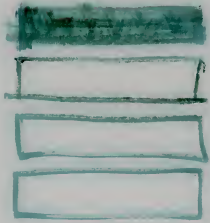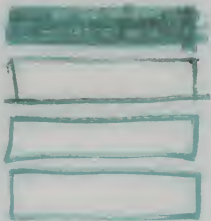336 GREEN

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September, 1987

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☞ *THIS MONTH'S FOCUS: STRATEGIC PARTNERING IN THE SERVICE INDUSTRY*

SOFTWARE USERS REVEAL UNMET NEEDS

INPUT's upcoming User Service Requirements: Software report, now in the final stages of writing, is revealing a number problem areas in the field of software support delivery. As reported by the over 300 users of top software packages interviewed for the analysis, the documentation complaints that have plagued the software support market again surface as the major and growing concern of users. As a result, only 43% of software users remain satisfied with their current level of documentation support.
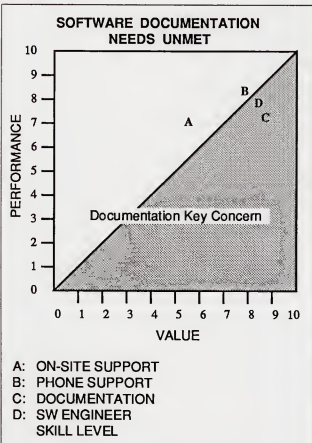
A number of factors (outlined in detail in the report) are increasing users' reliance on related documentation, including increased reliability and simplification of systems hardware and the increased sophistication of the software aspects of information processing activities. As a result of the growing requirements users have for clear, concise, useable, and complete documentation, satisfaction with the current level of documentation and related support remains extremely low, as illustrated in the accompanying exhibit (taken from the report text).

Other issues analyzed in the report include vendors' growing reliance on remote support delivery and the increasing use of user-accessible problems data bases as a supplement to widely used phone support. These and other important aspects of software services are examined within the report in terms of user needs and vendor performance, as well as each of

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their effects on overall user satisfaction with their vendor's support. Including vendor-by-vendor and overall industry discussions, the report analyzes user perceptions of ten of the leading software vendors, among them ADR, Cullinet, DEC, IBM, MSA, and Pansophic. For more information on the report and its findings, contact us at our Mountain View, CA headquarters.

SOFTWARE DOCUMENTATION NEEDS UNMET

A: ON-SITE SUPPORT
B: PHONE SUPPORT
C: DOCUMENTATION
D: SW ENGINEER
   SKILL LEVEL

GE-SERV OFFERING BACKS MULTI-VENDOR RESELLERS

GE COMPUTER SERVICES announced a new offering late this month for systems resellers, providing end users with a nationwide support option for their multi-vendor systems. Covering DEC or POINT 4 systems and their compatible peripherals under one contract, the GE-SERV program provides resellers with two agreement options, sales training and support materials, contact with GE through a national contract manager, as well as a chance at a share of GE's profit on the deal.

The two options open to the reseller are in the form of a "second-party" contract or the "sales representative" agreement. In the second-party arrangement, the reseller subcontracts with GE to support the system and bills the customer directly. In turn, GE supplies the system service at a discount from normal list prices.

The sales representative option gives the reseller license to act as a GE representative, selling the end user on contracting with GE directly. For the effort, GE commissions the reseller rep on the contract value, as well as on each one-year renewal sold to the user.

GE-SERV parallels a number of VAR programs offered by equipment vendors on their own systems, while still allowing users the flexibility of a multi-vendor system configuration. (For an interesting comparison, review INPUT's August *Service Management Focus (SMF)* article on manufacturer offered VAR support.)

EATON FOCUSING EFFORTS IN DEC MARKETPLACE

The Data Service Division of EATON Corporation has beefed up its support staff and realigned its operations over the past year to better concentrate on its newly defined TPM target — the DEC world. Previously attending to a wider variety of mini-computer products (including IBM, PERKIN-ELMER/CONCURRENT, and DATA GENERAL as well as DEC systems), EATON, in a recent interview (for INPUT's *TPM Competitive Analysis* report), conceded that its primary focus will remain on the VAX and PDP lines of DEC computers.

Now offering support out of 100 locations supported by 70 distinct parts inventory locations, EATON currently employs a service staff of 550, with a reported count of 450 field engineers. Having increased its employee tally by 150 dedicated service people, EATON intends to go head-to-head with major competitors in the DEC arena, including the likes of CONTROL DATA and GENERAL ELECTRIC.

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DEC PDP 11/SERIES PRICING

On the subject of DEC support, a recent inquiry to our hotline provided some pricing comparisons on a few of the basic PDP 11/XX system configurations. Pricing data from UNISYS, CDC, and TRW were available.

One model from three representative groups of PDP 11/XX systems gave an general overview of the competitive pricing on the market:

CDC offers full support on the PDP 11/04 (model -AA) at $69 per month; on the larger 11/34 (-HC model), MMC runs $107; the top of the line 11/44 basic configuration (-CA) is serviced for $202 per month.

UNISYS services the PDP line at very comparable prices, starting at a lower $55 per month for the PDP 11/04 (-AA); the 11/34 (-HC) just above CDC's price at $108 monthly; and 11/44 (-CA) support well below CDC's quoted price, at $170 per month.

TRW, when asked about pricing on these models, reported that on systems of this size, the sales force handles pricing on a bid-by-bid basis, quoting approximate discounts of 15% to 20% off of DEC pricing. This, of course, represents only a "starting point" for negotiation, the final agreement reflecting installation size and unit/configuration type.

With almost all third-party vendors, quoted pricing is usually assumed to be just that — a starting point eligible for further reductions after negotiation. Especially in the area of minicomputer pricing, discounting is rampant (in both the IBM and DEC arenas) as competition in this small systems sector escalates. As minis become increasingly powerful (and, in turn, infiltrate more critical usage networks and applications), the growing small systems market is and will continue to be targeted as a high growth and highly competitive TPM marketplace.

MEMOREX GUARANTEES UPTIME ON MEMORY DISKS

MEMOREX announced a new contract addendum this month guaranteeing 100% performance on their top-of-the-line disk products. Available on its 3380- type memories and solid-state disks, the coverage boasts two-hour response (achieved in 98% of US service calls historically) and is backed by a money-back clause should MEMOREX fail to keep the disks up and running at 100% availability in any given month. If the units fails to meet full uptime performance for two or more consecutive months, the user has an option to replace the disk with a new unit.

INTELOGIC TRACE OFFERING RESPONSE GUARANTEES

Another service guarantee offering hit the market this month from San Antonio-based INTELOGIC TRACE. Accompanying its deepened discounting on System 34 and 36 units (now up to 50% less than IBM's list), response times on those systems are now guaranteed at 4 hours or less for customers within a 25 mile radius of an IT office in 28 major cities. For users in 54 smaller metropolitan areas covered by INTELOGIC, half-business-day response is promised within 50 miles of an IT site.

The new offering differs from many "response guarantees" now on the market through its money- back clause and its availability to all users regardless of installation size. Under the new policy, should an IT FE ever fail to meet the four-hour deadline, the user will receive that month's maintenance coverage "on the house," no strings attached.

IBM ANNOUNCES MID-RANGE AMENDMENT

In line with IBM's recent shift of attention to its mid-range line, IBM has announced further discounts and extended coverage availability for their 4300, 9370, and System 36 and 38 systems. The amendment, accompanying an announcement which simplifies charges on the 36 and 38 models, provides variable discounts on maintenance under conditions resembling CSA requirements. Available for three- or five-year terms, the mid-range amendment provides discounts of up to 30%, while boosting the standard coverage on the machines from IBM's traditional 5 days/7 hours to full round-the-clock support.

Further rocking its TPM competition, the reductions on the popular System 3X line come at a time when many TPMs are still attempting to rethink pricing in line with the CSA (Corporate Service Amendment) offering. (See INPUT's *SMF* August edition for a full feature discussion of the CSA announcement.)

Late last month came the announcement of the newly formed division of IBM's Information Systems Group focused on strengthening its mid-range marketing efforts. Highlighting what many see as IBM's intent to gear-up in its most competitive market sectors, the service pricing reductions introduced for these systems is a good indication that maintenance will not be overlooked in IBM's new mid-range focus.

TPMs ON THE MOVE...

In the course of research for our *Third Party Maintenance Competitive Analysis* report, a number of companies active in TPM and part of our TPM directory just last year were found to have had major changes in their ongoing operations. Though many are smaller companies outside of the limelight of the press, their activities nonetheless highlight the subtle but significant changes in the face of the TPM marketplace.

To note a few of the less publicized acquisition moves in the marketplace...AFI/DATATROL, involved in TPM for over 17 years, was acquired by DATACARD Corporation of Minnesota...COGITO DATA SYSTEMS, with over 150 service employees, was purchased by INTELLITEK, a service company based on the East Coast...Prior to its sale to INTEL-LITEK, COGITO had reportedly bought out a Kentucky TPM firm by the name of MAINTEK...DAVID JAMISON CARLYLE Co. has been adopted as the service arm of LEX COMPUTER SYSTEMS of Southern California...MCS in NY acquired neighboring GREG DATA to support its products...NATIONAL COMPUTER SYSTEMS in Minnesota has purchased FRESH LOGIC...DELTA COMPUTEC recently added CENTRAL COMPUTER SERVICES resources to its operations...ELECTRONIC SERVICE SPECIALISTS, PACIFIC COMPUTER COMPANY, and JOLYNNE SERVICE Corporation were added to the SORBUS network...GREYHOUND CAPITAL CORP. was purchased by BELL ATLANTIC (parent of SORBUS)...FDR FIELD SERVICE acquired FOR-PLANUS operations.

ADP/MTTR, a company with a long acquisition history, has moved out of the TPM arena to become the support operation for the ADP line..Other companies exiting the TPM marketplace include DELPHI DATA (CA)...NATIONAL COMPUTER COMMUNICATIONS (CT)...ELECTRONIC ENGINEERING (OH)...RPQ, Inc (MN)...MAINTENANCE INNOVATORS (MN)...BYTEX Corporation (TX)...RADIAN CORP. (TX)...W.A. BROWN (FL)(in the maintenance business for better than 15 years) as well as AABEX ELECTRONIC SERVICES (providing depot support out of Canada) have both gone out of business altogether.

LETTERS OF AGENCY

An interesting topic came to our attention this past month. It concerned the use of a "Letter of Agency." A letter of agency is a document that allows the purchaser of computer hardware to choose a maintenance organization of his own choice, regardless of the manufacturer's desire or intent.

