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End of Life: Retiring a Product

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End of Life:

Retiring a Product

By Steve Johnson

One aspect of product management that people talk about in theory but rarely practice is the product life cycle. That is, we can birth and grow a product but we rarely retire one. Every year there is a new release with new features and new platform support. A software product is like Frankenstein's monster: we launch it and…

now it…

is…

alive!

What's the worst thing that can happen to a new product? The worst thing is *some* sales. Now you have a bad idea but also customers to support. If you try to discontinue it, you get complaints from those customers and their sales representatives. Perhaps this is why only 20% of technology companies report discontinuing software products, according to the Software Product Management: Best Practices (2004) report from *SoftwareMinds.*

There's also a belief that, once developed, software is free. How much does another copy of software cost? Sure the first unit was expensive but subsequent copies are free, right? Because hardware uses atoms, subsequent units have hard costs. But when bits are free, there is an inclination to think that there are no costs. But what about technical support? What about demands for a new feature? What about upgrades for new operating systems?

How do you kill a product that is no longer profitable? And how do you know that it's time?

How to decide

The easiest way to know that a product should be killed or sold off is when it no longer fits the company's distinctive competence and market strategy. Regardless of the costs, a product that doesn't make sense in the context of the rest of your products just confuses your customers. It makes sense for Starbucks to sell coffee makers but why is GE offering memory sticks, MP3 players, and headphones?

For companies with a direct sales force, it's fairly common to see good software sitting idle when the sales teams have too many products. Sales people put their energy into the products that are easiest to sell and that have the highest payback. Therefore, some products—each a good idea—just aren't top-of-mind for the sales force and get ignored.

Even if the product once fit into the company's market strategy, a product no longer generating revenue should probably be retired. Sure, some products are used to help close a deal: "Sign by the end of the month and I'll throw in this free software." But product managers with responsibility for the "free floor mat" product better have proof that the pull-along sales are worth the continued investment in the product.

Nothing is more frustrating to a customer with a problem than finding that the product's vendor knows little about its own product.

Usually product managers just know when a product is past its prime. But the political ramifications are intense. The product is a pet project for one of the founders, or is critical to one (and only one) customer, or the sales people resist removing even one product from their bag. ➔

Despite an inherent sense of when a product should be retired, product managers need a data-based method to justify the decision. The easiest way is to assume that at least one person in your organization must stay up-to-speed on the product. The rough cost of any technical employee is $100,000-$150,000 a year. Is it worth $100,000 to maintain the product?

Another method is to get an estimate for support from a third-party: what would they charge you to perform bug fixes, new platform upgrades, and ongoing customer support?

The most accurate way to decide to discontinue a product involves Activity Based Costing. Evaluating the cost of activities required in delivering and maintaining the product easily delineates a profit maker from a profit taker. For more on ABC, you'll have to pull out your college textbooks.

How to implement

Assuming that you've made the decision and have executive support, what are the mechanics of product retirement?

First, stop paying commissions. Regardless of what else you do, ending the commission program will guarantee ending the life of the product. Only then should you tell Support, Services, Sales, and customers.

Be clear. Tell employees and customers that this product is no longer viable for the company. While the company will offer technical support and bug fixes for one year, the product will not be enhanced or improved in any way including adding support for new operating systems and platforms.

This notification is usually done via letter or email to the buying contact in the client site.

Here's an example from FusionOne:

> *Several months ago, we informed users of our free FusionOne Basic service that we would no longer be supporting the free service, and urged users to upgrade to our fee-based FusionOne Plus service. Therefore, effective March 31, 2005 FusionOne will permanently discontinue the FusionOne Basic service. After that date, the Basic service will no longer be available, and any data stored on FusionOne servers will be permanently deleted. We will not be able to provide access to that data in any form after March 31, 2005. We strongly suggest that Basic service users retrieve and/or delete any data stored inside the FusionOne service prior to this date.*
>
> *We encourage you to learn more about FusionOne's other service offerings for mobile phones: MightyPhone™ (www.mightyphone.com) and MightyBackup™ (www.mightybackup.com).*
>
> *We sincerely appreciate your support and regret any inconvenience this necessary action causes you.*

This message is clear and specific. It explains when support will cease, what actions to take, and recommends available alternatives.

