

Update Bulletin

Establishing Service Contracts with Customers

September 20, 2002

A question was recently raised on the StoreNext Dealer Net regarding how to handle customers who refuse to go on service contracts. Ultimately, such customers make it bad for everyone, and they seldom understand the real economics of the service proposition. The fact is that Dealers need maintenance revenues to support a healthy business, but service is just not way to get rich – if Dealers made a killing on maintenance, they'd have all retired by now, just visiting each other by running their yachts between their private islands in the Caymens.

Providing maintenance services means that a Dealer must have support systems, people, training, documentation and parts all set and ready to go whenever a customer needs it. That's why customers should purchase a maintenance contract on both hardware and software. Yes, it is profitable for the Dealer, but the Dealer is only making a reasonable margin over the costs and risks they need to take to have people and parts always at the ready. The obvious corollary is that customer actually gets a reasonable deal on maintenance, and they're *not* overpaying for the service. Like insurance, even if you don't suffer a catastrophe, it delivers value by taking the unpredictability of service and cost out of your operation.

If a customer doesn't purchase a service contract, it is much, much tougher for a Dealer to plan for the service calls and parts requirements. The user will also end up with very old and stale software since the user won't want to pay T&M for upgrades and Dealer's won't come out and upgrade for free. Then when the upgrade finally becomes necessary (think Y2K, DUKPT, UCC-14) you're upgrading 7.3 or something, and it's a real mess.

Dealers I have spoken to usually advocate the following program:

- *All* systems are sold with service contracts on both hardware and software. Obviously, heavy competition or an extremely stubborn user may keep you from getting to this, but if this is a firm position going in, you have a better chance of getting a contract in place. If the user is coming from an old firmware-based system, one of the challenges in the sales process is getting them to understand that all this good stuff they want in a Windows system has an ROI, but also has a price: complex software needs to be maintained.
- The user needs to understand that if they don't buy a service contract, they will be serviced on an as-available basis, and they will pay every time you set foot in their store, call for help, ask a question, etc. Get a credit card or a direct debit agreement up front so you make sure you can collect.
- Dealers should give customers a price schedule up front on what it's going to cost them on T&M per call – worked out, so that the necessarily higher profit from ad-hoc calls is reflected in your time-and-materials quote. You may also want to require cash/check in advance. When a user looks at the T&M compared to the contract, they need to realize that the contract will be less money. It's like buying health insurance – in the long run, it'll be cheaper than paying per visit, and your system will stay much healthier too since they won't have an incentive not to call.
- Furthermore, these outlaws get last priority compared to committed service customers. For example, you need to make it clear that you aren't going to draw your parts supply

This document and information are supplied to StoreNext Retail Technologies personnel and third parties to assist them in doing business with StoreNext. They are not to be used or distributed for any other purpose.

StoreNext Retail Technologies LLC endeavors to ensure that the information in this document is correct and fairly stated, but does not accept liability for any error or omission.

down for the “good” customers to fix hardware for their ad-hoc calls. A broken printer? They may have to wait a couple weeks while you get parts for them, since you're not going to put your contracted service customers at risk of not having parts for their hardware.

- StoreNext provides a one-year warranty on most hardware to Dealers (3 on PCs) and the Policies and Procedures on warranty normally require that the Dealer pass on all warranty benefits to their users. Customers should therefore get the one-year warranty on hardware. It would be certainly understandable however, that the one-year warranty is *only* offered to the customer if they sign a long-term service contract – and in addition, no hardware warranty without a software maintenance contract from the start. This way Dealers use the advantage of a free first year for the long-term harbor of a contract. This is an important negotiating tool for Dealers to use to make the right things happen.
- New hardware is much more reliable than old hardware. The "clever" customer often thinks that they'll fool the system by staying off maintenance for two or three years, keeping all the money and then jumping on a service contract only when the hardware gets old and starts to fail more frequently. This is why you need to run maintenance like (again) an insurance policy – rates are much lower when you are 30 than when you're 70, and the only way to be paying reasonable rates when you get to be 70 is to have been paying into the program since you were 30. So you need to make sure that the customers understand that the rates for unsupported equipment in the future are going to be much higher. Another tack/threat: you could establish a policy that says that if they don't start out paying maintenance from the start, you'll *never* put them on contract since the rates would be too high and several years of no-maintenance makes your risk too high to do a contract with them.
- In that situation, one strategy that's commonly used by companies with users wanting contracts on formerly un-maintained gear is to charge them an up-front fee for a general upgrade. Termed a “Service Contract Pre-Qualification” or something along those lines, users must pay several thousand dollars for you to a full cleaning, lubrication, PM, and system-wide software upgrade etc. to the gear and bring the store up to current levels and good running order so they can qualify for maintenance from that point on. *Then* you put them on contract. Obviously, you need to make this pre-qual profitable.
- Most smart users respond pretty well to the stream-of-enhancements pitch for software maintenance – that, for example, ISS45 continues to move forward and that they don't need to pay for the new features in advanced versions. This feature/function “insurance policy” makes good sense, and can be used to get most of your users on software maintenance. This is also why StoreNext doesn't charge Dealers for new software releases – keeping everyone up-level is good for every party in the program.

A customer going to the wholesaler for free support is a matter of concern for all of us. Yes, wholesalers need to support their end users, but they can't afford (even less than a Dealer) to do this work for free – especially since they're normally much less familiar with the systems. Also, if the users call wholesalers, it has a doubly bad effect of possibly giving the wholesaler the false impression that the system is unreliable, or that the Dealer is unresponsive – neither of which is true. The customer's just trying to get something for nothing. StoreNext will work with the wholesalers to try to close off these avenues of “support” since they are ultimately damaging to the Dealer and StoreNext as well as to the poor wholesaler who gets caught in the middle.

To Your Success,



Tony
Antony van Bever