

Setting Contract Rates

Which department should be doing this?

Compiled by: Elizabeth Marvel, Office Technology Magazine

Following is a question submitted by a dealer member as part of BTA's Dealers Helping Dealers resource and many of the answers received. These answers and others can be found in the members-only section of the BTA website. Visit www.bta.org/DealersHelping Dealers. You will need your username and password to access this member resource.

Our sales department sets the contract rates. What tips do you have to help ownership understand that service should be setting the rates?

"That is a conflict of interest — the fox in the hen house. The GLs for contracts should be directed to revenue and cost going to service so they have control and ownership of profitability. [You should] not only [be] setting the rates based on labor and parts costs, but also requiring a service or operations manager's approval if sales tries to discount the published rate. Our CRM automates that approval process."

Marti Gibson, sales administration manager
Central Business Systems, Louisville, Kentucky

"Matching rate is a slippery slope that all salespeople like to go down. Do not allow the salespeople to lower your CPC rates; only management can do so, and only in a highly competitive deal."

Dan Detrick, vice president
CopyLady Inc., Fort Myers, Florida

"This should be done by higher management; someone who understands the true cost of service and toner supplies. Sales and service should work together on this matter."

Don Lucas, general manager
Purvis Business Machines, Meridian, Mississippi

"Service should publish the rates and if the opportunity requires a discount, the salesperson should show proof of the reason for the discount."

Peter Napolitano, account manager
United Business Systems, Buffalo, New York

"Monthly recurring revenue (MRR) is the model the business is built on. If ownership does not understand how changing the service rate affects long-term compounding of the annuity, then you have another problem. Perhaps model out the compounding affects (or lack of compounding) in a spreadsheet (AI can help with this). Show the rates modeled out over 63 months, what the rep sold at (with and without escalations) versus the service book rate and show ownership the difference. Then multiply that by the number of machines sold each month and you will show a pretty hefty profit difference. Sales rep compensation should be tied to holding the service book rate. This is how you change sales rep behavior in this area."

Luke Maucher, president
ABM Office Resources, Fort Wayne, Indiana

"Sales should never set the contract rates. They are the crown jewels of the company and contract rates should be determined independently based on industry standards."

Mike Boyle, president
Base Technologies, Bethel, Connecticut

"We have our rates in our CRM. They can only use these rates. They must get bid-desk approval from the service manager to lower rates."

Stephen Valenta, president/owner
Offix, Gainesville, Virginia

"This is not as straightforward as it might seem. Service can set a rate, but if it is much higher than the competitors' it is not going to get the deal. Management should be setting the rate while considering all factors."

Ron Hulett, president & CEO
U.S. Business Systems Inc., Elkhart, Indiana

"Establishing service rates should be a combined effort between service and whoever drives the aftermarket (i.e., parts, supplies, etc). There are tools out there that can help you determine the base cost of operation. This will help you seek out desired margin."

Dave Aulisio, vice president of business development
Automated Business Solutions, Warwick, Rhode Island ■

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