CUSTOMER SERVICE MARKETING TRENDS

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INPUT provides planning information, analysis, and recommendations to managers and executives in the information processing industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions. Continuing services are provided to users and vendors of computers, communications, and office products and services.

The company carries out continuous and in-depth research. Working closely with clients on important issues, INPUT's staff members analyze and interpret the research data, then develop recommendations and innovative ide...

needs. Clients receive reports, presentations, access to data on which analyses are based, and continuous consulting.

Many of INPUT's professional staff members have nearly 20 years' experience in their areas of specialization. Most have held senior management positions in operations, marketing, or planning. This expertise enables INPUT to supply practical solutions to complex business problems.

Formed in 1974, INPUT has become a leading international planning services firm. Clients include over 100 of the world's largest and most techni...anies.

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Planning Services for Management

CUSTOMER SERVICE
MARKETING TRENDS

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CUSTOMER SERVICE MARKETING TRENDS

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CUSTOMER SERVICE MARKETING TRENDS

EXHIBITS

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I INTRODUCTION

I   INTRODUCTION

A.   SCOPE

- This report is produced by INPUT as part of the 1984 European Field Service Program.

- The purpose of the report is to provide INPUT clients with further insight into the marketing of field service.

- The report is issued in response to clients' topical preference, as surveyed in the fourth quarter of 1983. Marketing of field service was the most desired report as indicated by that survey.

- The report, while reflecting the European field service marketplace, addresses marketing in a more global sense by drawing upon some of the recent findings in the U.S., especially relative to service representatives' potential as salespersons.

- The report is not a manual on how to plan and implement a successful field service marketing program because of the numerous and diverse goals and attitudes of clients regarding the marketing of service.

- The report does include ideas about field service marketing that have been previously tested as well as general marketing knowledge pertinent to field and customer services.

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B. METHODOLOGY

- In order to best capture the concept of field service marketing as it now exists, INPUT chose field service executives in a representative range of service organisations that are recognised as having strong marketing skills.

- To enhance the qualitative and quantitative aspects of the research, the identity of respondents and their firms is protected. Generic descriptions of the companies interviewed are as follows:

  - A large, multinational mainframe vendor with annual maintenance turnover of approximately $1 billion. This firm was selected because of its aggressive marketing strategies, particularly in advertising and promotion.

  - Another large mainframe and business machine vendor competing on a worldwide basis. This firm was chosen as a respondent because of its successful endeavors in creating and selling new products in field service.

  - Two third-party maintenance (TPM) organisations were included in the sample because TPM companies are better marketers of service than are manufacturers. They have to be because they normally don't have hardware or software products to sell. One of the TPM firms competes for service throughout Europe and North America, while the other one currently confines its activity to the U.K.

  - Finally, one of the world's leaders in the manufacturing and merchandising of smaller systems (minicomputers and microcomputers) is represented. This company is clearly ahead of all the rest in responding to individual customers' needs by means of various specialised service products, including uptime guarantees and terminals service.

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They are also very good promoters of service through advertising and public relations.

- These companies (and their management, which spoke to INPUT) represent success stories in service marketing. The interviews deviated from INPUT's usual questionnaire approach. Each respondent was asked a series of questions, free-style, in order to induce the most well rounded and informative answers possible. No two interviews contained exactly the same questions.

- As much as possible, responses to INPUT's questions are written as direct quotations.

- INPUT invites clients' comments regarding the report.

- The exchange rate used is one pound sterling = 1.43 U.S. dollars.

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II   EXECUTIVE SUMMARY

A.   CONCLUSIONS

I.   MARKETING SERVICE: A MULTITUDE OF CONCEPTS

- Except for TPM firms, whose primary offering is service, there is little commonality amongst manufacturers regarding marketing of service.

  - INPUT discovered that a few service organisations that are well known for their superior marketing capabilities have, in fact, only minor marketing efforts and the true service marketing function is either apportioned with a set of marketing goals to field management, or is actually the function of a group or groups external to service.

  - The "Director of Field Service Marketing - Northern Europe" for a very well known worldwide field service organisation is actually a market research specialist eliciting service product and marketing ideas from customer satisfaction polls.

- Marketing service in a few companies means hard selling. In larger, more sophisticated service firms it means developing and packaging service to meet customers' new requirements and the selling is done by traditional methods through the hardware/software salespeople. In other service organisations the marketing service is predominantly a promotional endeavor.

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- A variety of different, successful field service marketing approaches are provided in Section IV, Examples of Effective Customer Service Marketing.

2. SERVICE MARKETING ENTREPRENEURSHIP

- Unfortunately, service organisations tend to let good, marketable ideas lie fallow because they don't package, sell, or promote them properly. There is a general lack of persuasion and entrepreneurship. One notable exception and classic example of a service entrepreneur is Ray Johnson.

- Mr. Johnson, a former retailer and not a service manager, created an idea to market service in a new, reliable, and inexpensive manner. Details are summarised in Exhibit II-1.

- Mr. Johnson's rapid growth is only inhibited by the lack of adequate personnel to perform and manage the expansion, which could be 10 times what it is today.

- Plans for the future include establishing 500 agents throughout the U.K. to handle the repairs. The price to the customer will be $27. The agent will get $7 for receiving and shipping the bad unit to Johnson's repair shop and returning it, once repaired, to the customer.

3. SERVICE STAFF AS SALESPERSONS

- In order to sustain field service revenue growth, it will be necessary to develop new methods of marketing field services. A number of vendors have chosen the current field service staff as the natural base around which field service marketing will take place. The current staff offers a number of advantages in this new role:

    - Knowledge of the users' needs.

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EXHIBIT II-1

THE ULTIMATE REPAIR SHOP

- Started 14 months ago with a $7,150 overdraft, a living room office, and 2 people. Owner is a former retailer.

- First-year revenue over $1.4 million - profitable. Expect $2.9 million second year. 120 employees.

- Operations: - "Production Line" repair - 10 benches, 5 people, including leader.

    - Competitive teams - targets. Worst team relegated to most boring job each week.

    - Simplest repairs (Unskilled) - most difficult (engineers)

    - Programmed test routine.

    - Q.C. department (2% return)

    - 48-hour turn around (mail-in)

    - Last week's production: 4,083 units.

    - Personnel: Mostly "hungry" teenage female school-leavers.

- Products repaired: Sinclair, Atari, Sharp Home Computers. Cash Registers, Telephone, Business Computers.

- Cost of Repair: $20 per unit - regardless.

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- Extensive experience in maintenance at the users' sites.

- FEs are viewed by the user as objective sources of information.

- Exhibit II-2 lists user attitudes toward small-system FEs in sales roles. Users generally favor the engineer selling add-on equipment and upgrades and are opposed to the FE selling supplies and software. User acceptance of the field engineer in selected sales roles is an important indication of FEs' potential success in this role.

- Recent U.S. research indicates that 70% of small-system vendors will be using field service personnel in sales roles by 1985. In addition to after-market sales, field service will also be increasingly responsible for maintenance contract sales and renewals. Vendors such as Digital Equipment Corporation are offering a growing variety of maintenance contracts that are designed to be more responsive to users' needs. Many vendors feel the FE is the logical person to explain these contracts, in view of the FE's knowledge of the users' maintenance requirements.

4. MARKETING THE TOTAL SERVICE CONCEPT

- Service organisations that were originally organised and staffed for hardware maintenance have, for the most part, made the difficult transition to include software maintenance. (This is not to say that both services are equally understood by field service management.)

- This was a necessary move created by the need for a single source of system service for the end user, but the need does not stop there. A whole host of services, some minor, some major, are an integral part of the role of the field service engineer. INPUT refers to this as the total service concept.

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EXHIBIT II-2

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USER ATTITUDES TOWARD SMALL-SYSTEM FIELD ENGINEERS
IN SALES ROLES

FE SELLING	NUMBER FAVORING	NUMBER NEUTRAL	NUMBER OPPOSED
Supplies	120	40	182
Hardware Fixtures	207	24	111
Add-On Equipment	195	25	122
New Models of Equipment	161	26	155
Upgrades	206	27	109
Software Packages	104	33	205

SOURCE: INPUT Survey U.S. Data

- User needs are more evident at the large-system end of the product spectrum than they are elsewhere, but many of the functions that should be part of the field service organisation's role are often placed elsewhere (usually in sales support). These components are schematically shown in Exhibit II-3.

- The rationale behind the inclusion or exclusion of a function in this broader definition of the role of field service is the need to concentrate the energies of each corporate group on a homogeneous task; e.g., it makes no sense to make salespeople handle supply sales or add-on sales when the field engineer has regular contact with the IS manager and can accommodate these needs as a by-product of regular duties.

- This brings the definition of the role of field service closer to after-sales support (as exemplified by many FS organisations that call themselves customer services).

5.   AFTER (HARDWARE) SALES SUPPORT COMPONENTS

- Exhibit II-3 lists items that may appear to over-extend the responsibility of the field service organisation, but in reality are the logical outcome of user requirements and attitudes. They are enumerated below in more detail. (All of the following are recommended and discrete field service activities):

  - System Consulting - An after-sales activity that aims at integrating site configuration growth with the user's application implementation plans. Field engineers usually have the status of systems consultant in the eyes of the user; this activity merely sanctions that status on a fee-paying basis.

  - Environmental Planning - Monitors the quality of the environment of the locations in which equipment is installed. Many vendors delegate this task to third-party companies.

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EXHIBIT II-3

COMPONENTS OF FIELD SERVICE

```
                    ┌─────────────────────────┐
                    │   System Consulting     │  *
                    └─────────────────────────┘
  ┌───┐   ┌─────────────────────────┐
  │ F │   │  Environmental Planning │
  │ I │   └─────────────────────────┘
  │ E │   ┌─────────────────┐
  │ L │   │ Physical Layout │
  │ D │   └─────────────────┘
  │   │   ┌────────────────────────────────┐
  │ S │   │ Hardware/Software Configuration│  *
  │ E │   └────────────────────────────────┘
  │ R │   ┌──────────────────────────┐
  │ V │   │ System/Add-on Installation│
  │ I │   └──────────────────────────┘
  │ C │   ┌─────────────────────┐
  │ E │   │ Systems Training    │  *
  │   │   └─────────────────────┘
  │ U │   ┌────────────────────────┐
  │ S │   │ Systems Documentation  │  *
  │ E │   └────────────────────────┘
  │ R │   ┌────────────────────────────────┐
  │   │   │ Hardware/Software Maintenance  │
  │ N │   └────────────────────────────────┘
  │ E │   ┌──────────┐
  │ E │   │ Supplies │  *
  │ D │   └──────────┘
  │ S │   ┌──────────┐
  │   │   │ Add-ons  │  *
  └───┘   └──────────┘
          ┌────────────┐
          │ Site Audit │  *
          └────────────┘
          ┌──────────────────────────────┐
          │ Relocation/De-installation   │
          └──────────────────────────────┘
```
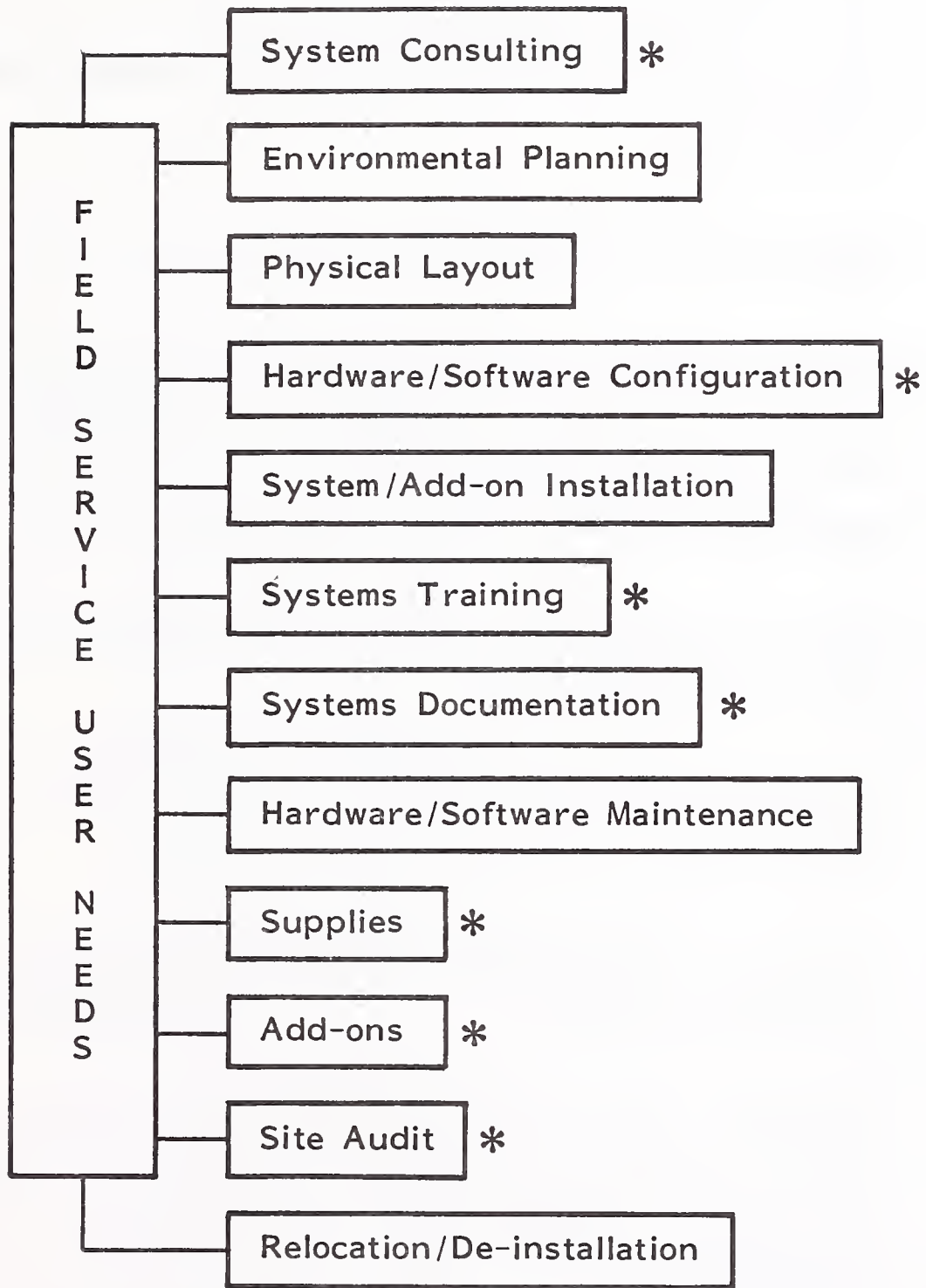
* Usually not part of today's Field Service

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- Physical Layout - Normally a (free) part of service activities.

- Hardware/Software Configuration - Usually accomplished initially (inconsistently) by the sales and sales support staff, with the main preoccupation being to minimise the sales price. The ongoing development of the configuration, particularly with a view to the hardware implications of software additions, is a service that is best rendered by field service.

- System and Add-On Installation - Already a part of field service.

- Systems Training - Ongoing training on hardware and software use (as opposed to the initial training provided by sales support). In particular, ongoing software training should aim at eliminating the 60% of maintenance calls that are caused by user misuse.

- Systems Documentation - Both hardware and software. An integral part of systems training.

- Hardware/Software Maintenance - The core business of all field service organisations.

- Supplies - Still frequently excluded from field service operations for unexplained reasons.

- Add-Ons - Still the domain of sales, mainly because sales representatives view this as a captive source of revenue for commission generation. (This set-up has more to do with the design of commission plans than with logic.)

- Site Audit - Frequently completely absent from the list of vendor services, despite the excellent side benefits in customer satisfaction, service image, and field data gathering.

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- Relocation/Deinstallation - Usually part of field services.

6. KEY SERVICE MARKETING IDEAS

- Exhibits II-4 to II-8 summarise vendor respondents' ideas about service marketing as related by sample respondent companies. Included are important newer concepts such as:

    - Using direct marketing approaches like telephone sales and mail shots.

    - Educating personnel within the company as well as customers about service ("train the trainer").

    - Organising business development functions to create new service ideas.

    - Considering independent, customised repair resources, e.g.:

        . One company for disks.

        . Another firm for printers, etc.

B.   RECOMMENDATIONS

1. MARKET RESEARCH

- Service groups need to increase their level of sensitivity to customer and market needs. Market research using internal as well as external sources (such as INPUT) needs to be considered.

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EXHIBIT II-4

SUMMARY FIELD SERVICE MARKETING
COMPANY A:

- Believes IBM does not fix the machine, they fix the customer.

- Has an account executive for each customer.

- The field service rep sells supplies and accessories.

- Helps the customer do what he wants to do.

- Conducts market research to identify the new directions in field service.

- Is building a field service sales team.

- Has its own advertising specialists.

EXHIBIT II-5

SUMMARY FIELD SERVICE MARKETING
COMPANY B:

- Has recently set up a field service marketing function based upon its success at selling media and supplies. It will comprise IS people and over 400 engineers who will also have direct selling responsibility.

- Finds that it is good therapy for the engineer to sell supplies.

- Concludes that maintenance has become a product and is no longer a by-product. Has to market service more competitively as a standalone part of the industry.

- Is getting back to the idea of an engineer being a customer representative. Service not only has to be provided – it has to be seen to be provided.

- Sells service on a one-on-one basis with the service manager and client.

- Markets maintenance for smaller systems using direct response mailshots.

- Doesn't use the press because the press thinks service is boring.

- Doesn't provide the engineer with a commission to sell supplies.

- Believes that a salesman lives on his success whereas the field service engineer dwells on his failures.

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EXHIBIT II-6

SUMMARY FIELD SERVICE MARKETING
COMPANY C:

- The Service, Sales and Marketing department consists of a sales and marketing manager, four salesmen, three telephone sales staff people and two administrators.

- Key person is the public relations manager who is responsible for corporate public relations, awareness advertising, and exhibition.

- The marketing budget is $257,400 (3% of revenue)

- Believes that retail repair outlets will help capture new markets.

- Is looking at foreign manufacturers who cannot afford or are not prepared to gamble the high costs necessary to set up support.

- Considers TPM companies to have generally failed to understand what the market requires. They have to be in a position where time isn't wasted in establishing credibility.

- Both engineers and service salesmen sell service.

- Says their most important marketing asset is their nationwide network of service resources.

- Hard sells maintenance contracts.

- Provides a do-it-yourself maintenance contract where customers write in what they want.

- Service contract renewals is a large marketing area for field service.

- Believes a new market exists for TPM (and users) for specialized repair facilities, i.e., one firm handling disks, another printers, and so on.

EXHIBIT II-7

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SUMMARY FIELD SERVICE MARKETING
COMPANY D:

- Marketing means selling internally as well as externally. (i.e., training hardware salesman to sell service)

- Two people sell maintenance contracts. Three people sell supplies and accessories.

- The service marketing function began one year ago.

- Believes that pricing is the key strategy in determing TPM.

- Fifty percent of revenue is derived from minis and fifty percent from larger systems.

- Wants to avoid situations where users actually regret using company D equipment.

- Sells service as a product through advertising and sales force.

- Eventually will not send engineers to the site and will expect some customer resistance to not having a face to talk to. The marketing problem will then be to convince the user to participate in remote diagnostics.

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EXHIBIT II-8

SUMMARY FIELD SERVICE MARKETING
COMPANY E:

- Small nucleus of service sales/marketing personnel, the managing director being one.

