



Contracts Renewal Performance Management

***Going beyond operational efficiency to effectiveness
to transform service centers into profit centers***

A White Paper by Pilot Software and I-Knowledge



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Executive Summary

Striving to remain competitive in an increasingly challenging economy, you've optimized your service operations — streamlined paperwork, lowered the cost of service, reduced the time to close support tickets — and probably have even trimmed your workforce. Even outsourcing is quickly rendering a diminishing ROI. You've made your service organization as efficient as it can be. So how do you continue to advance your service business and transform it into a profit center contributing to corporate objectives?

Focusing on efficiency can only take an organization so far; in order to continue advancing in a competitive and dynamic business environment, organizations must focus on becoming more **effective**. For service organizations, this means reinventing themselves: shedding the "overhead" label historically attached to them and donning a new role as an effective organization that furthers corporate objectives — including the bottom line.

Helping service organizations accomplish this transformation is a new genre of solutions called operational performance management. By aligning execution with strategy, operational performance management solutions can help service organizations uncover new methods rooted in effectiveness to reach strategic objectives. Marrying technology with four critical management concepts — motivating, managing, monitoring and measuring — the right operational performance management solution can help ensure that the entire service organization understands its strategic objectives and can make timely and well-informed decisions to support them at the strategic, operational, and tactical levels.

But where does one begin? Adopting an incremental approach, in which the organization focuses first on one particular area or strategic objective before rolling out on a wider scale, helps ensure greatest success. Within the service realm, the area of contracts renewal offers a starting point that is both manageable and fertile.

Chances are, you already have many of the critical pieces needed for contracts renewal success, but lack the methodology and technology for bringing the pieces of the puzzle together. This paper outlines how to use operational performance management to align a sound contracts renewal strategy with effective execution to deliver tangible improvements to the service organization's overall effectiveness — and help transform it into a profit center.

Contracts Renewal: A Neglected Opportunity

For many service organizations, the contracts renewal process has historically been neglected. In fact, the Service and Support Professionals Association (SSPA) reports that the rate of renewal for support contracts declined four percentage points between 2000 and 2002, from 88% to 84%,¹ with that number expected to continue decreasing each year. This lost opportunity becomes even more pronounced considering the fact that the cost to acquire new customers to offset these losses is inevitably higher than the cost to retain existing customers. The right strategy supported by an operational performance management system to guide effective execution can reverse this trend and bring the renewal rate back into positive territory, improving the service organization's effectiveness.

Contracts Renewal Examples

Almost every business includes some type of contract renewal after a fixed term. Even when a company bases its business on perpetual licenses or other forms of cash purchase, term-based contract renewals have provided a repeatable, ongoing revenue stream that supports the base business. The following table gives several examples.

Term Contract	Description
Support	This can be a contract for telephone, e-mail or on-site error diagnosis and repair services.
Maintenance	These are typically contracts for future upgrades to something that is purchased outright. Examples include software, hardware, or industrial goods.
Leasing	These include contracts that provide services or goods for a fixed period of time, with or without an option to purchase at term's end. Examples include copiers, automobiles, and home furnishings.
Professional Services	This includes contracts for consulting services that may be renewed on a regular basis. Renewals for gym memberships and subscriptions to music series also fall in this category.

The Challenge: Diffused Responsibility

The challenge with many existing contracts renewal processes is rooted in the history of an organization's growth. In the early stages of development, a company naturally focuses its efforts on winning new accounts and establishing a presence in the market. With all the effort required to generate new business, little attention remains for formalizing the process

¹ SSPA News, December 17, 2002, <http://www.thesspa.com/sspanews/121702/research.asp>

of renewing term contracts associated with the initial sale — despite the fact that almost every department relies on this recurring revenue stream to reach their strategic objectives.

In spite of an organization’s reliance on it, the contracts renewal process commonly lacks a formal owner. The sales department is chartered with new account development, with a commission structure that rarely provides incentive to pursue renewals; the marketing department is busy with brand building, packaging, and promotions; while the service department is focused on inbound support calls. Given the lack of formal ownership, the onus for tracking this recurring revenue stream often falls by default to the finance department — and even then is typically only tracked reactively.