Technical Support Services, Inc. (TSSI), a third-party service organization located in Ossining, New York, kindly provided INPUT with their version of a letter of agency called a "Suggested Sales Agreement Addendum." This Addendum is provided to customers who wish to keep their options open concerning service. Third-party manufacturers such as TSSI encourage potential TPM users to have manufacturers sign this contract.

What TSSI's Suggested Sales Agreement Addendum provides is a written document for the user to present to the manufacturer guaranteeing the opportunity to use outside service parties. Furthermore, the letter of agency asks the manufacturer to ensure that spare parts, documentation, tools, test equipment, etc., are made available to whomever will be servicing the equipment.

Many manufacturers, when presented with a letter of agency, ask the user and his service representative to sign a "hold harmless" agreement. A hold harmless agreement absolves the manufacturer of all responsibility for its product. Therefore, if the third-party service doesn't work out, the manufacturer is not obligated to reinstate its own service. This is a risk many users are not willing to take, especially if

the integrity of the machine has in any way been compromised.

Are letters of agency worth the trouble? It appears that a letter of agency would make sense in certain situations. For example: If the user has sufficient clout (a well-recognized name, potential future purchases, a huge one-time purchase, etc.) and the equipment desired was homogeneous enough to be provided by a number of different vendors, then obtaining a manufacturer's signature on a letter of agency would seem possible. In such a competitive environment letters of agency seem to make sense. But if the manufacturer doesn't see the user as a significant source of business, it is doubtful whether a letter of agency would be useful without jeopardizing the future of the user's equipment.

STRATEGIC PARTNERING IN THE SERVICE INDUSTRY

Looking over the service industry lately, it is virtually impossible to pick up a trade publication without seeing a news item detailing or mentioning some new merger, acquisition, joint venture, or marketing agreement (see above article). INPUT has traditionally referred to these activities as examples of "strategic partnering."

Strategic partnering encompasses a variety of relationships between businesses. A strategic partnership is, ideally, a mutually beneficial relationship, designed to accentuate each of the partner's strengths and minimize their weaknesses. Strategic partnering has also been described as a "symbiotic" relationship as well as "synergistic." Whether or not strategic partnering takes the form of an actual merger or acquisition or is an informal agreement where both parties remain separate entities, it is vital that the agreement is complementary in nature.

In many cases, some limited form of partnership (eg. joint venture) is just a prelude to a merger or acquisition. In other cases, however, it remains an informal business agreement where both parties benefit while remaining separate organizations.

In order to further examine the rash of recent mergers and acquisitions, INPUT contacted a number of industry leaders to discuss factors behind a potential strategic partnership within the service industry.

FACTORS FOR CONSIDERATION

Obviously there are a number of key factors which are examined in great detail before a strategic partnership is concluded. These include the following: accessing new vertical markets, accessing new product lines, gaining needed expertise, acquiring additional service locations, accessing a new installed customer base, a vehicle for growth, accessing spare parts, and subcontracting.

VERTICAL MARKETS

Gaining access to new vertical markets is always a popular method for strategic partnering. The attraction of penetrating new industries is a powerful stimulant for possible partnerships. For often inexplicable reasons, a service organization may find itself locked out of certain industries. A strategic partnership can be the perfect solution for overcoming this gap.

A good example of a service organization partnering for vertical market penetration is that of TRW. Beginning in 1985 TRW identified the health care and medical equipment industry as a lucrative maintenance market.

In May 1985 TRW assumed the operations of GDC MEDICAL ELECTRONICS of Garden City, NY. GDC provided maintenance and repair services to users of biomedical technology. GDC had provided maintenance for biomedical equipment since its founding in 1941 and at the time of the arrangement had 110 employees based in seven states. Also at that time, Maynard D. Smith, VP and general manager of TRW's Customer Service Division, stated that the arrangement was a "bold, strategic move for TRW that brings new technological expertise and new market opportunities to TRW. . . GDC provides a solid foundation for TRW's growth plans in the service areas of the medical electronics industry."

In July 1986 TRW acquired two more medical electronics services companies. OMNIMEDICAL was based in Northbrook, Illinois, and specialized in the maintenance and repair of computer tomographic ("C-T") scanners in various U.S. markets. BAY X-RAY was located in Sea Cliff, New York, and serviced new and used x-ray equipment, primarily in the New York area. Again, Maynard D. Smith, V.P. of TRW's customer service division, stated that the acquisi-

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tions "add[ed] significant strength to TRW's capabilities in our growing medical electronics service business."

Eventually TRW even went so far as to form a separate Medical Electronics operation within the Customer Service Division, naming Don Fanelli as its director. In December 1986 the Medical Electronics operation became the beneficiary of another TRW acquisition, UNITED EQUIPMENT, Inc., which specialized in the repair and maintenance of medical equipment.

NEW PRODUCT LINES

Many service organizations concentrate on particular vendor product lines, usually out of necessity. The most common restraint is the result of internal field engineering expertise. By forming a strategic partnership a service organization can fill this void and increase its profits.

A good example of a service organization positioning itself towards a new product line is that of CDC. As far back as November 1984 CDC had made a strategic decision to support DEC equipment. CDC purchased COMPUTER MARKETING ASSOCIATES at that time in order to offer maintenance services for the DEC PDP line with an eye to the future for VAX systems. In fact, in January 1987 CDC offered maintenance on the 8600 and 8650 VAX computer systems.

EXPERTISE

As mentioned above, many service organizations find themselves without qualified field engineers to service profitable product lines. It is often impossible to train field engineers internally or even through the vendors themselves. Therefore, it often makes sense to form a strategic partnership with another service organization whose expertise lies outside the current scope of the original service organization. In this manner a TPM can increase the scope of potential customers as well as infuse, or "seed," their existing field engineering staff with the expertise of another field organization.

SERVICE LOCATIONS

Another reason a service organization might want to form a strategic partnership may be the acquisition of additional service locations in order to expand its existing geographic coverage. A common example of this is the acquisition of service organizations with a particular regional strength in order to augment a "nationwide" service coverage. The flip side of this, although rarer, is a strong regional TPM that wishes to go national in its service coverage. An excellent example of this method of strategic partnering is that of PRITRONIX.

In May 1987 PRITRONIX of Dallas acquired CARTERFONE (*Service Management Focus*-June). At the time of acquisition, CARTERFONE had over 60 service centers located throughout the United States. The acquisition of CARTERFONE allowed PRITRONIX to penetrate major U.S. maintenance markets, such as Dallas, San Fransisco, and Los Angeles, rather than going through the slow and laborious process of opening its own service locations throughout the United States.

CUSTOMER BASE

Many a service organization will acquire a service company in order to gain access to a new installed customer base. This is always a sure method for gaining new customers . . . buy them! An ideal candidate for this type of strategic partnership would be a service organization that exhibited stagnant growth but had a large number of service contracts.

A good example of this strategy is that of DPCE (based in London). Having operated internationally for 12 years in the maintenance business and for the last three in the U.S., DPCE acquired SYSTEC in January 1987. This was in strict accordance with DPCE's strategic goal of becoming the "largest independent computer maintenance company in the world." By acquiring SYSTEC'S existing federal mainframe service contracts, DPCE instantly enlarged its customer base.

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GROWTH

Growth is always a high priority among service organizations. Acquisition, merging, or partnering in order to attain growth usually evolve in three distinct and interrelated stages.

In the first stage, the service organization wants to attain a certain critical mass. Strategic partnering as a vehicle for growth leads to the creation of a larger service entity. A critical mass is formed, analogous to a nuclear reaction. A nuclear reaction is a chain of interrelated events. Reaching critical mass is just one link in this chain, and while it enables a nuclear reaction to take place, it doesn't ensure it. Thus, when a service organization grows through strategic partnering to reach a certain critical mass, the service organization is poised to take advantage of this fact. Attaining critical mass in itself doesn't guarantee success, it just lays a foundation for further events, or stages, to take place.

The second stage, once critical mass is achieved, allows the service organization to achieve economies of scale. If the critical mass is used efficiently, economies of scale can be achieved by paring down redundant operations and taking advantage of new opportunities that the strategic partnership offers. Again, economies of scale are just a link in the chain.

The third stage, through economies of scale, allows significant cost savings not only for the individual service organization, but also for the customer. When both critical mass and economies of scale have been achieved, cost savings can then be effected. Cost savings are something tangible that both the service organization and the customer can see. When GENERAL ELECTRIC and RCA combined their service operations in 1986, GE management expected a cost savings on the order of $25 million to $30 million. This magnitude of savings is obviously felt both within the organization and indirectly by its customers.

Strategic Partnering as a Vehicle for Growth

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        │   Strategic Partnership      │
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SPARE PARTS

As evidenced by the number of lawsuits currently pending within the service industry, a reliable supply of spare parts is vital to any third-party service operation. Access to spare parts can also be used for competitive advantage. Ensuring a steady supply of spare parts can be a key selling point when offering a service contract to a customer. One method for doing this is through a strategic partnership.

Although spare parts acquisition may not always be the overriding reason behind a strategic partnership, it is often a primary reason. In the last five years TRW has often purchased service organizations with an eye towards their spare parts inventories.

In May 1983 TRW formed a strategic partnership with REXON BUSINESS MACHINES' PRODUCTS. The agreement called for TRW to offer jobs to the 15 REXON field engineers, as well as the purchase of REXON'S spare parts inventory.

In April 1985 TRW acquired ULTIMATE COMPUTER SERVICES of Denville, New Jersey. Not only did TRW acquire experienced field engineers and refurbishment depots, TRW also received huge inventories of spare parts valued at over $25 million. In fact, in November 1985 TRW formed an IBM Replacement Parts Department. This department was formed out of ULTIMATE COMPUTER SERVICES assets and marked a determined effort on TRW's part to make available large quantities of spares to those who required them. This was an excellent way for TRW to leverage its acquisition into a competitive advantage.

SUBCONTRACTING

Subcontracting is another reason that strategic partnering makes sense. Many service organizations find themselves in a situation where their customers have a wide range requirements due to the variety of hardware installed at the site. A wise service organization will bring in other service providers in order to supplement their own service offering, which may only cover one or two product lines. By subcontracting the other work, a service organization can become the only source of contact for the customer, simplifying the process for the customer while at the same time maintaining account control and a nice profit margin.

An excellent example of subcontracting in order to keep a key account was that of RCA SERVICE COMPANY (now GE COMPUTER SERVICE) and DEC. In the first half of 1986 RCA was battling TYMSHARE for a key government account. RCA couldn't match TYMSHARE'S service capabilities or price and was in danger of losing the entire account. Instead of risking the account, RCA approached DEC with a unique request. Would DEC consider serving the DEC equipment on the government site by being a subcontractor for RCA SERVICE COMPANY? The deal was consummated and RCA won the contract renewal while DEC not only landed new business, but gained expertise in the federal area. RCA continued to use DEC as a subcontractor in other multi-vendor environments.