- Business development department is responsible also for selling service.

- Believes that advertising isn't necessary since the company has achieved 30% growth per year last three years without it. Concentrates on press and trade exhibitions instead.

- Now starting up professional telephone sales effort.

- Major ingredient of market strategy is image creation.

- Endeavors to make service move psychologically acceptable to the customer.

- The main ingredients for successful marketing are price and features.

- Must be helpful, friendly to customer.

- Reference sites are very important.

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2. PRODUCT DEVELOPMENT/ENHANCEMENT

- There is much that can be done with traditional field and customer services to enhance marketability. Service organisations need to do a better job of packaging and promoting ideas.

- For example, the concept of remote diagnostics leaves most users cold, according to previous INPUT surveys.

    - The benefits - better availability for the customer and more cost-efficiency for the vendor - have not been communicated clearly or thoroughly enough to users.

    - The word "remote" has a negative connotation. The word needs to be changed to something else, such as "central" diagnostics, for example.

3. INCENTIVES

- INPUT believes no field service marketing program can succeed without incentives.

    - Customers must have incentives to buy the product-cost benefits.

    - Salesmen need incentives to sell the product - monetary or recognition rewards.

4. PILOT TESTING

- One of the simplest and most effective ways to introduce new marketing strategies, products, or promotions is to test market them before a general announcement.

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- This reduces the risk involved and helps to polish up the final announcement or plan.

5. APPOINT A SERVICE AMBASSADOR

- Regardless of the state of marketing as it applies to each individual service group, field service ambassadors should be appointed to do little else than lobby for field service with other influencial groups that interface with service. This includes sales, manufacturing, and customers.

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III THE EMERGING IMPORTANCE OF CUSTOMER SERVICE MARKETING

III   THE EMERGING IMPORTANCE OF CUSTOMER SERVICE MARKETING

A.   THE NEED FOR CUSTOMER SERVICE MARKETING

- Marketing in customer service is a relatively new concept that escapes some of the more traditional characteristics of either "textbook" or pragmatic marketing. The field service marketplace is unique in that its existence is created by an unwanted demand. But, so was the market for automobile, life, and home insurance created by such an unwanted set of circumstances. A major difference is that these insurance markets are not necessarily as closely related in time and physical proximity as are hardware and software.

- The market for customer service still goes unrecognised amongst many manufacturers who dogmatically and unimaginatively continue to stick to the primary market (i.e., hardware and software) while obscuring or even believing that a separate market for service is a fairytale.

- In the last analysis, it is the customer who creates the market via demand. Normally, customers' demands are dictated, guided, or otherwise influenced by the manufacturer/seller. The automobile and cosmetic industries are quick reminders of how these consumer markets are influenced by manufacturers. The following vignette about Charles Revson of Revlon is illustrative: asked by a naive dinner guest what he did for a living, Revson replied, "I manufacture cosmetics but what I market is hope."

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- Field service markets are extremely kinetic because of the strong energies developing in the customer atmosphere. The intangible nature of the forces surrounding the field service marketplace doesn't make the market any easier to identify or exploit, but there is little doubt that a separate service market exists.

- Service organisations need to be responsive to this "demand-pull" marketing phenomenon and find out what customers really want.

B.   WHAT'S MARKETABLE IN CUSTOMER SERVICE?

- There are numerous elements within field service that can be marketed, depending on the service provider's resources and aims. Previous INPUT studies have discussed and analysed several newer service ideas in a business development sense (e.g., Alternative Revenue Opportunities for Field Service, December 1982). The demand for marketable customer services, including value estimates in terms of premises, is summarised in the following pages.

- In Exhibit III-I, marketable services are listed by their relative importance to users (most important first).

    - Guaranteed response time.

    - Preventive maintenance and field change during nonprime hours.

    - Remote diagnostics.

    - Guaranteed repair time.

    - On-site spare parts.

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EXHIBIT III-1

USER RATINGS OF SERVICE
REQUIREMENTS AND REASONABLE PREMIUMS

EXTENDED SERVICES	ALL VENDORS		REASONABLE PREMIUM	
	YES	PERCENT OF USERS	MEAN (percent)	MEDIAN (percent)
Standby Coverage During Critical Periods	73	21.4	5.6%	5.0%
Guaranteed Uptime	67	19.5	5.8	5.0
Guaranteed Response Time	133	38.9	4.1	1.0
On-Site Spare Parts	78	22.8	4.8	5.0
Remote Diagnostics	91	26.6	4.3	1.0
Preventive Maintenance and Field Changes During Off-hours	127	37.1	3.3	1.0
Occasional Shift Coverage	50	14.6	2.5	1.0
Full-time, On-site Service Engineer	12	3.5	2.2	0
Guaranteed Repair Time (Hardware)	83	24.3	4.6	1.0
Guaranteed Turnaround Time on Software Fixes	47	13.7	4.6	1.0

SOURCE: INPUT Survey U.S. Data

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- Standby coverage during critical periods.

- Guaranteed uptime.

- Occasional shift coverage.

- Guaranteed turnaround time on software fixes.

- Full-time service engineer.

- Reasonable premium percentages stated by users run from 2% to 6.0% (depending on priorities), as shown in Exhibit III-2.

- Variable shift coverage appears to be an area where effective marketing may produce significant revenues.

- Marketing of services could present vendors with increased third-party maintenance opportunities. Several independent depots offer repair services on parts, allowing TPM companies to compete more aggressively.

- Flexible maintenance packages that include a variety of services, including software, would give users a reason to stay with the vendor's support organisation.

C.   MARKETING SERVICE THROUGH SERVICE REPRESENTATIVES

- User receptivity to engineers in sales roles in the U.S. has been measured as generally favorable, with the main opposition reserved for software packages and supplies. Strong feelings, either positive or negative, were minimal, as shown in Exhibits III-3 through III-8.

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EXHIBIT III-2

REASONABLE PREMIUMS FOR EXTENDED SERVICES

EXTENDED SERVICES	PREMIUM GROUPS PERCENTAGE USERS ARE WILLING TO PAY PREMIUM									NO PREMIUM CHARGE
	0%	0-5%	5-10%	10-15%	15-20%	20-25%	25-30%	30-50%	>50%	0%
Standby Coverage During Critical Periods	19.2%	17.8%	26.0%	5.5%	–	1.4%	–	1.4%	–	28.7%
Guaranteed Uptime	16.4	16.4	23.9	6.0	4.5%	–	1.5%	–	–	31.3
Guaranteed Response Time	8.3	18.1	20.3	1.5	2.3	0.8	0.8	–	–	47.9
On-Site Spare Parts	9.0	20.5	30.8	–	2.6	–	–	–	–	37.1
Remote Diagnostics	8.8	13.2	28.6	1.1	1.1	1.1	–	–	–	46.1
Preventive Maintenance and Field Changes During Off-hours	13.3	19.7	18.1	0.8	0.8	–	–	–	–	47.3
Occasional Shift Coverage	26.0	24.0	10.0	–	–	–	–	–	–	40.0
Full-time, On-site Service Engineer	8.3	8.3	–	–	8.3	–	–	–	–	75.0
Guaranteed Repair Time (Hardware)	19.3	10.8	25.3	2.4	1.2	2.4	–	–	–	38.6
Guaranteed Turn-Around Time on Software Fixes	19.3	10.8	25.3	2.4	1.2	2.4	–	–	–	37.2

SOURCE: INPUT Survey U.S. Data

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EXHIBIT III-3

USER RATINGS OF SERVICE ENGINEERS SELLING SUPPLIES

VENDORS	FAVOR STRONGLY	FAVOR MILDLY	NEUTRAL	OPPOSE MILDLY	OPPOSE STRONGLY	NUMBER OF RESPONSES
All Vendors	1	119	40	147	35	342
Autotrol	–	10	–	10	1	21
Burroughs	–	12	4	10	4	30
Computervision	–	6	3	7	3	19
DEC	–	13	3	13	2	31
Data General	–	12	2	14	2	30
Datapoint	–	11	2	6	1	20
Four Phase	–	3	4	10	3	20
Hewlett-Packard	–	9	–	10	1	20
Honeywell	–	7	2	17	4	30
IBM	1	14	6	17	2	40
Intergraph	–	2	4	11	3	20
NCR	–	6	5	9	1	21
Prime	–	6	4	7	3	20
Texas Instruments	–	8	1	6	5	20

SOURCE: INPUT Survey U.S. Data

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EXHIBIT III-4

USER RATINGS OF SERVICE ENGINEERS SELLING HARDWARE FIXTURES

VENDORS	FAVOR STRONGLY	FAVOR MILDLY	NEUTRAL	OPPOSE MILDLY	OPPOSE STRONGLY	NUMBER OF RESPONSES
All Vendors	8	199	24	93	18	342
Autotrol	–	10	–	10	1	21
Burroughs	1	15	3	8	3	30
Computervision	–	8	1	7	3	19
DEC	5	18	1	7	7	38
Data General	1	23	2	4	–	30
Datapoint	–	14	1	4	1	20
Four Phase	1	5	3	9	2	20
Hewlett-Packard	–	12	–	7	1	20
Honeywell	–	18	1	9	2	30
IBM	–	23	4	13	–	40
Intergraph	–	2	4	11	3	20
NCR	–	18	2	1	–	21
Prime	–	12	2	4	2	20
Texas Instruments	–	15	–	4	1	20

SOURCE: INPUT Survey U.S. Data

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EXHIBIT III-5

USER RATINGS OF SERVICE ENGINEERS SELLING ADD-ON EQUIPMENT

VENDORS	FAVOR STRONGLY	FAVOR MILDLY	NEUTRAL	OPPOSE MILDLY	OPPOSE STRONGLY	NUMBER OF RESPONSES
All Vendors	9	186	25	103	19	342
Autotrol	–	9	–	11	1	21
Burroughs	1	16	3	6	4	30
Computervision	1	7	1	7	3	19
DEC	5	18	2	6	–	31
Data General	1	19	1	9	–	30
Datapoint	–	12	2	5	1	20
Four Phase	1	3	3	11	2	20
Hewlett-Packard	–	11	1	7	1	20
Honeywell	–	19	–	9	2	30
IBM	–	20	4	16	–	40
Intergraph	–	9	4	5	2	20
NCR	–	16	2	3	–	21
Prime	–	12	2	4	2	20
Texas Instruments	–	15	–	4	1	20

SOURCE: INPUT Survey U.S. Data

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EXHIBIT III-6

USER RATINGS OF SERVICE ENGINEERS SELLING NEW MODELS OF EQUIPMENT

VENDORS	FAVOR STRONGLY	FAVOR MILDLY	NEUTRAL	OPPOSE MILDLY	OPPOSE STRONGLY	NUMBER OF RESPONSES
All Vendors	8	153	26	139	16	342
Autotrol	–	8	–	12	1	21
Burroughs	1	16	2	10	1	30
Computervision	1	5	2	8	3	19
DEC	3	14	1	13	–	31
Data General	–	16	1	13	–	30
Datapoint	–	15	1	3	1	20
Four Phase	1	3	3	11	2	20
Hewlett-Packard	–	8	1	10	1	20
Honeywell	–	14	1	13	2	30
IBM	–	15	5	20	–	40
Intergraph	–	8	4	6	2	20
NCR	–	16	2	3	–	21
Prime	–	6	3	9	2	20
Texas Instruments	–	2	9	8	1	20

SOURCE: INPUT Survey U.S. Data

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EXHIBIT III-7

USER RATINGS OF SERVICE ENGINEERS SELLING UPGRADES

VENDORS	FAVOR STRONGLY	FAVOR MILDLY	NEUTRAL	OPPOSE MILDLY	OPPOSE STRONGLY	NUMBER OF RESPONSES
All Vendors	13	193	27	93	16	342
Autotrol	–	10	–	10	1	21
Burroughs	2	17	3	7	1	30
Computervision	1	6	1	8	3	19
DEC	5	18	1	7	–	31
Data General	–	20	2	8	–	30
Datapoint	–	15	1	3	1	20
Four Phase	1	6	3	8	2	20
Hewlett-Packard	2	10	–	7	1	20
Honeywell	–	19	1	8	2	30
IBM	1	20	6	13	–	40
Intergraph	–	8	4	6	2	20
NCR	–	19	2	–	–	21
Prime	–	11	3	4	2	20
Texas Instruments	1	14	0	4	1	20

SOURCE: INPUT Survey U.S. Data

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EXHIBIT III-8

USER RATINGS OF SERVICE ENGINEERS SELLING SOFTWARE PACKAGES

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VENDORS	FAVOR STRONGLY	FAVOR MILDLY	NEUTRAL	OPPOSE MILDLY	OPPOSE STRONGLY	NUMBER OF RESPONSES
All Vendors	3	101	33	180	25	342
Autotrol	–	6	–	14	1	21
Burroughs	–	7	4	16	3	30
Computervision	–	6	1	9	3	19
DEC	1	11	3	15	1	31
Data General	–	5	3	22	–	30
Datapoint	–	10	4	5	1	20
Four Phase	–	4	3	11	2	20
Hewlett-Packard	–	6	2	11	1	20
Honeywell	–	9	–	17	4	30
IBM	–	13	5	22	–	40
Intergraph	1	3	4	10	2	20
NCR	1	10	2	6	2	21
Prime	–	6	2	10	2	20
Texas Instruments	–	5	–	12	3	20

SOURCE: INPUT Survey U.S. Data

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- Using engineers to sell upgrades and add-ons seems to be a logical step. Once this program is accepted, other services can be added.

- Serious study of the general personality of field engineers must dictate what services can be sold and what methods of remuneration should be used.

- Field service is typically considered a negative to most sales organisations. Product problems, dealings with customers, and maintenance charges are not exactly saleable items, but that is the world field service engineers live in, and anything that disrupts their ability to develop the necessary customer rapport could be disastrous. Also, field engineers are not trained in the art of selling. In the past, IBM has had successful programs that used FEs in sales roles, but the programs were carefully handled.

- A review of Exhibits III-3 through III-8 shows that supplies sales and software packages should not be included in the field engineering marketing plan.

  - FEs use supplies when repairing equipment; therefore it is understand-able that users are somewhat reluctant to have FEs selling these same supplies to them.

  - One concern that must be addressed is whether users are confident of the overall business application knowledge of field service engineers.

D.   USING INCENTIVES FOR SELLING SERVICE

1.   SERVICE AS A BUSINESS

- "All machinery is on an irresistible march to the junk heap, and its progress, while it may be delayed, cannot be prevented by repairs." This statement, while amusing, is no longer true. Some of the most reliable products, in terms

of maintenance, are in their second decade of useful applications. New techniques in building, as well as maintaining, computer equipment will further enhance the product life of newer systems and components, accelerating the metamorphosis of the computer service function.

- Computer service has been transformed from a pure support function into a separate business with profit responsibilities. And it is a big business. For example, a few manufacturers' service groups are now responsible for nearly $1 billion in revenues:

  - This is greater than the gross national product of many countries.

  - Kenneth Olsen, DEC's president, has been quoted as saying that service has always grown faster than the company and it has always been profitable.

  - At least two companies, Data General and Burroughs, have publicly explained that shareholders' earnings are being impacted by greater investments in, and strengthening of, the field service business.

2. NEED FOR SEPARATE MAINTENANCE MARKETING

- The industry standard for maintenance contracts, traditionally, has been a one-year term with price protection and a clause whereby either the vendor or the customer can terminate the maintenance agreement, without cause, any time after the twelve-month initial term, upon 90 days written notice.

- With maintenance growing into such a big and important business, a real need for addressing and marketing the maintenance contract renewal effort is evident (that is, attracting the customer to continuous maintenance service). After the initial term of one year the hardware salesman is busy working on upgrade requirements and on an association with the customer that will not produce any chargebacks. Maintenance is last on the list of priorities

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(especially when it does not affect the pocketbook positively). The maintenance sales function can help address this need.

3.   THE MAINTENANCE MARKETPLACE

●   While growth in the maintenance sales area has been impressive and the viability of separate marketing teams for service has been proven, the issue of how to really market and promote the service function is one that requires much greater emphasis, planning, strategy, and technique. The requirements of customers in the maintenance marketplace are changing constantly. Maintenance service, as perceived by users and vendors alike, varies significantly. These divergent concepts include:

-       Customer satisfaction, which is at best a very subjective and sometimes abstract phenomenon and is not easily measured.

-       An insurance policy that protects the asset and is an expression of confidence in the vendor. This confidence is derived from the skills, attitude, and communication of the field service group and expands the field engineer's role from fixer to ambassador.

-       Timely response to and correction of system or component problems; addressing hardware and software failures, operator errors, misuse, and the like. Response time is often one of the key criteria for good service.

-       Qualified field engineers and parts that are supplied on a regular basis. That is, a personal visit, including preventive maintenance, enabling the customer to physically see that the user is getting engineer attention, whether needed or not, to justify the expenditure for maintenance. Some customers really believe in servitude rather than service.

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-       System uptime, or performance, as measured or perceived by an almost infinite variety of calculations and conditions.

-       The double negative of having to pay the service vendor while at the same time losing business.

-       The increasing sophistication and knowledge of general and specific maintenance terms and conditions by customers. Many boiler plate maintenance contracts (varying from two to six pages of legalese) simply state that service consists of "keeping the equipment in good operating condition." More recent demands from customers include provisions for performance, response time, and even spare parts serviceability. Newer maintenance contracts are emphasising the uniqueness of the customer's situation; requirements and customised service is in demand.

-       The general inelasticity of maintenance pricing. Customers are usually willing to pay for good service, but this is changing rapidly.

-       The increasing importance of service as a principal selection criterium for buying a product.

-       The trend, by vendors, of reducing on-site service via remote diagnostic tools and techniques.

-       The changing nature of a field engineer's responsibilities - from a troubleshooter and repairman to a delivery man who swaps boards. Sustaining a competent technical resource is difficult and the supply of talented field engineers in the future may well be outstripped by the demand.

-       The rapid growth of third-party service firms.

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-       The continuing problem, for the service vendors, of balancing resources in a way that costs, profits, and customer satisfaction remain in equilibrium. Knowing how to match service labor and material expenditures to perfectly satisfy an account, and still remain profitable, is a real skill.

4.   A SUCCESSFUL EXAMPLE OF MARKETING MAINTENANCE THROUGH INCENTIVES

•   One example (based on an actual situation) of a maintenance sales compensation plan is described as follows:

-       The Director of Service Sales and Contracts reported to the Vice President of Field Operations, who managed the day-to-day business of installing and maintaining computer products. A team of salesmen, referred to as Account Managers, covered the territories that are segmented by function, product, and geography. These territories were broken down as follows:

        .   East (or west).

        .   North (or south).

        .   National accounts and Government systems.

        .   Minis and terminals.

        .   Micros.

•   Additionally, a spare parts and repairs group sold spares, repairs, and training support resources to customers and others who maintain their own equipment.

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- Finally, a manager of new product development acted as an entrepreneurial clearing house and implementor of new ideas for creating service revenues.

- The basic charter was to protect and enhance field engineering's maintenance business. This involved several other constituencies, including hardware marketing, contracts and policies, legal and finance. A cardinal rule of the service sales function was always to communicate with hardware marketing before contacting the customer. This preserved the policy that the marketing representative was always the official agent of the vendor in the customer's eyes.

- Products and services offered by field engineering Sales and Contracts include:

  - Responses to competitive bid requests.

  - Contract renewals.

  - Unsolicited maintenance proposals where specific opportunities exist.

