

Winning With Services & Support

Boston Product Managers Association
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About the Middlesex Consulting Group

Areas of Specialization:

- ❖ Services marketing
- ❖ Service product development, pricing and commercialization
- ❖ Maximizing services revenue and profits
- ❖ Planning & implementing warranty programs
- ❖ Go-to-market assessment
- ❖ M & A assessment
- ❖ Creating and improving customer loyalty

Tonight's agenda:



- ❖ Are you missing revenue opportunities?
- ❖ How service marketing is different from product marketing - and how are they similar
- ❖ Issues associated with integrating product and service marketing
 - ❖ Organizational
 - ❖ Business
- ❖ Who's doing it - hardware and software businesses

Ted Levitt

Marketing Intangible Products and Product Intangibles, Harvard Business Review, reprint 81306

“Marketing is concerned with getting and keeping customers”

But PM's can't really succeed without active partnering with
Services

50K foot view ---> Underlying Assumption for Tonight

There are 2 reasons to integrate Product & Services Marketing:

1. Protect or enhance the value of the product business
2. Create a new growth business within the corporation

Tonight we will only discuss #1

WIIFM (What's In It For Me?)

- ❖ What % of your business comes from new customers, repeat customers and customer referrals & recommendations?
 - ❖ Can you survive and grow without repeat and referral business?
- ❖ What influences repeat business more - product, price or service and support?
- ❖ Are you measured (and compensated) on total product line revenue (and/or profit) or only product?
- ❖ How did you make out in the last 2 years?
- ❖ Wish you had an annuity stream?



Impact of Support on Loyalty

Support is Key to Customer Loyalty

*“Customers are 2.6 times more likely to speak negatively about a service experience than the product”**

*“Customers with a poor service experience are up to 342% more likely to be disloyal to the company”**



U.S. News & World Report

*Source: Customer Contact Council, Increasing Customer Loyalty Through Targeted Proactive Contact, February 2009

What Makes Services Different?

- ❖ The buyer purchases an intangible
- ❖ It's difficult to compare the quality of similar services
- ❖ Goods are produces. Services are performed
- ❖ The service may be based on the reputation of a single person
- ❖ The buyer cannot return the service
- ❖ Very easy to create a new product

Services Vs. Product Marketing

(the p's)

	Products	Services
Product	✓	✓
Price	✓	✓
Place	✓	✓
Promotion	✓	✓
People		✓
Physical Evidence		✓
Process		✓

5 Fatal Flaws of Service Marketing

1. Philosophy: Marketing is marketing (it isn't!)
2. Structure: The wrong folks in charge or no one in charge
3. Pricing: By the pound, not by value
4. Product Development: Created in the conference room, not in the field
5. Portfolio Management: Mostly a bag of commodities, little differentiation

Basic Services Marketing Roles

- ❖ Warranty terms (although it may be the Product Managers job)
- ❖ T&M Rates and Policies
- ❖ Contracts
 - ❖ Types
 - ❖ Price
 - ❖ Unique Selling Proposition
- ❖ Cross-selling/upselling - who & when?
- ❖ Key Account Policies
- ❖ Collateral & Trade Show Support
- ❖ Training Product Sales Force