CONCLUSION

It is obvious that all of these factors must be carefully weighed before an organization embarks upon a strategic partnership. All of these factors are inherently attractive reasons for a merger or acquisition. But their importance to particular service organizations are weighted differently by each particular organization. Strategic partnering is the identification and objective classification of these factors. Ideally, the service organization will make an objective evaluation of their own service organization as well as their possible partner. In this way the service organization can select partners that will fulfill specific needs within the service organization. All service organizations have particular strengths and weaknesses in a combination of the above factors. The trick of strategic partnering is identifying which factors they would like to add or accentuate. This, then, is the essence of strategic partnering.

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Service
Management
Focus

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IN THIS ISSUE:

V USER SUPPORT-SOURCE SELECTION CRITERIA DISCUSSED

V GENICOM/MOMEMTUM MERGER STOPPED SHORT OF CONSUMATION

V DATAGATE/HP SPARE PARTS CASE STILL AT BAY

V SPARE PARTS DISCOUNTING PRACTICES

V **This Month's Focus: A DISCUSSION OF THE "FOURTH-PARTY" MAINTENANCE MARKET**

TPM USER ANALYSIS REVEALS FOCUS ON PRICING

Soon ready for shipment, INPUT's 1987 <u>User Service Requirements Analysis -Third-Party Maintenance</u> reveals an interesting shift back toward pricing concerns among users' support purchase decision criterion. A total of 200 third-party users were contacted in the course of the research for the report, and a variety of issues, including specific user demands, manufacturer and TPM service performance, and potential of new TPM service areas were explored through the user base.
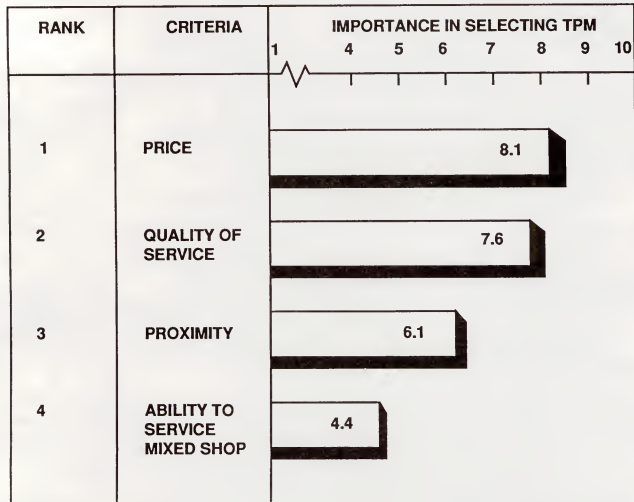
INPUT has been monitoring the selection criterion of third-party users since 1984, and a number of changing market factors have influenced users over the years. As TPM initially broke into the competitive arena, a large part of its draw was in the savings it represented over much of the manufacturer-supplied support then available. As the third-party market has matured, and TPM established its legitimacy as a quality source of support, price slowly decreased in importance to users, and competition became more centered around vendor reputation. By 1985, basic performance factors such as problem turnaround times had become essentially as important to the user as price.

1986 data showed pricing again edging its way toward the top of the list of selection criterion, users rating its weight in the purchase decision just above reputation and performance concerns. Market shakeout of TPMs not equipped to make the grade had, by this time, served to better assure the quality reputation of the remaining players.

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Today's marketplace, defined by the fierce competition between these remaining players, again promotes price ahead of other user concerns, quality and performance factors practically enforced by market conditions. At the same time, user concern over price is aggravated by the increasing reliability of hardware products under service; users expect to see support costs decreasing along with failure rates. The combination of these factors has driven price concerns to a new high among TPM decision criteria, now rated at 8.1 (out of 10) points.

INPUT's <u>User Service Requirements - Third-Party Maintenance</u> further discusses the implications of these factors, and the influence of other user and market pressures in the service industry today. Available through our Mountain View, CA headquarters, the report is scheduled for shipment in August.

TPM SELECTION CRITERIA

RANK	CRITERIA	IMPORTANCE IN SELECTING TPM
1	PRICE	8.1
2	QUALITY OF SERVICE	7.6
3	PROXIMITY	6.1
4	ABILITY TO SERVICE MIXED SHOP	4.4

TPM users are once again placing high priority on pricing factors in their support-source selection. Previously important aspects of the third-party choice, such as mixed-shop service abilities, now offer less differentiation in the marketplace as many manufacturers introduce their own form of limited "third-party" support. An in-depth analysis of TPM user trends is offered in INPUT's <u>User Service Requirements -Third-Party Maintenance</u> report, available in August.

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MOMENTUM SERVICES TO REMAIN OWN OPERATING UNIT

Rumors abounded last fall of the planned takeover of the service arm of Momentum Technologies by Virginia-based printer manufacturer, Genicom Corp. Looking to strengthen their competitive stance in the market, Genicom had planned adoption of Momentum Services to offer their own brand of support to their printer customers, a strategy becoming increasingly common among smaller manufacturers. According to Momentum sources, negotiations broke down over the financial fit between the two companies, as Momentum's operating margin was reportedly too low to suit the acquiring company's standards.

Genicom sources admit that the company is still on the lookout for a service operation better suited to its business interests, and that customer support will, for the time being, continue to be offered through its two factory depot locations. Momentum, with its independent operations secure, has recently restructured its national dispatching system, centralizing the function at Momentum headquarters. Having been prepared to uproot the newly established center for a move to Waynesboro (home of Genicom), the operation is now settled in Herkimer, and is already handling up to 3,500 calls per day.

UPDATE ON DATAGATE/HP SPARE PARTS LITIGATION

Based on a series of incidents occurring back in 1983, Datagate, Inc., a small third-party operation, took on one of the minicomputer giants in one of the first of a rash of TPM cases against allegedly discriminatory parts distribution policies. The suit, originally filed against Hewlett-Packard over a year ago, has yet to result in any definitive judgement.

The latest move toward settlement came from HP in the form of a Federal Court request for a final summary judgement, in efforts to close the case before entering trial. Should the summary on request fail to be granted, the actual trial is set to occur in early December of this year, although Datagate spokesmen expressed sincere doubt that the trial could proceed at such an "early" date. Both sides are still in the process of collecting evidence in their defense.

If the Federal Court should hear HP's request, Datagate reports plans to appeal in Federal and California State Court if neccesary, to ensure that their case is heard. The original filing is worth a potential $35 million in damages to Datagate, and its outcome will set a precedent for a number of similar suits pending against manufacturers accused of unfair parts distribution practices.

THE QUESTION OF SPARE PARTS DISCOUNTING

With the current focus on the legal implications of parts availability (see above Datagate/HP feature), industry trends regarding the discounting of spares for end user, OEM, or reseller remain clouded. Without clear direction to follow from major players, most firms continue to avoid stated policy on the matter, or offer nebulous definitions of the terms of discount offerings.

Although Data General offers significant discounts on systems sales, DG states that spares are of an entirely different nature, and provides no discounting of spare parts. DG's hard-line stance against spares discounting represents the policy of a number of systems vendors.

Prime, for example, holds a similar policy on discounting of spares, but does admit that some discounting on major government contracts is provided for secure sites which, due to secure and critical operations, must keep a significant inventory at their site in case of system failure. Some vendors, although offering no discounts to commercial-use customers, must provide room for exceptional accounts.

Other manufacturers do provide discounts for users of spares, and the extent of the price break as well as the qualifications of the purchaser varies widely.

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Hewlett-Packard, for instance, reports the availability of spares at a discount to all buyers, both in terms of total dollar volume and by line item. Volumes of single items that total to $5,000 or over can qualify for 3% discount; entire orders invoiced at over $20,000 can receive a 2% discount.

Other discount structures are not so simply defined. DEC has recently replaced their traditional "SVA" (Standard Volume Agreement) with a new "DBA" (Digital Business Agreement), which provides a universal set of terms, applying to systems, spares, software, start-up packages, etc. — literally all DEC products on the market. Prefaced by a lengthy set of conditions covering a variety of purchase situations, two separate incremental discount "curves" map out potential savings for both end users and resellers. Basically, discounts of up to 21% on total dollar volumes are offered on purchases ranging from $500,000 to a high end of $200,000,000.

A statement of fairness in policy, however, whether in terms of equally offering or denying discounts, does not always assure fairness in action, according to a number of TPMs who readily accuse manufacturers of unfair spares distribution practices. A number of complaints against manufacturers center around the drastic differences between stated policy and day-to-day practice. Both equipment vendors holding the line against spares discounting, and others who provide outlined discounting plans are open to accusations from third-party firms.

"FOURTH-PARTY" MAINTENANCE

INTRODUCTION

Fourth-party maintenance has come to denote a wide variety of service offerings, including anything from a simple cleaning to the complete remanufacture of a mainframe. In the market today, there are various maintenance organizations that have embraced fourth-party maintenance to differing degrees. There are maintenance organizations that devote themselves exclusively to fourth-party maintenance (FPMs); TPMs who engage in fourth-party maintenance in order to round-out or supplement their regular service offerings, and hardware vendors who have set up reconditioning shops for their own equipment in order to help augment their maintenance contracts.

In order to further research this matter we contacted several organizations that engage in fourth-party maintenance: firms such as Data Exchange Corporation, Systems Specialists and Consultants, Inc., TRW, DynService Network, and many others.

INPUT has estimated that the growth rate for the fourth-party maintenance market will grow at an average annual rate of 26%. This growth rate is based on INPUT's estimate of $90 million in fourth-party maintenance for 1986 which will grow to $270 million by 1991, a threefold increase. These numbers illustrate the vast potential and opportunity for maintenance organizations that feel they have the capability to take advantage of this growing industry. These numbers do not indicate, however, the significant barriers to entry the fourth-party maintenance market presents nor the fierce competition that is increasingly making itself felt in the marketplace.

DEFINING THE MARKET

Our respondents were careful to point out definitional differences in the term "fourth-party maintenance." For our purpose there are basically three "levels" of repair in the fourth-party maintenance market. The first is known as refurbishing or "refurb." Refurb refers primarily to "cosmetic" changes in the equipment and entails cleaning the inside of the box, disk heads, and painting of the machine. FPMs that engage in refurbishment are able to match the color of your machines with your office or company logo. The second term that we will

mention is that of refeaturing. Refeaturing is basically the upgrading of a box by the replacement of mother boards as well as adding additional memory, etc. The third term, reconditioning, or "recon", defines the most extensive "repair" that a FPM could provide. Recon is the complete remanufacture of the component or machine so that it is basically a brand new unit. Of course recon has the largest profit margins of the different levels of repair, but it also represents the most expensive investment in terms of capital and labor.

