Deconstructing Renewal Rates

Insights to Increasing Service Revenue Performance

A Practical Approach to Service Revenue Performance

You calculate your renewal rate for maintenance, support, and subscription revenue with precision, but what is that rate telling you? For most companies, not much. Many companies calculate their renewal rate by dividing the closed transaction dollars by the number of opportunity dollars available. While this renewal rate is usually a reasonable benchmark of performance, it rarely provides insight into how to actually improve future renewal performance and maximize revenue.

To continually improve renewal rates for our customers quarter after quarter, ServiceSource has analyzed the renewal process and identified three key components that must be measured:

- Resolution rate
- Close rate
- Conversion rate

The product of these three components yields the net renewal rate.

By deconstructing the renewal rate into these component calculations, you can uncover data and provide insight which is actionable – it allows you to make decisions about process, systems, staffing, and policy, which in turn enables us to maximize each customer’s opportunity. Best-practice renewal teams understand their resolution, close, and conversion rates and how to act on them.

Renewal Rate = Resolution Rate \times \text{Close Rate} \times \text{Conversion Rate}
Three Key Components of Renewal Rates

**Component** | **Key Questions It Answers**
--- | ---
Resolution | Have we completed every available sales cycle?
Close | Did we successfully communicate the support value?
Conversion | Are we maximizing the value of every opportunity?

Source: ServiceSource

### Resolution Rate
The resolution rate is the percentage of transactions where the sales cycle has been definitively completed. That is, a concerted effort has been made to reach the buyer and the opportunity has been resolved, either positively or not. It’s a simple premise: you can’t close the transaction if you can’t make contact with the appropriate person and come to a resolution. For example, if you come to an agreement for $15M of a $20M opportunity, your resolution rate is 75%. This rate provides insight into how well a sales team is able to cover a “batch” of business. You can drive strong resolution rates through:

**Data Management**
Outdated contact information increases renewal resolution times exponentially. Service revenue teams should spend approximately 25% of their time analyzing, scrubbing, and researching each customer’s quarterly opportunity list so they are able to make contact with every available customer.

**Technology**
The end customer requires sufficient time to run the renewal through the proper channels. There is a clear decline in renewal rate as the contract approaches (and eventually exceeds) expiration. We leverage cloud applications to help customers effectively manage opportunities directly to end customers and through the channel at least 90 days before expiration to maximize the probability of close.

**Additional Administrative Support**
Some sales teams need additional support personnel to ensure that sales reps have ample time to cover the entire opportunity base.

By focusing on the resolution rate, we promote contacting every customer and bringing all available opportunity to closure prior to expiration.

### Close Rate
The close rate is the percentage of customers who accept the value proposition and agree to renew service contracts. In simple terms, it measures how well sales teams are selling the value. If your team has resolved $15M in opportunity and renewed $10M of that opportunity, then your close rate is 67%.

In our experience, the close rate is often more difficult to control because it is subject to market factors. For example, hardware companies typically have lower close rates than software firms because customers purchase redundant equipment rather than support coverage, or they find it more cost-effective to replace equipment rather than to support it. The reality is that the nature of your product or industry may limit your close rate.

You can strengthen close rates through:

**Formal Cancellation Processes**
Signing an official support cancellation letter causes the buyer to weigh the decision carefully. Should a mission-critical system glitch arise, the buyer will not want to be the person who cut off support.

**Strict Customer Entitlement Policies**
Well-meaning support teams who provide out-of-scope assistance are doing their companies a disservice. These companies have lower close rates, as customers are likely to delay or cancel renewals. Why buy the support contract when you can get the support for free?
By educating end users about the risks of having an unsupported product and by selling the value of service contracts, you can optimize close rates, revenue, and profits.

**Value-Based Selling**
Companies should ensure that their service sales teams are knowledgeable about different support offerings and can articulate the benefits of those offerings and costs/risks of not being on support. Sales teams should be able to handle common customer objections and avoid taking ‘no thanks’ as a first response from a customer.

**Conversion Rate**
The conversion rate reflects how the actual transaction amount compares to the original opportunity. For example, say a support contract valued at $50,000 is up for renewal. If the company up-sells the contract to extended 24x7 coverage at $60,000, the conversion rate is 120%. If the company discounts the contract to $40,000, the conversion rate is 80%. The conversion rate answers the question: For every contract we renewed, did we maximize the value of that service contract?

Strengthening the conversion rate requires a well-trained team that understands how to maximize the value of each customer interaction. To improve conversion rates, companies can:

**Upgrade Service Level**
Top sales reps will work with end users to identify additional assets that can and should be added to the support contract. Also, they will present expanded 24x7 support and other “platinum” options.

**Upgrade to Multiyear**
Multiyear contracts provide guaranteed revenue for the next few years and free your sales resources to focus on other opportunities.

**Extend Contract Length**
Trained sales reps can help customers understand the value of support and limit price breaks.

You can improve the conversion rate by selling the value of service upgrades, outlining multiyear options, and ensuring that all assets are covered under the service contract.

How these component rates work together is shown in Figure 2. On a maintenance opportunity of $20M, a 60% net renewal rate demonstrates that there is an $8M opportunity gap. However, how to close that gap is not as apparent. By

![FIGURE 2 Calculating Components of Net Renewal Rate](source: ServSource (February 2007))
breaking down the rate into its resolution, close, and conversion-rate components, a service executive can now start to pinpoint where changes should be applied. We outline some of those potential approaches in the following section.

**Improving Performance**

**A Tale of Two Companies**

Different companies can expect to achieve varying renewal rates based on factors like industry conditions and sales channels. Because some factors are simply a part of the competitive landscape, you must analyze your resolution, close, and conversion rates to identify which areas hold the greatest potential for improvement.