  - Spare parts, repairs, and other supporting resources.

  - Customised maintenance service to address customers' unique requirements. This included performance contracts, based on system uptime, with penalties and bonuses.

  - System optimisation services that involved hardware and software performance monitoring of large-scale systems. Channel and memory utilisation were key measurements and the end product is a customer report that describes the utilisation or lack of computer resources. Recommendations are also provided.

  - Extra shift coverage.

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5.   AN INCENTIVE COMPENSATION PLAN

- Each Account Manager was given yearly goals in terms of net dollar bookings and revenues. These goals were broken into categories and weights, as shown in Exhibit III-9.

- Competitive business was that which was derived from competitive bidding.

- New name business includes customers who come back to full maintenance, having previously serviced their systems through independent resources. New name business could be competitive but double credit is not allowed.

- Incremental business was that which was a net addition to field engineering revenues and was entrepreneurial. This type of business included such things as extra shift coverage, systems optimisation services, and spare parts.

- Account Managers were compensated with a base salary and annual bonus structure based on the percent of performance goals achieved. That is, the bonus amount was directly proportional to the percent performance achieved. If the bonus amount was $5,000, for example, and the Account Manager's total performance was 80% at year end, he got 80% of $5,000 or $4,000, in addition to his base salary. Settlements were done annually.

- Revenue credits were based on actual billings that motivated the account manager to insure timely invoices to customers.

- To emphasise the sale of particular products/services, two other incentives were applied. In one plan, the credit was expanded by weighting factors, such that, for example, a $10,000 item might have been credited at $15,000. Another incentive was the one-time bonus where, in addition to revenue and booking credit, the account manager got a predetermined fixed-lump-sum bonus, varying with the importance of the product/service sold.

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EXHIBIT III-9

INCENTIVE COMPENSATION PLAN
BONUS SCHEME

CATEGORY	WEIGHTS		
	BOOKINGS	REVENUE	TOTAL
Competitive Business	10%	10%	20%
New Name Business	10	10	20
Incremental Business	30	30	60
TOTAL	50%	50%	100%

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- Sales and Contracts administered its own contracts and proposals and wrote monthly performance reports so that each account manager knew where he stood at all times. Finance and adminstration personnel audited and checked the numbers and their word was final in terms of actual revenues and bookings for credit.

- If two account managers worked on the same program, revenue and booking credits were equally split.

6. RESULTS

- Revenue from the maintenance selling group in this case grew 20 times over a three-year span.

- The incentive plan was a valuable tool in making the field service marketing function successful. It provided a vehicle for recognition, both on an individual basis and on a financial basis. It produced some exceptional earnings for exceptional performers. It was the epitome of the "pay for performance" axiom. Bonuses were paid on the basis of 70% performance to 215% performance, with an average of about 130%.

- This service marketing group created new jobs and career paths for the company. It also created a great deal of pride and confidence. The account managers loved their work and customers respected the marketing team and its activities and resources.

- For the first time ever, the Pacesetter award, which is a prestigious award for marketing excellence and previously given only to marketing salesmen, was granted to a maintenance salesman.

- Selling maintenance with a separate team (and including incentive plans) was created because a need existed.

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- The group has expanded and changed since it began in 1977, with emphasis now on selling TPM. The basic incentive arrangement is still in place.

E.   CUSTOMER SERVICE COMMUNICATIONS - "ENLIGHTENMENT"

- In an intangible, customer-driven market such as service, the activity tends to be typical of the 80-20 syndrome whereby 80% of the time 80% of the customers are experiencing no problems, while the other 20% cause the headaches for service managers.

- One way to bring this situation into equilibrium is to bring it out into the open, advertise or otherwise communicate the good aspects of the service function to those who need to know, including company personnel, customers, or prospects.

- The communication can be simple:

    - A letter from the branch manager describing the maintenance organisation's improvement in repair or response times, for example.

    - A company newsletter sent to employees and customers alike can enlighten naive audiences to facts or perceptions that can quickly gain allies.

    - Personal touch is an attribute noted in INPUT's 1983 Annual Report that is an unmet customer need. Field service managers need to talk to their customers more often.

- The field engineering staff typically has more contact with the user than does any other department. In addition, there is a high correlation between overall

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user satisfaction and the quality of field service communication. Conse-quently, frequent user contact and improved communication are seen by vendors as necessary steps in improving user satisfaction.

- The user's decision to purchase is frequently based on the value of support and service, as well as on the capabilities of the system itself. The customer perceives the vendor's commitment to service and reliability as an indication of the vendor's confidence in a system.

- Frequent communication between vendor and user are crucial to a good rela-tionship and must occur at several levels, especially at the field engineer's level, which is the fundamental building block of the client's relationship with the vendor.

- As vendors increase the level of software integration and reduce on-site hardware maintenance (as a result of remote diagnostics, etc.), high com-munication levels must be maintained in order to preserve user satisfaction. In addition to the secondary support services mentioned above, there are a variety of techniques now being used to improve communication. They include:

    - Increased training of field service staff in interpersonal communi-cation.

    - The establishment of more efficient hotline and dispatch centers.

    - The enforcement of strict callback and escalation procedures.

    - The measurement of user satisfaction levels on an annual or semiannual basis.

F.   ORGANISING FOR CUSTOMER SERVICE MARKETING

- The most important thing about organising for customer service marketing is the recognition that service marketing is a separate, definable function.

- One of the most effective means to initiate a service marketing organisation is to establish a person or persons who are ambassadors of field service, both internally and outside the field service group. The ambassodors' role is to continuously and aggressively communicate the strong points of service and to educate customers and other companies' personnel.

- The scope of the marketing function in customer service will vary in accordance with each unique company's goals and pursuits, but the ambassadors' role is the keystone for almost any service marketing operation. The function is a full-time career for a coordinator or director of service marketing. The clearly apparent offshoot of this is to instill the role of the field service ambassador on all field service employees, especially engineers and others who are in regular personal or telephone contact with customers. A simple example of this, but one that almost every service organisation could improve upon, is the telephone manners and treatment of customers when they call the central or local dispatch centre.

- After appointing a field service ambassador, or ambassadors, and working towards having every field service person act as an ambassador, other functions need to be addressed to suit each company's needs in terms of:

  - Market research. Finding out and validating on a continuous basis what the market requires.

  - Product development. Packaging the field service components into marketable entities.

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- Pricing. Pricing products to meet demands and fulfill the company's revenue and profit plans.

- Selling. Selling service can be the function of several groups, or a single group within the service organisation, or the company it's part of. The most important consideration is to provide for some sort of incentive program for salesmen. One example of an incentive plan is discussed in Chapter III, Section D.

- Advertising. Corporate and consulting communications organisations usually implement field service ads but cannot do so without text, narrative, facts, and figures relating to service. This function is an important one in field service marketing and can include newsletters, trade shows, and other forms of promotion as well.

G. IMPROVING THE SERVICE IMAGE

1. THE COMMON-SENSE APPROACH TO IMAGE ENHANCEMENT

- The image of service needs to be improved for a variety of possible reasons:

    - The service function is more known for its shortcomings than for its successes.

    - Its successes may be stifled by other company pursuits.

    - It is a disaster area because:

        . There are not enough resources to do the job.

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- The product serviced is of such poor quality that extraordinary service attention is required.

- Just as engineers apply corrective action to hardware and software faults and incidents, service management must apply corrective action to address the problem of bolstering the image of the service group.

- Service groups need to be recognised - in a positive fashion. In order to achieve this, they must pass this difficult milestone. Positive recognition comes from promoting positive aspects of service.

- The best vital statistics available need to be communicated to influencial persons or groups.

  - This could include certain statistics on repair time, response time, uptime, etc.

  - From an internal viewpoint, figures regarding the importance of service to the business (in terms of revenues and profits) are usually unknown by the sales groups.

  - Ideas from service are very good and can be better promoted. Remote diagnostics is an excellent capability that should be better exploited.

- The point, in the common sense approach to image enhancement, is to perform a self-appraisal of the service groups (determine strengths and weaknesses), then begin a plan to optimise what's there. Look in the mirror.

2. AMBASSADORS

- There certainly has to be something good in every service organisation. The positive points about service, such as overall performance, responsiveness, customer approval, and satisfaction, need to be identified.

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- Identification of the positive aspects of service is one step in improving the service image. But what value are these facts unless they're communicated to those that should know about them?

- An ambassador is required to "spread the word." Often the most valuable work an ambassador can do is to spread the gospel amongst his own company, especially the sales department. Sales is always looking for something good to say and a field service ambassador can greatly assist.

- Some of the most important work a field service group can accomplish is not fixing equipment - but promoting its own self image. Ambassadors of field service should spend much of their time speaking to various groups and people who influence the field service image.

  - This means getting on agendas for:

    - Customer presentations.

    - Sales meetings.

    - User group sessions.

    - Service meetings (telling your own group how good they are).

  - Recognising the audience that sees your customer service image is very important.

- Apart from ambassadors of field service - and the idea is to make everyone else a field service ambassador - there are other ways to convey "the message" through advertising, newsletters, videos, brochures, T.V., radio, and other media.

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IV EXAMPLES OF EFFECTIVE CUSTOMER SERVICE MARKETING

IV   EXAMPLES OF EFFECTIVE CUSTOMER SERVICE MARKETING

- Because of the lack of definition of what field/customer service marketing is and because different service organisations view service marketing from a variety of angles, INPUT's approach to researching the subject of service marketing was first of all to select recognised leaders in marketing service, and then to question each in accordance with their individual marketing specialties. A narrative approach was used, with free-flowing questions to derive the most information and benefit.

- Companies interviewed are shown in Exhibit IV-I. Their relationship to questions asked is not disclosed to maintain confidentiality and as a matter of policy.

A.   COMPANY A

- INPUT: "How important is field service marketing with your company?"

- Company A: "Firstly, let me explain my function. Many engineers become field service marketing managers here. I joined the company 2.5 years ago, working the accessories and supplies division and then moved into field service. In the last year and a half I have been doing marketing research specifically for field service.

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EXHIBIT IV-1

EFFECTIVE CUSTOMER SERVICE MARKETING RESPONDENTS

- <u>Burroughs</u> - The UK portion of an international service organization considered to be a leader in service marketing.

- <u>Digital Equipment Corporation</u> - Representing Europe. Known for its service advertising and marketing emphasis on different service needs, such as guaranteed uptime. Active service marketing function.

- <u>Cable and Wireless Services</u> - A UK subsidiary of a world-wide third-party maintenance (TPM) company. Strong marketing, accomplished mostly through field management.

- <u>GCS</u> - A UK TPM firm with probably the best overall marketing skills of any service firm from the standpoint of searching for and addressing customers' needs and being responsive to them.

- <u>Honeywell</u> - The UK group of a worldwide service organization known for its effective service advertizing and communication material.

We have been looking at customer satisfaction through customer surveys. We feel that users should be more involved in setting criteria for satisfaction levels.

Our field service organisation has its own profit and loss responsibility. The charter for field service is to provide excellent service to the installed base. We spend a lot of money to ensure that we deliver the right person with the right part to the right place at the right time. Our engineers are very highly trained. There are three people like myself who are being made more aware of developing customer service and improving the service.

A number of people in the industry consider IBM best - but we believe that IBM does not fix the machine, they fix the customer. IBM is so successful because of the perceived value of their service. However, we know from our own research that we ourselves have a high perceived value regarding service and IBM has high perceived reputations. There are few unique selling offerings in the IBM PC.

Success is a function of the way the company is structured. We have an account executive for each customer. There is an account engineer and an account rep, and one person in the organisation who can literally move the organisation to satisfy the customer requirements. If we cannot repair the equipment within three hours, the problem can be escalated all the way to the top.

Every account has an account executive so that the customer has someone to identify with."

- INPUT: "What is the role of the field service representative?"

- Company A: "The field service representative sells things that are often unrelated to the service, for example, supplies and accessories. We previously

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had an accessories and supplies division but the group is changing its name. We will now have a peripherals and support division that will include terminals. Direct sales will be made through dealers. This division will also sell paper, ribbons, floppies, furniture, and cleaning equipment.

We are also interested in exploring the possibility of giving expertise to a terminals engineer so that he can also take orders.

- INPUT: "You appear to be an excellent company that is in touch with the pulse of what users need - true?"

- Company A: "Yes, we have been told by others that our hardware is second to none in terms of technical excellence - and that counts for a lot. Our emphasis here is on technical people. We are the largest sup-plier to OEMs worldwide."

- INPUT: "So is your marketing success related to hardware?"

- Company A: "It may be attributed to how we have done and do business at the company level. We do not need to be very innovative. We help the customer to do what he wants to do and our resources are designed to facilitate this."

- INPUT: When did you actually set up a marketing division for field service?"

- Company A: We have two regions, north and south. There are 12 districts in each region - with district and area managers. These are responsible for maintaining customer satisfaction. We conduct a customer satisfac-tion survey on software each year. It is very extensive. We give awards and trips to the managers of the areas where users are most satisfied. That gives them a lot of motivation.

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The marketing group itself looks at new products and ventures; in fact it has a business development role. We started our marketing function about 2.5 years ago."

- INPUT: "How does the sales organisation integrate with the marketing division?"

- Company A: "Hardware sales are a separate organisation but they are taking on a sales force for field service sales. There will be an interface for major accounts at national levels.

  We conduct a lot of market research. We want to identify the new direction in field service. We openly discuss the requirements and modifications for users. I am personally responsible for setting up surveys - I work with the managers who are, for example, responsible for the terminal services. If they have an information or marketing requirement, then I prepare a research proposal on this, indicating what we want to do, the value of the results, and the cost. The manager then authorises the research. We have used about 60 or so freelance interviewers in the U.K. who are involved in this research but none of them knows the results of the research so we can guarantee security."

- INPUT: "Who is responsible for implementing the action that is recommended as a result of your research?"

- Company A: "Very often we find the research simply confirms what we believe. We have, if you like, a second function, which is to put a stake in the ground. We can make general marketing statements from which strategies are developed by senior managers in field service."

- INPUT: "Are those managers entirely responsible for marketing decisions?"

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- Company A: "Our field service revenue is $23 million a year. Although we are an autonomous group everything needs to be presented to the Board of Directors because costs are often spread among other functions and we need to implement marketing strategies and policies."

- INPUT: "How do you allocate your marketing budget since so many departments are involved?"

- Company A: "Field service is split into three areas - systems, computers, and terminals. Each of these areas has their own profit and loss report. And each has area and district business development managers and marketing managers."

- INPUT: "What percentage of your total service revenue is spent on marketing?"

- Company A: "It is not possible to divulge that. We previously had a very free hand on spending, with no real restraints. But now we are reorganising and will pull the operations together very tightly. There are separate organisations in the company for hardware, software service, sales, product service, education and training. There is a communications manager for the U.K. operation but the field service organisation has its own advertising and sales specialists.

  I personally do not have a traditional marketing role. I am a marketing consultant for the various people in the organisation. For example, personal computers are a good area for service but it depends on the time it takes for us to go to the marketplace. IBM told people one year before they introduced their PC and explained that everyone needed to write software for the PC or they would miss the boat. That's exactly what happened.

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So we introduced five new products and have taken action on the approval of software, etc.

In the personal computer marketplace we have a manager who coordinates the activities of the group. Extensive research was carried out to determine the available hardware in the marketplace, the level of service, the service price, and delivery. These are all assessed.

Then we speak to the customers and evaluate the services and ask for their suggestions. Thus we put together a service package for personal computers.

It is also of benefit to us to provide a year's free service to the customer; we research on an ongoing basis the satisfaction of the customer. So now we have a research program that monitors user satisfaction on the basis of two months, six months, and ten months after the purchase.

It also gives us good feedback as to what we need to do and how we should advertise.

We re-examine the competition's service offerings regularly. It is important for us to understand the cost of ownership and how to influence sales."

- INPUT: "Do you know yet just how the year's free service has influenced sales?"

- Company A: "Our first volume customer for PCs was an existing user. That indicated that there was a good level of satisfaction with current services."

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- INPUT: "Do you use agents for repair?"

- Company A: "No. We provide a year's warranty. If there is a hardware fault we guarantee that an engineer will be there within eight working hours. We have our own special system for fault analysis. Telephone support usually eliminates most of the usage problems that can often be misunderstood by users as hardware problems. This service is also useful in identifying educational needs of users.

  If the machine has to be modified in the first year we do it free of charge. There are various options for the user. On an upgrade the users can have extended coverage. There is also a system for providing updates automatically."

- INPUT: "Do you provide all the service yourself?"

- Company A: "Yes. In the dealer marketplace we support and maintain our software entirely so we conduct software and hardware maintenance. We believe that this is a major selling point for dealers. When dealers undertake to sell equipment it is not really worthwhile for them to provide maintenance unless it is profitable, so they need to have volume sales. Often dealers who claim to provide a nationwide service have a minimum of engineers - for example, just three engineers.

  For dealers to be successful they have to sell a lot of machines and we give them support through our service organisation. The users who then consequently buy from the dealers can contact us directly.

  There is a story about a dealer who was distributing IBM Personal Computers. He had about 2,000 at Heathrow. The dealer could not simply buy the machine, he had to also have IBM maintenance. Because they have to use IBM maintenance they end up with non-

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revenue-earning work; for example, they may be paid around $12.9 per hour to hold spares kits and to send back the machine to IBM. Many dealers are fed up with this."

- INPUT: "Do the more sophisticated users of your customer base in large equipment lines need less marketing?"

- Company A: "The large customer knows what he wants. He is a different animal from the people that we need to address in the PC marketplace. The potential users are companies that are not already using computers. That is why we have to conduct a lot of research."

- INPUT: "Is your motivation for going into the terminal marketplace due in any way to a need for more research in that marketplace?"

- Company A: "No. We are the biggest supplier worldwide for hardware and it is possible that we do not do as much business as we need. We need to analyse large customer needs. And we will put a great deal of effort into that.

   Whenever we conduct research our name is always mentioned. The people who are responsible for the field work do not conduct any analysis. This form of market research helps the customer to speak back to us indirectly. Previously our only feedback was through the field service organisation.

   We also gather feedback through attending seminars, etc. We attended INPUT's seminar on third-party maintenance companies."

- INPUT: "Then what exactly is your reaction to the TPM companies?"

- Company A: "They are a slight irritant. TPM companies are more hungry than manufacturers and they are prepared to give a 30% discount on our

maintenance charges. However, we have asked users if they have been approached by TPM companies and what their response was. Several companies had been approached; for example, one TPM vendor walked in and offered a 30% discount on our maintenance charges. The user promptly told the TPM company to go away.

TPM companies make a lot of effort in their first year. They tend to slacken in years two and three and then prices go up. We no longer actively monitor what is happening regarding TPM companies. Sometimes users believe that TPM companies are cheaper but often TPM companies are more expensive. For example, our prices have remained static for maintenance charges over the last few years."

- INPUT: "How do you evaluate the TPM impact on the market?"

- Company A: "It's difficult to say. Users can buy maintenance directly through us or through systems houses, for example. It is hard as a U.K. marketing group to say exactly what percent of the market TPM companies have penetrated, as we cannot effectively monitor the installed base. As a result it is difficult to monitor the effect of TPM companies.

  We tend to hold the market if we actually install the equipment. We sometimes lose business if the user has a mixed system. There has been a lot of noise about single-source maintenance."

- INPUT: "How do you organise your resources, then, to maintain mixed systems?"