Our respondent's service activities are performed to a variety of users and organizations. They include the following:

- Dealers

- Leasing companies (buyer/seller firms, etc.)

- Peripheral manufacturers (disk drives, printers, etc.)

- Systems integrators

- Smaller TPMs

These users have a variety of reasons for taking advantage of FPM service offerings. According to one respondent, dealers are responsible for a majority of the FPM market. Dealers find it extremely useful (and profitable) to go through an established and reputable FPM in order to service their customers. Many of their customers do not find it financially viable to buy the latest equipment out on the market, especially in the case of large corporations where there is a significant installed base. By going through a dealer, and by virtue of the sheer volume of machines, these large corporations can save 40-60% by refeaturing and/or reconditioning their existing equipment through an FPM.

Peripheral manufacturers find it financially appealing to set up formal or informal agreements with FPM organizations to service their customers. Some peripheral manufacturers feel that an exclusive agreement with a particular FPM is preferable to using a variety of FPMs in order to ensure their customers receive consistent quality and service. The reasoning behind this course of action is that reliability and reputation are an integral part of fourth-party maintenance, much more so than a TPM because of 1) the absence of a field engineer to smooth over any awkward situations that might arise and 2) the higher expectations (and expenditure) of users because of the higher level of skill required.

Leasing companies are another source of FPM business. These buyer/seller companies have very large turnover rates for computer equipment. Many leasing companies have little or no experience in the maintenance or repair of computer equipment. Therefore, it is vital for leasing companies to have an FPM that is capable of turning out refurbished and/or reconditioned machines and related equipment on a flexible and timely basis, since their business is providing new or "like new" computer equipment.

Systems integrators are another significant group of users of FPMs. Systems integrators, by their very nature, are supposed to offer their clients the most cost-effective method of automating their operations. Thus, FPMs offer a very attractive and often irresistible alternative for systems integrators and their clients. Because fourth-party maintenance is so cost-effective, systems integrators are increasingly turning to FPMs in order to satisfy their more cost-conscious clients. Of course, many systems integrators' clients will insist on having the latest equipment, but because FPMs offer such a sensible alternative it is becoming harder to justify such expenditures.

Another frequent user of FPM services is the smaller TPM organization. Because fourth-party maintenance requires such a significant initial and continuous investment, smaller TPMs find it more economically feasible to subcontract their work to FPMs. Strategic alliances between FPM and the smaller TPMs are rare. More common is a strong business relationship that has been built between them over the years. Both parties are usually unwilling to tamper with this mutual interest by attempting merger or acquisition.

FPM: KEYS TO SUCCESS

There are a number of significant requirements for the establishment of a fourth-party maintenance organization. The most successful FPMs seem to have a number of similar ingredients that have contributed to their success.

First, the FPM usually has at its head a president who held a managerial role in a large field organization for a number of years. In this way the president's intimate knowledge of field service operations is effectively leveraged through the FPM organization. In other words, he knows the appropriate contacts in the industry, their needs and desires, and how to keep them happy.

Second, the successful FPM must have excellent financing, either through initial and subsequent venture capital, or through strong financial commitment from a parent organization.

Third, because of its strong financial position, the FPM can afford to hire highly experienced personnel to perform the remanufacturing portion of FPM as well as the significant capital investments in the appropriate equipment and "clean" facilities. Remanufacturing computer components is a much different process than the original manufacture of the equipment, and therefore requires different diagnostic equipment and engineer skill levels.

The final ingredient that marks an effective FPM is an organizational structure that ensures reliability and timely delivery. FPMs live and die by their reputation for prompt response and the quality of their refurbishment and reconditioning. This brings us to the "Catch-22" problem of the fourth-party maintenance market. Because FPM users require such a high level of reliability, quality, and timely delivery, they almost always go with an established organization (usually in business five years or longer) that has built an excellent reputation. This further magnifies the fact that in order to gain entry into the FPM market significant capital is needed, especially in the early formative years until their longevity is established.

Reliability is vital for FPM organizations. All of our respondents offer warranties on their work. The standard warranty period is 90 days and on extensive remanufacturing warranties of up to 180 days are offered. Another advantage of longevity in the FPM market which contributes to service reliability is the tracking of suspect parts over the history of the product. As soon as a particular model of machine, or component, is brought in for service, the FPM knows exactly what parts have to be replaced, which parts can be reconditioned, and how long the repair will take. Therefore, FPMs can offer their warranties for a full 90 days and know that there is little likelihood of a breakdown as well as make an accurate estimate of turnaround time.

Turnaround time is another important aspect of fourth-party maintenance organizations that can also be used to gain competitive advantage. Turnaround times vary from FPM to FPM, always depending on exactly how extensive the repair. The vital issue is one of consistency. If the FPM turns around a circuit board in five days the first time for a customer, but the second time it takes two weeks, then there is a problem. Users of FPMs understand that turnaround time varies from case to case, but by the same token, they want to be able to plan ahead with some degree of certainty. Plain refurbishment (painting, cleaning, etc.) and refeaturing (upgrades) can take from two to five days. Circuit boards and subassemblies from 10 to 15 days. Remanufacturing takes anywhere from two to four weeks, again depending on the extent of the repair.

FPM GROWTH PROSPECTS

Profitability also varies depending on the type of repair. Refurbishment usually has the lowest profit margins but it is also responsible for the highest volume. Refeaturing a machine offers some opportunity for value-added but again is largely dependent on the cost of parts rather than the skill of the engineer. Clearly, remanufacturing represents the greatest opportunity for profit. Not only is the cost for all the capital equipment and facilities embedded in the reconditioning cost, but so is the considerable skill of the hardware engineers that perform the repair. However, reconditioning still represents a more inexpensive alternative than the purchase of new computer equipment.

Fourth-party maintenance use is continuing to grow. All of our respondents reported growth of over 20%, and in some cases much more than that. This growth rate seems attributable to two prominent developments.

- The belief that skill level requirements for field engineers will drop as newer equipment will feature self-diagnostics. Self-diagnostic equipment, coupled with the trend toward more modularized components for easier self-installation points toward an increasing use of FPM depot centers.

- Shorter product life cycles on equipment. Vendors (such as IBM) are introducing new lines of products faster than ever before. This results in a multitude of products out in the market. The introduction of these new products to the marketplace monopolizes most of a vendor's prime resources. Therefore, focus on fourth-party maintenance does not exist per se for large vendors. Because of this tremendous tap on resources that a commitment to fourth-party maintenance requires, it is much smarter for a vendor to find a reputable, nationwide FPM to do the work for them. An important and additional benefit for this sort of arrangement is that it does not represent a competitive threat to the vendor. It is highly unlikely that an IBM will strike up an alliance with a Sorbus or a TRW to provide fourth-party maintenance when there are already excellent FPMs available in the marketplace. In this sense then, large TPMs such as TRW and Sorbus have a more limited market than an independent FPM.

THE FUTURE OF FPMS

The future for FPMs looks rosy. FPMs that provide refurbishment and refeaturing will continue to find a burgeoning market. Full-service FPMs, those that provide materials support and complete reconditioning of equipment, will continue to grow and focus on a more nationwide level. Currently, there are less than five nationwide, full-service FPMs. There are only 20 to 30 regional full-service FPMs in the United States.

Many FPM respondents pointed to analogies in the automobile and television industries. In the beginning there were very few qualified, reputable mechanics or T.V. repairmen. As the industry matured you began to see more and more automobile repair shops and T.V. repair centers. The skill level required to fix these products also declined. Currently, you can find someone to fix your car on almost any city block.

While it is highly unlikely that we will see in the near future any market saturation to this extent, the use of FPMs will continue to grow while the number of FPMs will drop. As more of the full-service FPMs move to a nationwide scale, there will be a consolidation. Eventually we expect to see three to five nationwide, full-service FPMs providing service to the major dealers, leasing companies, and peripheral manufacturers. The rest of the market will continue to be serviced by smaller, local FPMs that will concentrate on specific vendor and market niches that the nationwide FPMs will choose to ignore.

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--- **Offices** ---

NORTH AMERICA

Headquarters
1280 Villa Street
Mountain View, CA 94041
(415) 961-3300
Telex 171407

New York
Parsippany Place Corp. Center
Suite 201
959 Route 46 East
Parsippany, NJ 07054
(201) 299-6999
Telex 134630

Washington, D.C.
8298 C, Old Courthouse Rd.
Vienna, VA 22180
(703) 847-6870

EUROPE

United Kingdom
INPUT
41 Dover Street
London W1X 3RB
England
01-493-9335
Telex 27113

Sweden
Athena Konsult AB
Box 22232
S-104 22 Stockholm
Sweden
08-542025
Telex 17041

ASIA

Japan
FKI
Future Knowledge Institiute
Shanpia Bldg., 8-1,
Kanda Sakuma-cho 2-chome,
Chiyoda-ku,
Tokyo 101,
Japan
03-864-4026

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- ❏ **IBM Announces Major Policy Changes: Revised Maintenance Service Coverage, Hourly Rates, and Spare Parts Centers**

- ☞ *THIS MONTH'S FOCUS: COMPETITION SPEAKS OUT ON IBM'S LATEST SERVICE ANNOUNCEMENTS*

IBM DROPS MAINTENANCE CHARGES FOR INCREMENTAL MEMORY AND SYSTEM UNIT FEATURES

In conjunction with IBM's Mid-Range System Amendment to the IBM Maintenace Agreement in September of this year, IBM has announced that "system unit features, incremental memory, and internal direct access storage for the 5381 and 5382 will no longer have separate minimum maintenance charges." However, the Mid-Range systems were not the only machines affected by this announcement. It has come to INPUT's attention that IBM's PS/2 line of workstations were also affected.

For instance, IBM's Model 80 PS/2 machine with a 111 megabyte hard drive (8580-111) is a 2 megabyte system that sells for $10,995. Its annual on-site maintenance charge is $305. Therefore, the maintenace cost represents almost 3% of the total purchase price of the machine. However, when you configure this machine to a 16 megabyte system, the purchase price of the machine becomes $20,660 because of the addition of a system board and assorted memory expansion options and kits.

Here's the interesting part. Even though the 16 megabyte Model 80 PS/2 machine with the 111 megabyte hard drive has these board, option, and kit attachments, the annual on-site maintenance

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charge remains at $305. This amount represents only 1.5% of the total purchase price. The reason? IBM no longer charges incremental maintenance for adding memory options, kits, features, or system boards on the PS/2 line.

