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Ten Newer Ways to Run Customer Service

F-EBT
1984 c.2

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Ten Newer Ways to Run Customer

TITLE

Service

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1984 c.2

TEN NEWER WAYS TO RUN
CUSTOMER SERVICE

JULY 1984



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TEN NEWER WAYS TO RUN CUSTOMER SERVICE

CONTENTS

	<u>Page</u>
I INTRODUCTION.....	I
A. Purpose	I
B. Approach	I
II TEN NEWER WAYS TO OPERATE SERVICE	5
A. Type A - Organisational Innovations	5
1. Concept 1: Factory Service (from Manufacturing)	5
2. Concept 2: Engineer Profit Sharing	9
3. Concept 3: Service Integrated with Sales	12
4. Concept 4: Sales Reporting to Service	15
5. Concept 5: Fewer Mid-Managers (Greater Span of Control)	18
B. Type B - Functional Methods of Change	22
6. Concept 6: Warranty Extension (Unbundling Warranty)	22
7. Concept 7: Man in the Van/Phone Centres/Repair Centres	26
C. Type C - Functional and Organisational Ideas	29
8. Concept 8: Franchised/Dealer Service	29
9. Concept 9: Consultancy/Customer Self-Help	33
10. Concept 10: Separate Service Firm	36

Note: Each Concept Includes:

- Description
- Applicability
- Possible Combinations with Other Concepts
- Organisational Impact
- Customer Impact
- Financial Impact
- Possible Advantages and Disadvantages
- Known Implementors

TEN NEWER WAYS TO RUN CUSTOMER SERVICE

EXHIBITS

		<u>Page</u>
II	-1 Concept No. 1 - Factory Service (1)	5
	-2 Concept No. 1 - Factory Service (2)	7
	-3 Concept No. 1 - Factory Service (3)	8
	-4 Concept No. 2 - Engineer Profit Sharing (1)	9
	-5 Concept No. 2 - Engineer Profit Sharing (2)	10
	-6 Concept No. 2 - Engineer Profit Sharing (3)	11
	-7 Concept No. 3 - Service Integrated with Sales (1)	12
	-8 Concept No. 3 - Service Integrated with Sales (2)	13
	-9 Concept No. 3 - Service Integrated with Sales (3)	14
	-10 Concept No. 4 - Sales Reporting to Service (1)	15
	-11 Concept No. 4 - Sales Reporting to Service (2)	16
	-12 Concept No. 4 - Sales Reporting to Service (3)	17
	-13 Concept No. 5 - Fewer Mid-Managers (1)	18
	-14 Concept No. 5 - Fewer Mid-Managers (2)	20
	-15 Concept No. 5 - Fewer Mid-Managers (3)	21
	-16 Concept No. 6 - Warranty Extension (Unbundling Warranty) (1)	22
	-17 Example of Unbundled/Extended Warranty	23
	-18 Concept No. 6 - Warranty Extension (Unbundling Warranty) (2)	24
	-19 Concept No. 6 - Warranty Extension (Unbundling Warranty) (3)	25
	-20 Concept No. 7 - Man in the Van/Phone Centres/ Repair Centres (1)	26
	-21 Concept No. 7 - Man in the Van/Phone Centres/ Repair Centres (2)	27
	-22 Concept No. 7 - Man in the Van/Phone Centres/ Repair Centres (3)	28
	-23 Concept No. 8 - Franchised/Dealer Service (1)	29
	-24 Concept No. 8 - Franchised/Dealer Service (2)	31
	-25 Concept No. 8 - Franchised/Dealer Service (3)	32
	-26 Concept No. 9 - Consultancy/Customer Self-Help (1)	33
	-27 Concept No. 9 - Consultancy/Customer Self-Help (2)	34
	-28 Concept No. 9 - Consultancy/Customer Self-Help (3)	35
	-29 Concept No. 10 - Separate Service Firm (1)	36
	-30 Concept No. 10 - Separate Service Firm (2)	37
	-31 Concept No. 10 - Separate Service Firm (3)	38

I INTRODUCTION

A. PURPOSE

- The purpose of this brief is to inform service managers of possible newer ways to perform the function of customer service. The topic was selected by INPUT as one of interest and was approved by INPUT clients for the 1984 European Customer Service Program.