- Company A: "We maintain some equipment that is not manufactured by ourselves. We do not maintain any equipment that is directly competitive with our existing products but we would maintain equipment that is complementary, for example, printer products such as Qume."

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- INPUT: "How do you intend to maintain your market share in field service maintenance?"

- Company A: "We bundle the customer service function for personal computers. We offer a wide range of service with very flexible contracts. For example, a user can nominate one day a week for service or one day per month or they can stock parts. We are very innovative in research and development. We are streets ahead of anyone else in the marketplace. For example, our remote hardware monitor enables us to forecast maintenance needs. We also maintain our market position by not having price increases; for example, we haven't increased prices over the last two to three years."

- INPUT" "What newer products in addition to the hardware monitor do you have for field service and field service marketing?"

- Company A: "We are not actively developing new products for field service marketing. It is a matter of repackaging what we have. One has to make it known to the users just how they can get the service."

- INPUT: "You mentioned earlier that it can sometimes be difficult to get salesmen to promote maintenance when they are actually selling products. How do you overcome that problem?"

- Company A: "Very often no distinction is made between the computer and maintenance. In the computer industry if a salesman is clinching a high-value deal, he may not actually want to talk about high-level maintenance and the cost of it."

- INPUT: "So sometimes you play down the maintenance. What other areas of flexibility do you exercise in marketing field service?"

INPUT

● Company A: "Part of the excellence of our service is that we use computers. We control field service through our managers. Response times are monitored to the last few minutes. We aim to improve our service delivery and reduce the costs to ourselves. Our research and development has resulted in cheaper prices and better sales. We now offer a better service. In 9.8 out of 10 times the right person is sent to do the repair. We do not send an 'oily rag' as they say.

In terms of flexibility and improving our marketing we place great store on the contracts. They are not woolly. They are very self-contained and elements within them can be interchanged. For example, it is not always necessary to go from A to B - when we can go to A plus 1 or A plus 2, etc. For example, we have extended the coverage for one user to suit the hours of business and that is a very minor facility.

Marketing for us is a matter of enabling the customer to do what he wants and helping him to do it easily. Naturally it must be cost-effective and also foster new sales. It is amusing that TPM companies talk about unbiased advice on systems. That is a myth."

● INPUT: "Who is responsible then for implementing your marketing, i.e., enabling the customers to do what they want and helping them to do it easily?"

● Company A: "The marketing manager is responsible for the marketing program. We also have salespeople who are assigned to the regions and to the field service central function. The marketing and sales activities are a central function. We also have an increasing dialogue with OEM companies; as part of the marketing program OEM companies are dispatched to talk in the regions."

● INPUT: "How do you pay your sales force?"

- Company A: "They have fixed salaries, no commission for sales.

  Very few manufacturers have marketing people with profit and loss responsibility. I reckon that this will change. In general, the computing industry is very dynamic. But it is mature from the point of view of technology and an infant from the viewpoint of marketing and hardware sales."

- INPUT: "How do you intend to react to the changes in the market?"

- Company A: "Maintenance will become a non-word. We already talk now about service instead. In the industry, service is a cliche in the market-place. For example, IBM is a marketing company selling hardware.

  We do not actually sell hardware. We now sell the capacity to help users to process data.

  In large companies there will no longer be people who specialise in hardware and software. There will no longer be a problem for customers calling in to identify with whom they should speak. They will no longer encounter a situation where they are referred from one department to another. In the future it will be our responsibility to identify who the customer should speak to."

- INPUT: "Has this involved any special telephone answering training for your staff?"

- Company A: "No. The idea in itself is not innovative. For a long time there has been more professional use of the existing marketing technology. We have a telephone sales group. It is a very important aspect of our service. We have a special unit with supervisors who monitor tele-phone answering. For example, if a client has been waiting five

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seconds a light will flash; at 15 seconds a buzzer will ring; and at 30 seconds the supervisor will intervene.

This is not revolutionary in terms of software but in terms of people it is more sophisticated. We are not taking field engineers out of the field. The career progression will be that they will become a future sales or service representative.

In providing support services for personal computer users, the trend in service delivery is towards remote service. It is important to emphasise that the service is not remote - we have to promote the idea of a more personal service."

- INPUT: "Yes. It was recently remarked that remote diagnostics was not a good concept in customers' eyes. The word 'remote' can have a very negative connotation."

- Company A: "Yes. In the area of remote diagnostics we have a product that is innovative. However, if technical people explain the product they use buzz words. Marketing is communicating ideas and not buzz words.

It may be a stumbling block that our remote diagnostics is where it is but that is outweighed by the fact that over 80% of hardware fault calls can be eliminated by this resource. We can identify fault calls and we can talk through the problems with customers to identify the source of the problem.

In marketing we have to forecast the problems and attack them first of all."

- INPUT: "How do you propose to overcome the problem of the reduction in personal interfacing with users? How will you actually communicate

the benefits of your service - will you advertise or have more field service representatives, for example?"

- Company A: "In the terminals market there could be a problem of bringing people into the fold. It's a problem of image. Even though direct mail could improve our image the cost of success there is very unacceptable and high. We will not pursue tacky special offers.

  As a company we have started to use more advertising. We even have advertising for the Personal Computer on television. The company is doing a lot more advertising and we need to create more awareness of our services - even though we have an excellent reputation in our current marketplace, customers in the personal computer market have not heard of us."

- INPUT: "Do you have a customer service newsletter?"

- Company A: "Not for field service specifically. But we do have a newsletter for customers on our list. We have a field service marketing organisation newsletter for internal use but that is restricted even internally. Everyone contributes to it and it has been very successful in terms of improving communications."

- INPUT: "How do you communicate organisationally with your companies in Europe?"

- Company A: "We in the U.K. are responsible for the U.K. mainland, Ireland, Scandinavia, Greenland, Iceland, and the Middle East. There is a marketing headquarters in Geneva with a field service Europe manager."

- INPUT: "In your opinion, what are the major pitfalls in marketing field service?"

INPUT

- Company A: "We must get the cost-of-ownership equation correct. We increase business by either increasing our revenue from the existing base or by developing new business."

B. COMPANY B

- INPUT: "Do you have a field service marketing function and, if so, when did it start?"

- Company B: "The field service marketing department was set up in December 1983. We also sell media and supplies. Other areas are facilities planning and on-site preparation. We have a major account sales team that sells directly to users who have central procurement facilities, e.g., large organisations such as Nat West.

  The customer service engineers themselves sell supplies as part of the service. We do not use an aggressive sales approach.

  We find that this generally helps to improve the service. The supplies are an extension of our support services. Backup support is provided for sales through brochures that are provided by the Head Office's promotions department.

  The engineers are also responsible for supplies and facility functions, but the sales and marketing manager has executive responsibility for marketing all our service offerings, including maintenance."

- INPUT: "How many people are in your sales force?"

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- Company A: "We will have 15 people by the end of 1984. Remember we also have 450 engineers who have actually had quotas for selling service.

    Our special projects division is for exploring business opportunities for customer service. We bring persons from the relevant department. It could be an expert on the software but if it is a business opportunity we would use a senior manager who could construct and produce feasibility studies by using other people.

    It is not very difficult to find people to head up these special projects when there are 900 people in the organisation. We usually find an appropriate candidate who may be in the process of moving from one department to another. It is easy to borrow him for three months before he takes up his new position.

- INPUT: "How did you set up your marketing department?"

- Company B: "The department has been existing as a department or a subset for some time. It was routed in supplies, promotion, and, of course, we have been selling supplies for around 26 years. We find that it is good therapy for the engineer to sell supplies. It gives a nice balance between the technical skills and the high pressure side of his job.

    Most engineers like to sell supplies and do so successfully. Looking at our organisation chart you can see how we have introduced facilities planning and how the major accounts developed. This has been to some extent the result of our rationalisation and the result of looking at future trends. We have arrived at the conclusion that maintenance has become a product and is no longer a by-product.

    One can gain an idea of the significance of this by taking a look at maintenance historically. Twenty-six years ago it was inconceivable for a user to go to anyone other than the manufacturer for main-

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INPUT

tenance because users believed that the manufacturers were the only people able to provide long training courses and who had developed a high degree of mechanical skills and had, of course, developed these very uniquely.

Users are now beginning to judge maintenance on merit. Previously they had no choice. At that time engineers were repairing equipment more often than the user was actually using the equipment. It has been part of the growing up of the industry that the third and fourth generations are now very conscious of systems availability because their business depends on the integrity of the system.

These users are also aware of the cost of the equipment because maintenance prices have increased as a proportion of the equipment cost even though the equipment cost has been decreasing. Users have to look at the cost of ownership very seriously.

We're now in recognition of the fact that we have to market service companies more competitively as a standalone part of the industry. That's why we have gone outside the company to recruit a sales and marketing manager and to broaden his brief by making him responsible for marketing all the services that we supply.

The sales and marketing manager does not have responsibility for developing packages but it is part of the process that he is involved in discussing with the technical people the best ways for marketing the product in the field."

- INPUT: "In recognition of your need to organise your marketing department more comprehensively to meet the requirements of the marketplace how did you actually set your marketing budgets?"

INPI

- Company B: "We do not set them as a percentage of the field service revenue. We look at the business plan for each year and since this year we are introducing a confidential marketing program, which is expensive, then the budget reflects the investment. So the marketing budget this year is a higher proportion of the revenue than last year. It may drop next year. We do not set aside part of the expense budget as marketing each year.

- INPUT: "What is your field service revenue, by the way?"

- Company B: "It's around $57-100 million - close to $72 million.

- INPUT: "How do you monitor your return on your investment in marketing?"

- Company B: "Since we have only been organised in this way since December 1983, there is no definite answer. However, we have to project the incremental revenue from supplies to justify the investment. Therefore we set quotas. If we can just cover the costs only on the incremental revenue for the first year I would be happy. We obviously know that the costs of the next year will be high but we would then expect the revenues to flow.

- INPUT: "You mentioned earlier the equation of the cost of ownership and the importance of that to the user. Can you just explain how that equation is used in your company?"

- Company B: "Typically the user will look at the price of the hardware and the software. Each has a maintenance cost. They typically look at the number of years that they expect to use the product - most take five years. Some will build an incremental factor if they are not first-time users. Then they find the five-year cost of maintaining the equipment and software plus the purchasing cost and thus gain the whole cost of ownership.

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Other more sophisticated users will look at their own internal costs of running the equipment from the point of view of ease of programming, for example. Other internal costs will be added to the cost of ownership. These would tend to be developed national accounts where they do not actually buy an application product. They will possibly invest in buying third-party software. Generally users add in the additional factors as they grow. It's part of a learning process.

Second and third generation users also on odd occasions look at power consumption. They also look at the footprint of the equipment, i.e., the footage and floor space that is occupied. As the equipment gets smaller the users have a smaller computer room and consequently do not use so much air-conditioning as there is not so much heat dissipation and obviously there is a lower consumption of electricity. Environmental and running costs are other factors that users are beginning to understand.

Many users also include the cost of media; for example, if they are using unique disk packs they might well take that into consideration. Users are getting smart.

- INPUT: "How have you integrated third-party maintenance companies in your marketing strategy?"

- Company B: "Do you mean as a threat or an opportunity? Manufacturers like us generally do not like TPM companies. Manufacturers generally invest in their own engineering and we feel that we have the right to maintain the equipment that our companies sell.

The fact is that TPM companies will continue to exist and I personally believe that they cannot possibly provide the same level of

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service that we do; for example, they do not have the same remote diagnostics facilities and plant backup. For example, I can get someone to a user from the plant in 48 hours.

However, many TPM companies gain a good reputation through the service they provide. It is up to us to provide an even better service. The main way that TPM companies do business is by offering lower prices than the manufacturer. The price differential has to far outweigh their support capabilities.

We recognise that TPM companies are there and fundamentally we are prepared to work with them in a business relationship and sell them parts.

As a company we are now only beginning to receive attention from TPM companies. These companies previously looked at IBM and ICL, etc. By the way, there is a new term for the TPM equipment providers - it is LAVSIE-lookalike vendors. That's rather amusing.

Companies like IBM have a much more defined policy to third-party maintenance companies; it is possible that there's a whole organisation within that company that actually organises how IBM works with the TPM companies.

We are in the process of developing our stance towards TPM companies - as we grow in stature as a company the TPMs will look to us. Our fundamental approach will be services/businesses co-existence. You have to use common sense in the marketplace and must not take too defensive a stance. We have to demonstrate that we are prepared to deal with them.

Generally manufacturers recognise that revenues from maintenance are very valuable revenues.

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There is a relatively small differential between equipment revenue and service revenue. If one looks at the press releases of financial statements one always sees that in general the service revenue is going at a higher rate than the equipment revenue.

Manufacturers used to make their money from the equipment. Now the margins on the boxes that are sold are so tight and the boxes are so similar that users have to look at the service that is provided around boxes, not just the boxes themselves.

As a result users are looking for companies with the best software installation and support as the trend to bundle services continues, and we cannot bundle the service costs. The service revenue in a broad sense is clearly identifiable in all companies and all quarterly reports show that it's growing faster than equipment."

- INPUT: "Going back to your earlier comment that you were recognising the need to market service as a product per se rather than a by-product, can you just explain how you have implemented this in your marketing strategy?"

- Company B: "When we market a product we have to give confidence to the user and if the user knows that the engineer is not a lone person and is a person who is the tip of an organisation, then the user can justify the amount of the money he pays when he understands that there is a vast organisation backing up the engineer. So we demonstrate this by providing a part in one hour; however, if an engineer is not sure of the problem he can telephone the support specialist and hopefully fix it within five minutes. That is very positive in the eyes of the user. It is also very positive if the support manager is there in four minutes should the problem prove to be more difficult.

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We are getting back to the idea of an engineer being a representative with the customer. The engineer has often invoked aid from the organisation but has not told the user. So as a representative the engineer has to advise the customer on what he is doing.

We have got to change the situation so that the customer thinks the engineer is a better person, with an organisation at his disposal and with power to get support whenever he says so.

This is a very strong test for us. The service not only has to be provided - it has to be seen to be provided.

We have an action plan so that the engineering manager has to call the user if any alerts occur. We place strong emphasis on communicating to a customer. That has a double benefit - one, the user is happy to be contracted and to know what is happening and can ask any questions that he may need answers to so he can actually make alternative plans, etc.

This is engineering time. There is a bit of a contradiction in there but if it all works it is very important. Users need to be kept informed and they need to be able to identify how to make alternative arrangements if necessary."

- INPUT: "How do you support a user if the machine is down and the user has to get the job done immediately?"

- Company B: "We have backup support centres. The good thing about our product range is that a great deal of the hardware operates on the same software - we have compatible software. So we can offer backup service. Generally speaking we can provide backup support for the user even if it isn't integrated in a degraded fashion. There is always some form of backup facility.

We want to expand this area as part of our total service concept."

INPUT

- INPUT: "How do you actually communicate your products and policies to users?"

- Company B: "We do not do this very well. We communicate our service options and maintenance internally. Externally the communication is mainly conducted by service management on a one-to-one basis, selling service to the client.

  We are not getting the same situation as we saw with hardware. It is no longer effective to have a salesman going out with equipment, etc. It is just impossible. So we have the advent of computer shops, etc., and those are very effective for selling certain products. As mainframe manufacturers go more downmarket in micros they will market the small end of the range through central business centres or computer shops or dealers.

  It is not worthwhile to send a person to a customer if maintenance value is low, so we have to develop new ways to market maintenance agreements. Because we are acutely affected by this at the small-product end, our approach has been through a business centre that is used for demonstrations of equipment and has all the software packages, etc., available to get a solution for the user. Our objective is to get the user to sign a contract on his visit and also to sign up for maintenance and all the other value-added products. Salesmen are becoming solution salesmen rather than equipment salesmen.

  So we are trying to capture business at points of sale for all small contracts. We intent to expand our marketing to sell support, supplies, and facilities planning and maintenance policies, i.e., direct-response marketing. And that will be more broad than telemar-

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keting. Direct response includes mailshots and other activities and will be used not just to promote supplies and facilities planning - we will use it to actually sell service."

- INPUT: "Do you intend to concentrate on direct response marketing only next year?"

- Company B: "At the same time as using direct response marketing we have to improve our image and this year we plan to provide better quality and information to the user to make the user more aware of our service. For example all proposals will include an engineering brochure explaining what we do. We will also have a brochure that will talk about the service that users can buy and the options regarding service for certain products.

  It is good to have good promotional, explanatory information actually with the user, rather than just leaving words under contract."

- INPUT: "So the second major thrust will be to uplift the quality of marketing material. Do you intend to use media and advertising to build up your company reputation to back up the services and products you sell?"

- Company B: "The campaigns tend to be integrated to talk not just of the service but of the company. . We are not just selling equipment - we are including software and facilities planning, etc."

- INPUT: "Have you examined product-specific advertising, for example?"

- Company B: "Yes, but users look at total solutions and attention is captured by people who talk of total solutions and not just products.

INPUT

I sometimes complain that I do not have a large enough marketing budget but if I had the option of advertising on television I would possibly baulk at that because I'm not sure that talking about our service alone would benefit the company as a whole.

It is very difficult to capture press attention. Maintenance companies are a very boring subject to the press. The press concentrates on product releases and information to DP managers. It's products that still capture the vast amount of attention."

- INPUT: "Do you believe that you could gain any advantage by advertising to non-DP managers, for example, mainly advertising at financial directors, especially for small companies?"

- Company B: "Yes, there is a change in the marketplace. I expect that in a few years in larger companies there will no longer be DP managers with powers. We have equipment and software and software generative aids that help users to specify their own DP systems. So if the user has this power he will be more demanding."

- INPUT: "Does every country have a national marketing organisation for research and implementation of marketing plans?"

- Company B: "We use the structure that we have just described. Look back to the organisation chart. The degree of sophistication that exists within the various departments varies from subsidiary to subsidiary. So what the company can do depends on the resources that can be allocated to the subsidiary.

So what happens is that the division would have meetings with the heads of department in Europe, for example - everyone gets together and discusses the ideas and then goes to their subsidiaries and develops the ideas separately. At division level there is a parallel

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structure to that, which is indicated in the organisation chart for our own group. The job is to give functional guidance to the heads of department of the subsidiaries. We have a core of common implementation strategies. We share individual ideas, and these are developed into standards."

- INPUT: "In the market research that you mentioned, how did you actually segment your marketplace?"

- Company B: "One of the reasons that our organisation came apart a little was that we changed from the old structure where we had a branch structure and a sales manager to whom the engineers reported. It was easy when companies had nice geographical areas and smaller product ranges. We were organised entirely on a geographical basis, which is fine when you are selling boxes.

When we sold on a matrix where sales sell vertically and products are organised and services organised geographically we realised that the engineer could not report to sales in that structure. So we have segmented the market by product and not by the line of business. The marketing of service is segmented so that the service for big-end machines is sold on a one-to-one basis and the smaller machine service will be sold through another (confidential) approach.

We think that there is as much segmentation as is needed at the moment in CSE.

So, of course, if we have dealers we encourage them to sell maintenance arrangements and we need to support them with proper literature and documentation. And we want to make it simple for them to do so quickly and easily with the minimum of effort. If we produce market aids to that end, then we reckon that the dealers will sell our products well."

INPUT

- INPUT: "What incentives do you give the dealers and your salesforce and engineers, etc., in selling either products or supplies?"

- Company B: "We do not give a commission to engineers on supplies. We religiously avoid this. We cannot have a conflict of interest between the engineers going out to conduct repairs, and allocating time, for example, to sell supplies.

