CUSTOMER SERVICE PRICING IN EUROPE

INPUT

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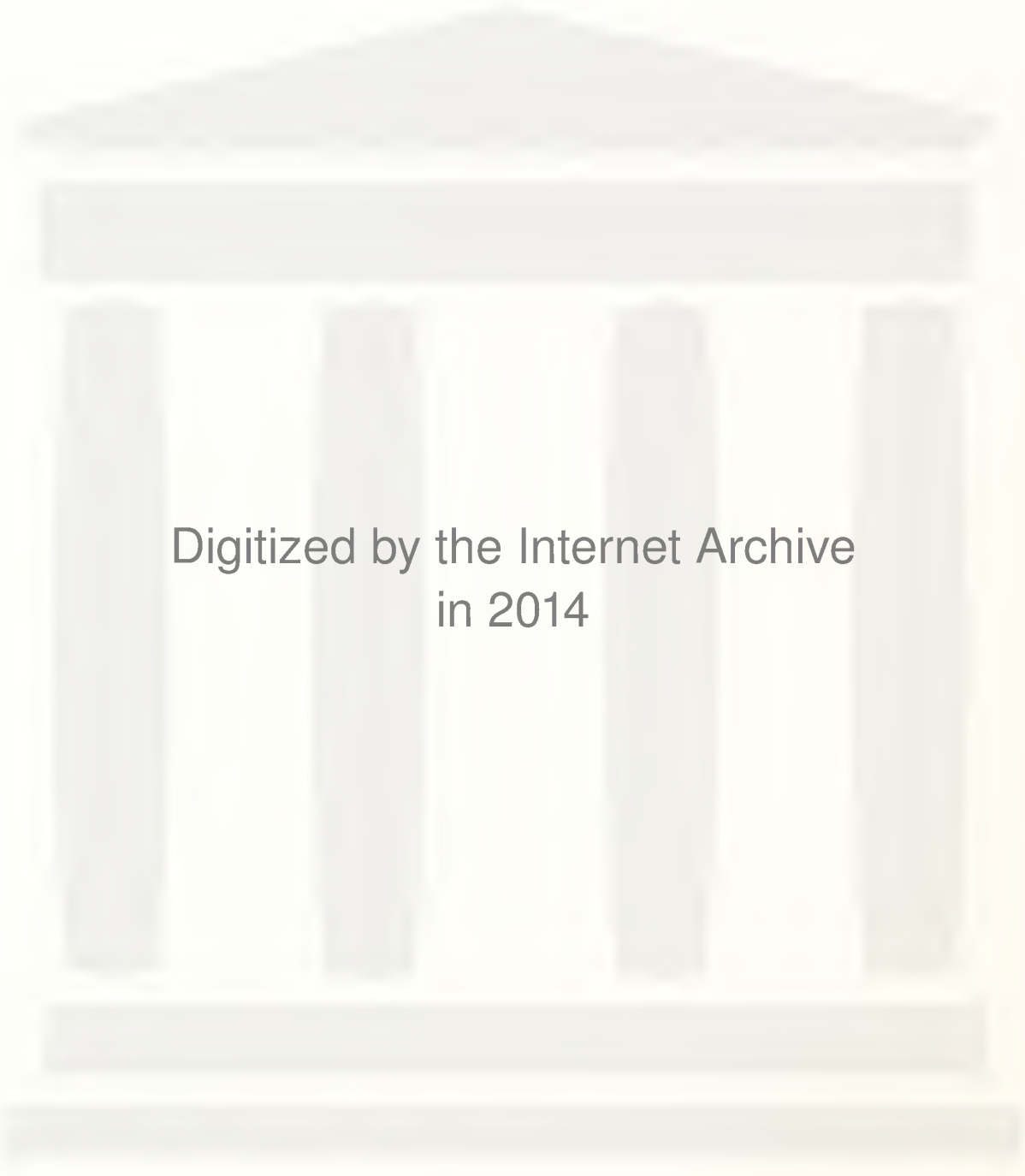
ABSTRACT

Increasing competition in the customer service marketplace has had a severe impact on maintenance prices. INPUT's latest European market study, Customer Service Pricing in Europe, charts the real decline in prices and forecasts continuing pressure on prices and, as a consequence, profits, up to 1990.

The report also examines vendors' willingness to provide alternative contracts and levels of service, and the pricing implications of these options.

This report contains 85 pages, including 56 exhibits.



CUSTOMER SERVICE PRICING IN EUROPE

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1 INTRODUCTION

I INTRODUCTION

- This report is intended to identify European pricing trends in the customer service market and to look ahead to the future for those prices.

- The report is based on vendor responses to a questionnaire (shown in the Appendix), and both user and vendor responses to a number of other INPUT studies carried out in 1985.

- A list of the vendor respondents is given in Exhibit I-1.

EXHIBIT I-1

VENDORS RESPONDING TO THE PRICING STUDY

3M
Burroughs
Computer Repair Centre
Control Data Corporation
DDT Maintenance
Ericsson
Floating Point Systems
Foxboro Great Britain
Hewlett-Packard
Honeywell (Italy)
ICL
Intel Corporation
MAI (Germany)
Modular Computer Services
NCR
Olivetti
Perkin Elmer (France)
Philips (Holland)
Philips (U.K.)
Scitex Corporation

II EXECUTIVE SUMMARY

II EXECUTIVE SUMMARY

- After a long period of steadily declining prices (in real terms), manufacturers are expecting a slight increase in 1985 for large systems, static real prices for small systems, and still declining prices for ancillary equipment and personal computers (see Exhibits II-1 and II-2).

- Exhibit II-3 shows clearly that the most severe price decline is in personal computers--a real decline of 23%.

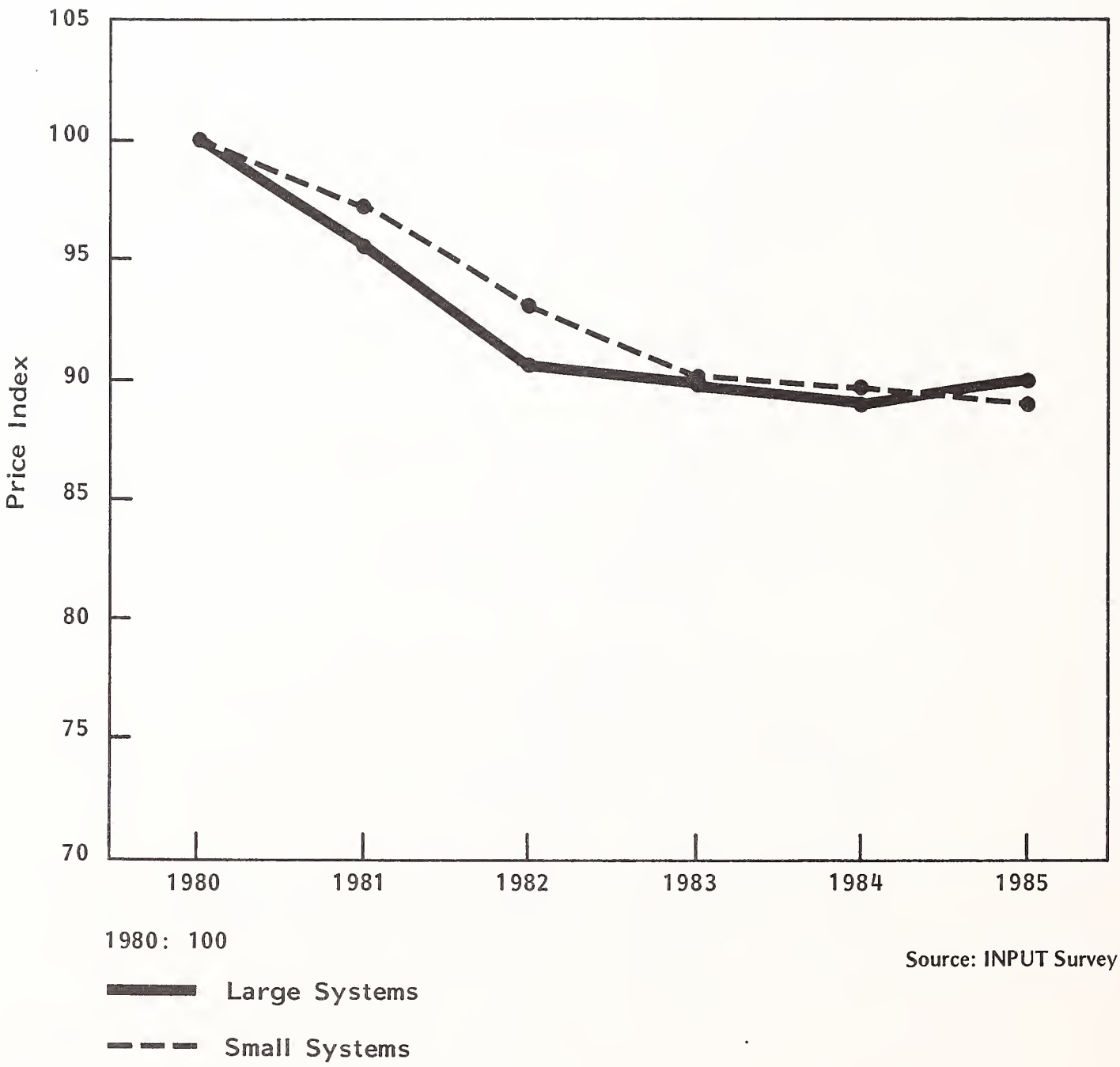
- Against this backdrop of real declining prices, one issue becomes vitally important--the profit impact. INPUT's vendor research over the period since 1980 shows that there has been considerable success in improving the cost per call to minimise the negative profit effect of declining prices (see Exhibit II-4).

- When compared to the price trend, the crude profit analysis shows a severe decline in real profits during the period 1981-1983, followed by what seems to be an off-trend recovery in 1984. The increasing profit gap is shown in Exhibit II-5.

- The consistent increase in productivity which has resulted in the improvement in the profit index is unlikely to be maintained in the future without a fundamental change in methodology, such as:

EXHIBIT II-1

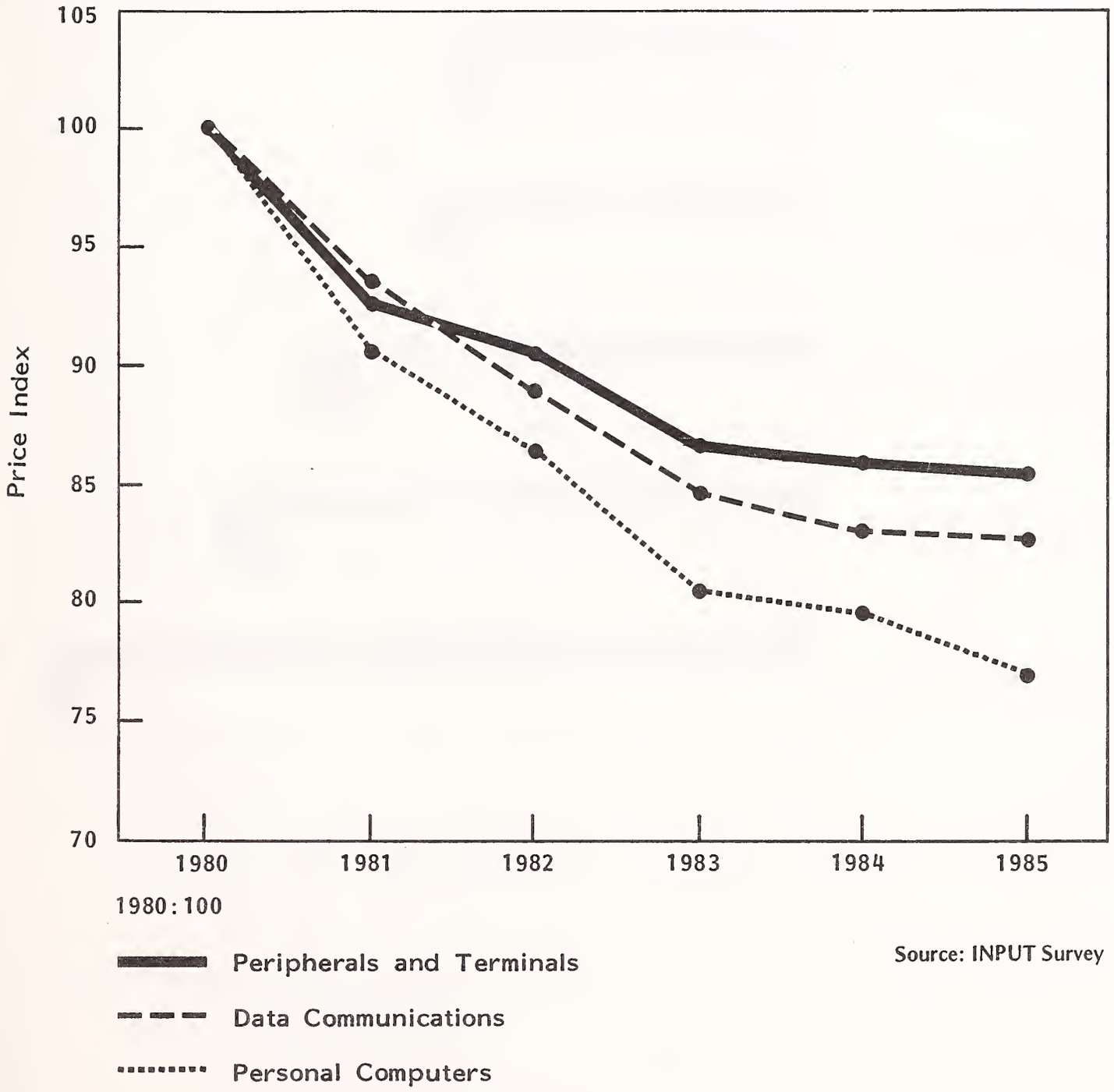
INDEX OF REAL PRICE TRENDS, 1980-1985
SYSTEMS



Source: INPUT Survey

EXHIBIT II-2

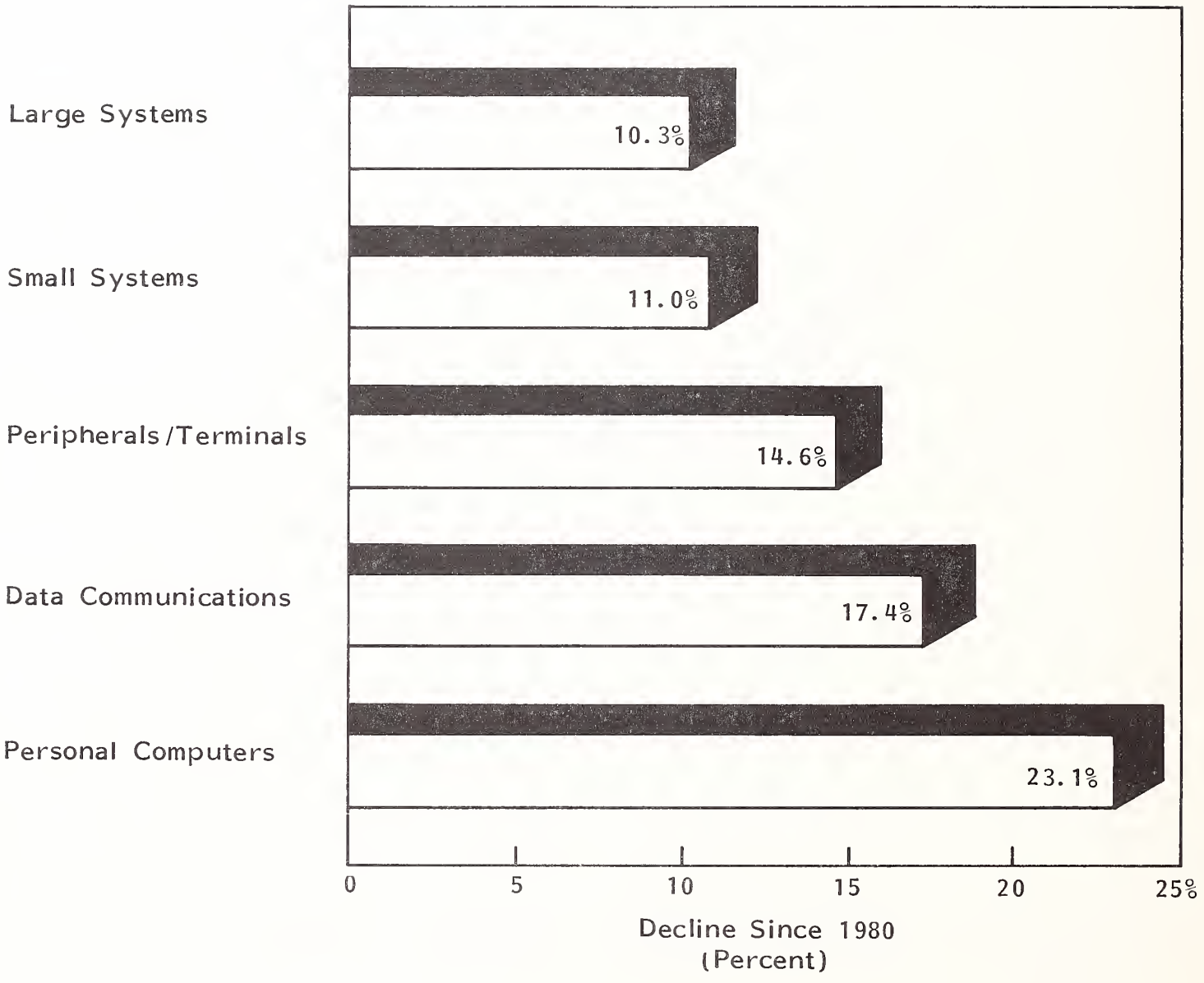
INDEX OF REAL PRICE TRENDS, 1980-1985
ANCILLARY EQUIPMENT



Source: INPUT Survey

EXHIBIT II-3

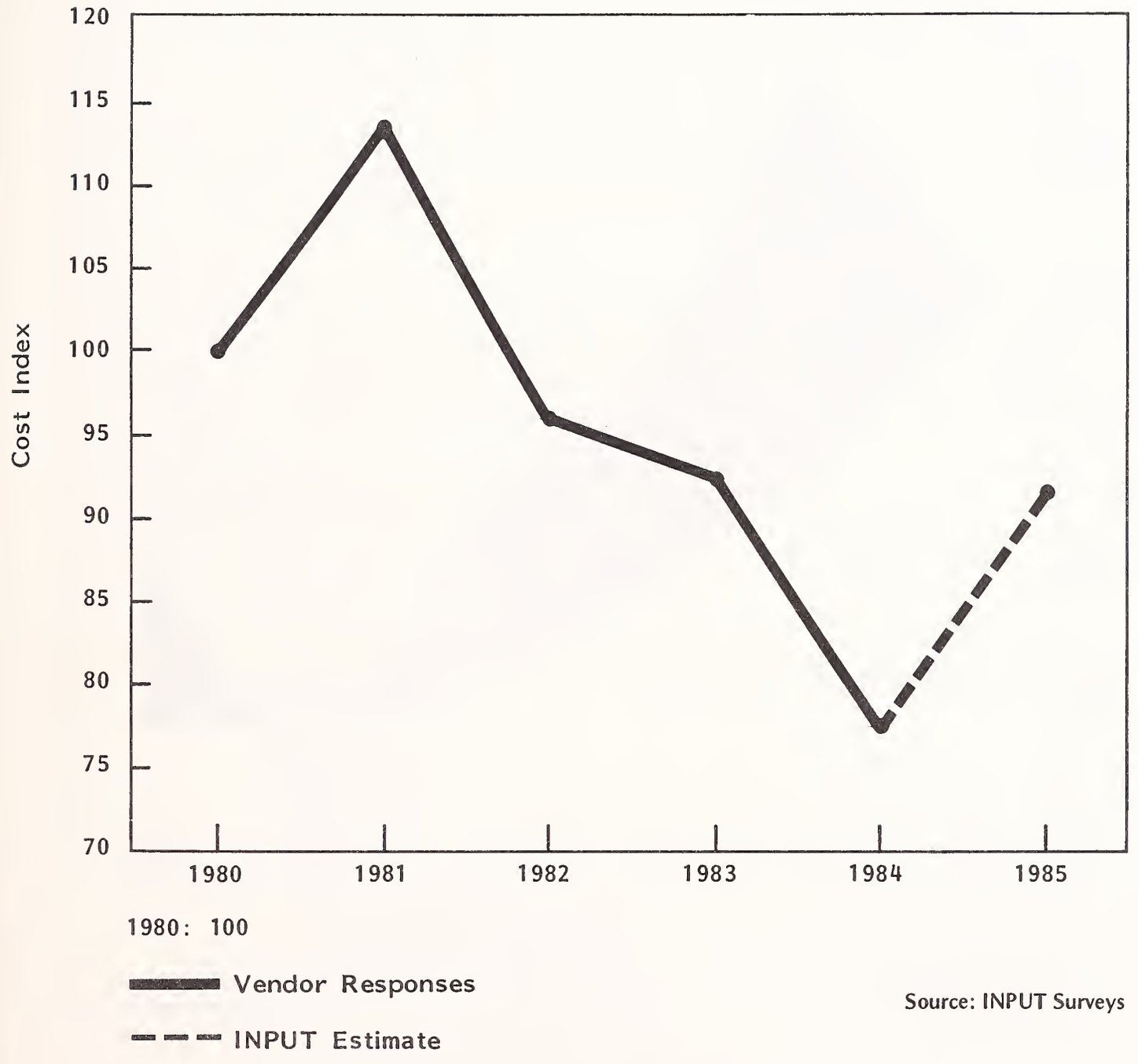
REAL DECLINE IN SERVICE PRICES SINCE 1980



Source: INPUT Surveys

EXHIBIT II-4

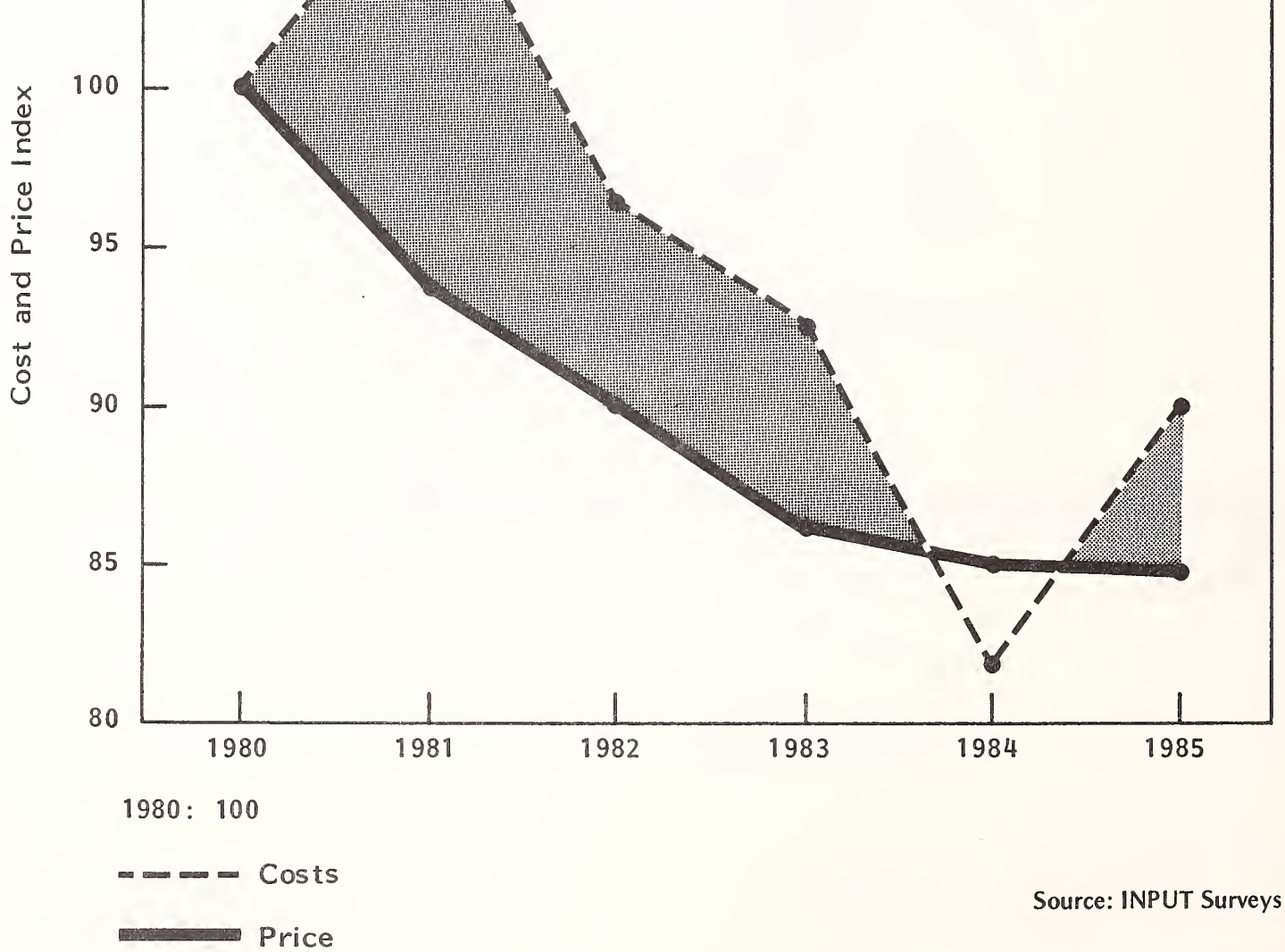
INDEX OF SERVICE COST PER CALL, 1980-1985



Source: INPUT Surveys

EXHIBIT II-5

CUSTOMER SERVICE - THE PROFIT GAP



Source: INPUT Surveys

- Increased use of remote diagnostics.

- Increased use of repair centres for non-critical equipment.

- Swap-outs as a method of increasing on-site throughput, possibly with lower calibre, hence lower cost, personnel.

- Productivity improvements are only one side of the equation--price levels themselves being the other. INPUT studies have frequently commented on the gap between the price increases passed on by vendors and the price increase expected by users. Users are invariably anticipating a higher increase than they eventually receive. The size of the gap is shown in Exhibits II-6 through II-8.

- Looking to the future, there seems to be scope for real-term price increases. If crudely handled, this would incur user displeasure, particularly as cost is the most criticised element of customer service already. Vendors must, therefore, examine ways of selling the value of the service to users by enhancing the basics:

  - Guaranteeing levels of service that are being consistently achieved today--the 'insurance policy' concept.

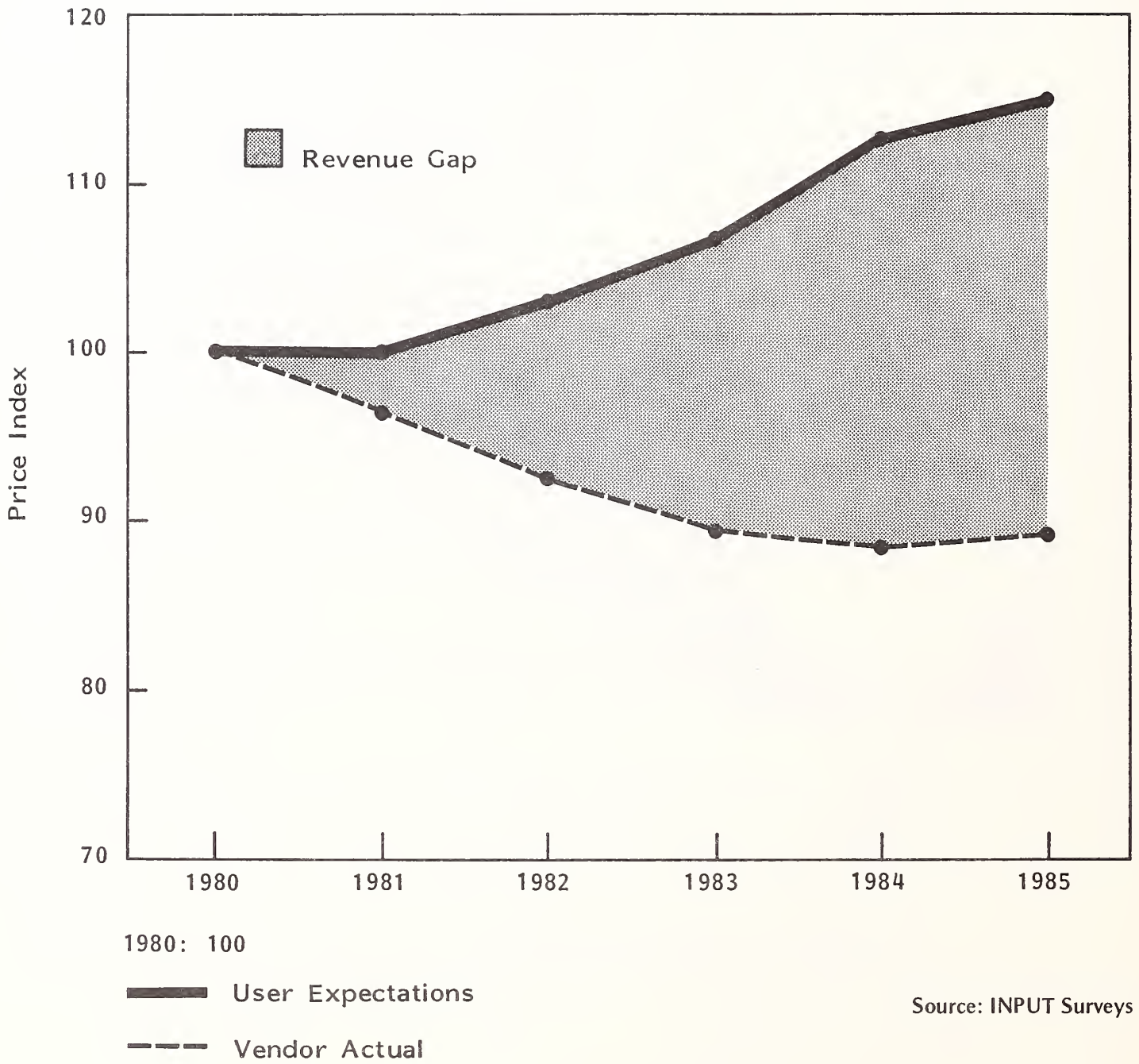
  - Add extra services, e.g., out of normal hours coverage at higher premium levels.

