

CHAPTER 6: LET THE GAMES BEGIN

Agreements, Expectations and Risks

For the first couple weeks that Joella and I were in Kifissia she spent most of her time with Goerge Panos looking for a place for us to live, trying to locate our furniture, which was lost, and weighing whether it would be better to buy a used car in Greece or import a new one. I devoted my time to getting into the groove in the office. There was so much to do that the term "multi-tasking" does not even come close to describing what my days were like..... and our evenings were not much better as they were devoted to checking out the properties that Joella and George had found during the day. I remember that rental prices were very high as owners tried to squeeze as much money as possible out of foreign residents.

MEETING WITH THE HP ATHENS SALES MANAGERS.....Off To An Encouraging Start

An Agreement On Sales Plans.....An Ounce Of Prevention Costs Less Than a Pound Of Cure

On the business side of life the most immediate thing that I needed to do was to meet with each of the sales managers, listen to their plans, and come to an agreement on what they would sell, where they would sell it and when we might expect the first delivery. So, over the next couple of weeks I managed to meet with all of them. During these meetings a good portion of our time was spent discussing the need for an inter-departmental communication process relative to new orders, service pricing, etc. There were also several urgent matters to resolve, such as how to handle existing customers who had products that were beyond our capability to repair and would remain so for some time.

Jean-Marie was very happy that he would finally be able to quote, but was not so happy about the limitations. There was no way that I was going to support a time-sharing system in Yemen. Even Jean-Marie finally understood that at that moment we had nothing to work with and that I would need time to acquire the resources necessary to support his and the other managers' shipments.

Service Pricing.....And The European "Complement Program"

One of the most important (and complex) topics that we discussed was pricing. Although electronic instrumentation (EPG) products had 12-months of factory warranty most other products, such as computer systems, came with just a 3-month factory warranty. The 3-month factory warranty period provided by HP in the U.S. was not acceptable to European and Middle Eastern customers, who expected a 12 month guarantee. To accommodate them HPSA "bundled" the cost of a 9-month service agreement into the price of every product that had a 3-month factory warranty. This approach, which was referred to as the 'Complement Program', was basically an extended warranty the cost of which was not broken out as a line item on customer quotations. Complement income was a great source of guaranteed revenue for my service organization. Too bad there was never enough of it to recover our costs.

Due to the much higher cost of doing business in the Middle East and Eastern Europe, HPSA had established a "complement uplift" that was 48% higher than the rest of Europe. Before there was any organized service capability in the Middle East the occasional critical situation was handled directly out of HPSA using a service engineer and service kits provided by HP Switzerland. The 48% uplift was sufficient to cover the cost of these infrequent emergency trips. However, the 48% would never cover the cost of the investments we were about to make and the level of service that we would be expected to provide. For example, just one computer system with a 12-month complement-extended warranty would require at least two site preparation visits, an installation visit, and 6 preventive maintenance visits. Any failures would result in additional trips. All service calls would require international travel, hotel accommodations and meals.

As all computer based systems which, as noted above, were the most costly products to support, by mutual agreement the complement uplift was increased from from 48% to 100% and would stay at that level until we had lower cost country level service capability. Thanks to all of the oil money flowing into the territory our Middle Eastern customers did not seem too concerned about the higher prices but, of course, there were practical limits. They wanted quality service and were willing to pay for it. U.S. based customers who were not familiar with the difficulties of providing service in the Middle East were not. More on this later.

Mutual Success Depended on Cooperation.....A Written Service Plan For Every Order

From a financial performance point of view my department was by far the most expensive to run and, consequently, my neck was stuck out much further than the other managers. I was required to make large up front investments based on questionable (usually overly optimistic) sales forecasts. We were there to get orders, but in a cost effective way, which would require good judgment, shared planning and sincere cooperation. If the sale force produced the orders they promised more than 50% of our service revenue would come from the Complement Program. No orders would mean no complement and this would result in service revenue well below our target. Should this happen, the high service related expenses we expected to incur would far exceed our revenues and would result in a very large loss, which would turn into an avalanche over time. On the flip side of cost recovery I wanted to be reasonably flexible with the sales managers, who could be difficult at times due to personalities like Manchec's, and I definitely did not want to be viewed as a gatekeeper who was standing in the way of getting orders. If the orders did not materialize I did not want to give any of the sales managers an opportunity to blame their lack of performance on an unprepared service operation or on an uncooperative service manager. The best way to head off potential problems was to include the sales managers in the service planning process for each of their orders and gain their commitment, in writing, to each plan. Doing so would reduce the number of unfortunate surprises that would usually turn up when the order was delivered. Prior to our arrival every order had problems and those angry customers were now waiting for me to clean up the mess.

Pricing..... A Pricing Worksheet For Every Order That Required On-Site Support

The previously described written service plan would head off the most expensive problems. However, recovering our costs was another matter. In that regard I worked with the sales managers to develop a special pricing worksheet, which would be prepared for any sales quotation that included on-site service (which was most of them). Prior to mailing a quotation all of the stakeholders signed the worksheet and received a copy. When a quotation resulted in an order I received a copy of the order confirmation from the order processing group. The confirmation was then matched up with the service plan and the pricing worksheet and this triggered implementation of the plan. A majority of the sales managers (Bonham, Merkel and Pote) were very supportive of the support planning / pricing process because they wanted their orders to be a win-win for all concerned. However, as I expected, the other managers (Manchec and Vondjitis) were not so enthusiastic..... because the process would provide a "paper trail" that could be used to identify the party responsible for any problems, usually them.

