CSP/E

Meeting the Challenge of Declining Revenue

INPUT

F-EBX
1984 c.2

MEETING THE CHALLENGE OF DECLINING REVENUE

JUNE 1984

MEETING THE CHALLENGE OF DECLINING REVENUE

CONTENTS

MEETING THE CHALLENGE OF DECLINING REVENUE

EXHIBITS

I INTRODUCTION

A. PURPOSE AND SCOPE

- This report is part of the 1984 European Customer Service Program. The topic, Meeting the Challenge of Declining Revenue, was selected by INPUT's clients as one of considerable interest.

- This brief examines recent European customer service vendor attitudes regarding the problems of revenue decay. It also proposes ideas for creating or enhancing service revenue.

  - Items of concern for vendors include:

    . Assessing success of previous service.

    . New revenue.

    . How to preserve and create maintenance revenue.

  - Some important considerations of pricing in revenue are:

    . Pricing effects.

    . Potential revenue sources.

- One way to develop newer service revenue, described in Chapter IV, involves the marketing of service products that are not usually covered under normal maintenance, such as:

  . Strike coverage.

  . Acts of God.

  . Disaster recovery.

  . Removals/relocation.

B. METHODOLOGY

- Research from the 1984 INPUT Customer Service Annual Survey was used to define and analyze vendors' attitudes regarding revenue.

- INPUT's data base and library were also used.

II CUSTOMER SERVICE ATTITUDES ABOUT REVENUE

A. VENDORS' PREVIOUS SUCCESS IN DEVELOPING NEW REVENUE

- Eighteen service vendors representing large and small systems, office systems, and data communication equipment based in the U.K., Germany, and France admit to a problem in developing service revenue.

- The average degree of success in generating new service revenue is rated at 4.8 on a scale of 1 to 10, where 1 is little success and 10 is large success.

- The significantly low score is the result of many factors, including:

  - Lack of positive service strategies.

  - Inability to produce new or unbundled service products.

  - Failure to market services.

  - Inhibited imagination.

  - No market research.

  - New revenue having a lower priority than basic operations.

- Traditionally, customer service's job was to keep the customer satisfied within the agreed budget. The recent decay of revenue caught many service firms off guard. In the past, firms did not have to develop service products because market demand created products.

- Most service organisations did not have their own marketing, business, or product development functions, and the low score in developing new revenue reflects this.

  - Less than half the respondents in the 1984 Annual Survey have marketing aims and/or functions, but even fewer have thought about business development.

  - Expanding the service manager's job to include business development and marketing is recommended.