  - Reduce any discounts being offered with a view to phasing them out over time.

  - Give more price encouragement for user cooperation in schemes which will significantly improve productivity and, hence, reduce costs.

EXHIBIT II-6

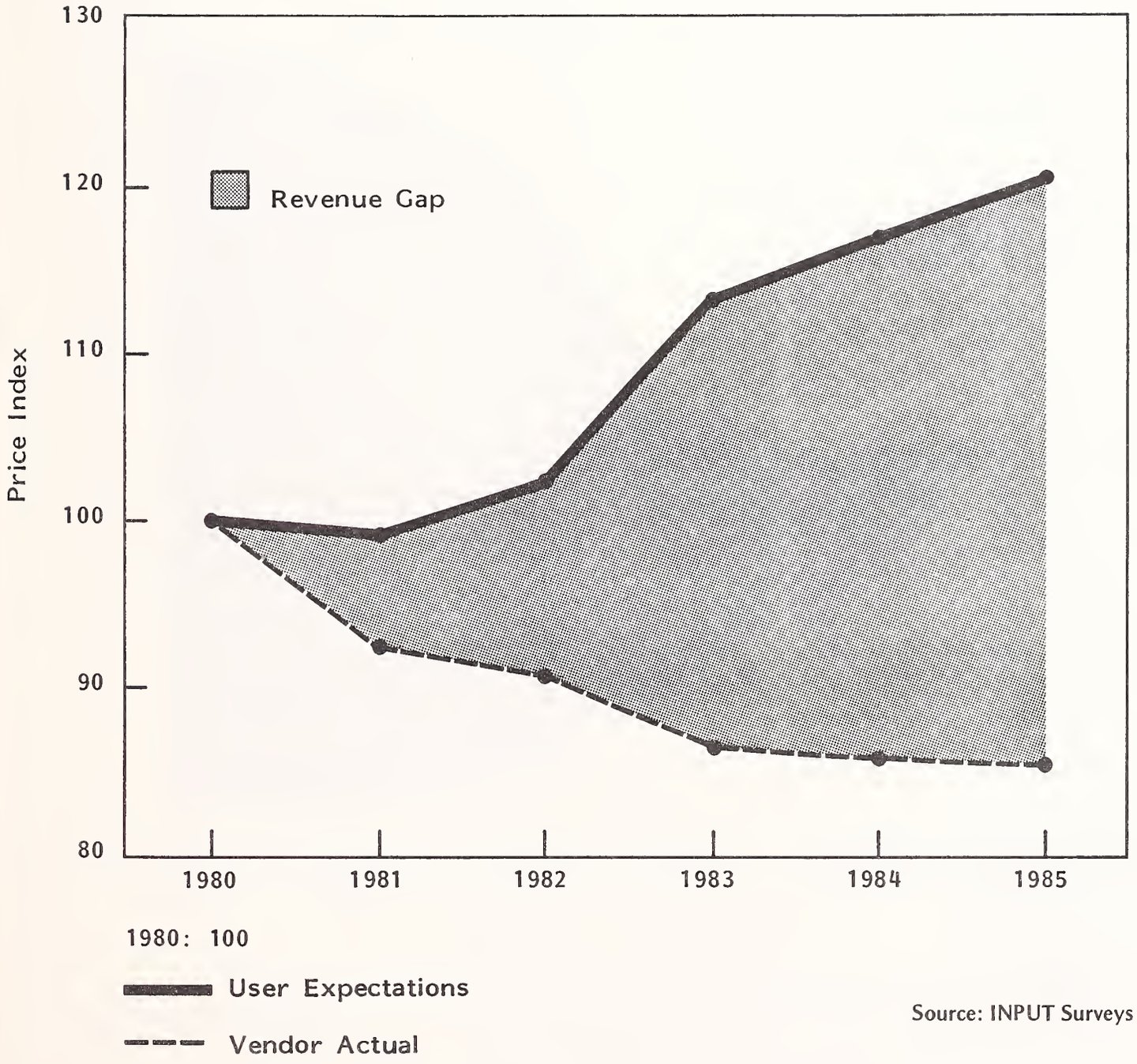
VENDOR PRICE INCREASES AND USER EXPECTATIONS
LARGE AND SMALL SYSTEMS



Source: INPUT Surveys

EXHIBIT II-7

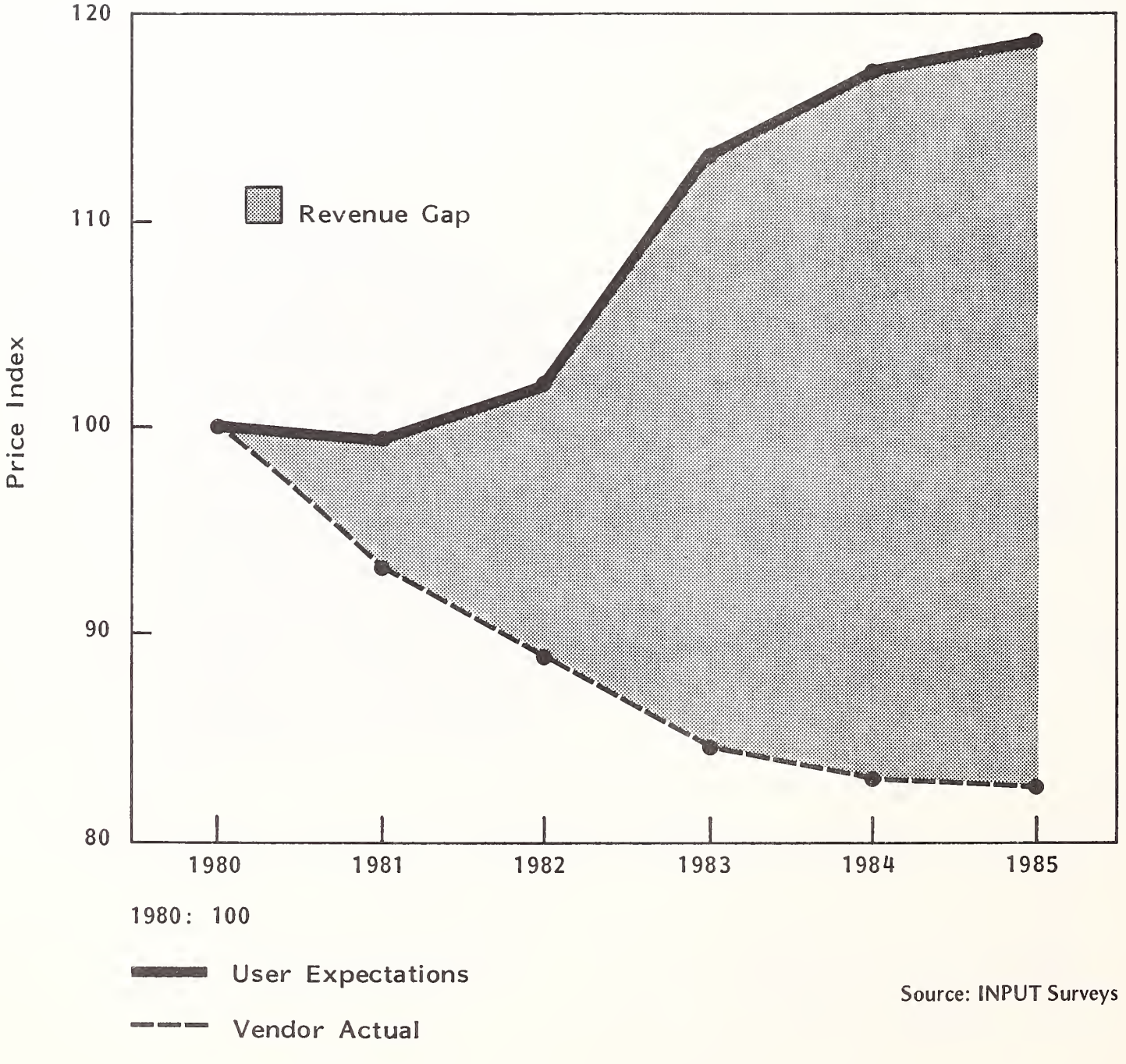
VENDOR PRICE INCREASES AND USER EXPECTATIONS
PERIPHERALS AND TERMINALS



Source: INPUT Surveys

EXHIBIT II-8

VENDOR PRICE INCREASES AND USER EXPECTATIONS
DATA COMMUNICATIONS



Source: INPUT Surveys

- Competitive pressures do not make price increases an attractive option, but if service is to be run as a profitable business, realistic pricing for the product is an absolute necessity.

III PRICE CHANGES IN CUSTOMER SERVICE, 1984 AND 1985

III PRICE CHANGES IN CUSTOMER SERVICE, 1984 AND 1985

- The ability to increase prices is closely related to the criticality of the equipment concerned. As shown in Exhibits III-1 through III-19, prices have risen more steeply for systems than for the less critical areas of peripherals, terminals, data communications equipment, and personal computers. This probably reflects increasing competition from independent maintainers in these product sectors, as well as sensitivity to user views.

A. LARGE SYSTEMS

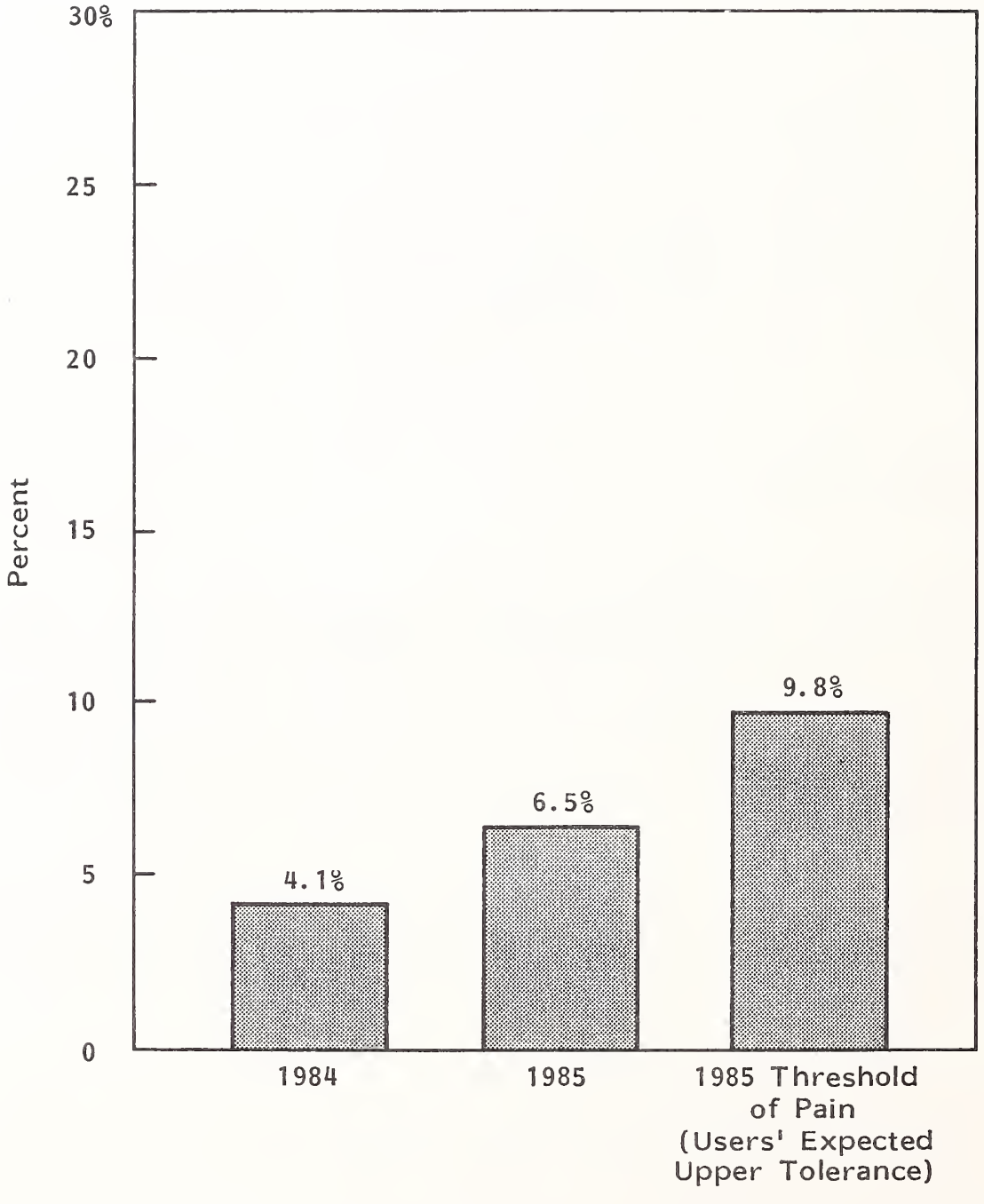
- Vendors expect to be able to obtain a higher increase in 1985 than they passed on in 1984--6.5% against 4.1% (see Exhibit III-1). Nevertheless, vendors are remaining cautious about increasing prices. The view is that users would tolerate an overall increase of 9.8%, whereas vendors intend to limit the increase to 6.5%.

- However, the expected upper increase in maintenance price for large systems of 12.5% in 1985 is close to the users' expected upper tolerance of 12.6% (see Exhibit III-2).

- Expressed in relation to hardware prices, maintenance is 7.7%, a relatively low proportion when compared to other product areas. This also represents a slight decline from the 7.9% measured in INPUT's 1983 study (see Exhibit III-3).

EXHIBIT III-1

MAINTENANCE PRICE INCREASES - AVERAGES -
IN EUROPE FOR LARGE SYSTEMS

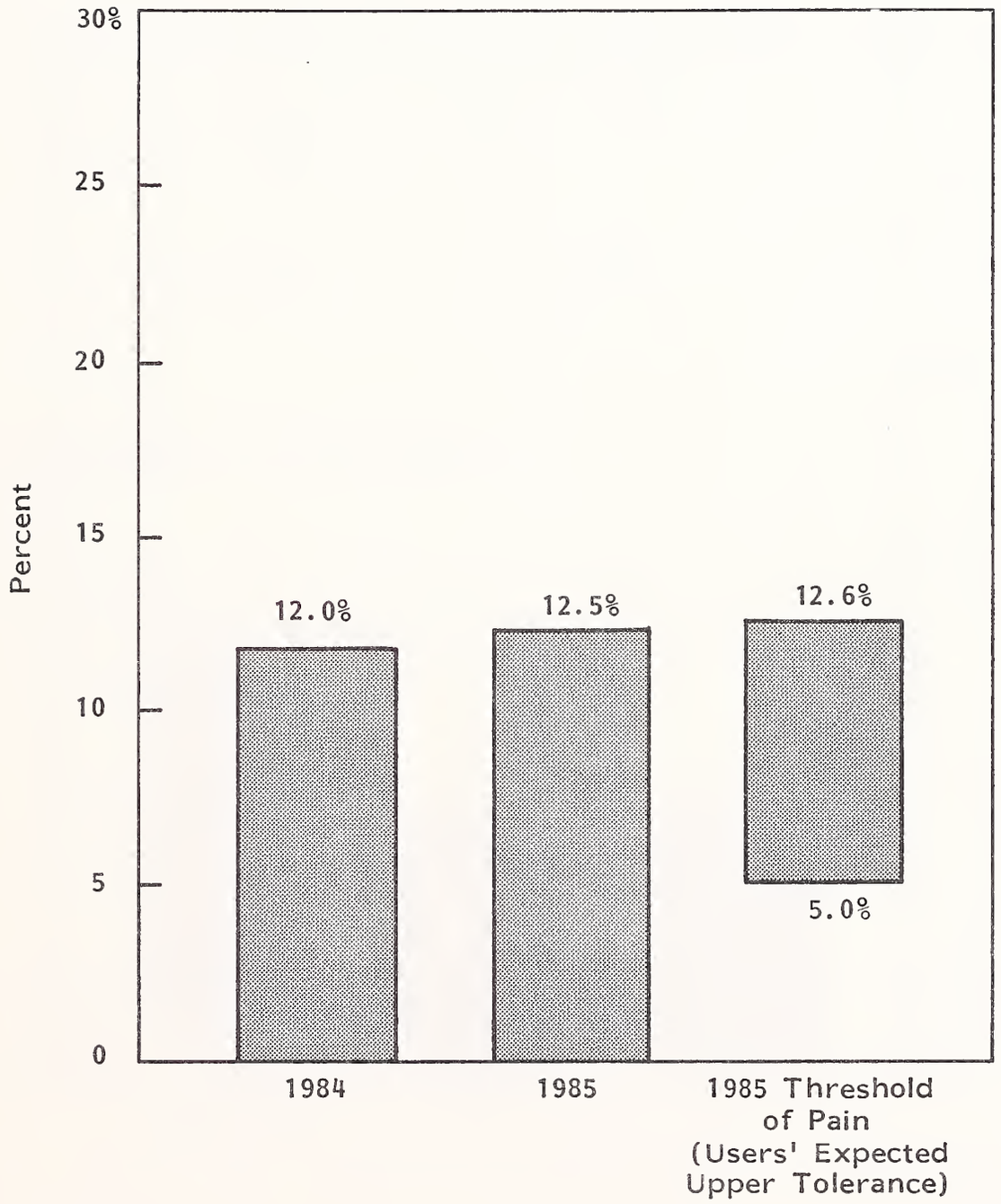


Number of Respondents = 9

SOURCE: INPUT Survey

EXHIBIT III-2

MAINTENANCE PRICE INCREASES - RANGES -
IN EUROPE FOR LARGE SYSTEMS

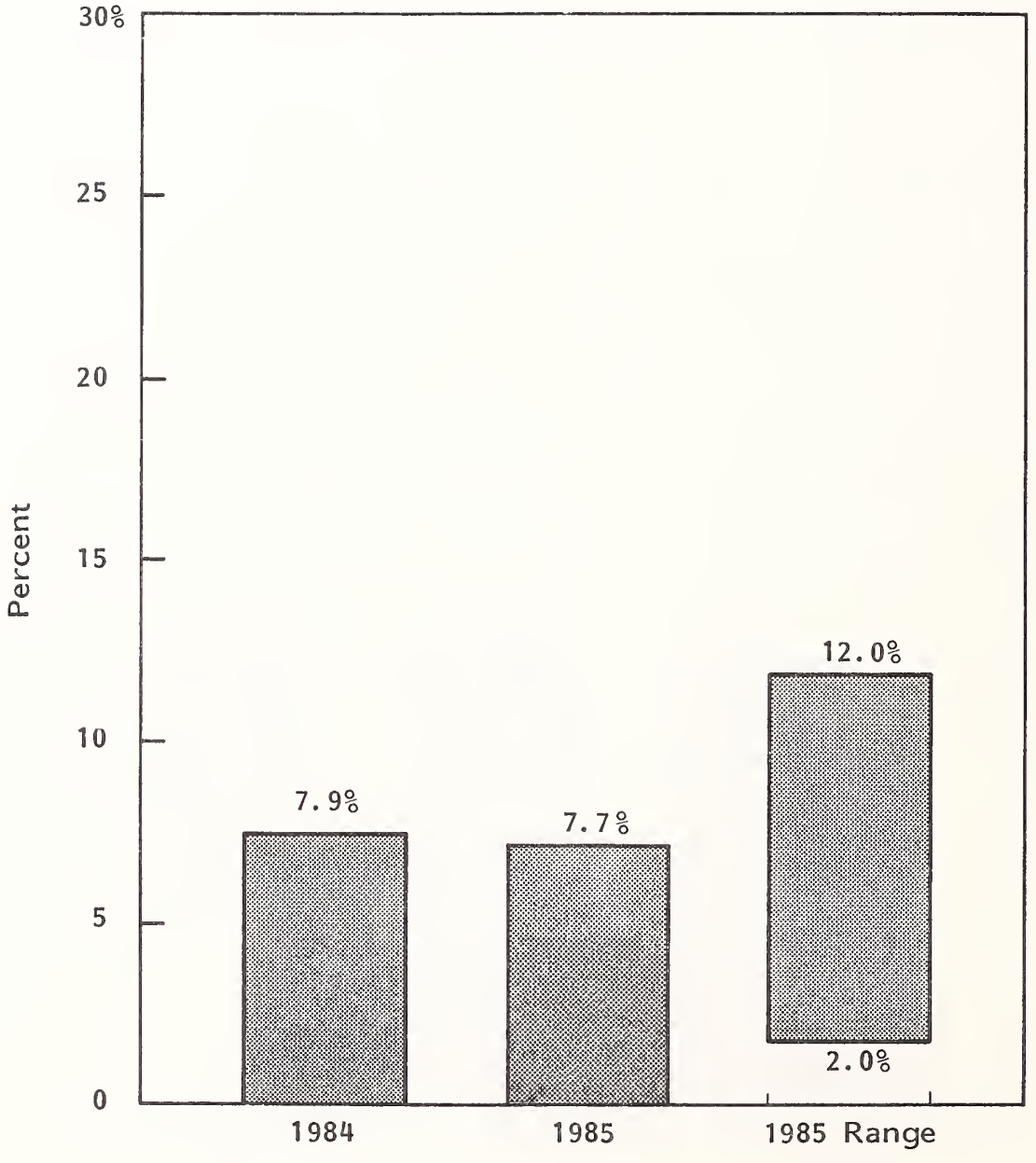


Number of Respondents = 9

SOURCE: INPUT Survey

EXHIBIT III-3

MAINTENANCE PRICE AS A PERCENT OF HARDWARE PRICE
IN EUROPE FOR LARGE SYSTEMS



Number of Respondents = 9

SOURCE: INPUT Survey

B. SMALL SYSTEMS

- The planned price increase of 4.6% in 1985 is higher than the 3.3% obtained in 1984. Again, vendors are being cautious in that they believe users would tolerate an increase of up to 7.6%.

- The dynamic nature of the market can be seen in Exhibits III-4 and III-5, which show the range of price increases vendors have planned for 1985--a range stretching from zero up to 12.5%. In 1984 the situation was also very fluid, ranging from a reduction of 10% to an increase of 12%.

- Maintenance prices as a percent of hardware price have fallen from 10.9% in 1983 to 9.6% in 1985, as shown in Exhibit III-6.

C. PERIPHERALS AND TERMINALS

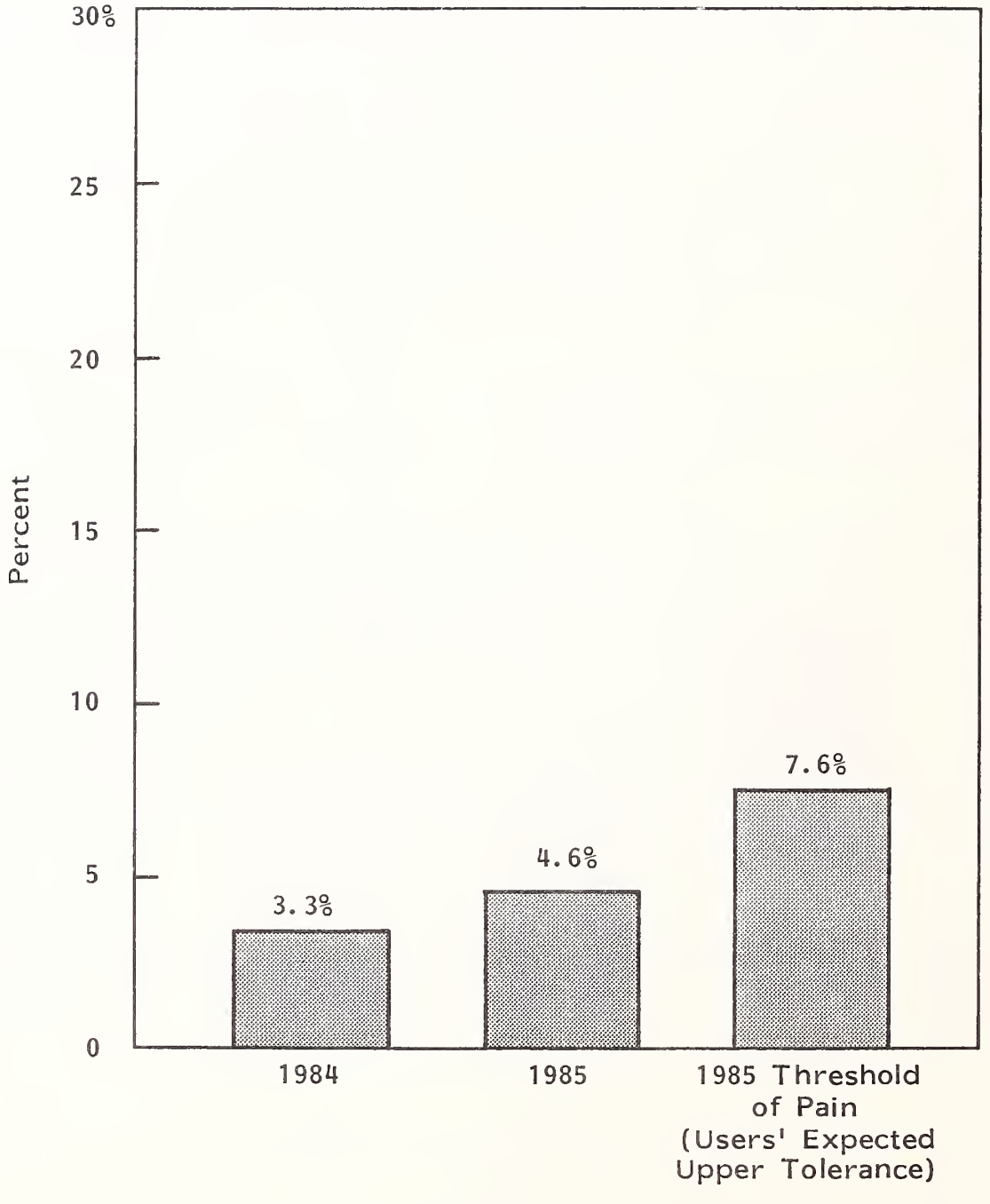
- Vendors expect to increase prices in 1985 by an average of 4.3%, compared to only 3.4% in 1984. This represents only slightly more than half of the limit that vendors thought users would expect--8.4% (see Exhibit III-7).

- The range of anticipated increases has also risen at the top end from 8.0% to 12.5%. All vendors believe that users are prepared to accept an increase of at least 5% (see Exhibit III-8).

- Following the general trend, maintenance price, expressed as a percentage of hardware price, has fallen from 13.0% in 1983 to 12.1% in 1984 (see Exhibit III-9).