  What will develop elsewhere in the U.K. is that supplies salespeople will be selling outside the users' base. They will be given a commission.

  We sometimes have competitions to stimulate the sales of supplies. These are run for no more than two months. The prizes could be holidays or vouchers for shops, etc.

  The customer service managers earn a basic salary plus a bonus. The bonus relates to the revenue and the technical achievement and we set technical objectives for which we pay a bonus; i.e., customer satisfaction is our objective. The revenues here include maintenance, facilities planning, repair, and software revenue."

- INPUT: "In your opinion, what will it take to be really successful in marketing field service?"

- Company B: "It is most important to have new blood in the company, to develop the skills and develop people so that they are more transportable. We will take engineers out into sales and give them other options.

  So if we cannot grow every year in numbers in certain areas, it is possible that we can transport some people from Area A to Area B and take on a few additional staff in Area A.

The biggest problem in field engineering is the staff that is in the 40-45 age group and has actually refused to develop new skills.

It's interesting to note that many years ago one could tell exactly who were salesmen and who were field service people, but now when I am in a mixed-discipline meeting it is almost impossible to tell who is who. It is important to develop people's capabilities. What we are trying to do in rationalising is that we will have fewer engineers, fewer managers, but we will have higher capabilities. A fundamental problem that faces all field service organisations is that most of the managers have actually been service engineers themselves.

Service engineers become service engineers because they like to see how things work and it is not always easy for field service people when they develop into management to adopt a proper business stance.

Too often the field service marketing strategy is too loose and field service managers will try to use service engineers who are not always the best people to develop the ideas. Also, they tend to avoid help from the sales department and consultants. By nature field service engineers are tenacious and they don't like to get defeated and they are very self-contained. To carry out in that management style can be a great problem.

The value of a fresh slant is very important. One must avoid integration and be prepared to use the talents of other people outside the organisation. We must also endeavour to have marketing managers who know how to motivate both salesmen and field service staff because these two types of people have very different characteristics. A salesman lives on his success whereas the field service engineer will often dwell on his failures. It is increasingly important

INPUT

in setting job specifications in field service to identify the type and characteristics of the people who will best contribute to developing strategies for marketing field service."

C.   COMPANY C

- INPUT: "Firstly, would you please outline your activites and provide some background information about the company?"

- Company C: "Here field service operates as a separate company. The revenue from maintenance in 1984 should be around $8.6 million.

    The products are maintenance and new test products.

    We have a managing director and five staff including: the sales and marketing manager, the field service manager, the technical support manager, the financial controller, and the logistics manager, responsible for shipping and transport.

    The breakdown for the sales and marketing department includes the sales and marketing manager, four salesmen - product salesmen with proven track records, two to three telephone sales staff, and two administration staff who deal with contracts.

    Another key person is the PR manager. He reports to the sales and marketing manager and helps to sell contracts. He is also responsible for corporate PR, such as awareness advertising, exhibitions, and product areas.

    The marketing budget is $257,000."

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- INPUT: "What are the service products that you market?"

- Company C: "The major area is on-site maintenance. Within that area 10% of the business is noncontracted, such as moving equipment to new site locations. The growth in on-site maintenance has been 140% over three years.

  A new market is developing for pure changeable products, i.e., they never need maintenance. That includes most of the Apple equipment. The growth there is 75% in three years.

  Because of the need for more local, user friendly central workshops with collection on an ad hoc basis, we offer a high street repair centre and we consider it as a separate product, not a separate business.

  Currently we have five of these centres and will open 20 in 1984. The clientele is mainly businesses, not so much personal computer users. Typical clients are education authorities and large companies with high volumes of micros.

  The repair centre is a means of repackaging a product to capture new markets. It saves on the cost of salesmen. It is hard to identify new markets.

  The problem is that there are not very positive cash flows associated with field maintenance. Now we can centrally negotiate contracts with manufacturers so that they use the shop.

  So it's another product on the salesman's back. We hype it at the local level via advertising and PR.

INPUT

The third area is our 'TransAtlantic Corridor.' There are lots of companies, especially in Europe and the Far East, that have problems in coming into Europe. Either they cannot afford or are not prepared to gamble the high costs needed to set up support.

They use us for equipment coming into Europe. Just send it FOB London and we add value by configuring the equipment and providing a one-year warranty.

It is a means of repackaging our service when a very significant element is the sales clearing through customs and the onward distribution of equipment to dealers in Europe who have placed orders. The equipment is all sent in one case to us for distribution.

The fourth area is our equipment tester. It is part of the design and development function that we have turned into a product. We sell the tester to manufacturers and field service operations and distribute in South Africa, Australia, the U.S., Norway, Germany, and Holland.

Thus we offer a complementary range of services that are all packaged in different ways. The sales pitch differs for each product too, e.g., the TransAtlantic Corridor is obviously sold in the U.S.; the tester is marketed to dealers and backup service, and promotional aids are supplied."

- INPUT: "Do you plan to extend this product range - are there any other products that you feel would be complementary?"

- Company C: "Yes. As a company we are growing at 40% per year and we are developing other complementary service activities - for example, setting up our own importation services and organising external seminars and courses. It is possible that we will act as brokers for insurance.

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TPM companies have failed miserably in understanding what the market requires. Companies need a range of product skills and services.

We are doing the obvious. You have got to be in a position where you do not have to waste time establishing credibility."

- INPUT: "By taking a professional approach to selling your products through using salesmen with proven track records, have you encountered any problems?"

- Company C: "There was natural resentment when we established the (service) sales division. Engineers are very cynical about professional sales-men. The field engineer has been regarded as the lowest of the low in many companies and indeed most computer companies are run by salesmen.

That is possibly changing in the industry generally.

Service, in general, has vaster profits than sales products. This is forcing a change even in DEC and IBM.

Field service managers are becoming more professional. The career path for engineers used to be from engineer to system analyst to salesman.

There has been some feeling that engineers should sell maintenance since they know more about maintenance than salesmen. But they have grown to realise that professional selling is very important.

The engineers' resistance was a very real problem. It took two years to overcome it.

INPUT

Customers on the other hand reacted differently. They complement us on our sales methods and appreciate that we are able to talk at a much higher level. It is easier for salesmen to negotiate at director levels than for engineers to do so.

Salesmen are more effective. An engineer thinks that an on-the-spot order of $7,150 is very good. A salesman may take three months but he will come away with an order for $57,000.

- INPUT: "How do you organise your sales activities?"

- Company C: "The salesforce sells specifically in the on-site maintenance area. The repair centre service is negotiated nationally or sold by the local managers. Sometimes we run a PR exercise. The TransAtlantic Corridor is sold via selective mailshots in the U.S.

  A high proportion of our business depends on user awareness. The definition of success for us is that any customer receiving a quote for maintenance would also ring us to compare our price. That's happening now.

  We also get a lot of editorial comment. The more we advertise, the better known we become. Editors often ring us up."

- INPUT: "To what do you attribute this relative success? What are the special features of your service?"

- Company C: "I would not dare to claim that we are unique. It is a growth market and TPM companies must react rapidly to it.

  We do not necessarily have better service than others, though we like to think that we were the first to recognise service as a product.

Our most important marketing asset is our nationwide network. We can support anyone anywhere - that's very powerful. But without good marketing it does not mean anything.

We took time to recognise that we needed to invest in marketing - having competitive prices and good service.

Our strength is in selling and in having a broad range of products. For years TPM was seen as a narrow backwater of the field service market. But it is really very progressive."

- INPUT: "Are you satisfied with the return on your investment in marketing?"

- Company C: "It's difficult to tell with a relatively small budget. We closely monitor the leads from exhibitions, seminars, and advertising.

  We carefully evaluate the success of advertising with limited resources. For example, we concluded that specific product advertising - we focused on Sirius maintenance - was singularly unsuccessful. But exhibitions are very successful.

  Awareness advertising is more successful than specific product advertising.

  Certain magazines are consistently ten times more successful than others."

- INPUT: "Which magazines are those?"

- Company C: "Mainly Mind Your Own Business, possibly because it reaches the person with purchasing authority. Other companies seem to have had similar experience and found it useful. For instance, MBS has a six-page spread in it this week.

INPUT

The key is the conversion rate of leads. We prefer to put money in the sharp end rather than administrative functions.

We concluded that there are no shortcuts. Selling maintenance contracts is a hard sell."

- INPUT: "What would you say are the major difficulties in selling maintenance?"

- Company C: "We found that 27% of the maintenance contracts (usually worth less than $420 each) generated 4% of the revenue, while 8% of the contracts (valued around $4,300 or over each) generated 57% of the revenue.

  We are not directing the salesforce very carefully. If the account is worth less than $1,430 it is delegated to telesales or engineers.

  About 12% of total sales are made by engineers, mainly on new equipment being added to the installation, such as backup machines, etc.

  This is a very interesting area because we only get the business if our service is consistently good. We find that customers are more selective and are shopping around for maintenance.

  We think that TPM companies have killed the idea that it goes without saying that the manufacturer is the best source to offer service.

  We also keep a close check on why we lost business. We found that a high percentage of this business has not gone elsewhere. Mostly the customer decided not to use maintenance at all.

Now when budgeting for marketing our major thrust is to customers, manufacturers, dealers, and distributors who we think can generate typically over $4,300 worth of business.

That does not necessarily mean maintenance. We are currently working with a customer who is installing 2,000 micros over the next two years. We treat this as a contract.

Another type of contract is for the distributor who wants to set up a dealer network and offer dealer maintenance centrally. These contracts are for distributors for manufacturers who rank in the Times 1,000 company list.

Not all contracts are for large companies. Many are for small companies and the maintenance is easily sold to them on the telephone. Then we send in an engineer. The margins are not good enough to merit sending in a salesman.

We also have a 'do it yourself' maintenance contract. A big obstacle to selling maintenance was that customers had more problems in obtaining internal approval for maintenance contracts than in obtaining approval of an audit to buy.

The maintenance contract had to be signed by an officer of the company and go through the legal department and even board-level, whereas equipment orders were approved at departmental levels.

Therefore, we have a document with the terms and conditions of sale - just like for a product. The customer writes it himself and it works surprisingly well."

- INPUT: "How do you price these various contracts?"

INPUT

- Company C: "Pricing will continue to be market driven. We cannot charge more than the manufacturers. Typically, we have to go significantly below the manufacturers' price - about 20%. And, of course, we take account of our TPM competitors.

    Flexibility is an objective for the range of services but we are not so interested in flexible pricing. Our major thurst is to make it easier for users to use the service and the major area that we are trying to develop is locking in the customer for a longer period. Typically the greatest profits in maintenance are made in years two, three, and four.

    A problem area is renewals and a potential danger is commuting the salesforce to guard against cancellations instead of sending them out to seek new business.

    Some of the cancellations are made because users feel that equipment is more reliable. But the increased reliability of equipment is a fallacy. Take disks and printers - they were infinitely more reliable ten years ago. The reliability of earlier disks was better than the reliability of Winchester disks today."

- INPUT: "Are there any other beliefs about TPM that ought to be challenged?"

- Company C: "There is resistance among users concerning their concepts of third-party maintenance and manufacturer maintenance. We counter that by maintaining high standards of service at competitive prices.

    The other conceptual problem for users is deciding on whether or not to use maintenance. There are no problems from the technical point of view.

INPU

TPM companies need to directly compete with manufacturers, and develop an image of reliability and capability.

Manufacturers have already started to fight back. DEC will discount hardware prices rather than give up maintenance. We recently lost a high-volume maintenance order because DEC knocked 20% off the product price and added one year's on-site warranty.

It was interesting that DEC did not discount their maintenance - the profit margins are possibly not high enough. Considering the level of service they offer it is possible that they are not making any profit from maintenance. Some manufacturers are using maintenance as a 'loss leader,' to protect their installed base.

DEC is almost unique - the other manufacturers appear to be floundering around in the dark. I am not sure how deliberate DEC's maintenance policy is. What they are doing makes sound short-term commercial sense. At the end of the day the customer is concerned that the machine is optimised and that maintenance problems are nonexistent. The market is more competitive than DEC possibly expected and we know that maintenance is a tremendous revenue earner and that it is also important to retain control of the user base."

- INPUT: "How do you plan to compete directly with manufacturers?"

- Company C: "We react quickly to the changes in the market. The most significant change is that computers are a volume market and no longer highly specialised.

The problems that arise from this are that space becomes a problem. Many U.K. companies buy in bulk in the U.S. They ship the equipment to us with schedules for configuration, installation, and

INPUT

maintenance. Barclays Bank has installed micros in all their branches and we have a number of similar customers. Difficulties arise when a lot of equipment arrives on the same day. We overcome them by using a handling agent who has spare space at the airport, and by using our various offices of course.

We have turned the inventory problem to our advantage to some extent. We can stock the equipment at our repair centres. We are also setting up local bases with workshops for engineers, and we can stock some of the equipment there. The costs will be minimised because we will choose low-profile areas like trading estates."

- INPUT: "Why did you decide to have decentralised repair operations?"

- Company C: "At the end of the day we need end-user contact. There will always be a requirement for a common facility, such as for having one board fixed.

However, a trend that will be more frequent in the future will be that TPM companies will work very closely together since they often duplicate resources. Using the Computer Services Association, we have been able to identify a number of areas where we can work with other companies.

It could be useful to use one central company to service disks, for example. The weakness is that it would not make commercial sense to send a Winchester disk for repair to another TPM company that provided the same service as ourselves and that could poach our business.

There is a hole in the market for someone to set up an expert repair service for printers, provided that that company did not act as a field service operation. Such companies would need to delineate the specific functions of maintenance that they would provide."

INPU

- INPUT: "Are there any particular areas of the market that you intend to exploit?"

- Company C: "We will exploit the market by acquisition outside the U.K., for example in the U.S. or Europe. We will not go out looking for opportunities aggressively. Generally, we will try to supply a broader range of services.

  I am constantly amazed by how much business exists. We need to be careful not to dilute our resources. The area where the shortage exists is in management. That could be a limiting factor. TPM companies have the same problems as companies in any other industry.

  What we need are managers with entrepreneurial spirit and the willingness to understand the market. It is very difficult to find an accountant with an interest in the market as well as in figures. We need people with the right level of commitment.

  We have a war to wage in training, growing, and motivating staff. I personally feel that it will be impossible to grow to more than 200 people. To do so would mean moving from people-orientated management to a more bureaucratic style. I would prefer to subsidiarise rather than expand.

  We need good managers regardless of what industry they have been in. We need to guard against adopting an insular approach.

  We need to retain the ability to exploit opportunities and general ideas while forming a management structure. We have actually hired management consultants to train our managers.

INPUT

Even now it is difficult to keep in personal contact with the staff. It is difficult to get everyone together for meetings. So I hold a buffet lunch once a month, selecting 16 people from all over the U.K. on an alphabetical basis.

The luncheon involves a briefing on the company activity. We also have an in-house magazine - that helps the communication problem.

To explore the fast-growing market we need two management types - younger entrepreneurs and older, more experienced managers. It is a dilemma to find managers who take time to be sympathetic towards the individual staff as the company grows."

- INPUT: "Have you thought of separating the entrepreneurial and managerial activities?"

- Company C: "Yes, we have set up a product evaluation unit. That could develop into a business development unit. The problem is retaining our growth and concentrating on essentials rather than luxuries, although those luxuries could prove to be essential."

- INPUT: "How do you spread the costs of business development, marketing, and sales?"

- Company C: "In sales terms we do not split costs - except the external costs of PR. The other costs are treated as overheads. We have 150 people in the organisation. Ninety of them are engineers. Each one costs the total overhead divided by 90. Accounting secretaries and sales are part of the overheads.

Our only external costs are exhibitions and PR. We monitor these costs. The analysis is on a very broad basis - countrywide - and we cannot break down the sales costs to identify the cost of getting the

INPU

Apple business for example. For analysis there is a code for each product area.

It might be worthwhile to break down the costs, but further analysis erodes the margins. A maximum of 18% profitability is expected from the company. We prefer to put the money into improving our ability to purchase spares and train engineers."

- INPUT: "What is your marketing strategy for further developing your business?"

- Company C: "Earlier we discussed some of the problems we face in competing with manufacturers. We need to strengthen our image. The solution lies in three areas:

    - We will have very professional awareness advertising.

    - We will maintain a high profile at exhibitions, dealer seminars, etc.

    - We have a very professional approach to sales and marketing.

    - Telephone sales will be developed.

    Another means of developing our image and identity will be a team that will provide a link between sales staff, engineers, and customers. One could compare the team to the demonstrators traditionally employed in the computer business.

    The role of these staff - we will probably have about four prople - will be to provide feedback and check customer satisfaction."

- INPUT: "Won't this be expensive? How will you avoid duplication of effort?"

INPUT

- Company C: "Yes, it will be expensive, but it will generate business. It is also a way of introducing another potential source of revenue - selling computer supplies.

  We forsee these people linking with telephone sales and their role could evolve into problem solving and providing a customer interface.

  The concept attacks the problem of account management, where the salesman sells maintenance and the engineer provides an unsatisfactory service. The new team will be the link. These people could also be useful for renewals. They could take a fault log to customers and encourage them to keep a record.

  The team would have a PR function - liason. From the fault control it will be possible to identify which customers have had no calls. The team will make a point of calling on these customers. The team could also hand-hold any critical customers and smooth out crisis situations.

  We would also be able to get more involved with dealers through the team. There would be one person per major area. They would be paid a fixed salary but it would also be their job to generate leads. They would also help to qualify leads at a comparatively low cost.

  As yet we have no preconceived ideas about the job description for these people. We would develop the scheme around their personal characteristics.

  Those are some ideas on improving our image. On marketing we are still learning how to market the repair centre idea and are even looking at franchising.

INPl

A possible key to success is fast coverage of the country to keep everyone else out.

Overall we will have better qualification of prospects, more involvement in telephone sales, more market segmentation, and more target marketing.

We are in danger of spreading our resources too thinly, though that is relatively simple to solve. The market is still comparatively young and we need to listen more to what the customer wants.

The problem is that users do not know what they want. They like aspects of various contracts. Contracts are still too standardised.

Credit control needs to be very good and we need to invoice quickly - and that calls for additional resources.

Collectively TPM companies are not making a fast enough impact. Collectively we need to shout a lot louder.

We have less than 10% of the maintenance revenue in the U.K. That could possibly be increased to 40% by setting up a sales presence in the U.S. and Japan.

We have to offer exactly the same service functions that a large company offers. That means more emphasis on providing the same facilities as the manufacturer - preinstallation, installation, and backup promotions."

- INPUT: "In addition to developing your U.K. markets through agreements with American and Japanese manufacturers, do you think that it would be worthwhile for you to further promote your TPM services in Europe?"

INPUT

- Company C: "Europe is very far behind the U.K. in TPM. Even though the services are just as valid in Europe, it is difficult to determine if the market is likely to catch up with the U.K. Even in hardware the European approach is much more parochial. It would be difficult for TPM companies to go in with an edge in product terms because we would not have experience in the preferred products, such as Siemens in Germany.

  There have been dismal failures in Europe by TPM companies. Our main relations with Europe are arm's-length support via distributors and agents. We provide spares, telephone support, and technical support for users of our 'TransAtlantic Corridor.' We provide total support for smaller units within Europe.

  However, if a company such as Shell were interested in maintenance, we might pursude it and either go in ourselves or subcontract. In any case it would have to be a local operation.

  We have been approached about joint ventures. That is a possible direction. We have also been asked to consider something similar to that in Israel.