B. APPROACH

- The approach to this study was to select ten of the best and most interesting ideas resulting from extensive brainstorming sessions involving INPUT personnel who are familiar with customer service from user and vendor vantage points.
- Ideas that are untested are always subject to criticism and some of those presented herein are no exception. It is more or less accepted that field/customer service management will always fall short of the ideal.
- INPUT hopes that at least one of the concepts presented herein will be provocative enough to induce thoughtful discussion and perhaps even a plan for improved service.

- The approach is a new one in that:
 - The only research is the collective experience of the INPUT staff members who have dealt with hundreds of customers and service vendors of all sizes and disciplines.
 - There is no text. The concepts are presented in exhibit form to facilitate a quicker understanding and assessment.
- Concepts for newer ways to conduct service are based on:
 - Organisational innovations.
 - Functional changes.
 - Both functional and organisational ideas.
- Each concept includes an analysis of:
 - Description.
 - Applicability.
 - Possible interrelationships with other concepts.
 - Organisational, customer, and financial impact.
 - Possible advantages and disadvantages.
 - Known implementors.

- Readers are encouraged to tell INPUT about any positive or negative impressions or reactions resulting from this brief. Questions are welcome.

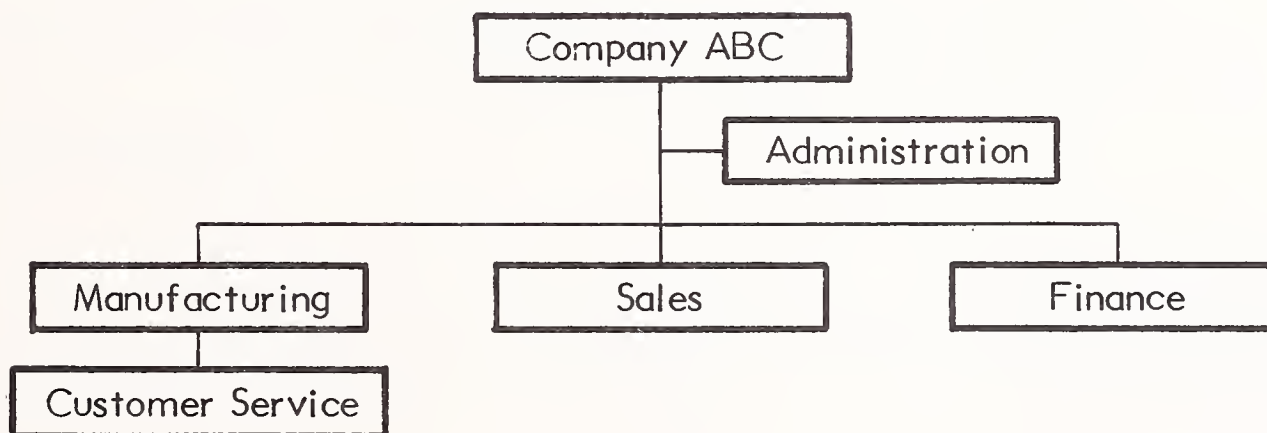
EXHIBIT II-I

CONCEPT NO: I - FACTORY SERVICE (I)

TYPE: Organisational

DESCRIPTION:

- In this concept, service would be delivered by and reported to the manufacturing organisations. With fewer repairs required for newer, more reliable equipment, the factory could easily assume the field service function in smaller, newer firms. The factory is normally responsible for warranty repairs; therefore, since ongoing service is often an extension of warranty, factories could logically undertake the service function.
- A simplified organisational structure might look like this:



- The rationale for this newer way to run service is to promote economy and efficiency. It puts the service responsibility at the heart of the problem-- manufacturing.

APPLICABILITY:

- Large and Small Systems, Microcomputers, Peripherals and Terminals.

POSSIBLE COMBINATIONS (Relating to other Concepts):

- Concept 6 - Warranty Extension.
- Concept 7 - Man in the Van/Phone Centres/Repair Centres.
- Concept 8 - Franchised/Dealer Service.
- Concept 10 - Separate Service Firm.

EXHIBIT II-2

CONCEPT NO: 1 - FACTORY SERVICE (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Setting up a service function under manufacturing initially would not be as different as changing it from another organisation. Careful planning and communication with factory and service personnel prior to and during implementation are essential.
- There could be an overlap of key functions that could be optimised. For example, a person working on the test and assembly line could also help out in the service repair shop or vice versa as the demand required it.
- Occasional on-site service from the factory would be necessary.