Fire your customers, keep your customers

The downside of retiring a product is that you may lose a customer. But poor support and no upgrades will make the customer leave eventually anyway. But customers who demand continued support for obsolete products may not be customers we want to keep. Some companies take a look annually at those customers who take more than they give: those who do not pay their bills on time; those who make excessive use of customer support; those who berate our employees unfairly. It makes sense to look at the customers of obsolete products and question if they are customers worth keeping.

Conversely, some customers of older products might well be worth keeping. How many customers choose not to upgrade to the latest release because they cannot cost-justify it? Consider offering a free upgrade to the latest version or to a replacement product to keep a satisfied customer. The revenue lost is more than offset by the cost savings of not maintaining old technology.

You need to support your customers' environments but not *one* customer's environment; that is, you must support the environments of a statistically relevant set of customers. Most industries upgrade quickly while others continue to use old platforms. Your customers may need continuing support for a platform long after the vendor has dropped support. Check the statistics on your customer-focused website to identify which operating systems are being used. Microsoft® has been very upfront about the lifecycle of their operating systems. Go to support.microsoft.com and search for "lifecycle" to see exactly when support will be discontinued for various products.

Doctor Frankenstein didn't know that his monster must be killed but the villagers knew. The product team that creates a product may not be the ones who can make a rational decision to retire a product. Let the numbers decide. Absent rational arguments to the contrary, a product whose cost exceeds its revenue should be gently but publicly destroyed.

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A Model for Metrics-Driven

As a product manager, one of the things I rarely see in any software company is a true metrics-driven approach to product planning and enhancement prioritization. What do I mean by a metrics-driven approach? It is an approach that relies heavily on statistically-valid samples of broad-based customer data that is used to understand customer needs and prioritize product enhancements.

In most companies, feature prioritization does have a basis in customer needs and requirements, but this information is typically collected rather anecdotally from a small number of customers and then extrapolated to apply across the larger customer base. Along with this information though, a lot of what is prioritized is based on the "decibel factor" of various parties involved in the process. This could be a very loud customer demanding an enhancement be made, or a loud salesperson complaining that a big deal is possible if only certain features are added, or a loud development manager refusing to add something because it is not a good use of the engineers' time.

The problem is that without good analytic information, it is very difficult for product managers to defend any given prioritization, and whatever work the product manager has done can be pushed aside to make way for other deciding factors (like soothing loud and annoying customers). The question is how to create a scalable, repeatable and efficient process for getting the analytic data to support feature prioritization.

Defining the formal process

Over the past three years at my company, we have worked to develop a process that delivers exactly that statistically-valid broad-based customer data described earlier. We call it PEP, short for Product Enhancement Process. OK, I agree, it could have a fancier name like "CustomerPulse" or "ProductVision," but PEP is simple, easy to remember, and to-the-point. It also translates well across languages—an important point as you will see later.

Feature Prioritization

By Saeed Khan

Not only has PEP helped us make better decisions about what we will, and will not, add to our products, but the gathered data is used by groups in the company well beyond Product Management, including Marketing and Technical Support, to improve their knowledge of customer needs and problems.

In addition, many customers love PEP because it gives them a clear voice into product direction, and clear visibility into why and when enhancements will be delivered. And of course, the virtual "decibel factor" of hundreds of customers requesting particular functionality is much louder than the noisy few.

Before I describe the process, there is one caveat. The enterprise software company I work at has a large, global customer base. We also hold regular Regional User Group meetings across North America and Europe, and PEP leverages these User Groups extensively. I mention this because not every software company fits this profile, and the process as we have implemented it may not be possible for other companies. That said, by describing the process, the benefits it has provided, as well as sharing some of the lessons learned, hopefully others can benefit and implement their own versions of PEP as they see fit.

The model

The goals of PEP are to acquire broad-based statistically-valid data that help understand customer needs and prioritize product enhancements. The process must be scalable across the customer base, yet deliver consistent data that is easy to tabulate, analyze and report back, both internally and to the customers.

PEP is a user-centric and cooperative process. It is conducted annually and consists of the following five major steps:

1. Soliciting enhancement requests from the customer base
2. Create a standardized product enhancement survey that can be used worldwide, and that is based on consolidated customer input, corporate objectives, competitive issues and market trends
3. Conducting the survey
4. Analyzing the survey results and factoring this information into our overall product planning process to develop priorities for upcoming releases
5. Responding back to the customer base

Soliciting enhancement requests

Product enhancement requests come in year-round from customers, partners, our professional services teams, sales consultants and technical support. Previously, we had used a bug tracking system to log and track feature requests, but to be perfectly honest, the system was somewhat old, and while adequate for tracking bugs, it was not suitable for managing feature requests.