  The companies that approached us now have a greater recognition then before that they do not have skills in service. They do not know how to make money. They still view service as a cost of sales."

- INPUT: "Are there any areas in FS marketing we have not discussed or that you feel should be highlighted?"

- Company C: "There are signs that IBM and major companies are taking TPM very seriously. Recently IBM took a system to a big customer and proposed that we should be used because we could maintain mixed systems.

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As to more widespread use of TPM companies, there is a serious problem of credibility because many TPM companies also market equipment and could erode the manufacturer's base."

- INPUT: "Do you think that there is a solution to this problem - would it be practical for TPM companies not to market equipment?"

- Company C: "TPM companies need to decide which direction they are taking. I am convinced that the TPM business is better than any product marketing because there is such high potential for revenue earning."

D.   COMPANY D

- INPUT: "What is the revenue of the field service divison?"

- Company D: "Our revenue is in the range of $36-72 million. We realised a growth of around 5% on price increases alone. Revenues have been squeezed to some extent by the fact that IBM has reduced their prices and the micros at the bottom end of the market are a better value."

- INPUT: "Do you have a field service marketing budget?"

- Company D: "We have no precise marketing budget. We have a management services budget for promotions."

- INPUT: "So what is the function of your department? And the definition of marketing?"

- Company D: "Marketing for us is selling. The field service division has little to do with the marketing of contracts, for example. We have a group of three people who sell contract maintenance to systems houses."

INPUT

- INPUT: "How do you market your contracts?"

- Company D: "Through internal marketing mainly. There is less external marketing in terms of dealing with customers. Our role is to ensure that the sales force for hardware is fully conversant with the services the company offers. We also deal with promotional material, advertising, surveys, and user meetings. We have a business development group that is responsible for assisting marketing in setting up deals for maintenance. The role of this group is in the presales area. There is also direct contact with the customer but only through the sales force. This group is part of management services and in the management services division we have about seven people, two groups of three and myself. We have application marketing and product marketing groups within the company that promote hardware. My area is strictly engineering. In the regions we have presales teams for systems support. We also have a group selling supplies and accessories that consists of three people. They sell spares to customers who maintain their own equipment, in addition to providing spares and accessories to our users. We are prepared to provide supplies and accessories to anyone, however.

  We also have an advertising agency, which is run by the company at corporate level. For example, our division might be allocated one page in magazines. There is also a press relations man who is an ex-journalist."

- INPUT: "How do you actually conduct your marketing then?"

- Company D: "The annual advertising is prepared at one go, through divisional committees."

- INPUT: "What is the principle role of the Field Service Marketing Division?"

- Company D: "Our role is very sales oriented. We have two people, essentially salesmen, who sell maintenance contracts and three people, the customer supply staff, who sell supplies and accessories. We have a direct sales force for direct revenue. There is also a sales manager."

- INPUT: "When did you actually set up a marketing function for field service?"

- Company D: "The Field Service Marketing Department started one year ago. I am the only person with a marketing title. We have been selling contracts and supplies and accessories for five to seven years, of course. The difference between my role and the others is that I market services. The others in the marketing division are concerned with logistics.

  We tend to put an emphasis on communicating; for example, I interface with the Association of Field Service Managers. That is important from the point of view of obtaining contracts and learning how other companies approach the marketing of field service.

  For example, there is an equivalent person to myself in Hewlett-Packard who works in the marketing division (not in the field service division) but whose function is exactly the same as mine."

- INPUT: "Do you expect any changes in the job descriptions, or functions, of the field service marketing staff?"

- Company D: "My function tends to be based on an assignment basis and we rotate our functions. The functions are mainly performed by ex-engineering managers. So it is possible for me to move into business planning and volume planning. I have also done financial planning.

Our policy for recruitment is to give opportunities from within - that is, except for the salesmen. We buy in or train the sales staff.

In the engineering division we try to give a broader base to staff. They are not just engineers. We try to put new blood into the company by having people who are both salesmen and business planners.

The marketing services division will not grow dramatically since our primary function is an internal education programme. We train the salesmen to do their job properly. The salesmen have to learn about the services that we offer, e.g., maintenance. When the salesmen were asked about their presentation of company services, they often didn't mention the maintenance services. There is a trend in the marketplace to say that you cannot sell hardware unless you also sell service.

We compete on our ability to sell service and our reputation for providing good service. The smaller the equipment becomes, the more important becomes the role of service. We cannot just put an engineer on site."

- INPUT: "Have you experienced much competition from TPM companies for the maintenance of smaller equipment, such as terminals?"

- Company D: "We are getting competition from TPM suppliers on terminals but as yet we do not use TPM companies for our maintenance. We have no contracts to supply TPM companies with spares. TPM companies are useful if the company has a weakness in maintenance, e.g., world franchises could be useful. We treat TPM companies just like systems houses."

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- INPUT: "Do the TPM companies pose a threat to your maintenance services?"

- Company D: "Theoretically, they are a threat but not to us. Our base isn't big enough. Also, our hardware and software are unique. Of course, having unique hardware and software is not a main deterrant to TPM companies, e.g., Cable and Wireless has penetrated the Data General base and Data General has fairly unique hardware and software. Prime has also had problems in this area. TPM companies tend to target manufacturers' bases when the manufacturer uses distributors and systems houses. We use neither. It is also easy for TPM companies to penetrate main equipment bases when it is difficult for the manufacturer to track the equipment, e.g., 60% of Data General equipment does not have a contract when it is sold. And, of course, there is a threat when the TPM supplier urges a user to add on equipment from other manufacturers, in other words to have mixed systems."

- INPUT: "Do you see any possibilities for TPM companies and manufacturers cooperating in providing maintenance?"

- Company D: "Manufacturers can cooperate with resellers that do their own maintenance. This is ok, providing that the TPM company does software and maintenance. But it is not satisfactory if the TPM company is only providing maintenance and then taking revenue from us.

  If we don't get the price right we will be giving business to TPM companies. Manufacturers also need to be prepared to maintain mixed systems, e.g., Data General got into trouble because they refused to maintain equipment if foreign discs or peripherals were added to their systems. Manufacturers also have to be careful about the source of their equipment, e.g., Convergent Technology provides the same box to ITT, TR, and Prime. ICO has been set up to maintain all CTL equipment."

INPUT

- INPUT: "What do you think of the idea of the role of TPM becoming a coor-
                dinating one whereby TPM companies coordinate the activities of
                companies that specialise in the maintenance of certain elements of
                systems, such as disks, printers, etc.?"

- Company D: "That would not necessarily strengthen the position of the TPM
                companies - manufacturers are in a better position to coordinate.
                The critical factor is the software and the availability of source
                codes. TPM companies will probably concentrate on providing main-
                tenance for disks and printers, for micros and minis. They may take
                the lead in subcontracting to someone for disk maintenance. It is in
                their interest to concentrate on equipment and micros with common
                CPs, disks, printers, and power supplies. It is a question of the
                market volume."

- INPUT: "How is it possible for manufacturers to maintain their profitability
                and maintenance revenues unless they service other products?"

- Company D: "We derive 50% of our revenue from minis and 50% from main-
                frames. There will be an increase in minis. Since we have the staff
                we have to find something for them to do. It is possible that we are
                more likely to set up our own TPM for Apple equipment, for
                example. We already have three companies that our U.S. parent
                company conducts maintenance for. In the U.K. we have the author-
                ity to pursue these. In looking for other ways to utilise our engi-
                neering staff, we may also consider providing maintenance for our
                French partner, which sells certain printers and disks.

                As the volume of minicomputers increases we need less people
                because of the increasing reliability of the equipment, e.g., Zentec
                has a mean time between failure (MTBF) rate of 10 years. Of
                course, peripherals will continue to break down but not so often. We

INPUT

tried using a TPM company for maintaining the printers of another manufacturer. Unfortunately, this TPM company provided a bad response. So we have stopped using them and we now provide the response that the client requires, i.e., 24 hours. We still continue to use the TPM company in that we swap out the boards and send them to the TPM company for repair. But it is not the same as the TPM company taking three days to respond to the customer."

- INPUT: "Since the market is diluted in volume terms, how do you sustain the cost of service when the sales revenue may not actually sustain it? How do your profit margins for maintenance and products compare?"

- Company D: "Regarding profit margins we have higher margins for mainframes than for minis because the cost of cover is greater.

I see a change in maintenance contract policies. Companies will break down the elements of the contract policy, e.g., telephone support, mail-in, swap-out. These services are a small proportion of the business, but they are a sales gimmick. We need our technical assistant centres. They are a practical answer to providing maintenance for smaller equipment such as the Sinclair equipment. We can help to solve the problems over the telephone. We cannot afford not to do this.

Another interesting aspect of the marketplace is the upgrade market. For example, Sinclair sells certain upgrades for about $57 whereas other companies can actually supply Sinclair equipment at $33. Users often complain that we do not sell cheap terminals. Our response is that equipment is tailored for international safety standards. We invite the clients to check this out. If they come back to us, we can tell them that of course we provide a new terminal at $860, for example.

INPUT

Manufacturers really need to respond to customer needs. We cannot dig our heads in the sand and not offer so-called cheaper terminals. In the marketplace there is an increasing trend for the life cycle of products to be shorter. Manufacturers will be impacted by companies like Victura or Sirius. These companies have only one product. They themselves have been overtaken by Fortune, which also has only one product."

- INPUT: "So what advantages do the larger manufacturers like yourselves have over these competitors?"

- Company D: "The advantages of the traditional companies is that we can offer lots of new products. That in itself can lead to problems on spares holding. We have to learn to match the fact that small companies have targetted a particular niche in the marketplace. Companies have already done this - they have gone into areas where companies such as IBM did not operate. Companies such as Victura and Fortune have been able to cover the market that IBM could not supply. IBM simply could not meet the demand. The problem is that Fortune, etc., does not have as many products to offer as IBM.

    Small companies do not enhance their products - they sometimes do not have the capability to do so, even though the product may be viable over the same number of years as the IBM kit. What large manufacturers tend to do is to offer, say, five products over 10 years and those products will not be new - they will be the same product, which has been modified and enhanced.

    We now provide a product with unique software. That is, we have a small minicomputer that is now called the micro, on which we can run all the IBM personal computer software, so we can argue with clients about why they should have a personal computer. We suggest that they use our intelligent terminal - they can have the added

INPUT

bonus of linking it with their mainframe, so we can give customers something that the micro manufacturer cannot provide. Of course, there is still a lot of money to be made from terminals, e.g., Dacol and Linwood do very well.

We have taken longer to respond to the market. We do not intend to only sell terminals - our intention is to sell the terminals with the system.

The key to success in the marketplace is upward compatibility. Only Data General and ourselves offer this. The IBM PC is not compatible with system 34 and system 38. We offer compatibility in that we use the same software, although some of the software is not fully transportable. Our interest is simply to maintain market share. We do not go out to take the market share of other companies. That would cost too much in terms of resources. We feel that it is best to keep good customers happy and maintain the customer base. We want to avoid creating a situation where users actually regret using our equipment. Take IBM. Many companies do not like what IBM stands for.

We do not necessarily make the spares so there is an element outside of our control."

- INPUT: "How do you aim to strengthen your market position?"

- Company D: "We are making serious attempts to improve quality, to the extent that we will not supply a product if it is not 100% sound. We no longer sell products with wrinkles. This may be ignoring the market pressures to a certain extent, e.g., we often have to announce a product today if we want to sell 1,500 at a later date. Our reply is to get it right the first time and together we will find the answers."

INPUT

- INPUT: "In marketing do you distinguish between service as a product and the physical products that you have just mentioned?"

- Company D: "We sell service as a product per se through advertising and our sales force."

- INPUT: "You mentioned earlier that the sales force has been a little reluctant to promote service as a product. Is there a distinct difference between the perception of service by the sales force and by the customers?"

- Company D: "There are no real differences in the perception of service by these two parties. We reflect what the customer wants because we work with the customer. We have a satisfied customer base. In fact we are in danger of being seen as too complacent."

- INPUT: "How do you intend to project a more dynamic image?"

- Company D: "One way may be through the association of field service managers. We also have a new advertising campaign - we have put more money into advertising than before. It is area-specific, e.g., customer service, OEM products, microsystems. We emphasise how British we are. It is a generalised campaign to coordinate our image in the marketplace and to sustain it.

  We are not standing still, for in today's market it is not possible to sell a PC unless a vast amount of money is spent on advertising. This marketplace is really one of fast-moving consumer goods. We want to avoid this idea.

  Data General has forecast 3,000 PC sales a year and they are selling 60% through resellers. This leaves them open to TPM companies.

There are occasions, of course, when we may not follow our marketing plans exactly. For example, we had a product that was destined for France but a client in Ireland found this product so suitable for his needs that we eventually sold this particular product to the client in Ireland."

- INPUT: "What is your policy on sales?"

- Company D: "We break the elements down, e.g., telephone support, etc."

- INPUT: "Are you aggressive in your selling?"

- Company D: "If we look at software maintenance, traditionally the users have to pay 10 time more if they are using software at other sites. We now help the customers by allowing them to nominate one site for software support and we charge them once for the software and make a minimum charge for the other sites. However, if we have a user who has 10 systems with many locations, they have to pay 10 times for the software support.

  We have dual systems - that is, dual software. We discount for crossbar systems so that if one system breaks down the other takes over. Charges of 100-150% are made for crossbar systems instead of the 200% we charge for two systems."

- INPUT: "Are you aggressive in the European marketplace?"

- Company D: "We are not really involved in the European markets. We have a particular client in France to whom we have responded. But we limit our repair to certain places and we make arrangements occasionally with other suppliers for isolated locations like Northern Scotland.

INPUT

An example of our aggression in our sales policies might be that we aim to keep one step ahead of the competition. We do not give protocols for remote diagnostic equipment to suppliers. Soon all our equipment will have remote diagnostics. Then we will not send engineers but simply send the parts. We will also have auto-start where we can dial in remotely to the user machine.

We have also installed lots of black boxes, i.e., diagnostic units with modems built in to connect to older equipment.

Eventually we will not send engineers on-site. This will meet with some customer resistance about not having a face to talk to. The marketing problem will be then to convince the user to have remote diagnostics. We are the formost in the marketplace on certain current products, e.g., 85% of faults are diagnosed on the telephone and remote patches used. We will improve the efficiency of this very shortly.

The problem will be in educating customers in using remote diagnostics properly. We will need to cooperate more with the customers. The next stage could be to say to the customer, 'Simply give us our machine and let us supply the patch.'

We will need to ensure that customers keep the software update logs up-to-date and have a system for verifying records.

We use communications interfaces to get into datanets and run the system from the datanet. Sometimes we get in by pretending to be a remote terminal. An example would be the situation where the customer says my console has gone and I cannot run the machine. The customer has a large machine and has no way of knowing or feeding into the console. So we would say, 'Give us your machine, we will run the jobs via our own consoles.' The customer maintains

INPUT

contact on the telephone with the support centre and the support centre communicates with the console and the operating machine on-site.

Another example of the types of problems that we may face would be a customer in Paris who has one of our machines in Paris but uses a different computer in Ireland for an associate company. This company would run data transfer. If something did not work they could go through the network control centre. So Paris could dial the network and the network would dial Dublin and act as a connecting link. We would actually monitor the traffic on that line and identify the source of the problem, which is in effect the Irish telecommunications. This is an example of avoiding sending out engineers all over the place. It is a tremendous manpower savings.

The logical conclusion for service is that there will be no traditional engineer. There will be no force of engineers around the company waiting for calls. They will either be based on-site where there are large systems or at support centres.

It is possible that we will have higher percentage call-out charges to encourage users to pay for telephone assistance. We could be squeezed by the TPM companies offering lower maintenance charges. These can work very much for the benefit of the user. For example, we have a large customer who has both IBM and other equipment on-site. It is interesting that this client has lots of our equipment in Europe but strangely enough we are not the preferred supplier in the U.K. Nevertheless, we cover the equipment. We advised the customer to contact IBM and find out how much they charged. We felt obviously that it was better simply to have one engineer on-site to maintain both types of equipment. So we phoned IBM to ask the price of spares for the devices. Very quickly IBM realised what was happening; they contacted the customer and

INPUT

reduced the price by $393,000. The installation maintenance con-
tract is worth about $2.1 million. So the customer benefitted by
getting the discount from IBM and that will indirectly benefit us."

E.   COMPANY E

- INPUT: "What is your definition of FS marketing?"

- Company E: "To identify and define strategies for selling new products, which
  include maintenance and physical products.

  That covers advertising, business development, market research, and
  product evaluation. The latter two are handled by the U.K. direc-
  torate group.

  In fact, we have no marketing department as such. The marketing
  department was fired and there is now a marketing function."

- INPUT: "What were the reasons for firing the marketing department?"

- Company E: "Rationalisation. We needed to focus on the profitable areas of the
  company. We found that some people were making a lot of money
  for doing very little - salesmen were doing a cover-up on main-
  tenance renewals and claiming commission.

  I am now responsible for marketing and only one or two people
  actually identify with the function.

  It's a problem to find experienced marketing people in field service.
  There is a shortage of marketing people throughout the field service
  industry."

INPUT

- **INPUT:** "Yes, it's a relatively new area. So how have you approached the reorganisation of the marketing function?"

- **Company E:** "In addition to myself, there are two people who identify with the function - the Business Development Manager and the Advertising/ Public Relations Manager who is responsible for the media news (about the people in the organisation, for example) and for PR aimed at keeping the public's attention.

  There are various other people throughout the organisation who carry out marketing-related functions. But that is not their principal role.

  The sales and marketing activities are centralised. It is not a company objective to gain its major profit from sales. That is just jam on the bread.

  The target is to make money from maintenance."

- **INPUT:** "Who is responsible for selling maintenance, then?"

- **Company E:** "Business development. They seek new sales opportunities and formulate business plans.

  The organisation structure is very traditional. There are regional and area managers. In sales there are five salesmen and nine to ten other people, including two regional managers, a number of area managers, and administration staff.

  We find it helps a lot to have regional and area managers rather than to sell at field engineer level. There has been some discussion about the best sales approach but we have found it very useful to match customer status with company status.

INPUT

In negotiations it's very important to be able to pull in an area or regional manager when more senior members of the client company are involved. You have to respect their status."

- INPUT: "How is the marketing function integrated with the other field service functions?"

- Company E: "Again, it's very traditional. There are regional and area managers and senior engineers.

  Then, of course, there are the central functions - support manager, central repair, accounts, financial control, personnel, and so on."

- INPUT: "How do you plan to measure the efficiency and success of the various field service marketing functions?"

- Company E: "Although we reorganised in January, this year we will continue to use the same accounting procedures as before.

  We cost each product every month. We take area and regional contributions plus a proportion of central costs that depends on the level of contribution. This gives a guide to profitability.

  We also measure productivity per man - the revenue per man over the cost of employing him per year."

- INPUT: "How do you set the marketing budget?"

- Company E: "Well, it is set according to the plans for the next year and there are various slush funds I can draw on if we need them.

As for the cost of personnel, we plan according to the contract's value per man, over the cost of employing him for a year.

In measuring productivity, by the way, many people confuse the revenue and contracts value. They are not the same by any means."

- INPUT: "Would you please roughly outline your previous and current marketing strategies?"

- Company E: "Yes. In the past our strategy was limited to the definition of potential markets.

    Now we will undertake anything that makes money, provided that we can do it properly and that it is in line with the general business direction, which is DP and communications.