EXHIBIT III-4

MAINTENANCE PRICE INCREASES - AVERAGES -
IN EUROPE FOR SMALL SYSTEMS

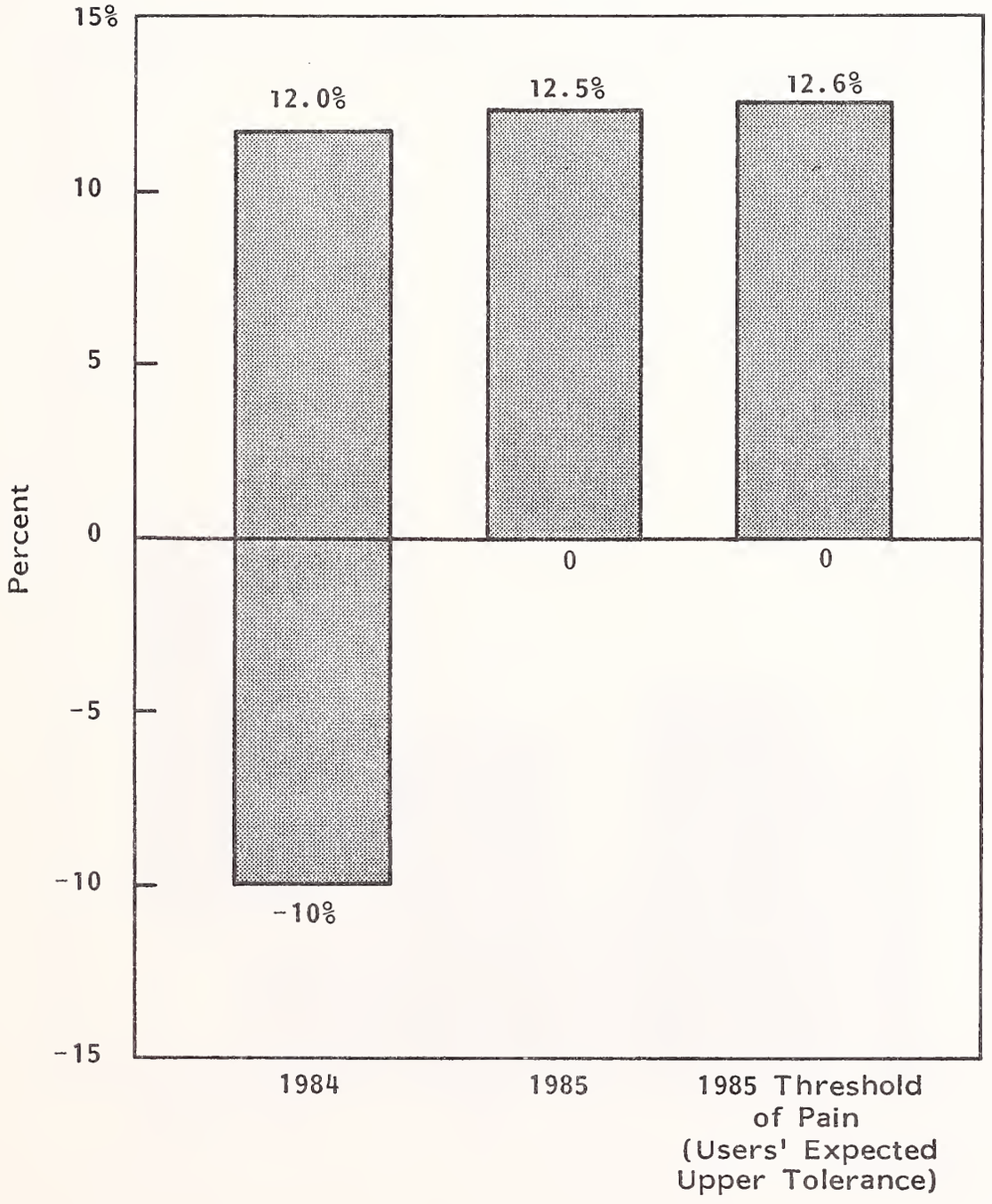


Number of Respondents = 20

SOURCE: INPUT Survey

EXHIBIT III-5

MAINTENANCE PRICE INCREASES - RANGES -
IN EUROPE FOR SMALL SYSTEMS

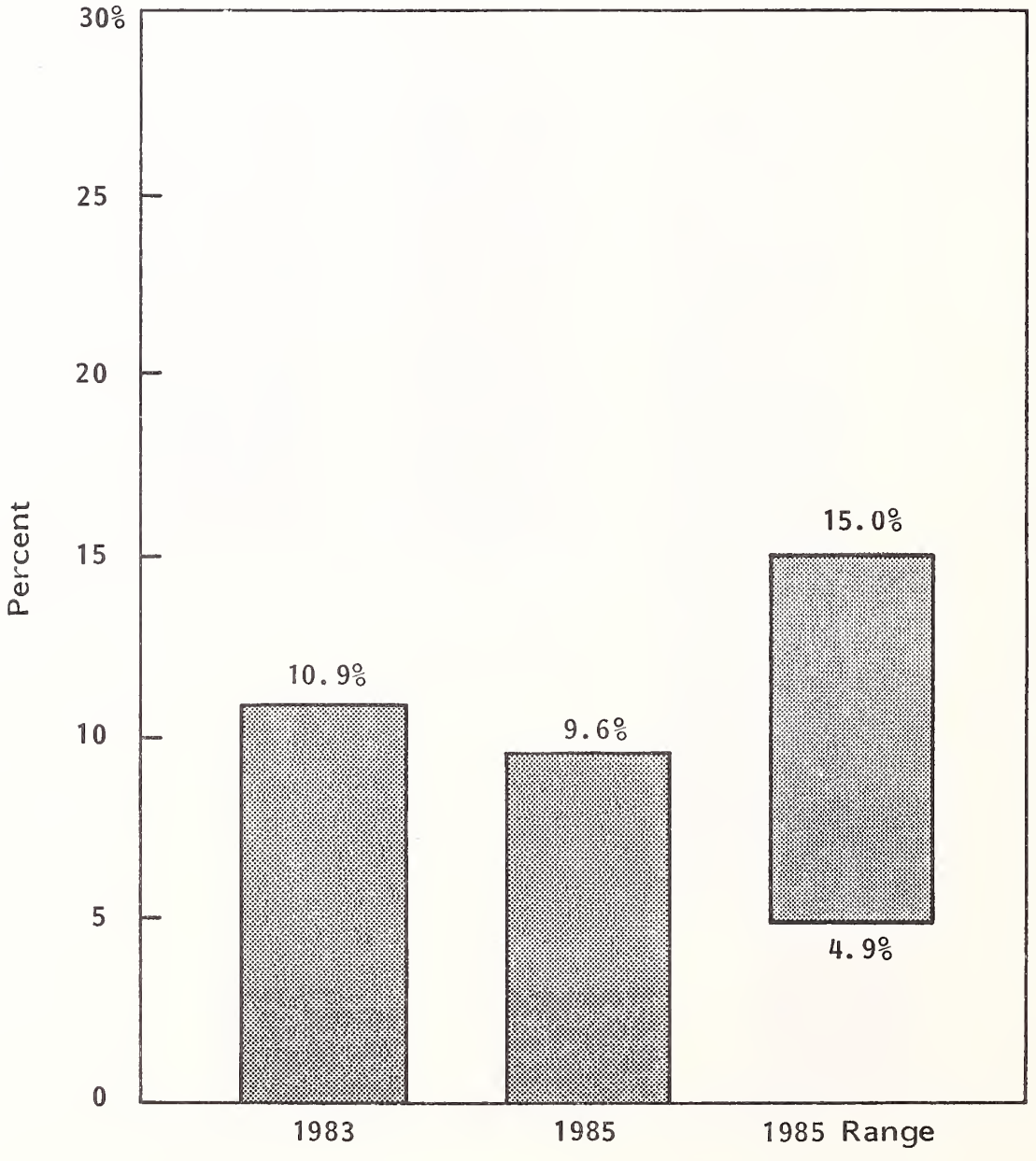


Number of Respondents = 20

SOURCE: INPUT Survey

EXHIBIT III-6

MAINTENANCE PRICE AS A PERCENT OF HARDWARE PRICE
IN EUROPE FOR SMALL SYSTEMS

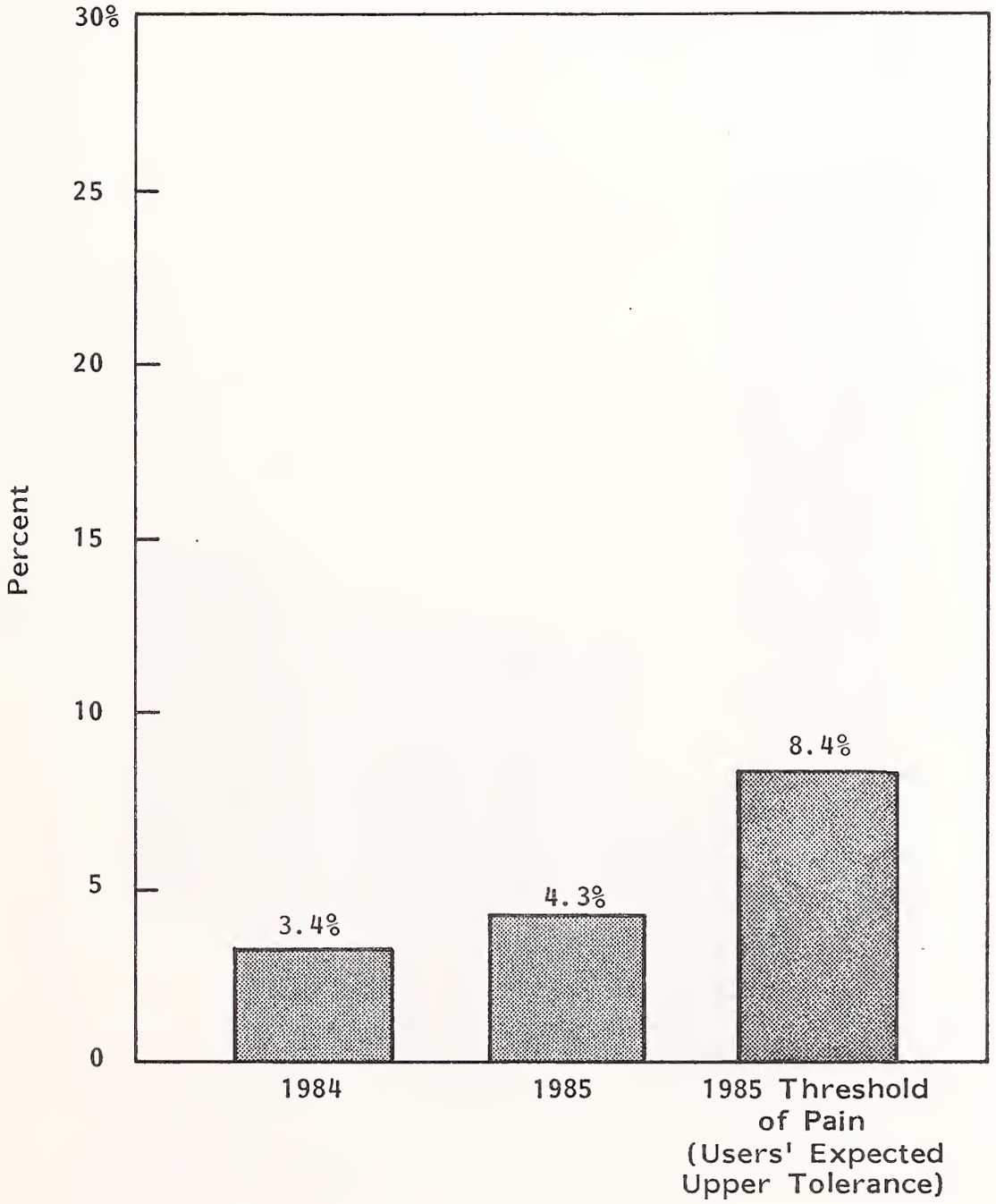


Number of Respondents = 20

SOURCE: INPUT Survey

EXHIBIT III-7

MAINTENANCE PRICE INCREASES - AVERAGES -
IN EUROPE FOR PERIPHERALS AND TERMINALS

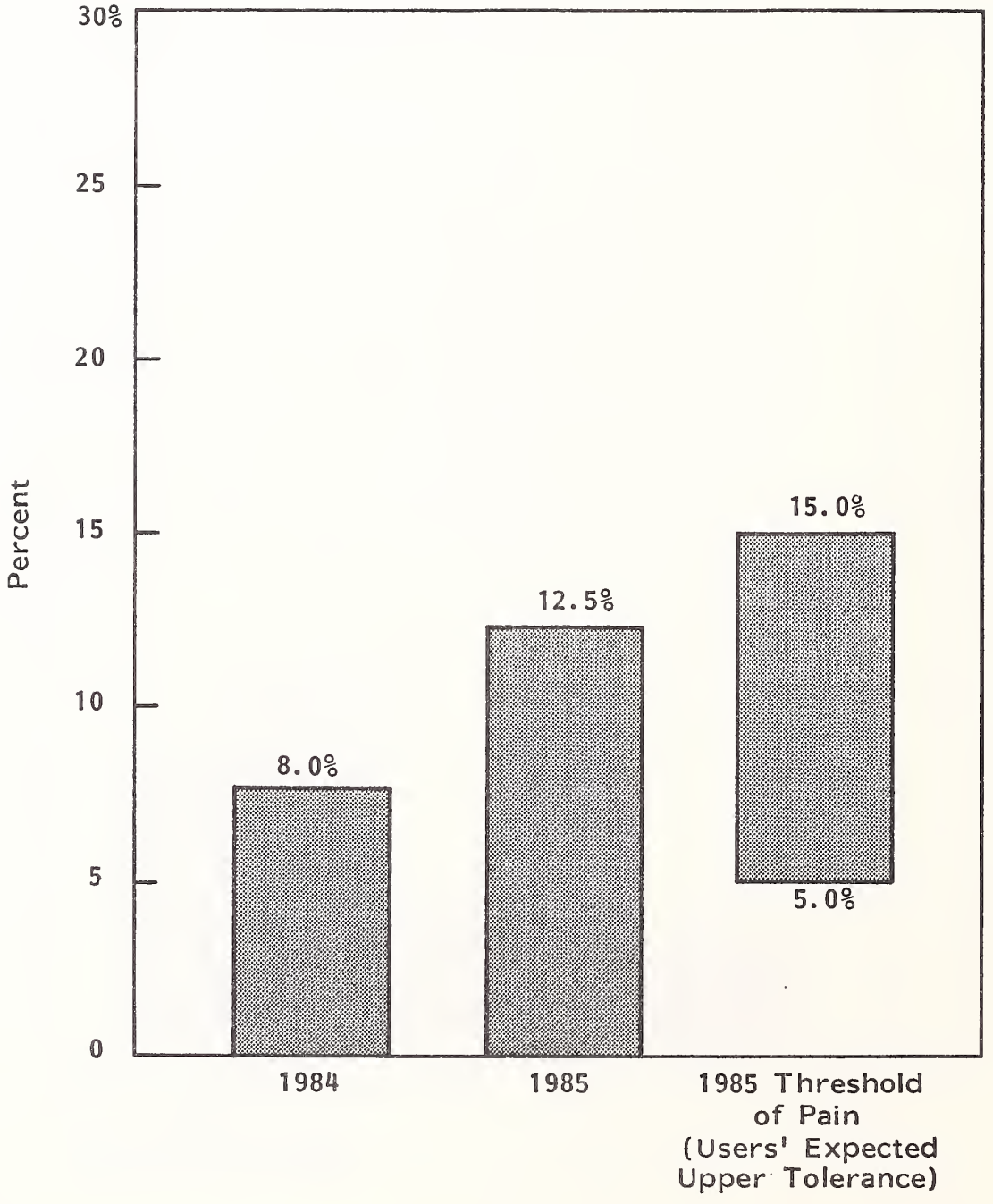


Number of Respondents = 15

SOURCE: INPUT Survey

EXHIBIT III-8

MAINTENANCE PRICE INCREASES - RANGES -
IN EUROPE FOR PERIPHERALS AND TERMINALS

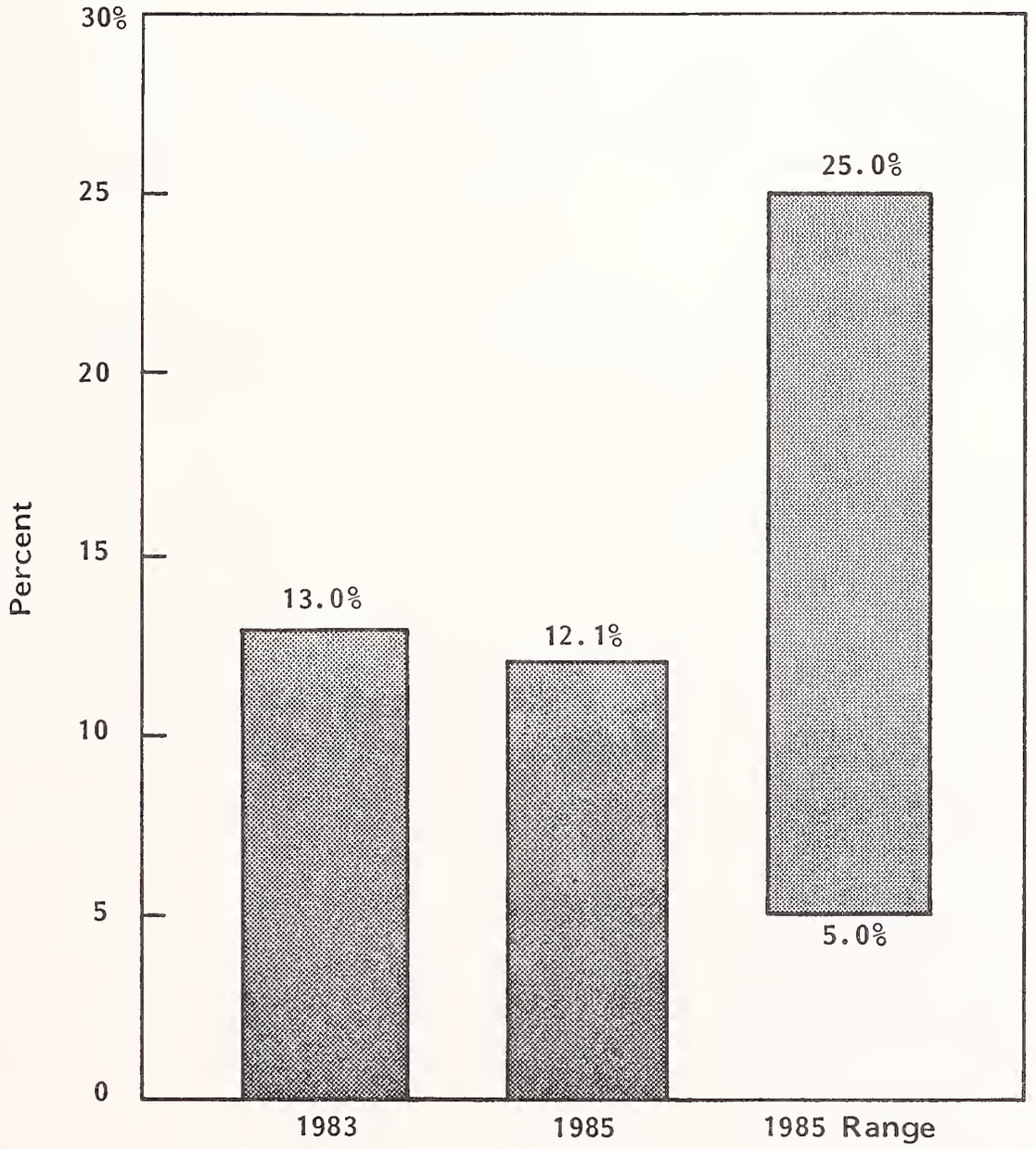


Number of Respondents = 15

SOURCE: INPUT Survey

EXHIBIT III-9

MAINTENANCE PRICE AS A PERCENT OF HARDWARE PRICE
IN EUROPE FOR PERIPHERALS AND TERMINALS



Number of Respondents = 15

SOURCE: INPUT Survey

D. DATA COMMUNICATIONS

- Again following the trend, vendors expect to raise prices in 1985 by a higher percentage, 4.3%, than in 1984, when the increase was only 3.0%. Vendors believe that users would be prepared to accept a rise of 8.1% (see Exhibit III-10).

- The anticipated increase of 4.3% is centered around a bond ranging from zero increase to 10%. Vendors seem to agree with users that 10% is the maximum acceptable, but also feel that all users would be prepared for a minimum 5% rise (see Exhibit III-11).

- As a percentage of the hardware price, maintenance charges range from a low of 4.0% to a high of 15%, with an average of 9.8% (see Exhibit III-12).

E. PERSONAL COMPUTERS

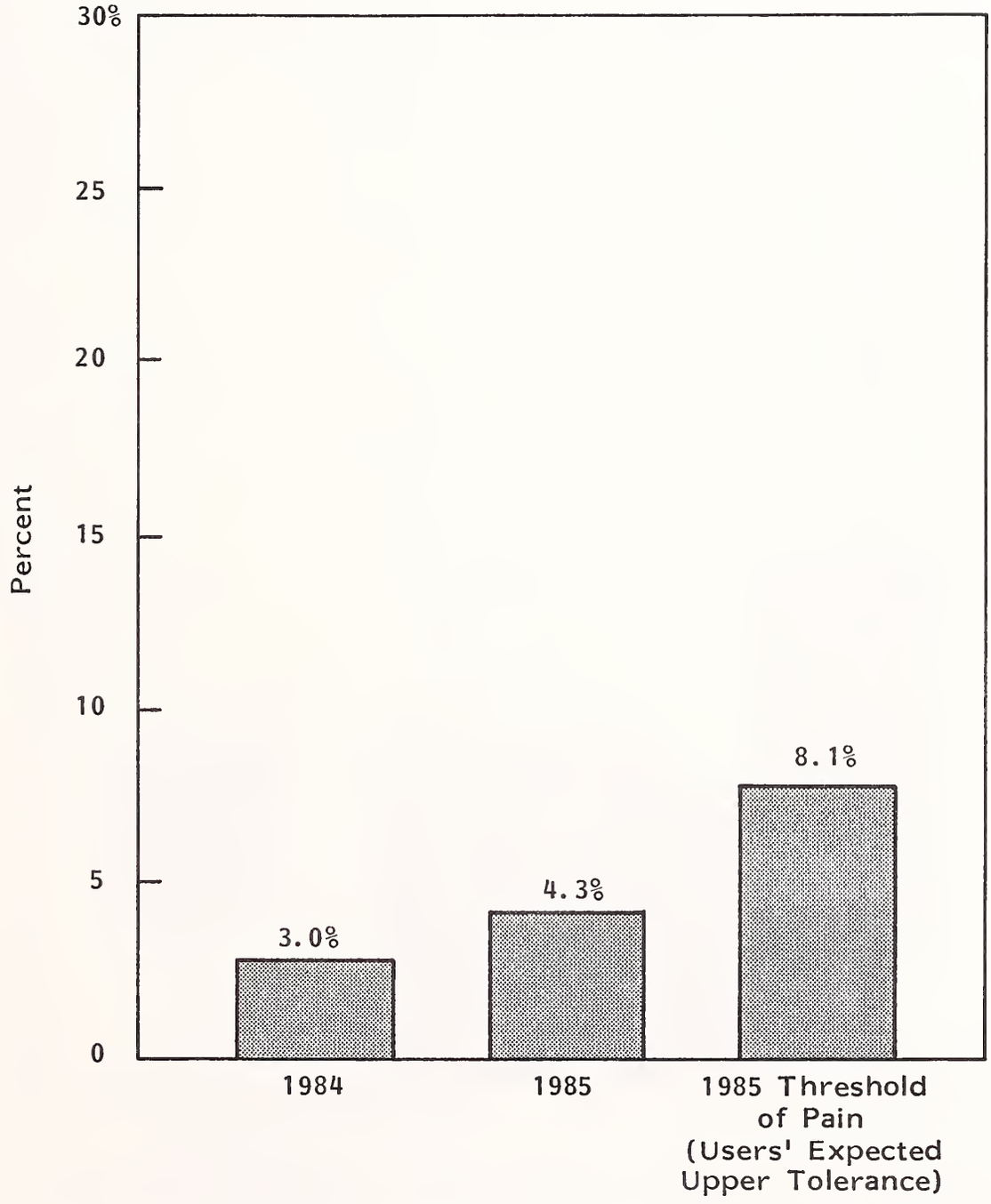
- As can be seen in Exhibit III-13, planned price increases in 1985, a mere 1.5%, are actually lower than those imposed in 1984, 1.8%. Clearly, user price sensitivity and aggressive competition are making their mark in this sector. Curiously, perhaps, under the circumstances, vendors feel that users would consider a rise of up to 5%.

- The competitive nature of this market sector can be seen in Exhibit III-14, which shows that some vendors are prepared to cut prices by up to 4%, although more of the respondents felt that users actually expected a decrease.

- PC prices generally are under pressure, making the fact that maintenance prices are based on a percentage of hardware price even more significant. Alarm bells should be ringing about the potential profitability of this area, as

