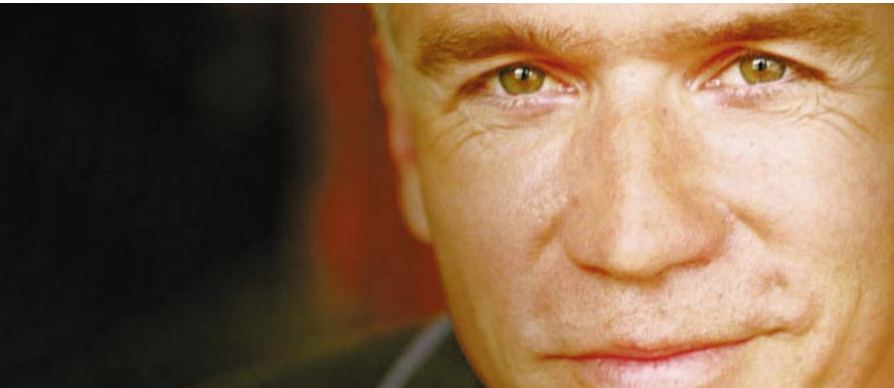




Service Expert Series



**INTELLIGENT SERVICE:
THE PROFIT OPPORTUNITY**

→ proactive

Enterprise Industry
White Paper



Intelligent Service: the Profit Opportunity

Enterprise technology companies are facing one of the most challenging business environments in years. Competitive pressures and shrinking product lifecycles are making it harder to differentiate products and protect profit margins. At the same time, economic uncertainty has enterprise IT customers putting the purchase of new products and applications under a microscope and demanding more value and return on their technology investments.

In this hyper-competitive market, companies that focus on new product sales as the primary engine for growth are missing a critical profit opportunity: the market for high-value services that help customers maximize the performance and value of their technology products. Leading companies have already begun mining this rich, largely untapped market, and are emphasizing built-in, intelligent services and lifetime value over product features as a key competitive advantage.

The following sections discuss the challenges technology providers face in the current economy, how leading companies are meeting the challenge with intelligent service, and how to assess and improve profitability with intelligent service solutions.

The Current Profitability Challenge

Technology companies have historically focused on two areas to differentiate their products from the competition and win customer business: product performance and features, and price. Shrinking product lifecycles and commoditization are making it more difficult—and expensive—to develop and bring to market products and features that are clearly differentiated and provide long-term competitive advantage. Competing on price is a strategy that can work well in the short term, but ultimately undercuts the company's profitability, weakens brand equity, and can endanger the long-term health of the business.

These new economic challenges are a direct result of the changing purchasing behavior of enterprise customers. IT departments are now scrutinizing the TCO of their technology purchases more closely than in the past and making purchasing decisions based on total ROI. Specifically, customers are focusing on two key aspects of service when making purchasing decisions: quality and cost of maintenance agreements, and overall deployment costs.

Quality and Cost of Maintenance Agreements

According to a report by Forrester Research, only 18% of surveyed enterprise customers rate the value they receive from maintenance fees as "above average."¹ A report from AMR Research² concurs, stating that enterprise software customers are experiencing a high level of frustration with their technology providers when it comes to maintenance fees and offerings.

¹ Living with Your Enterprise App, December 2001, Forrester Research, Inc.

² The Report on Enterprise Management: Negotiating Software Maintenance Costs: You Can Get What You Ask For, by Monica Barron, AMR Research, INC., December 2001.



As a result of this frustration, corporate IT departments are leveraging the current buyer's market by reviewing maintenance agreements, and requesting a reduction in maintenance fees and an unbundling of support charges from upgrade charges. Technology providers who do not meet these demands are losing market share. In addition, according to the AMR report, as users spend more to maintain, integrate, and upgrade technology products, they are reducing spending on new applications, which is directly affecting vendor profits.²

Deployment Costs

While IT departments are reviewing maintenance agreements, they are also taking a more holistic look at the total cost of deploying an application, including:

- installation and training costs
- license fees
- upgrade and maintenance fees
- the internal IT effort required to maintain an application or product
- the business benefit derived from an enterprise product or application.

Customers are becoming particularly aware of the hidden costs of their technology purchases. As the Forrester report¹ states, they “suffer from a post-implementation hangover,” especially when faced with the costs associated with the disruption of business that commonly occurs after an upgrade or new purchase.