CUSTOMER IMPACT:

- Customers should not see any change generally in overall service and perhaps could expect an improved level of service. The exception is where any on-site service would revert to factory service.

FINANCIAL IMPACT:

- The financial impact of this concept could be extremely favourable, especially to the newer company because start-up costs (particularly spare parts) could be conserved.

EXHIBIT II-3

CONCEPT NO: 1 - FACTORY SERVICE (3)

POSSIBLE ADVANTAGES:

1. Economy.
2. Efficiency.
3. Places service responsibility at the 'scene of the crime', inducing manufacturing to do a better job with quality control.
4. A natural extension of warranty service.
5. Spare parts could be better coordinated with manufacturing runs.
6. Addresses the need for less (or more concentrated) service because of improved technology/reliability.
7. Would tend to improve relationships between sales and service.

POSSIBLE DISADVANTAGES:

1. The lack of on-site coverage might be a deterrent.
2. Customer satisfaction might be slightly compromised.
3. Not practical for larger or older systems.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- Honeywell (USA), circa 1955.

EXHIBIT II-4

CONCEPT NO.: 2 - ENGINEER PROFIT SHARING (I)

TYPE: Organisational

DESCRIPTION:

- It is difficult to remember any year over the past 20 in which companies have not required their field services to increase productivity. The ways and means of increasing productivity are diminishing. Allowing the engineer to participate in the profit provides a very good incentive for engineers to become more efficient and productive.
- There are at least three different profit-sharing schemes that could be applied:
 1. Profit sharing based on company profits.
 2. Profit sharing based on service profits.
 3. Profit sharing based on service profits of the local (regional) service territory.

APPLICABILITY:

- Large and small systems, microcomputers, peripherals and terminals.

POSSIBLE COMBINATIONS (Relating To Other Concepts):

- Concept 3 - Service Integrated with Sales.
- Concept 5 - Fewer Mid-Managers.

EXHIBIT II-5

CONCEPT NO: 2 - ENGINEER PROFIT SHARING (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Engineering profit sharing should have a very positive effect on the service organisation. Profit sharing should make field service more efficient, with increased esprit de corps and productivity.
- Profit sharing for field engineers might upset others in the company who did not receive a similar earning opportunity. However, other than salespeople who are normally on an incentive scheme, either by commission or bonus or both, there are few jobs so important and critical to future business than service; the engineer deserves extra recognition and compensation in many organisations.

CUSTOMER IMPACT:

- Customers should generally appreciate the boost in field engineers' morale and should perceive an escalation of service quality. However, there may be the occasional field representative who abuses the system for the sake of personal profit.

FINANCIAL IMPACT:

- Measuring the return in terms of engineers' productivity isn't easy until the idea is tried somewhere under controlled conditions. Obviously, the return to the company should be greater than the cost of implementation.

EXHIBIT II-6

CONCEPT NO: 2 - ENGINEER PROFIT SHARING (3)

POSSIBLE ADVANTAGES:

1. Gives the field engineer a greater sense of belonging to the service organisation and/or company.
2. Allows the engineer a tangible recognition for his hard-earned achievement.
3. Helps the engineer become more professionally business orientated.

POSSIBLE DISADVANTAGES:

1. Resentment and conflict with other employees if not properly planned.
2. Distraction from the engineers' main duty--to service the customer.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- None.

