry trends identified include:

• Organisations renewing contracts as the path of least resistance
• Scarcity of information regarding true consumer rights and entitlement
• Hardware merging into software
• Products merging into maintenance

Key Actions:

• Lawmakers need to seriously consider the long-term consequences of these trends in an Internet of things era – in the interests of consumer rights, security and environmental impact.

• IT Asset Managers can create a huge amount of value by setting up a rigorous process for support renewals.

• The IT community would benefit from an open access library to crowdsource intelligence on support and maintenance contracts
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Introduction

This paper summarises the findings from a Campaign for Clear Licensing survey conducted in summer 2018. The objective of the research was to understand current trends and identify best practices for the software maintenance market.

Many organisations spend a huge proportion of their annual IT budget on paying for existing software support and maintenance contracts. Software maintenance spend also represents a significant profit contribution towards software publishers’ bottom lines.

The Forrester Global Tech Market Outlook 2018-2019 ¹ estimates the software market to be worth $688BN in 2018, of which $360BN is estimated to be on-premise product (The difference is said to be SaaS or custom development). If it is assumed that 70% of the $360BN is maintenance and an estimated 30% is licensing, it can be estimated that the annual software maintenance market is around $250BN.

The software maintenance industry norm is for customers to pay around 20% of the license fee per year in support and maintenance, leading to organisations paying for their software twice after a 5-year term. Support and maintenance are a key part of the vendor relationship and was an emotive topic for respondents:

"Software support and maintenance is the dominant issue determining the success or failure of a relationship with a supplier. A relationship built on the best product on the best terms can still be easily destroyed by bad practice in support and maintenance, which is seen by some software suppliers as the source of most revenue and margin from a captive audience."

“This is one of the most important if not the most important topic affecting the relationship between a software provider and a customer. It can enhance or poison the relationship”

The Campaign was also keen to explore the ambiguity in this market, with many buyers unaware of their consumer rights regarding support and maintenance, often lacking a clear description of what they are entitled to use, and many different norms between different software publishers.

The traditional software support and maintenance market is typically comprised of three components:

1) Bug fixes and security updates in case a vulnerability is discovered
2) Handholding assistance if something goes wrong
3) Access to upgrades

Access to these three elements can be different for every software publisher and the specifics are often vague and undocumented.

¹ The Global Tech Market Outlook For 2018 to 2019, Andrew Bartels, January 2018
Research Objectives

The research aimed to look at the following four areas:

1) What factors are important for organisations renewing maintenance?
2) How were organisations making those decisions?
3) Who were the key decision makers?
4) Are organisations getting value for money, how frequently are they using support services and what level of service do they receive?
Survey Demographics

- 100 global participants
- Survey responses collected in April and May 2018
- Companies of all sizes and a wide range of countries responded
- The results were also discussed at The ITAM Review UK annual conference in June 2018 and further anecdotal feedback was solicited from round table discussions

Countries

Company Size
Research Findings Summary

The ideal outcome for this research was to generate a ranking table of who provided the best and worst support, with whom organisations log a call most often, and so on.

*However, the results were completely unexpected.*

The typical survey respondent had no idea of support volumes, support quality or the strategic value of software maintenance renewals. In short, software maintenance renewals are not facing enough scrutiny.

Whilst this research did not follow its original planned course, it highlights some significant themes and best practices for organisations to consider.

*This research is a call to action for organisations to get a handle on this major area of spend and apply ITAM best practices to optimise spend and lower risk.*

The remainder of this paper is divided into three broad lessons derived from the research:

1. Software maintenance renewals need more scrutiny
2. Security options need more clarity
3. There is a strategic opportunity for ITAM to own the renewals process
1. Software maintenance renewals need more scrutiny

As previously mentioned, it was hoped that the survey results could generate a league table of support performance, but the clear majority of survey respondents simply didn’t have enough information on support activity. Software maintenance renewals are being renewed without sufficient information to make an informed decision.

As the chart above suggests, system owners, finance and senior IT management are the major decision makers in the renewal process. The ITAM team, with the skills to enable informed decision-making and drive efficiency, represented only 10%. As discussed later in this paper, this represents a major opportunity for the ITAM team to take further ownership of this process.

It could be argued that system owners and architects are not necessarily motivated to optimise costs. It was felt by ITAM professionals that a key motivation for system owners to renew was accountability rather than the business value being delivered by the contract. I.e. if the system owner chose not to renew the software maintenance contract associated with their system, to whom would they point the finger should the system fall over? Such is the power of this motivation that it commonly supersedes whether the contract is relevant and actually delivering value.

“It doesn’t matter that the software publisher does not support the current software version and their support is hopeless – as long as the system owner has someone to shout at when the SLA is breached with their customer.”