We found the best system was to set up a form on our external website so anyone could submit feature requests whenever they wanted. As requests are submitted, the data is stored in a simple database, but also forwarded directly to Product Management, via email. We not only capture feature request details, but also the contact information and problem descriptions. Receiving this information via email enables us to forward requests internally to interested parties, and also to respond easily to the submitter to gather additional details if necessary.

Consolidating customer input

This is probably the most difficult, as well as most important step in the process. The success of the entire process rests on the relevance and accuracy of the information collected via the survey. Given the volume of feature requests that are received during the year, it is clear that not all of these requests can be included in a single customer survey. A large part of the process of survey creation is pouring through the enhancement requests and identifying those requests that have the following characteristics:

- Are likely to be relevant to many customers
- Are likely to be implemented if they rank highly amongst the customers
- Will move the product forward in the intended direction it needs to be taken

These criteria are rather straightforward, but can be easily forgotten. It is very easy to get enamored by a "cool" feature submitted, but realistically is not something that you would implement. No point in asking for feedback on features such as this. The proposed features should all help improve the product in a meaningful way and fit in with the overall strategy and direction that is set for the product.

Aside from the specific features requests coming from customers, the survey creation phase allows product managers to add in additional features or enhancements that are already under consideration or in development for future releases. The survey is a means to identify customers who may be able to provide additional requirements or detail.

There are numerous ways to format the survey to collect the needed metrics. The format could be to rank individual features on a linear scale (e.g., 1-5 or 1-10) of importance. It could be to rank features relative to one another in importance (e.g., given a list of possible enhancements, which is the most important, the second most important, third most, etc.) Another format could use a "purchase the feature" model, where people are given a set amount of fictitious money, and they can allocate the amount they want to spend against individual feature requests. Anything unimportant, they can ignore, while anything of importance they can "spend" the money at a level they see fit, until their wallets are empty. Regardless of the method, the objective is to ensure the process is not too complex or onerous causing low response rates or invalid results.

Conducting the survey

The survey is conducted on paper at the User Group meetings. One may ask, given all the technology available to us, why conduct a paper survey? The main reasons are:

- Response rate
- Need for collaboration and discussion during the survey
- Benefit to customers in attending the User Group meeting

The main reason for a paper-based survey is the high response rate. Our response rate for paper-based surveys averages 70%, whereas a response rate of 10%-15% for Web-based surveys is considered high. Keep in mind that this is a fairly detailed survey, and many people have neither the time nor the patience to fill out extensive forms via the Web. At the User Group meetings, time is provided so that people can complete the survey, discuss with one another ideas and questions about the survey, and have questions answered by a facilitator. The model of the survey is meant to be collaborative, and our experience has been that users find the group discussion a very valuable part of the process.

Analyzing the results

If the survey makes it easy for customers to fill out and rank their feature requests, tabulating the information is very straightforward. In our process, we set up a small database, enter the data, and then use a reporting tool to slice-and-dice the numbers as needed.

Aside from ranking the top *N* requests, data can be viewed in many different ways. It is very easy to slice the data geographically, whether by User Group, by region, continent (e.g., Europe vs. North America), or by job title, for example. One interesting pattern in our survey data was little variation in rankings across different geographies. While the exact ordering of the top feature requests was slightly different between Europe and North America, there was a significant overlap in their top-ranked requests. As a product manager, this was very satisfying because it meant we could address many global customer needs with a common set of product enhancements.

Responding back to customers

In my opinion, this is the second most important step, next to the actual survey creation itself. Without a feedback mechanism to the customer base, the process is a black hole and lacks credibility. Customers will refuse to participate in an extensive annual process if the information loop is left open. We made it a policy that every User Group that participated in the survey must receive a response at their next meeting providing them with their top ten feature requests, along with a comparison of the overall rankings and information on development decisions for the feature requests.

Benefits and lessons learned

Overall, the Product Enhancement Process is a real boon to our development efforts and to our customers. Our executive management has seen the benefits and Product Management has received kudos for implementing PEP. But, we have learned a few lessons along the way. For example:

Some customers brought preconceived notions based on their experience with product enhancement sessions from other vendors. Many of those experiences were either adversarial or perceived as fruitless exercises, so it was a challenge to convince them that our method would be effective and positive.