EXHIBIT III-10

MAINTENANCE PRICE INCREASES - AVERAGES -
IN EUROPE FOR DATA COMMUNICATIONS

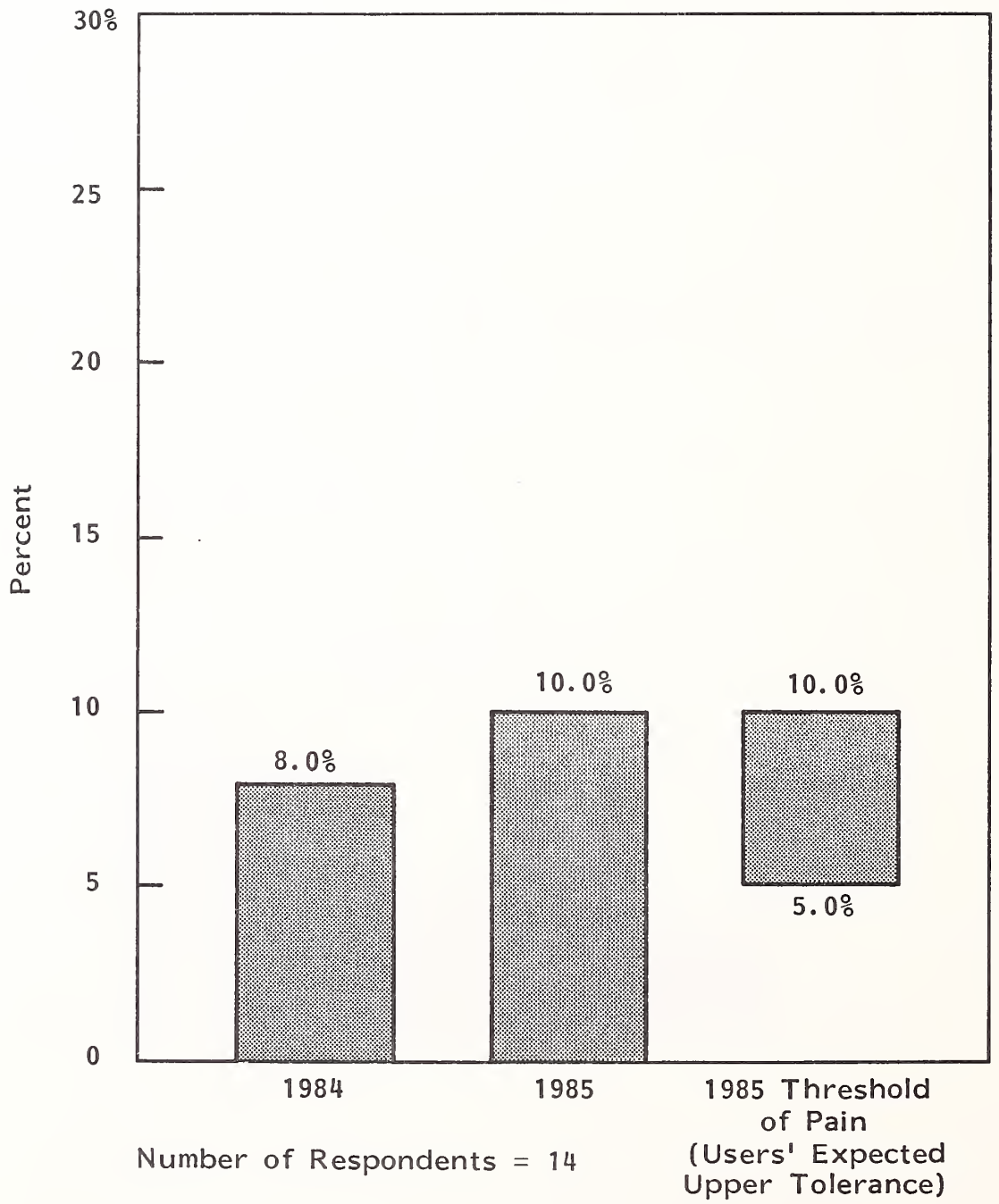


Number of Respondents = 14

SOURCE: INPUT Survey

EXHIBIT III-11

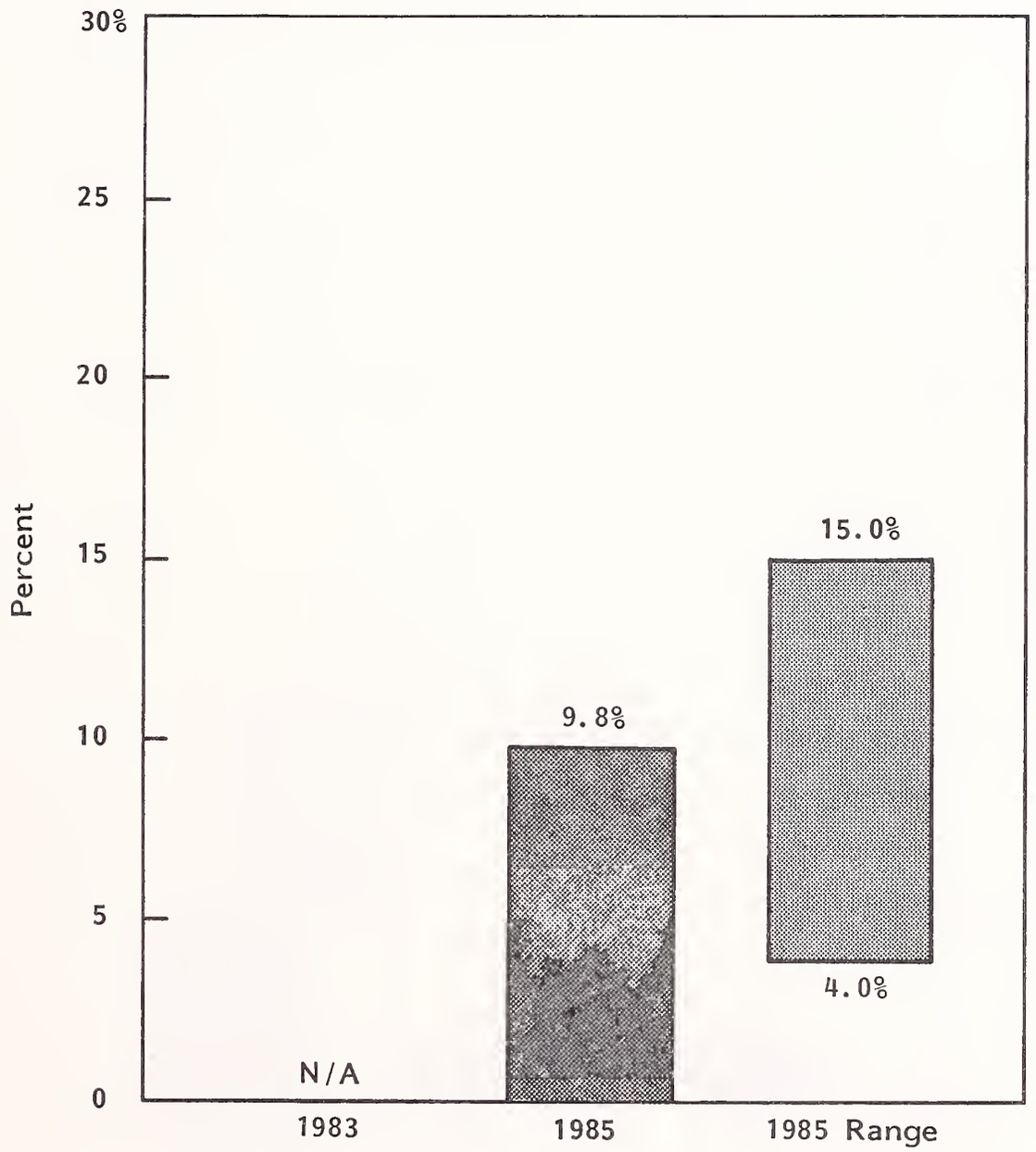
MAINTENANCE PRICE INCREASES - RANGES -
IN EUROPE FOR DATA COMMUNICATIONS



SOURCE: INPUT Survey

EXHIBIT III-12

MAINTENANCE PRICE AS A PERCENT OF HARDWARE PRICE
IN EUROPE FOR DATA COMMUNICATIONS

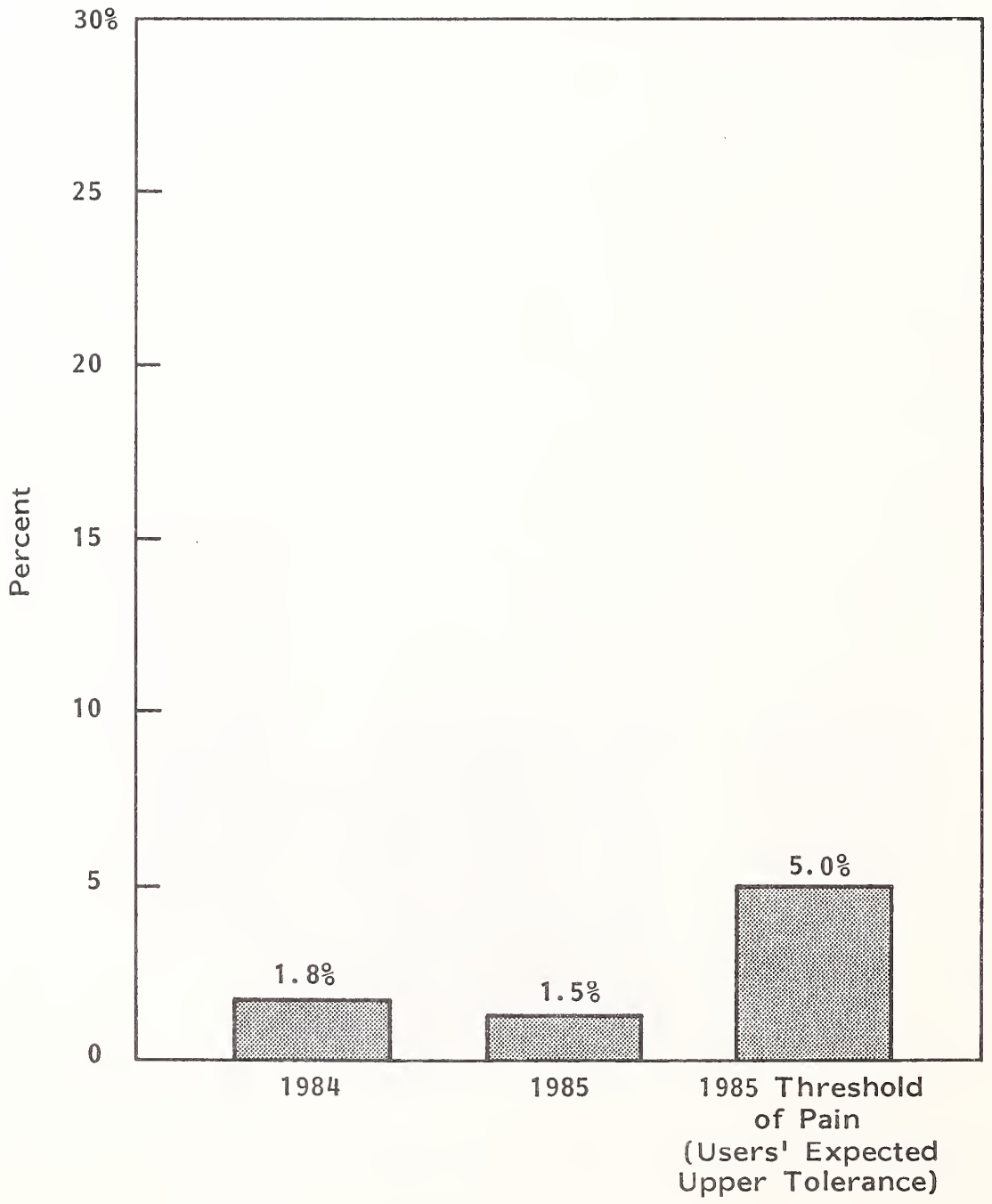


Number of Respondents = 14

SOURCE: INPUT Survey

EXHIBIT III-13

MAINTENANCE PRICE INCREASES - AVERAGES -
IN EUROPE FOR PERSONAL COMPUTERS

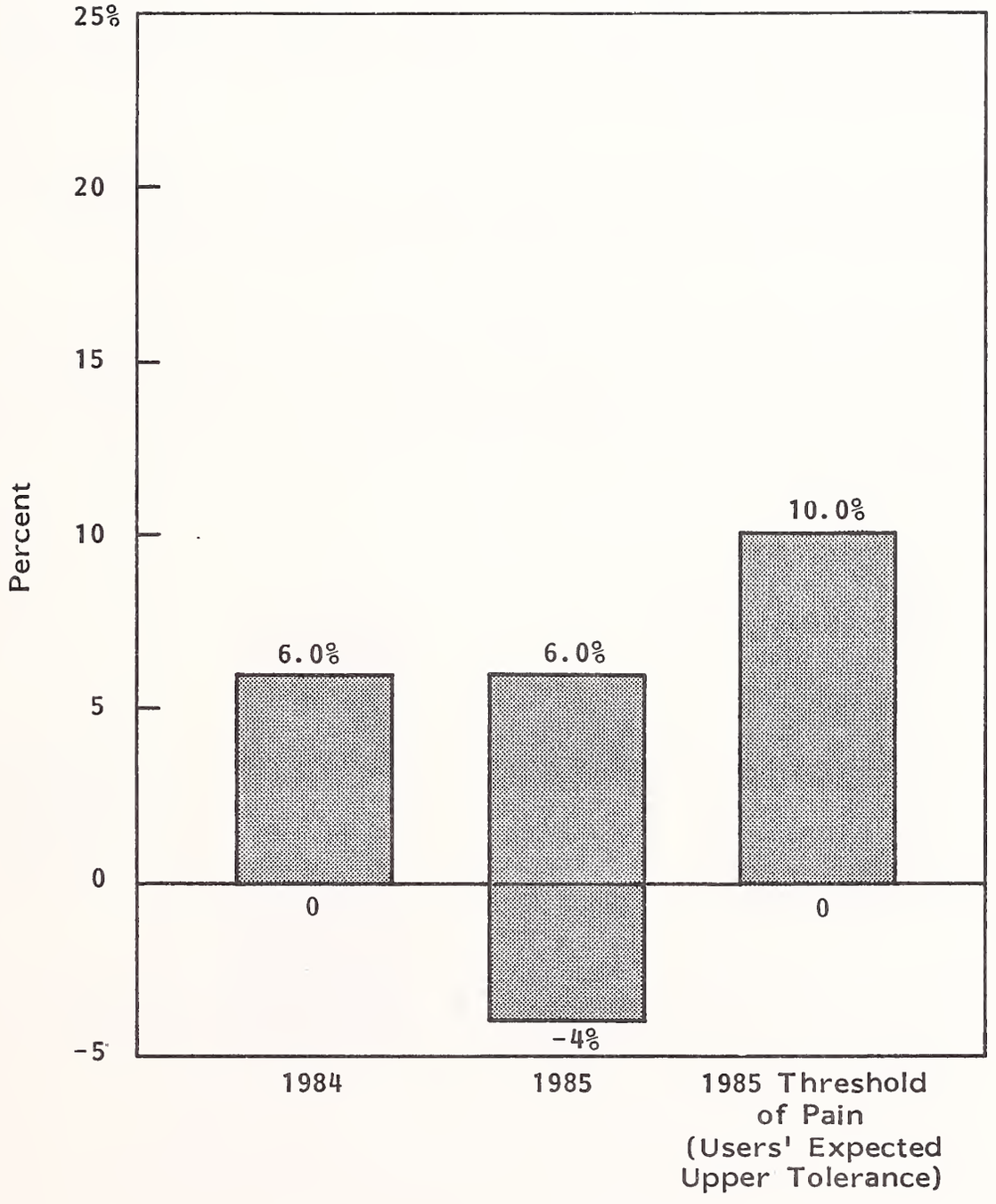


Number of Respondents = 12

SOURCE: INPUT Survey

EXHIBIT III-14

MAINTENANCE PRICE INCREASES - RANGES -
IN EUROPE FOR PERSONAL COMPUTERS



Number of Respondents = 12

SOURCE: INPUT Survey

vendors will have to produce significant productivity improvements to stay afloat (see Exhibit III-15).

F. WORD PROCESSORS

- As with personal computers, the price outlook for vendors is bleak, with a forecast increase in 1985 of only 2.7%, almost the same as the 2.8% recorded in 1984 (see Exhibit III-16).

- Vendor views about price increases have narrowed since 1984, with the range shrinking from -2% to 10% down to zero to 8% (see Exhibit III-17).

- In common with most other products, there has been a decline in the maintenance price--hardware price ratio falling from 11.7% in 1983 to 10.9% in 1985, with a range between 6.9% at the lowest up to a high of 15.0% (see Exhibit III-18).

G. SYSTEM SOFTWARE

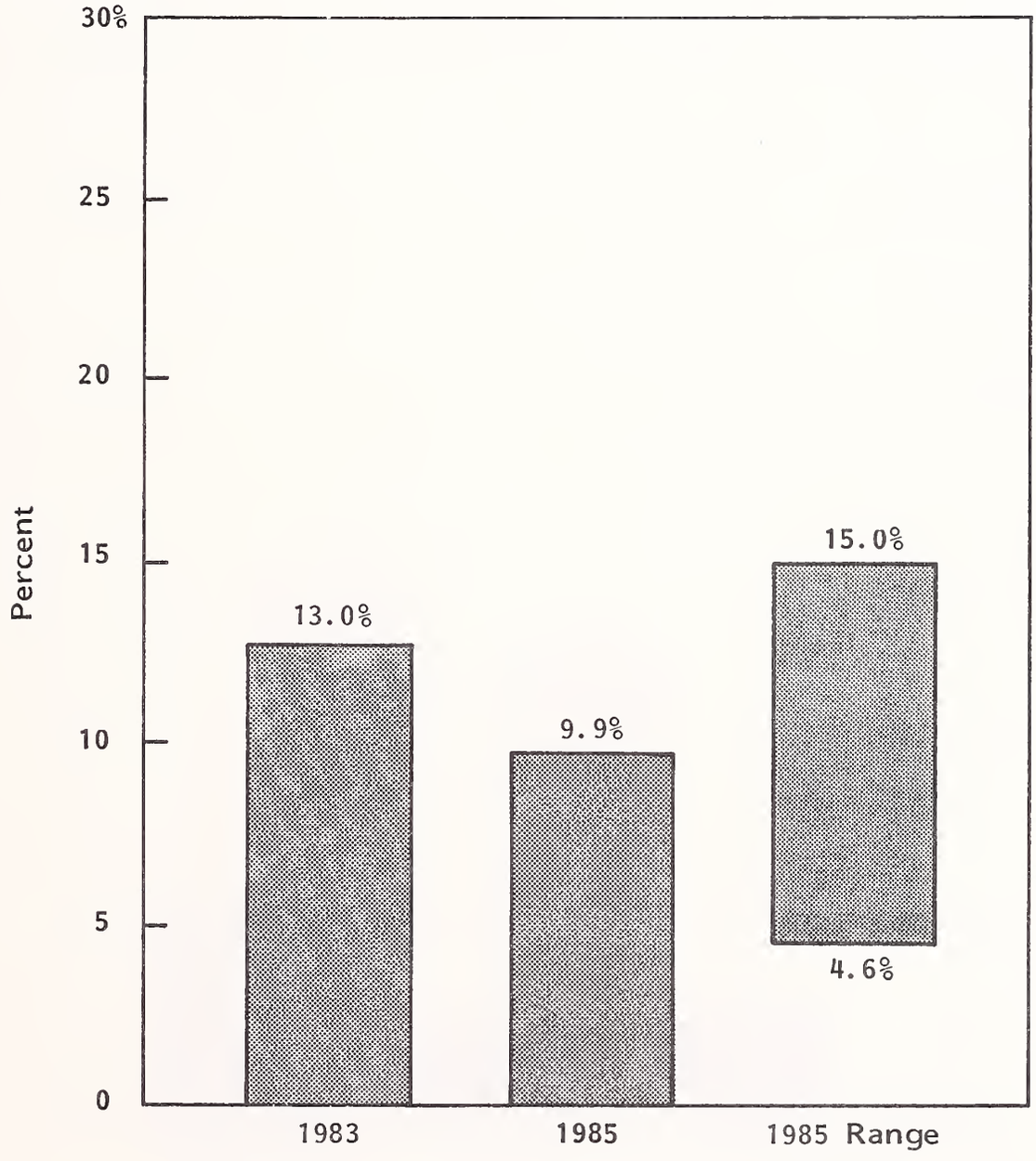
- System software follows the trend of most other products, with manufacturers anticipating a higher rate of price increases in 1985 than obtained in 1984--6.5% against 5.3%. Once again, the increase is being kept well below what vendors believe to be the users' tolerance limit of 12.3%.

- At over 14%, system software has a comparatively high maintenance price--purchase price ratio.

- See Exhibit III-19 for a summary.

EXHIBIT III-15

MAINTENANCE PRICE AS A PERCENT OF HARDWARE PRICE
IN EUROPE FOR PERSONAL COMPUTERS

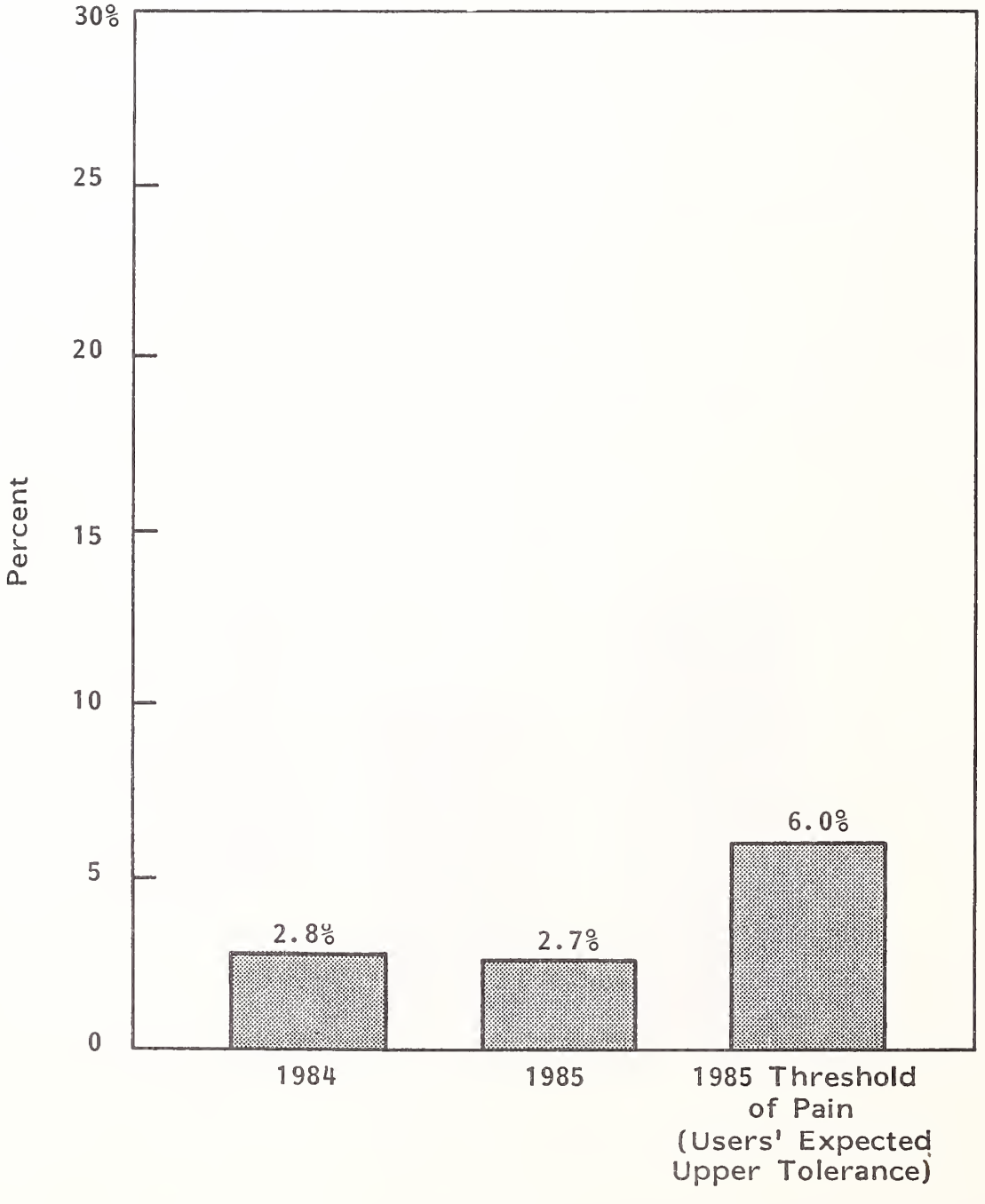


Number of Respondents = 12

SOURCE: INPUT Survey

EXHIBIT III-16

MAINTENANCE PRICE INCREASES - AVERAGES -
IN EUROPE FOR WORD PROCESSORS

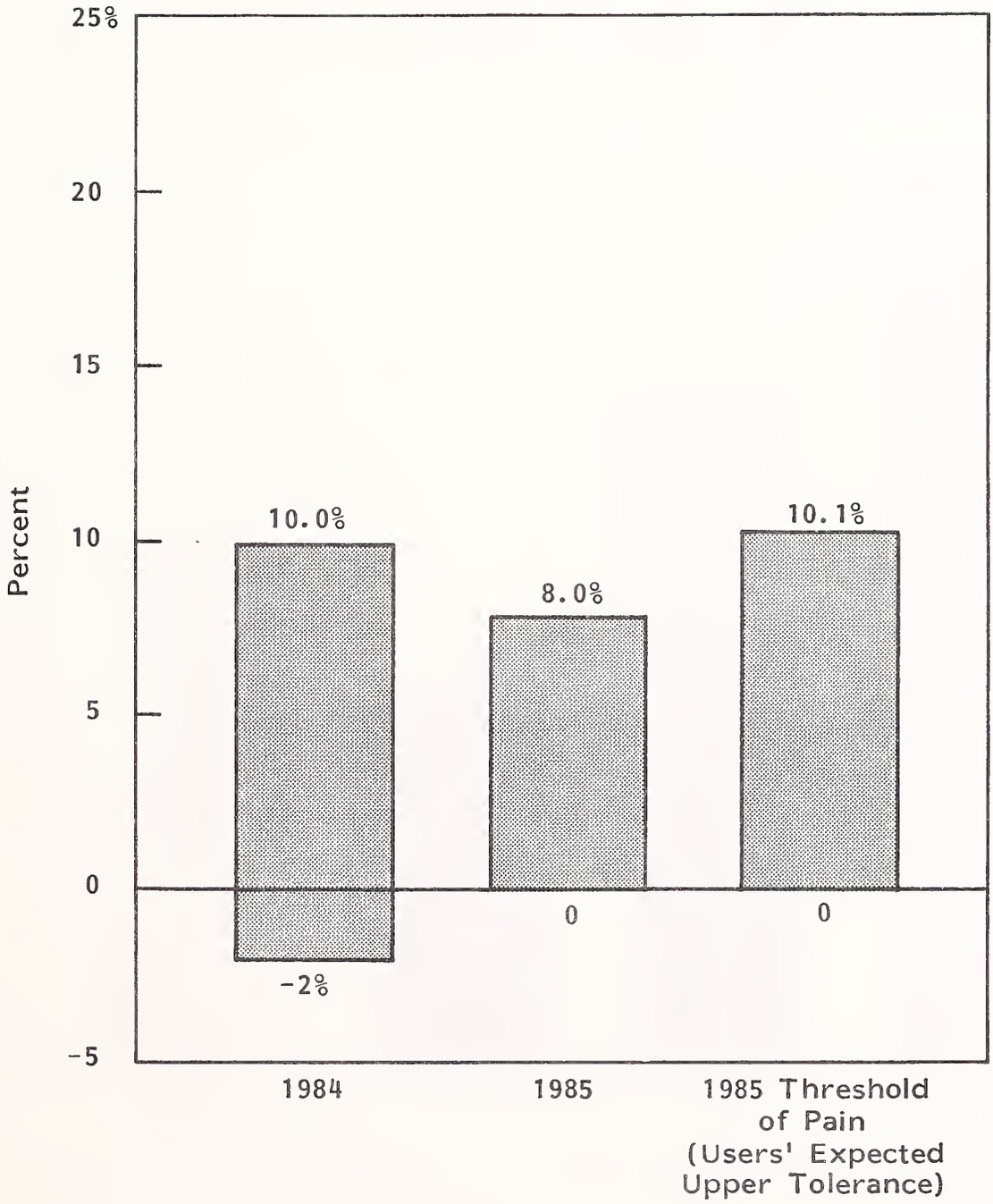


Number of Respondents = 11

SOURCE: INPUT Survey

EXHIBIT III-17

MAINTENANCE PRICE INCREASES - RANGES -
IN EUROPE FOR WORD PROCESSORS

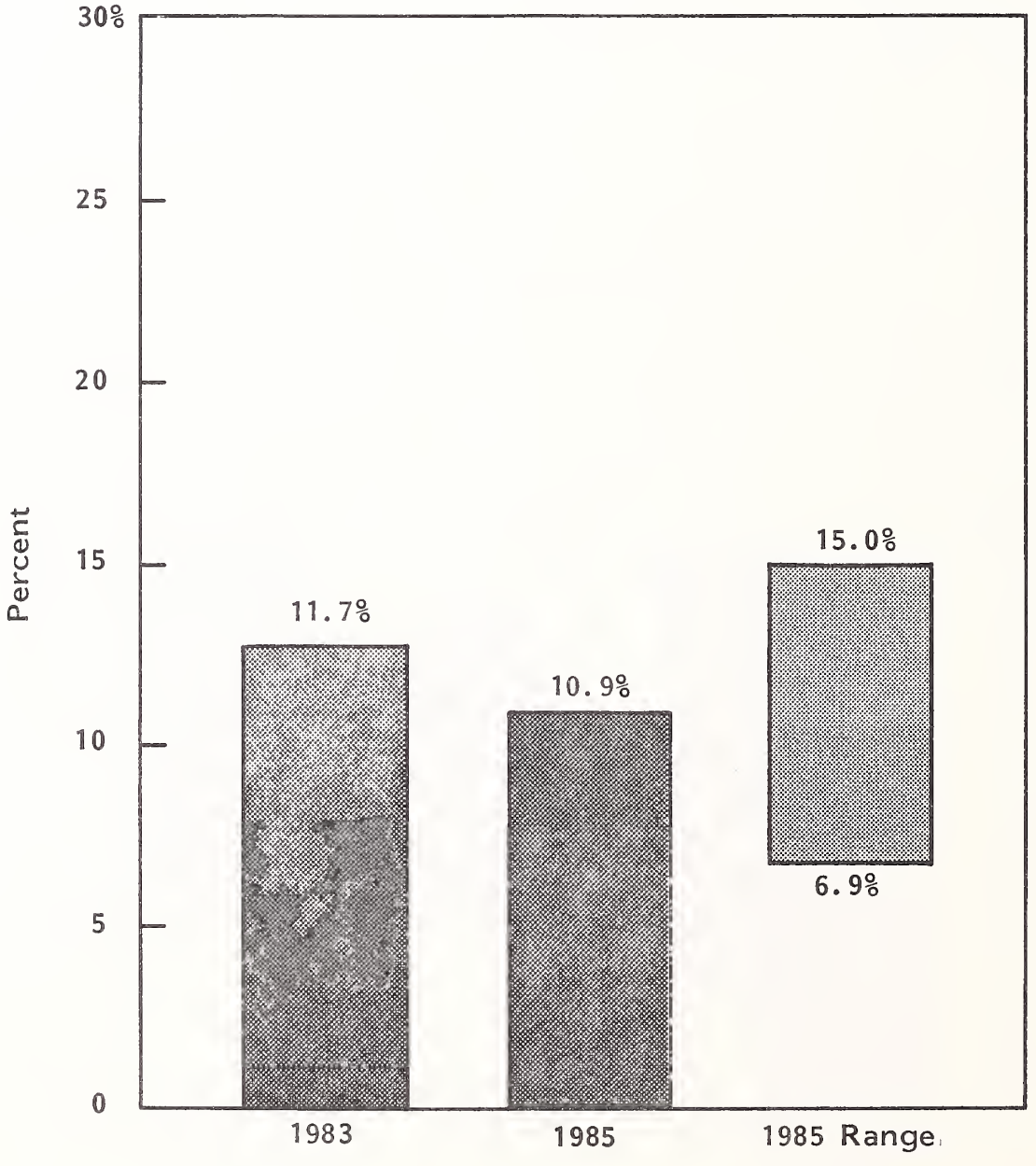


Number of Respondents = 11

SOURCE: INPUT Survey

EXHIBIT III-18

MAINTENANCE PRICE AS A PERCENT OF HARDWARE PRICE
IN EUROPE FOR WORD PROCESSORS

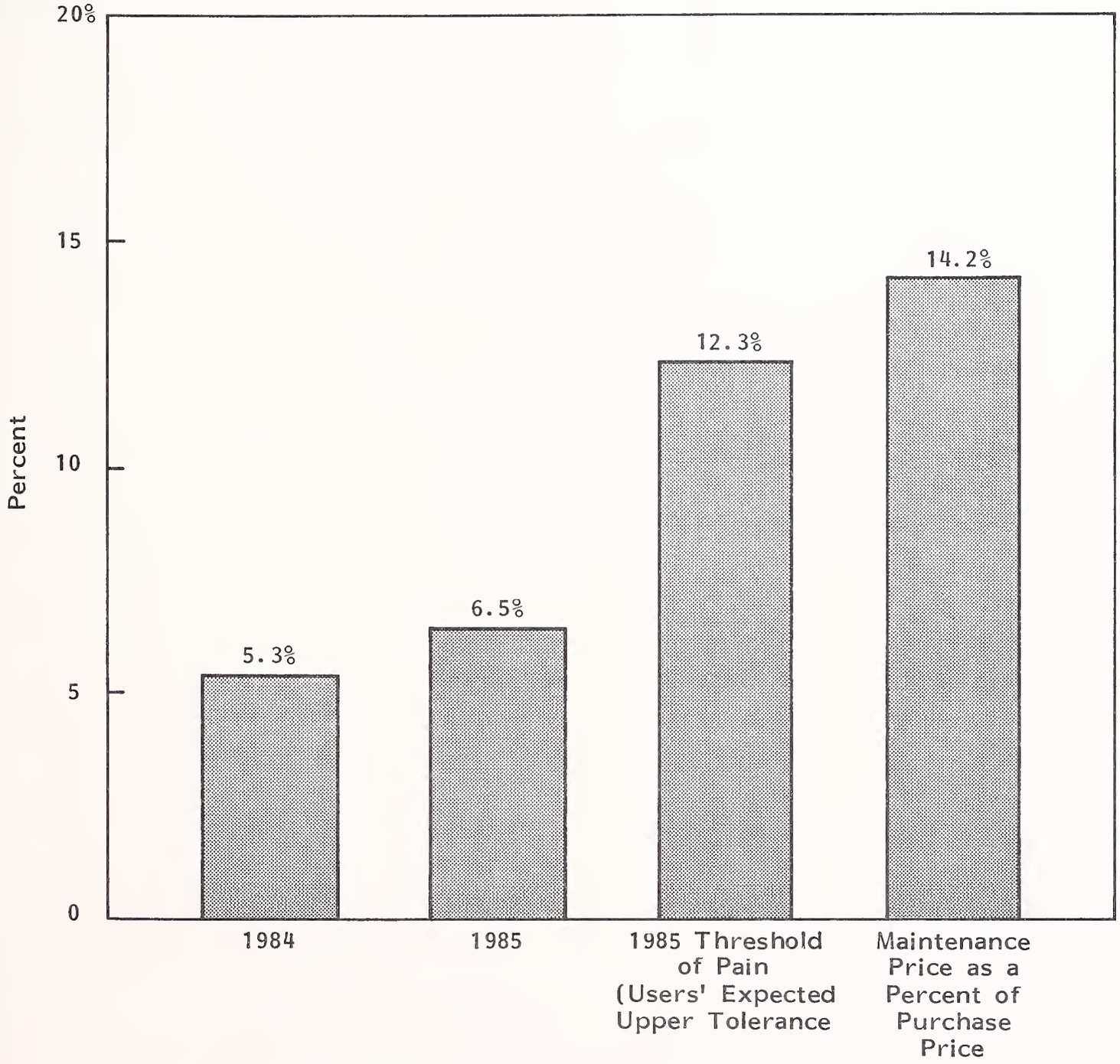


Number of Respondents = 11

SOURCE: INPUT Survey

EXHIBIT III-19

MAINTENANCE PRICE PARAMETERS
IN EUROPE FOR SYSTEM SOFTWARE



Number of Respondents = 5

Source: INPUT Survey

IV PRICE TRENDS AND FORECASTS, 1980-1990

IV PRICE TRENDS AND FORECASTS, 1980-1990

- As has been shown in Chapter III of this report and summarised in Exhibit IV-1, the main price squeeze has been on the lower value equipment--peripherals and terminals, data communications equipment, and personal computers.

- Exhibit IV-2 compares the anticipated price increases manufacturers expect for each of these product groups in 1985 against those obtained in 1984. The figures here confirm the trend by showing that vendors are expecting significantly higher increases for large system maintenance than all other product groups.

- It is reasonable to assume that over the medium term, therefore, this trend will continue. The main threat to this scenario is a greater involvement of independent maintainers in the large systems market sector. The current state of the TPM market in Europe suggests that a significant impact here is unlikely, as most TPM companies are targeting at the lower-value and small systems area.

- INPUT would suggest, therefore, that there is scope for vendors to increase maintenance prices for large systems at a rate higher than prevailing inflation rates.