Let’s review two examples from the ServiceSource portfolio of more than 100 customer engagements. These two companies have the same net renewal rate, but very different renewal components. Based on the deconstruction of the net renewal rates, the approach for improving the renewal rate of each company is vastly different.

A large hardware manufacturer has a low resolution rate (75%), an average close rate (60%), and an exceptional conversion rate (170%). The company works through many channel partners, so its customer data is often incomplete, which can lead to low resolution rates. Its low close rate is driven largely by its customers’ tendency to replace the company’s equipment rather than fix it. However, because the company has an attractive multiyear policy, customers can successfully be converted from one-year to three-year contracts. Conversion rates are also boosted by the reps’ ability to uncover new equipment and expand the scope of the support relationship.

The second company is a mid-size enterprise software manufacturer with a highly targeted customer list and great customer information systems. The customer has a great resolution rate (90%), and the mission-critical nature of the product leads to a very high close rate (95%). However, the company has only one level of support, which is comprehensive, and it has historically faced some challenges with its sales team discounting support. As a result, the conversion rate was lower than it should have been, tracking to 90%.

**Net Renewal Rate Components: A Comparison**

At 77%, the net renewal performance for these two companies is the same. However, how each company should approach improving renewal rates is vastly different.

By analyzing the three renewal components, we can move from results reporting to scenario planning. We use “what if?” questions to identify the areas that hold the greatest potential for improvement. For example:

- What if we reprioritized the order in which we pursued accounts? Would the resolution rate increase?
- What if we trained the team to better handle customer objections? How might it affect the close rate?
- What if we were able to offer premium support? Would it improve the conversion rate?

![FIGURE 3](image_url)

**FIGURE 3** A comparison of two identical net renewal rates

<table>
<thead>
<tr>
<th>Resolution Rate</th>
<th>Close Rate</th>
<th>Conversion Rate</th>
<th>Net Renewal Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hardware Manufacture</td>
<td>75%</td>
<td>X</td>
<td>60%</td>
</tr>
<tr>
<td>Software Manufacture</td>
<td>90%</td>
<td>X</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: ServiceSource
This analysis allows us to then employ targeted sales tactics at the individual and team levels, as well as to encourage client policy changes to drive improvement. An example of the improvement matrix is shown in Figure 4.

### FIGURE 4  ServiceSource Improvement Matrix

<table>
<thead>
<tr>
<th></th>
<th>Resolution Rate</th>
<th>Close Rate</th>
<th>Conversion Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Rep</td>
<td>Adequate lead time</td>
<td>Selling value to customers</td>
<td>Multiyear contracts, up-selling</td>
</tr>
<tr>
<td>Sales Team</td>
<td>Sufficient team size</td>
<td>Training on value proposition, handling objections</td>
<td></td>
</tr>
<tr>
<td>Corporate Policy</td>
<td>Data capture integrity</td>
<td>Cancellation and entitlement</td>
<td>Discount policies</td>
</tr>
</tbody>
</table>

Source: ServiceSource

### Beyond Benchmarking to Actionable Data

Our analysis of renewal rates is emerging as the industry standard, because it empowers sales teams with specific information for driving improvement. While many companies are still struggling to calculate an accurate renewal rate, we are tracking the resolution, close, and conversion rates and using this data to maximize revenue for our customers.

Source: ServiceSource
Optimizing Service Revenue: Eight Essential Questions CFOs Should Ask

Are you paying enough attention to an often-overlooked major profitability driver? Service revenue – from maintenance, support, and subscription contracts – contributes significantly to the bottom line. However, CFOs often assume that service revenue is like the weather: there’s not much you can do to influence it. And like the weather, if it’s good, why bother?

But seemingly high renewal rates can mask serious problems – not to mention opportunities to increase service revenue performance. Customers who don’t renew may do so because they’re unhappy and are about to bolt to the competition. Others may not renew until months after their contracts expire. Or very low rates in a few regions could go unnoticed within an overall high rate – meaning you’re leaving revenue on the table and customers underserved.

ServiceSource routinely helps customers increase renewals rates by over 15 percentage points on average and up to 44 percentage points. We begin by asking a few straightforward questions that get to the heart of overall renewal rates. After answering these questions, you may be satisfied with your organization’s service revenue performance. Or you may identify portions of the renewal process that are ripe for transformation by reviewing four areas:

1. **Renewal performance.** What are your renewal rates by customer segment (size, geography, etc.)? On-time versus in-quarter renewal rates? What is the degree of revenue erosion?
2. **Customer performance.** Is nonrenewal ever a good sign?
3. **Channel performance.** How are channel partners performing? And how does channel performance compare to direct sales?
4. **Financial performance.** What is the discrepancy between bookings and revenue? What are your average discount, up-sell, and cross-sell rates?

This paper outlines the eight questions CFOs should ask to get to the heart of renewals.

---

1. **What are your renewal rates by customer and customer segment?**

Measuring – and understanding – the factors that drive renewal rates is the first step to increasing service revenue. Renewal rate, a standard measure frequently based on transaction size, gauges the effectiveness of seizing available service revenue opportunities. You may be satisfied with reporting renewal rates of 85% or even higher. But how much do you really know about how your organization performs by customer or customer segment? You might find that these more detailed numbers paint a less satisfying picture.

Customers are your most valuable asset; capturing renewal rates by customer is vital to understanding service revenue performance and retention. Doing so identifies the strengths and weaknesses of your renewal process. Even a modest decrease in annual renewals within an account can lead to significant revenue erosion over time. In contrast, high renewal rates reflect good customer retention and loyalty – and retaining customers helps drive sales growth.