Key Services Marketing Metrics

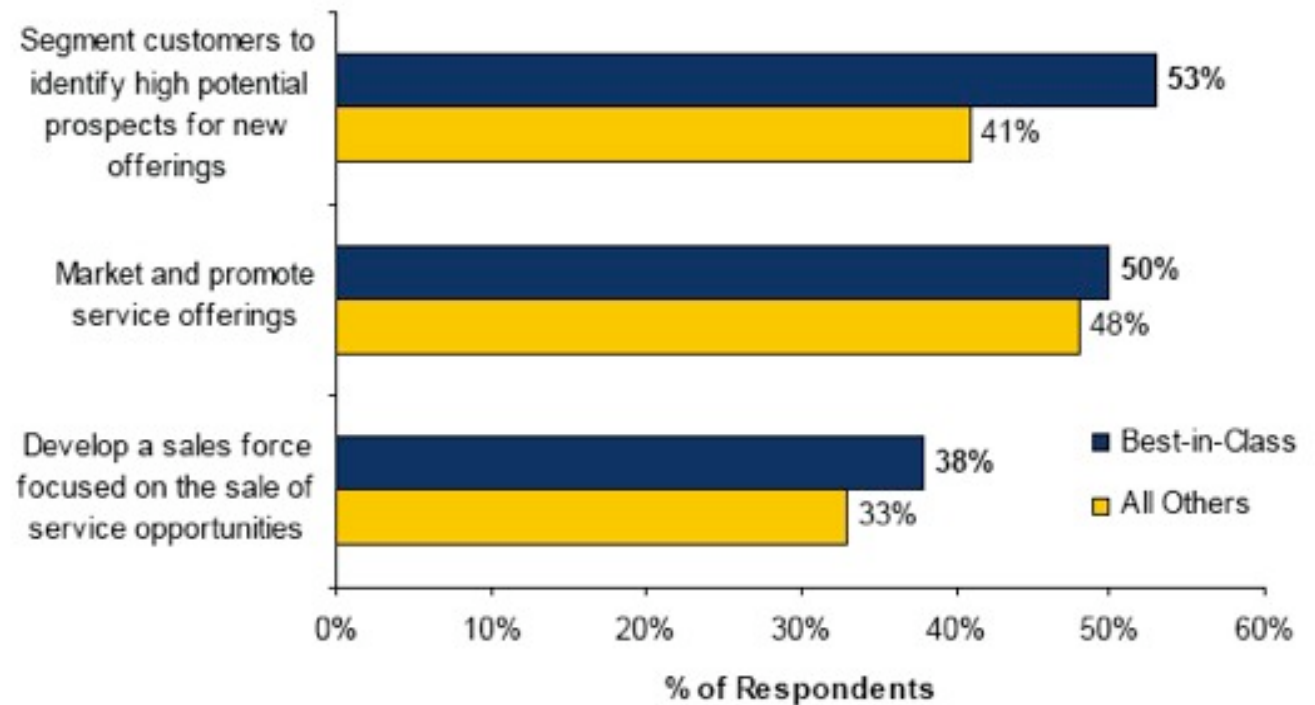
- ❖ Revenues - Can grow as much as 30% per year
- ❖ Profits - Services GM frequently 50% better than products
- ❖ Attachment rate - % product orders with services sold at time of sale
- ❖ Penetration rate - % installed base (excluding warranty) under contract
- ❖ Renewal rate - % expiring contracts renewed
- ❖ Customer satisfaction by service product - from loyalty surveys

Combined Product & Service Metrics

- ❖ % product orders from existing customers (repeat orders)
- ❖ % new orders resulting from referrals from existing customers
- ❖ % of reference customers
- ❖ % revenue and profits from services

Actions to Drive Service Revenue - A Team Effort

Figure 1: Strategic Actions to Drive Service Revenue



Source: Aberdeen Group, December 2007

Focusing on Services May be a Big Change - 3 Cases

Company Stage	Challenge	Benefit
1. Start-up	Bigger fish to fry	Avoid problems down the road
2. Growing with integrated sales force	Hard trying to separate product lines	Works best if don't use factory based selling
3. Well established - independent divisions	Bigger than 1 PM can implement	Really great opportunity but not for tonight