- In the case of small systems, the outlook is more gloomy. INPUT expects price competition to intensify as a number of TPM companies expand their

EXHIBIT IV-1

PRICE TRENDS - PRODUCT ANALYSIS

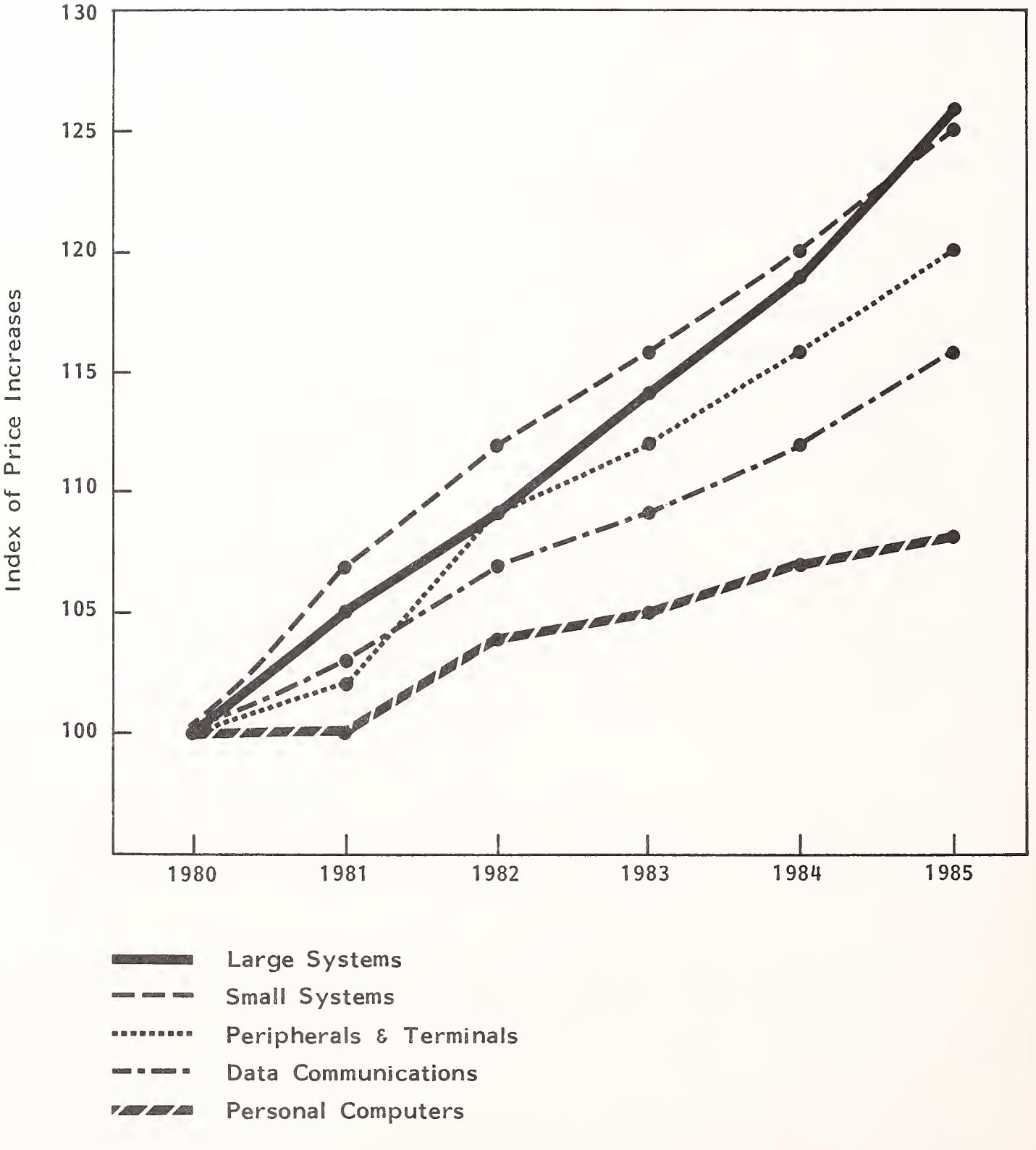
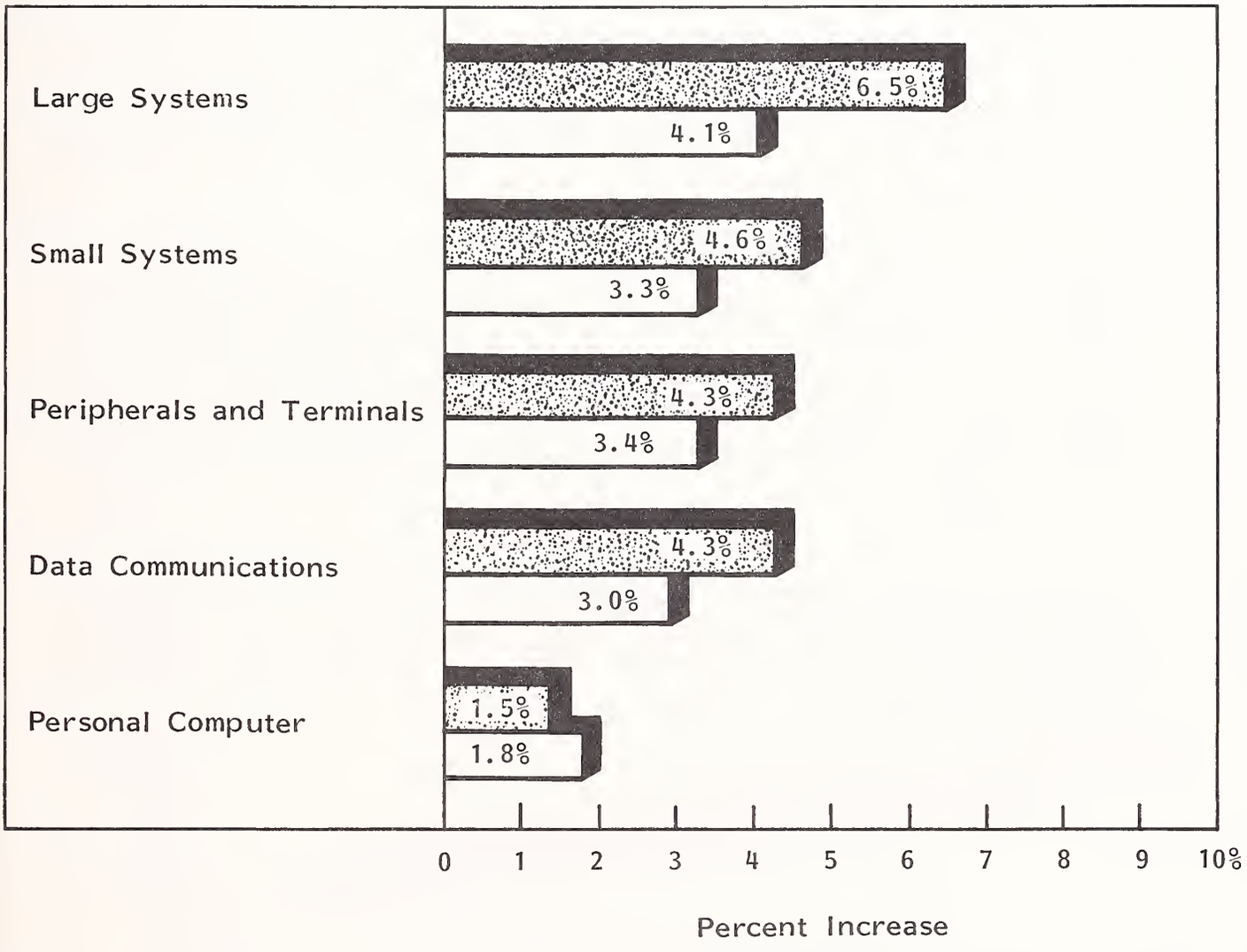


EXHIBIT IV-2

PLANNED PRICE INCREASES IN 1985 - PRODUCT GROUPS



Source: INPUT Survey

operations from being PC- and peripheral-oriented to also covering small systems. There are a number of TPM companies already active in this area, and although most do not regard price cutting as their main marketing tool, there is no doubt that their presence in the market is having a price impact. This scenario suggests that, at best, vendors will be able to keep prices in line with inflation, but are more likely to be forced into continuing the trend of real-time price declines.

- Peripherals and terminals and data communications equipment are likely to follow a similar path to small systems, with prices failing to reach prevailing levels of inflation.

- As far as personal computers and word processors are concerned, the price issues are more complex. On the one hand, market competition suggests that prices will continue to be depressed, falling steadily in real terms. On the other hand, there comes a point at which service becomes uneconomical at such low prices, and either prices will begin to rise or service techniques will have to change.

- The price forecasts shown in Exhibits IV-3 through IV-8 are based on the assumptions outlined above and the inflation rate forecast assumed in the June 1985 OECD economic outlook.

EXHIBIT IV-3

PRICE TRENDS INDEX 1984-1990
GERMANY
(At Out-Turn Prices)

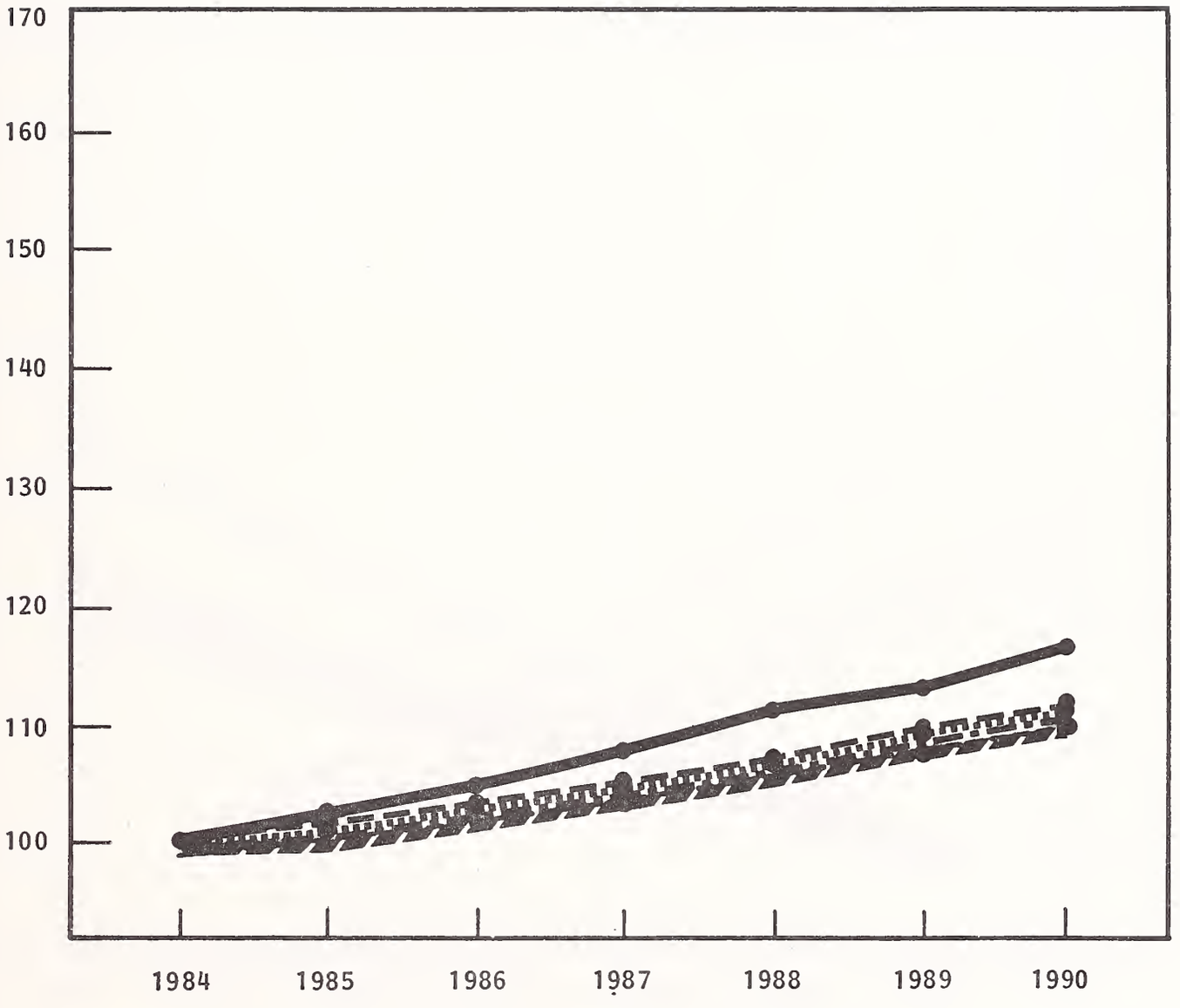


EXHIBIT IV-4

PRICE TRENDS INDEX 1984-1990
FRANCE
(At Out-Turn Prices)

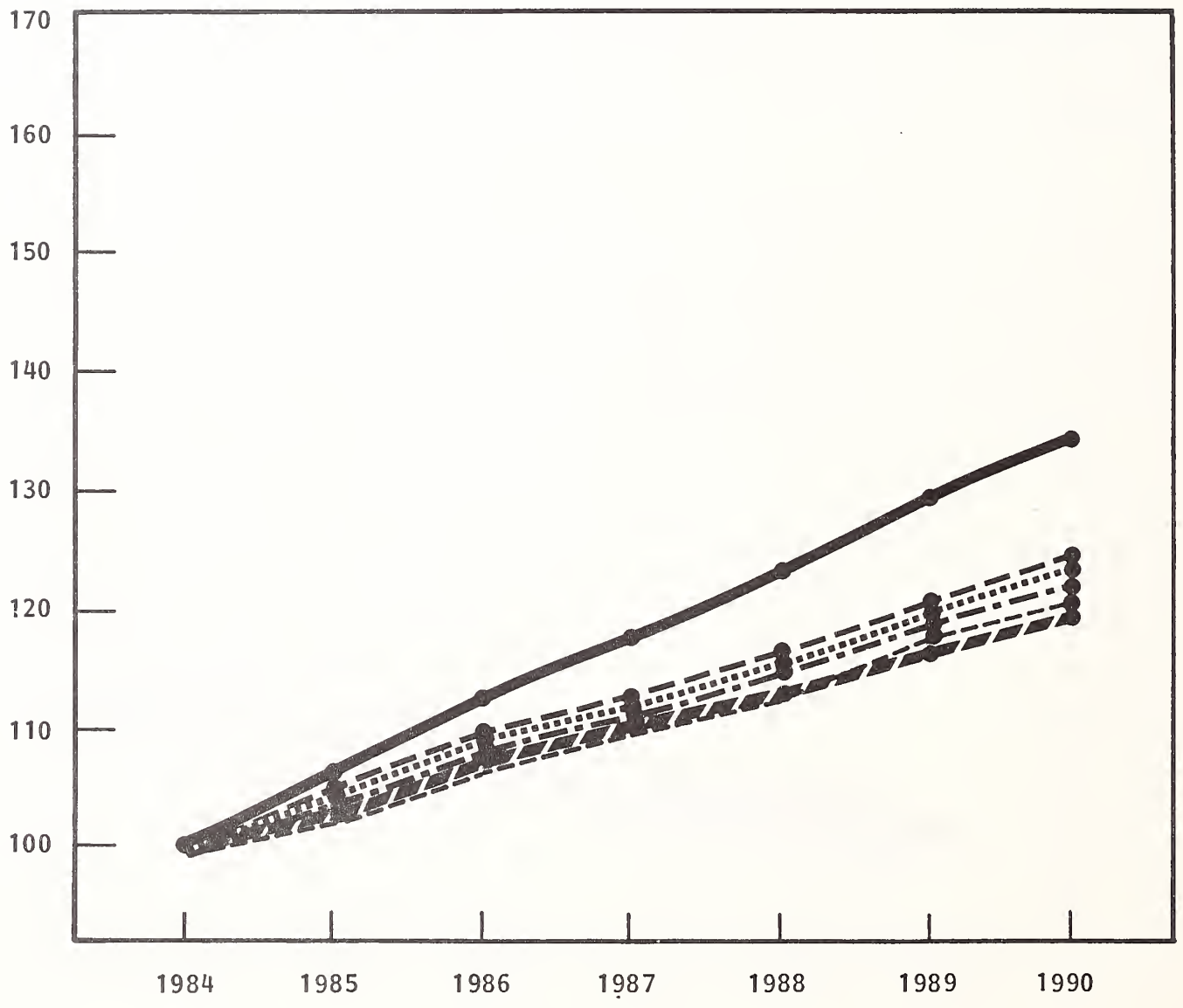


EXHIBIT IV-5

PRICE TRENDS INDEX 1984-1990
UNITED KINGDOM
(At Out-Turn Prices)

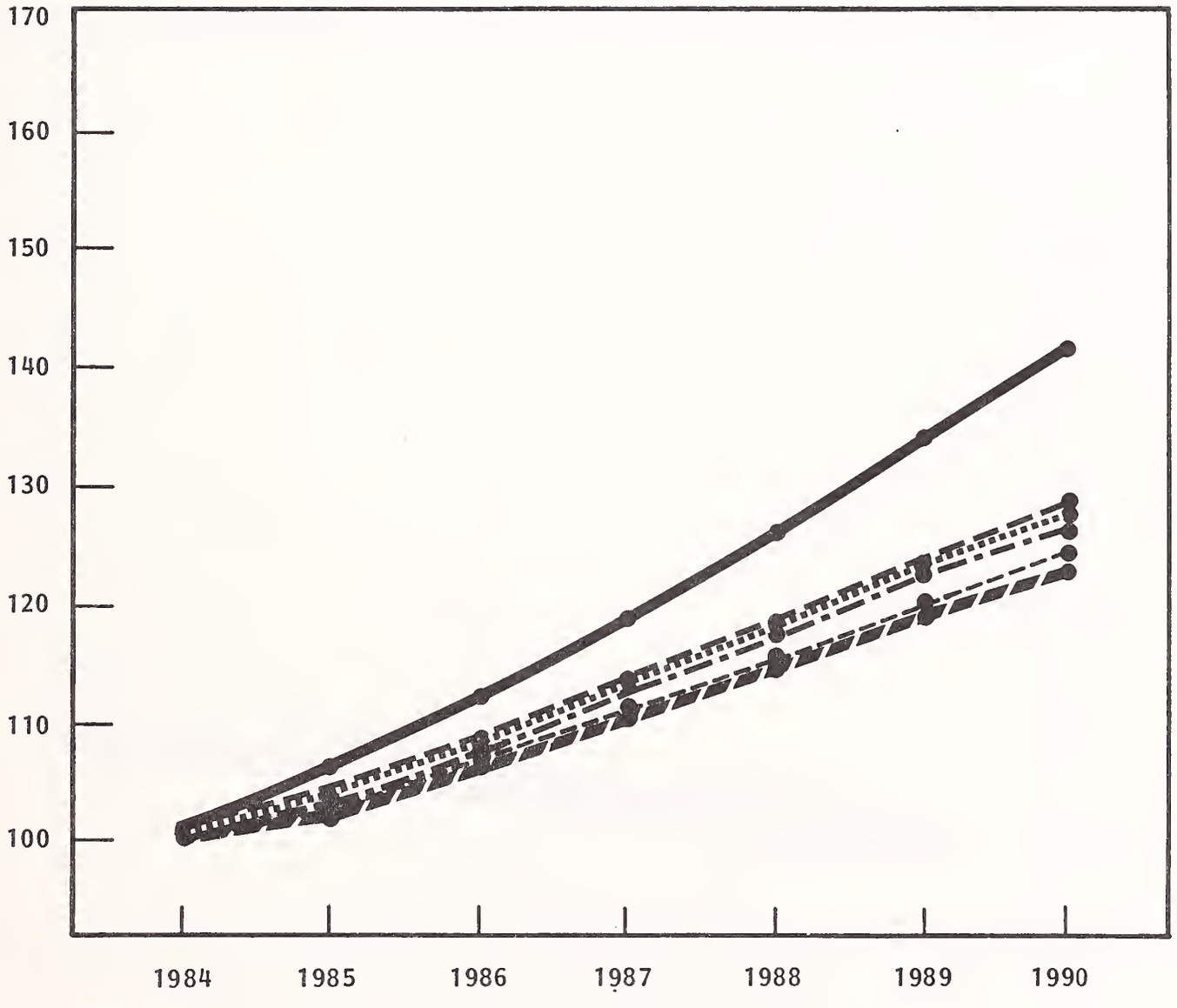
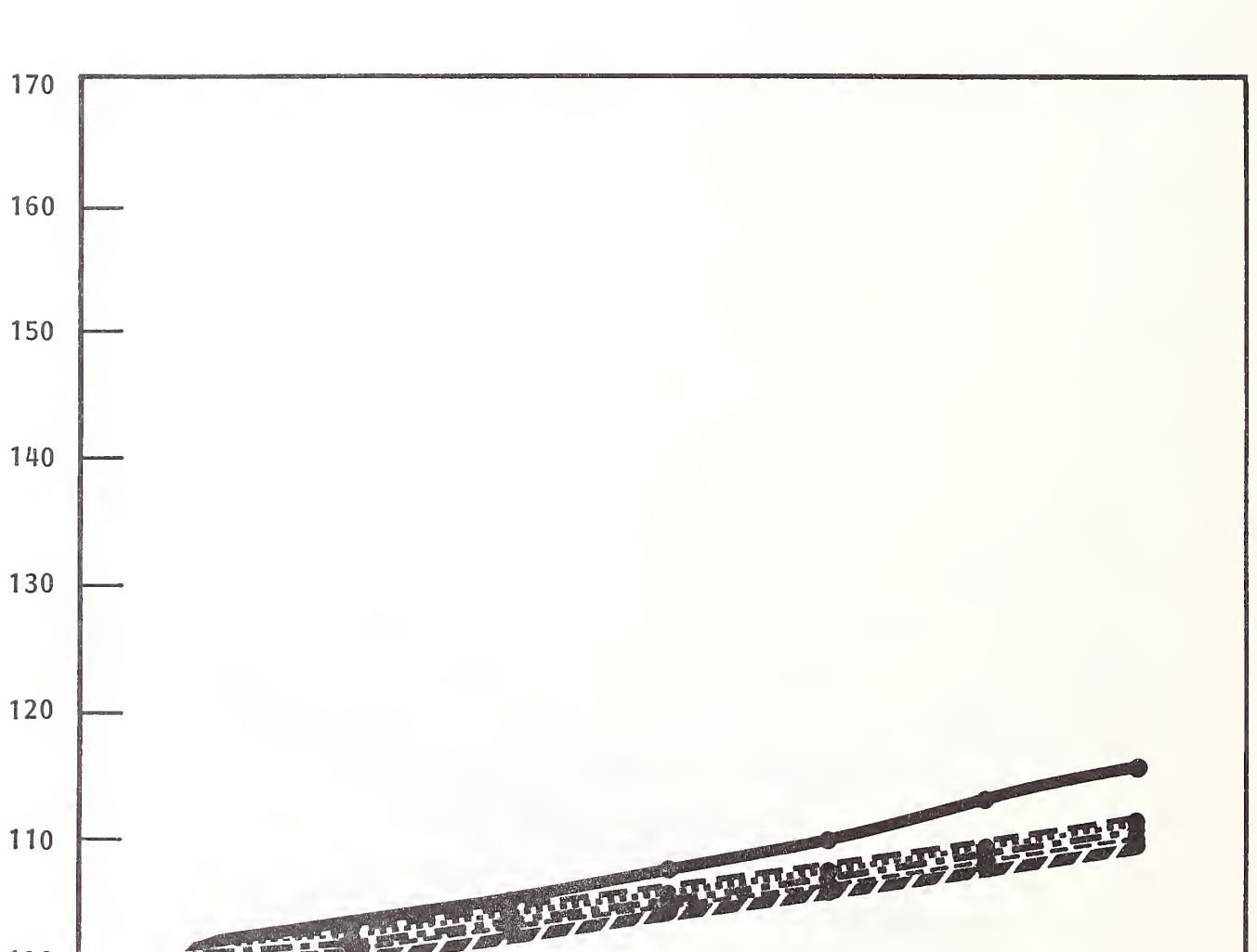


EXHIBIT IV-6

PRICE TRENDS INDEX 1984-1990
BENELUX
(At Out-Turn Prices)



Large Systems
Small Systems
Peripherals & Terminals
Data Communications
Personal Computers
Word Processors

INPUT Forecast

EXHIBIT IV-7

PRICE TRENDS INDEX 1984-1990
SCANDINAVIA
(At Out-Turn Prices)

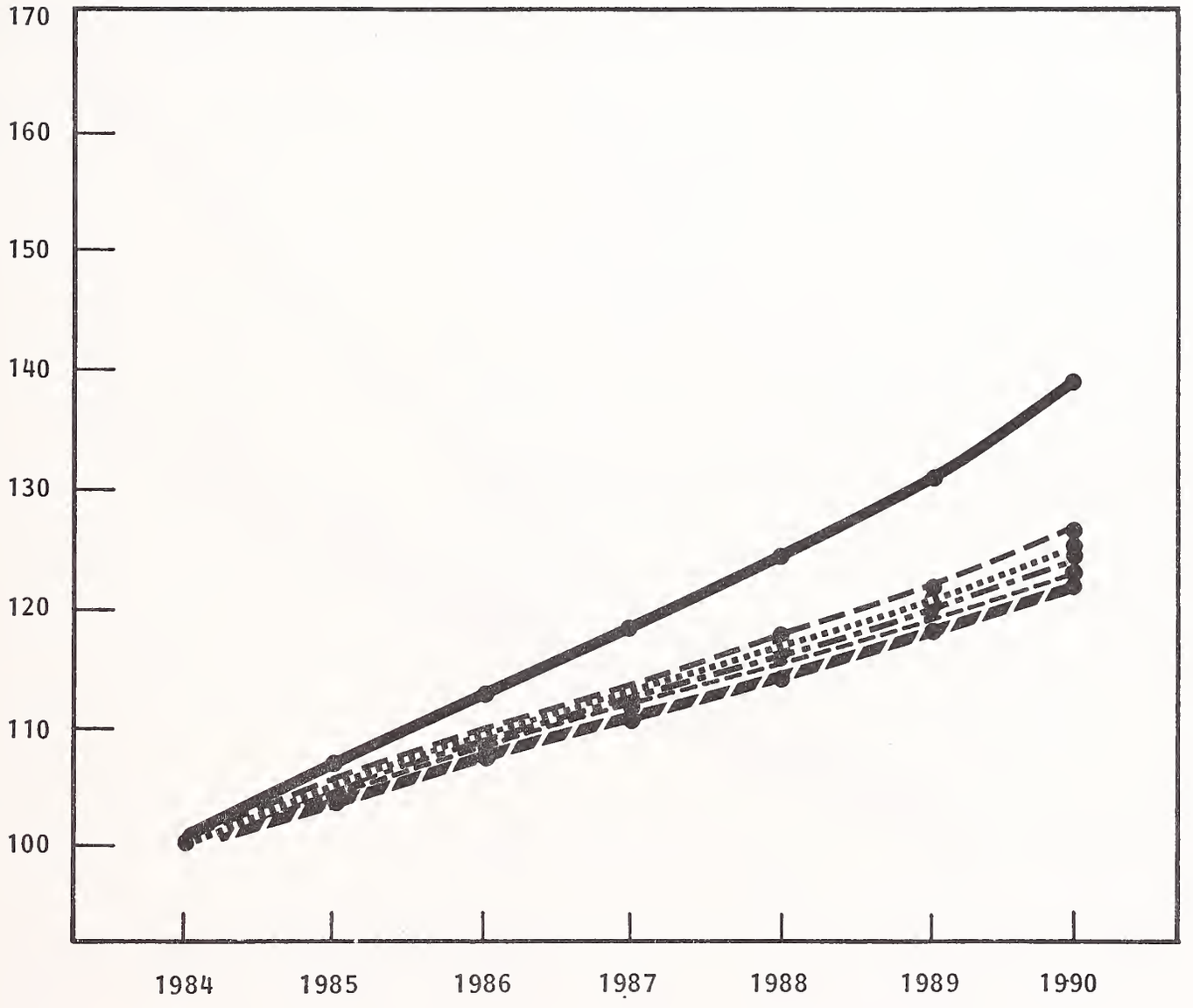
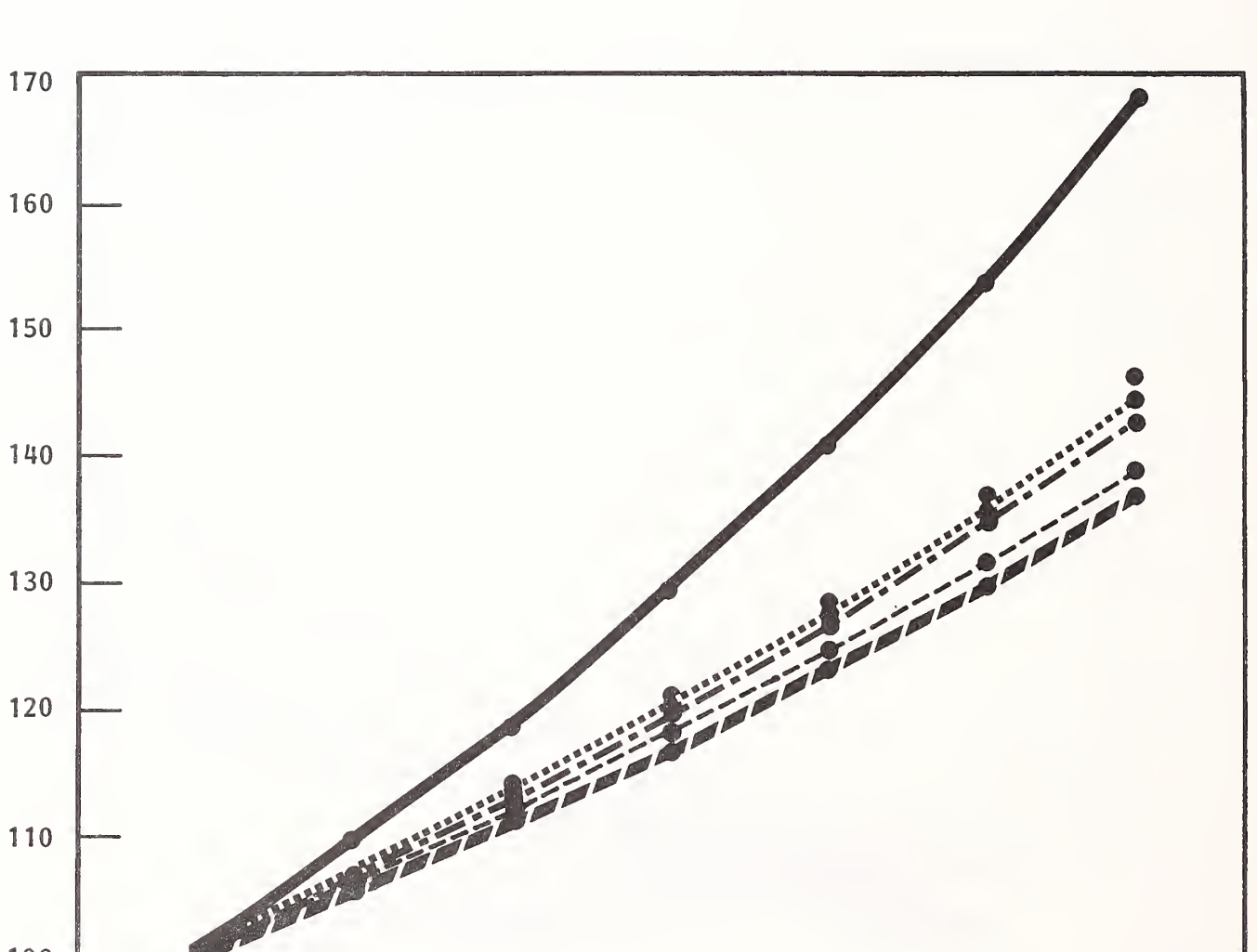


EXHIBIT IV-8

PRICE TRENDS INDEX 1984-1990
ITALY
(At Out-Turn Prices)



V DISCOUNTS FOR USER ASSISTANCE

V DISCOUNTS FOR USER ASSISTANCE

- Respondents were asked to indicate the level of discount they would be prepared to offer for user assistance. Exhibits V-1 through V-5 show the range of discounts that would be allowed; there is considerable divergence in views.