Customer segmentation helps you evaluate renewal rates by customer size, geography, or industry. A high overall renewal rate could mask problems in certain segments. For example, you might be doing well with enterprise customers because you use a dedicated sales force to work with larger accounts – but your small and medium business (SMB) customers may not be renewing at the same rate. Or North American and Western European renewals may be fine, but rates in Eastern Europe are dramatically lower. Such a discrepancy could highlight a need to better address language, currency, and business protocol differences.

Customer segmentation can also help you analyze cost-of-sale by segment and better allocate resources to cost-effectively increase service revenue.
2. How do on-time or in-quarter renewal rates differ from net renewal rates?

Tracking on-time (contracts renewed before expiration) and in-quarter (contracts renewed in the quarter they expire) renewal rates can help identify hidden problems. Many CFOs believe that it’s simple: if customers renew service contracts, then the renewal process works. But to really see how well your process works, you need to know when contracts renew. If too many customers wait until after expiration, you lose immediate revenue and increase the likelihood of lost renewals.

The answer is proactive management. Customers unaware of upcoming expiration dates often fail to budget accurately, then must jump through budgeting hoops to get renewal funds in time. Another hidden danger: after operating for a while without the services covered by the contract, customers may begin to view them as less valuable. The longer the lapse, the greater the risk that the customer will not renew, or will renew at a lower level of coverage.

To avoid such losses, an organization must reach out to customers early – 90 to 120 days before contract expiration. This lead time allows you to close a contract before it expires. On-time renewals also lower the risk of revenue erosion and allow you to recognize revenue sooner.

3. How much erosion occurs in the initial renewals opportunity?

Service revenue erosion is the delta between initial opportunity and actual renewal size. Erosion can be caused by factors such as service level downgrades, change in the number of products covered, or discounting. Though seemingly minor at first, the impact of erosion grows over time, leading to significant revenue loss in just a few years. After expiration, contract erosion accelerates for several reasons:

- **It diminishes the service’s perceived value.** The longer a customer goes uncovered without incident, the less necessary the contract seems.
- **It increases the cost and difficulty of renewal.** Penalties, back fees, and recertification after expiration make customers less likely to renew.
- **It opens the door for competitors.** A customer with an expired contract is more likely to consider support offerings from third-party providers.

If you know what is happening with each renewal, you can take the appropriate action to avoid revenue erosion. Are more and more customers downgrading? You may need to work with marketing to ensure that customers realize the value of premium services, or with your service group to increase benefits offered. And motivating customers to implement and use products currently on the shelf helps put valuable service revenue back in play.

To direct your product development, marketing, or service organization toward strategic improvement, you need insight into the underlying causes of service revenue erosion.

4. Why do customers say no?

Not every customer renews, and it is important to understand why. Customers may lack the budget to renew, may decommission the product, may choose a newly released or competing product, or may dislike the contract terms. Renewal offers a great opportunity for rich discussion; if a customer chooses not to renew, you then know the exact reason.

Not only must you capture this information – you also have to know how to use it. Tracking measurable, addressable cancellation codes allows executives to think more strategically, to focus on how to refine service offerings, and to shape overall product strategy.

Note also that nonrenewal isn’t always bad news. The trick is having enough information to evaluate it. Maybe a service contract isn’t renewed because the customer has upgraded to a newer version of your offering — that’s a good sign overall. The contract holder is still a happy customer and may already be on a service contract for the new product. On the other hand, a customer might switch to a competitor. Tracking cancellation codes, along with early contact during the renewal process, can uncover customers that don’t plan to renew — so you can win them back.
For example, a leading software company in EMEA identified an unusually high loss rate for renewals in Eastern Europe. With help from ServiceSource, the company analyzed data over two quarters, tracing a significant increase in defections to a new Russian competitor selling an extremely low-cost solution. In response, ServiceSource worked with the company to ramp up reporting, adding real-time weekly updates, and helped train sales teams on how to sell against the competitor in affected regions. The cancellation trend was reversed, and the software giant remained on alert for new competitive threats.

5. How are your channel partners performing?

Channel partners – whether distributors or value-added resellers (VARs) – allow you to reach more customers and drive additional sales. These partners control the customer relationship and, in many cases, handle service contract renewal.

For many channel partners, however, renewals are a small and fragmented percentage of their business opportunity; they find it difficult to justify the investment required to hire, train, and maintain an effective renewals team.

To maximize service revenue performance, you need to track how channel partners are performing and reward partners that perform well. Tracking also reveals underperformers that might benefit from enhanced financial incentives, tools and technology, and partner enablement resources.

Take, for example, an EMEA company working with ServiceSource. The company was able to track, report, and benchmark its partners’ renewals performance over two years. Upon analyzing this information, ServiceSource found a significant difference in on-time renewal rates corresponding to partner performance. The ServiceSource team recommended driving partners’ behavior with larger discounts for on-time renewals. The result: a 10% increase in on-time renewals, and smaller margins paid to poorly performing partners.

6. What is the difference in renewal rates between channel partners and direct sales?

It can also help you to understand how well channel partners perform compared to your direct sales team. Typically, channel partner renewal rates are lower than those for direct sales, but they should not be significantly lower. The larger the gap, the greater the opportunity to help channel partners increase their services revenue performance – and yours.

If you know how both partner and direct sales teams are performing, you can identify where to help with tools, training, and incentives. Segmenting direct and channel renewal rates will highlight the size of the gap and show you where to focus investment and resources.

7. What is the difference between bookings and revenue?

To understand and report service revenue, you must differentiate between booking value and recognized revenue. Typically, renewal revenue is booked as deferred income and recognized as revenue over the life of the contract.