B. MANAGEMENT ATTENTION TO NEW REVENUE

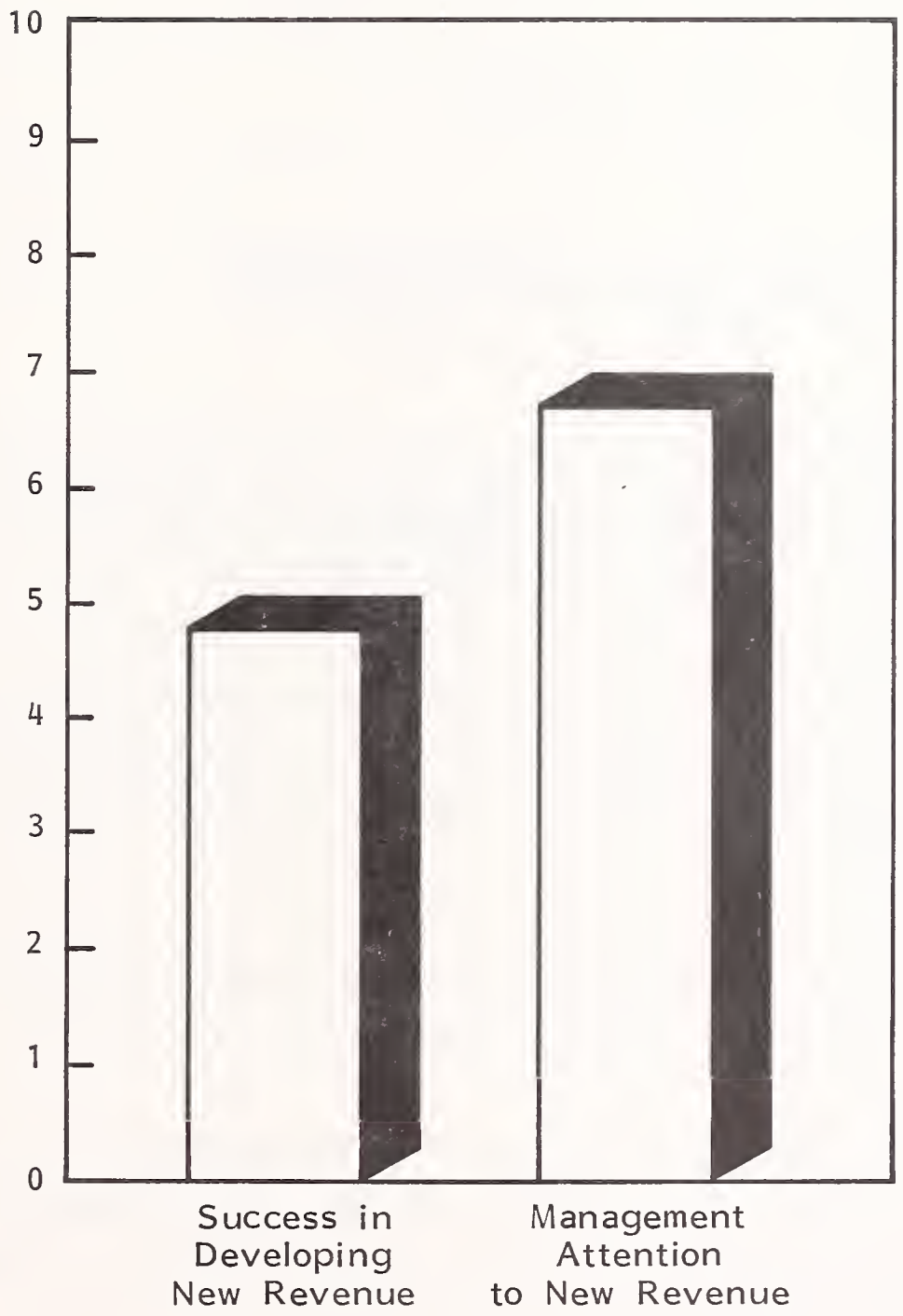
- Service managers seem to be frustrated in trying to create new revenue. While their confessed success at building new sources of service income is low, their attention to new revenue is much higher, 6.6 on a scale of 1 to 10, as shown in Exhibit II-1.

- While field service managers do not live by revenue alone, it certainly dictates how and to what degree they can provide service to their customers. It would be impractical to expect a rating over 7.5 for success at implementing new revenue approaches; however, service managers should focus on evaluating success.

- Concentrated efforts to reverse the problems associated with low success in achieving new service incomes should be emphasized, including:

EXHIBIT II-1

REVENUE DEVELOPMENT



Rating: 1 = Low, 10 = High.

- Fine tuning and constant evaluation of service strategies.

- Consideration of unbundled service products, for example separate changes for installation and new products like systems optimisation.

- Strong emphasis on service marketing.

- Open-minded service product orientation.

- Market research capabilities.

C. STEPS TO PROTECT AND ENHANCE REVENUE

- In planning for better service revenue protection and enhancement in the future, vendors included in the 1984 Annual Survey showed a variety of spontaneous ideas, which are summarised in Exhibit II-2.

