

PREVAILING CHALLENGES FACED BY CLIENTS IN MANAGING SAAS /SOFTWARE LICENSES SUBSCRIPTION, RENEWAL, AND SUPPORT IN B2B

Dr. Kunal Joshi

krajjoshi1@gmail.com

ABSTRACT

This paper is inspired from the current problems Enterprise customers and large institutions face during Renewal of their software licenses. It is observed that the Large Software product companies have been appreciating their renewal costs very actively and this has resulted in Major clients feeling frustrated on the renewal decisions. The resellers also create issues by not maintaining appropriate back-to-back agreements between In Multiyear AMC contracts, at times Support / renewal costs almost equal new license purchases in case of few Software brands. We are also discussing one real life case where a major nationalized bank landed in a deadlock situation with a Major Tech brand on Support and AMC.

Please note: We are not revealing any names of the parties involved as the case is real life experience and we do not have permission to disclose any names.

Keywords: Software Maintenance, SAAS, Renewal, Technical support, Software AMC, SAAS Maintenance.

Citation: Joshi, K. (2024). Prevailing challenges faced by clients in managing SaaS /software licenses subscription, renewal, and support in B2B. VLEARNY Journal of Business, 1(2), 15–19. <https://doi.org/10.5281/zenodo.10885930>

INTRODUCTION

Today Software systems have become an integral part of most enterprises. Be it small or big the thrust towards digitization and adaption or multiple applications are driving companies to invest in software solutions. Today appropriate software systems also help in reducing heavy investments in compute and storage hardware. However, of late it is observed that when the contracts are for multi-year, renewal costs are appreciating every year making renewal of software licensed expensive each year.

Companies are frustrated by the increasing costs of Support and license renewal. When the Annual maintenance run for multiple years the license costs appreciate year on year, to a point that the client could re-think the decision to scrap the software and buy new license.

We would like to begin with the understanding the postproduction maintenance aspect of any software license or SAAS license.

According to IEEE [1993], Maintenance is edits of a software / SAAS product after

delivery to mitigate errors, enhance system performance adjustments and corrections to the edited system".

Four types of Maintenance are observed:

- **Corrective Maintenance:** Includes correcting bugs in the system.
- **Adaptive maintenance:** Preparing the system to work on multiple environments.
- **Perfective maintenance:** Ongoing product improvements to suit changing user requirements.
- **Preventive maintenance:** continuously improving and documenting the system for any unforeseen breakdowns.

The above types of maintenance clearly imply that support and maintenance include cost. The maintenance costs attribute to almost one thirds of the total software lifecycle costs. The operations and maintenance phase takes major share of maintenance costs (Zelkowitz, Shaw and Gannon, 1979).

Some of the parameters of maintenance costs include system size, system age, number of input/output data items, application type, programming language, and the degree of structure (Martin and McClure, 1983). The larger the system, the more costly would be the maintenance of the same.

There is a study conducted by Shivashis Nayak (Shivashis Nayak, 2006). His study focussed on interviewing 19 Software vendor brands. According to the study, the maintenance cost is arrived at the standard range is 14% to 25% percent of the prevailing list license fee (then-current license fee).

Fact Check: Let us now try to understand some of the renewal related facts from the Software providers website and industry blogs.

Software License / Renewal and support costs appreciate every year: According to CIO drive, Microsoft will lead in appreciating SAAS pricing and this will be followed by other SAAS brands too. The article quotes that SAAS prices would be expected to grow by 2% to 10 % year on year. Microsoft have appreciated their Office 365 prices by almost 25%. The SAAS companies

provide new feature and work towards making the product more enterprise grade thereby increasing the price of the product. The Article cites that, Microsoft incorporated teams in Office 365 and showed value of collaboration and then hiked the Office 365 pricing by 25%. Other SAAS Companies are also following the same example (www.ciodrive.com).

In another popular tech article from Techradar.com, the author quotes from the Gartner report which states that one of the SAAS Vendor appreciated prices by 21% and renewal cost by 18%.