Whatever your focus on financial metrics – whether you report margins or earnings per share (EPS) – you need to know how renewal performance affects current quarter revenue and earnings. Because the timing of bookings doesn’t correspond to revenue recognition, you must be able to quickly and accurately identify the percentage of bookings recognizable as quarterly revenue.

ServiceSource has worked with customers to develop a methodology that maps bookings to earned and forecasted revenue. Customers gain an instant – and accurate – view of revenue from renewals, special expired projects, penalties, and back fees. ServiceSource customers know at a moment’s notice how service revenue performance affects earnings.
8. What are the average discount, up-sell, and cross-sell rates?

To answer this question, your organization must track each of these three rates. Boosting service revenue requires increasing up-sell and cross-sell rates while reducing discounts. You must also evaluate the amount of margin given away and the corresponding return on investment. Tracking and understanding up-sells to higher levels of service, multiyear contracts, and coverage of additional products — and replicating their causes — benefits your bottom line far into the future. For example, offering multiyear deals, rather than or in addition to a more typical annual renewal, drives revenue and can increase performance across the business.

The renewal touch point is the perfect opportunity to make customers aware of the benefits of higher service levels, multiyear contracts, and new or complementary products. Unfortunately, automated renewal and billing programs limit opportunities to educate customers about enhanced service options. Automated renewal also discourages dialogue with customers, making it difficult for customers to provide feedback and for your sales team to cross-sell consulting and services.

Summary

In over 100 technology, healthcare, and life sciences customer engagements, ServiceSource has identified the data sources, processes, benchmarks, and best practices behind increasing renewal rates and optimizing service revenue. Now that you know the fundamental renewal, customer, channel, and financial performance questions to ask, you can identify problems and areas of limited visibility. Add data access, analytic tools, and an eye toward metric-driven improvements, and you can identify and influence the drivers of high renewal rates — with lasting and positive impact on your bottom line.

Source: ServiceSource
Optimizing Subscription Lifecycle Management for SaaS Companies

The Solution for Increasing Customer Adoption, Reducing Churn, and Increasing Renewal Rates

Challenges of SaaS Companies
Software as a Service (SaaS) companies face unique challenges in retaining and expanding customer relationships — leading to a trend of increasing churn rates for many companies. These challenges include:

Increased Competition
Customer interest in SaaS offerings has grown quickly — and so has the number of competitors in the market, including offerings from incumbent on-premise vendors. With the number of options growing, retaining your customers becomes more of a challenge. It is no longer safe to assume that customers will “auto-renew” based on the strength of your product offering.

Low Switching Costs
As SaaS business models mature, many organizations are developing plans to migrate to competitive alternatives in order to have more price and negotiating leverage with their vendors. Compared to on-premise solutions, it is usually easier to switch from one SaaS solution to another — and an increasing number of companies are looking to take advantage of this dynamic.

Low Customer Adoption
You may find that your SaaS offering is not being used by customers as frequently as desired, or some portions of its functionality may not be used at all. Because customers are less likely to renew their service if they aren’t using your product fully, low adoption presents a threat that can contribute to increased churn and revenue erosion.

Limited Coverage
Many companies offering SaaS-based solutions are growing rapidly — often outpacing the organization’s ability to scale their back office operations. If your company is in this situation, you may be unable to dedicate sufficient resources to drive adoption and renewals across the entire customer base, particularly for smaller customers. If this coverage problem is not addressed, it can create significant problems with churn and revenue erosion.

Data Fragmentation
While most SaaS companies have a significant amount of data about their customer base — including account information, product usage statistics, and customer service data — this information is often spread across a variety of systems and spreadsheets. Having a comprehensive, decision-ready view into customer information across the lifecycle is therefore challenging, and so is your ability to understand the revenue potential in your customer base.

The ServiceSource Solution
Our Subscription Lifecycle Management solution addresses the specific needs of SaaS companies. The solution focuses on the adopt, retain, and expand phases of the customer lifecycle to drive increased revenue and profit.

Based on our purpose-built, integrated solution of cloud applications and managed services, this offering includes:

Solutions to Drive Customer Adoption and Utilization
To encourage your customers to use more of our offering, ServiceSource works with you to create adoption plans in the segments where you need them the most. We then execute on those plans by contacting your customers directly, acting as an extension of your brand. These services can include adoption “check points,” loyalty programs, and other services. By maximizing the value of each interaction and taking a more proactive approach to driving adoption, you can increase the renewal rates across all customer segments.

A Best-in-Class Approach to Renewals
An increasingly competitive environment requires a new level of focus and expertise around customer renewals. Our customers benefit from our 10+ years experience driving higher renewal rates,
revenue, and profits for leading brands around the world. We take a proactive, value-selling approach, powered by decision-ready data, to renewing customer contracts to ensure you are maximizing your revenue potential and minimizing churn.

**Focused and Trained Resources to Cross-Sell and Up-Sell**

ServiceSource also has the resources and capabilities to help sell your new solution offerings to existing customers (cross-sell) and expand the usage of your current solutions (up-sell). This helps you generate more revenue from your existing customer base, alleviating the pressure to acquire new customers.

**Improved Data Management**

Our data management capabilities provide improved data accuracy about your renewals; we consolidate and cleanse customer information from multiple systems to generate a single version of the truth. Your new decision-ready data set combined with our purpose-built technology platform and cloud applications gives you 20/20 visibility into your renewal performance. This provides improved insight to optimize your business in a dynamic environment.