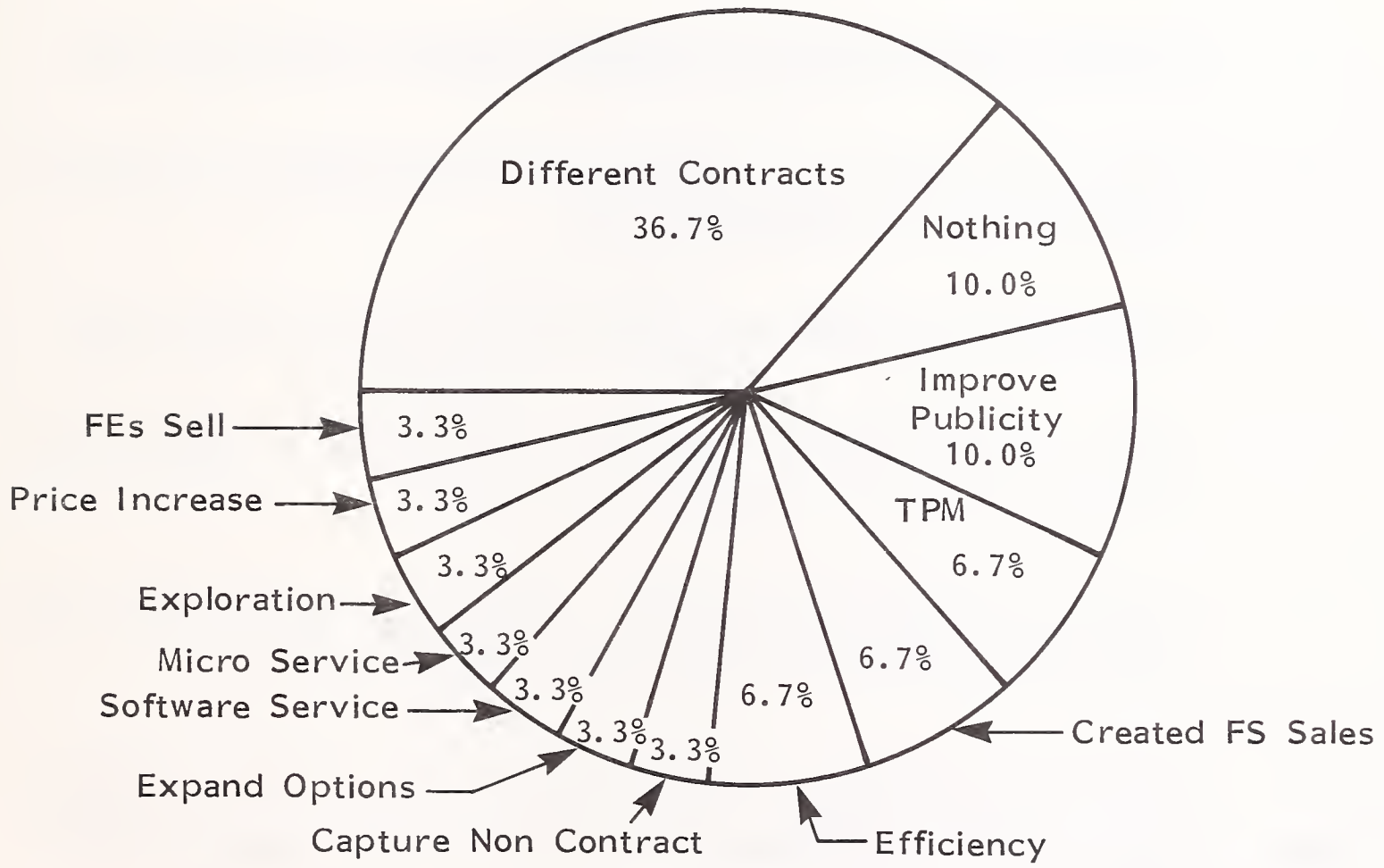
- Most vendors mentioned that a newer, more flexible contract is the way to correct revenue problems. This shows that service firms are listening more to their customers and developing contracts to better fit customers' individual service needs.

- Another group of respondents thinks that improving publicity through advertising and promotion will help hold and expand service revenue.

- Sadly, a few vendors say they are doing nothing to protect or create service revenue. This is largely a result of not having the time and resources to deal with revenue problems. This situation generally happens with companies that are smaller and younger.

EXHIBIT II-2

STEPS TO PROTECT/ENHANCE REVENUE



- Third-party maintenance is considered to be another reasonable strategy in defending or building revenue. This has been treated in more depth in two previous INPUT reports, The Third-Party Maintenance Market in Europe and TPM Update - Europe, 1984.

- Better efficiency is described by some vendors as a means of better revenue management. For example, improved engineer utilisation rates would help make way for other revenue-producing tasks.

- Other plans for revenue management include:

  - Expanding operations to provide new and improved services for a fee.

  - Price increases that are usually reliable but unpopular and may drive customers to look for alternate service.

  - Exploration into possible new revenue sources (business development).

  - Taking on microcomputer service as another way to acquire new revenue.

  - Capturing noncontract customers. This involves knowing who the noncontract users are and offering them different service.

  - Establishing field service engineers who sell service. Recent customer service studies by INPUT in the U.S. have shown this to be a successful strategy.

  - Use of a systems optimisation service that has been successfully developed and implemented by a major mainframe manufacturer in the U.S. This service is described in Chapter IV.

- Other ideas for service revenue include a shopping list of potential niches in the service market. For example:

  - Unbundled existing services, including:

    . Guaranteed uptime.

    . Guaranteed response time.

    . Field changes.

    . Parts exchange.

    . Site preparation.

    . Software service.

  - New services:

    . Selling media, supplies, and accessories.

    . Maintaining other manufacturers' equipment.

    . Providing hot spares.

- Several ideas regarding third-party maintenance and software support have been treated in greater depth in earlier INPUT studies.

- In December 1982 INPUT published an issue report, Alternative Revenue Opportunities for Field Service, which still has some valuable information concerning newer revenue prospects.