Relying on Renewal Revenue

- *The finance department depends on contracts renewal to smooth quarterly results, as the revenue flow is usually more predictable than that from new sales.*
- *Product marketing depends on renewal revenue to fund mid-life and end-of-life product programs.*
- *The service organization depends on this revenue to staff support programs and maintain customer satisfaction.*
- *The sales team often sees the contracts renewal process as a vehicle to up-sell or cross-sell additional products.*

Even for organizations that staff a contracts renewal operation, the focus is often quite tactical and isolated, concentrating on contacting customers only when contracts are due. Such an approach, not surprisingly, yields less-than-optimal results and moreover, potentially damages the customer relationship.

The Service Organization: A Natural Owner

Service organizations seeking to become more effective — rather than viewed as overhead to be reduced or made more efficient — can take advantage of the ownership vacuum that typically surrounds the contracts renewal process. Given its historical lack of ownership, contracts renewal represents an untapped opportunity with the potential for significant, tangible improvement. In addition, because the service organization conceivably will have many opportunities to address a customer’s issues, they are optimally positioned to ensure a positive customer experience that increases brand loyalty and maximizes the value of the customer base asset — both critical elements to increasing contract renewal revenue.

Developing a Contracts Renewal Program

Using an operational performance management system that combines technology with four critical management concepts — motivating, managing, monitoring and measuring — an organization can deploy the foundation of a successful contracts renewal program in 10-12 weeks. The benefits of timely and well-informed strategic, operational, and tactical decisions will begin to take effect in even less time, and will only grow in significance as the program becomes fully engrained in the organization.

A contracts renewal performance management program should take a balanced approach to achieve the following goals:

- *Create better visibility into the renewals pipeline*
- *Improve resource allocation*
- *Better integrate and align the renewal process with cross-departmental objectives*

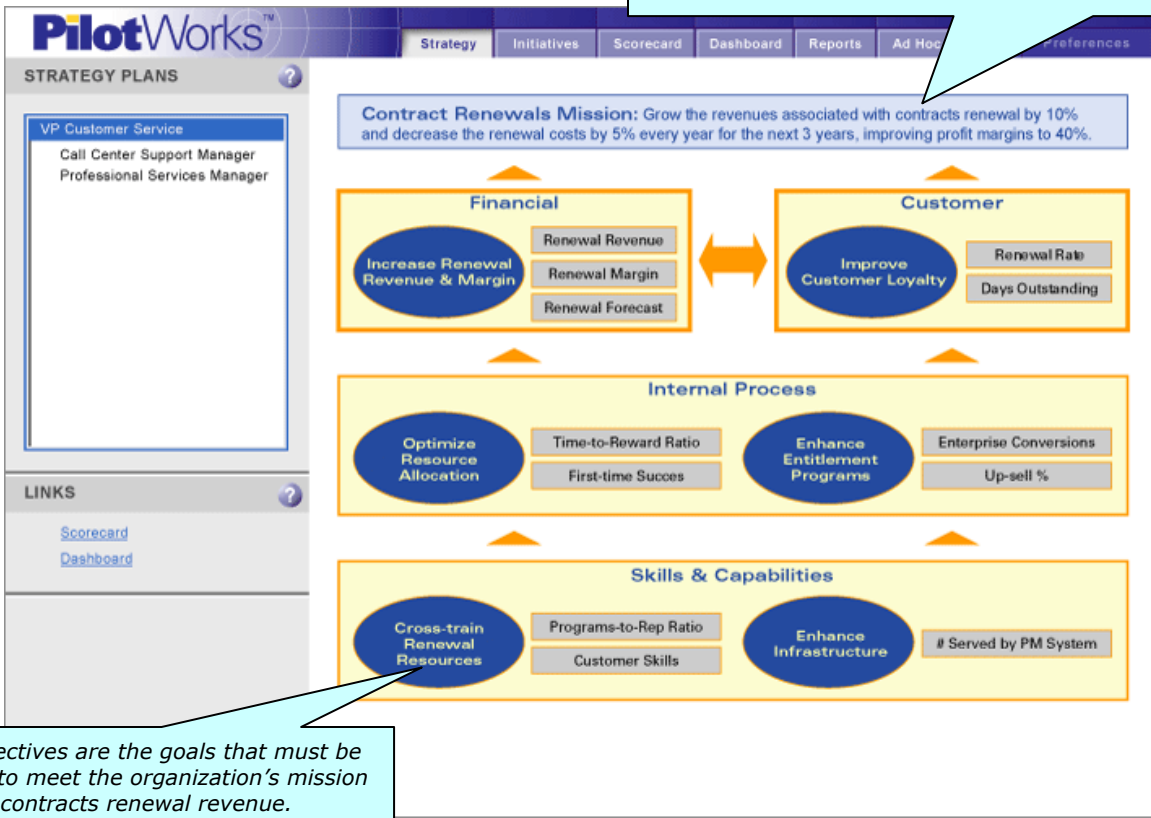
An effective operational performance management system includes strategy plan; initiative management; scorecard & dashboard; and report & ad hoc capabilities which help organizations motivate, manage, monitor and measure to achieve objectives.