Leading Technology Providers Meet the Challenge with Intelligent Service

To address changing customer demands and the need for new profit avenues, leading technology providers are turning to intelligent service solutions. These are software applications, capabilities, and technologies that automate the key steps in the service delivery process and seamlessly connect information, resources, and people in a network of service. Intelligent service offers technology providers the ability to improve, optimize, and integrate three key service components:

- **Guided self-service**—such as interactive online tools and desktop resources that guide customers to a solution
- **Built-in service**—the ability of a product to capture product data and use it to improve the efficiency of diagnostic processes
- **Tiered service**—a service delivery model that enables technology companies to securely connect to customers' enterprise computing environments in order to deliver a wide range of value-added services that are customizable and controlled by the customer.

Building an intelligent service infrastructure provides enterprise technology vendors with the key capabilities they need to manage the dramatic changes in the technology economy. It enables vendors to reduce their customers' TCO and improve ROI, while boosting their own profitability. (For an expanded discussion of how an intelligent service infrastructure can impact total corporate profitability and valuation, see Appendix A.)



Where to Begin: The Service Profit Equation

Technology companies interested in integrating intelligent service into their traditional service infrastructure can begin with a strategy based on the Service Profit Equation, a simple tool that creates a snapshot of the company's current service profile and suggests ways to integrate intelligent service into the overall infrastructure. With the Service Profit Equation, the company can create a customized Service Profit Profile that outlines the services, costs, and revenues associated with its service infrastructure.

As the sample in Figure 2 illustrates, most vendors offer multiple levels of service, such as Standard, Silver, and Gold. Unfortunately, studies show that the majority of enterprise customers adopt only the lowest level of service. This low penetration level for

higher priced services, along with the cost of the service and the total revenue from each service level, are the three primary areas that can show dramatic improvement with the implementation of intelligent service solutions.

Intelligent Service Solutions that Cut Costs, Increase Profits

Guided Self-Service Solutions: Improving Online and Desktop Resources

In traditional service models, technology providers often confuse customers by offering a large variety of complex self-service options, including static or HTML-based knowledge bases and search engines. This leads customers to abandon or underutilize the self-service process, and use the phone to get service instead, driving up costs for the provider.

The service profit equation

$$\text{SERVICE PROFIT} = \text{SERVICE PENETRATION} \times (\text{AVERAGE REVENUE PER CUSTOMER} - \text{AVERAGE COST PER CUSTOMER})$$

Service Profit: the total gross profits realized from the services side of an enterprise company.

Service Penetration: the percentage of the existing customer base that has adopted a particular service plan.

Average Revenue Per Customer: the annual average revenues generated from a customer for a particular service plan.

Average Cost Per Customer: the average cost to service a customer for a year for a particular service plan.

Figure 1

Current Service Plan Offerings	Features	Penetration	Number of Customers	Average Revenue	Total Revenue	Cost of Program (as a % of Revenue)	Service Profits
Standard Support	8am-5pm support Knowledge Base Access	70%	1,400	\$10,000	\$14,000,000	30%	\$9,800,000
Silver Support	24x7 Support, Knowledge Base Access	20%	400	\$15,000	\$6,000,000	30%	\$4,200,000
Gold Support	24x7 Support, Knowledge Base Access, Quarterly Installation Reviews	10%	200	\$25,000	\$5,000,000	30%	\$3,500,000
Total Revenues					\$25,000,000		\$17,500,000

Figure 2: Service profit profile of a vendor with a traditional service infrastructure.

*The Service Profit Equation is a tool for analyzing ongoing service contracts that enterprise vendors sign with customers, such as maintenance agreements or premium support plans. One-time consulting and deployment fees are not the primary focus of this type of analysis.

The primary issue with traditional self-service methods is that they rely heavily on end users to input data about their problems and to search for their own solutions. This process often leads to diagnostic errors and expensive, and often unnecessary, dispatches and product returns.

Guided self-service, on the other hand, gathers contextual information about the customer, the product being used, and the problem s/he is trying to solve, then uses that information to guide the customer through the service experience and provide a solution. This guided service experience is a key component of an intelligent service infrastructure, since the data captured at this stage can be re-used in the call center if a problem is escalated.

Overall, replacing traditional self-help resources with guided self-service increases the utilization and success rate of self-service, leading to a reduction in calls to the service center and, thus, lower costs. Additionally, it enables customers to solve minor problems quickly and independently.