III THE IMPACT OF PRICING ON REVENUE

A. EFFECTS OF CUSTOMER SERVICE PRICING

- Users of large-scale systems continue to resist service price increases, particularly when there is no corresponding increase in system reliability or availability. Many users seem to think that service prices should decrease because:

  - Hardware prices are decreasing.

  - Hardware reliability is increasing.

  - Competition from third-party maintenance organizations (and in some cases from other vendors) has been based primarily on lower service prices.

- Resistance to service price increases will be of critical importance to customer service managers who are already under pressure to run their departments as profit centers. New revenue sources should be identified in order to increase field service profitability.

- While users clearly expect more competitive service pricing, high-quality service is even more important to them. Exhibit III-1 demonstrates that pricing is not an important factor in computer purchase decision making. The majority of large-system users indicated that price was much less important

EXHIBIT III-1

USER RATINGS OF THE IMPORTANCE OF PRICE IN COMPUTER PURCHASE DECISION MAKING

VENDOR	RATING	STANDARD DEVIATION	NUMBER OF RESPONDENTS
Average for All Vendors	6.7	2.1	334
Amdahl	7.0	2.6	20
Burroughs	6.9	1.8	31
CDC	6.1	1.9	36
Cray	6.3	2.7	9
DEC	6.6	2.0	41
Data General	6.5	1.7	25
Honeywell	6.8	2.0	44
IBM	6.8	1.9	45
NAS	6.8	2.4	32
Sperry	7.1	2.1	51

SOURCE: INPUT Survey (U.S. Data)

Rating: 1 = Not Important, 10 = Very Important.

in purchase decisions than factors like uptime/system availability and field engineer response time.

- From Exhibit III-1 we can determine that, at least during the purchase stage, price is considered secondary to actual service performance. However, after the initial purchase decision has been made, maintenance pricing becomes a more important concern. Almost 5% of the respondents to the INPUT survey felt that a lower price for service was the single most important change that the vendor could make. (This 5% was spread evenly among the vendors).

- INPUT's findings of price insensitivity at purchase time is corroborated by a recent study by the Association of Field Service Managers. The AFSM study found that customers of high-tech equipment rated system reliability as more important than price of equipment in the equipment selection process.

- There are several reasons for price insensitivity at time of purchase:

  - Service prices appear relatively insignificant in comparison to the price of the total system.

  - Users complain that there is no accurate way to judge the competence of competitive service vendors, particularly at the purchase decision stage.

  - Even when qualified competition is available, users report they are reluctant to entrust service on a new product to an untested service vendor.

- Service price insensitivity during the purchase decision process can be used by maintenance vendors to increase revenues. This is particularly true if users agree to purchase long-term maintenance contracts at the time of initial system purchase. Other potential revenue sources include:

- Offering users expanded maintenance services.

- Incorporating new revenue sources into the customer services function (e.g., equipment sales, upgrades, etc.).

- The development of service pricing strategy and users' reaction to it are discussed below.

B. USER REQUIREMENTS FOR EXTENDED SERVICES AND ATTITUDES TOWARD PREMIUMS

- As noted above, service price sensitivity is growing among maintenance customers. A large portion of users, however, are willing to pay substantial premiums for selected extended or improved services. Over 80% of the large-system users surveyed required some extended services, and the premiums they were willing to pay ranged from 1% to over 100% beyond their basic service contracts.

- By offering extended services, vendors have the opportunity to increase service revenue substantially - and the demand for extended services is still growing. Exhibit III-2 demonstrates that user demand for almost all areas of extended services has grown between 1983 and 1984. In addition to demand, the premium that users are willing to pay has also generally grown.

- Exhibit III-2 shows that preventive maintenance and field changes during off-prime hours are by far the most popular extended services requested by users.

- Eighty-two percent of the large-system users surveyed said they had a need for this service. Over 50% of the users said they had a requirement for guaranteed response time, on-site spare parts, remote diagnostics, and/or occasional shift coverage.

EXHIBIT III-2

USER REQUIREMENTS FOR EXTENDED SERVICES AND ATTITUDES TOWARD PREMIUMS

EXTENDED SERVICE	PERCENTAGES OF RESPONDENTS REQUIRING EXTENDED SERVICE		AVERAGE PREMIUM RESPONDENTS WILLING TO PAY OVER BASIC MAINTENANCE	
	1984	1983	1984	1983
Stand-By Coverage During Critical Periods	49.0%	43.2%	10.9%	8.8%
Guaranteed Uptime	36.5	34.9	7.8	10.8
Guaranteed Response Time	61.3	54.3	5.1	4.0
On-Site Spare Parts	53.3	56.5	2.6	2.8
Remote Diagnostics	55.8	47.5	2.8	3.1
Preventive Maintenance and Field Changes During Off-Prime Hours	82.0	70.7	4.7	3.2
Occasional Shift Coverage	53.1	31.5	6.8	4.0
Full-Time, On-Site Service Engineer	32.3	30.6	7.1	2.6
Guaranteed Repair Time (Hardware)	39.2	29.0	8.4	9.8
Guaranteed Turnaround on Software	28.0	20.1	4.9	4.6

SOURCE: INPUT Survey (U.S. Data)

- Although there is a great demand for the extended services listed above, users are generally not willing to pay high premiums for these services. For example, users are willing to pay only 2.6% over their basic maintenance charge for on-site spare parts and 2.8% for remote diagnostics.