- The most popular option is encouraging users to take equipment to a repair centre, although one vendor is prepared to offer up to a 50% discount for helping to replace boards.

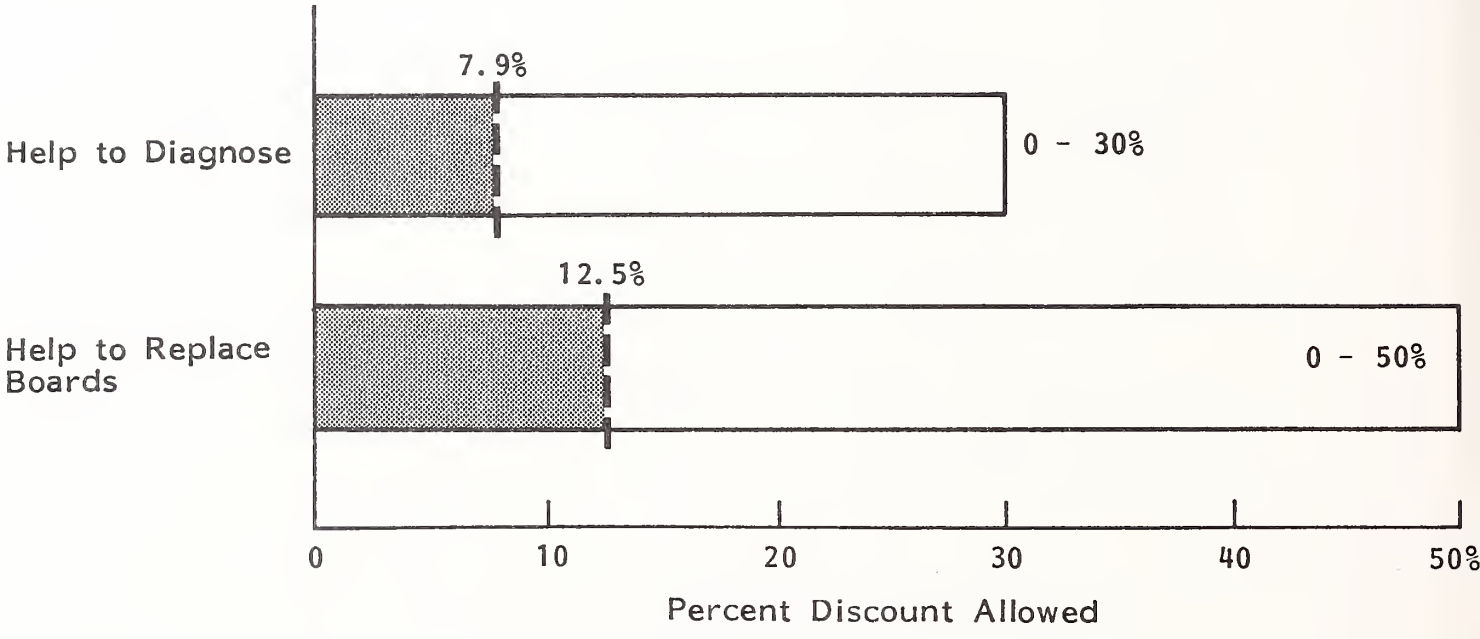
- Helping with diagnosis is often a condition included in the service contract, and few vendors are prepared to offer a discount to the user. In some cases, the use of remote diagnostic support is a pre-condition of such a discount. Where discounts are offered, they average 4.2%, with the highest percentage being for large systems, 7.9% (see Exhibit V-6).

- There is more enthusiasm about offering discounts for user help in board replacement. Although the level of discount being offered is fairly high, as shown in Exhibit V-7, less than one-third of respondents were keen to discount their service. Some vendors are positively hostile to the idea of users becoming involved in board swapping.

- Not surprisingly, the most popular area for discount, and the one which most vendors will underwrite, is for the delivery of machines to repair centres. Although discounts range from a low of 2.5% to a high of 40%, the most

EXHIBIT V-1

DISCOUNTS ALLOWED FOR USER ASSISTANCE - LARGE SYSTEMS
RANGE



= Average

EXHIBIT V-2

DISCOUNTS ALLOWED FOR USER ASSISTANCE - SMALL SYSTEMS RANGE

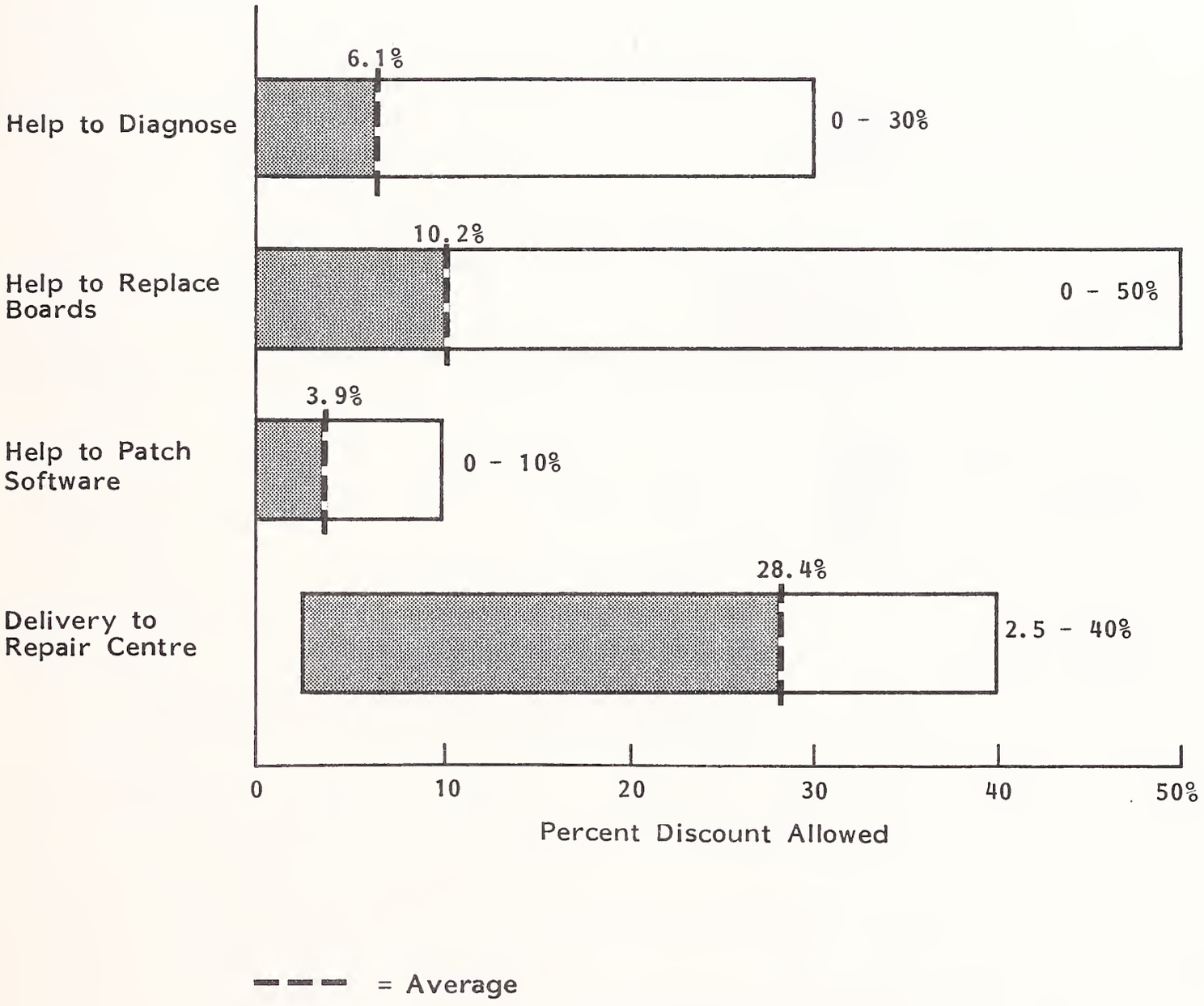
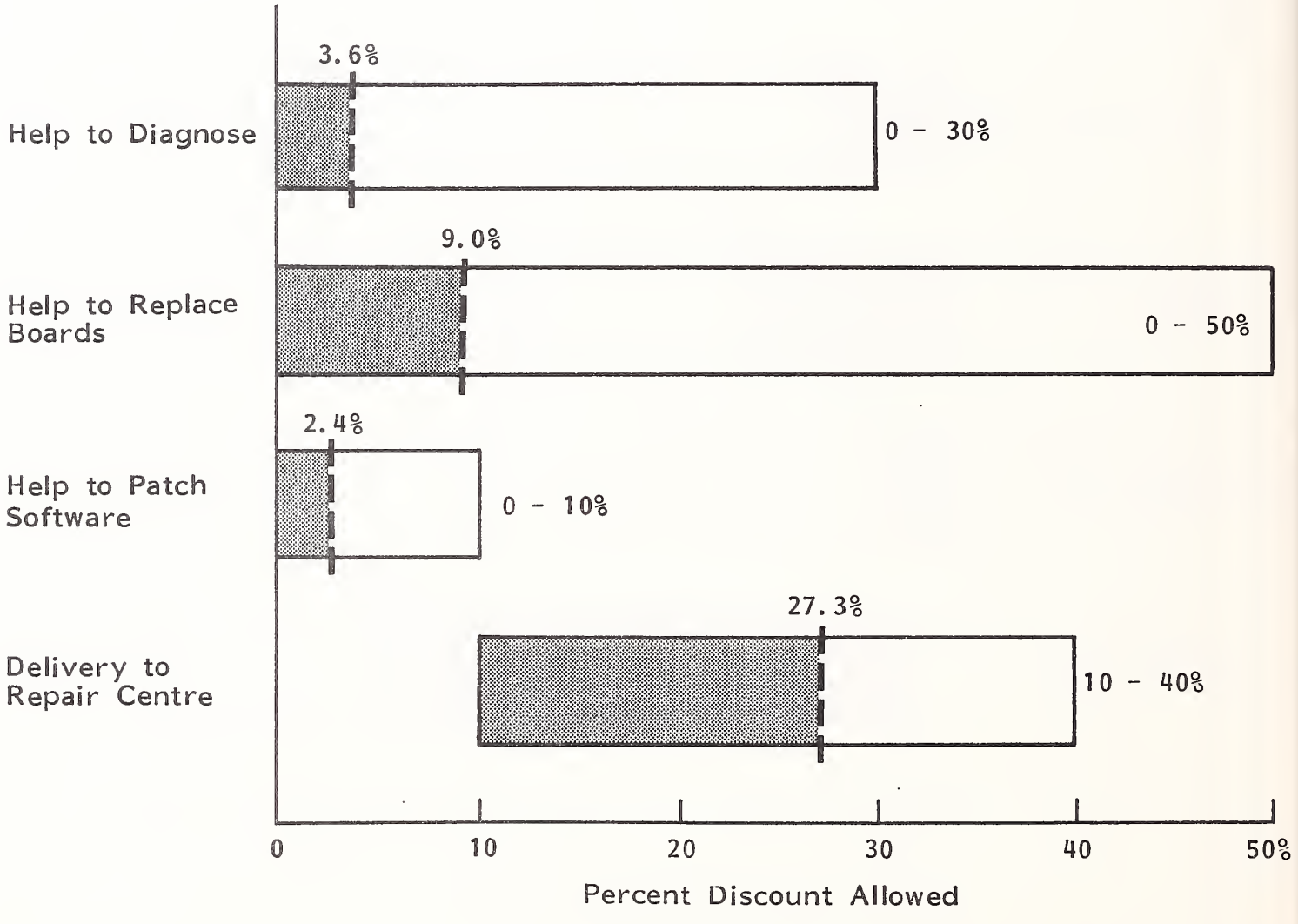


EXHIBIT V-3

DISCOUNTS ALLOWED FOR USER ASSISTANCE - PERIPHERALS AND TERMINALS
RANGE



= Average

EXHIBIT V-4

DISCOUNTS ALLOWED FOR USER ASSISTANCE - DATA COMMUNICATIONS RANGE

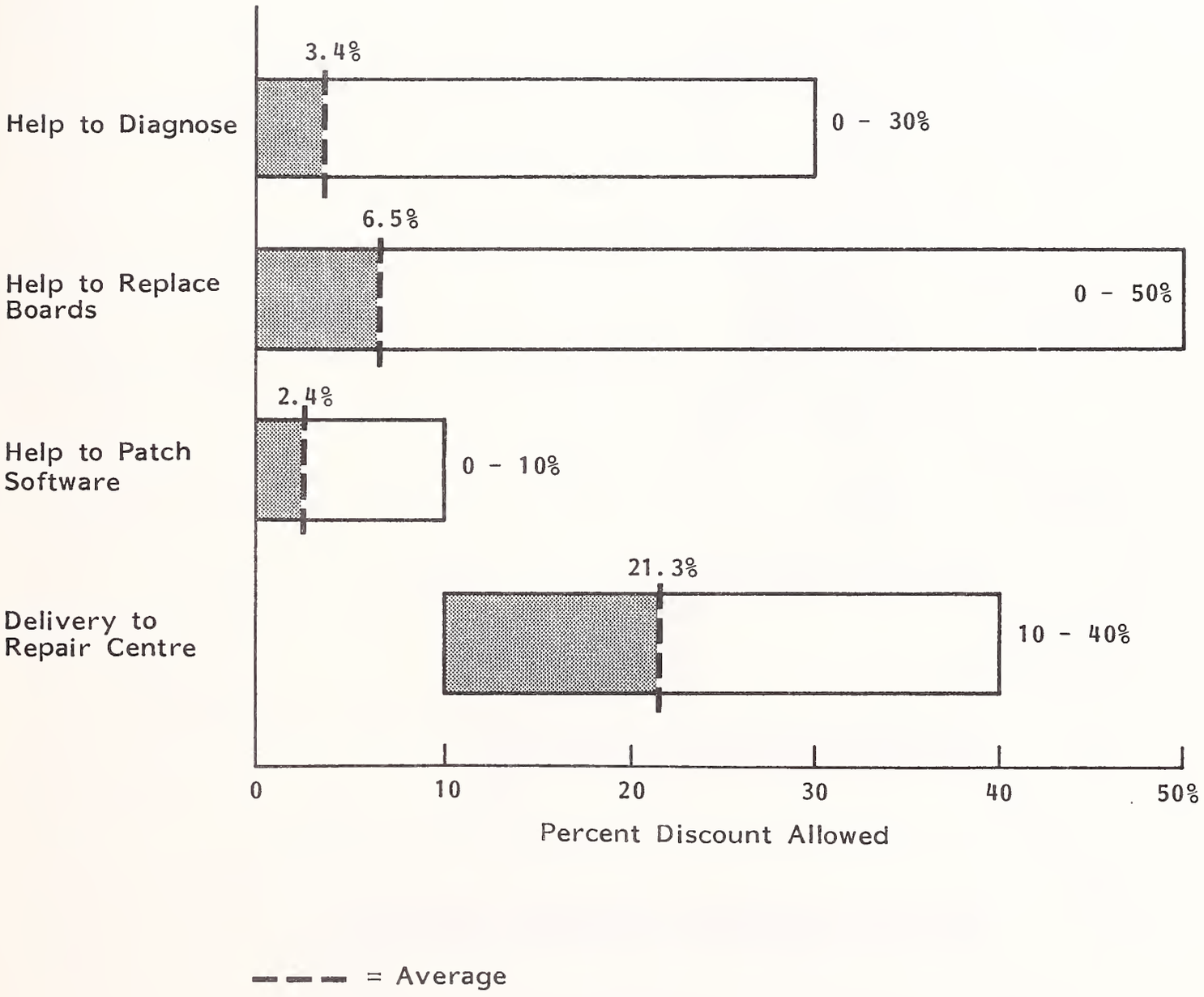


EXHIBIT V-5

DISCOUNTS ALLOWED FOR USER ASSISTANCE - PERSONAL COMPUTERS RANGE

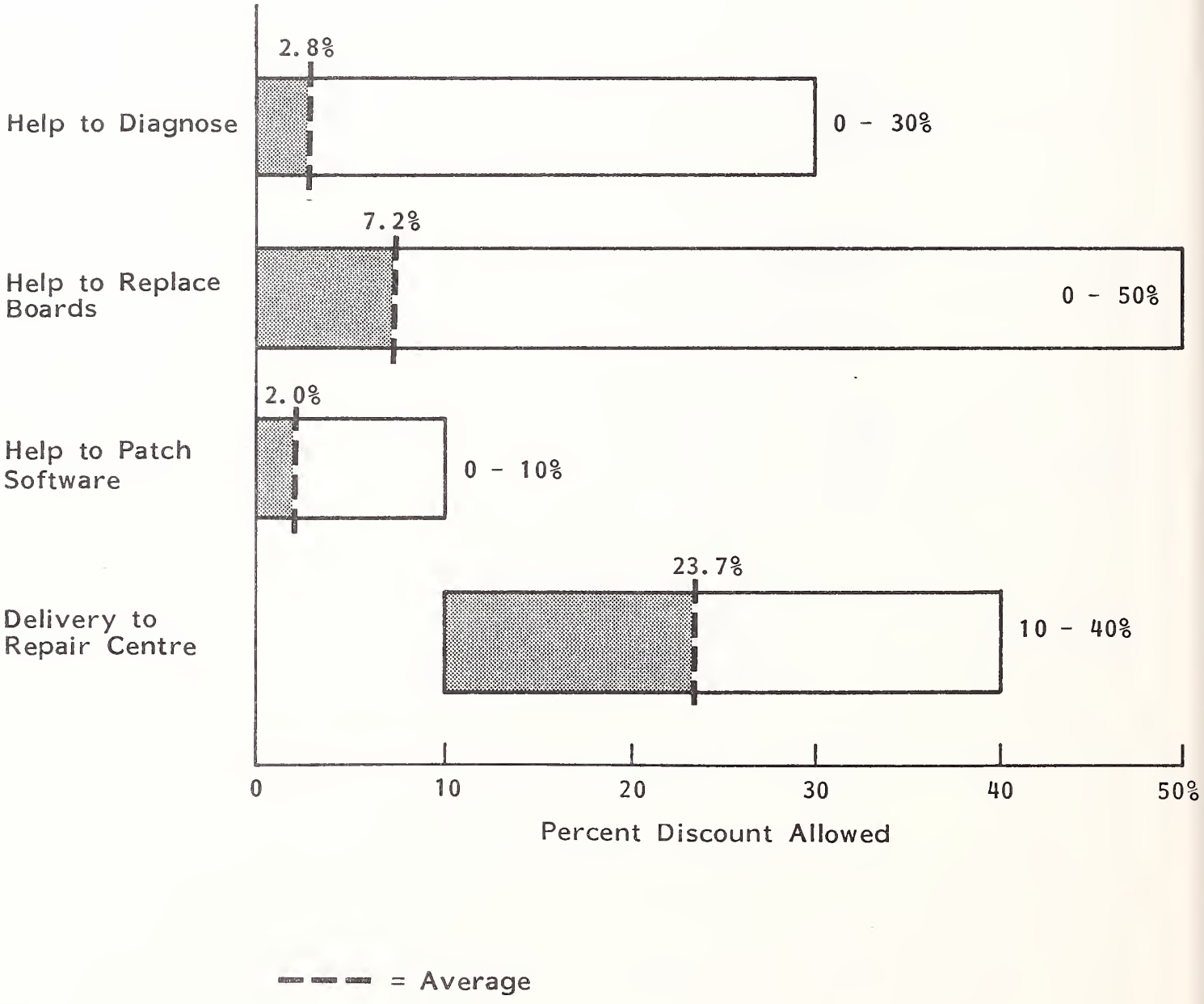


EXHIBIT V-6

DISCOUNTS ALLOWED FOR USER ASSISTANCE: HELPING WITH DIAGNOSIS

(Averages)

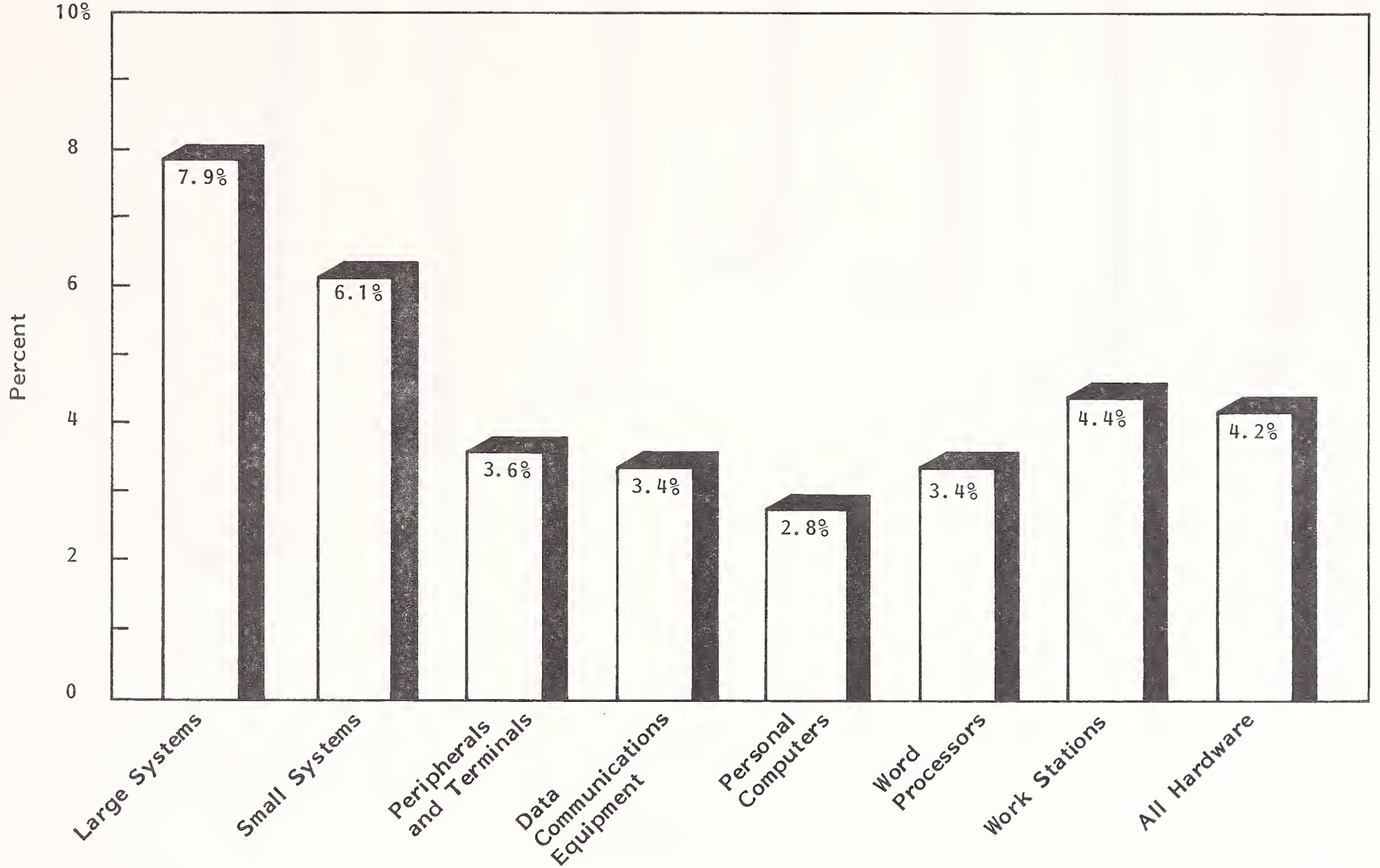
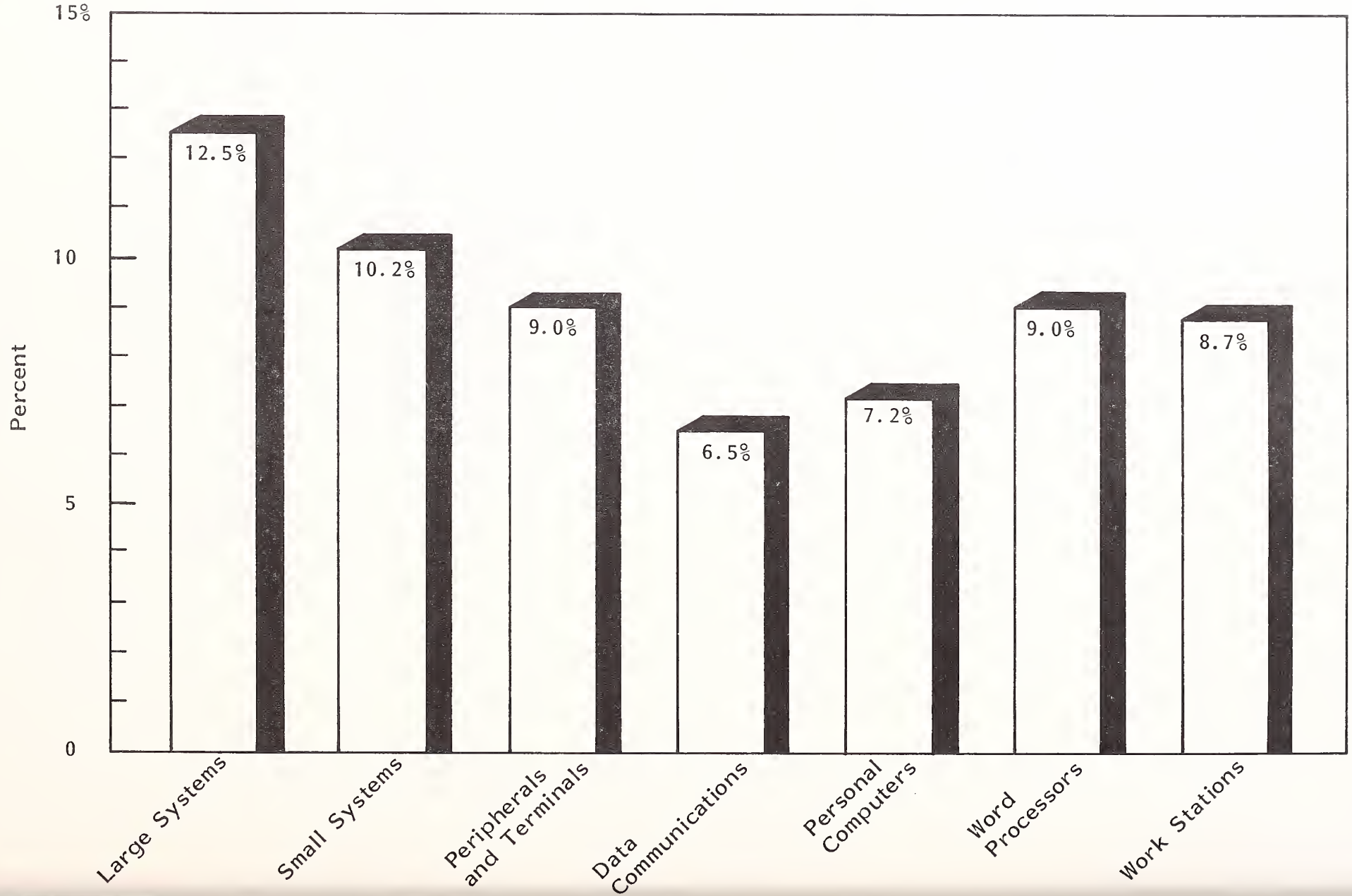


EXHIBIT V-7

DISCOUNTS ALLOWED FOR USER ASSISTANCE: HELPING TO REPLACE BOARDS

(Averages)

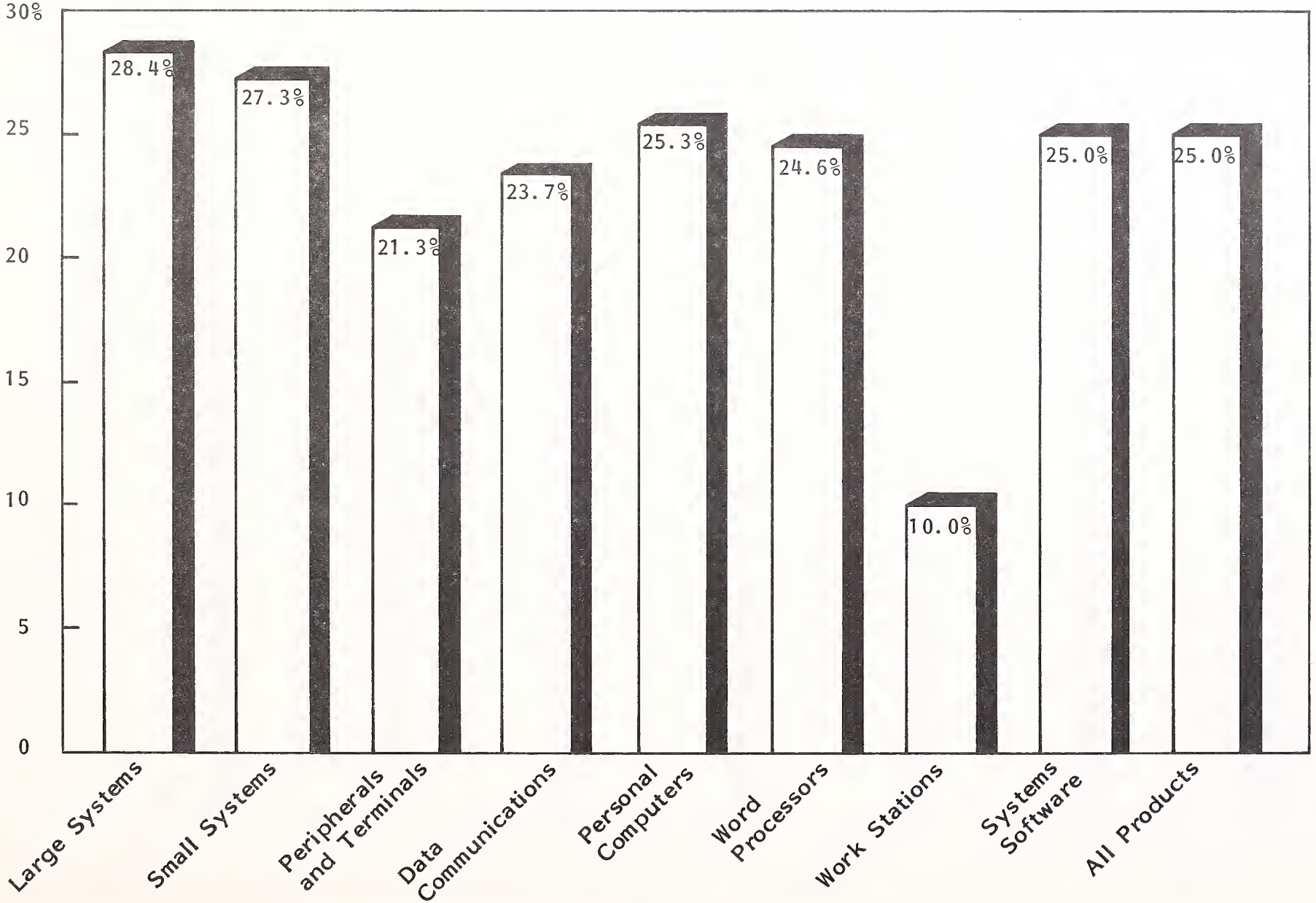


popular levels are 30% and 40% (see Exhibit V-8). Obviously not all equipment is suitably portable, so the discounts offered in the case of large systems are probably entirely realistic.