There were cultural differences that had to be addressed when we went international with the process. Different countries have different perceptions that had to be taken into consideration. For example, some countries viewed the written survey as a test and preferred to participate via small group discussion. For some countries, we had to translate the surveys into native languages in order to solicit responses.

When responding back to the customer base with results, expectations varied quite a bit. Many were satisfied with high-level summary data, while others wanted more detailed information on a feature-by-feature basis. We worked with those users and found a reasonable middle ground where the vast majority of customers were satisfied with the level of feedback provided.

Finally, for Product Management, there have been many additional benefits from PEP. Aside from executive management recognition, PEP has helped us streamline our work and get necessary and valuable functionality to market faster than we could previously. It has created a true dialog with our customers and helped us build personal relationships with them that we did not have previously. And of course, we have statistically-valid data on which we can make analytic decisions regarding our product plans, and defend our decisions if needed. In short, PEP is a truly scalable and repeatable process that has become a strategic advantage for our company. pm.c

Originally from Canada, Saeed Khan is an experienced software product manager working in Silicon Valley. Aside from sharing his thoughts on product management, Saeed enjoys photography and travel. He is also the moderator of a Product Innovation discussion group on Yahoo!. http://finance.groups.yahoo.com/group/productinnovation/

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Do your product managers rely on the sales channel for product requirements, positioning, name, or pricing?

Are your Market Requirements Documents not providing enough detail to Development so they know what to build?

Do your product managers wander into design in the Market Requirements Document rather than provide the market facts that Development needs?

Are you struggling to keep control during the product planning process?

Is there agreement between Product Management and Development on what to do?

Does your Product Marketing function need more structure and process?

Is your marketing plan just a revised list of last year's tactics?

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X. Getting (and Keeping) Commitments

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III. Building the Market Requirements Document

- Writing requirements
- Implementing use-case scenarios
- Programming for the "persona"
- Determining product feature sets
- Creating the Market Requirements Document (MRD)

IV. Analyzing Business and Technology Drivers

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- Influence customer retention
- Measure progress, with or without CRM

VI. Start Immediately

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- Apply the process to current programs
- Continuously measure and improve

Building **Demos** that **Drive Sales**

By J.C. Stites

As product manager, you are your product's champion—the cheerleader that leads the united front to put your product in the spotlight. You spend your days working with Marketing, IT, Finance, and various other departments to piece together every detail of your product and keep production, promotion and profits moving in a forward direction. And while every product-oriented interaction you have is important, your relationship with your sales team may be the most significant.

If you want to drive sales revenue, you have to drive your sales team to present your product in its very best light. Chances are each sales person is selling a different product when it comes to their individual sales approach. Building a product-centric demo that clearly and concisely communicates the value of your product, helps keep everyone on the same page while effectively showcasing your product to prospects.

But how do you build a demo that you can trust your sales team will use? Not only do you need to find time to build the demo, but you also have to decide what content should be included and how the demo should be implemented. Building an effective demo is a daunting task, but worth its weight in gold when done correctly. The right demo should achieve your goals as product manager and help your sales team meet their quotas. Follow these steps when building your next demo and you may just drive your sales team to drive sales revenue through the roof.

Define your objective early and clearly

The single most important factor in creating an effective demo is to know what you want to accomplish with your demo. Do you want it to initiate the sales process? Do want to generate more warm leads? Move prospects through the pipeline faster? If you try to build a demo that simply showcases your product without seriously considering the objective of the demo, you will have an unfocused, hollow demo that lacks real value. Starting without a specific objective is a sure path to creating something that gets left by the wayside.

Once you define your demo's objective, you can better decide on approach, content and implementation. A product-focused approach includes content that is based on specific product features or benefits, and works well for initiating the sales process and familiarizing prospects with your product at the onset of the sales cycle.

A scenario-focused approach takes more planning and uses a storyline to mirror typical situations involving your product by providing a real-life example of the product at work. This approach may be used further along in the sales cycle when you want to show prospects a specific instance where the product would add value.