**Conclusion**

With our Subscription Lifecycle solution, SaaS companies can reduce churn, improve customer loyalty, and drive incremental revenue. Not only does this help SaaS companies retain existing customers, but it also reduces pressure to acquire new customers – delivering benefits throughout the lifecycle.
Cloud-Based Managed Service to Optimize Service Revenue Performance

Optimize the Renewal of Support, Maintenance and Subscription Contracts with an End-to-End Solution Delivered as a Managed Service via the Cloud

Is your organization taking full advantage of its service renewal revenue opportunities? It is estimated that companies offering support, maintenance, subscriptions and other renewable services are losing as much as $30 billion in revenue annually. This revenue leakage is the result of several factors, including fragmented service renewal data, inefficient processes, and systems that are neither integrated nor designed for recurring service revenue.

To overcome these challenges, technology companies need an integrated solution built from the ground up for service revenue management. In addition, this solution should connect vendor executives and management teams, sales representatives, distributors, channel partners and customers with a suite of cloud-based applications built to optimize service revenue performance.

The Service Revenue Performance Suite™ is the only end-to-end suite of applications designed for service revenue management and delivered via the cloud. Because it’s cloud-based, the solution requires no hardware, software or support staff and provides rapid scalability and deployment with a low total cost of ownership (TCO). The Service Revenue Performance Suite is helping leading technology companies transform their service business and optimize support, maintenance and subscription contract renewals.

Service Revenue Performance Suite Components

Sold as part of an integrated solution of applications and managed services, the Service Revenue Performance Suite allows you to manage service revenue across your entire business. The solution includes a full suite of cloud applications and is powered by ServiceSource’s proprietary Service Revenue Intelligence Platform™ and Data Management Engine.

+ **Analytics Cloud**—provides instant, secure access to business intelligence about your service business from any location
+ **Service Sales Cloud**—supports service sales reps by managing and tracking service opportunities
+ **Channel Sales Cloud**—enables channel partners to maximize service revenues
+ **eCommerce Cloud**—empowers end users to renew service and subscription contracts via self-service
+ **Dynamic Quoting Cloud**—allows self-service renewal quoting through an easy-to-use tool
+ **Installed Based Management Cloud**—continuously monitors and cleanses installed base data
Service Revenue Performance Suite—Powered by Innovation

The Service Revenue Performance Suite is powered by the proprietary Service Revenue Intelligence Platform and our Data Management Engine. Designed specifically for service renewals, these innovative technologies support the Suite’s cloud-based applications and keep your renewals operations running smoothly.

Service Revenue Intelligence Platform—Aligns best practices with benchmarks

The Service Revenue Intelligence Platform optimizes service revenue by using data to help drive direct sales, channel sales and sales management. Based on a service revenue-specific data model, the platform identifies opportunities by aligning customer data with best practices and benchmarks. The platform continuously measures transactional, analytical and industry data to optimize results. Developed over years of serving customers and conducting nearly $15 billion in service revenue transactions, the platform contains 10 years of best practices, and builds additional insight with every transaction and is constantly being updated with new data from the field to help you optimize service revenues.

Data Management Engine—Maintains valid, unified service revenue data

The Data Management Engine ensures the accuracy and alignment of renewals data to maximize service revenue performance. In addition to cleansing, de-duping and consolidating data, it supports ServiceSource cloud-based applications and managed services by performing ongoing loading, synchronization and monitoring of customer and opportunity data.

Increase Renewal Rates and Customer Satisfaction

Billions of dollars in service revenues are left on the table each year. To take advantage of these service revenue opportunities, you need more than access to accurate information—you need an end-to-end integrated solution built specifically for service revenue management.

The Service Revenue Performance Suite delivers an end-to-end, cloud-based solution that is proven to drive results. It enables greater visibility and control, provides sales teams and channel partners with powerful yet easy-to-use tools to boost renewal rates, and delivers improved customer and channel satisfaction.

Source: ServiceSource
**Video Webcast: Roadmap To Maximizing Service Revenue**

Find out more about our Salesforce.com integration plans! Click on the link below to watch the webcast of Ganesh Bell and MJ Shutte, vp of corporate sales at Riverbed Technology, talking about our partnership and plans for an integrated ServiceSource and Salesforce.com solution.

**Watch Video:** [http://www.youtube.com/watch?v=Hvuholu7l6I](http://www.youtube.com/watch?v=Hvuholu7l6I)
Presenter: Ganesh Bell, EVP Products, ServiceSource

*Feeling pressure to bring decision-quality data, benchmarks, revenue intelligence, and process expertise to your sales, support, and maintenance groups? We hear you! Join execs from ServiceSource and Riverbed Technology as they talk about the benefits of integration between the ServiceSource cloud application suite and Salesforce.com Cloud CRM.*

**Read the Press Release:**
From the Gartner Files:

Cloud-Computing Service Trends: Business Value Opportunities and Management Challenges, Part 2

This research addresses cloud services from a business value perspective, analyzing business opportunities, the challenges and new risks, and how to manage them. IT and sourcing executives will use this business value perspective to develop their sourcing services management practices.

Key Findings

- Disruptive cloud-computing trends continually yield new services that promise to bring radical changes in business processes — bringing new challenges and risks.

- Cloud-computing services are very different from traditional IT services, with important changes in all phases in the services life cycle, demanding the development of new management capabilities from IT and sourcing professionals, and their timely involvement in the process.

Recommendations

- Business, IT and Sourcing Strategy: Consider cloud services early in the strategy development process to fully leverage their business value potential.

- Enterprise Architecture: Review corporate architecture to gradually evolve it toward a “Web-friendly” architecture that will support cloud services appropriately.

- IT and Sourcing Governance: Review governance frameworks to reflect new cloud-service realities in principles, policies, standards and decisions.

- Business Relationships: Engage with the business to ensure a strategic role in cloud-services selection and management.

- Sourcing, Procurement and Vendor Management: Further develop the competencies and steer sourcing management practices to encompass the cloud environment.

