

Service Contracts: Manufacturers Vs. Insurance Companies

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The following are added add comments to the article with the above title as provided by Randy Tindall in the November 2001 (#01-9) issue of this publication—from one who has worked for an OEM for 4 years and has subsequently had his own third party service company for 20 years.

First, the OEM is obligated to service contract customers first. Without a could go to the bottom of the list. This would not be all that different with a third party firm—although they might try a little harder to be timely. With service contracts, payment has been made up front (or at least committed up front) for a entire year. This is guaranteed income and includes a guaranteed liability (for the OEM) "to maintain the instrument/system to its original specifications". Service organizations must and do take this responsibility seriously. This liability doesn't exist with billable customers, and work will be done to the best of the OEM's ability and only to the limit of the specific purchase order.

Second, the insurance company has no technical expertise, no intimate connection with its customers and no obligation to employ the manufacturer. I have been called by one insurance company several times, but have never done work for them because they don't even understand that I service only SEMs and they don't even know the difference from TEMs. Some such insurance companies seem to be trying to emulate automobile insurance companies as they attempt to find someone to fix a dent in an automobile—as inexpensive as possible.

Third, I would be most concerned should an outside party,

an insurance company, starts making commitments for the service provider (i.e., you won't have to pay for recertification, etc.). If the third-party service provider states that they will pay for recertification if the customer is unhappy, and they will put it in writing, that's another story.

As to manufacturers making great profit on their contracts, some may and some may not. Much depends on how well they are set up and run. It also depends on the instrument density. If one engineer can service 20 or 30 systems within driving distance, is competent and his service department backs him up, his work can be quite profitable. If he has to fly to many sites, is short on experience/ability, and/or is not well supported, his work can certainly be less than profitable—and result in very unhappy customers.

When service is ordered through a third party, the manufacturer certainly has reason to feel "miffed". After all what is expected is their expertise, their parts, their fast response, etc. and much of the "profit" goes to the third party—for only answering the telephone. The insurance company is betting that the instrument will run reliably as it always has, meaning very little cash out. The manufacturer has lost the major incentive to go that **extra** step to insure reliability. In fact, the manufacturer will actually make more money if the system breaks down more frequently. I do not imply that any service organization or serviceman will do less than necessary to insure reliability.

One advantage of working directly with the organization that actually does the servicing is the establishment of good rapport with the field and in house service personnel. Beyond any legal/contract obligations, such good rapport goes a long way in addressing and solving problems.

While my service work is all generally profitable, there is another major reason that I prefer to have systems on contract. Sometimes I'm very sure what the problem is and fix it immedi-

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ately, but often there are intermittent problems. In this latter case, I may sit in front of a running system waiting for an intermittent problem to show up. I can tell you that some billable customers watch the clock like a hawk when he sees me not doing anything with my hands. Sometimes there are subtle problems that the customer isn't even aware of. If the system is on contract I can work without watching the clock and get everything right. In the long run it saves me repeat trips. There was a time when people seemed more likely to reward good service by paying a premium for it and showing a little loyalty to those who provided it. The loyalty seems to be slipping and more people seem to expect more for less. Ours is a specialty equipment, high capital, investment where we all are in for the long haul. If the equipment is well taken of, it will last for decades—and that is where the savings are!!!

I suggest that if one is pleased with the quality of the manufacturer's service, by all means stay with them. Should one not be pleased with a manufacturer's service, look for a third party service company where that you can establish a good relationship. The insurance companies can not charge less, take their profit, and give the organizations who do the work and support the equipment enough money to maintain the quality required.

I sympathize with the cost-cutting that is being forced on many by the "bean-counters", but beware of false economies. Perhaps one or more instruments could be taken off contract, but what kind of work, grants or otherwise, are lost because of down time? What are the priorities of the organization? If these instruments are important to various departments then the decision decisions should be made by the departments! My \$.02 worth.

Additional comments by Randy Tindall:

Ken,
Great posting. Lots of food for thought.
As was pointed out to me by another person, I neglected to

discuss third-party service providers. This is mainly because I have no experience with them, but they are increasingly becoming an attractive alternative. The bulk of my posting, I think, argued for retention of OEM contracts whenever possible, for many of the reasons you discussed above. In our experience, the difference in service between insurance and OEMs is incredible.

That said, however, it is still a mystery to me why OEMs seem to consider billable work at \$200 or more per hour, including travel time, plus per diem, mileage, hotels, meals, etc. to be some kind of sacrifice that deserves punishment. To me that seems like a pretty good bonus over what they are likely to make under a service contract. One recent visit to service our FESEM resulted in charges of well over \$7,000, mostly to work with software glitches! Two more visits like that and we will have paid for the OEM contract and the OEM will have increased their income over what a contract would have brought them. Maybe it's simply that money up front is preferable, as you say, since that eliminates the risk of not being paid at all.

If working on a billable basis really is a hardship for OEMs and we're told we can't afford their service contracts, then that's where the free market comes in and third-party engineers have found their niche. People like you fill that gap admirably. I expect life isn't always easy, though, especially when you must rely on OEMs for parts and specialized expertise. One third-party provider told me of losing thousands of dollars when an OEM changed the price of a part upon finding out that it was ordered by an independent service provider. I've also heard that sometimes OEMs try to avoid selling parts to independents. Have you had any experiences along these lines?

It seems that the entire service landscape is changing and everyone is scrambling for alternatives. Makes for interesting discussion. ■
... Randy Tindall

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