Some of the common reasons cited for appreciation of subscription include:

- Additional features added to the product.
- **Hyperinflation:** Blaming Inflation and appreciating US Dollar value is a favourite reason of SAAS Companies and partners.

Multi-year contracts face issues with renewal and support: Software OEMs (Original equipment makers), generally a percentage value of the prevailing license price as cost of support. Generally, this varies around 15% to 22% of current license cost. And this varies from OEM to OEM.

Let us try to understand the stand that the Software OEMs take on Support by referring to the following extracts:

VMWare (blogs.vmware.com): VMware strongly believes in appreciation of Support and AMC costs. Some of the key points they bring out on support are as follows:

According to the OEM, Storage arrays need to be upgraded time and again. In case if the old software licenses are renewed for longer time period, the array support costs also appreciate steadily. At a point, the storage arrays are upgraded / refreshed which indirectly affects the cost of supporting older software under long renewals.

Oracle: As mentioned in their renewal policy, Oracle charges the renewal of license as per the cost of previous year license and additional Inflationary charges adjusted. This makes the

license cost more expensive during the renewal (www.oracle.com).

Solver: As mentioned in their website on the renewals and pricing section, In the last para of the web page the Brand says that Permanent licenses are subject to revision of rates as Hardware and other factors also change over time. Therefore, the software license support and subscription renewals also increase proportionately over time (www.solver.com)

As observed in above citations, we understand that companies must be prepared for appreciation in license / support costs during renewal software systems. These costs are expected to be annual and appreciate year on year.

Let us now look at a case study which is a real time situation where Support during the renewal time became a major issue, and the enterprise customer was put in extreme inconvenience. We are not allowed to quote the names of the parties in the case study as we do not have permission from them.

Case: A Large Nationalized bank wanted to implement a Virtualization solution to manage their workloads on branches and company owned devices – Stationary and Mobile devices.

Parties involved:

- Nationalized Bank (Bank) with over 10000 branches across the country.
- Original equipment maker (OEM) – A Global Technology provider with Software development presence in India that owned the software for the solution required.
- System Integrator (SI) – Company which won the contract from the nationalized bank to implement the solution and then procured the solution from the OEM and implemented the solution to the Bank with the help of its technical team along with OEM team.

Key highlights of the contract:

- The contract was awarded for the procurement implementation of the licenses from OEM and do the necessary implementation and delivery of the same on the Data center of the Bank.

- The once the implementation is done the Bank team checks the implementation and provides a sign off document that certifies successful implementation of the project.
- As per the Bank Purchase order (PO), the Warranty for the solution must start from the date of Sign off document.
- The PO was rolled for three-year warranty of the solution and additional three years for the AMC of the solution.

Chronology of events:

- When the Purchase order was awarded the System integrator, The partner duly completed the documentation and furnished the agreement and guarantees within the specified timelines.
- The project implementation was scheduled for three months.
- The First phase of licenses was procured by the SI from the OEM and the delivery of the same was also done to the Bank in the stipulated timelines.
- The Activation of the licenses and the implementation of the solution of the Data centre servers had to commence.
- This is when the world suffered from back-to-back lock downs of COVID – 19.
- Many services were disrupted during the COVID lock downs. Banks were also struggling to keep their services up and running during this time. All human resources of banks were judiciously employed in maintaining business continuity during the disaster time.
- This event had adverse effect on the project implementation of the project. The bank technical teams were intermittently unavailable to help the SI Partner and OEM teams during the implementation of the project.
- As a result of this the whole implementation timeline which had to be completed in 3 months stretched almost 20 months.
- This resulted in Bank issuing the Sign off certificate for the project after 20 months of delivery of licenses. As a cascading impact of this, Warranty of the solution as per Bank PO had to start 20 months late from the delivery of licenses.

- OEM warranty always starts after the delivery of the licenses. This implied that 20 out of 36 months of warranty period had already been elapsed as per OEM.