- It is important to note that most users reject the concept of paying a premium for services that are already covered in the basic service contract. For example, the majority of respondents requiring on-site spare parts felt that they were supplying a service to the vendor and therefore should not have to pay any premium for this service.

- On the other hand, there are some services, such as standby coverage during critical periods and occasional shift coverage, that the users recognize as being an important - and expensive - supplemental service. In many cases, users reported that the premium they were willing to pay depended upon the complexity of the potential problem.

- Users of large systems seem to have an inbuilt distrust of any guaranteed extended service. They are not looking for an insurance policy that will reimburse them when their machine goes down, but they are looking for a guarantee that the machine will not fail. Comments such as "a guaranteed repair time is just not possible" kept the overall percentage of respondents requiring these services quite small. When users felt that such guarantees were valid, however, they were willing to pay high premiums.

- Price sensitivity by users indicates that the service market can be divided along price lines. Exhibit III-3 shows a premium percentage distribution that is consistent from one extended service to another.

- As mentioned earlier, most users requiring extended services believe that the services should be covered as part of the basic maintenance charge and therefore they were not willing to pay any extra premium. This is particularly

EXHIBIT III-3

DISTRIBUTION OF REASONABLE PREMIUMS FOR EXTENDED SERVICES

EXTENDED SERVICE	PERCENTAGE OF USERS REQUIRING EXTENDED SERVICE WHO WILL PAY PREMIUM OVER BASIC MAINTENANCE CHARGE						
	PREMIUM GROUPS						
	0%	1-5%	6-10%	11-16%	16-30%	31-50%	51+%
Standby Coverage During Critical Periods	42.2%	18.4%	14.2%	3.0%	10.1%	4.8%	3.6%
Guaranteed Uptime	56.3	11.2	15.9	3.2	7.2	4.0	2.4
Guaranteed Response Time	69.9	11.3	12.3	2.9	6.7	0.5	1.5
On-Site Spare Parts	75.0	11.4	8.6	1.6	22.2	1.1	-
Remote Diagnostics	68.7	17.1	8.8	1.0	3.6	0.5	-
PM and Engineering Changes Installed Off-Prime Shift	58.7	13.5	18.4	3.6	4.6	1.5	-
Occasional Shift Coverage Versus Fixed Schedule	42.9	26.8	20.2	1.6	5.4	1.6	1.0
Full-Time, On-Site Service Engineer	61.3	4.5	6.3	10.8	13.5	-	3.6
Guaranteed Repair Time (Hardware)	54.8	11.1	16.3	3.7	8.1	4.4	0.7
Guaranteed Turn-around on Soft-ware Problems	58.4	12.3	16.8	5.6	5.6	1.1	-

SOURCE: INPUT Survey (U.S. Data)

valid for guaranteed response time (of the field engineer), on-site spare parts, and remote diagnostics.

- Exhibit III-3 indicates that the percentage of users willing to pay premiums drops rapidly after a 10% increase in price. As the exhibit shows, however, some users are willing to pay a premium of over 50% for selected services.

- It is possible to determine the optimal increase by multiplying the premium the user is willing to pay by the percentage of users agreeing to pay that same premium. For example, in Exhibit III-3, the optimal premium to charge for guaranteed uptime is between 6% and 10%. The typical vendor will derive the greatest profitability from this premium level.

- Even though users are becoming more price sensitive with regard to service, the average percentage of users willing to pay some premium has grown since 1983. Exhibit III-4 indicates that the fastest growing areas include:

  - Full-time on-site field engineer.
  - Occasional shift coverage.
  - Preventive maintenance during off-prime hours.
  - Remote diagnostics.

- Extended services that users are increasingly reluctant to pay any extra charge for are:

  - Guaranteed uptime.
  - On-site spare parts.
  - Guaranteed repair time (software).
  - Guaranteed response time.