- R&D: Adopt a continuous, shared cloud-services introduction process — scan scenarios, identify opportunities, pilot concepts and develop business solutions — where business, IT and sourcing leaders have steering responsibilities.

ANALYSIS

1.0 Cloud Computing as a Business Platform — Opportunities, Challenges and Risks

The Internet and the Web have penetrated the business environment in such a way that, today, practically all successful enterprises have important business processes using Internet and Web resources. Nevertheless, although the new world of cloud computing promises to drive radical shifts in the way enterprises in all industries do business, those cloud-computing solutions will not change anything unless business, IT and sourcing professionals “see” them right (see Note 1). The acclaimed Canadian author Don Tapscott has been preaching around the world that the appropriate new perspective for technology and its use in business, government and society in general is to see the Web as “one, single gigantic computer.” All business will be there — and all other aspects of human life as well.

What are the potential consequences of cloud-computing maturity in your enterprise and their effects on your business? In this research, we address opportunities, challenges and risks. Then, we address how to approach cloud-services management for business value. Other Gartner research additionally explores these issues: “Alternative Delivery and Acquisition Models for IT Services: CIO Challenges with These New Bundles” and “Alternative Delivery and Acquisition Models: Questions Our Clients Are Asking.”

1.1 The Business Value of Cloud Services

Gartner has been developing an extensive body of research aimed at identifying the business value of IT initiatives. In particular, in the sourcing area, we have been able to align the three classes of business value in Gartner’s IT value model — “run the business,” “grow the business” and “transform the business” — to the three classes of business users’ expectations over the outcomes of sourcing deals — respectively, efficiency, enhancement and transformation (see Figure 1).
NOTE 1  Cloud Computing

Cloud computing is a model of the delivery and consumption of IT-related capabilities, and is characterized by five main attributes:

1. **Service-oriented**: Uses well-defined interfaces that abstract (i.e., hide) the implementation and enable a completely automated response by the service provider to the service consumer.

2. **Scalable and elastic**: Services can scale up or down as the consumer demands at the speed of full automation (which may be seconds for some services or hours for others). Scalability is a feature of the underlying infrastructure and software platforms. Elasticity is associated with not only scale, but also an economic model that allows scaling in both directions in an automated fashion (i.e., scaling down will not cause the service provider to go out of business or fail to deliver the service; and, from the consumer’s perspective, scaling down will not result in unused assets, such as servers or software licenses).

3. **Shared**: The service focuses on using IT resources with maximum efficiency and economies of scale. The underlying infrastructure, software or platforms are shared among the service consumers (and this is usually unknown to the consumers). This allows unused resources to serve multiple needs for multiple consumers.

4. **Metered by use**: The service provider has a usage-accounting model for measuring the use of services, which could be used later to create different pricing plans and models. These may include pay as you go, subscriptions, fixed plans, and even free or advertising-supported plans. The implied payment plans will be based on how much of the service is effectively used by the service consumers, not based on the cost of the assets used (e.g., hardware, software). This may be expressed in terms of hours, data transfers or other usage-based attributes delivered.

5. **Uses Internet technologies**: The service is delivered using Internet identifiers, formats and protocols such as IP, URL, HTTP and “RESTful” WOA.

---

**FIGURE 1  Aligning Expectations, Business Value and Metrics**

![Aligning Expectations, Business Value and Metrics Diagram]

Source: Gartner (February 2010)
Our research indicates that roughly only 5% of the sourcing budget is applied to transformation types of service, while efficiency and enhancement types of service command roughly 80% and 15% of the sourcing budget, respectively.

Our expectation is that the adoption of cloud-based solutions will not only increase the absolute business value of services — as measured by specific business metrics — but will also increase the relative participation of transformation services in the sourcing budget. The transition to cloud-computing platforms, yielding innovative business models, transformed business processes or improved business process networks may be a “bubble” that will eventually subside (not burst, this time) to become “business as usual”: however, it will certainly increase the business value of transformed businesses during the next few years.

1.2 New Opportunities

We can probably say that there are two approaches to identifying opportunities for introducing disruptive change with cloud computing. The “front-end approach” deals with how cloud computing directly brings changes to end users, including people in the enterprise as well as other players within the enterprise’s business process network — for instance, any functionality or information provided directly to users (from office services to business intelligence [BI] analysis) as cloud services. The “back-end approach” deals with the changes introduced by how the cloud services are provided. For instance, the “lower layers” of cloud computing (system infrastructure, application infrastructure, management and security) will probably go unnoticed by end users.

1.2.1 Front-End Opportunities

Front-end cloud services are the visible — and highly hyped — face of the Web. They will leverage the virtually instant agility, flexibility and reach, to dynamically access anything or anybody, and the virtually infinite diversity of available functionalities arising from composite applications and components allowed by cloud computing.

These limitless possibilities remove the constraints all application and process designers have always had to deal with throughout their professional careers. It has been a well-mentioned adage that “in the IT area, everything is possible — at a cost,” and complexity added exponential costs to solutions. Cloud services vastly expand those frontiers, making it easier and less expensive to provide the desired functionality or information. Providers will use a cloud-computing platform to build the services, taking much of the responsibility away from the contracting organization. The balance the users have to consider, between what they desire and what they have to pay to obtain it, has shifted radically in the users’ favor.

Each cloud-based solution comes with a promise of almost instant agility, flexibility and scalability. Although those characteristics do not deliver value in and of themselves, they are service attributes that often positively contribute to business process value. Reducing cycle times, changing business process profiles and accommodating volume fluctuations are among the business value features that are supported by those attributes.

1.2.2 Back-End Opportunities

Cloud-based solutions tend to be built from a portfolio of highly standardized components, run on pre-existing hardware using previously acquired software licenses and provided as services to many clients in a “one-to-many” model. That provides high agility in contracting, the flexibility of a certain level of customization using different combinations of available components, and the scalability allowed by the provider by managing and reallocating resources among the many clients.

