

Controlling software maintenance fees

Treat fees like installments, direct future costs

Corporate software sales are rebounding with a vengeance following the economic contraction of 2008-09. The subprime mortgage crisis in the US plunged North America into the most severe recession since the Great Depression.

During the recession, chief information officers were faced with the unenviable task of paring back on IT spending, with the majority of them citing maintenance costs as their top priority. Unfortunately, escape just isn't that easy and software vendors are pretty ruthless when it comes to guarding their revenue streams.

In June 2009, just as the recession was coming to an end, business software and hardware provider Oracle announced the highest operating profit margins in its history. Between June 1, 2008 and May 31, 2009—right in the middle of a major recession—Oracle had a 51 percent profit margin, mostly thanks to annual support fees. In fact, Oracle took in US\$12 billion in support fees, more than the company made on all new license sales and services combined (US\$11.5 billion).

It's no wonder CIOs feel like hostages during downturns when they get to the fine print and discover the draconian rules protecting the vendor's maintenance fees.

This is my fifth recession over 30 years in the technology business and the pattern is always the same: the economy heads south, IT projects slow to a crawl and every CIO complains about the predatory and inflexible costs of third-party support. Then the economy improves, the IT deals finally get rolling again like the caboose in a long, economic freight train, but nothing changes.

To break the cycle, we have to start building some flexibility into the support deals on the front end. The trick

is to not get distracted by the capital expenditure. Think of a software license as the initial fee, and the annual support fee as an installment payment plan. Then negotiate both vigorously while maintaining built-in flexibility.

Keep in mind that by the time the software is operational and stable, and your internal helpdesk is handling all first- and second-level trouble tickets, the software vendor is seeing a margin of between 35 and 75 percent on the support fees.

Let's skip the basics for now and assume you've hit all the points on your main checklist of success for purchasing software. These include:

- A great deal on the license fees;
- Price holds on future license needs;
- Maintenance fees based on net cost;
- Maintenance charges that don't start until after the warranty period;
- A warranty period that doesn't start until after the go-live date; and
- You kept a couple of vendors competing for the business until you had negotiated all the price-points and you were able to confirm all these before your leverage vanished.

Now, think of the next downturn and get some de-support language added. What if you retire 20 or 30 percent of the licenses? What if there's a data centre consolidation or a transformation to a virtual server environment?

Or, there could be a major divestiture in assets and your needs change. What if your annual support charges were \$150,000 and your helpdesk only logged 15 hours of calls to the vendor's resources? Make sure you investigate all your options and make a conscious decision based on the costs and risks involved.

You also have to control future costs. The most insidious portion of the maintenance fees has to be the automatic annual increases. There is no

objective rationale to have the charge increase every year. Vendors defend the practice by saying that the salaries of their support resources go up and they must pass the costs along. That's usually where the discussion stops in most negotiations, but it shouldn't.

Maintenance charges are typically split equally over three areas: telephone and online support, bug fixes and patches, and ongoing development.

Consider telephone and online support for a moment. Isn't it typically the user's helpdesk that provides the first- and second-level support? It stands to reason that as the internal helpdesk becomes more familiar with the application and the known-problem file, the need for the vendor's support resources decreases.

Then there are bug fixes and patches. Sure, the software you licensed should work properly, but let's live with the fact that all software has bugs. It still stands to reason that the longer you and everyone else has the application, the more stable it becomes and the fewer bugs will need attention from the vendor's support staff.

Finally, I imagine ongoing development on any application starts to wane after a few years, especially on the products you have already installed. I would be more inclined to believe that the ongoing development portion of the maintenance fee is going towards new functionality and modules you'll likely end up having to pay for.

And yes, there will be an additional maintenance fee charge on those as well.

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Phil Downe (phil.downe@itnegotiations.com) is an independent IT contract negotiator, founder of Relations Management Group Inc. and a member of the Purchasingb2b editorial advisory board.