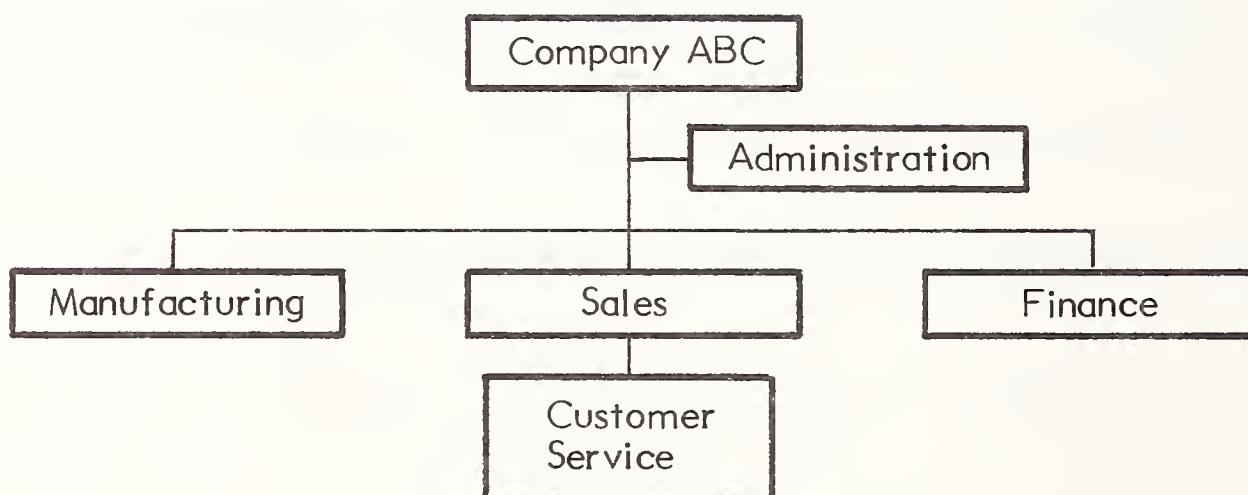
EXHIBIT II-7

CONCEPT NO: 3 - SERVICE INTEGRATED WITH SALES (I)

TYPE: Organizational

DESCRIPTION:

- This concept embraces the idea that the sales organisation is the principal interface with the customer and that service should be an important part of the company, but secondary--not subservient--to sales. It will take an extraordinarily service-orientated sales boss to orchestrate this change.
- A typical organisational structure might look like this:



APPLICABILITY:

- Microcomputers, peripherals and terminals.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 2 - Engineer Profit Sharing.
- Concept 8 - Franchised/Dealer Service.
- Concept 9 - Consultancy/Customer Self-Help.

EXHIBIT II-8

CONCEPT NO: 3 - SERVICE INTEGRATED WITH SALES (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Service would report to sales at the local (regional) level and would therefore risk losing some identity. The sales personnel would have to be highly aware of the importance of service to the customer and hence follow-on sales, but the concept requires definite management skills and techniques.

CUSTOMER IMPACT:

- The perception by the customer of this concept should now be an improved one vis-a-vis other traditional schemes in that the company, with sales at the lead and supported by service, would present a more unified approach to solving the customers' problems.

FINANCIAL IMPACT:

- While the pure maintenance revenue and profit might be compromised by sales as the result of more service 'giveaways', the bottom line should include more overall sales revenues from hardware/software products.

EXHIBIT II-9

CONCEPT NO: 3 - SERVICE INTEGRATED WITH SALES (3)

POSSIBLE ADVANTAGES:

1. A unified approach to the customer.
2. On the part of sales, a better understanding of service and the power and influence service has in the eyes of the user.
3. Efficiency.
4. Leverage with the customer.

POSSIBLE DISADVANTAGES:

1. Service revenue degradation from giveaways of service by sales (presumably to create more hardware sales).
2. Adverse response by service personnel if mishandled by sales.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- Honeywell (Canada).

EXHIBIT II-10

CONCEPT NO: 4 - SALES REPORTING TO SERVICE (I)

TYPE: Organizational

DESCRIPTION:

- This concept is radical and 180-degrees opposite from traditional and conservative marketing practices. However, a simpler analogy does already exist with the razor-blade: the apparent secondary product--the blade (service)--becomes much more important than the principal product--the razor (computer). This occurs because of:
 1. Demand and increased knowledge by the customer.
 2. Utility.
- Service, in most cases, has to interface with the customer for preventive as well as remedial service. While the service reps are on-site, it would make sense to exploit this by having them sell more hardware upgrades, and software and supplies as well, thereby eliminating or greatly reducing a major expense. In several instances, the service engineer, rather than the salespeople, is known to have a better immediate grasp of customer needs. This is also the ultimate realisation of Henry Ford's axiom that 'without service there wouldn't be any sales'.

APPLICABILITY:

- Small systems, peripherals, terminals, and microcomputers.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 5: Fewer Mid-Managers.

EXHIBIT II-11

CONCEPT NO: 4 - SALES REPORTING TO SERVICE (2)

IMPACT: Organisational

ORGANISATIONAL IMPACT:

- Because of the stronger egos involved, this concept certainly wouldn't endear most 'pedlars' to service. However, it is known that polished sales personnel are not entirely essential to closing. Service has the knowledge and credibility to be persuasive and to undertake a partial or complete selling responsibility.

CUSTOMER IMPACT:

- In previous INPUT surveys, it has been shown that users are agreeable to service representatives in a sales role.