It Takes Change Management

- ❖ Pre-sign up key players in effected departments

❖ Sales	❖ Finance	❖ Service
❖ Marcoms	❖ HR	❖ Marketing

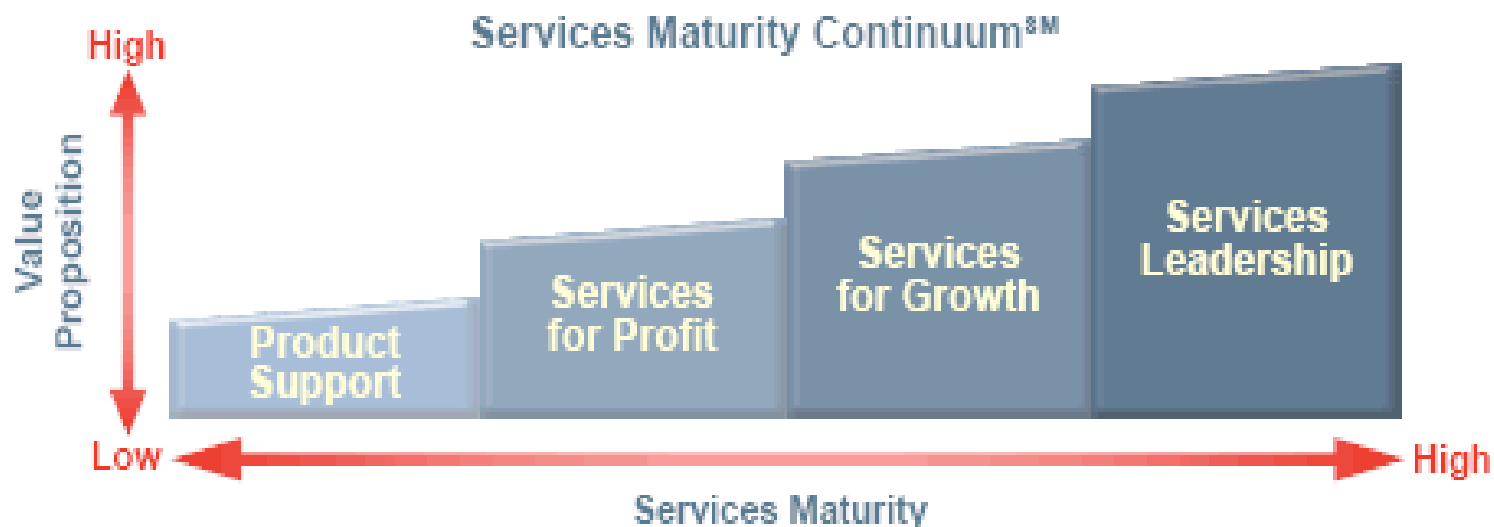
- ❖ Collect baseline financial and operational performance data
- ❖ Create Sales training collateral for either Product or Services Sales people
- ❖ Survey/interview early customers

Business Issues to Plan to Address

- ❖ Service organization maturity
- ❖ Ready to serve
- ❖ Customer satisfaction & loyalty
- ❖ Transition from free to fee
- ❖ Pricing & discounting
- ❖ Obstacles to selling services



Companies progress through stages of services maturity as they achieve Services excellence



<u>Product Support</u>	<u>Services for Profit</u>	<u>Services for Growth</u>	<u>Services Leadership</u>
<ul style="list-style-type: none"> Product breaks down... fix it Viewed as necessary evil of doing business Lose track of product after warranty Reactive vs. proactive 	<ul style="list-style-type: none"> Product and Service processes aligned Services Practice focused on Customer Efficiency achieved through customer self-service Manual processes redesigned and digitized 	<ul style="list-style-type: none"> New Service Introduction (NSI) Process established New services covering your products New services covering competitive products New Managed and Professional services 	<ul style="list-style-type: none"> Integrated "product-service solution" for initial point of sale New products aligned with Services strategy Integrated customer driven metrics Well developed Managed and Professional Services

Ready to Serve?

- ❖ Does the Service organization have the capacity? People, time, leadership
- ❖ Will their budget be OK?
- ❖ Can they train the people as needed?
- ❖ Will they be ready with information
- ❖ Does everyone believe?

Customer Satisfaction & Loyalty

- ❖ Does the organization survey customers for sat. & loyalty feedback?
- ❖ How do they use they results?
- ❖ What % of customers would definitely recommend the service organization? NPS? Good enough?



Other Challenges

- ❖ Transition From Free to Fee - Will you now charge for something that was free?
- ❖ Pricing & Discounting - Prices must be based on customer's received (and perceived) value
- ❖ Obstacles to Selling Services - Sales & Service people feel you are ripping off the customer

Examples of Successful Integration

Survey Says



	Small	Mid-size	Large
Very or extremely important to develop new service revenue initiatives	82%	90%	94%
Actively engaged in revenue initiatives	57%	69%	90%
Plan to adopt within the next 12 months	29%	29%	8%

Source: Aberdeen Group, December 2007

Who's Doing It?