It should be noted that this study did not include the opinions of system owners and business unit budget holders who are signing off on maintenance renewals.

The maintenance contract is perceived as an insurance contract, when in reality it is a completely different entity, but renewals take place anyway in the absence of any other viable alternative.
2. Security options need more clarity

What is the biggest fear when not renewing maintenance?

![Pie chart showing percentages of fears.]

The software maintenance market suffers from a lack of clarity over legal rights. Organisations experience fear, uncertainty and doubt regarding “Am I legally allowed access to security patches if I don’t have support?” and “Am I allowed to stop this contract?” or “Could I pick up support again at a later date?” These fears drive profits for software publishers. 49.4% of respondents cited security concerns as the biggest fear when not renewing maintenance, followed by stakeholder perception at 21.5%.

What your stakeholders, who might be internal or external customers, think is a very important concern, but only if the support contract you are paying for will actually get you out of trouble should something fall over. As mentioned previously, for too many IT teams, just renewing the maintenance is the path of least resistance.

What the software vendor thinks and how stopping support might affect the relationship came in third at 13.9%. Would stopping support encourage an audit request? It could be argued that this figure might have been higher 4 to 5 years ago, but it was discussed that software vendor audits are so common that organisations are very likely to get audited, regardless of whether they have a support contract or not.

The fear of penalties and so-called “Back maintenance” is also a concern for organisations renewing support maintenance agreements. For example, Oracle will charge 150% of the support contract, backdated to the original support lapse or product purchase date. A genuine financial alternative is to drop support and maintenance and buy the product again later when new updates are available, or support is actually needed, but lack of legal clarity often prevents this route.

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2 https://www.itassetmanagement.net/2018/06/27/oracle-vs-chile/
It is not in the software publishers’ interests to promote perfect clarity over availability of patches and security updates. Respondents cited software publishers planting a seed of doubt in the customer’s mind that it’s not a good thing to do. To counter this, this paper argues that an open access wiki to list customers’ legal entitlement around firmware and security updates would be beneficial to the industry.

Software Maintenance Industry Trends

Respondents also reported a trend of hardware merging into software. In that manufacturers wanted to restrict access to firmware updates for hardware unless customers had a current software contract.

Similarly, products are merging into maintenance; for example, customers investing in Microsoft’s software assurance to receive “mobility” rights.

These trends have worrying consequences way beyond the IT department. What if you want to buy a second-hand BMW in the future but are prevented access to the firmware? As modern cars are increasingly run by software, your new car becomes an expensive paperweight unless you can gain access to the right code.

As the world becomes increasingly underpinned by software and billions of non-IT devices are Internet enabled – software publishers will need to clean up their act or face regulation. These issues have already been battled out in court at the highest level, farmers in the USA are arguing the right to basic repair against John Deere tractors, who in defence argue that the farmers have not bought a tractor, but rather a ‘tractor-as-a-service’ and aren’t allowed to fix their own tractor in accordance with the EULA.³

Clarity is required, and the Campaign for Clear Licensing advocates CLEAR licensing.

Market restrictions by software publishers also have a massive knock-on effect on the environment. Secondary markets and the circular economy prolong the useful life of devices and components. Using the BMW example above, if BMW can restrict access to security updates, firmware and instructions on how to use their cars in the secondary market, it considerably shortens the useful life of the car and increases the environmental impact of creating it in the first place. Even something as mundane as a toaster won’t be able to be resold and reused because the new owner won’t have firmware updates!

Lawmakers need to seriously consider the long-term consequences of these trends in an Internet of Things era – in the interests of consumer rights, security and environmental impact.

³ https://www.itassetmanagement.net/2017/06/06/kill-eula/
Finally, third-party support and maintenance is a growing market and a viable alternative for many organisations. 52% stated support was as good or better than the original manufacturer. Third-party support decisions are often hindered by the lack of clarity over security updates and legal rights.

As mentioned previously, the third-party market would benefit considerably from an open access resource citing customer consumer rights surrounding contracts and legal rights, especially in the event of a security issue.

Third-party maintainers also need to raise their game in creating case studies in this market to raise the profile of third-party maintenance as a credible alternative. Similarly, customers need to raise their head above the parapet and speak of the benefits of using third-party alternatives, in order for the market to grow further.
3. A strategic opportunity for ITAM to own the renewals process

As mentioned previously, the IT Asset Management department has a great opening to grasp the opportunity in scrutinising the estimated $250BN a year spent on software support and maintenance. There is a huge amount of value to be extracted from setting up rigorous processes for support renewals.

