

# Middlesex Consulting Group

## Who Needs Another New Service Plan Now?

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High tech companies offering service contracts capture between 10 and 90% of customers. The remaining 10 to 90% do not purchase a contract but pay as they go: The industry calls this T&M, T&E, non-contract, demand service, per incident, billable, etc. But you should ask two questions about your non-contract customers:

1. Are they satisfied with their choice?
2. Are they calling you (the OEM) for service?

Note that in some industries and/or product lines the product is only supported on a T&M basis (frequently serviced only in a depot).

Before we explore a new service plan (NOT a service contract) we should first review the 4 reasons people purchase contracts:

1. Uptime (response) – either guaranteed by a Service Level Agreement (SLA), arrival interval or promised dispatch priority (people and/or parts)
2. Predictability – costs are fixed so there is no actual v. budget variance
3. No hassle– no chasing for POs, calling for commitments, etc
4. Peace of Mind – one call transfers ownership of the problem to you

As we said, not everyone purchases a service contract so many OEMs accommodate non-contract customers with plans designed to mimic some of the contract purchase reasons without diluting service contract sales. For example:

- Blanket PO – eliminates the hassle
- Prepaid service – assists customers in the budgeting process
- Block sales – control costs by selling 10 hours of technical support, \$2500 worth of parts, etc.

In some industries, notably health care, Big Pharma, and analytical labs, insurance companies sell policies that save money but do not provide all the benefits of the OEM's service contract. Asset management companies offer another Value Proposition that targets these customers but may not completely address all their service contract motivators.

*Introducing the Middlesex Plan* – a non-contract offering which addresses a few of the contract buying motivators while specifically avoiding those that add a large piece of the service contract value.

The basic premise of the Middlesex Plan is that customers prefer OEM's service to any other alternative and want to control (i.e., minimize and limit) their spending for service and support. With this plan the customer spends a relatively small ***annual fee*** to ***limit*** their potential spending for ***remedial non-contract services***. Lets define each of these items:

- ***Annual fee*** – a non-refundable amount of money, on the order of 10 to 15% of the cost of a basic (bronze) service contract, accompanied by a blanket order for the full cost of this “bronze” contract.
- ***Limit*** – the maximum amount of money, including the annual fee, the equipment owner will pay for remedial service during the plan's period of service. The annual fee covers the **last** piece of a T&M invoice that brings the total paid up to the limit.
- ***Remedial non-contract services*** – services such as labor, travel expenses, parts required to restore a product to full functionality. This does not include such non-contract services as training, Professional services, relocation services and other discretionary services.

In the case of a no contract product you can apply this concept to a percentage of the maximum T&M cost (say 75%) and still offer your customers good value for their annual fee.

Lets compare a typical bronze contract, the Middlesex Plan, and pure T&M to demonstrate what items are included in each. (A ✓ indicates the item is included).

	Bronze	Middlesex Plan	T&M
<b>Remedial out of pocket cost</b>	<b>No cost</b>	<b>Limited to Bronze cost</b>	<b>Unlimited</b>
Labor	✓	✓ T&M	T&M
Parts	✓	✓ T&M	T&M
Expenses	✓	✓ T&M	T&M
Priority	✓	No	No
Phone support	✓	✓	✓
Training	Discount?	T&M	T&M
PMI	Discount?	T&M	T&M
Professional Services	Discount?	T&M	T&M

Now lets look at a selling price example:

	Bronze	Middlesex Plan	T&M
End user price (example only)	\$1000	\$150 + remedial T&M up to \$850 for \$1000 total	Unlimited

The reason the Bronze contract and the Middlesex Plan have the same price limit is because you already decided you can make an acceptable profit for these included services at this price. The real difference is that the contract promises priority response in exchange for paying the full contract price – a clear statement of the value proposition of the contract.

The Value Proposition for the Middlesex Plan is that for a small annual fee the customer limits the potential cost of remedial service for the contract period. However, the Middlesex Plan removes the other contract benefits, like priority response.

## How do you determine the selling price of the Middlesex Plan?

Step one: Ensure you have a basic, Bronze, contract and that it properly priced. That means calculate the typical annual remedial service cost and apply your target margin to get the selling price. Then reduce this price by 25% to get the contract price (price plus response equals the value proposition).

Step two: Calculate the amount of money you require to cover any incremental overhead costs associated with administering the plan. This should be less than the annual fee, which has to be low enough to convince companies to pay it in exchange for limiting their annual remedial maintenance cost.

Step three: Review any other T&M package and consider replacing it with the Middlesex Plan or decide how each option can co-exist.

Step four: After setting up internal processes sell the plan. The Middlesex Plan should NOT be offered when discussing service contracts. When it becomes obvious that a customer does not want or need a service contract then you naturally discuss T&M service and set expectations. In that setting you can introduce the Middlesex Plan as a way to limit costs (not to be confused with predictability since the annual cost can vary significantly).

It is very important that all employees understand that this Plan does not entitle the customer to all the benefits of having a service contract, including anything related to Uptime. Also, this Plan should not be offered at the time of sale; salespeople should be encouraged to sell a contract only.

## Why name it the Middlesex Plan?

You have to call it something. When we used the names Bronze, Silver, Gold and Platinum contract we were confident the vast majority of professionals buying and selling services fully understood what it meant. If organizations all use the same name, then both Service Marketing professionals and customers will begin to internalize the name and not

require an explanation. They will only ask about the annual fee percentage and cost limit.

The answer to the question raised in the title

Somewhere between 10% and 90% of active units is your available market. Assuming a 15% annual fee, you can quickly calculate the incremental income available and you can also make assumptions about the take-up rate to estimate your projected income.

The following numbers are may be representative:

# of non-warranty deployed units	1000
% and # under Bronze contract	50%, 500 units
Price of contract	\$5000
Total annual contact revenue	\$2,500,000
Average T&M revenue/unit	\$2500
Total T&M annual revenue	\$1,250,000
# T&M units if 50% take the plan	250
Annual total fee if 15% of contract	\$750
Total annual fee revenue	\$187,000
Total revenue w/o fee	\$3,750,000
Total revenue w/fee	\$3,937,500
% revenue increase	5%

In this example the business generates \$187,000 in incremental revenue (5%) with minimal effort, no additional cost other than sales commission, and makes a set of customers more loyal to the business. Also, the incremental revenue in this example will pay for two to three additional field engineers or technical support engineers; all customers will experience the benefits.

Feedback please

We believe this is a new service plan and would appreciate hearing from you if you already know or use something like this, if you have any suggestions about how to improve it or if you decide to try it. I'd especially like to hear of any success stories.

## ***About Middlesex Consulting Group and Sam Klaidman***

**Middlesex Consulting Group specializes in:**

- **Service Strategy**
- **Services Marketing**
- **Identifying and commercializing value-added services**
- **Go to market assessments**
- **Creating and retaining customers**
- **Operational improvements**

**Sam Klaidman is the Principal Adviser at the Middlesex Consulting Group. A thought leader in service excellence, Sam is an experienced executive with a deep and varied background that spans nearly 45 years. During that time, Sam led several world-class service delivery organizations and has more than 20 years of service and support experience. He is an accomplished speaker on Service Strategy and Marketing and has published numerous articles on Services Marketing and Services revenue.**

**For a no obligation discussion about how we may help your business grow revenue, profit and customer loyalty please contact us;**

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