Some software company examples - 2008

Name	Total Revenue	Service % Revenue	Service Margin
PTC	\$941,279,000	68.5%	57.4%
Pegasystems	\$161,949,000	68.5%	41.2%
Oracle	\$22,430,000,000	66.5%	66.6%
SAP	\$14,957,000,000	64.0%	68.2%
Progress Software	\$493,500,000	62.1%	77.6%
Adobe	\$3,157,881,000	4.4%	39.4%
<i>Median (100 public companies)</i>	<i>\$93,108,000</i>	<i>54.4%</i>	<i>56.7%</i>

Who's Doing It? - Xerox Sept. 2009

The combination of Xerox and ACS yields a strong financial model

World leader in document and business process management

This is a big deal - ask your CFO



Total Revenue	↑	\$22B LTM
Annuity Revenue	↑	~80% total revenue
Services Revenue	↑	\$10B LTM
Operating Margin	↑	Accelerated expansion
Adjusted EPS CAGR ¹	↑	Double digit growth
Free Cash Flow ¹	↑	\$2B LTM, 8+% of revenue

Note: Combined Company on a pro forma basis, LTM – Last Twelve Months

7 ¹ See slide 17 for explanation of non-GAAP measures

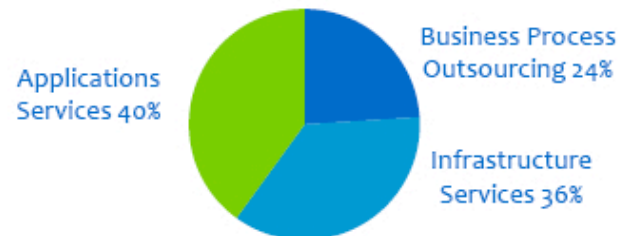


Who's Doing It? - Dell Sept. 2009

Dell's pre-Perot total revenue = \$61B

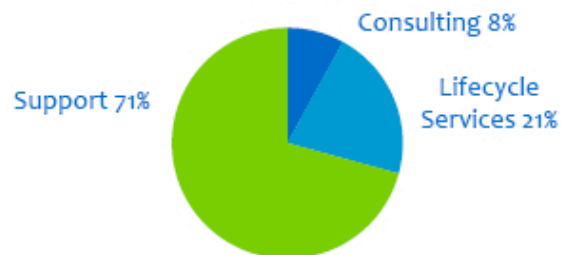
WORLD CLASS SERVICE PORTFOLIO COMPLEMENTARY OFFERINGS

Perot Systems \$2.6B *



* Total represents last 4 qtr Perot Systems consolidated revenue
Pie chart represents mix of 2Q consolidated revenue

Dell \$5.1B **



** Represents last 4 qtr Dell enhanced services revenue

\$8B Combined Service Company

- A single company that leverages Perot Systems' enterprise services across a broad customer base and significantly expands the range of Dell's commercial IT solutions
- There are real, tangible revenue synergies from this combination right out of the box ... places where we will invest to grow faster
- We think we can bolt on other assets (including ours), and globalize Perot Systems into a strong global service company
- Together we will lead the trend toward configurable, modular services and next-generation services delivery



Who's Doing It? - HP - FY 2008

- ❖ Total HP revenue \$118.4B
- ❖ HP Service revenue \$22.39B (18.9%)
- ❖ HP Service excludes services associated with:
 - ❖ PC's
 - ❖ Printers and document
 - ❖ Servers
 - ❖ IT Solutions
 - ❖ Financial Services



Professional Services

- ❖ Financing
- ❖ New lab design
- ❖ Product Inspection Services
- ❖ Validation & Compliance Services
- ❖ Implementation & Project Management
- ❖ Software Services
- ❖ LIMS Migration
- ❖ Data Management Solutions
- ❖ Laboratory Productivity Services
 - ❖ Benchmarking Metrics
 - ❖ Lab Management Workshops
- ❖ Educational Services
- ❖ Asset Management Services
- ❖ Multi-vendor Services

Resources



Expertise	Name	URL
Software Service Benchmarks	Association of Support Professionals	www.Asponline.com
General Service & Support Info	Service & Support Professionals Association	www.Thesspa.org
Service Sales & Marketing Training	Hahn Consulting	www.Hahnconsulting.com
Service Marketing Planning & Implementation	Middlesex Consulting Group	www.Middlesexconsulting.com

Thank You and Go For It!

Middlesex Consulting Group

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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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