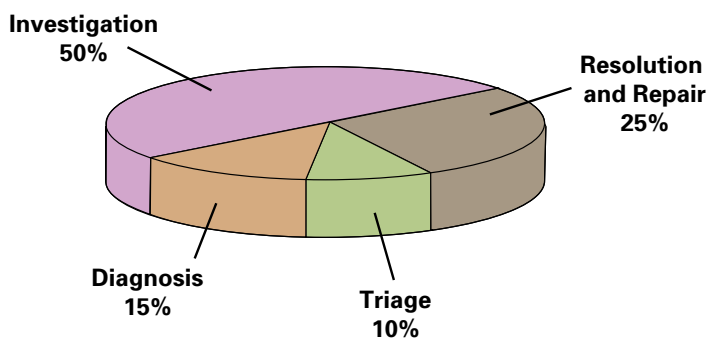


Figure 3: Labor Costs Associated with Complex Calls

Built-in Service Solutions: Improving Call Center and Field Service Efficiency

Call Center

In the call center, the handling of simple calls represents 30% of support labor costs, while complex calls consume 70% of costs. Simple calls are made to solve recurring problems and can be dramatically reduced by implementing guided self-service as discussed in the previous section.

Complex calls, on the other hand, are variable and require the support of an expert. These types of calls consist of four elements:

- **Triage**—identifying the user and determining his or her entitlement to support;
- **Diagnosis**—describing the problem and populating a trouble ticket;
- **Investigation**—investigating the problem and determining a solution;
- **Resolution and repair**—communicating and implementing a solution.

Traditional call center infrastructures rely on a manual Q&A discussion between the end user and the support engineer to collect data about the problem, which is necessary for triage and diagnosis. This process is time-consuming for both the analyst and the end-user, and error-prone due to mistakes in translation that occur when end users are not able to describe their problems accurately. As illustrated in Figure 3, this process is also costly.

Based on the cost breakdown in Figure 3, it is clear that if technology providers automate the Triage and Investigation portions of complex calls, they can



improve service center efficiency 25-35% and eliminate or reduce up to 60% of the costs associated with assisted service calls.

Automating the capture and transfer of information with intelligent, built-in service technology is the single biggest unexploited opportunity in call centers. Building intelligent service directly into technology products enables providers to capture diagnostic data from enterprise products in order to drive a more efficient, cost-effective diagnosis and resolution process.

Field Service/On-Site Service

In traditional service infrastructures, technology providers (particularly hardware companies) often dispatch field resources only to find that the dispatch was not needed or that the wrong parts were requested. Data collected by Motive from leading technology providers shows that the rate of inaccurate dispatches can be as high as 25-30%. With an average cost per dispatch of at least \$150, field service represents an important area where costs can be cut using intelligent service solutions such as remote data collection and diagnostic technologies.

Shifting activities from the field to the service center can also help cut costs. In traditional service models, extended services such as upgrade planning and auditing a customer's IT environment are done manually and on-site. With intelligent, remote data collection, providers can perform audits in the service center to reduce costs and free up field service resources.

Overall, built-in service enables seamless, bi-directional dialogue between computing components, support systems, and personnel. It also enables the creation of a logical workflow structure that can manage service transactions from end-to-end—from the desktop to the call center to the field. As the core of an intelligent service infrastructure, the ability to build service into products results in significant cost savings compared to traditional service models. In addition, it provides an essential platform for introducing value-added, extended services, which are key to increasing service profits.

Increasing Profits with Extended Services

Once a technology company's products have been instrumented with built-in service, they are enabled to receive a set of value-added, "extended" services that enhance the value of all of their levels of service and differentiate their products from the competition. These services increase revenue over the entire customer lifecycle by making higher levels of service (such as a Gold level of service) more attractive to enterprise customers. Extended services include:

- **Installation Validation Service**, which analyzes the configuration settings for hardware and software, and recommends changes to optimize performance;
- **Monitoring Service**, which uses device-triggered alarms to the vendor for servers, storage devices, or other hardware products. This service can be fee-based, especially if monitoring third party equipment;
- **Patch/Update Service** that automates software or device updates;



- **Collaborative Service**, a tiered service model that gives customers' IT departments access to similar diagnostic tools as are used by the vendor;
- **Capacity on Demand/Capacity Planning**, which gives the ability to recommend and turn on additional service or storage capacity on demand;
- **Storage Optimization Service**, which recommends changes to storage environments in order to promote optimal performance.

Currently, Motive finds that enterprise technology vendors have less than 5% penetration of their highest levels of service. To increase penetration with extended services, technology companies need a tiered service delivery model, which enables them to cost-effectively and securely link to their customers' technology environments and set up a unique service relationship with their customers.

A tiered service model provides for a customizable and flexible service delivery infrastructure, which gives enterprise customers control over the administration

and management of their extended services. For example, a tiered service model, unlike any other service delivery model, gives system administrators in a customer's IT department the tools and capabilities to act as intermediaries for service issues in the enterprise space and quickly solve problems on behalf of end users.

Tiered service is an essential component of the intelligent service infrastructure, enabling technology companies to extend their products and improve their revenue at key points throughout the customer lifecycle.

