

CASE STUDY

Growing Microsoft's Software Assurance Business

“In a market under immense price pressure, Strategyn’s outcome-driven approach to innovation allowed us to grow a struggling business.”

Dave Wascha, Director – Microsoft Corporation

Microsoft®

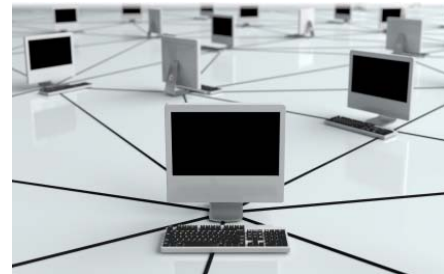
CASE IN BRIEF

Microsoft's Software Assurance was a business under pressure, facing declining renewals that put substantial revenue at risk. Using Strategyn's outcome-driven innovation (ODI) methodology, the company was able to:

- Discover hidden opportunities for value creation over the lifecycle of PC software
- Repackage and reposition the Software Assurance offering to meet customer needs without developing new products
- Turn Software Assurance into a growth business and dramatically increase annual renewal rates

CLIENT CHALLENGE

In 2004, Microsoft was under pressure to build additional value into its Software Assurance offering. In exchange for a flat fee, corporate customers received operating system upgrade rights if they signed a multiyear contract. However, there was mounting evidence that the offering was not providing the right mix of benefits to customers at a time when IT budgets were facing increased scrutiny. Microsoft



was aware that some key customers were questioning the value of the offering. Even more telling, renewals of Software Assurance agreements were declining, putting a significant amount of potential revenue at risk. "We were a business facing a potential crisis," recalls Dave Wascha, a Microsoft director.

Traditionally, Microsoft had viewed the Software Assurance offering simply as a vehicle for the efficient purchase of software upgrades. The market was changing, however, and Microsoft realized that the Software Assurance offering needed to change with it. As one tech reporter observed, "There appears to be some disconnect between how Microsoft wants to sell its software and how businesses want to buy."¹ Innovative ideas were necessary to give customers additional reasons to purchase.

HOW STRATEGYN HELPED

To find opportunities for value creation, Microsoft applied Strategyn's ODI methodology. Software license management is not a trivial task for large corporations, and it typically involves multiple stakeholders. Microsoft focused on understanding the jobs of two particular decision makers – procurement managers

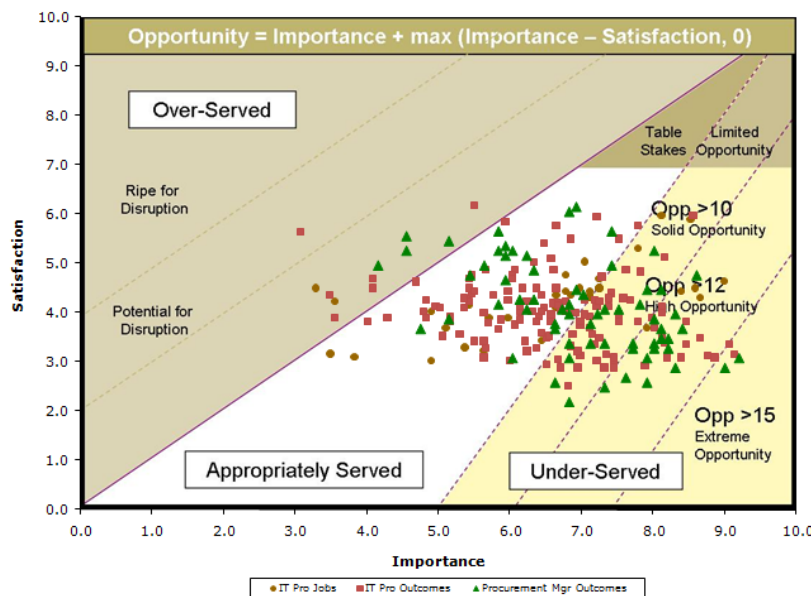
¹ Gregg Keizer, "Survey Slams Microsoft Software Assurance Program," *CRN*, May 17, 2004. Available online at <http://www.crn.com/software/18842062;jsessionid=0MJVG3AVE0RBMQSNLDPCKH0CJUNN2JVN>.

and IT professionals. Procurement managers are responsible for understanding, selecting, and negotiating license agreements. IT professionals work closely with procurement managers in assessing upgrade needs, evaluating agreements, implementing licensing renewals, and managing software licenses once purchased.

Drawing on the responses of 28 procurement managers, Microsoft dissected the job of purchasing a license agreement, uncovering 76 desired outcomes (customer needs). Microsoft then conducted interviews with 30 IT professionals, uncovering 58 desired outcomes related to their role in purchasing, 81 outcomes on the job of managing a software license, and 34 other jobs related to managing software licenses. Next, using ODI-based quantitative research techniques, Microsoft had 100 procurement managers and 298 IT professionals prioritize those needs.

Not surprisingly, the results revealed dissatisfaction with current licensing practices, with 94 of 215 desired outcomes (39 for procurement managers, 55 for IT professionals) being underserved. The same was true of 10 of the related jobs (see Figure 1 below). Importantly, the ODI results revealed many opportunities for innovation that Microsoft had not previously considered.

