

AFTER SALES IS COMMON SENSE

When customer retention is the name of the game, the collaborative, sustainable and mutually beneficial relationship can really begin.

Bringing you closer to your customer

To summarize, the truly competitive international business is focused on the future not on the today. This means that a product/ service sale or purchase must have the ability to evolve, adapt and sustain market challenges, both to and from competitors and customers alike. A sale or purchase must seek to fulfill this demand through product/ service sustainability. This is achieved when both the buyer and seller have an operational understanding, which incorporates values, beliefs and respective needs. The aim is to sustain and develop competitiveness throughout the respective product/service arena. Some call this collaboration “after sales”, we think its common sense.

International firms managed to grow successfully during the recent economic downturn by developing their after-sales services, the high-technology sector flourished here more than any other industry. For your benefit we will focus specifically on some of the best examples of after-sales activity within this industry and provide the essential comparisons and crossovers necessary for you to experience similar results.

Supplying spare parts and providing preventive and reactive maintenance for the installed base of customers is very often a highly- profitable business. With an existing product/ market share in place, firms now have the opportunity to consolidate this with forward thinking, sale on sale service level agreements.

Once established you can more easily move in on your competitor’s product/ service lines. With a product steeped in safety by a person, product/ service and solution guarantee your company will more easily extend its product/ service lifetime. Indeed within today’s global market place the ability to purchase the product and service in unison is often seen as the major difference between a salesperson and a solution provider.

Successful examples

Toshiba successfully implemented a new electronic post-sales selling strategy for its laptop computers. Whenever a buyer first switches on their new Toshiba product, a Microsoft®/Toshiba registration form pops up and asks if the user would like to register, then requests registration information to create a customer profile. This profile helps Toshiba decide which of its five different extended warranty offers is appropriate. The suitable offer is then sent to the registrant. When the consumer agrees to purchase the warranty, s/he can do so easily through an electronic form. Using this new approach,

warranty sales increased 37% and average sales price increased 4% during the first month of implementation. After-sale services include the customer claim and warranty management, but also the maintenance operations, the spare parts planning and logistics, plus all the operations with a lasting effect on customer satisfaction. There are many reasons why after-sales are important for product managers.

For firms that have a Gillette® “razor and blade” marketing strategy, after sale product and services cannot be considered independently of the product in terms of market share and profitability because while the product is used to enter the market, the money is made on the spare parts. Similarly in the car industry today, a recent study by General Motors Corp. indicated that the company made more profit with its \$9 billion after-sales than with its direct \$150 billion car sales.

How product managers make a difference

There are at least four reasons why product managers must consider after-sales activity, after-sales services have a strong impact on customers’ satisfaction and consequently on the repurchase rate of a product because a customer who is experiencing a problem with an after-sales product will tend to switch to another product/ service.

- i. After-sales service is part of the product’s “Brand Promise” and it is up to service to ensure the reality of the value proposition promised by product managers to customers.
- ii. Reliable and robust after-sale services can increase the acceptance rate of a new product by making mainstream customers much more secure to adopt an innovative solution.
- iii. A sound and consistent after-sales offer often contributes to a sustainable competitive advantage, less easily duplicable than just a product.

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“On-site service- Price- Availability of telephone counseling-Expertise of service personnel”

Percentage of respondents listing factor

The beauty of these services is that they can double profit margin compared to the profitability of the goods sold, especially in an environment that is depressed. A recent study by AMR found that while after-sales service represents on average 24% of revenue, it generates an astounding 45% of profit. This share of revenues can be even higher, as in the case of Rolls-Royce plc where after-sales represented 55% of overall turnover in 2004. In B2B, after-sales can generate three to four times the turnover of the original purchase during the solution’s lifecycle. For example, Snecma

or Bombardier, companies in the aircraft engines and spare parts business report after-sales representing 80% of the net present value versus 20% for original equipment. Interestingly, the opposite effect for aircraft occurs. Airbus' after-sales account only for 30% of the net present value versus 70% for new equipment. For consumer products, it can be estimated that after-sales services can generate between 20-30% of total sales if correctly managed. The bulk of the margin does not come from the direct repairs but from spare parts, whose margin can be more than 50%, and support and warranty contracts whose margin may be above 75%.

Growing your after-sales services

There is still room for growth as many marketers and product managers have not fully grasped and made use of the whole potential of after-sale services. How? First by segmenting the after sales market according to customer's needs and second by designing the correct service offer. Various companies, such as Dell, Lexmark, Raytheon and Agilent have conducted research in the needs and expectations of their customers regarding after-sales services. Dell Enterprise Field Operations is consistently utilizing customer feedback to increase their service levels and manages to stay one step ahead of the competition. All the surveys demonstrate that although price is important to customers, the key issues are swiftness of delivery, reliability, and availability of repair and maintenance. The relative importance of those expectations usually depends on the attitude of the customers toward risk as well as the capability and willingness to do some work internally without the assistance of the product supplier.

Identifying contracting needs

It is important to avoid the "one fits all" model with only one standard type of after-sales service contract. The needs for after-sales services vary according to the type of customer. On the other hand, be careful not to customize every contract for each customer because it becomes difficult to manage the associated complexity. Furthermore, it usually increases costs to the point where after-sales services are no longer profitable. There is a fine line between standardization and customization of after-sales services.