Strategy Plans: Motivate through Communication

The first step to achieving contracts renewal success is to articulate your strategy in terms that are meaningful to your entire service organization. Your department probably already has a strategy in place in some form. However, the best-laid plans are doomed to fail if they languish in an executive's desk drawer or PowerPoint presentation only to be shown once a quarter; similarly, if stakeholders are not motivated to pursue objectives, an organization is unlikely to achieve them. Strategy plans help motivate employees by communicating organizational strategy to all stakeholders and making it an integral part of every employee's daily work plan. Showing the relationship between various strategic objectives, the strategy plan tells the story of how an organization, working in unison, can achieve its mission.

While performance management methodologies abound, the following example of a contracts renewal strategy plan is based on the Balanced Scorecard methodology created by Robert Kaplan and David Norton. As the name suggests, the Balanced Scorecard methodology translates strategy into objectives, measures, targets and initiatives within four balanced perspectives associated with contracts renewal operations — finance, customer, internal processes, and skills & capabilities.

The quantifiable mission statement at the top of the plan captures the essence of this organization's cross-functional goal.



Sample Strategy Plan Screen Shot

In addition to succinctly stating the organization's mission, the strategy plan outlines the critical strategic objectives that must be met — increase renewal revenue & margin, improve customer loyalty, optimize resource allocation, enhance entitlement programs, cross-train renewal resources and enhance infrastructure — in order for the organization to achieve its mission of revenue growth associated with contracts renewal.

Ideally, a strategy plan should be used primarily as a motivational device — leaving detailed management of operational and tactical activities to other means such as initiatives, scorecards, dashboards and reports. To support effective execution at the tactical level, a strategy plan should be interactive, enabling drilldown into supporting initiatives, with in-depth descriptions of each objective and its importance providing the critical link between strategy and operations.

Using the above example and best practices as a template, organizations can take the first step in incremental deployment of a contracts renewal program, reaping quantifiable returns with each step.

Initiatives: Manage Conflicting Tasks

Following development of your strategy plan, the next step is to create initiatives that support your mission of increasing contracts renewal revenue. Initiatives are the specific activities or projects at the operational level essential to an organization’s attainment of strategic objectives and mission. Think of initiatives as your team’s day-to-day program activities. One initiative may support multiple strategic objectives; likewise, one strategic objective is likely to be supported by multiple initiatives.

If you are like most service organizations, you are already executing on many of the initiatives needed for contracts renewal success. However, what is missing is a clear understanding of how these initiatives can be synergistically tied to the strategic goal of increasing contracts renewal revenue. Additionally, without understanding the link between initiatives (execution) and strategic objectives, it is difficult to permeate strategy at the operational level. Examples of contracts renewal initiatives include:

- Optimize renewal resource allocation
- Develop lower-cost renewal programs
- Restart lost customer initiative
- Survey industry best practices

Optimize Renewal Resource Allocation

Description: We want to focus our limited resources on the most profitable and most strategic renewals. To do so, we need better segmentation of potential renewals, a streamlined renewal methodology, and a re-alignment of incentives to the new structure.