EXHIBIT V-8

DISCOUNTS ALLOWED FOR USER ASSISTANCE: DELIVERY OF PORTABLE MACHINES TO REPAIR CENTRE

(Average)



VI PROVISION OF DIFFERENT CONTRACTS

VI PROVISION OF DIFFERENT CONTRACTS

A. WILLINGNESS TO OFFER DIFFERENT CONTRACTS

- Vendors were asked to say how willing they were to offer the following contract options:
  - Multi-year contracts.
  - Automatic renewal of contracts.
  - Annual invoicing.
  - More flexibility within the contract.
  - User self-maintenance.
- Most vendors were very willing to offer these variations with one major exception--user self-maintenance. They were very strongly against this option in all product groups except (and then only marginally so) personal computers where some vendors were prepared to offer the option.
- Multi-year contracts are generally popular, particularly for small systems and peripherals/terminals.

- Automatic renewal of contracts, not surprisingly, is the most popular option among vendors.

- Exhibits VI-1 through VI-6 show both the range of responses and the averages.

B. PRICING IMPLICATIONS OF DIFFERENT CONTRACTS

- There is a world of difference between being prepared to offer the various options and encouraging users to take up those options by offering significant price incentives.

- The vendor views about these discounts are summarised in Exhibits VI-7 through VI-12.

- For most of the options, where vendors say they are enthusiastic about offering the facility, they are much more reluctant to offer discounts.

  - For multi-year contracts the discounts offered range from 5.6% for peripherals/terminals down to 3% for large systems. A number of vendors are not prepared to offer any discount at all.

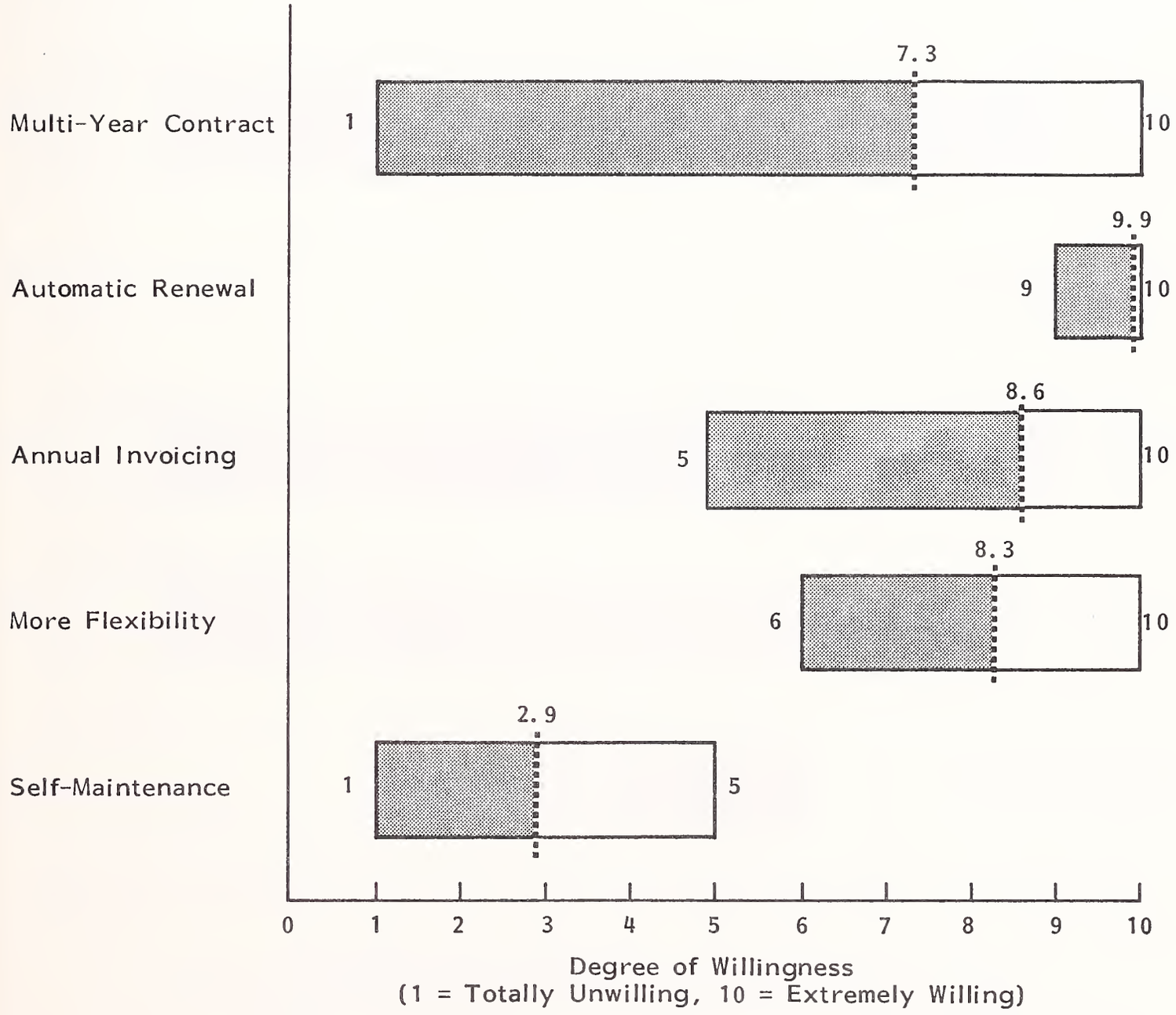
  - Very few vendors are prepared to offer any discount at all for automatic renewal. In fact, many regard it as a standard business practice.

  - For annual invoicing most vendors offer a discount, but there are some who expect a premium for the facility.

  - When considering providing greater flexibility, it is more difficult to be precise, as the level of premium/discount would depend on the degree of flexibility expected. Where different prices are involved, they range between a discount of 30% and a premium of 30%.

EXHIBIT VI-1

WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS
AVERAGE AND RANGE: LARGE SYSTEMS

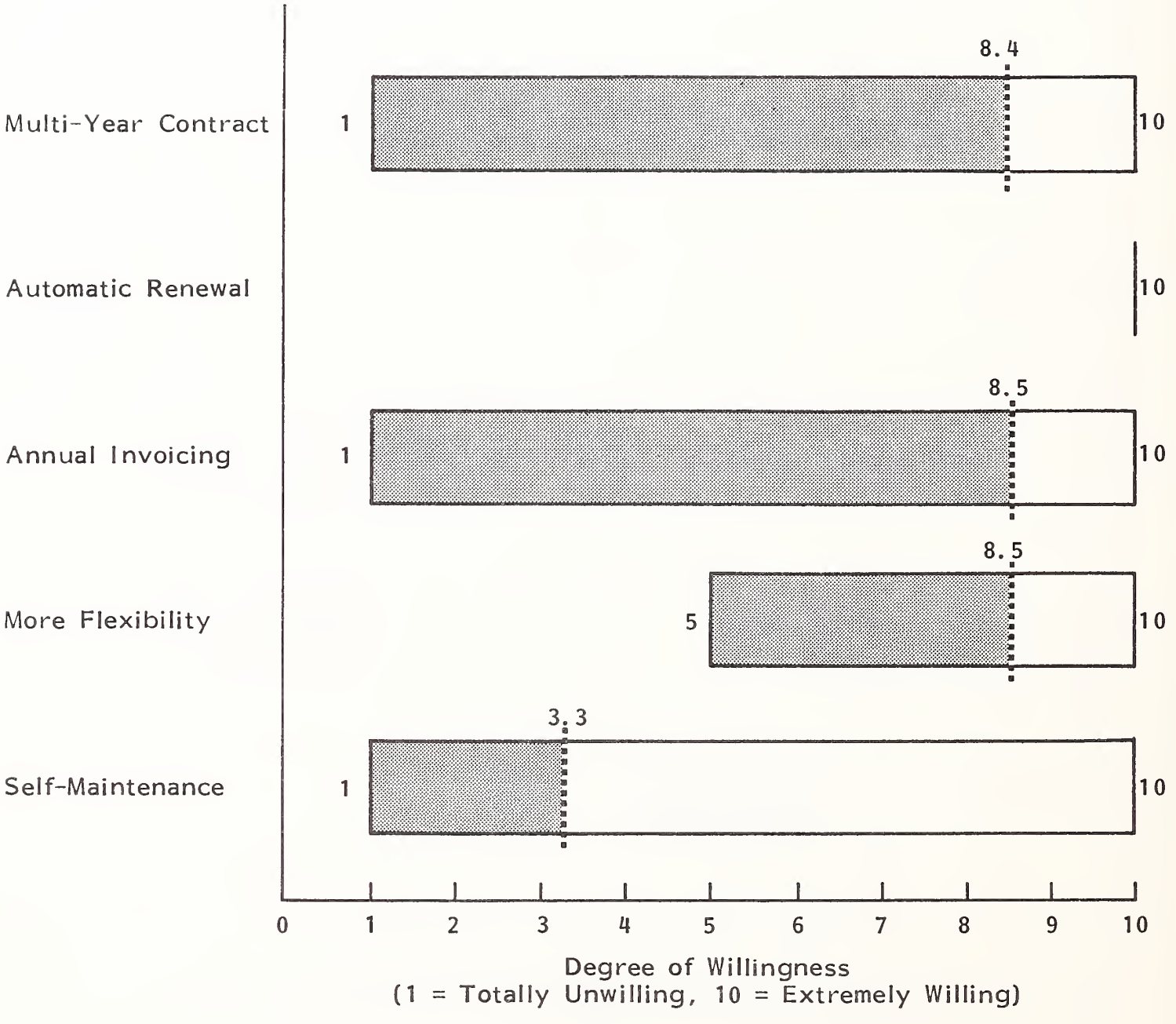


Number of Responses = 8

..... = Average

EXHIBIT VI-2

WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS
AVERAGE AND RANGE: SMALL SYSTEMS

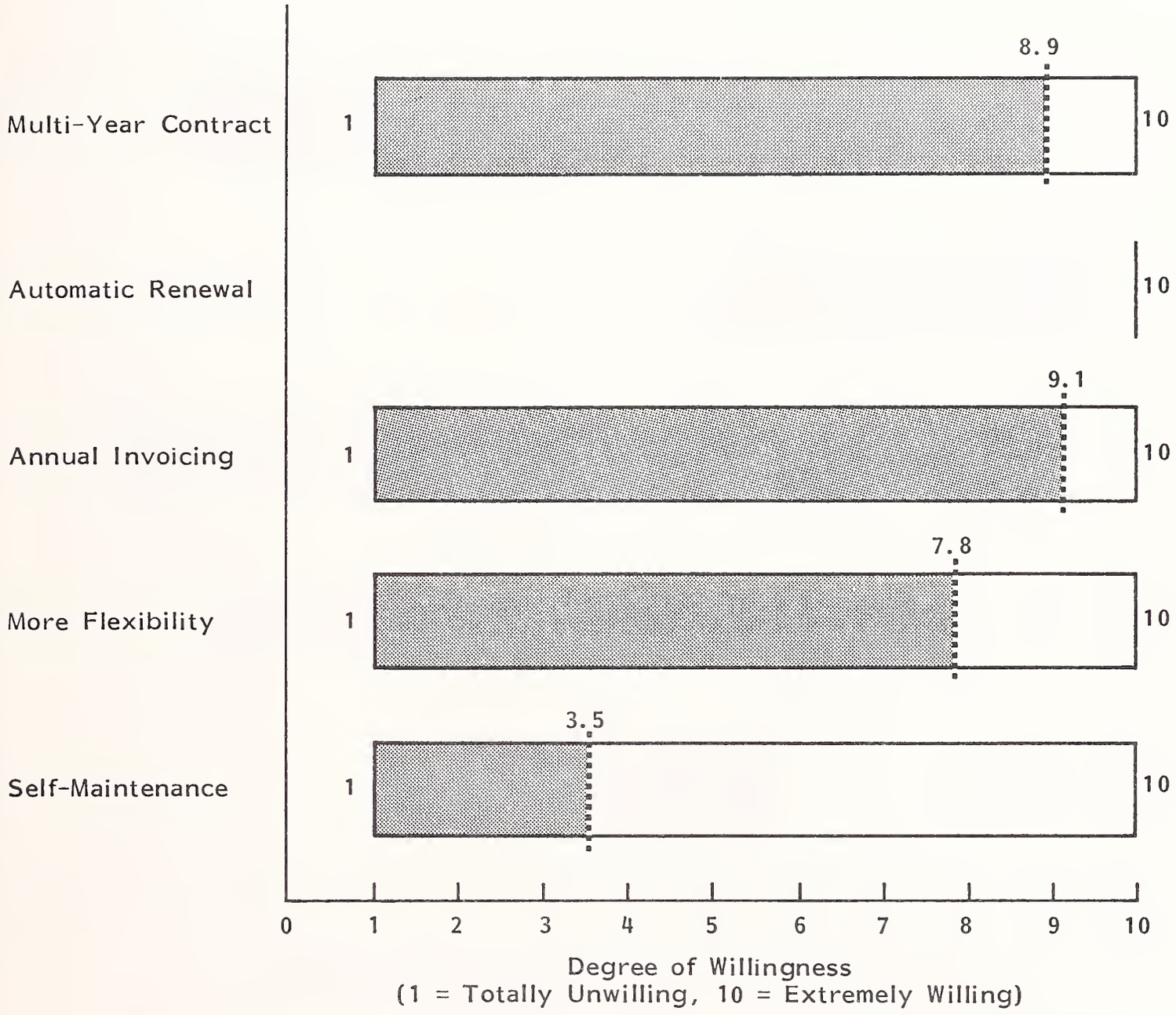


Number of Responses = 18

▪▪▪▪▪▪▪▪ = Average

EXHIBIT VI-3

WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS
AVERAGE AND RANGE: PERIPHERALS AND TERMINALS

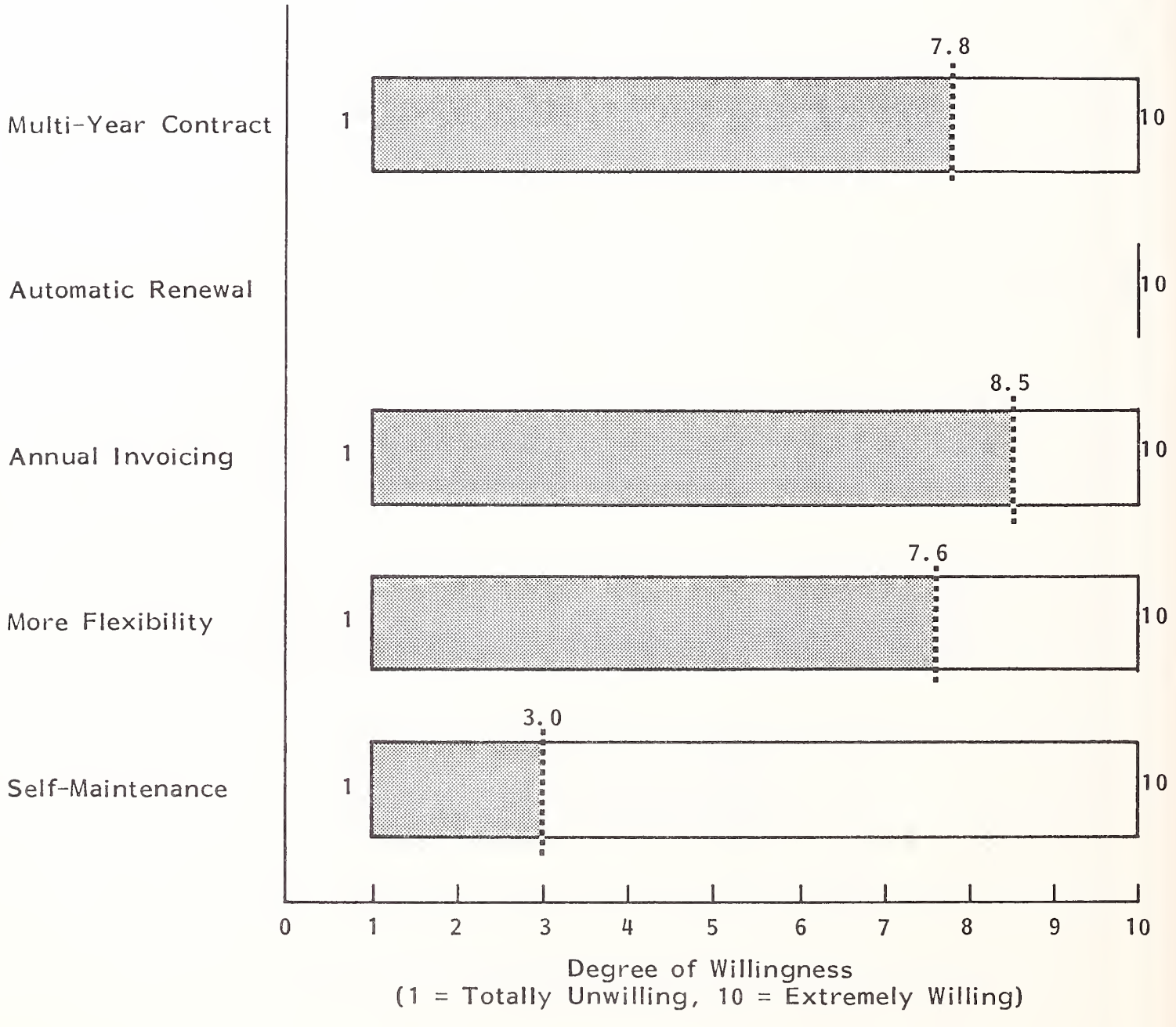


Number of Responses = 12

••••••••• = Average

EXHIBIT VI-4

WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS
AVERAGE AND RANGE: DATA COMMUNICATIONS EQUIPMENT

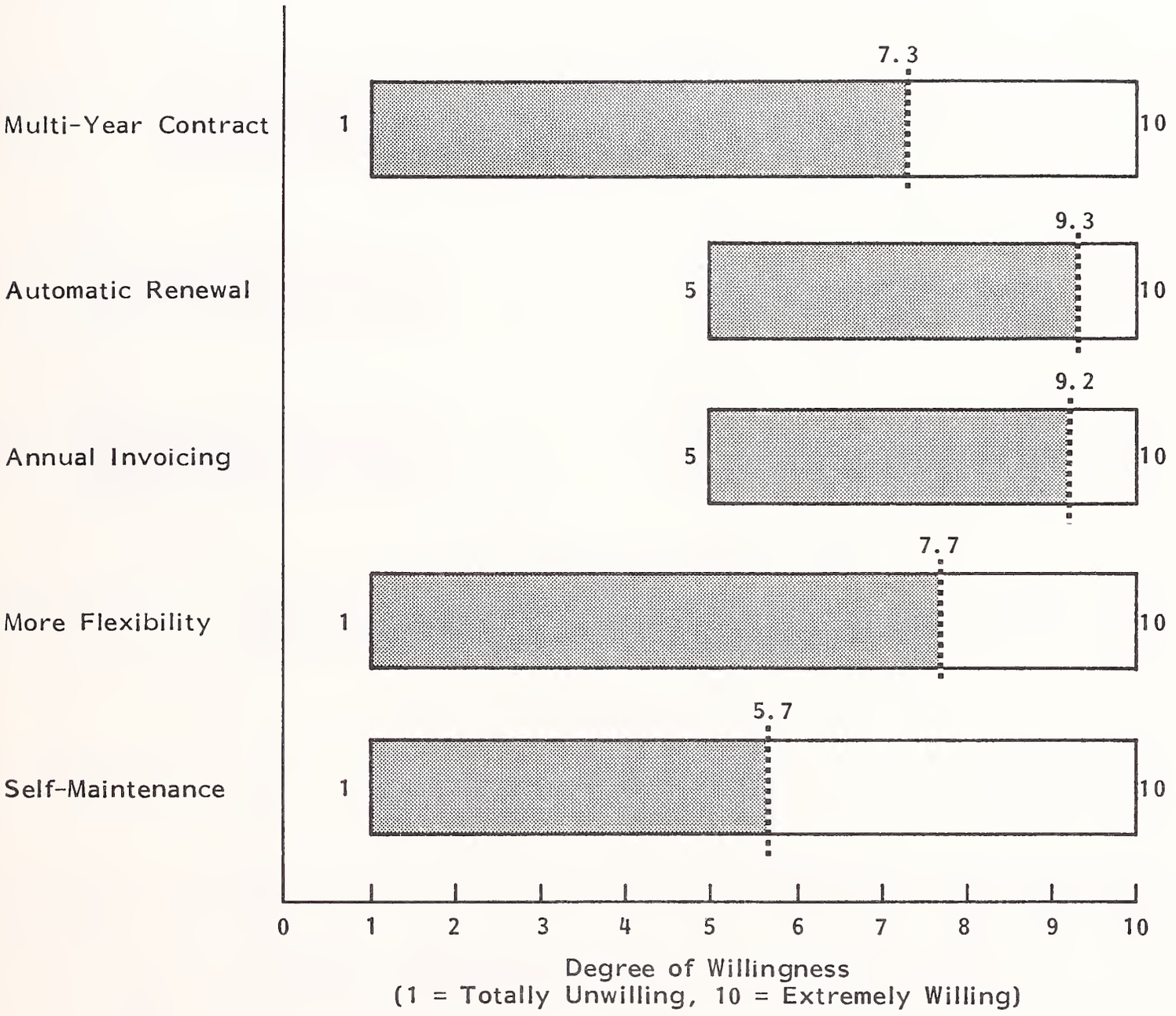


Number of Responses = 11

••••••••• = Average

EXHIBIT VI-5

WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS
AVERAGE AND RANGE: PERSONAL COMPUTERS

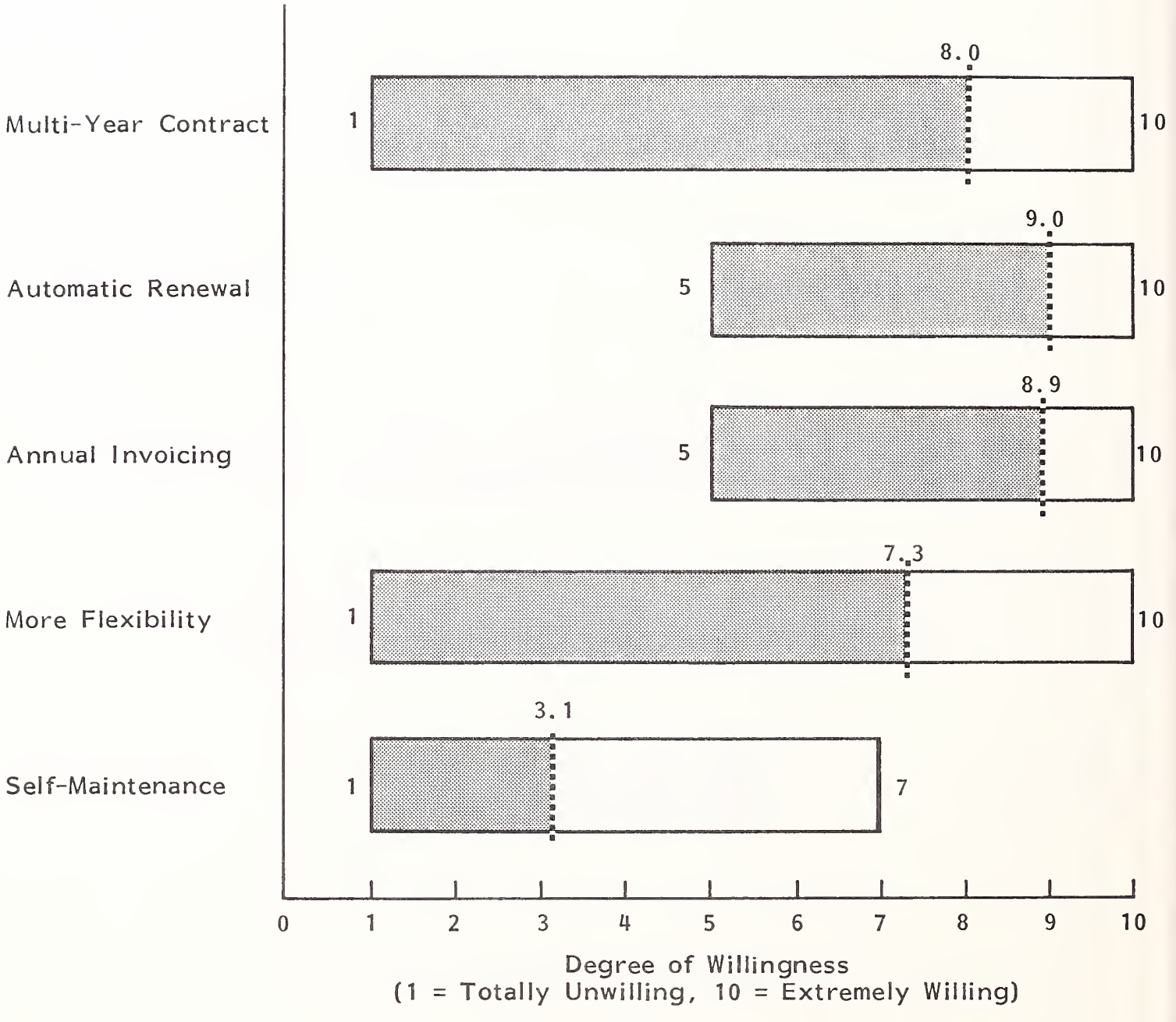


Number of Responses = 13

..... = Average

EXHIBIT VI-6

WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS
AVERAGE AND RANGE: WORD PROCESSORS