EXHIBIT III-4

USERS WILLING TO PAY SOME PREMIUM* FOR EXTENDED SERVICES
(Percent)

EXTENDED SERVICES	PERCENT OF USERS WHO WILL PAY A PREMIUM		1983-1984 PERCENT INCREASE (DECREASE)
	1983	1984	
Standby Coverage During Critical Periods	52.9%	53.8%	1.7 %
Guaranteed Uptime	54.9	43.7	(20.4)
Guaranteed Response Time	39.8	35.1	(11.8)
On-Site Spare Parts	30.1	25.0	(16.9)
Remote Diagnostics	29.2	31.3	7.2
PM and Engineering Changes Installed Off-Prime Shifts	34.5	41.3	19.7
Occasional Shift Coverage	46.1	57.1	23.9
Full-Time On-Site Engineer	29.3	38.7	32.1
Guaranteed Repair Time (Hardware)	48.9	51.1	4.5
Guaranteed Repair Time (Software)	53.8	46.2	(14.1)

* Some Premium = 0.5% or more of Basic Monthly Maintenance Charge (BMMC) SOURCE: INPUT Survey (U.S. Data)

- The fact that users are willing to pay any extra premium is significant because INPUT has found that users generally underrate the premiums they would be willing to pay for extended services. INPUT estimates that, based on past performance, users will accept premiums of 85-100% more than they listed in Exhibits III-2 and III-3.

C. NEW REVENUE SOURCES FOR CUSTOMER SERVICE

- Expanding the role of the field engineer is a second area that offers the potential of increasing field service revenue. Unlike the premium extended for services, however, changes in the FE's role may result in an immediate negative reaction from the user if the change is not instituted properly.

- The role of the FE can best be expanded in the direction of increased customer support. Many of the users surveyed by INPUT, both in 1983 and 1984, reported that advice from their FE is highly valued and is an integral part of the equipment selection and purchase process. Users were equally adamant, however, that the FE not be placed in a sales role. Users opposed having the FE in a direct sales role for two reasons:

  - They felt it would bias an otherwise objective source of information, particularly if the FE received sales commissions.

  - The sales role would only add other obligations to an already overburdened FE.

- In 1983, users generally favored the FE in a sales role for add-on equipment and service contracts. The selling of supplies or new equipment by the FE was approved by the majority of respondents.

- Exhibit III-5 lists user attitudes toward the FE taking orders for equipment and service in 1984. As the exhibit indicates, the majority of users oppose the FE taking orders for any product or service. Users would respond "The FE's job is to repair my equipment - that's his only job!"

- Individual users tend to favor or oppose the FE in a sales role depending on how they think it will affect their service. If service is already good, they see no need to change it and therefore oppose sales support by the FE. If service needs to be improved, the user tends to support any change in the FE's role that may improve service. For example:

  - DEC users report a high system availability rate, as shown in Exhibit III-2, and tend to oppose having the FE in any sales-related role.

  - Data General users, on the other hand, have a relatively low system availability rate and yet are much more supportive of the new sales role for the FE.

- As in last year's survey, a large portion of 1984 respondents tended to favor the FE taking orders for service contracts and upgrades. And, like last year's users, the majority was overwhelmingly opposed to the FE taking orders for software products. (One user responded "My FE can barely keep one hat and you want him to wear three?") Users also opposed the FE taking orders for supplies and new orders of equipment.

- Users will continue to oppose changing the role of the FE when they perceive that such a change will result in lower quality service. Vendors should note, however, that there appears to be a substantial demand for sales support in selected areas. These areas include:

  - Service contracts.

  - Upgrades.

EXHIBIT III-5

USER ATTITUDES TOWARD FIELD ENGINEER TAKING ORDERS FOR EQUIPMENT/SERVICE

FIELD ENGINEER TAKING ORDERS FOR:	FAVOR (Percent)	NEUTRAL (Percent)	OPPOSED (Percent)
Supplies	27.9%	21.2%	50.9%
Add-On Equipment	29.4	10.2	60.4
New Models of Equipment	22.1	8.4	69.5
Upgrades	39.7	7.0	53.3
Service Contracts	42.2	7.8	50.0
Software	19.7	7.2	73.1

SOURCE: INPUT Survey (U.S. Data)

- If vendors concentrate in these areas they can increase field service revenue and improve user satisfaction.

IV INCREMENTAL REVENUE SOURCES FROM UNFORESEEN USER CIRCUMSTANCES

- Millions of dollars worth of equipment may be either crippled or physically damaged from conflicts, acts of God, or acts of violence.

- Most service contracts exclude the following:

  - Acts of God.
  - Acts of violence.
  - Acts of conflict.

- Service contracts normally include service during regular work days and hours, in normal weather conditions, and during usual customer working conditions.