    We continually identify new products, markets, and niches in the market.

    Over the last few years we realised 30% growth without advertising. Now to maintain that growth we need to have a more coherent PR policy.

    The emphasis is not so much on advertising. We concentrate on the press and some exhibitions. We want to create an aura of respectability and our image is very important."

- INPUT: "Yes, with increased competition in the marketplace, comfort factors are very important to users. What are the most significant changes in the marketplace in your opinion?"

- Company E: "Someone recently said that third-party maintenance is now street fighting.

That's true. Previously we acted in a responsive mode but now we are going out and seeking business and are very aggressive.

We keep all our staff up-to-date through the house magazine, which provides news on new deals, etc."

- INPUT: "Through being more aggressive have you made any innovations in marketing field service?"

- Company E: "We are not going to use professional telephone sales organisations, once more promoting the company image of respectability and making people feel comfortable about choosing to use our service."

- INPUT: "The major ingredient of a marketing strategy is image creation and letting people know what we do.

It is also important to continually bring out new products and deals.

We are the only TPM company with guaranteed uptime contracts that also cover peripheral equipment. Manufacturers do not do this. The cost is low but it gives a high comfort level.

We aim to give users new products that make service more psychologically acceptable. The improvement may be immaterial but it is important to the customer.

The secret is flexibility. Manufacturers have fairly rigid commercial policies. We will do anything that brings in money.

There is intense competition in third-party maintenance today. Users are more aware that they can play off companies against each other. They are more aware of alternatives."

INPUT

- INPUT: "What would you say are the factors that influence the users' decisions?"

- Company E: "Price and features. Features are very important. They key is not to fight the customers but to make them feel that you are on their side.

  We hope to set ourselves apart from our competitors by being flexible, reliable, and friendly. We have a marketing edge in that we have the staff, the management, the financial resources - we are a very rich company - and the muscle to do things properly.

  Our motto is 'do not do it if it cannot be done properly.' We have the financial wherewithall to ensure the best return on capital invested for the X group. There is good financial control and a proper business plan for each product. Proper market research is conducted and proper business plan cycles are drawn up.

  Some companies do things on a shoestring with marginal returns. They don't last for long. In TPM everything rests on reputation and it is easier to lose a reputation than to gain one."

- INPUT: "You have mentioned the positive aspects of the company - are there any negative points that have to be resolved?"

- Company E: "For some time we have not been aggressive enough in marketing our services. Our marketing stance was not aggressive enough and we were limited in what we could do.

  But now we have our own financial setup - previously we were mixed with another company - now maintenance is profit centred and is a separate business.

INPUT

A key to furthering our success is having a strong contract adminis-tration service, for example, having a qualified lawyer on the team.

Throughout the organisation you need to have people who understand the legal terms of contracts."

- INPUT: "Do you provide formal training in this area?"

- Company E: "No. One gains it through experience. For example, by chance, as a result of my own experience, I am now a high court expert witness on maintenance problems.

  Users have to be fully informed as to what they are getting and how they can terminate contracts. There is an important element of goodwill involved. Suppliers and users have to work together to solve problems. The contract is really the last resort.

  This principal of goodwill is very important. We link goodwill and PR. We emphasise that we are helpful and friendly. Potential users have free access to telephone reference sites. Recommendations are very effective.

  We often go beyond the terms of our contract to help users - for example, we will hire equipment for a user with problems. We consider that we have a moral responsibility to the user.

  That approach is significant. Fostering goodwill can create just as much business as advertising. The department stores such as John Lewis and Marks and Spencer's spend very little on advertising but have exceptional reputations. They operate trouble-free returns services with refunds, and customers feel they can rely on this service."

- INPUT: "Do you promote your principal of goodwill through a user association?"

- Company E: "Indirectly. We do not have our own user association but we do attend the meetings of user associations held by the manufacturers of the products that we maintain."

- INPUT: "What product range do you maintain?"

- Company E: "Complex terminals, minicomputers, small mainframes, and communications."

- INPUT: "From the marketing viewpoint how do you distinguish between marketing service products and actual physical computing-related products?"

- Company E: "The marketing policies for service products require a totally different approach. The marketing policies can be combined if you sell both physical and service products. In this case you develop confidence in the product.

  However, if only maintenance is provided, confidence in the service has to be developed and you need to identify with the user.

  We promote ourselves as friendly, reliable, and financially stable. We ensure that the right people are talking to the user. In each deal the user meets the area manager, and he is involved in implementing the service.

  Users must have someone to identify with. We have found it very successful to use the area manager in selling. The salesman breaks the ice, identifies the requirements, and closes the deal. Then the

- 113 -

INPUT

area manager intervenes. Personal involvement of the area manager is vital and we have local offices all over the country.

To strengthen the personal interface with users, all levels of senior engineers and above have gone through sales training."

- INPUT: "Earlier, you remarked that price and features have a significant influence on the customers' decision to buy. How do you satisfy user requirements through your marketing policy?"

- Company E: "On price we do not try to be the cheapest. We are middle of the road and emphasise our reliability. Prices are set according to:

    - What it costs us to maintain the equipment.

    - What the competition charges, including manufacturers.

    - The time period over which we plan to maintain the product.

    - The size of the client operation. Customers with worldwide locations are sometimes allowed discounts.

    There will be no change in our pricing structure. There is no need. We strike a price that is attractive to the user. We will not erode prices or standards. It is suicide to try to buy business."

- INPUT: "So how do you aim to offer your customer flexibility?"

- Company E: "Through our contracts policies - guaranteed uptime, replacement (for certain products), and flexible periods of contract. For example, we provide nine-month contracts for universities because they only work nine months of the year. In that way we respond to user needs. We do not force the terms and conditions of contracts. We

ask them what they want and help them to specify their require-
ments at the right price.

The key is to let the customer feel he is in control. They tend not to
like fixed contracts."

- INPUT: "Nevertheless, don't you find that your contract options are fairly
standardised?"

- Company E: "Yes, but we are prepared to combine various contract options/fea-
tures. The customer has a very wide choice. Naturally, it's a selling
point to 'customise' the user contracts."

- INPUT: "Having determined your service products and pricing, how do you
promote your services?"

- Company E: "Reference sites are very important; the solidity of the reference
base reassures users. We always refer potential customers to similar
companies and use prestigious references whenever possible.

PR is critical. We focus public attention on company size, what
we're doing, and what we can offer.

In that respect, we have a slight identity problem. The company
name is very respectable but people are not fully aware that we
offer maintenance. They automatically think of other products."

- INPUT: "Have you considered changing the name of your maintenance divi-
sion to reflect that you provide maintenance?"

- Company E: "Yes, but we prefer to use the current name because of the respect-
ability image.

INPUT

We will continue with ongoing media awareness, to keep our name in front of the public. We advertise regularly in journals, with full-colour ads. Interesting customer cases are covered in editorials."

- INPUT: "Are any special promotions planned for the next six months?"

- Company E: "No. We started a campaign to attract public notice about a year ago. The concepts of the advertising are continually changing, but the coverage in journals and the press will remain the same."

- INPUT: "Apart from media coverage, how do you improve your maintenance image with customers?"

- Company E: "We are introducing a telephone service shortly. We will use an external organisation. Telephone answering is very important.

    We will buy in this service, for frontend people are costly and we have specified ratios of administration/central staff to sharp-end people.

    Of course, we demand a good standard of dress and appearance among frontend people and provide them with reasonable cars."

- INPUT: "A company in Texas provides uniforms for field service personnel. Do you think that companies in the U.K. will follow their lead?"

- Company E: "Uniforms in the U.K. would be unacceptable. It would create staff problems. We provide free protective clothing here but very few people use it.

    Uniforms would possibly degrade staff in the customers' eyes. They would equate them with vending machine staff, cleaners, etc. In the U.K. field service people like to think of themselves as gentlemen engineers."

INPUT

● INPUT: "Do you have to tailor your marketing policies for foreign markets?"

● Company E: "Yes. They reflect the national characteristics of the countries. In the U.S. our sister company adopts a totally different, more aggressive marketing approach.

In Europe we have separate companies. The European market is not very aware of TPM so we only sell products there.

U.K. markets require a fairly subtle approach. However, some companies are very aggressive. We are currently preparing a case to take to the office of fair trading. One manufacturer is exploiting and developing the user attitude that the manufacturer must provide better maintenance than TPM companies and certain other manufacturers.

This manufacturer has three staff in the U.K. who spend their time visiting installations and discrediting the maintenance provided by certain companies."

● INPUT: "Given that there are still resistance factors in the marketplace concerning TPM, how do you think the TPM market will develop over the next five years?"

● Company E: "Until recently TPM was not quite respectable - they were cowboy operations that gave TPM a bad reputation. Now TPM is established as a significant industry.

There will certainly be a decrease in maintenance prices as a result of improved product reliability.

INPUT

In that situation companies will have to grow in efficiency. That means economies of scale, better product reliability, and the involvement of customers in swap outs and carry-in services.

Some companies have forecast a vertical take off, with wider use of walk-in repair depots for micros, and collection services for larger products.

This is already happening. At Stonebridge Park in London an Indian gentleman has set up a walk-in hypermarket. It is called Steiger Computers and is similar to the Computerland chain.

There will probably be a change of product range in these shops too. There will be a fall-out of the less successful microcomputer products. There are some very good micros now - the IBM PC, NEC, and Fujitsu.

Of course there will need to be price changes if customers participate in maintenance. Manufacturers set over-inflated charges for individual PCBs. They are frightened that people will take the PCB and build round it.

Yet the manufacturers need to reduce the prices of the PCBs to enable users to swap out."

● INPUT: "On the subject of parts, recent research has indicated that one of the user resistance factors to TPM is apprehension about the ability of TPM companies to provide spares. Is that a problem for you?"

● Company E: "No. We use reference sites to counter that argument. We tell customers to ring up and find out if the reference user has ever had any problem obtaining spares.

INPUT

We don't buy spares from the manufacturers - they are too expensive and delivery takes too long. We have developed our own sources for spares and documentation. It's very simple and we can offer a cheaper service."

- INPUT: "What sources do you use?"

- Company E: "We buy the spares direct from the factory. We can buy them even cheaper than the prices that manufacturer branches pay when they purchase through the company. The prices are high to them because of the profit games played on transfer prices.

  Though it has not happened here there is a whole industry in the U.S. built round people stealing spares from factories.

  There is another industry in the U.S. that could develop in the U.K. It is a secondary TPM market if you like. This industry services TPM by providing specialist repair for certain products such as disk drives. As these services increase - for peripherals, etc. - it is possible that TPM companies will become coordinators, subcontracting repairs to the specialist companies."

- INPUT: "How does your long-term marketing strategy take account of these market developments?"

- Company E: "The main area that we will invest in is value-added services - for example, services similar to Reuters'. It would be useful to buy communications services, such as the British Telecom Mercury, and offer cheaper long distance rates with TDX.

  We will never manufacture equipment. The market for multinational telecommunications carriers is interesting - look at ATT's tie-up with Olivetti."

INPUT

- INPUT: "What level of growth do you project for your maintenance revenues?"

- Company E: "In 1983-1984 the revenue was $6.07 million. We expect $7.4 million in 1984 to 1985.

  We will function as a separate company from the group, although we will continue to subcontract from the group for some marketing activities. We get better quality by using the experts.

  There are between 160 and 170 people in the maintenance division. Our major costs are labour."

- INPUT: "Is the cost of running a sales force very high?"

- Company E: "The cost of engineers outrides all others. The marketing function excludes sales. The salesmen are paid a basic salary plus commission and there is a free issue of stock options, subject to tax constraints."

INPUT

APPENDIX: MARKETING OPPORTUNITIES IN A
CHANGING ENVIRONMENT

APPENDIX: MARKETING OPPORTUNITIES IN A CHANGING
ENVIRONMENT

A.   LESSONS FROM THE DYNAMIC INFORMATION SERVICES MARKETPLACE

- The information services marketplace is much more dynamic now than it has ever been. A number of often interrelated factors are driving this dynamism, as shown in Exhibit A-1.

    - Served industries are dealing with:

        - Increased foreign and domestic competition.

        - Assimilation of new information services products.

    - Within the information services industry, the competitive environment has been volatile because of:

        - Major shifts in channels of distribution.

        - The increasing numbers, size, and maturity of competitors.

        - Accelerating technological change.
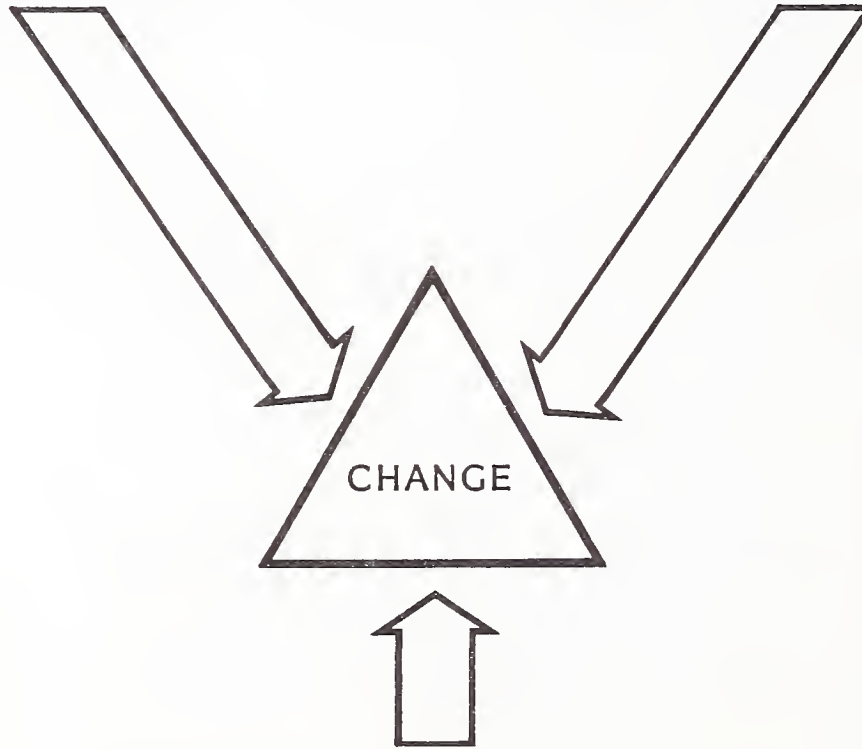
- 121 -

INPUT

EXHIBIT A-1

INFORMATION SERVICES INDUSTRY DYNAMICS

CUSTOMER SECTOR
DYNAMICS

- Competition

- New Technologies

INFORMATION SERVICES
INDUSTRY DYNAMICS

- New Distribution Channels

- Decreasing Hardware Costs

CHANGE

INTERNAL COMPANY CHANGES

- Organizational Structure

- Personnel Shortages

- Entrepreneurship

INPUT
MMK3FEI

- Even within information services firms themselves, change is pervasive:

  . Growing firms are trying to manage larger operations.

  . Personnel shortages are causing high turnover.

  . Large firms are attempting to change their corporate cultures in order to become more responsive and innovative.

B.   SCOPE OF MARKETING STRATEGY

- Effective marketing in today's highly charged, rapidly changing environment requires a sharply focused strategy.

- This strategy integrates eight dimensions that support decisions on whom, what, and how to sell, as shown in Exhibit A-2.
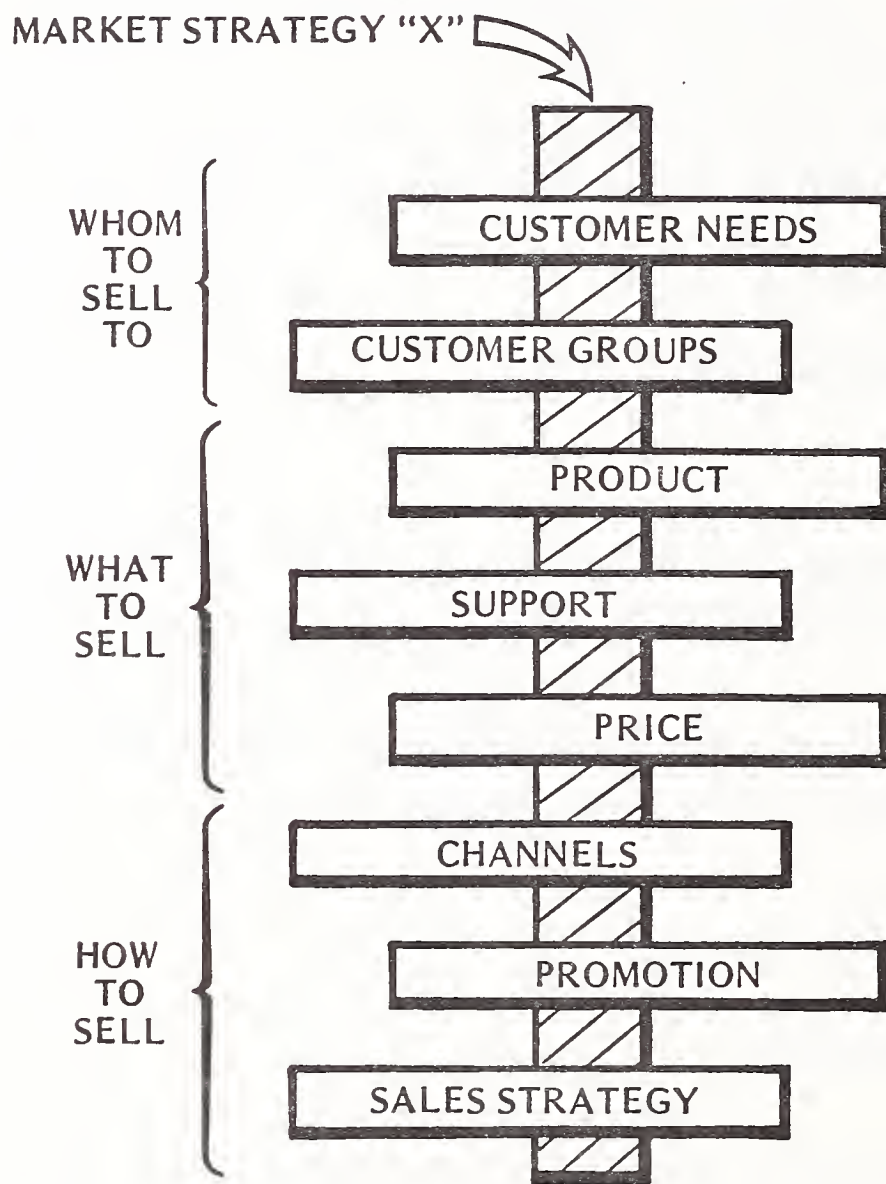
I.   WHOM TO SELL TO

   a.   Customer Needs

- The starting point of marketing strategy is to define customer needs.

- Understanding these needs will require analysis of the customer's industry; consideration of the customer's own position, strategy, and corporate structure; and knowledge of the customer's buying behavior.

INPUT

MARKET STRATEGY IS A SET OF EIGHT DECISIONS

MARKET STRATEGY "X"

WHOM
TO
SELL
TO
- CUSTOMER NEEDS
- CUSTOMER GROUPS

WHAT
TO
SELL
- PRODUCT
- SUPPORT
- PRICE

HOW
TO
SELL
- CHANNELS
- PROMOTION
- SALES STRATEGY

INPUT
MMK3 FEIM

b.   Customer Groups

- Because of specialisation, various customers' needs are becoming increasingly diverse. It is no longer possible in many segments of the information services industry to package a single system solution and market it in a standardised fashion.