Additionally — and that is very different from traditional services — cloud services offer reduced entry and exit barriers, allowing clients to react (within limits) quickly to business changes. Finally — and this is the business advantage that should come first — the spending pattern is very different. Cloud services practically do not require initial investment from the client (they still require investments for the transition). They are usually acquired on some sort of “pay-per-use” basis, making them affordable to all companies. That acquisition model — combined with scalability result, in principle, that the enterprise cash-out for services — is parallel to its revenue.

All these patterns are very different from traditional approaches that would dimension a data center by the peak, pay for it, and then wait for business to catch up and reach a volume that would justify the data center’s financial feasibility — then eventually buying upgrades as the response times deteriorate due to increased traffic.
1.3 New Challenges

There is a flip side to the attractive business benefits. It will be necessary to take a fresh look at each of them to be able to assess benefits and the respective management, organization and governance challenges. We can understand the challenges in two main categories: internal and external market challenges.

1.3.1 Internal Challenges

Each opportunity comes with a challenge. Agility, flexibility and scalability demand more-responsive organizational processes and very sharp change management processes. Regardless of the revolution provided by cloud-based solutions, they cannot deliver business value if there are organizational bottlenecks.

Another important challenge is the transition from a traditional to a cloud environment, and the integration between traditional and cloud solutions along the way (actually, between two basically different platforms). Most enterprises will follow a route toward a new cloud platform where they will progressively move away from traditional solutions toward cloud solutions in specific areas, until they reach the right balance between the two. That can take years, during which time the enterprise will live with a “sliding” frontier between traditional and cloud platforms, and that can become very problematic.

1.3.2 External Challenges

At this point, the first problem with cloud services is in the area of governance, risk and compliance (GRC). In addition to new risks, the enterprise will have reduced possibility of actively participating in managing cloud services and ensuring the desired levels of governance and compliance. Although it is not necessary to control every detail in the creation of a service until it is delivered, the challenge is to ensure the right level of granularity in the service interface to allow the required level of management and control.

Probably, however, the biggest general challenge at this point is lack of maturity. The lack of maturity of enterprises prevents them from incorporating more Web-based solutions in their portfolios of business weapons; and the lack of maturity of cloud solution providers prevents them from appropriately defining the exact features they want to provide, and the appropriate business model that will have the right price points for the services provided.

1.4 New Risks

Many of the cloud solutions are often provided as “plug-and-play” offerings that apparently need little or no attention to set up processes, and can — allegedly — be implemented immediately. Such products still are essentially “black boxes” that remain poorly understood by buyers and users. Such a lack of transparency — or lack of ability — to deal with this new business model means new business risks that must be assessed and properly managed. Additionally, many of our clients still don’t know how to set the appropriate level of control regarding the black box service interface. Building up the solution and driving it until final delivery to the customer is a problem of the provider, and the client must learn how to assess risk and require the appropriate level of visibility and control. Figure 2 presents a very brief selection of key areas where cloud solutions bring new risks.

2.0 Managing Cloud Services for Business Value

Gartner always monitors the emergence and the maturity cycle of all IT-related technologies. In particular, it has followed the evolution, maturity, availability and adoption of cloud-computing trends. The acceleration of growth rates in all those phases is surprising and leads to aggressive forecasts. That acceleration means that business, IT and sourcing professionals have decided that the opportunities outweigh the challenges and risks. We agree with that assessment, and we encourage enterprises to start assessing their internal drivers and the external scenario, if they haven’t done so already, and create a plan to exploit cloud solutions.

2.1 Cloud Industrialization or Customization?

The right answer is: both. A cloud platform will support all types of services. Cloud services will be important, not only as a differentiating factor in front-end opportunities, but also as a source of highly efficient and cost-effective industrialized services; and in back-end opportunities, like software as a service, business process utility, infrastructure utility, storage as a service and telecommunications as a service, among many others.
As a source of competitiveness, cloud services enable access to components, services, processes and resources that can be combined and assembled in unique ways by each enterprise, tailoring the front end for customized, competitive client interface, while leveraging industrialized back-end opportunities. As a source of standard, highly optimized and efficient processes, cloud services provide high service levels at price points that cannot be matched by traditional services.

2.2 Three Business Approaches to Cloud Services

What will these opportunities look like? How will IT and business leaders know when and how they need to adopt cloud services? What is the right balance between traditional and cloud services? What is the appropriate organization to support that? There are at least three approaches emerging that, individually or combined among them (depending on the enterprise’s business characteristics), will help business leaders and CIOs give their businesses a focus on cloud opportunities and manage the transition process. The three approaches are:

- **Business Innovation**: This is the environment where technology is a heavily leveraged strategic asset, especially valued for the business innovation opportunities it generates.

- **Process Redesign**: In this environment, technology is regarded as inseparable from the end-to-end business processes it enables. The enterprise as a whole is deeply committed to process management disciplines. A cloud platform will be used to open the enterprise to external players (from providers to clients, and partners to communities) and integrate the enterprise with them in business processes networks. For example, Web-based features are dramatically changing the way supply chain process integration is implemented.