FINANCIAL IMPACT:

- Could be dynamic. Roughly estimated, the per-call costs are:

<u>Service and Sales</u>	<u>Sales</u>	<u>Total</u>	<u>Service Only</u>	<u>Per-Call Savings</u>
\$250	\$400	\$650	\$250	\$400

EXHIBIT II-12

CONCEPT NO: 4 - SALES REPORTING TO SERVICE (3)

POSSIBLE ADVANTAGES:

1. Reduced expenses.
2. Unified approach to customer.
3. Credibility with the customer.
4. Total service.
5. Better knowledge of customer needs.

POSSIBLE DISADVANTAGES:

1. Lack of breadth of knowledge of customer needs.
2. Radical idea for customer to swallow.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- None.

EXHIBIT II-13

CONCEPT NO: 5 - FEWER MID-MANAGERS (I)

TYPE: Organizational

DESCRIPTION:

- The need for close management supervision and control of engineers' operations and movements has been reduced because of newer technology and the maturity of engineers. Aspects of newer technology include:
- Central dispatch--where the dispatcher always knows the whereabouts of an on-duty engineer.
- Beepers--instant contact is facilitated through the beepers that many service organizations are now using.
- Portable (or hand-held) terminals--attention to the prescribed call, action, and closure (call reports) can be instantaneously reported after the incident.
- All of these electronic, remote, and central communications facilities reduce the need for traditional, close management. The span of control can be improved by a factor of 2. That is, instead of 15 engineers reporting to a manager and that manager in turn reporting to the next higher manager, etc., fewer managers are needed.

APPLICABILITY:

- Large and small systems.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 2 - Engineer Profit Sharing.
- Concept 4 - Sales Reporting to Service.
- Concept 8 - Franchised/Dealer Service.

EXHIBIT II-14

CONCEPT NO: 5 - FEWER MID-MANAGERS (2)

IMPACT:

ORGANISATIONAL IMPACT:

- This concept clearly obviates the need for a number of supervisors and managers. While their positions would become redundant, these personnel might easily be slotted into sales positions.

CUSTOMER IMPACT:

- The change should not be apparent to the customer, as he would continue to see his first-level service agent or engineer.

FINANCIAL IMPACT:

- This radical change could result in substantial savings as the result of reductions in payroll/benefits requirements (manpower).

EXHIBIT II-15

CONCEPT NO: 5 - FEWER MID-MANAGERS (3)

POSSIBLE ADVANTAGES:

1. Reduced Costs.
2. Greater efforts from sales (p.r.) by mid-managers who would be made redundant.

POSSIBLE DISADVANTAGES:

1. Rejection by engineers if not completely planned, 'sold', and implemented.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- Burroughs (UK) (partially).

EXHIBIT II-16

CONCEPT NO: 6 - WARRANTY EXTENSION (UNBUNDLING WARRANTY) (I)

TYPE: Functional

DESCRIPTION:

- This proposed change is basically functional and involves marketing strategy-- that is, packaging and pricing. The warranty is a valid and expected service that can represent from 3-5% of annual sales turnover in expense to the manufacturer. Currently the price for warranties is usually bundled into the price of the hardware. It needn't be. Different levels of warranty could be offered at various prices from the day the equipment is installed. This insurance policy would condition the user to ongoing service. It is marketed as 'the necessity one hopes never to use'.
- Once the 'initial' warranty is selected, at a price, the same service can be offered on an extended basis for one- to five-year term. See Exhibit II-17 for example.

APPLICABILITY:

- Large and small systems, microcomputers, peripherals and terminals.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 1 - Factory Service.
- Concept 7 - Man in the Van/Phone Centres/Repair Centres.
- Concept 8 - Franchised/Dealer Service.
- Concept 10 - Separate Service Firm.