Issue/Challenges:

- Due to project not getting implemented in time. Bank Imposed penalty on the SI.
- OEM did not cooperate in adjusting the Warranty period by 20 months. And charged the SI for the extended Warranty.
- SI refused to honor the warranty extension under cost implications and also rejected the Penalties imposed by the bank.
- This conflict was left in deadlock condition for some time with neither of the parties ready to compromise. This resulted in bad customer experience as warranties were not getting honored.
- Bank suffered from Bad customer support, SI payments were stuck due to this and OEM was not able to expand its licenses in the Bank for the subsequent phase of implementations.

CONCLUSION

After multiple negotiations and requisitions to the Bank Management teams, the following conclusions were drawn:

- Finally, Bank agreed to waive of the penalties under force majeure conditions.
- OEM and SI came to a middle path of costing and agreed to extend the warranty start date from the sign off date of the Bank.

Learnings: Some of the critical learnings in the case are as follows:

- Large Public sector institutions follow highly process oriented procurement policy. Especially Banks are guided by Finance ministry for procurement processes and vigilance guidelines on them are highly compelling.
- Global OEM can have a mechanism where special provisions can be made for certain

Strategic accounts (like large banks) for customized Warranty provisions. Being very large buyers, OEM will have to honour the purchase process of such institutional buyers.

- SI must have back-to-back agreements with OEMs and ensure that they maintain the Warranty policies as per the PO terms of the end customer (Bank in this case).
- Timely communication and representations need to be maintained in case of extra ordinary circumstances (like Covid lockdowns) where projects get derailed. During such force majeure conditions, the parties need to have regular project update meetings and come to common conclusions on ensuring minimum damages to each other and smooth execution of project.

Future cope of Research:

From the above illustrations we infer that SAAS/Software license are regularly used by enterprises of any size for their smooth business operations. However, these licenses are becoming more and more subscription based. Perpetual software licenses are becoming more and more subscription based as these licenses provide recurring revenue to the software makers.

This makes renewal of licenses imperative for companies. Renewal of Software for AMC or Support comes with cost factors. It is observed that costs of renewal for AMC and support are appreciating. This is because the support / Maintenance costs are priced at the then prevailing current license costs of the software / SAAS systems. Enterprises must factor these renewal costs regularly and plan their purchases in a way that the renewal costs can be controlled.

Future studies: SAAS as subscription-based services are increasing every day. The perpetual software users and makers are also migrating to subscription model for flexibility and revenue requirements. This has given in too many pricing models. These subscriptions are annual / three year/ five years based. Thus, Renewal of the subscriptions for AMC or support is also going to increase with time. We

have done the study with limited literature available on the internet and journals.

We strongly believe that with the proliferation of SAAS, there will be increase in studies on this subject and there would be scope of more journals and publications coming in this regard. This subject is evolutionary in nature and will come up with interesting commercial models and value propositions there by prompting the researchers to study the subject more in detail.

https://www.solver.com/pricing-types-licenses#License_Terms_and_Renewals

REFERENCES

Takang AA, Grubb PA. Software maintenance: concepts and practice. Coriolis Group; 1996.

Niessink F, Van Vliet H. Software maintenance from a service perspective. *Journal of Software Maintenance: Research and Practice*. 2000 Mar;12(2):103-20.

Zelkowitz, M. V., Shaw, A. C., & Gannon, J. D. (1979). *Principles of software engineering and design*. Prentice Hall Professional Technical Reference.

Martin, J., & McClure, C. (1983). Buying software off the rack. Packages can be the solution to the software shortage. *Harvard Business Review*, 61(6), 32-6.

Nayak, S. (2006). *Pricing and licensing of software products and services: A study on industry trends* (Doctoral dissertation, Massachusetts Institute of Technology).

<https://blogs.vmware.com/virtualblocks/2018/08/01/cost-of-maintenance-with-vsan/>

<https://www.oracle.com/us/support/library/057419.pdf>

<https://www.oracle.com/assets/technology-price-list-070617.pdf>

<https://www.ciodive.com/news/Microsoft-saas-office-price-increases/611210/>

<https://www.techradar.com/news/software-vendors-are-hiking-prices-but-dont-be-fooled-by-the-justification>