This type of service pricing makes the cost of ownership for the PS/2 line very attractive to potential workstation owners, especially noting the fact that APOLLO and SUN MICROSYSTEMS users' annual on-site maintenance charges represent anywhere from 14-20% of the total purchase price of their machines.

TELOS PROFILE

With its recent acquisition of DMA Inc. in October of this year, TELOS CORPORATION has found itself in the news recently. With this in mind, we have decided to profile TELOS for you so that you can get a better picture of their operation and the implications of the acquisition.

TELOS CORPORATION is a third-party maintenance organization headed by Howard Metcalfe based in Santa Monica, California. It has been active in the TPM market for over 11 years. Previous to the DMA acquisition, TELOS employed approximately 170 service employees. These service employees are broken down as follows: ten in service management, ten in administration, while the remaining one hundred fifty personnel are field engineers.

TELOS CORPORATION operates out of 100 service locations throughout the continental United States, as well as Alaska and Hawaii. The primary brands of equipment that TELOS services include APPLE, IBM, and DEC. TELOS also maintains a wide variety of products, including mainframes, minicomputers, superminis, microcomputers, peripherals, and various telecommunications products such as LAN's, PBX's, modems, multiplexers and front-end processors.

TELOS provides a number of services, including remedial maintenance, field change orders, installation/relocation, refurbishment, preventive mainte-

nance, disaster recovery, and fourth-party maintenace. TELOS doesn't provide T&M service; its service business is 100% contract-based. All of TELOS' support is delivered on-site, although it is considering adding depot repair offerings.

TELOS specializes in providing maintenance to the federal government and most of its revenue is derived from this sector. TELOS' hours of coverage, response time, and service coverage are completely negotiated with the customer.

TELOS' 1986 revenue was $8.6 million. Previous to the acquisition of DMA, TELOS expected to have approximately $11 million in revenue by the end of 1987. TELOS' principal competitors are TRW, Sorbus, and CDC.

TELOS is currently considering expanding into new areas such as computer equipment sales and leasing, depot repair, and custom engineering development of hardware.

TELOS first announced its intent to acquire DMA in September of this year. The terms of the sale included an exchange of stock valued between $2 million and $3 million. The sale was finalized in October and it entailed TELOS giving DMA 198,315 shares of its common stock, valued at $2.6 million.

DMA, INC. has been in the third-party maintenance for about the same length of time as TELOS, 11 years. DMA is based in Amery, Wisconsin and headed by Clarence Enneking. DMA employed 23 service personnel: three in management, fifteen in field support, two in administration, and three field engineers. Their headquarters in Amery acted as their only service location. DMA provided nationwide coverage including Hawaii and Alaska.

One of the most valuable additions DMA provides TELOS is experience in a number of key industries, as TELOS focused exclusively on the federal government. DMA provides service to the following industries: manufacturing, transportation, utilities, medical, banking/finance, education, state/local government, as well as the federal government. DMA also provides service on a number of types of

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equipment including minicomputers, microcomputers, peripherals, and PBX's.

Another important addition to TELOS from DMA is the brands of equipment serviced. In addition to DEC, DMA also provides service to vendor's products that TELOS didn't such as DATA GENERAL AND HEWLETT-PACKARD. DMA also provided a number of services including remedial maintenance, field change orders, installation/relocation, fourth-party maintenance, refurbishment, and manufacturer warranty. These services will help augment TELOS' existing support and DMA's experience with manufacturer warranty repair will also prove useful. DMA claimed that its chief competitors were DYNSERVICE NETWORK and SORBUS.

Perhaps DMA's most important contribution to TELOS will be the addition of depot repair capabilities. As mentioned above, previous to the acquisition, one of the new services that TELOS had planned to offer was depot repair. Ninety percent of DMA's service was delivered in the form of depot repair. The other 10% was through remote support services, a mode of delivery that TELOS didn't offer. Sixty percent of DMA's revenue was derived from contract based service and the remaining 40% derived from flat fee/incident charges.

DMA had revenue of $2 million for 1986, while DMA estimated that its 1987 revenue would be $2.5 million. As you can see, TELOS' stock offer to DMA which was valued at $2.6 million is virtually identical to DMA's estimated 1987 revenues. Therefore, barring any unforseen or extraordinary consolidation expenses, TELOS will have 1988 revenue of approximately $13 million.

SMALL SYSTEM VENDORS' WARRANTY LENGTHS, TERMS, AND CONDITIONS

A hotline question came in to us last month regarding the policies that various small system vendors practiced concerning their warranties on their equipment.

WANG's standard warranty on its hardware varies depending on whether the machine is a small system or a microcomputer/workstation. WANG's standard warranty on small systems is 90 days on-site, with parts and labor included. WANG's desktop machines, however, are 90 day customer carry-in.

HEWLETT-PACKARD's standard warranty on small systems is identical to WANG's. HP's small systems warranty is good for 90 days on-site, parts and labor included.

PRIME's basic warranty on small systems is 90 days customer carry-in. However, most of PRIME's customers (approximately 90%) choose PRIME's Preferred Service Plan. This plan enables the customer to receive 12 months of on-site service for the price of 9 months of on-site service. In essence, PRIME's Preferred Service Plan converts the basic warranty into an on-site warranty, although the customer becomes locked into a one-year service contract.

DATA GENERAL's standard warranty on small systems has traditionally been 90 days on-site, parts and labor included. However, DATA GENERAL's last four new system introductions have all included a one-year on-site service warranty, parts and labor included. However, a one-year on-site warranty has not been officially announced by DATA GENERAL, even though, based on their last four product introductions, this seems to be their intention. It is expected that DATA GENERAL will make an announcement to this effect sometime soon.

GOULD's standard warranty for small system end-users is 90 days on-site, parts and labor included. However, GOULD's policy towards OEM's differs from that of end-users. If GOULD equipment is sold to an OEM then the warranty specifies that the OEM return the equipment to the factory. This factory warranty includes parts, but not labor charges.

SORBUS ENTERS DEC MAINTENANCE MARKET

A t the recent COMDEX/Fall '87 convention, SORBUS announced that it would offer

maintenance services on DIGITAL EQUIPMENT CORPORATION computer equipment. SORBUS announced it will service the DEC PDP-11XX series, MicroVAX I and II, and VAX 11/7XX models.

According to SORBUS' research findings, DEC users cited timely and reliable service as their major concerns. Price was also a factor. SORBUS feels that it can meet these requirements of DEC users. Furthermore, SORBUS stated that it wanted to respond to the growing trend among users who have multi-vendor environments. SORBUS hopes it can provide users with a single source of maintenance across all of their computer equipment.

Some of the more important features of SORBUS' service plan for DEC equipment are:

• four-hour guaranteed response time.

• lower prices than DEC Basic maintenance service.

• extended hour coverage.

• multi-year service contracts.

SORBUS' announcement at COMDEX indicates there may be more behind it than initially meets the eye. One popular, and accurate, explanation is that SORBUS made a sound strategic move which appears long overdue. However, there are two additional alternative explanations that have merit.

First, SORBUS' entry into the DEC maintenance market signifies an acceptance on SORBUS' part of DEC as a viable alternative to IBM large- and small-system equipment. DEC is selling and marketing its machines aggressively and shows no signs of slowing down. A second, and perhaps even more compelling argument, is that SORBUS' entry into the DEC maintenance marketplace signals SORBUS' own cautious and prudent evaluation of the IBM maintenance market. With IBM becoming increasingly aggressive in its service strategy, as evidenced by IBM's recent service announcements, SORBUS may be trying to diminish its reliance on IBM equipment service revenue.

REDUCTION IN IBM SPARE PARTS CENTERS ANNOUNCED

IBM originally announced that the number of its locations that can offer spare parts would be reduced from 200 to approximately 20. Third-party organizations claimed that this would reduce their ability to offer timely and quality service to their customers.

Recently, however, IBM stated that the number of locations that will continue to offer spare parts would be reduced to just under 100, not 20 as previously announced. IBM claimed that due to the small number of spare parts orders in many of its locations, it was no longer practicable to have 200 spare parts locations. IBM has stated that this reduction will not hurt third-party organizations' ability to acquire IBM spare parts. Obviously, this move by IBM will have substantial cost savings and will help make IBM even more competitive.

IBM ANNOUNCES REVISED MAINTENANCE SERVICE COVERAGE

On November 3, IBM announced a "major enhancement" to maintenance service under the IBM Maintenance Agreement. Effective December 1, 1987, the IBM Maintenance Agreement "will provide, at no additional charge, 24-hour, 7-day coverage for machines for which Optional Periods of Maintenance Service were available." Therefore, this change eliminates all charges for Optional Periods of Maintenance Service for those machines, and expands the Base Period of Maintenance Service from the current 11-hour period (7 a.m. to 6 p.m., Monday through Friday), to 24 hours per day, 7 days per week. This means that customers who are currently under contract for 7/24 service will receive a credit for future IBM service. The amount of this credit is equal to the difference between what the customer is currently paying for 7/24 service and the amount that would have been paid for standard coverage.

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IBM ANNOUNCES CHANGES IN HOURLY SERVICE

IBM's also announced changes concerning IBM's hourly service effective December 1, 1987. IBM stated that in order to dedicate resources to properly meet the IBM service agreement commitments mentioned above (7-day, 24-hours), the "availability of IBM hourly service will be limited to the normal business hours, Monday through Friday, of the applicable IBM service location. Previous to this announcement IBM accepted all types of emergency (after hours) T & M calls.

IBM will continue to accept hourly service calls outside normal business hours only under certain conditions:

- Federal, state, or local-government emergency.

- Life- or health-threatening situations.

- If such machine failure is attributable to, or requires access to proprietary IBM engineering information.

IBM also announced related changes in one of its hourly service minimum-charge practices and the Hourly Service Warranty effective December 1, 1987.

- The two-hour minimum hourly service charge, when applicable, will apply to each service visit.

- The one-hour minimum charge practice, when applicable, continues to apply to each service visit and remains unchanged.

- A three-month, parts-only warranty will apply to all IBM Hourly Service when parts are provided by IBM.

The implications of IBM's announcements concerning expanded service coverage and hourly service, as well as industry reaction, are discussed in detail in this month's Focus article.

COMPETITION SPEAKS OUT ON NEW IBM SERVICE STRATEGY

... Effects of New T&M and 24/7 Support will hit hardest

The competition dubbing 1987 as "the year of the customer," IBM's December 1st policy change providing all users with 24-hour coverage sets yet another precedent in IBM's evolving service strategy. The two-pronged announcement, enhancing user contract value while cutting back per-call support for other customers, caps off a year that has sent the market reeling with a continuous stream of changes in IBM's competitive approach. Faced with newly instituted discount amendments, the elimination of maintenance fees on added machine options, and changes in the software support pricing structure among other new policies introduced in 1987, both manufacturers and the third-party marketplace have been busied this year rethinking their own competitive plans.