Schedule: Status: ● Behind
 Progress: Started
 Started: Apr 1 2003
 Target End: Sep 15 2003
 Actual End:

Budget: Status: ● Under Budget
 Budget: \$10,000
 Actual: \$0
 Owner: Andy Meyer

Tasks / Sub Tasks:

- Segment customers via value (Andy, May 15 2003)
- Establish a hierarchical contact methodology (Michelle, Jul 30 2003)
- Train affected employees (Andy, Sep 15 2003)
- Investigate lower cost renewal methods (George, Jun 30 2003)
- Revise incentives to support contact methodology (Andy, Sep 15 2003)

Task / Sub Task	Team (*owner)	Percent Complete	Importance	Start	Target End	Actual End
Segment Customers via Value	Andy*, Rosely...	100%	High	Apr 15 2003	May 15 2003	May 10 2003
Determine profitability calculation and threshold	Roselyn*, Geo...	100%	High	Apr 15 2003	Apr 22 2003	Mar 25 2003
Determine strategic ranking and threshold	Andy*, ...	100%	High	Apr 15 2003	Apr 29 2003	Apr 29 2003
Investigate lower cost renewal methods	George*, Andy...	70%	Low	Apr 30 2003	Jun 30 2003	
Establish a hierarchical contact methodology	Michelle*, Ro...	55%	Medium	Jun 15 2003	Jul 30 2003	
Document current contact methodology	Michelle*, Ro...	100%	High	Jun 15 2003	Jun 30 2003	
Revise incentives to support contact methodology	Andy*, George...	33%	High	Aug 1 2003	Sep 15 2003	
Train affected employees	Andy*, Michel...	0%	High	Sep 1 2003	Sep 15 2003	

Related tasks necessary to fulfill "optimizing renewal resource allocation" initiative, in fishbone diagram format

Related tasks necessary to fulfill "optimizing renewal resource allocation" initiative, in table format

Sample Initiatives Screen Shot

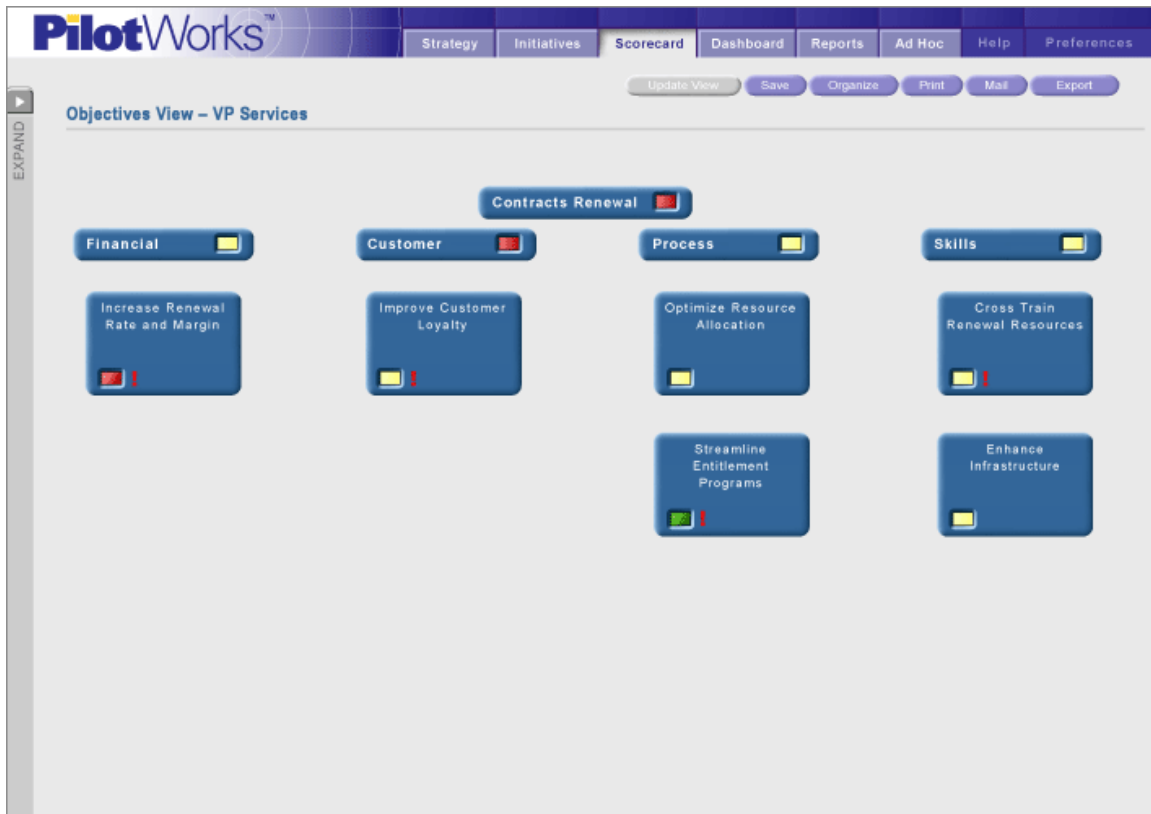
An important component of an effective operational performance management system, initiative management ties strategy to the operational and tactical activities of an organization. Rooted in the knowledge that ownership and accountability foster productivity, the initiative component should provide simple-to-digest summary views of the tasks supporting an initiative, their interdependencies, and schedule and budget status. It should also provide links to external project management applications (e.g., Microsoft Project or Excel), for stakeholders seeking more detail.