EXHIBIT II-17

EXAMPLE OF UNBUNDLED/EXTENDED WARRANTY
 (Prices as Percent of Cost of Hardware for Term Described)

WARRANTY SERVICE	INITIAL WARRANTY	INITIAL AND EXTENDED WARRANTY				
	Period Only 6 Months	First Year	18 Months	24 Months	30 Months	36 Months
1. Basic Return-to-Factory Service	3%	4%	6%	7%	8%	10%
2. Basic On-Site Service No P.M. - Parts Extra	4	6	8	10	13	20
3. Basic On-Site Service Including P.M. - Parts Extra	5	7	9	11	14	21
4. Basic On-Site Service No P.M. - Parts Extra	6	8	10	12	15	22
5. Basic On-Site Service Including P.M. and Parts	10	12	18	22	25	33
6. Extra Shift Adders to Items 2-5						
2 Shift	1	2	3	4	5	6
3 Shift	3	6	8	12	14	18

EXHIBIT II-18

CONCEPT NO: 6 - WARRANTY EXTENSION (UNBUNDLING WARRANTY) (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Warranty unbundling and extension need not have any impact on the service organisation. (The effort involved is the same as that for bundled warranty and service contract.)

CUSTOMER IMPACT:

- Customers need to be sold on the concept. Their perception of unbundling is likely to include having to pay for something that was free before, but that of course wasn't.
- The extended warranty concept for selling the same service as in a maintenance contract may have more appeal to users.

FINANCIAL IMPACT:

- Using the various levels of warranty--i.e., basic, extended coverage, P.M., remote diagnostics, etc., the impact on revenues should be minor. There should be no change in costs.

EXHIBIT II-19

CONCEPT NO: 6 - WARRANTY EXTENSION (UNBUNDLING WARRANTY) (3)

POSSIBLE ADVANTAGES:

1. Gives customer a choice.
2. Provides a different method of selling service contracts.
3. Meets users' needs.

POSSIBLE DISADVANTAGES:

1. Negative reaction by users if not packaged and sold properly.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- General Motors - automobiles.

EXHIBIT II-20

CONCEPT NO: 7 - MAN IN THE VAN/PHONE CENTRES/REPAIR CENTRES (I)

TYPE: Functional

DESCRIPTION:

- Man in the Van delivers service out of a lorry or van stocked with tools, test equipment, and parts to make one-stop calls. It is similar to appliance and television repair methods.
- Phone Centres are available for hardware and software help.
- Repair Centres bring the fix away from the site where presumably a unit swap-out has occurred, thus providing less disruption and downtime.

APPLICABILITY:

- Phone Centres - all systems.
- Repair Centres - terminal micros.
- Man in the Van - all systems.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 1 - Factory Service.
- Concept 6 - Warranty Extension.
- Concept 8 - Franchised/Dealer Service.

EXHIBIT II-2I

CONCEPT NO: 7 - MAN IN THE VAN/PHONE CENTRES/REPAIR CENTRES (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Man In The Van: Should have little effect.
- Phone Centres: Small, incremental organisational adjustment.
- Repair Centres: Major organisational strategy change.

CUSTOMER IMPACT:

- As options to choose from and provision for greater flexibility, customers should be positive towards these options.

FINANCIAL IMPACT:

- Costs of these services should be much less than traditional on-site service but revenues would also decline.

EXHIBIT II-22

CONCEPT NO: 7 - MAN IN THE VAN/PHONE CENTRES/REPAIR CENTRES (3)

POSSIBLE ADVANTAGES:

1. Greater flexibility for customer.
2. More choice--differentiated product services.
3. Less costly for service provider.

POSSIBLE DISADVANTAGES:

1. Lack of critical mass density of equipment.
2. Initial start-up investment could create cash flow difficulties.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- DEC.
- Honeywell.
- IBM.
- GCS.

EXHIBIT II-23

CONCEPT NO: 8 - FRANCHISED/DEALER SERVICE (I)

TYPE: Functional and Organisational

DESCRIPTION:

- The concept of field service franchising or dealership involves (but is not necessarily restricted to) operating remote service through franchises in lieu of full-time employees.
- For an agreed amount (a fixed-sum royalty or rate), the field service vendor would sell off the remote service business to an entrepreneurial engineer or group of engineers. This person(s) might currently be an employee of the field service firm.
 - The newly created franchisee would assume the risk associated with the business but would receive most of the revenues created from current and future business.
 - Depending on the circumstances, the franchisee also could assume any other business opportunities that were related to the assigned work and territory.
 - The franchisee could also benefit from the service firm's (franchisor's) established name and advertising.
 - The field service firm would receive a fixed percentage of current and future revenues. It also would receive revenues from:

- . Spare parts.
- . Backup technical support.
- . Documentation.
- . Remote diagnostics.

APPLICABILITY:

- All systems.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 1 - Factory service.

Note: INPUT Ltd. published a brief entitled Opportunities For Field Service Franchising in November 1983.