- Excluded items include, but aren't necessarily limited to:

  - Industrial disputes (strikes).
  - Acts of God (fires, floods, earthquakes, etc.).
  - Other disasters (terrorism, etc.).
  - Transfer/removals.

A. STRIKES

- Some type of skeleton operation usually continues during strikes, and companies that depend upon information processing equipment usually are very interested in keeping that operation going. Sometimes customers can save thousands of dollars just by keeping the computer running. Airlines are a good example.

- During a strike and especially when confronted with pickets, it is difficult to carry out any task. Yet, there can be a heavy demand for service during such a period.

- As long as the personal safety of the computer engineer is not in jeopardy (this may require escort by the company or civil authorities), service work can continue.

- In some instances, larger companies prefer to retain the engineer inside the plant, assuming proper lodging, safety, and nourishment. The engineer acts as immediate insurance against any fault and does not have to cope with picket lines.

- Exhibit IV-1 is an example of an agreement for service during labor disputes.

- Exhibit IV-2 summarises how extra coverage of strike protection can be a revenue addition.

B. INSURANCE

- Insurance for casualty is a huge business by itself. In most instances today the underwriter of the insurance policy covers the buildings and assets of the client firm, including their information processing equipment.

STRIKE COVERAGE

GENERAL ELECTRIC

AIRCRAFT ENGINE GROUP

GENERAL ELECTRIC COMPANY . . . . . 1000 WESTERN AVENUE
LYNN, MASSACHUSETTS 01910, Phone (617) 594-0100

June 17, 1982

Mr.

Walnut Street
Wellesley, MA 02181

Dear Mr.

Thank you for your letter of June 9 concerning service during labor disputes. Counsel has reviewed the letter and suggested a few changes. I have incorporated those proposed changes into the pertinent sections and reproduced them below.

Page 1, Paragraph 2

In unusual situations where a customer may temporarily require the on-site presence of customer engineering representatives on a 24 hour/day, 7 days/week basis, may offer Live-In Maintenance Service. Because of the variety of situations which could warrant such a service for a customer, will, on a case by case basis, consider the particular circumstances under which Live-In Maintenance Service would be provided. at its sole discretion reserves the right to refuse, or if already commenced, to terminate Live-In Maintenance Service to any customer at any time upon reasonable notice in writing to General Electric.

Page 1, Paragraph 3

If it is agreed that will provide Live-In Maintenance Service in your particular case, the following additional ground rules and charges would apply. These ground rules are subject to change upon reasonable notice to General Electric in writing if circumstances require.

Page 2, Ground Rule #3

If access to General Electric's site is substantially impeded by any cause or for any reason related to the necessity for Live-In Maintenance Services, General Electric at its expense shall be responsible for the safe transport of spare parts, test equipment or other specified requirements from a designated transfer point to and from a General Electric site.

Page 2, Ground Rule #4

If it is necessary for to transport employees from other locations to temporarily fill vacancies created by local engineering representatives who are manning General Electric's site, or if a specialist is required from outside the area (including out-of-state) General Electric shall assume reasonable transportation, living and other related expenses for said employees.

Page 2, Ground Rule #5

General Electric shall provide reasonable protection for the safety of all personnel while authorized to be at General Electric's site provided that personnel shall abide by any and all safety rules, regulations and practices of General Electric while at the site.

Page 2, Ground Rule #6

General Electric shall indemnify and hold harmless from any loss claim or damage to persons or property arising from performing Live-In Maintenance Service for General Electric to the extent such loss, claim or damage is not caused by the fault of

Please let me know if you see a need for further exchanges or review of this matter.

Sincerely,

EXHIBIT IV-2

POTENTIAL REVENUE ENHANCEMENT FROM STRIKE COVERAGE

DESCRIPTION OF SERVICE: The service company writes a separate contract for service during a strike. It is an insurance policy for the customer and it must at all times guarantee the engineers' welfare. Coverage would be for the expected duration of the strike and the engineer would live on-site.

APPLICABILITY: Strike coverage would apply predominantly to large-system users who are in heavy industry.

BENEFITS TO CUSTOMER: Assurance that the computer system will remain productive during a strike.

PRICING: Strike coverage is expensive because of the hazardous duty, the full resident on-site requirement, and the criticality to the customer. The price should be in the range of $1,200-2,000 per day.

REVENUE IMPORT: Strike coverage, per se, would have a small impact on revenue. Depending on circumstances it might yield up to a 3% increase in overall revenue.

- Usually, in cases where fire, flood, or earthquake damages equipment, the insurance broker or underwriter must employ a service firm to:

  - Assess the damage.