By clearly depicting the link between tactics and strategy, initiative management helps stakeholders prioritize conflicting tasks to ensure focus on the ones most critical to the contracts renewal objectives.

Scorecards: Monitor Progress

Once you have developed your strategy plan and supporting initiatives, you will need a way to monitor progress. While the scorecard uses similar content as the strategy plan; scorecards' primary business function should be to **monitor** progress, not motivate your organization. This approach — scorecards to monitor and strategy plan to motivate — preserves the evolution and planning process of the strategy for future use.

Delivering a cohesive view of ongoing execution against objectives, scorecards include a high-level status of strategic objectives under each perspective. With an intuitive "traffic light" alert system, scorecards color-code performance outcomes to help managers readily understand the latest performance. Underperforming perspectives and measures are indicated with red, while those verging on trouble are called out in yellow and measures meeting objectives are highlighted in green. The ability to drill deeper into any point of interest helps facilitate proactive resolution to problematic issues.



*Sample Scorecard Screen Shot
Primarily supporting the "Optimize Resource Allocation" objective from the above strategy plan*

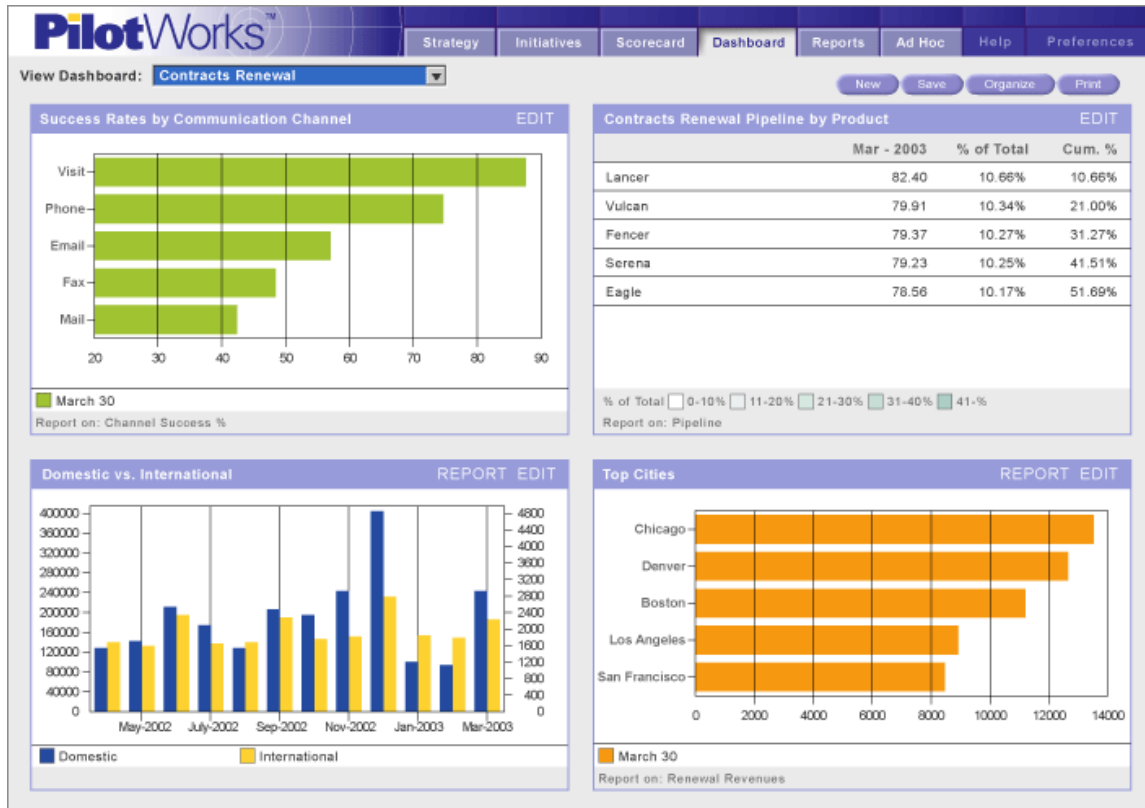
Cascading scorecards are important to help ensure that while functional groups and individuals work toward particular departmental or business unit objectives, they are all linked to and supporting the organization's overarching strategic objectives. Other important scorecard features include:

- Support for comments associated with operational objectives and performance measures to facilitate efficient, effective collaboration and the sharing of "best practices" throughout the renewals process.
- Ability to drill deeper into analyses such as trending, deviation, benchmarking and ad hoc analysis to help managers uncover the root of performance issues.

Dashboards: Monitor Progress

Another way to monitor progress of your contracts renewal program is through dashboards. Role-based dashboards allow organizations to tailor information to specific functional roles, with at-a-glance views of critical renewal metrics pertaining to specific objectives, individuals or groups. For example, one manager's dashboard might monitor the

performance metrics associated with the renewals pipeline. Through ongoing, even daily, monitoring of the renewals pipeline dashboard, a manager can rapidly respond to fluctuations in the renewals workload or adjust tactics based on the success rates of various contact methods. All of the relevant information is clearly displayed on one easily accessible dashboard, as shown below.



Sample Dashboard Screen Shot

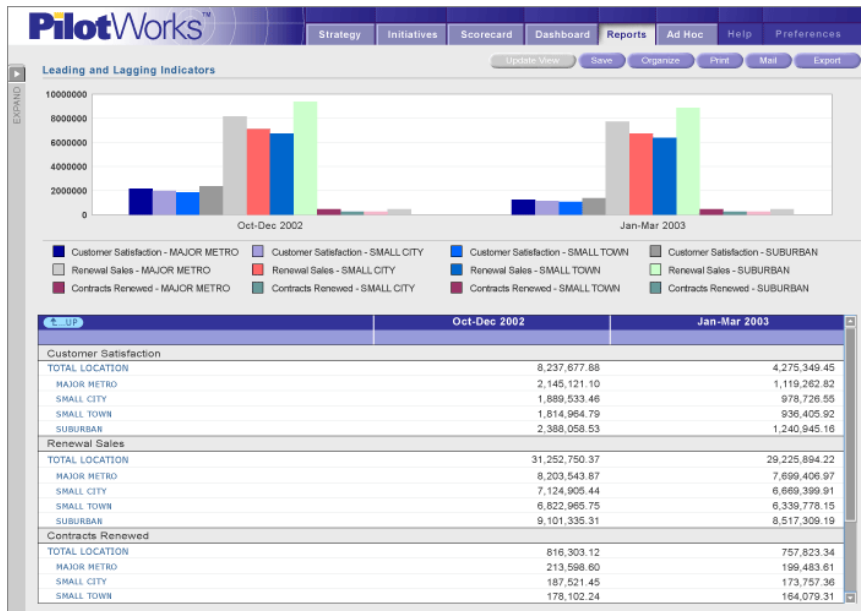
Dashboards should provide the flexibility to be expanded beyond functional groups and made public for everyone to view or kept private to be viewed only by the individual who created it. Like scorecards, the most useful dashboards are linked to underlying analyses, allowing deeper investigation of causative trends. In addition, to provide the most up-to-date performance information, dashboards should be "live," automatically refreshed with the latest data.

