Vendors’ support and maintenance revenue: assessing the impact of the move to XaaS business models

Justin van der Lande
About this report

This report examines the important role that vendors’ revenue from support and maintenance contracts can play in building sustainable revenue streams beyond the initial sale of software or hardware products. The report also assesses the impact of cloud-based delivery systems and anything-as-a-service (XaaS) business models on vendors’ support and maintenance revenue.

This report is based on:
- interviews with key vendors in the market
- analysis of vendors’ hardware and software products.

KEY QUESTIONS ANSWERED IN THIS REPORT
- What level of revenue can vendors expect to achieve from products that relate to support and maintenance?
- Which XaaS business models are available today?
- How will new delivery models affect support and maintenance revenue?
- What role will XaaS play in the roll-out of 5G?

GEOGRAPHICAL COVERAGE
- Worldwide

BUSINESS MODEL ANALYSIS
- Models based on public capex, number of business units and types of service from primary survey responses.
- Mean time to repair (MTTR) or replace equipment.
- Data from maintenance providers for delivery services, (independent from original equipment vendors).

WHO SHOULD READ THIS REPORT
- This report has implications for hardware and software vendors’ sales, marketing and product marketing teams.
- Operations staff evaluating the purchase of XaaS-based business models, including those in technology procurement roles as well as internal support teams.

1 XaaS includes software-as-a-service (SaaS), platforms-as-a-service (PaaS) and infrastructure-as-a-service (IaaS).
Executive summary

Vendors’ revenue for traditional product licencing, support and maintenance reached over USD18 billion worldwide in 2019, but this revenue is being cannibalised as communications service providers (CSPs) move to XaaS business models to deploy their applications more quickly and cost-effectively. Vendors can secure higher revenue from the shift to XaaS by supporting their customers with better services, as well as retain these customers over multi-year contracts by allocating a percentage of XaaS revenue for support and maintenance systems.

Operators’ preference for XaaS business models will create a strong, ongoing revenue stream for vendors and will be subject to less price erosion than support and maintenance efforts. In addition, the typical point of product replacement at upgrade points are reduced as compared with on-site installations.

**KEY RECOMMENDATIONS**

1. Vendors must accommodate the requirements of future network and IT cloud architectures and partners to capitalise on potential opportunities.
2. Vendors should charge support fees within their organisations to ensure that support groups are funded, even if no direct charges to customers are made.
3. Vendors should build a single support structure for all delivery models for service and products.
**Challenge:** vendors must manage the transition to XaaS to mitigate a significant loss of direct support and maintenance revenue

**XaaS business models are attractive to CSPs because of their flexible and all-inclusive nature (both support software and management), but the transition to XaaS poses risks to vendors’ revenue as the demand for support and maintenance services diminishes.**

Vendors’ overall revenue will fall when their XaaS solutions are initially sold because subscription payments will be spread over several years. In addition, XaaS services include support and maintenance costs, which means that means that revenue from discrete support service offerings will either significantly fall or vanish completely.

Vendors’ capex and opex will need to increase to meet the initial start-up costs associated with supporting their XaaS offerings, including creating new services and building new support systems to manage these services. As the complexity of the XaaS business models increase, so will the costs, as will the likelihood of needing additional partners, such as public cloud providers. In addition, webscale providers expect support systems and other interactions to offer a high degree of self-service and automation to support near-real-time operations, which will add to vendors’ costs.

CSPs’ shift to deploying their applications on public, private or hybrid cloud services will potentially reduce the addressable market available to vendors for on-site maintenance, spares and repairs because these will be covered by IT-based systems and cloud services. In addition, software delivered via the cloud (rather than using dedicated hardware) reduces the scope of support services.

Figure 2: Percentage of return on investment in an XaaS business model for years 1 to 4 following initial investment

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Source: Analysys Mason
Solution: to meet CSPs’ XaaS demands, vendors must implement new self-service systems, create partnerships with cloud providers and set up new funding models

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Vendors’ support and maintenance contracts must evolve to support partner services and new business models while also meeting CSPs’ expectations of XaaS-based services.

As CSPs begin to deploy their applications using public, private or hybrid cloud services, they will need to identify new partners and adopt new technologies to support XaaS-based services. Vendors also need to support a greater demand for general-purpose IT equipment and services as part of the move to XaaS. This includes the following.

- New systems to support customer-facing demand for XaaS services, including self-service, automated processes and community-based support. These are likely to be a part of a larger set of functions that include capturing operational requests for upgrades or configuration changes.

- Developing partnerships to enable vendors to manage, deliver and support the value-chain for XaaS-based services, which must include webscale cloud providers. Partnerships must provide a close alignment of systems and services to ensure customers are supported in their preferred cloud environment.

- Clear funding models for support and maintenance as a percentage of XaaS subscriptions must be established. The XaaS business model must be underpinned by well-funded, high-quality support services, including multi-year contracts to mitigate customers’ early termination of the service.

Figure 3: Illustrative vendor revenue for an XaaS business model for years 1–4 following initial investment

XaaS support services will be better financed in the long term

Source: Analysys Mason
Recommendations for vendors

1. **Vendors must accommodate the requirements of future network and IT cloud architectures and partners to capitalise on potential opportunities.**
   This includes the ability to partner with cloud vendors and support for new ecosystems of technologies in the cloud. Vendors must create services to support new cloud-based environments as they shift from traditional environments to XaaS-based business models. This includes being able to support solutions implemented by different ecosystem partners and the technologies of large public cloud providers.

2. **Vendors must adapt their support and maintenance systems in order to deliver new services to support their customers. Revenue generated from XaaS should be used to build up these systems, staff and services.**
   Revenue from standalone support and maintenance services will fall as XaaS offerings increase. Internal cross-funding should be set up to ensure sufficient resources are allocated. Customers adopting XaaS-based models may find it easier to switch vendors compared with more traditional business models, so it is critical that vendors aim to retain customers by providing support and maintenance.

3. **Vendors should rationalise their support and maintenance systems, processes and resources to provide a consolidated view to customers, regardless of their consumption models.**
   Vendors need to ensure that they build up appropriate partnerships with the major cloud vendors. Vendors need to rationalise their current support systems and review how they can support their own products when offered with a XaaS-based service. They should also partner with large, public cloud platform providers to support and manage the services and products that CSPs are asking them to deliver.
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About the author and Analysys Mason
About the author

Justin van der Lande (Principal Analyst) is a Principal Analyst for Analysys Mason and leads the AI and Analytics research programme, which is part of Analysys Mason’s Telecoms Software and Networks research stream. He specialises in business intelligence and analytics tools, which are used in all telecoms business processes and systems. In addition, Justin provides technical expertise for Analysys Mason in consultancy and bespoke large-scale custom research projects. He has more than 20 years’ experience in the communications industry in software development, marketing and research. He has held senior positions at NCR/AT&T, Micromuse (IBM), Granite Systems (Telcordia) and at the TM Forum. Justin holds a BSc in Management Science and Computer Studies from the University of Wales.
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