Figure 1. The Opportunity Landscape



The opportunity landscape for purchasing and managing software licenses revealed a number of jobs and desired outcomes that were underserved. Many could be addressed by products already developed but not previously integrated into the offering.

To learn more about the opportunity landscape, see Anthony W. Ulwick, *What Customers Want* (New York: McGraw-Hill, 2005).

Wascha recalls that as they started to look at the jobs customers were trying to get done, “we realized that we were only really engaging with the customer in one tiny piece of their job – the purchase of the software. But this was just part of a much bigger challenge that they faced. We were not engaging with them in many of these other areas that were very important to them and where they were very dissatisfied.”

Based on this improved understanding of the jobs its customers were trying to accomplish, Microsoft adopted a lifecycle management view of the business, from the customer's perspective. Microsoft discovered opportunities related to software acquisition and deployment at the start of the lifecycle. In the middle of the lifecycle, there were opportunities in the areas of maintenance, training, patching, and security. Finally, at the end of the lifecycle, Microsoft identified opportunities to create value for customers during disposal of old PCs – an immense issue for many of its customers.



“Strategyn’s outcome-driven innovation process enabled us to view a very complicated job through the eyes of the customer. These insights allowed us to increase the value we were delivering.”

Dave Wascha, Director – Microsoft Corporation

One of Microsoft's most profound discoveries was that the company had already developed many solutions that would help customers achieve their desired outcomes and get jobs done, given this broader lifecycle perspective. However, those solutions had never been packaged together in a cohesive and compelling offering. Wascha notes, “The most amazing thing is that we really did not write that many new lines of code to meet customer needs. Rather, it was about looking at the job in its flowchart, looking at software assets that we already had, and then piecing them together as solutions to each part of the job. We also understood the marketing challenge. So we switched our marketing message. Instead of talking about Software Assurance as a software upgrade solution, we started talking about it as PC lifecycle management to meet multiple needs.”

THE RESULTS

Using Strategyn's ODI process, Microsoft addressed many of the 104 unmet needs it uncovered (both jobs that customers were having trouble getting done and desired outcomes that were not satisfied) with valuable additions to a redefined and enhanced Software Assurance offering.

For example, Microsoft discovered that customers were having trouble keeping track of the number of PC software licenses they owned – a necessary step in compliance. Microsoft already had a licensing server that could address this need, but the company had never considered including it as a part of the Software Assurance offering. Similarly, IT professionals were having difficulty anticipating potential software conflicts when they deployed a new operating system. Again, Microsoft already had a tool that could address this need, one that the company had been using internally. Microsoft decided to include a version of that tool in its Software Assurance offering.

Customers also wanted to reduce the time and cost involved in training employees to use the upgraded software. To address this, Microsoft implemented a training voucher program that gave employees access to certified Microsoft trainers. Once again, this was a program that Microsoft had already developed but had never been made a formal component of the Software Assurance offering.



Microsoft also uncovered an unmet need related to prevention of internal security violations. As in the other examples, Microsoft already had a successful product that it was able to make part of the Software Assurance package. The product included rule templates that enabled companies to quickly set software and PC access restrictions for different groups of employees – a key element of internal security. And the list of enhancements to the Software Assurance offering could go on.

“Using ODI, we were able to view the job through of the eyes of the customer, as opposed to the eyes of our sales force. The ODI approach enabled us to pull a valuable offering together and reframe our marketing message from an upgrade offering to a PC lifecycle management offering. Growth is not always about finding ‘big bang’ new ideas.”

Dave Wascha, Director – Microsoft Corporation

The benefits to Microsoft from adopting the ODI approach were dramatic and immediate. In the year Microsoft announced the changes to the Software Assurance offering, they beat their revenue goal by over 10 percent. This was even before the fully revised product was available. Customer satisfaction increased, and complaints about Software Assurance dropped.

Between 2004 and 2008, Microsoft was able to substantially grow the Software Assurance business and dramatically increase annual renewal rates. Microsoft discovered it was sitting on a growth business once value was measured from the customer's perspective. Wascha noted, “Salespeople loved the new product offering. They felt they had something of value to offer.”

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Strategyn is a consulting, training, and software firm specializing in the management of innovation. To learn how to make Strategyn's outcome-driven innovation methodology the cornerstone of your company's corporate innovation efforts, visit www.strategyn.com.

Publications that explain the details behind Strategyn's methodology include:

- Anthony W. Ulwick, "Turn Customer Input into Innovation," *Harvard Business Review* 80, no. 1 (January 2002).
- Anthony W. Ulwick, *What Customers Want* (New York: McGraw-Hill, 2005).
- Anthony W. Ulwick and Lance Bettencourt, "Giving Customers a Fair Hearing," *MIT Sloan Management Review* 49, no. 3 (Spring 2008).
- Lance Bettencourt and Anthony W. Ulwick, "The Customer-Centered Innovation Map," *Harvard Business Review* 86, no. 5 (May 2008).