Results: The Impact of Intelligent Service on the Service Profit Profile

Figure 4 shows the service profit profile of a company that has adopted an intelligent service infrastructure.

As the chart illustrates, creating an intelligent service infrastructure with effective self-service and built-in service capabilities can reduce costs for the vendor by as much as 20-30%. At the same time, intelligent

After New Service Strategy	Features	Penetration	Number of Customers	Average Revenue	Total Revenue	Cost of Program (as a % of Revenue)	Service Profits
Standard Support	8x5 support	60%	1,200	\$10,000	\$12,000,000	24%	\$9,120,000
Silver Support	24x7 Support, Knowledge Base Access, Availability Services	25%	500	\$15,000	\$7,500,000	24%	\$5,700,000
Gold Support	24x7 Support, Knowledge Base Access, Availability Services, Automated Optimization Services	15%	300	\$35,000	\$10,500,000	24%	\$7,980,000
Total Revenues					\$30,000,000		\$22,800,000

Figure 4: Service Profit Profile After Adoption of Intelligent Service Solutions



service can improve the profitability of all levels of service by making the introduction of extended services successful and cost-effective. The intelligent service solution also addresses customers' primary TCO concerns by delivering more value in each existing service program and reducing the maintenance burden on the customers' IT organizations when implementing or upgrading applications.

Next Steps: Implementing an Intelligent Service Infrastructure

To successfully transform a traditional service model into an intelligent service infrastructure, Motive recommends the deployment of a commercial platform that provides a baseline infrastructure that enables guided self-service, built-in service, and a tiered service delivery model.

For a detailed discussion of the technology implications of deploying this type of commercial platform, refer to *Motive's Accelerated Development: A Strategic Approach to Delivering Intelligent Service* white paper.



Appendix A: How an intelligent service infrastructure can impact corporate profitability.

2001 Profit Differential-Intelligent Service vs. Traditional Service

The chart shows that, despite stable product revenues, costs, consulting costs, and overhead, implementation of an intelligent service strategy can lower maintenance and support costs, raise revenues, and result in higher overall profit at year-end.

These results can also be extrapolated to company value. If in the year 2001 this company were valued at 25 times earnings, then its valuation would be \$650 million. In 2002 if the company maintained a traditional service infrastructure, its earnings would fall and therefore its valuation would shrink to 20 times earnings, or about \$520 million.

Alternatively, if the company implements an intelligent service strategy in 2002, it could maintain valuation of 25 times earnings and be worth \$700 million—nearly a 40% difference in company valuation based solely on an improved service strategy.

Sources of Revenue and Expense	2001 Actual Revenue/Expenses	Projected 2002 Revenue/Expenses		Conclusions
		With Intelligent Service	With Traditional Service	
Product Revenues	\$60,000,000	\$48,000,000	\$48,000,000	Product revenues decline 20% in 2002
Maintenance and Support Revenues	\$25,000,000	\$30,000,000	\$27,500,000	With Intelligent Service=20% growth; Traditional Service=10% growth
Consulting Revenues	\$15,000,000	\$16,500,000	\$16,500,000	Growth of 10% is equal for both Intelligent and Traditional Service vendors
Cost of Products Sold	60%	60%	60%	Stable margins
Cost of Maintenance and Support	30%	24%	30%	Intelligent Service vendor has 20% reduction in costs; Traditional Service vendor has no reduction in cost
Cost of Consulting	70%	70%	70%	Stable margins
Marketing and Operational Overhead	20%	20%	20%	Stable overhead
Total Revenues	\$100,000,000	\$94,500,000	\$92,000,000	Intelligent Service Company Profits Are 12% Higher
Total Expenses	\$74,000,000	\$66,450,000	\$67,000,000	
Operating Profit	\$26,000,000	\$28,050,000	\$25,000,000	

Appendix A: 2001 Profit Differential—Intelligent Service vs. Traditional Service



Corporate Headquarters

Motive Communications, Inc.
12515 Research Boulevard, Building 5
Austin, Texas 78759-2220
USA
Tel: +1 (512) 339 8335
+1 (877) 466 8483
Fax: +1 (512) 339 9040

Asia Pacific

Motive Communications, Inc.
12515 Research Boulevard, Building 5
Austin, Texas 78759-2220
USA
Tel: +1 (512) 339 8335
+1 (877) 466 8483
Fax: +1 (512) 339 9040

Europe

Motive Communications (UK) Ltd.
1 Northumberland Avenue
Trafalgar Square
London WC2N 5BW
U.K.
Tel: +44 (0) 20 8938 6333
Fax: +44 (0) 20 8938 7711

www.motive.com
e-mail: info@motive.com