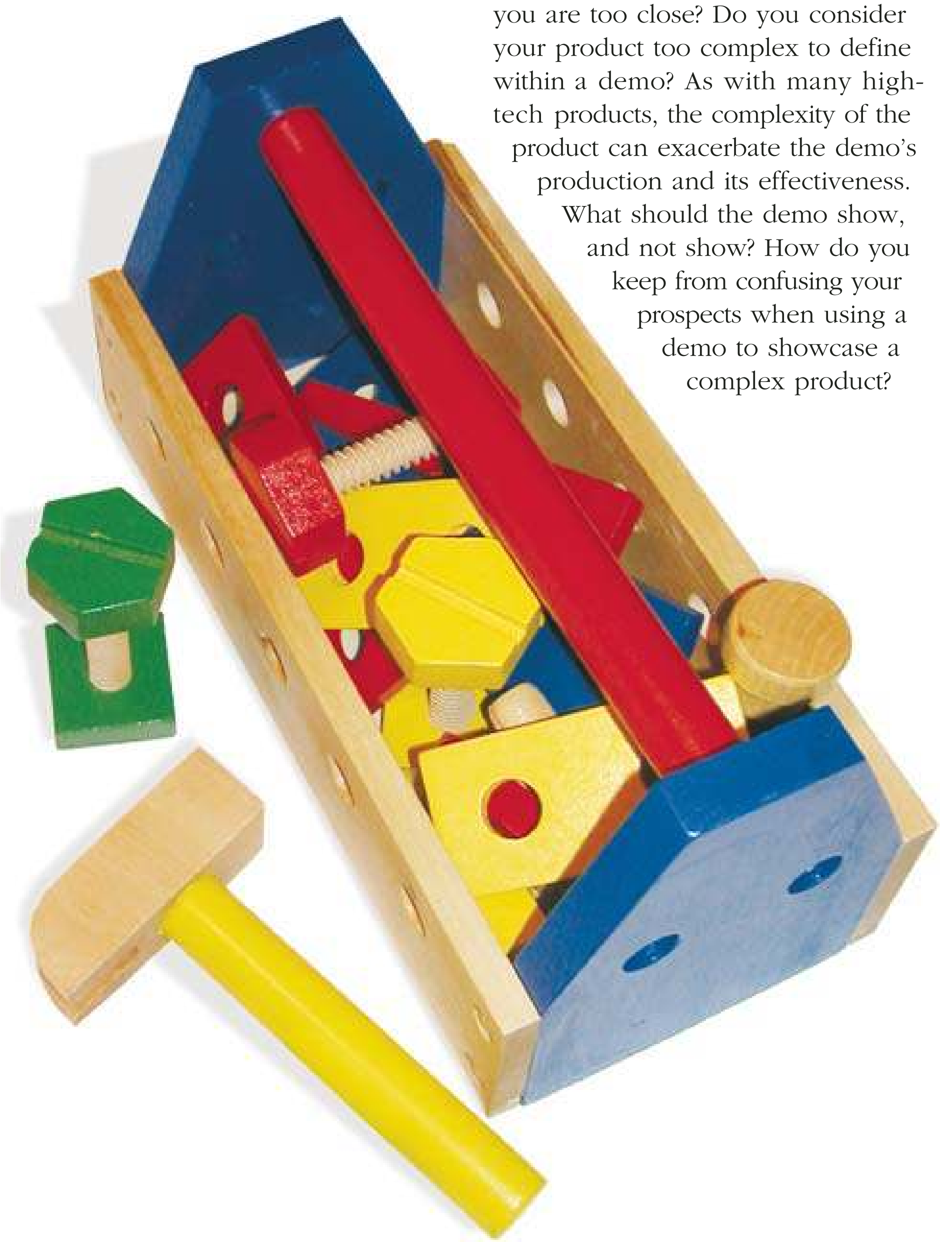
Other important decisions that can only be answered once the objective is determined include identifying the stakeholders and which metrics will be used to measure the demo's success.

Get buy-in from the beginning

As the demo project leader, you will make the best decisions by getting the right input from the right team members. Sales can help decide which demo content best represents the product, Marketing can help determine how best to implement the demo and IT can advise the best technology to use when building your demo. Get your colleague's buy-in at the start so they will use the demo when it is finished.

To keep the process moving, establish a timeline for building the demo. Your timeline may be driven by your product's readiness or by an upcoming event like a tradeshow or product launch. As the project manager, lead the process with a focused approach. If you schedule meetings to determine content or review a beta, share the meeting objectives with attendees before everyone sits down at the conference table.