EXHIBIT II-24

CONCEPT NO: 8 - FRANCHISED/DEALER SERVICE (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Franchised or dealer organisations would have their own organisation, thus obviating the need for manufacturers' field organisations in the areas where franchises/dealers were placed.

CUSTOMER IMPACT:

- Little to no impact if properly marketed.

FINANCIAL IMPACT:

- Favourable to manufacturers in terms of cost reduction, with retention of some residual revenue from parts, supplies, software, etc.
- Entrepreneurial and ambitious dealers could become financially successful with the right planning and condition.

EXHIBIT II-25

CONCEPT NO: 8 - FRANCHISED/DEALER SERVICE (3)

POSSIBLE ADVANTAGES:

1. Cost reduction to manufacturers.
2. Business opportunity for dealers.

POSSIBLE DISADVANTAGES:

1. 'Cowboy' dealers/franchisees could ruin the manufacturer's reputation.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- Raytheon Service Company.
- Singer Sewing Machine Company.

EXHIBIT II-26

CONCEPT NO: 9 - CONSULTANCY/CUSTOMER SELF-HELP (I)

TYPE: Functional and Organisational

DESCRIPTION:

- Consultancy/customer self-help is a combination of concepts that addresses the technical expertise of field service as well as the increased ability and willingness of users to fix their own hardware/software incidents.
- The depth of knowledge of service resources is often underutilised; these skills can be packaged as products and sold at incremental profit. Examples include site readiness, machine upgrade recommendations, and capacity planning.
- Being motivated by cost, customers are more apt to help in the repair process in an effort to minimize downtime.

APPLICABILITY:

- Large and small systems and peripherals.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 3 - Service Integrated with Sales.

EXHIBIT II-27

CONCEPT NO: 9 - CONSULTANCY/CUSTOMER SELF-HELP (2)

IMPACT:

ORGANISATIONAL IMPACT:

- The expertise for the consultancy/customer self-help resource exists in service groups today but perhaps not as a singular specialty. A dedicated consultancy person(s) may require a small increase in personnel to assume the previously shared tasks.

CUSTOMER IMPACT:

- Should be perceived as a plus.

FINANCIAL IMPACT:

- Less cost with less revenue. IBM, for their PC, offers a self-help training course and parts kit that costs approximately the same as that of a service contract.

EXHIBIT II-28

CONCEPT NO: 9 - CONSULTANCY/CUSTOMER SELF-HELP (3)

POSSIBLE ADVANTAGES:

1. Expanded customer offering.
2. Fills a need.

POSSIBLE DISADVANTAGES:

1. Revenue degradation.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- IBM.
- DEC.
- Hewlett-Packard.

EXHIBIT II-29

CONCEPT NO: 10 - SEPARATE SERVICE FIRM (I)

TYPE: Functional and Organisational

DESCRIPTION:

- Some manufacturers have already isolated their service businesses and have sold them off to separate, unrelated firms. This has been done for strategic and/or financial reasons, including the manufacturers' need to concentrate on sales only and on cash flow. In some cases it is a vital move for survival.

APPLICABILITY:

- Small systems, terminals, peripherals, and microcomputers.

POSSIBLE COMBINATIONS (Relating to Other Concepts):

- Concept 1 - Factory Service.
- Concept 6 - Warranty Extension (unbundling warranty).

EXHIBIT II-30

CONCEPT NO: 10 - SEPARATE SERVICE FIRM (2)

IMPACT:

ORGANISATIONAL IMPACT:

- Major organisational impact for service groups.

CUSTOMER IMPACT:

- Could have major customer impact, mostly negative, if not planned and implemented correctly. The result could be loss of future sales.

FINANCIAL IMPACT:

- Extremely favourable for struggling company and/or service organisation.

EXHIBIT II-3I

CONCEPT NO: 10 - SEPARATE SERVICE FIRM (3)

POSSIBLE ADVANTAGES:

1. Financially expedient for struggling manufacturers and/or service groups.
2. Allows manufacturer greater focus for sales.
3. The ultimate franchise.

POSSIBLE DISADVANTAGES:

1. Customer dissatisfaction if not bundled and implemented properly.
2. Loss of future sales.

KNOWN COMPANIES THAT HAVE TRIED THIS CONCEPT:

- General Automation (UK).
- Hamilton Rentals (UK)--which has sold its service business to Advanced Technology Maintenance.