  - Make an estimate for the repair.

  - Fix or restore the equipment to working condition.

- On a limited basis, service organisations might try underwriting insurance protection for their customers. Obviously, there are high risks as well as high rewards available to the astute service vendor.

- Actuarial assistance would be required.

- There is a great need for insurance against security violations, but development of such a product is too expensive and complex at the present time.

- Exhibit IV-3 explains insurance as a revenue source.

C. DISASTER RECOVERY

- Disaster recovery in its simplest sense is the insurance protection described earlier, but in addition it includes backup and extra resources enabling clients to restore their system.

- Also, while insurance is aimed at partial damage, disaster recovery implies a larger scale peril where, for example, an entire computer room would be incapacitated.

EXHIBIT IV-3

REVENUE FROM CASUALTY INSURANCE PREMIUMS

DESCRIPTION OF SERVICE: Instead of the insurance company underwriting the risk, the service firm would do this at a premium. Most insurance companies rely on service firms anyway for assessment of damage and estimates for repair. Service firms usually have access to replacement parts at low cost, so that even if full replacement were required, the service firm could make money.

APPLICABILITY: This scheme for insurance would be applicable to the full range of hardware products - from large systems to microcomputers.

BENEFITS TO CUSTOMER: There is less red tape. The customer deals directly with the agent and may not pay as much for coverage.

PRICING: Prices for insurance premiums would depend on numerous variables, but an example would be:

N·X per month for the first year

N·X per month for the second year

X is the original value of the equipment and N is a factor taking into account competition, risk, and business (payback) goals.

REVENUE IMPACT: Insurance plans might yield as much as a 35% increase in service revenues.

- Disaster obviously can come from a number of sources:
  - Weather.
  - Terrorism.
  - Earthquakes.
  - Volcanoes.
- Disaster recovery service could include the following:
  - Full hardware backup.
  - Full software backup.
  - Partial (e.g., network) backup.
  - Critical site backup.
- A summary of disaster recovery as a service revenue possibility is found in Exhibit IV-4.

D. EQUIPMENT RELOCATION

- The customer service representative is usually called on to help, especially in very large companies where change seems almost constant. (For example, there might be major moves of computer equipment, or small moves involving intelligent terminal hookups or data communications switching.)

EXHIBIT IV-4

POTENTIAL REVENUE FROM A FIELD SERVICE DISASTER RECOVERY BUSINESS

DESCRIPTION OF SERVICE: Provide immediate recovery for customers in case of catastrophic disasters by providing extra equipment, backup files, and insurance coverage to estimate and repair damage while a a secondary system is in use.

APPLICABILITY: Large Systems: Applicable to intensive, on-line, real-time operations. Small Systems: Critical Operations. Micrcomputers and Networks: Varied applicability. Service vendor must of course have the same equipment and software as customers.

BENEFITS TO CUSTOMER: Customer is able to continue operations in spite of major disasters.

PRICING: Very expensive for complete backup - up to 35% of the value of the customer's hardware and software assets.

REVENUE IMPACT: Could have a dynamic, positive effect on revenues, depending on the extent of service offered and the additional assets required.

- Planning for the move.
- Disconnecting equipment.
- Packing.
- Shipping.
- Reconnecting.
- Testing and checking the system on the other end.

- Since this service usually isn't included in a basic maintenance agreement, it represents incremental revenue.

- This type of service can be obtained on an ad hoc basis, but there could certainly be a contract for removals and relocations, which customers would buy to cover themselves when they move. This would cause the least amount of disruption if performed on off-shift nights, weekends, or holidays.

- Exhibit IV-5 indicates some of the business factors involved with providing this service.

EXHIBIT IV-5

SERVICE REVENUE FROM EQUIPMENT RELOCATION

DESCRIPTION OF SERVICES: Motion and change are a part of running businesses and information equipment. Customers need help in: Planning, disconnection, packing, shipping, unpacking, reconnecting, testing, and checking out the new site. A contract for a set number of moves, and set terms and conditions could be offered to customers for an added premium, as this is usually not covered under basic services.

APPLICABILITY: This market would exist usually in large-systems users' sites and networks.

BENEFITS TO CUSTOMER: The relocation service would formalise a definite customer need, help take the uncertainty out of necessary moves, and assure a backup with a minimum of disruption.

PRICING: Pricing for equipment relocation could be fixed or variable, depending on the situation. For a set number of moves, it would be simple to estimate the cost and assign a profit factor.

REVENUE IMPORT: Possibly 8% of existing revenue.

INPUT Airwork House, 35 Piccadilly, London, W1V 9PB, England, 01-439-8985