This latest announcement, imposing major changes to both the contract and time-and-materials (T&M) markets, has spurred a wide range of reactions from the competitive marketplace. Soon after the announcement hit the market, INPUT contacted policymakers at an array of equipment and support vendor organizations active in the IBM market to gauge their impressions of the announcement, and discuss their retaliatory plans.

In all, 10 firms were contacted, along with IBM, representing major third-party servicers, maintenance brokerage houses and competing manufacturers. The list of respondents includes major marketplayers such as AMDAHL, CDC, DATASERV, DEC, INTELOGIC TRACE, TRW and UNISYS in the TPM and manufacturer marketplace, as well as maintenance brokerage operations like COMDISCO, TOTAL TECHNICAL SERVICES, and COMPUTER SERVICE NETWORK.

Basics of the announcement

Most fundamentally, the November 3rd announcement provided IBM equipment users with round-the-

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clock support coverage at charges equivalent to the current 11-hour/5-day fee. Extending the IBM standard 7am to 6pm coverage to include an additional 113 hours weekly, IBM concurrently revealed a plan to cut back on T&M availability in order to free up the resources needed to provide this extra coverage to contract users.

IBM stated in its announcement that the change in policy was "intended to demonstrate and communicate the added value and benefit of IBM service...". Whether or not intended by IBM, it also demonstrated to many IBM's unflagging determination to increase account control, and clearly communicated a threat to third-party operations depending on IBM T&M resources.

Service brokers -- A thing of the past?

The group of third-party support vendors classified as "maintenance brokers" are a prime example of this category of competition, utilizing IBM's service staff on a T&M basis to support its own customer base. Hit most directly by this announcement, brokers we spoke with readily admitted that the new policy literally kills this aspect of their business, one declaring support brokering "a thing of the past." Without 24-hour access to IBM FE's, these vendors are left short on resources needed to fulfill their contract commitments. But few of the firms who have kept a wary eye on IBM over the past year were taken by surprise by this new announcement.

Most competitors took the recent increases in T&M rates and minimum charge limits as a forewarning, and readied themselves for harder times ahead. Some brokerage firms have been utilizing third-parties as a substitute for IBM T&M support for the past couple years, under the pressure of increasing rates and greater resource contention for IBM FEs. With IBM per-call rates topping $200 an hour at the high-end this year, vendors were given good reason to start shopping around for alternatives even before the November announcement was released. With rising expense being coupled with IBM's increasing aggressiveness in the service realm, most third parties found this subcontracting strategy an expensive and unsound one, placing their own reputation in the hands of an aggressive competitor's staff.

Some of these third parties who had utilized IBM's per-call staff in the past now have installed plans to

build or fortify their own field force. An interesting comment from one such operation recalled the early-retirement plan IBM instituted a while back in efforts to boost support profitability. This firm noted the convenient pool of unemployed IBM-trained engineers this created, and has had a good deal of luck recruiting these experienced FEs for their own work force. Regardless of approach, the maintenance brokerage industry appears confident in its ability to survive, with or without IBM's assistance.

A Factor of Control

Most manufacturers and larger traditional TPMs see the T&M action as directed at IBM's brokerage competition, although admit it will cut into their own competitive sectors in a number of ways. TPMs, fearful that the T&M cut-back will force more users into IBM contract coverage, see the policy change effectively eroding their potential customer base. Although smaller TPMs may feel the loss of T&M back-up support directly in their operations, the major third-parties view the announcement as more of a threat in terms of account control, few having depended on IBM on a T&M basis when the service was available.

Although many TPM's admitted that few other manufacturers were as cooperative in T&M dealings as IBM had been in the past, third parties and brokers competing in other equipment markets may soon find themselves in an even more hostile environment, now that IBM has set this restrictive standard. The benefits to IBM and other manufacturers who adopt this position are obvious in terms of control of accounts, control of subcontracting competitors, as well as in terms of controlled revenue flow. Without the need to allocate staff to cover inconsistent per-call business, costs can be minimized and projected in accordance with planned contract expenses. Reducing market dependence on T&M resources will undoubtedly help to control operation expenses while it frees-up resources to help IBM fulfill its new 24/7 coverage needs.

24 x 7 -- Facing new service standards

Outside of the brokerage arena, third-party competitors utilizing more traditional service strategies are reporting a greater concern over the core announcement of 24/7 support provision and the new de-facto "standard" it imposes on the marketplace. As one

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vendor put it, IBM "conditions the expectations" of the user market, and third-parties competing with IBM for their share of the marketplace will be forced to react. Most all TPM's view the policy change as a clear attempt by IBM to rekindle account control within its user-base, and, at the same time, provide potential customers with an incentive to chose IBM service over the viable alternatives.

Most TPMs who have the operating capacity to provide service around the clock are currently enjoying sizable revenues from extended coverage contracts. With the advent of standard 24/7 coverage at 11/5 prices, these vendors may face considerable losses to the bottom line should they follow IBM's lead. Seeing the kinds of losses such a policy would impose on their own operations, many TPMs are eyeing this new policy with a decided suspicion of IBM's true intentions. With revenues from extended coverage disappearing from IBM's bottom line, where will these losses be recounted?

"No Free Lunch"

Competition citing the adage, "there's no such thing as a free lunch," many in the third-party market are voicing disbelief in what the standard 24/7 concept will bring in practice. A number of TPM competitors are predicting that the amount of actual support performed during that second shift will be minimal, citing IBM's reluctance to quote response times (outside of individual contract terms), and its ability to respond with phone support instead of on-site service in the diagnostic stage. Despite these claims, sources at IBM reported that repair work would actually be performed during these off-hours, and the extension of coverage would not be merely lip service for users calling after hours.

Others suspicious of IBM's increased coverage believe the costs will be recounted in increased service prices over the next few years. Although many see the move as a sacrifice of immediate maintenance revenues for future account control, few believe that the costs of that 113 hours of extra support per week will be quietly absorbed into IBM's operating margin. These competitors fully expect IBM to attempt to regain these losses, if not directly through eventual price increases, then through reductions in operating costs. Through its introduction of CPAR (Customer Problem Analysis and Resolution) requirements, as well as the off-loading of management and diagnos-

tic tasks in CSA and Mid-Range arrangements, IBM has readied users for an increased role in the support process. Many in the marketplace expect this user-involvement to play a major part in IBM's future operating plans.

The CSA/MRSA Connection

In fact, some are taking this thought a step further when looking at the long-term effects this new standard will have on IBM and the marketplace. Citing the CSA and Mid-Range amendments as precedents to the new 24/7 standard, some in the industry initially viewed the extended coverage offered as part of CSA and MRSA as "overkill" when first announced. Now, the separate announcements appear as two parts of a cohesive strategy which will entice more users to bear some of the costs of their own systems' service.

Such logic flows as follows: Under these CSA and MRSA amendments, users are bound to a defined level of involvement in the support process, absorbing a considerable amount of the costs involved in the extended coverage provided. In turn, these CSA/MRSA users are provided with a certain level of protection against increased maintenance fees; those under standard contracts are not. Should IBM eventually introduce these predicted fee increases to recover the lower margin imposed by this 24/7 standard, users may well be attracted to the protectionary terms of CSA/MRSA, which allows them to pull out of their agreement should support price increases be significant. Despite the discounts granted to these customers, an increase in CSA/MRSA accounts would now benefit IBM's cost structure: The more users who are under CSA/MRSA agreements, the more users there are helping to cover their own extended coverage costs.

Merely a "carrot?"

Still others in the industry see the new 24/7 coverage as little more than a carrot placed in front of users who, for the most part, won't need or utilize the extended hours of coverage. Many TPMs feel that the majority of users, especially in the more competitive low-end and mid-range sectors, are well covered during the 8- (or 11-) hour basic period of maintenance, and in fact are accustomed to having support performed during the normal working day. Systems are becoming more powerful and more affordable,

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and the need for over-nite or "batch" processing is pretty much a thing of the past, most firms now able to perform their processing needs in the course of an eight-hour day. Working under this assumption, these vendors see the 24/7 provision as "looking good on paper," but, in practice, meaning very little to the average system user.

For those who do require round-the-clock coverage, however, the new standard will be very enticing, and will undoubtedly attract such critical system users to IBM support. Not coincidentally, these users are concentrated at the high-end of the market, and will bring their "big ticket" (read: high margin) business into the IBM fold. Smaller system users, less likely to need 24/7 coverage, will in turn, be less attracted to the extended coverage standard, and, with their small ticket needs (and lower potential margin), be left more available to third-party maintainers.

Banking on the reliability of IBM machines at this level, many contenders see the new 24/7 coverage as much less of a strain on IBM's profitability than it may seem at first glance. Although the sweeping change in policy entails obvious risks for IBM should users start to depend on the new off-hours support to a high degree, most vendors predict that little real change in support usage will occur after the new policy comes to practice in December.

Carrying cost considered

Some competitors are also pointing out a flaw they feel IBM may be underestimating in their new strategies — that of the inherent carrying costs involved when a standard level of service is instituted. Many competitors, especially on the manufacturer side, feel that IBM is failing to predict the reaction of sophisticated users who, aware that the 11/5 level of service is sufficient for their needs, will be reluctant to continue to pay the same amount as customers who are fully utilizing the 24/7 coverage. Feeling that they are in essence carrying part of that new cost in their own monthly bill, these users may look to alternative sources where they feel they can pay for the level of support they determine is necessary.

Although some manufacturers (e.g., Amdahl) have been offering a round-the-clock standard for some time, still others look at such blanket offerings as restrictive and unfair to users. Lead by DEC's "multiple level" service philosophy, such vendors

view the 24/7 standard as a "shot-gun approach" to support, and prefer to control their own and the users' costs by providing each client with just the amount of support required. Obviously, the requirements of such high-end users as Amdahl owners, and the needs of mid-range users like DEC clients will vary widely; IBM's customer-base, however, spans both markets, and how the announcement effects users will differ at each end of the line.

Cost of Ownership another edge

With this new standard, users who had been paying for extended hours of coverage — mostly those users at the higher-end of the IBM line — will see an immediate gain in terms of overall cost of ownership. With the elimination of these premium charges (plus the bonus of credit against future accounts for any pre-paid contracts affected), IBM's new 24/7 standard effectively reduces the cost of owning an IBM machine, and heats up the competition in terms of equipment sales, as well. Manufacturers competing with IBM are showing as much concern over this aspect of the policy change as its competitive effect on support strategies. As third parties are viewing the move as a trade-off of service revenues to gain maintenance account control, competition on the equipment vendor side perceives a trade-off between support dollars and equipment sales as an equally important part of the strategy change.