Reports and Ad Hoc: Measure Progress

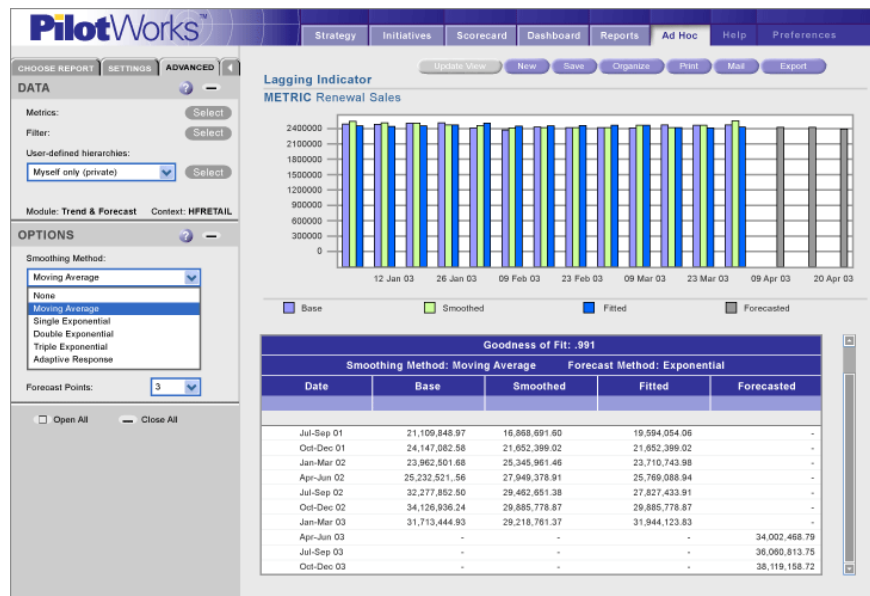
If further data is yet needed to measure progress toward contracts renewal success, reports and ad hoc capabilities should cover the needs of both business and power users. The

reports should be easy-to-use and enable business users to quickly measure ongoing progress toward objectives, without IT intervention.

For power users, ad hoc capabilities should provide detailed operational data and offer unlimited analysis options, to measure and uncover the root of performance issues. Another handy feature is integrated forecasting capabilities that make it easier for users to plan ahead and project future performance based on current reality to improve decision making.



Sample Report Screen Shot



Sample Ad Hoc Screen Shot

Summary

As competition increases and improved efficiency delivers diminishing returns, service organizations must focus on becoming more effective, donning a more proactive, contributory role in the company. Operational performance management can help service organizations dramatically improve effectiveness and contribution to the company as a whole; the contracts renewal process provides an opportune starting point for service organizations embarking on this path. As a largely unclaimed, untapped gold mine with significant room for revenue-driven improvements, a contracts renewal program can help service organizations transform their department from a cost-reduction target to a profit center. An operational performance management solution which aligns sound strategy with effective cross-functional execution provides the means for mining this potential. Capitalizing on existing assets by tying strategy and initiatives to a quantifiable strategic mission such as increasing contracts renewal revenue, an operational performance management solution allows organizations to easily develop and implement the necessary initiatives to generate significant bottom-line results.

About I-Knowledge

I-Knowledge (IK) specializes in developing performance management infrastructure including IT Automation and Data Integration (DI) that provides the functional knowledge executives and managers need to run their day-to-day business. Through sophisticated dashboard technology, the company enables executives to make strategic decisions in real time. With deep contracts renewal expertise, the company's consultants have undertaken projects at Sun Microsystems, Visa, Seagate Technologies, Nortel Networks, Mercury Interactive, Cisco Systems. More information about I-Knowledge can be found at www.i-knowledge.com.

About Pilot Software

Named the best Business Performance Monitoring & Management Environment in the 2003 *Intelligent Enterprise* Readers' Choice Awards, Pilot provides operational performance management solutions — a powerful combination of domain expertise, a proven approach and award-winning software — that enable organizations to rapidly achieve objectives by aligning execution with strategy. The culmination of 15+ years of development and industry expertise, Pilot offers Web channel, government, sales, marketing and service solutions that dramatically improve operational alignment. Pilot's integrated, yet modular, operational alignment framework includes interactive strategy plan; initiative management; scorecard & dashboard; reports & ad hoc; and modeling & integration components. Customers include The Boeing Company, Coors Brewing Company, General Services Administration, Health Net, Ingersoll-Rand, Pacific Life Insurance, Uno Restaurant, SMARTpages.com[®], and Swiss Re.

Pilot Software was founded in 2002 and has headquarters in Cambridge, Mass. and Mountain View, Calif. The company is privately held with funding from Excelsior Venture Partners III, LLC, a private equity fund managed by U.S. Trust; G-51 Capital, a Texas-based venture capital firm; and individual investors, including members of its management team. Pilot Software can be reached at (650) 230-2830. More information about Pilot is available at www.pilotsoftware.com.