The 80/20 Rule Applies

As with all things in IT risk, the Pareto principle applies to making an impact on support renewals; it is highly likely that greater than 80% of the savings opportunities will be found in less than 20% of support contracts. IT Asset Managers can make an enormous impact on freeing up annual budgets by scrutinising spend on a few well-chosen contracts.

Resources for Informed Decision Making

IT Asset Managers need to create decision trees to empower smart decision-making. Providing options to senior management teams with alternative options, possible scenarios, cost impacts and risks, changing/stopping/pausing support, using a third party, and so on. As with all things ITAM, this should be supported by senior management with ongoing education and reinforcement with key stakeholders.

Clarity through community

Clarity over legal rights and the art of the possible can be sourced from the community. As a community of ITAM professionals there is an opportunity to work together to provide clarity and shared intelligence around what is legally possible with software maintenance. To enhance this, perhaps collaborating with legal professionals to clarify the legal position would be possible. This would add considerable leverage to the decision trees mentioned above – crowdsourced intelligence to support renewals.

An opportunity for SAM technology providers

There is also an opportunity for ITAM technology providers. One of the core deliverables of SAM technology is the recognition catalogue that helps organisations assess risk based on what they are consuming, by identifying what is installed and being used and translating that into consumption data to see what you're actually using.

Many ITAM tools provide support for end of life or end of support dates, so it wouldn’t be a huge stretch for them to help validate the business value of a support contract. A SAM tool might help tell you a support contract is due for renewal, what if it could help you assess the impact it’s having?

Start with no

IT Asset Managers are advised to start software support renewals from a position of “no”. That is, the default position for a renewal is “no, we won’t renew this”. It is then up to the software owner to justify why the renewal should take place, rather than the normal default position of renewing because the renewal date is looming and there is
insufficient information to make a smarter decision. Systems that are not business critical, are stable and with no plans for upgrades are low hanging fruit.

**Cut cost not value**

Optimising software maintenance renewals requires that organisations perform a cost/benefit analysis of the different cost options available versus the business value being delivered. E.g. In the event of a support incident, how valuable would that support actually be? Can the software publisher actually help us if something went wrong?
Zero-Based Renewal Decision Making

A quick guide to challenging assumptions and eliminating wasteful spend in software support and maintenance:

1. As with all things ITAM, seek senior management authority and back up your proposed decision-making process with clear communications and a coherent plan.
2. As mentioned previously, start from “We’re not renewing” and consider business cases proposed for renewing, rather than renewing as the default position.
3. Systems that are a) stable b) not business critical and c) have no planned upgrades should be considered low hanging fruit
4. Challenge everything:
   a. Challenge the level of support and maintenance e.g. Does the business really need 24/7/365 Premium support?
   b. Challenge the source of support and maintenance e.g. can our support requirements be met by a third-party maintainer at half the cost?
   c. Challenge the viability of support and maintenance – are the systems in production actually supported by our current support and maintenance, what support are we actually likely to receive if an outage occurs? Is it a valuable investment?
   d. Challenge the structure of support and maintenance e.g. how can the provider justify annual price increases for a stable legacy system when support resources have been offshored and their overheads have been cut? Challenge lock-in, products merged with maintenance and avoid aggressive bundling.
Summary

In summary, many organisations spend a huge proportion of their annual IT budget on paying for existing support and maintenance contracts.

The typical survey respondent had no idea of support volumes, support quality or the strategic value of software maintenance renewals. In short, the estimated $250BN software maintenance market is not facing enough scrutiny.

Key Actions:

- Lawmakers need to seriously consider the long-term consequences of these trends in an Internet-of-Things era – in the interests of consumer rights, security and environmental impact.

- IT Asset Managers can create a huge amount of value by setting up a rigorous process for support renewals.

- The IT community would benefit from an open access library to crowdsource intelligence on support and maintenance contracts.

Thank you to ITAM Review readers, Campaign for Clear Licensing supporters and ITAM Review UK conference delegates for contributing towards this paper.
About The Campaign for Clear Licensing

The Campaign for Clear Licensing is an independent, not-for-profit organisation campaigning for clear licensing, manageable license programs and the rights of business software buyers.

The Campaign for Clear Licensing will on behalf of its members, work with software publishers and the reseller community to reduce the indirect costs of using commercial software by improving the clarity and usability of software license terms and conditions.

http://www.clearlicensing.org

About the Author

Martin is owner and founder of The ITAM Review, an online resource and community for worldwide ITAM professionals.

Martin is also author of the book “Practical ITAM - The essential guide for IT Asset Managers”, a book that describes how to get started and make a difference in the field of IT Asset Management.

On a voluntary basis Martin is the Chief Agitator at the Campaign for Clear Licensing, a contributor to ISO WG21 which develops the SAM International Standard ISO/IEC 19770 and board member of Free ICT Europe which supports the ICT secondary market.

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