- **Social Networking**: In this environment, many individual contributions are collected and aggregated via the different social interaction tools, creating a whole gamut of interaction patterns, from unstructured network interaction to structured collaborative processes. The networks are leveraged to generate new sources of content (information, insight and

---

**FIGURE 2** Potential Impact of New Cloud Services Risks

<table>
<thead>
<tr>
<th>Impact</th>
<th>Business Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operations</td>
<td>• Different operational patterns undermine traditional rules and processes</td>
</tr>
<tr>
<td>Performance</td>
<td>• Uncontrolled, unpredictable environment challenges performance</td>
</tr>
<tr>
<td>Security</td>
<td>• Distance creates new exposures and hampers risk detection and management</td>
</tr>
<tr>
<td>GRC</td>
<td>• Lack of visibility undermines governance and compliance</td>
</tr>
<tr>
<td>Management</td>
<td>• Uncontrollable interactions challenge management principles</td>
</tr>
<tr>
<td>Business Model</td>
<td>• Unproven business models yield economic business risks</td>
</tr>
</tbody>
</table>

Source: Gartner (February 2010)
innovation), collaboration, work paradigms and business models. For example, advertising agencies and media companies are already opening up their business processes to external participation through social computing. Social computing today is not necessarily supported by cloud services (actually, this is the environment of free applications and open-source tools); however, providers of social tools are attentive to the opportunity of providing them as cloud services in the corporate environment, with the appropriate levels of visibility, control and management. A client in the pharmaceutical industry is using an office environment supporting internal (“private cloud”) and external (“public cloud”) networking opportunities.

2.3 Driving the Adoption of Cloud Services for Business Value

Cloud services are easy to buy, maybe too easy. Clients can buy services that are delivered user-ready through their browsers or rich Internet applications (RIAs). Everything that has happened to create that service — some sort of combination of hardware, software, telecommunication and services, and all the management it takes until it is finally delivered — is hidden from the client.

Some of those cloud services are actually business functionalities and are delivered directly to the final user through a common browser (for example, a business process utility [BPU]). That is driving final users in business areas to buy those services directly, without the participation of IT or sourcing professionals — and providers are generally very willing to oblige. This time bomb will eventually explode to reveal problems of standards, security, integration, evolution, support and many others.

IT and sourcing professionals have critical roles to play on the demand as well as the supply side in managing the introduction of cloud services in the enterprise. On the demand side, they must advise the user on the technical aspects of the desired services (and sometimes prevent their acquisition if they do not comply with architecture, principles or compliance requirements). On the supply side, they must get involved in all phases in the service life cycle (strategy, evaluation and selection, deal development, and management).

In particular, their participation will be key in evaluating and negotiating the business model offered by the provider. Their participation is also key in defining, together with the provider: the level of visibility into service creation they want; the governance mechanisms they require; and the management action they want to play in each of the services, since that complexity is — in principle — hidden from the buyer.

2.4 Beginning This Journey

Some enterprises will be so dependent on cloud computing for their business processes that they will need to fully convert to a Web-oriented architecture (WOA) and create the appropriate surrounding processes. At the other extreme, a few (very few indeed, we think) enterprises will have self-contained processes that do not need more than a few points of connection with the Web, and will not need to make much changes to their architectures and processes. The majority of enterprises will be somewhere in between.

The first steps in this journey for each enterprise is, therefore, to understand cloud-computing trends and assess what are their possible impacts on business objectives, strategies and processes. This assessment will indicate what should change — and what needs do not change — and a tentative time frame for those changes.

To undertake this journey that will progressively take the enterprise toward extensive adoption of cloud services, IT and sourcing executives must sharpen their focus:

- **Business, IT and Sourcing Strategy**: Consider cloud-computing trends early on in the strategy development process. They are an urgent new reality that can potentially transform how the business operates and how it connects itself to other players in a business process network, changing — in due course — the IT and the sourcing organizations, and significantly improving the business value of services.

- **Enterprise Architecture**: Review corporate architecture to gradually integrate cloud computing in new developments. Most architectures today are still centered on the internal infrastructure and have limited Web connectivity. Traditional architectures must evolve to become Web-friendly. In many cases a “Web-enabled” architecture will be appropriate; in some cases, it will be necessary to develop a “Web-centric” architecture. In this case, WOA should be used. This will happen in
different degrees at different speeds, depending on each enterprise’s business environment.

- **IT and Sourcing Governance**: Review the governance framework to reflect new cloud-platform realities in principles, policies, standards and decisions. Cloud-services management will create totally new roles, internally and externally to the enterprise, that are yet to be crafted.

- **Business Unit Relationships**: Engage with business units in a strategic role regarding cloud-services sourcing and management. The business must be acutely aware of the importance of the participation of the IT organization and sourcing area in the introduction of cloud-computing services to support a new generation of business processes.

- **Sourcing, Procurement and Vendor Management**: Develop the competencies and steer sourcing management practices to this new environment. The whole sourcing life cycle, and all sourcing management roles and competencies will be profoundly changed by cloud services.

- **R&D**: Adopt a continuous shared introduction process for cloud services (scan, identify opportunities, pilot and develop) that is pulled by the business — not pushed by technology availability. Promote true collaboration among business, IT and sourcing leaders throughout the introduction cycle.

Gartner RAS Core Research Note G00173680, Cassio Dreyfuss, 23 February 2010
About ServiceSource

The Service Revenue Performance Company

ServiceSource is the global leader in service revenue management, partnering with technology-based companies to optimize maintenance, support and subscription revenue streams, while also improving customer relationships and loyalty. ServiceSource helps customers increase service revenue contract renewal rates, on average, by over 15 percentage points and, in some cases, over 40 percentage points. ServiceSource delivers these results via a cloud-based solution, combining its Service Revenue Performance Suite™ of applications with dedicated service sales teams, leveraging a proprietary Service Revenue Intelligence Platform™ of transaction data, benchmarks and best practices. ServiceSource offers its service revenue management solution on a unique pay-for-performance business model that enables a success-driven, shared-risk partnership. The Company is headquartered in San Francisco, and manages service revenue performance for customers across the globe in more than 35 languages.

www.servicesource.com