

## Service Agreements Add to Overall Value 10.31.11

**Key to success with service contracts: well defined goal, statement of what is, and is not included, good understanding of cost and profits, and a clear need on the clients' part.**

**I've been told we have to find opportunity to increase our service agreement business. Is it good business? Up to now we've just taken what comes in the door. How important is it?**

Service agreement business is very important to the success of many businesses. It factors into sale value. It indicates the business' services are healthy and well received by the marketplace. If priced right, it can generate reliable revenue and profits year in and year out. Getting more is a sales and customer service game, pure and simple.

Many businesses have significant opportunity to pick up ongoing revenue by focusing on selling and properly handling service agreements. Companies with regular demand for their services can offer their clients agreements that tie the clients to the company. They do this by offering to provide regularly recurring service in exchange for a fee, either paid upfront, or paid in quarterly or annual installments.

If a company can show a significant base of service contracts, that will boost the eventual sale value of the business. Banks will often take note of service contract revenue - which is different from service revenue. Service revenue is an indicator of a stable, continuing, trust relationship between client and company. It's also a steady stream of revenue that the company can count on.

If clients are confident enough in the services provided by the company, they will agree to contract to do business with the company for more than an as-need basis. The advantage to clients is often a discount on additional services - known as a preferred customer rate, priority with scheduling, and / or advance notice of upcoming opportunities.

The advantage to the company offering the service agreement is that it locks up customers for periods of time - typically a year or more. It can focus on customers who have already bought into the value it provides. And the company can use a standard service agreement contract as a way to sell more clients on shifting from emergency based calls to steady, planned service calls. Reducing emergencies can free up the cue of calls a company has to handle at the last minute - which are often the most expensive to provide.

Properly pricing service agreements is essential. The contract typically will contain a standard set of services that are provided, and for which the company clearly understands its costs. Additional repair services and parts are usually on an as need basis, not factored into the service agreement.

Many companies will offer to fix the cost of service labor for a period of time - since they have the most control over that. Fixing parts is a dangerous way to go, as prices from vendors may suddenly escalate. If you want to offer an advantage related to prices or services you acquire from vendors, either ask the vendor for a fixed price contract, or offer the client a preferred rate subject to availability.

Getting more service contracts is a sales and customer service job. Figure out who are your best customers, and start with them. Make calls and send letters offering them a service contract. Define the advantages they will receive. If you're not sure what advantages to promote, talk to a few of your best customers to ask them what they value the most about service availability and price.

Once your best customers are on board, use them as references to pull in more of the general customer base. Offer service contracts to your entire population, including a way to sign up on-line, by phone, or by snail-mail (yes, some people still use it). Once sign-ups slow down, print out a list of all customers, figure out which customers don't have service agreements, and focus on getting them on board. Finally, put a standard service agreement in every new sale package, and try to get the agreement signed upfront.

Not sure how to price a service agreement? Not sure how to offer one to the marketplace? Not sure what to offer, and what to steer clear of? Get Help! There's gold in that opportunity!

Looking for a good book? The Art of Profitability, by Adrian Slywotzky.

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