Regardless of strategic position, IBM's new policy has succeeded in giving the competition another shake as it enters the new year. Although opinions and expectations within the marketplace are running the gamut, contenders in the IBM arena will all be affected to some degree by the new standard IBM has imposed on the service market. With the new year will come new strategies to deal with the market giant, and its new approach to the service opposition.

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Service
Management
Focus

A Monthly Publication from INPUT's Customer Service Program

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October, 1987

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THIRD-PARTY MAINTENANCE COMPETITIVE ENVIRONMENT REPORT

INPUT has recently completed research on 150 third-party maintenance organizations for its *TPM Competitive Environment Report.* This report examines in detail the top 20 TPM organizations as well as 130 additional third- and fourth-party maintenance organizations.

The top 20 include such names as TRW, SORBUS, CDC, SERVCOM, INTELOGIC TRACE, and GENERAL ELECTRIC.

Topics covered on these firms include:

- Number of field engineers.
- Service locations.
- Repair/parts depots.
- Geographic coverage.
- Industries serviced.
- Types of products serviced.
- Vendors' product lines serviced.

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- Principal competitors.

- Services provided.

- Service revenue.

- T & M rates.

Even more importantly, INPUT analyzes key strategic questions facing these leading TPM organizations. These analyses are based on interviews with high-level executives in these firms who are responsible for shaping the strategic direction of their organizations. Strategic areas covered include:

- Expansion of market differentiation.

- Trends in service offerings such as extended warranties, fourth-party maintenance, and CSA-type discounting.

- Fundamental changes in the maintenance market such as increasing product reliability, service automation, targeting new vertical markets, and lower maintenance profit margins.

In addition to the Top 20 TPMs, INPUT also examines over 130 third- and fourth-party maintenance organizations and examines their strategic directions.

Independent maintenance organizations covered include such rising stars as DPCE and PRITRONIX as well as fourth-party maintenance organizations such as DYNSERVICE NETWORK and CPX.

Delivery of the *Third-Party Maintenance Competitive Environment Report* is scheduled for December.

OPERATING SYSTEM SOFTWARE REVISION SUPPORT

A n interesting question came to our attention through our hotline inquiry service. It concerned operating system software support for major revisions. For example, if a customer is using DEC's VMS operating system version 4.6, what happens when VMS version 4.7 comes out and the customer decides against upgrading? Is the customer still supported? Is there a fee involved? Believe it or not, situations like this do exist!

WANG's policy on operating system revisions is that WANG support personnel are trained to support only the current and prior releases. However, WANG will try to help customers with older revisions but only on a one-time basis. WANG attempts to encourage the user to upgrade existing software packages.

DATA GENERAL supports the current revision, and the prior revision for a six-month period. After this time limit has expired, DATA GENERAL informs customers that they must upgrade in order to continue receiving support. DATA GENERAL does remain flexible on this point, however.

DEC's policy is very similar to DATA GENERAL's. DEC supports the current revision and will support the prior revision for a six-month period. DEC's operating system revisions are free so there is no apparent reason for a customer not to upgrade. All old revisions, schematics, and documentation are kept on file.

PRIME offers full support not only for the current revision, but also for the prior revision. Customers are allowed to update at any time. Telephone support is still provided to customers who decline to update.

ALLIANT is similar to PRIME in its approach to operating system software revision. ALLIANT offers full support for the current revision as well as the prior revision. Old revisions are not supported unless the customer can swing a deal on a time and materials basis.

SEQUENT will support an operating system software revision for one year. During this time SEQUENT endeavors to encourage the customer to upgrade. If a customer still declines to upgrade, then they must contract with SEQUENT on a time and materials basis in order to continue to receive support.

GOULD supports only the current revision. GOULD customers who are under GOULD's software subscription service receive all new updates. All old revisions of operating system software are supported by a toll-free number. If a customer wants on-site service, they must pay on a time and materials basis.

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COMPUTER SERVICE NETWORK

An interesting enterprise was recently incorporated called COMPUTER SERVICE NETWORK, INC. (CSN). Its parent is a holding company called SERVICE MARKETING CORPORATION that specializes in marketing maintenance and financial products.

According to COMPUTER SERVICE NETWORK, it has devised a unique program that "creates, issues, backs, and administers service contracts for personal computer equipment." These service contracts are sold through authorized computer dealers and VARs.

The CSN program is "designed to provide a dealer or VAR with service contract capability where it doesn't exist, or enhance a dealer's own program by handling the equipment or geography that the dealer cannot." The CSN program covers new and used equipment, on-site or carry-in service, and upgrades for products under manufacturer warranties.

The CSN program is national in scope. CSN uses a "wide variety of service organizations that CSN pays on a time and material basis for service work." The service covers all 50 states and encompasses large national service organizations as well as smaller dealer service departments. Some of the larger service organizations include INTELOGIC TRACE, CDC, and TRW. This enables the dealer to cover equipment that is beyond the geographic capability of its service organization.

CSN is backed by a "Best A" rated insurance company so that CSN is able to make timely payments to the service organizations that provide the parts and labor.

CSN makes its program very attractive to dealers in a number of ways. Outside of selling the contract to a customer, the dealer is completely removed from the service process. All the customer has to do is call a toll-free customer hotline that helps the customer resolve the problem and then dispatches service if it is needed.

Another toll-free customer service line is available for dealer or customer questions, complaints, or other customer service needs. Therefore, the dealer has

no contract administration responsibility or overhead in the program. Furthermore, the dealer earns a profit at current market prices for CSN sales and may earn a second profit by providing service for covered systems when needed. In this way the dealer incurs no inventory investment because the dealer does not have to buy a contract until he has sold it.

The CSN program was developed two years ago by Dennis Ley of GMW SERVICES in Illinois and focused on the Chicago area with approximately 50 dealers. GMW SERVICES was acquired by William F. Maurer and Fred Whitlock, who then formed CSN, Inc. Dennis Ley was retained and acts as an Executive Vice President of the company.

William Maurer's entire career has been involved in the computer industry, and he has mainframe MIS experience and senior management experience within two personal computer dealer chains. He managed these organizations' service and service contract programs.

Fred Whitlock's background involves marketing and sales in a number of organizations, and from 1982 until the founding of SMC in March, 1987, he has held senior management positions within three dealer chain organizations.

MICROSOURCE TECHNICAL SERVICES of South Bend, IN, is a PC service organization that handles the customer service line for problems resolution and dispatch service. Claims administration is handled by SERVICE INTERNATIONAL of Columbus, OH. SMC handles all marketing and application processing directly.

HYPOINT TECHNOLOGY SUES HP

HYPOINT TECHNOLOGY INC. of Cleveland, Ohio has brought HEWLETT-PACKARD to court for $5 million. HYPOINT TECHNOLOGY is a maintenance firm that offers discounted service contracts to HP minicomputer users.

HYPOINT TECHNOLOGY filed the suit on September 24 in Cleveland's federal court. The suit alleges HEWLETT-PACKARD is monopolizing the maintenance market for HP minicomputers and interfering with HYPOINT's relationships with its customers.

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HYPOINT's main objection centers around HP's decision last month to eliminate four-hour service response time for its minicomputer customers not on regular contracts. These customers chose a "time and materials" service in which they pay on a per-visit basis.

An HP spokesman stated that HP altered the policy because requests for quick turnarounds (four-hour response time) from its T&M customers made it extremely difficult for HP to serve its customers who have purchased long-term maintenance agreements. The spokesman stated that maintenance firms such as HYPOINT act like insurance brokers because, in effect, they sell HP service at a discount but don't actually perform the work themselves. HP believes HYPOINT's allegations are without merit and that HP "should be able to make certain business decisions as [it] want[s]."

What results from HP eliminating four-hour turnaround for T&M pay-per-visit calls (but retaining it for customers under long-term service contracts) is the encouragement of customers to go the full-service route. This understandably impacts HYPOINT's business and explains why it chose to litigate.

DATAPOINT/INTELOGIC TRACE'S EDELMAN TARGETS TELEX FOR TAKEOVER

On October 9, Asher B. Edelman, the New York investor who heads INTELOGIC TRACE as well as DATAPOINT CORPORATION (both located in San Antonio, Texas), made an offer to buy all shares of TELEX CORPORATION (based in Tulsa, Oklahoma) for $65 each. This works out to an approximately $870 million acquisition deal.

Before making his unsolicited bid for TELEX's outstanding shares, Mr. Edelman headed a group that already controlled 8.1% of TELEX's stock. If Asher Edelman's bid should be successful, TELEX will be bringing a very sizable operation into the DATAPOINT/INTELOGIC TRACE fold. This is evidenced by the following figures.

TELEX CORPORATION
(Fiscal Year Ending March 31)
(in thousands)

		1987	1986	1985
Total Revenues		$764,419	$625,740	$520,330
Breakdown of 1987 Revenues:				
Terminals/	Sales	$450,597		
Telecom	Rental	$ 53,250		
	Service	$198,726		
			SubTotal	$702,573
Peripherals	Sales	$ 38,314		
	Rental	$ 1,134		
	Service	$ 4,308		
			SubTotal	$ 43,756
Other Products			SubTotal	$ 18,090
			Total	$764,419

As you can see from the above figures, TELEX's service revenues totaled $203,034,000 through March 31, 1987.

TELEX SERVICE PROFILE

As mentioned above, TELEX's service operation was responsible for over $203 million in service revenue. TELEX's service operation employs 2,120 people, of which 1,390 are field engineers. These field engineers operate out of 250 service locations and maintain over 600,000 installed units. Only TELEX products are served.

TELEX's service operation within the United States is controlled by a 7-day/24-hour centralized dispatch system located in Tulsa, Oklahoma. Outside of North America, TELEX service is handled by TELEX's World Trade Organization. TELEX's World Trade Organization is comprised of 495 service employees operating out of 43 different service locations. The World Trade Organization also subcontracts out work to local service organizations.

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In 1986 TELEX opened a new automated repair facility in Tulsa. This facility offers refurbishment, repair, and logistics support. The facility is over 175,000 square feet and is the result of the consolidation of six separate service/support facilities spread over the Tulsa area.