If you want to build a demo that Sales will use, get their input from the start. Are you building a demo that Marketing will want to loop at the tradeshow booth? Then get Marketing's input. It's no secret that too many chefs spoil the broth and slow down cooking time. On the other hand, if you do not have everyone at the table from the beginning, you may end up creating something that has limited ROI.



Find your WOW factor

The WOW factor is what keeps you in business. It is the distinguishing feature of your product that differentiates it from the competition. Most likely, your WOW factor is what comprises a majority of the sales pitches and headlines in your marketing materials.

As product manager, you may be too close to your product to identify the WOW factor. How do you know if you are too close? Do you consider your product too complex to define within a demo? As with many high-tech products, the complexity of the product can exacerbate the demo's production and its effectiveness. What should the demo show, and not show? How do you keep from confusing your prospects when using a demo to showcase a complex product?

Find the WOW factor and use it to drive your demo content. Often, your best sales representative has important WOW factor insights. What does the sales rep talk about when with prospects? Use that sales pitch to identify what it is about your product that resonates with customers—that's your WOW factor.

Most likely, as complex as your product is, it can still be explained in a clear and concise manner. People do not buy what they don't understand. An effective demo communicates your product's WOW factor and helps prospects understand why your product will make their world a better place.

Choose the right team to build it

You have two choices when it comes to building your demo. You can do it yourself in-house or have an outside agency build it for you. If you choose the wrong team, your demo will suffer the consequences. An ineffective production team can cause irreversible demo results—unprofessional visuals, poor audio, PowerPoint® overload, too much marketing fluff and not enough product content. There is also the chance that the demo could get sucked into the black hole of projects that start strong but linger in unfinished status because your production team does not have the time or resources to complete it—a consequence that often happens when produced in-house.

There are many software applications on the market now that allow you to create your demo, not only in-house but on your desktop. This option may be best for smaller budgets or for quick-moving demo production. If budget is limited and your demo does not need to be professional grade, some of these off-the-shelf products can get the job done.

If you choose an outside agency, do your research and select an agency that has expertise and good examples of past projects. Just because you have an award-winning advertising agency that designed brilliant creative for your sales literature, doesn't mean they know how to produce a demo. Remember, your demo is a unique opportunity to get the product closer to your prospect. Filling the demo with marketing fluff and advertising language can detract from the user experience and reflect poorly on your product. Building a product-centric demo that shows prospects what they are buying adds real value to the sales cycle.

Keep it busy and keep it updated

Once your demo is complete, use it! An effective demo is one built with technology accessible to most everyone so that prospects can view the demo from their office, on the road or at home. An effective demo uses streaming technology and is automated so that prospects can view it 24/7. When your product is upgraded, upgrade your demo. Outdated information or bad product content will confuse and frustrate prospects and will work against you.

Implement your demo across the board—on your website, in email campaigns, on marketing CDs and on every salesperson's laptop. Make the link to your demo contextual so that prospects immediately understand the value of the demo. Do not simply label your link "product tour" or "demo." Define what the demo showcases using succinct and creative text.

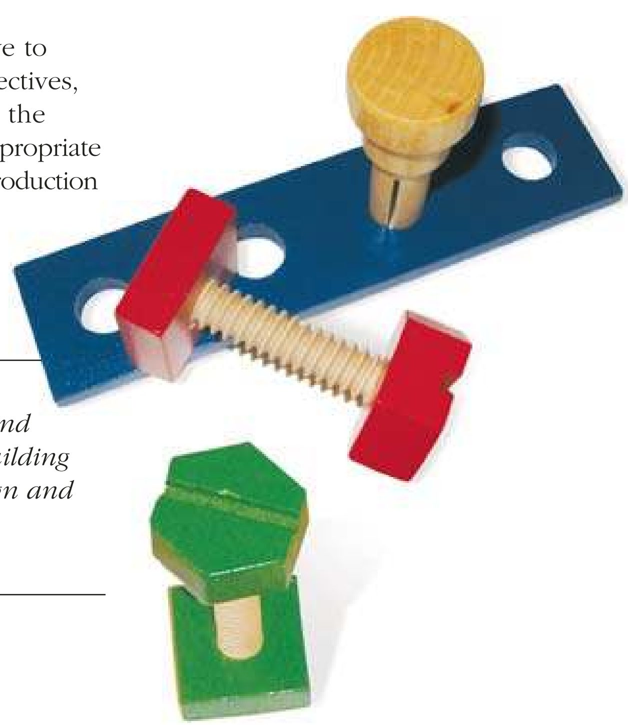
Your demo will get maximum exposure if you strategically name and place the demo link on your website, in e-newsletters and email. Also, ask viewers to complete a short registration form when viewing the demo so you can capture important lead information. Start with the registration page at the end of the demo then move it to the beginning of the demo if you want more leads. Do not waste your viewer's time with a lot of questions within the registration form.