- But complete customisation can be avoided by separating customers into groups and creating market programs for segments with common interests and behaviours.

2.   WHAT TO SELL

a.   Product

- As the information services industry grows more mature and sophisticated, its products are evolving from strictly limited functional applications to what may be called "augmented" products, which have added values such as financing, services, maintenance, customer advice, delivery, and other things people value. Vendors must define how their products meet customer needs and ensure that they maintain their competitive advantage.

b.   Support

- Shortages of qualified personnel and exponential increases in demand have made customer support tough and expensive - but no less important in information services marketing mixes.

c.   Price

- The multiplicity of offerings and delivery modes in today's information services marketplace adds to the inherent complexity of pricing in this industry. Reliance on mechanistic pricing models tends to leave money on the table and the door open to competitors.

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INPUT

- Customer value pricing, innovative pricing packages, and the use of alternative pricing methods will help maintain customer support and enhance revenues.

3. HOW TO SELL

    a. Channels

- As demand for information increases, channels of distribution proliferate. There are many opportunities to leverage existing channels through the aggressive use of new ones.

    b. Promotion

- Because masses of information are now reaching customers, the marketplace requires better communications. The emergence of market niches with distinct needs and commonalities is enabling more cost-effective promotion to specific target groups.

    c. Sales Strategy

- Sales strategy involves those activities related to contact and interaction with a prospect until a sale is made or refused. The methods and tools that improve the productivity of this interaction have an especially high payoff in the information services industry.

C. KEY MARKETING CHALLENGES

- Exceedingly rapid changes in the marketplace are causing alert information services management to intensify efforts to switch their firm's focus from that of a product or sales-driven strategy to a marketing-driven one.

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INPUT

- Market-driven strategies are primarily concerned with understanding and responding to customer needs and competitive realities. This approach requires that management informs the entire organisation about the differences between sales and marketing and shows the organisation how to incorporate marketing thinking and marketing responsiveness into its day-to-day decision-making process.

I.   SALES THINKING VERSUS MARKETING THINKING

- The first step in increasing the marketing orientation of a firm is to clarify the distinction between marketing thinking and product or sales thinking. Exhibit A-3 summarises some of the elements of this vast difference.

  - Product and sales thinking puts the product first; the product is designed before any real marketing takes place. The marketing view is that market needs must first be determined; it is after they are known that the product is designed and built.

  - Product and sales thinking also focuses on sales revenues as the main measure of success. In contrast, marketing thinking targets profit and profit planning as management and staff's primary focus.

  - Product and sales thinking will focus on today or this month (with occasional focus on this year). Its orientation is primarily short term. Marketing thinking, however, involves attention to longer term trends (i.e., one to five years in the future). The emphasis is on potential opportunities, challenges, and threats that may be practically invisible at the time.

  - Product and sales thinking is the belief that we should sell anybody who is willing to listen to our pitch and might send money. Marketing thinking views the world as a series of market segments, some of which

INPUT

PRODUCT AND SALES THINKING VERSUS MARKET THINKING

Product First . . . . Market Needs First

Sales Revenues . . . . Profit Planning

Today, This Month . . . . Long-Term Trends

Sell Anyone . . . . Segment Priorities

Individual Effort . . . . Good Systems Planning
and Control

INPUT
MMK3FEIM

are attractive and some of which are not because they are potentially unprofitable. Marketing thinking prioritises market segments according to how profitable they are to sell.

- Product and sales thinking focuses primarily on individual effort as a means of success, whereas marketing thinking recognises that good systems must be established for analysis, planning, and control. These systems help individuals work more effectively as a team.

2. IMPORTANT ISSUES TO ADDRESS

- The decision to become more marketing oriented has far-reaching ramifications. Issues such as the following must be addressed quickly and effectively:

  - How can we increase the frequency of marketing thinking throughout our organisation?

  - What new tasks must be undertaken?

  - What type of people should be responsible for their successful completion?

  - What priorities should be assigned to task completion?

  - What data is needed to improve our decisions?

  - What policies and systems are needed to promote marketing effectiveness?

- In the pages that follow INPUT offers suggestions and recommendations to assist vendor management in addressing these issues in a cost-effective way.

INPUT

D.   MODERN INFORMATION SERVICES MARKETING ORGANISATIONS

- Marketing managers in modern information services firms face formidable tasks.

    - They must keep track of all the above market dynamics: they must continually evaluate the industry their companies market to, their companies' competition, and their companies' capabilities; they must adjust their marketing plans and operations accordingly.

    - They must deal with old organisations that have become inert, ponderous, and unwieldy.

    - They must manage marketing programs that have grown out of all proportion from their organisation's free-wheeling early days.

- Marketing managers cannot do all this themselves. They must create organisations to do it for them and then monitor these organisations to ensure their responsive functioning.

I.   THE EVOLUTION OF INFORMATION SERVICES MARKETING ORGANISATIONS

- Young, small information services ventures - typically those under $2 million in sales - have little need for formal marketing organisations.

    - For their initial sales the founders can normally rely on a network of personal relationships built during previous employment. Often, they will have started their ventures with products designed for one specific customer or a small group of customers - perhaps even at the encouragement of these customers.

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INPUT

- The company is quite small, and the entrepreneurs are in very close contact with their first customers. No sophistication is needed to track customer needs or satisfaction.

- Even if a formal organisation is needed, the resources to support it are lacking.

● As information services companies grow, they begin to require greater attention to marketing.

- More standardised products appealing to wider markets are developed from the initial custom products. This shift brings the firm into direct competition with established companies.

- Continued growth requires contacting potential customers outside of the professional circles of the venture's founders.

● These developments are normally dealt with by creating a marketing department staffed largely by salespeople. This department is mostly concerned with selling; product planning and pricing remain under senior management's purview.

● Continued growth will make senior management's direct control of even product planning and pricing untenable.

- Continued growth will require product and market proliferation; market segmentation and product policies must be implemented to maintain control. Informal direction from the top will not be able to keep up. As shown in Exhibit A-4, large firms place almost twice as much importance on product policy as do small firms, and place somewhat more importance on market segmentation.

INPUT

IMPORTANCE OF MARKET SEGMENTATION AND
PRODUCT POLICY IN INFORMATION SERVICÉS FIRMS
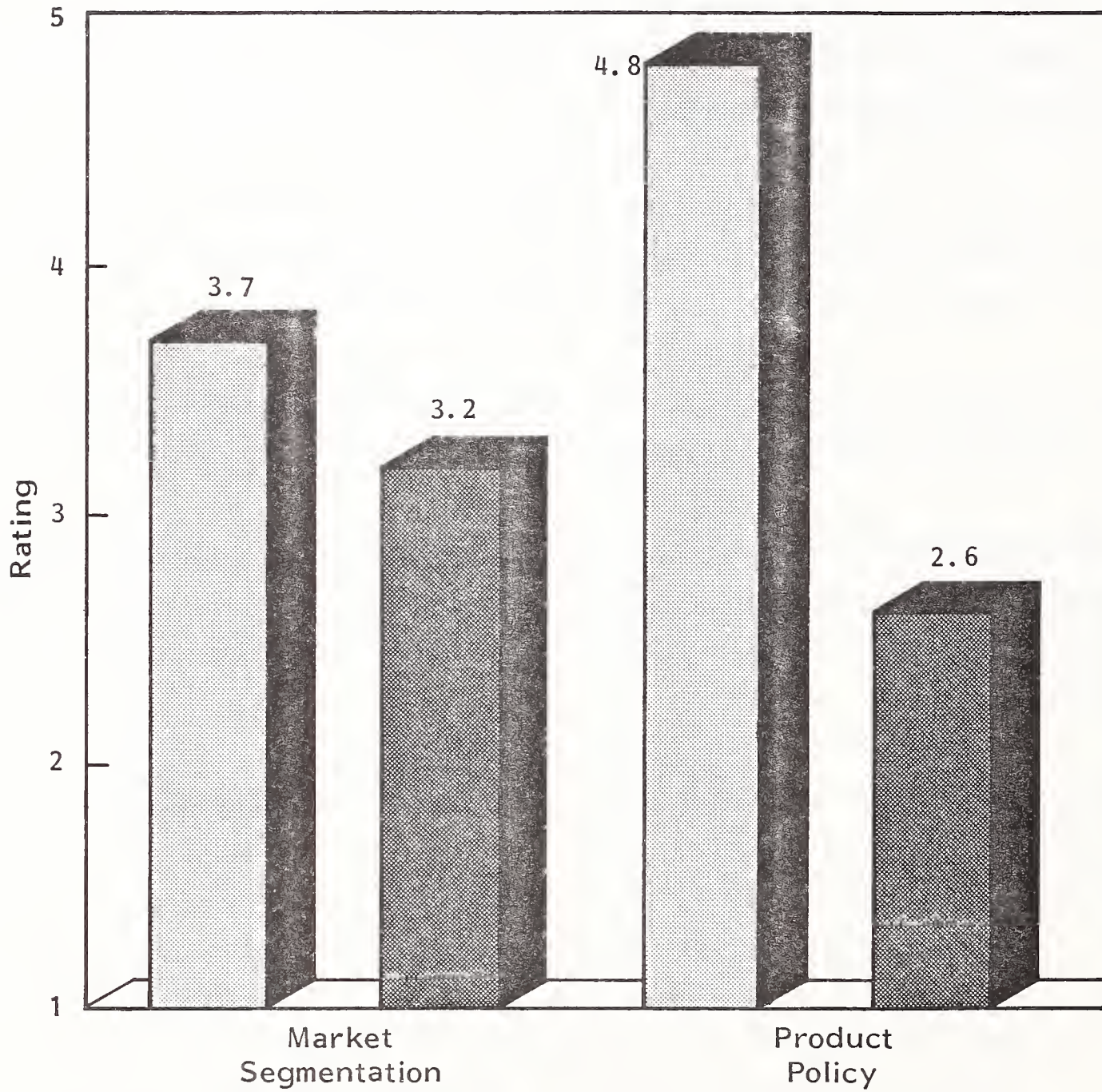
Rating: 1 = Low Importance, 5 = High Importance

☐ 1982 Company Sales Greater than $40 Million

▨ 1982 Company Sales Less than $40 Million

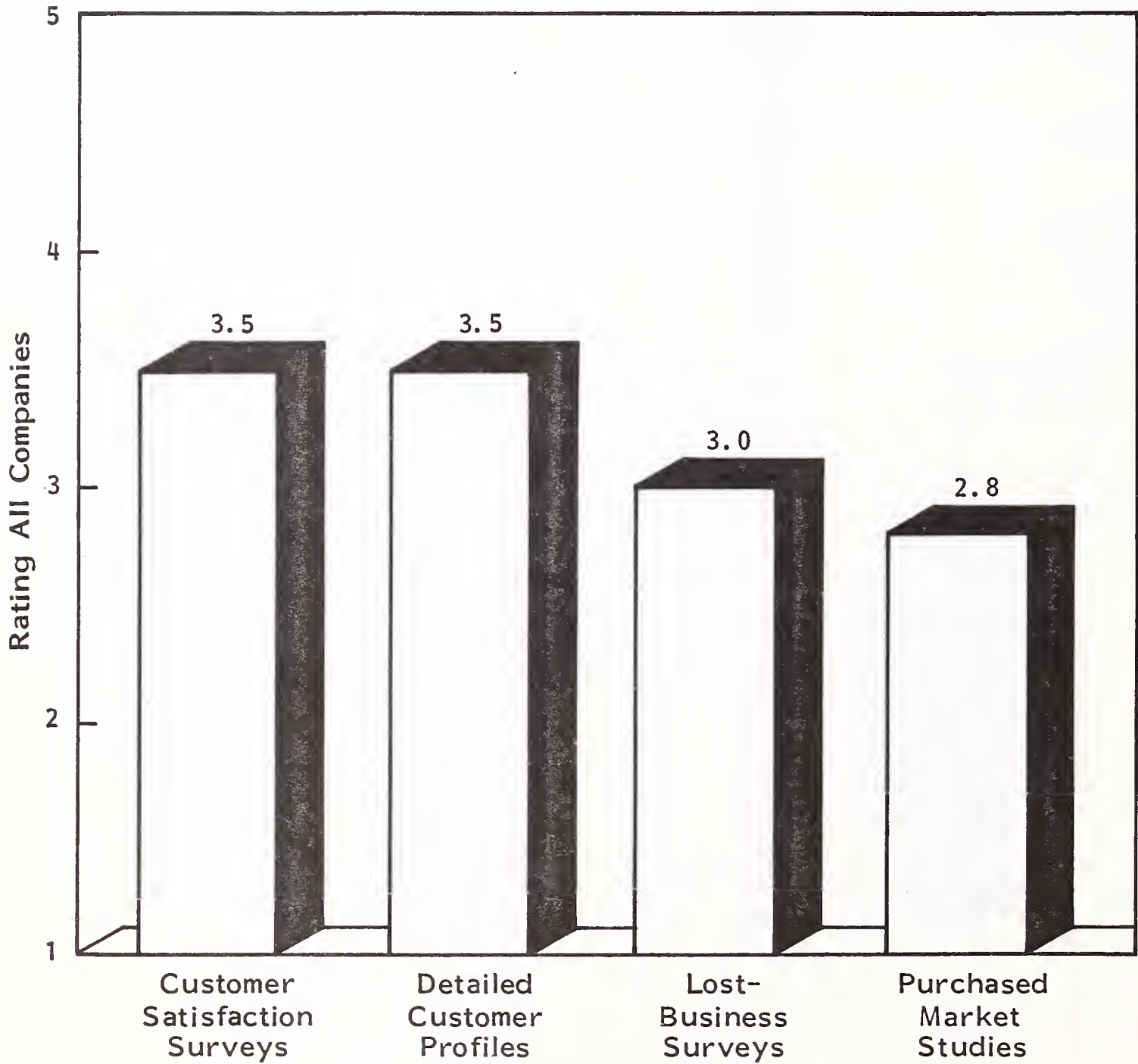SOURCE: INPUT Survey U.S. Data

INPUT
MMK3 FEIM

- The gap between customers and senior management will grow wider, decreasing communication and requiring formal systems to keep management in tune with customer demands and competition.

- Eventually, most maturing information services firms develop classic product management marketing organisation structures. Their product managers can be focused on either specific products or markets, or even both, depending on the nature of the business.

2. MODERN INFORMATION SERVICES MARKETING

- INPUT's survey reveals that successful information services firms have sophisticated marketing methods.

    - Almost all companies indicated they have formal intelligence-gathering systems, although larger companies tend to rely on these systems more than smaller ones. Most disseminate competitive information through some sort of market intelligence bulletin.

    - Most companies also conduct customer and lost-business surveys and develop customer profile models. They also purchase outside market studies, as shown in Exhibit A-5.

    - Almost all companies rely heavily on formal market planning.

- Most companies are not yet truly marketing oriented, however.

    - In our survey, product policy was rated more important than market segmentation and product-oriented product managers were more highly valued than market-oriented product managers, as shown in Exhibit A-6.

INPUT

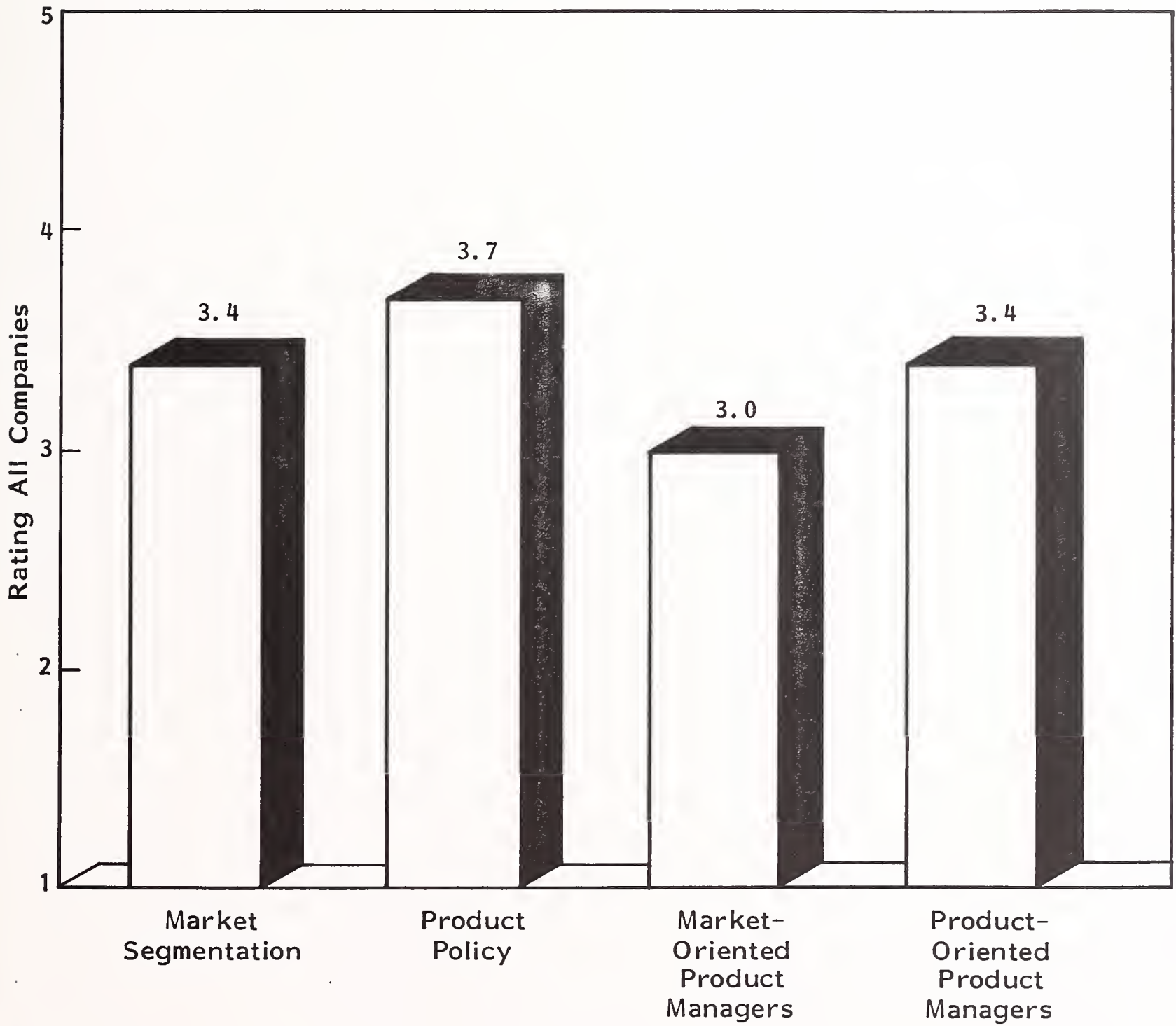## IMPACT OF MARKET RESEARCH TOOLS
IN INFORMATION SERVICES FIRMS

Rating: 1 = Low Impact, 5 = High Impact

SOURCE: INPUT Survey U.S. Data

INPUT
MMK3 FEI

IMPORTANCE OF PRODUCT AND MARKET ORIENTATIONS
IN INFORMATION SERVICES FIRMS

Rating: 1 = Low Importance, 5 = High Importance

SOURCE: INPUT Survey U.S. Data

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MMK3FEIM

- Respondents generally spoke in terms of products rather than markets in the interviews.

- Good products will not guarantee success in today's information services marketplace. Increasing competition and internal pressures to expand will require greater commitment to market orientations.

INPUT