If the TELEX acquisition by Asher Edelman is successful, it is obvious that INTELOGIC TRACE would benefit greatly from TELEX's service operation. Not overlooking the fact that INTELOGIC TRACE would benefit from the addition of 1,390 field engineers and 250 service locations, the most important aspect of the possible acquisition would be the access gained to TELEX's installed base of over 600,000 units and their associated service contracts. This would make an excellent addition to INTELOGIC TRACE's installed base of DATAPOINT customers. Another important factor, and one that could prove of greater consequence in the future, would be the dramatic increase in exposure and presence in the international service market through TELEX's World Trade Organization.

C.ITOH LASER PRINTER PARTS MANUFACTURERS NOT MEETING COMMITMENTS

I t turns out that C.ITOH has run into some significant problems with its "Jetsetter" personal laser printer. The different manufacturers responsible for producing various parts for the machine have not met their production commitments. These late shipments have meant that the scheduled June 1987 introduction date of the "Jetsetter" was not met.

Furthermore, it is only now that the Jetsetter is being introduced, but in such limited numbers that C.ITOH's major dealers are clamoring for their scheduled allotments. In the past month only 40 Jetsetters were available for shipment and these had to be divvied up among seven major C.ITOH dealers. Needless to say they were not happy.

C.ITOH hopes to alleviate the severe parts shortage by January, 1988. Will this be soon enough? Supposedly C.ITOH is nervous (and for good reason!) about loss of potential market share to HP's line of laser printers so that in January C.ITOH will offer an

optional upgrade to match or exceed performance of competing HP products.

The Jetsetter has a one-year parts and labor warranty but it must be sent into C.ITOH's Torrance, California depot facility where C.ITOH technicians are carefully rationing out their limited supply of spare parts. Next year a field force is to be trained for maintenance on the Jetsetter.

A LOOK AT THE LEADERS: COMPARING DEC AND IBM SUPPORT STRATEGIES

A major part of the reason that IBM and DEC have been successful at growing to predominance as the leading vendors of computer systems has been their ability to provide quality maintenance and support services to their customers. Historically, the initials "IBM" became synonymous with "customer support." More recently, DEC has demonstrated its own recognition of the value of service and support, both as a contributor to the sales process and, more importantly, as a significant source of revenue in itself.

This month, INPUT takes a closer look at the two giants' structures and strategies in the services sector.

IBM: SETTING THE "INDUSTRY STANDARD"

IBM service is provided out of its National Service Division. NSD employs an estimated 30,000 employees worldwide, two-thirds of whom are hardware or software engineers. Service contributed $7.43 billion in 1986, placing NSD 47th in the Fortune 100 if NSD was considered a separate entity!

In a strategic sense, service is treated as a "sales feature" for moving IBM boxes. As such, IBM has only begrudgingly offered its service on non-IBM products, currently limited to microcomputer peripheral products one might expect to see attached to an IBM PC-family CPU (e.g., AST boards, HP laser printers, etc.). It has been reported that IBM officials

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have communicated a change from this position and that IBM will assist customers in "integrating" non-IBM products with IBM products. This announcement did not specifically refer to service nor elaborate as to what level IBM would assume a "systems integrator" role.

IBM recognizes the importance of its leadership role in the service industry and frequently establishes policy and pricing positions that become the "de facto" industry standards as a result. IBM pricing changes frequently result in reactive changes by others in the industry, often to the detriment of the competitors who usually do not have the ability to make up revenue dips in other areas or through improvements in service efficiency.

The most recent additions to IBM's service pricing and policy were the Corporate Service Amendment of 1986 and this year's Mid-Range Systems Amendment. Both agreements provide significant service price discounts for users demonstrating a willingness and ability to assume first-level diagnostic and support responsibility and to commit to a multi-year service contract with IBM. The impact on third-party maintenance firms that compete with IBM on a hardware maintenance price basis is clear, and most large TPMs have already or soon will introduce competitive offerings. (See INPUT's August SMF for an in-depth discussion of the CSA's impact on the market.)

Another example of the effect of IBM service policy on the industry is the introduction of a three-year warranty option on a new family of terminals (3162), which in effect removed these terminals from TPM competition. Since terminals are often used by TPMs as a way of "getting their foot in the door" at many user sites, the use of extended warranties on low (service) cost items like terminals appears to be another way that IBM can limit TPM penetration at their key large installations.

IBM's relationship with the TPM industry has historically run "hot and cold." Under the 1956 Consent Decree, IBM is obligated to provide spare parts to third-party service firms, and, for the most part, TPMs will admit that dealing with IBM regarding spares acquisition is often easier than dealing with most other manufacturers. Yet, IBM mainframe leasing and service specialist Allen Myland, Inc. has filed suit against IBM for attempted monopolization, unfair

trade practices, and restricting sale delivery of spare parts, all violations of sections one and two of the Sherman Anti-Trust Act. The case is still in litigation in Philadelphia.

Of greatest interest to users is IBM's ability to focus on providing the highest quality of service and support, usually at extremely competitive prices through economies of scale. IBM has relied heavily on service automation in almost all areas of service, from the engineer level, who benefits from hand-held terminals that facilitate communications, responsiveness, and support quality, on up to advanced remote diagnostics in the 309X mainframes that speed problem determination and improve support implementation.

As a result of its success both as a producer and as a service provider, IBM enjoys the advantage of intense customer loyalty. It has been frequently said that "no Data Processing Manager ever was fired for choosing IBM." This selection process is also aided by another factor: Fear, Uncertainty, and Doubt, or the "FUD" factor as many in the industry refer to it. The security of the IBM name often overshadows other purchase decision criteria in terms of both product and service selection.

Obvious areas of interest in IBM are the software and telecommunications product and support markets. IBM has identified the need to increase its own activities in the software market, particularly on the applications side, as reflected by the establishment of the Applications Systems Division to develop and acquire applications for its entire line.

On the telecommunications side, IBM's interest in increasing its expertise and presence is illustrated by the acquisition and eventual assimilation of Rolm. In both of these areas, IBM demonstrates a recognition of the decline of future mainframe hardware revenue growth and an increased importance of network and software-driven systems usage.

IBM hints at this increased focus by offering a separate but clearly defined network support option as a part of its CSA and Mid-Range Service Amendment service policies.

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DIGITAL EQUIPMENT CORPORATION: SELLING SERVICES "A LA CARTE"

DEC services its users through a worldwide customer support organization employing more than 22,000 maintenance and software support personnel at 650 locations in 54 countries. DEC reported $2.6 billion in service revenues in 1986, which represented a growth of 22% over 1985. More significantly, service now represents 35% of DEC's total revenues!

DEC views service more as a standalone product versus an inducement for selling systems. This is reflected by the extremely active marketing approach adopted by DEC that presents to users a wide range of service options and levels from which to select. Thus, DEC has been successful at introducing the "menu" approach to service.

Early on, DEC identified the importance of service, both as a way of increasing user satisfaction (and, in turn, sales) and as a healthy contributor to both additional revenues and profit. DEC has managed to operate its service division as a profit center for at least twenty years. This orientation has driven DEC to investigate and incorporate new service technology that improves both service performance and profitability.

Examples of these improvements can be seen in DEC's approach to remote support delivery. DEC offers around-the-clock telephone support supplemented by remote diagnostics out of 14 customer support centers, such as the one in Colorado Springs (CO). These support centers handle over 3,500 calls per day and can close out 85% of all software problems and 85% of all hardware problem determination. These centers provide remote diagnostics on all VAX systems running VAXSIM (VAX System Integrity Monitoring program), supplemented by artificial intelligence (AI)-based diagnostic tools.

While service pricing at DEC is usually competitive, pricing is not as critical an issue as it is with other vendors, including IBM. Instead, DEC deals with price sensitivity through its expanded service "menu" that allows the DEC user to create "a la carte" the support level that best fits his needs and budget. In line with this strategy, DEC has not publicly reacted to IBM's Corporate Service Amendment (CSA) but will undoubtedly be watching user reaction to the

more recently announced Mid-Range Systems Amendment.

DEC has enjoyed a very limited adversarial relationship with the third-party maintenance (TPM) industry. This may be due to DEC's past reliance on VARs and VADs who were almost encouraged to bundle in the most price-competitive peripherals (even if they were not DEC products). This policy opened a large potential market for TPMs, since DEC did not service non-DEC products at that time.

More recently, however, DEC has begun to offer service on "foreign" peripherals commonly attached to DEC systems through its DECompatible Service program covering over 175 different non-DEC products. DEC has furthered this service revenue opportunity by continuing to encourage the use of non-DEC peripherals with its Vendor Partnership Program (VPP), under which it gives its endorsement to certain non-DEC peripherals that are "approved for DEC field service."

In light of these efforts to win back service revenues from TPMs, it is surprising that DEC has faced little legal reaction from the TPM industry, particularly since the DEC VAX product market appears so attractive to TPMs. This may be due in part to the availability of DEC diagnostic tools and software, sold by such vendors as Parse, Inc. (a young software company based in Hudson, MA), Emulex, and TRW, making it easier for TPMs to service DEC products.

DEC's concern over the use of diagnostic tools and software by TPMs is highlighted by a suit filed by DEC in early '86 against DSI (Landham, MD), charging DSI with illegally using DEC copyrighted diagnostic software in third-party support. In July of 1987, DEC and DSI settled prior to trial, and neither company discussed the terms of the settlement other than that DSI agreed to pay an undisclosed amount of money for prior use of the software, that DSI would not make future use of the software, and that DEC is the owner of the duly registered copyrights of the software.

DEC also impacted the TPM industry with the decision to offer one-year warranties, first on VAX products and later on all systems. Although most TPMs tended to discount the effect of such a policy, the longer warranty does in effect decrease the "service

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life cycle" available on DEC products.

As one might expect from a company that prides itself on both its network capabilities and its wide range of service offerings, DEC makes available a complete list of network planning and support serv-ices, based on over ten years experience with supporting its own 15,000 node EASYnet private network. These services can be provided with matching services from DEC's Software Services and Educational Services.

IBM	Versus	DEC
• Support Staff: **30,000 Worldwide**		• Support Staff: **22,000 Worldwide**
• Service Revenues: **$7.4 Billion, 1986**		• Service Revenues: **$2.6 Billion, 1986**
* Service as a product "Sales Feature"		* Service marketed as a "Stand-alone Product"
* Current limited willingness to support foreign peripherals		* DECompatible offering for over 175 foreign add-ons
* Sets de facto industry standards		* "Service Menu" concept

- Policy
     - Pricing
     - Discounting
		- Flexibility in level of service
		     - Flexibility in total service price
		     - Pricing less of an issue

LATEST POLICY		**LATEST POLICY**
• Corporate Service and Mid-Range Discount amendments		• Vendor partnership support program
• 1-3 year warranties introduced on selected peripherals		• 1-year warranties on all systems
• Increases expected in SW & Telecomm support markets		• Continued focus on total network concept

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