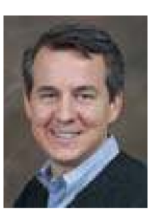
Don't sweat it

Building a demo does not have to be a bear. By setting your objectives, getting the right buy-in from the beginning and selecting the appropriate production team, your demo production process can be seamless. Building a great demo is more of an art than a science. You need to be objective about the content of your demo to identify product-centric values. Listen to vendors, customers, distributors and internal staff—when people have strong opinions, they are usually saying what everybody else is thinking.

A great demo is the result of getting everyone on your team on the same page and centered on the product. If your product does not demo well, you may have a bigger problem than you realize. Fix your product's inherent problems—not your demo.

Prospects want honesty. A professionally-developed demo appeals to the true value of your solution. Make it credible, sincere and honest by making it conversational and friendly and resisting the temptation to include a lot of marketing jargon. The more tangible your demo, the more it reflects the actual product and engages viewers. When your product has real value, open it up to as many prospects as possible and watch your product sell itself.





J.C. Stites is the founder and CEO of Autodemo LLC (www.autodemo.com), the leading developer of software and website demos. With more than fifteen years experience building product-centric demos, J.C. is a thought leader in the design and production of product marketing tools. You can contact J.C. at jcstites@autodemo.com

Ask the Expert

Are there best practices for business cases? Is there a standard way to develop a business case for my products?

In our consulting and training, we focus on best practices but we also focus on practical ones—things that product managers can realistically do. Best practices would include extensive budget money for market research and travel but since we rarely have this, there are other ways to identify and quantify the market needs.

In terms of business planning in particular, anybody doing a business case should be calling out, "Here's the market segment that has a clearly understood problem; we understand the buyer and user persona; and furthermore, no one is focusing on the segment so we have a chance to be a dominant player."

Instead, many vendors say, "Wow, there are a lot of people in ERP right now, so maybe we should build an ERP product because it would be really fun to work on." The problem is, there are already dominant players in that space. With PeopleSoft, SAP, Oracle, and any number of other vendors already there, can you possibly be one of the dominant vendors? The answer is "no." So instead, maybe we can focus on a market segment like doctors, or hospitals, or insurance reimbursement for small body shops, and the more focused we get with a market segment the more we can find a group of people that have not had their problems solved by a generic solution.

In terms of best practices in a business case, we want to be able to say, "Here's a market segment where we can leverage our distinctive competence and dominance is an option." Typically, we also need to know how to communicate through the business case to our executive team. They are less interested in geek-speak and more interested in financials so show executives where they can get 30% market share in a reasonable time frame and that profit is ultimately going to be the result. Fundamentally, focus on a market segment while leveraging your distinctive competence and dominance is an option.

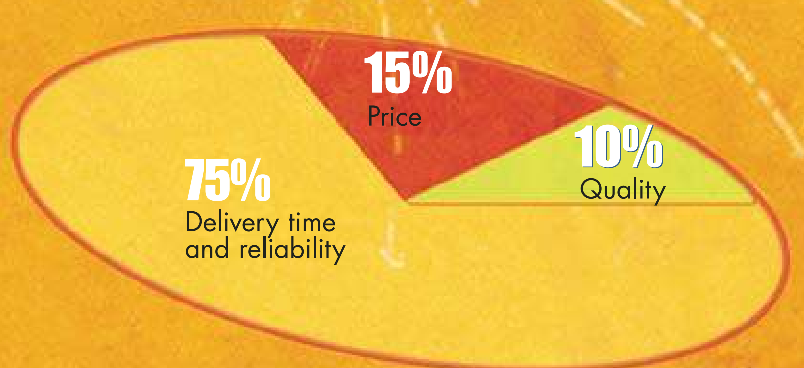
Steve Johnson is an expert in technology product management. He works for Pragmatic Marketing® as an instructor for the top-rated courses Practical Product Management® and Requirements That Work™ as well as onsite courses. Contact Steve at sjohnson@PragmaticMarketing.com

email your questions to ask@productmarketing.com

Exploiting the Full Potential of After-Sales Market

By Dr. Eric Viardot

A vast majority of high-tech firms managed to grow successfully during the recent economic downturn by developing their after-sales services. In the high-technology sector, more than any other industry, after-sales activity, that is, supplying spare parts and providing preventive and reactive maintenance for the installed base of customers, is very often a highly-profitable business. Nowhere else can a firm so easily find a market where it usually has a commanding relative market-share, while demand is stable, even predictable, and entry barriers for competitors are important.