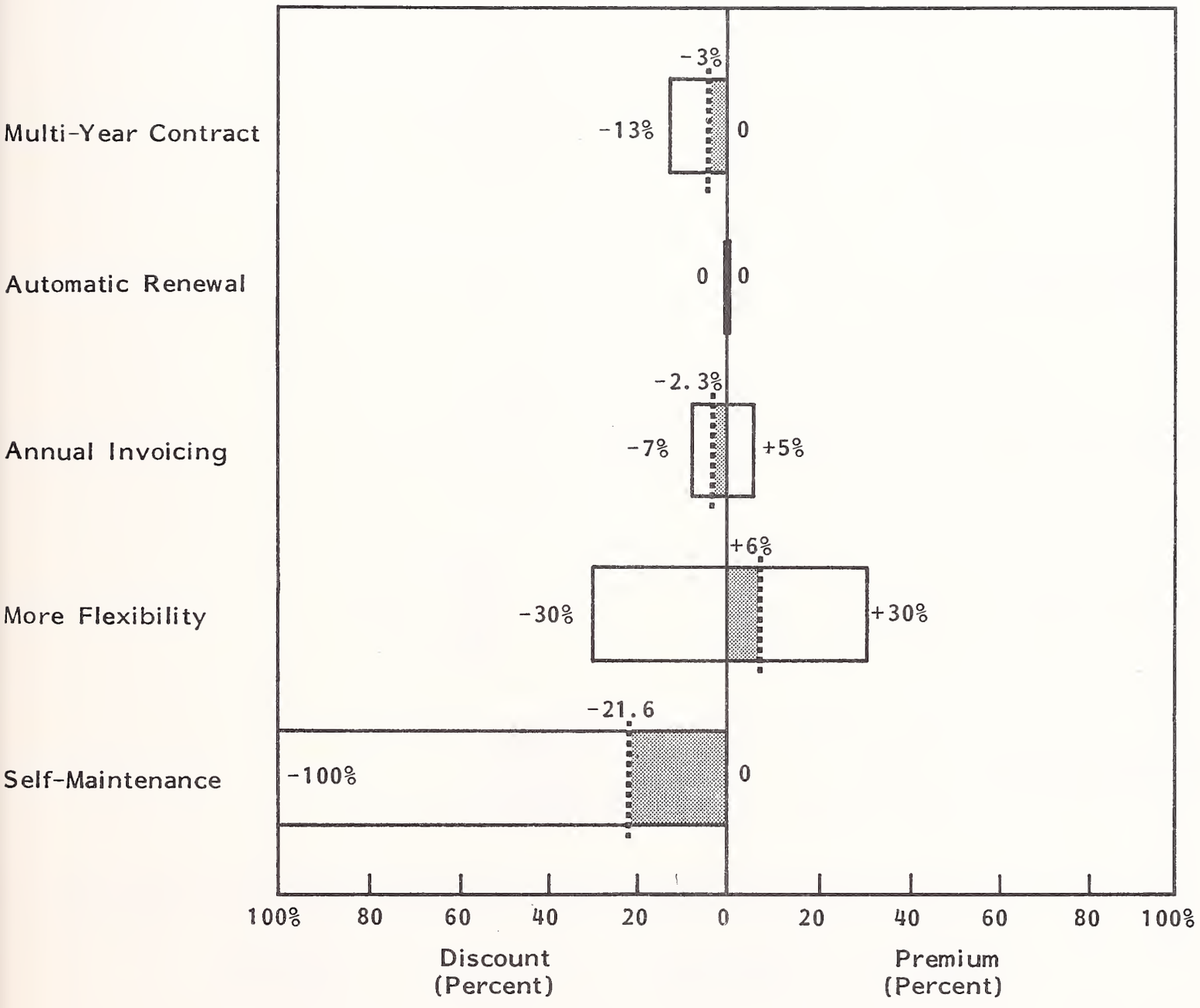


Number of Respondents = 9

▪▪▪▪▪▪▪▪ = Average

EXHIBIT VI-7

DISCOUNTS/PREMIUMS FOR DIFFERENT CONTRACT OPTIONS
AVERAGE AND RANGE: LARGE SYSTEMS

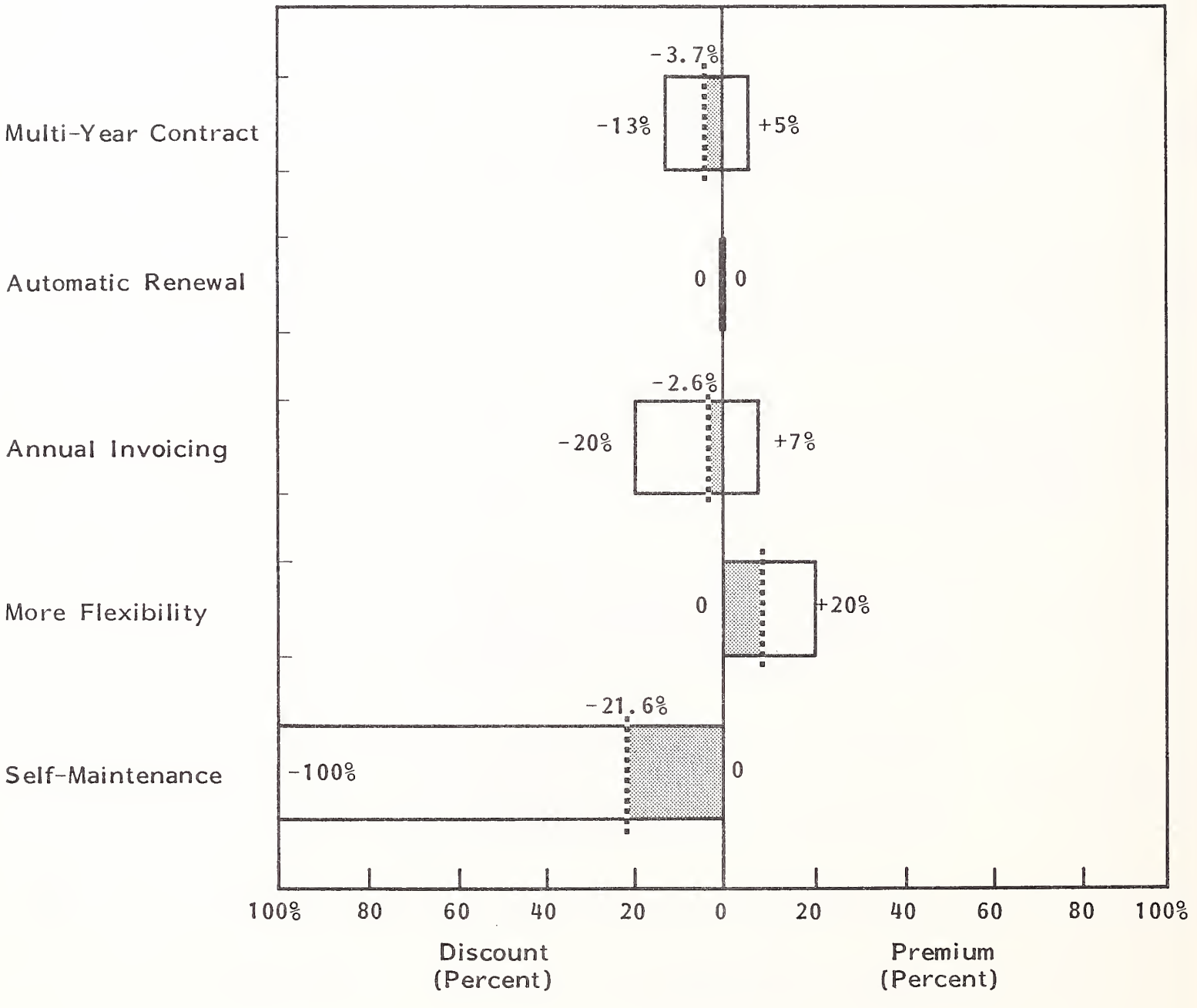


Number of Responses = 11

..... = Average

EXHIBIT VI-8

DISCOUNTS/PREMIUMS FOR DIFFERENT CONTRACT OPTIONS
AVERAGE AND RANGE: SMALL SYSTEMS

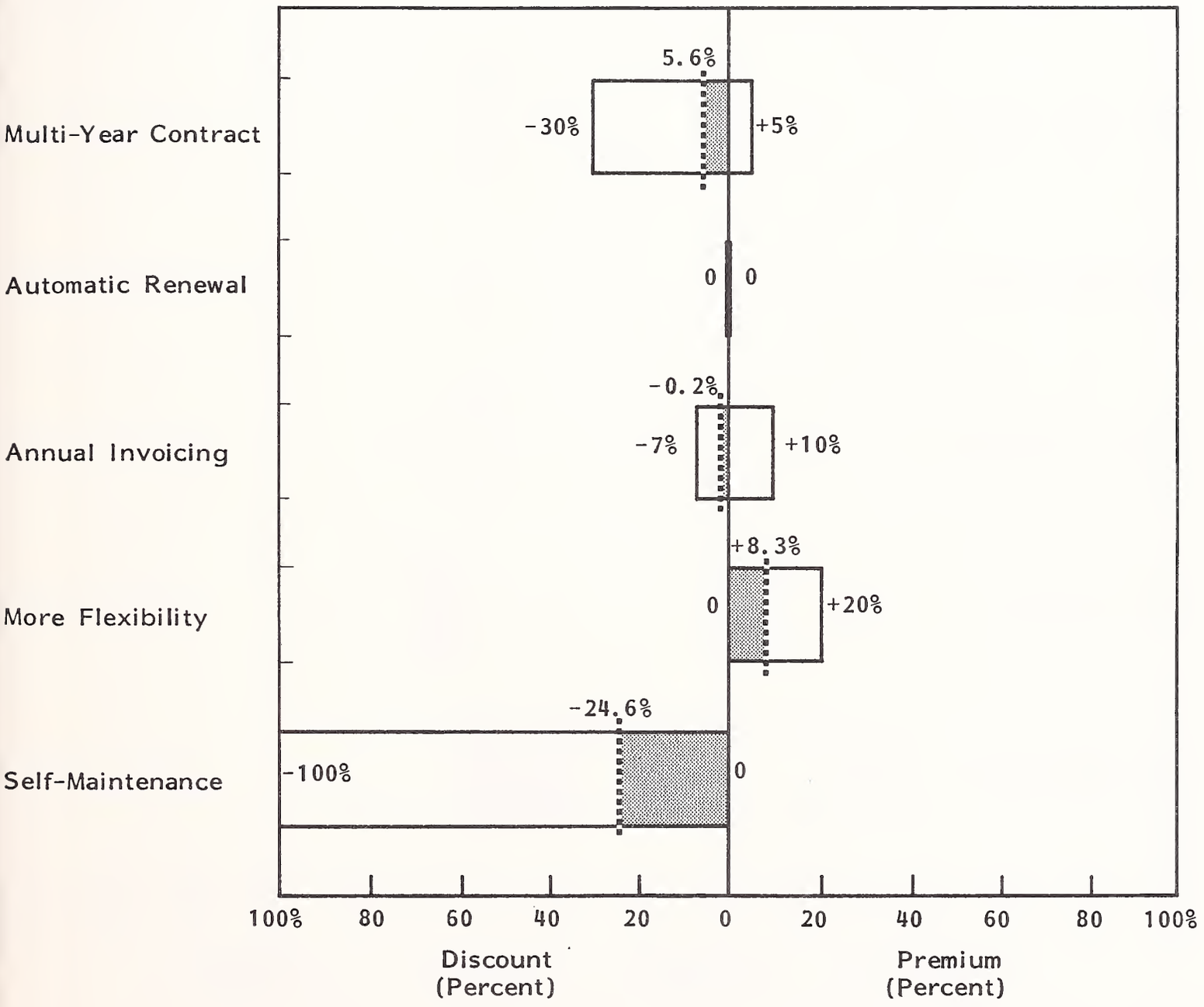


Number of Responses = 18

..... = Average

EXHIBIT VI-9

DISCOUNTS/PREMIUMS FOR DIFFERENT CONTRACT OPTIONS
AVERAGE AND RANGE: PERIPHERALS AND TERMINALS

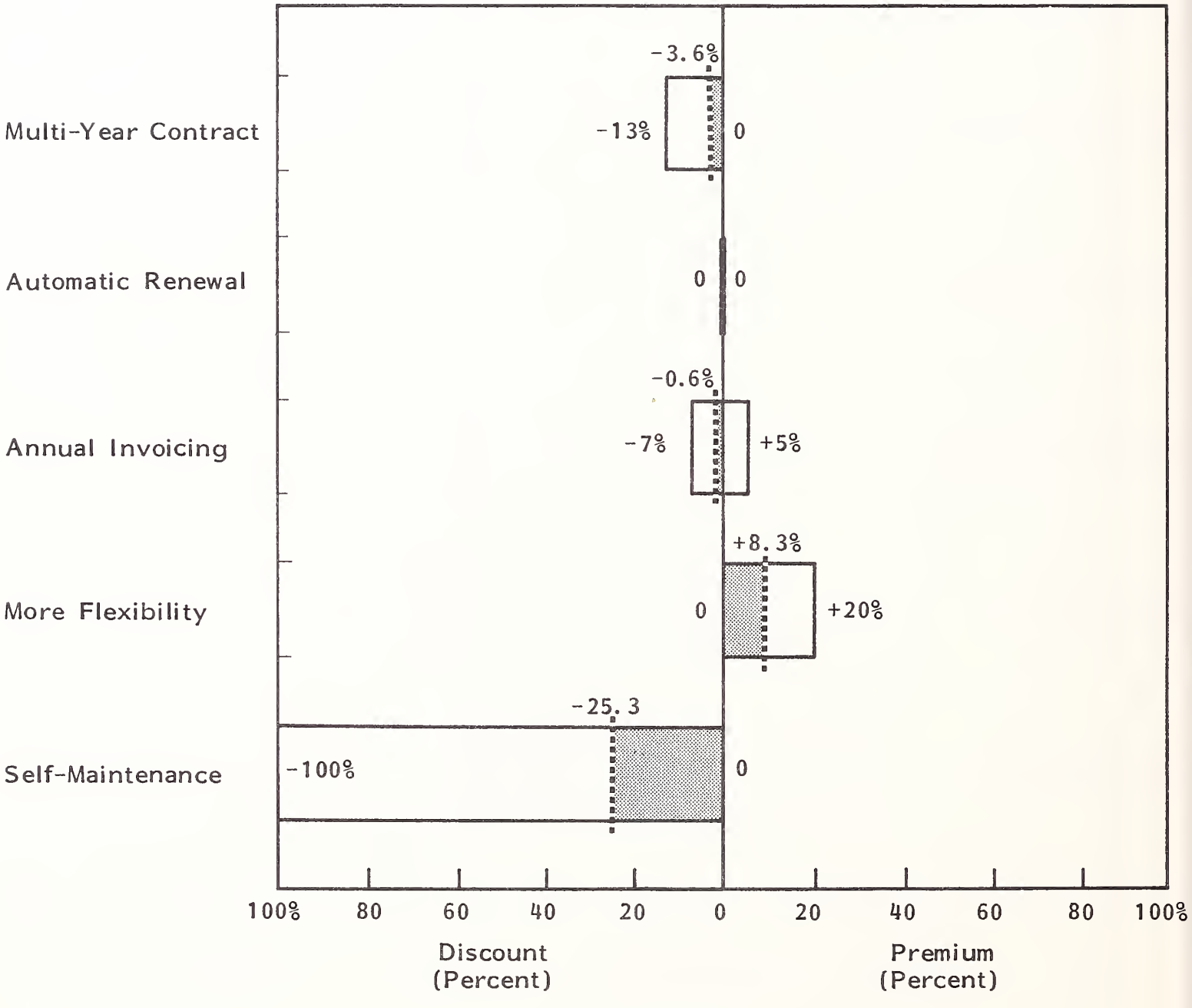


Number of Responses = 14

▪▪▪▪▪▪▪▪ = Average

EXHIBIT VI-10

DISCOUNTS/PREMIUMS FOR DIFFERENT CONTRACT OPTIONS
AVERAGE AND RANGE: DATA COMMUNICATIONS

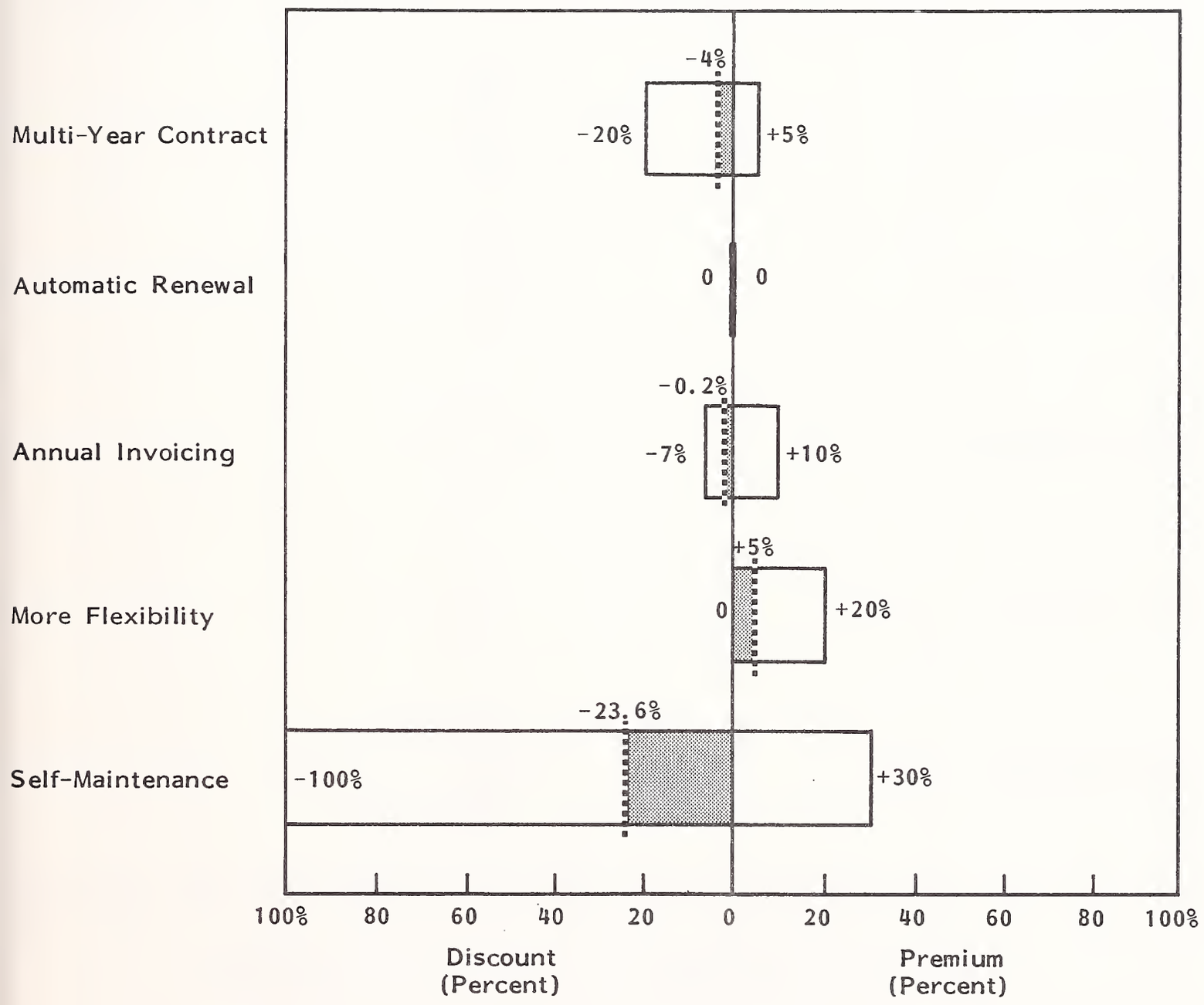


Number of Responses = 12

▪▪▪▪▪▪▪▪ = Average

EXHIBIT VI-11

DISCOUNTS/PREMIUMS FOR DIFFERENT CONTRACT OPTIONS
AVERAGE AND RANGE: PERSONAL COMPUTERS

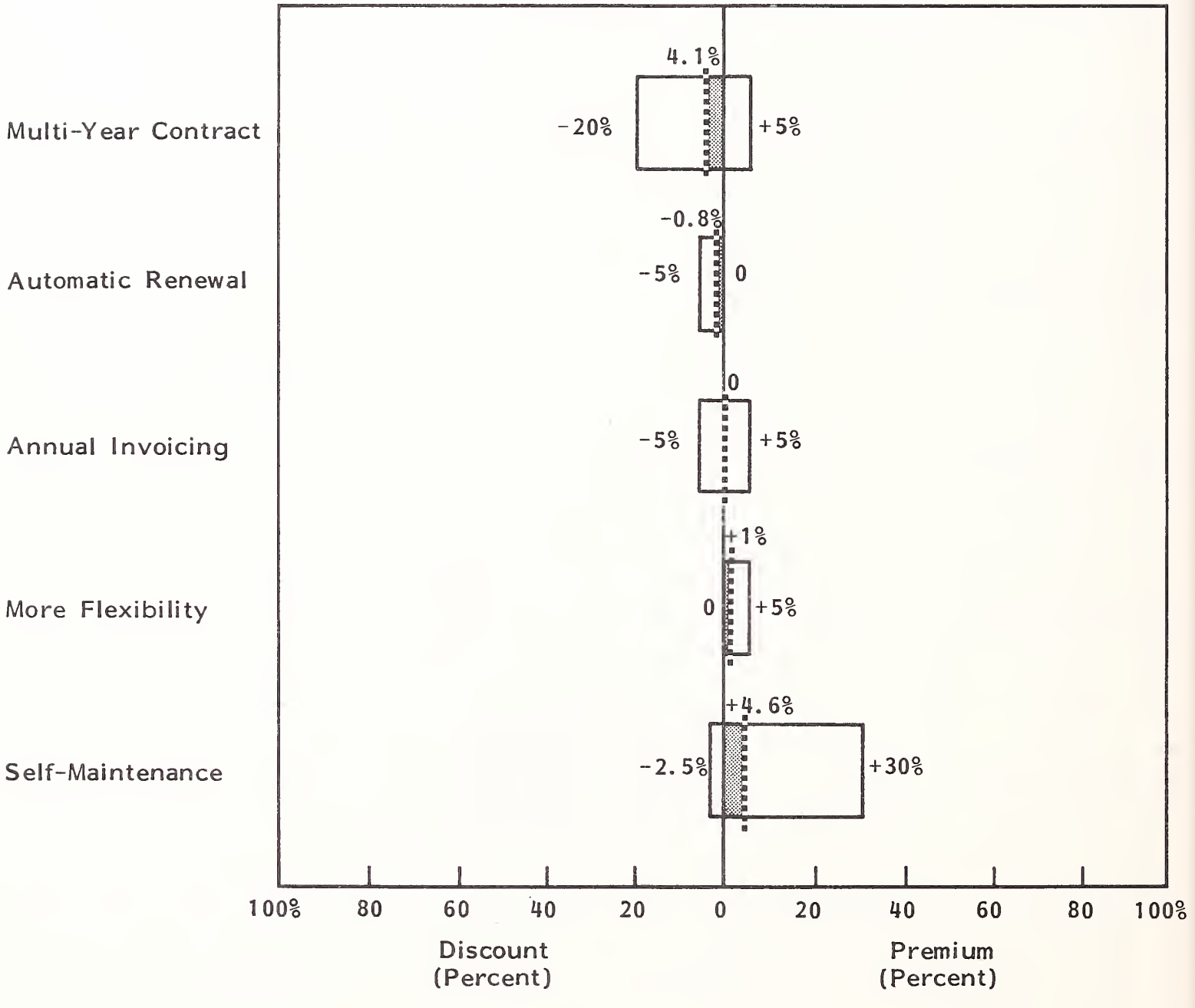


Number of Responses = 13

..... = Average

EXHIBIT VI-12

DISCOUNTS/PREMIUMS FOR DIFFERENT CONTRACT OPTIONS
AVERAGE AND RANGE: WORD PROCESSORS



Number of Responses = 10

..... = Average

- User self-maintenance is a more controversial issue, with vendor views ranging from a total 100% discount to the desire of actually charging a premium.

VII STRATEGIC PRICING ISSUES

VII STRATEGIC PRICING ISSUES

- Pricing is not merely a passive reaction to current and historic trends, but is an integral and extremely important element in the marketing mix for vendors competing in this industry. The pricing policy can be adjusted to meet a number of varying objectives.

A. COST RECOVERY

- One of the oldest pricing techniques in use is the standard cost recovery method. Prices are pitched to recover costs involved in providing service, possibly with a notional profit margin added.

- This can appear to be an attractive option, in that, theoretically, the CS function will always be self-financing. There are, however, some serious dangers in a slavish adherence to this policy.

  - Costs of inefficiency can be passed on to the user, leading to higher maintenance costs plus poor service.

  - If ignored, the competitive aspect of the business can lead to business being taken by more efficient, lower-price competitors.

- There is no real stimulus to constantly examine and reexamine operating procedures.

B. COMPETITIVE PRICING

- This can be either an active or reactive reflection of the current state of the market. Companies seeking to enter the market may do so by offering low prices while still attempting to offer a quality service.

- Again, there are dangers in this approach.

  - A price war may be provoked, leading to lower margins or unnecessarily high service quality throughout the market.

  - There may be an insufficient volume of business to stay afloat during the market penetration phase.

  - A lack of maneuvering space to raise prices to more realistic levels later may result.

  - Price is not always uppermost in a user's mind when selecting a service element, so such an approach may not even be the most effective in penetrating the market except at the low-value hardware end.

C. OPPORTUNITY PRICING

- This is really a development of the competitive pricing strategy discussed above. Here, vendors are using prices to exploit an identified market opportunity.

- This may be by undercutting existing suppliers, as discussed in Section B above.

- Or, it may be premium pricing with a service product uniquely perceived in the marketplace to maximize revenues before competitors respond.

- There are dangers inherent in both these approaches:

  - Undercutting could trigger a price war, as mentioned above.

  - Premium pricing may actively encourage competitors to enter the market more quickly.

D. RETURN ON INVESTMENT PRICING

- If return on investment is regarded as the best measure of how effectively resources are being used, prices should be set which will yield the target rate of return.

- To do this effectively, a number of key questions need to be answered:

  - What is the product life?

  - Over what period is the ROI to be measured?

  - How is the total investment measured; e.g., are shared facilities apportioned to products in some way?

  - How are longer term inflation and currency rate movements to be coped with?

- Clearly, short-life products requiring heavy investment are likely to be highly priced in maintenance terms.

E. DIFFERENTIAL PRICING

- By manipulating prices of the various service products being offered by the company, it may be possible to guide customers into accepting the product most profitable to the company.

- It is not necessary that the prices reflect the actual cost of providing the different services, but it is necessary that the various offerings can be perceived by users to be different so that price variations are acceptable.

F. "LOSS LEADER" PRICING

- This is a common pricing strategy in the retail trade, where customers are attracted to a supplier by one specific low-priced product--the loss leader. Other products offered by that supplier may actually be more highly priced than competitors prices.

- Within the service environment, it may be possible to offer the basic minimum level of service at an aggressively low price and then sell additional value by moving the customers on to higher product quality levels with higher premiums attached.

APPENDIX: QUESTIONNAIRE

INPUT Survey of Pricing in Customer Service

NAME _____

COMPANY _____

ADDRESS _____

_____

_____

_____

Number of Systems Maintained _____

Annual Service Revenue _____

Please State Currency Used _____

Thank you for your participation in this Survey. Would you kindly return the completed questionnaire as soon as possible.

John Bull
Director - Customer Service Programme

1. Please indicate PRICING BY YOUR FIRM:

PRICING	PRODUCT CLASSIFICATION											
	SYSTEMS				OFFICE PRODUCTS						SOFTWARE	
	Large* Systems	Small Systems	Peripherals & Terminals	Data Communications	Personal Computer	Word Proc.	Work Stations	PBAX	Copier	Other	System	Applic.
a. Percent increase in 1984												
b. Percent increase expected in 1985												
c. Percent increase you think would be unacceptable to users												
d. Percent current annual maintenance to hardware price												

2. Please show DISCOUNTS YOU WOULD ALLOW FOR USER ASSISTANCE (as Percent of base maintenance)

DISCOUNTS YOU WOULD ALLOW FOR USER ASSISTANCE (in % of base maintenance)	PRODUCT CLASSIFICATION											
	SYSTEMS				OFFICE PRODUCTS						SOFTWARE	
	Large* Systems	Small Systems	Peripherals & Terminals	Data Communications	Personal Computer	Word Proc.	Work Stations	PABX	Copier	Other	System	Applic.
a. Helping to diagnose.												
b. Helping replace boards												
c. Helping to patch software												
d. Delivering portable machines to repair centres												

* Over $200,000 excluding peripherals and terminals etc.

3. Please show PREMIUMS YOU WOULD EXPECT FOR EXTRA IMPROVED SERVICE

	PRODUCT CLASSIFICATION											
	SYSTEMS				OFFICE PRODUCTS						SOFTWARE	
SERVICE TYPE	Large* Systems	Small Systems	Peripherals & Terminals	Data Communications	Personal Computer	Word Proc.	Work Stations	PBAX	Copier	Other	System	Applic.
GUARANTEED SYSTEM AVAILABILITY												
Avail. %												
Premium %												
Avail. %												
Premium %												
GUARANTEED RESPONSE TIME												
Hours												
Premium %												
Hours												
Premium %												
Hours												
Premium %												
GUARANTEED REPAIR TURN-ROUND TIME												
Hours												
Premium %												
Hours												
Premium %												
Hours												
Premium %												
P.M. & Revision outside normal hours												
Software Enchancements												
Providing On-Site Spares Kit												

* Over $200,000 excluding peripherals and terminals etc.

4. Contract Flexibility

4.1 Please rate YOUR WILLINGNESS TO PROVIDE DIFFERENT CONTRACTS:

1 = Unwilling 10 = Willing

	PRODUCT CLASSIFICATION											
	SYSTEMS				OFFICE PRODUCTS						SOFTWARE	
	Large* Systems	Small Systems	Peripherals & Terminals	Data Communications	Personal Computer	Word Proc.	Work Station	PBAX	Copier	Other	System	Applic.
a. Multi year contract												
b. Automatic renewal												
c. Annual invoicing												
d. More flexibility												
e. Self Maintenance												

4.2 Please indicate THE DISCOUNT OR PREMIUM YOU WOULD OFFER/LEVY FOR THE DIFFERENT CONTRACTS:

	PRODUCT CLASSIFICATION											
	SYSTEMS				OFFICE PRODUCTS						SOFTWARE	
	Large Systems	Small Systems	Peripherals & Terminals	Data Communications	Personal Computer	Word Proc.	Work Station	PBAX	Copier	Other	System	Applic.
a. Multi year contract												
b. Automatic renewal												
c. Annual invoicing												
d. More flexibility												
e. Self Maintenance												
	a	b	c	d	e	f	g	h	i	j	k	l

* Over $200K (excluding peripherals, datacom, etc.)

5. a. Do you think that depot service will significantly impact on-site service?

_____

_____

b. Do you offer T & M or contract rates at depots?

_____

c. What products are covered by depot service?

_____

d. What channel of distribution do you use?

_____

e. How do you market depot service?

_____

f. How do you price depot service?

_____

6. Customer Service is becoming more and more competitive with the growth of independent maintenance. How will this affect your pricing policies for field service?

		COMMENT
Not at all	☐	_____
Will reduce prices	☐	_____
Will limit scope for price increase	☐	_____
Will restrict prices to reflect different levels of service	☐	_____
Other (please specify)	☐	_____

7. a. How frequently do you review your prices? _____

b. Why?

Reaction to Competitive Pressures ☐

To reflect changing cost levels ☐

To reflect Market Opportunity ☐

Other (please specify) ☐

_____

_____

_____

8. Do you offer discounts for any of these features?

	YES/NO	PLEASE DESCRIBE
- User Involvement in Maintenance	_____	_____
- User Delivery of Plug-In Modules	_____	_____
- Relaxed Requirements on Response Time	_____	_____
- Remote Diagnostics	_____	_____
- Volume Discounts	_____	_____
- User Purchase of Parts Kits	_____	_____
- Invoice Prepayment	_____	_____

9. Where do you see field service prices going in the next 2-3 years?

_____

_____

10. Service guarantees such as guaranteed availability and guaranteed response time are an attractive option to many users. Where do you see guarantees fitting into the future role of your field service group?

_____

_____

_____

11. Personnel costs are the most significant portion of field service expenditures. Improving staff productivity is one method vendors are using to improve their competitive position in service. How do you measure the field engineer's productivity and do you forsee any major changes in overall service staff productivity?

_____

_____

_____

_____

12. Non-Contracted Maintenance

Please indicate below your rates for:

Normal Working Hours	- Call Out Charge	_____
	- Rate/Hr.	_____
	- Travelling Charge	_____
Out-of-Normal Hours	- Call Out Charge	_____
	- Rate/Hr.	_____
	- Travelling Charge	_____
Weekend and Public Holiday	- Call Out Charge	_____
	- Rate/Hr.	_____
	- Travelling Charge	_____