Various customer expectations may be used to segment after-sales customers according to their main requirements. To make it simple, three different groups can be considered. In the first group are demanding customers who want a very high level of after-sales services in order to hedge the risk of a disastrous loss in their business; they want swift and consistent response time as well as reliable operations and are ready to pay a premium price for that assurance. In the second category are the customers who are more price sensitive and less concerned with instant availability; they want robust maintenance service but not necessarily immediately. The third group consists of the customers who aspire to a basic level of after-sales services with simple operations; they are prepared to wait or to perform some maintenance operations themselves in order to cut costs; in any case, they cannot or do not want to pay huge sums for post sales-operations.

Developing profitable after-sales services

Once the various market segments have been identified, the second challenge is to design profitable after-sales services, which will meet the expectations of each category of customers. There are three options:

- i. Flat fees for unlimited services
- ii. Fixed prices for specific services
- iii. Time and materials billing

Demanding customers belonging to the first group tend to require a full coverage service contract with a specific service over a given period of time, which is usually between one to four years and for a flat fee such as Hewlett Packard is doing for its hardware with the Care Pack contracts. For the after-sales provider, such a contract can be extremely profitable, but can also be hazardous if there is no repair experience or if some service requirements cause costs to increase dramatically. Costs for servicing old equipment can also be higher than newer models because special order parts may be needed or because technicians lack the experience in working on old equipment. Also, if the contract implies servicing a competitor's piece of equipment, it is important first to check that technicians can do the work cost-effectively.

Middle-of-the-road customers in the second group usually look for fixed prices for specific services such as maintaining a given part of the equipment. To avoid cost overruns, the company must have, in advance, a sound knowledge of its true costs for time and material as does, for example, the Global Commercial Field Service of GE Aircraft Engines. In these instances, this type of contract can be extremely profitable. The margins are not in the repairing but in the selling of spare parts and services.

Finally, price-sensitive customers belonging to the third group prefer time-and-materials billing: the company performs services as required and charges an hourly/daily rate for labor and a mark-up on parts and materials. For the company, the fees are usually higher than in the previous model because there is no promise of repeat business. However in certain markets, local service competitors with a lower cost structure can drive the price down, especially for the maintenance of standard parts. In that case, managing the productivity of the field service operations is crucial for success. Siemens has managed to do this recently where Peter Manni, VP National Support Services, eliminated 30% of field service staff with no reduction in the level of customer service, and an annual cost savings of \$6.5M over two years.

The savviest companies then manage to combine those three main categories of offerings - often referred to as "Service Level Agreements" (SLAs) - and mix them by providing contract additions in order to meet the expectations of the customers. Ensure that each package of service, even enhanced with some additional features, does not deliver more services than a higher category of after-sale services at a higher price. It is also important to assign SLAs that can consistently be met by the field service team as well as matching service content of the contract to the criticality of the equipment.

Pricing after-sales product and services

As a rule, after-sales products and services can and should be priced to value whenever possible. For example, after running a quick market survey by its main users, a telecommunication company figured out that some customers were ready to accept (and to pay) a limited level of maintenance and monitoring; but other customers were eager to pay more for extra services such as remote supervising or preventive maintenance.

The average price of the spare parts order for a communication router is about \$600. However, the cost of having the Internet down ranges from \$10,000 per day for a business school to more than \$600,000 for an e-business vendor like Amazon®, eBay®, or Expedia®. After-sales solutions must be designed and marketed to keep out competitors - usually third-party maintenance specialists or customers' in-house maintenance units - because switching costs and convenient alternatives also has a strong influence on the value perceived by customers, as shown below. A premium price can be charged for a critical component or service with no alternative on the market, (pricing to value), but not for a simple part easily available nearby (market price or cost + margin price). Caution: if "price + cost" or "value" is excessive in the customer's eyes, the supplier will be seen as monopolistic; so best pricing should always be perceived as "reasonable."

Selling after-sales solutions

Who should be in charge of the selling of after-sales solutions? Usually the distribution channels, either the direct sales force or the third party distributors, sell the after-sales services connected directly to the initial sale, such as transport, installation, warranty, and training programs. However, experience shows that there is little interest in selling after-sales solutions during a product's operational life unless a strong financial incentive exists. The sales force and distributors are more interested in selling new original equipment and services. One solution is to set up an independent organization, such as a service center or an after-sales department with its own marketing and sales organization dedicated to after-sales solutions, as did Pitney Bowes. In the US today, Sony has more than 20 service centers for business customers and 10 factory controlled centers for consumers as well as a Sony Direct Accessories and Parts Center, which can be accessed online by consumers. All those centers provide spare parts and maintenance services for all of Sony's equipment. Similarly, JVC has more than 10 services centers in the US. Because the after-sales unit may be perceived as a competitor by the distribution channels—direct or indirect—it must not overlap with Sales when dealing with customers so as to avoid confusion and conflicts. But the risk of conflict is usually limited; especially when the service center can serve local distributors by supplying parts that distributors prefer not to store, or when the booking of after-sales sold to a business customer are also credited to the sales rep in charge.

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