Key buying factors in after-sales for electronic components firms

In 2002, 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.

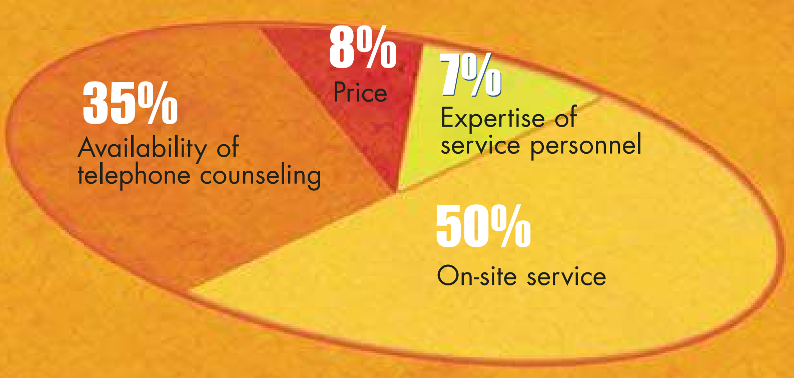
After-sale services include not only the customer claim and warranty management, but also the maintenance operations, the spare parts planning and logistics, and all the operations with a lasting effect on customer satisfaction. There are many reasons why after-sales are important for product managers.

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 since they own the definition and the packaging of after-sales product and services as an integral part of the customer offerings.

- 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.
- 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.
- 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.
- A sound and consistent after-sales offer often contributes to a sustainable competitive advantage, less easily duplicable than just a product.



Percentage of respondents listing factor as highest priority

Although surveys demonstrate that price is important for customers, the key issues are swiftness of delivery, reliability, and availability of repair and maintenance services as shown here. 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.

Finally, the beauty of those services is that they can double profit margin compared to the profitability of the goods sold, especially in an environment that is depressed[1]. A recent study by AMR found that while after-sales service represents on average 24% of revenue, it generates an astounding 45% of profit[2]. 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 services as shown on page 22 and 23. 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[3].

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.

References

[1] Whitney L. A., S. Dayal, J.J. Dempsey, and J. D. Vander Ark, "The secret life of factory service centers," *The McKinsey Quarterly*, No.3, 2002, pp106-116.

[2] McClusky M., "Service Lifecycle Management (Part 1): The Approaches and Technologies to Build Sustainable Advantages for Services," A*MR Research*, August 2002.

[3] Bundschuh, R. G., and T.M. Dezvane, "How to make after-sales services pay off," *The McKinsey Quarterly*, Number 4, 2003.

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:

- flat fees for unlimited services
- fixed prices for specific services
- 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.

Know your customer

In conclusion, product managers and marketers should know their customers' expectations for after-sales product and services and should deliver a proposal that matches the customers' expectations, in terms of delivery, reliability, availability, and price.

Furthermore, there is more than just the *delivery* of after-sales services, it is also important for product managers to be involved in the *definition* of after-sales services. Product managers should also consider the design of their product in order to extract the maximum value of after-sales product and services, making them modular, with remote diagnostics or self-diagnostics and with reusable parts across multiple product generations. In doing so, product managers and marketers ensure full exploitation of complete potential of the after-sales market for their product in order to achieve more market power, market share, and profitability.

Various pricing tactics for after-sales solutions

Number of alternative suppliers

Consequences of failures for customers	FEW/NONE	SOME	MANY
LOW	Cost + Margin	Market Price	Market Price
MEDIUM	Value	Market Price	Market Price
HIGH	Value	Value	Market Price

Dr. Viardot is a professor of marketing and strategy at Ceram Graduate Management Business School, Sophia Antipolis, France. He has published various books and articles about the management and marketing of high technology, including the 3rd Edition of "Successful Marketing Strategies for High Tech Firms," ArtechHouse, 2004. You can reach Dr. Viardot at eric.viardot@ceram.fr

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