Service Agreements.....The Only Game In Town

Whether a customer was U.S. based and had a 3-month warranty or was based in the Middle East and had a 12-month complement-extended warranty, post warranty customer service was only available by service contract (aka, service agreement). After the European warranty had expired no time and materials (hourly labor charges + parts + travel) support was available in the Middle East. There were several reasons for this policy. The first, and most important for us, was the need for consistent and guaranteed (well, almost guaranteed) sources of income. The second was the need to be paid in advance.....getting paid after the fact was very problematic in the Middle East. The third was actually a benefit for our customers.....having to obtain foreign exchange to pay us only once a year rather than after each service visit.

How to Handle Critical Installations.....Providing Service To The Unserviceable

Due to the size of the territory our response times could be very long, especially at the beginning, when we were short on resources. Systems with critical applications, such as timesharing systems, where any down time could not be tolerated, presented us with the worst-case scenario. These systems should never have been shipped into our area until local service was available. However, for those customers who had taken delivery prior to the founding of HP Athens, during HPSA's sell and forget era, or who insisted on having the product with the advanced knowledge that no local service would be available, we did have a couple of very expensive solutions. Customers who could not wait for a service engineer to come from Athens (or elsewhere in Europe) would have the choice of purchasing all of the necessary service materials and hiring their own engineer...or....purchasing a complete backup system that could be placed into service until we could respond. Granted, these were very draconian solutions, but I would reluctantly sign off on some of them if the customer's expectation were properly set. However, my operation could not survive on the revenue generated by these off-plan "corner cases". What I really needed was sales volume that could justify building local service capability. To reach this "critical mass" the sales managers would need to focus their selling efforts on our most popular products in our highest priority countries. This message was inbedded in every conversation that I had with them. Fortunately for us, our competitors were faced with the same dilemma.

MEETING THE HPSA SALES MANAGERS..... An Offer I Couldn't Refuse

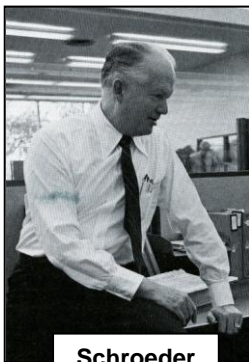
No sooner had I finished reaching agreement with the HP Athens sales managers on our approach to the Middle East I got my first taste of European management style. I was summoned to Geneva by Fred Schroeder and Franco Mariotti, the European Sales Managers for data systems and calculators, to discuss my service plans for the Middle East.



HPSA – HP European Headquarters In Geneva

This command performance was my first official visit to Geneva in my new role. I made the mistake of asking Fred if he and Franco were going to pay for my trip because it was not in my budget. After Fred had a good laugh at my naïve remark he reiterated that I would be expected in

Geneva the next day. Period. This was very inconvenient for me because our furniture was about to arrive at our new home in Kastri, but I quickly learned that requests from HPSA were not optional. Geneva called the shots, which would create a lot of expensive trouble for me later when it came time to renegotiate our contract with Modern Electronic Establishment (MEE), our Saudi Arabian distributor.



Schroeder

My meeting with Franco, Fred and Franz Nawratil, who was working with Fred at that time, was very cordial. I was encouraged by the fact that they seemed to be very understanding of and knowledgeable about the problems associated with providing support in the Middle East. I shared my plans with them and they were very satisfied with the objectives that Cherif and I had set. Afterward I was glad that I had made the trip and over the next several months I would continue to give them updates whenever I was in Geneva. I should point out that even though they supported the idea of expanding HP's presence in the Middle East, they were not the decisions makers. The decision



Mariotti

makers at this time were Alberding and Herdt, who had direct control of field operations.

Just a quick note about the backgrounds of these three gentlemen. Franco, who held a PhD in Physics, was HP's Italian representative before his company was absorbed by HPSA in the 1960's. Regarding Fred, he was one of the founding managers of HP's first manufacturing division in Europe, the Boeblingen Instruments Division (BID), in Germany in 1959. I learned a long time ago that if you want to be known as a great conversationalist you get people to talk about themselves. Forever the history buff, I asked Fred where he was during World War II. He smiled and said that he spent most of the war underwater.....he was a U-Boat Commander. Oops. Regarding Franz, he had been a sales and marketing engineer at BID before transferring to HPSA. Both Franco and Franz would eventually succeed Alberding as HPSA Managing Director. Fred moved on to Corporate Planning and Development at HP Headquarters in Palo Alto in the mid 1970's. At the present time Franz is the only one still living.

Looking ahead, even though the mood was upbeat during my early visits to Geneva, as time passed there would be growing friction between myself and the HPSA Sales Managers, who would become Product Group Managers after "verticalization". This friction would be due to their assessment that the investments required to continue service development in the Middle East would, for more time than was acceptable to them, out-pace sales order volume and result in continued service operation losses.....and service operation losses would directly impact their profitability. They were right, but should have been: 1) Talking with Alberding and Herdt about scaling back their plans for the Middle East and, 2) Whipping up their Athens sales force to get more orders. My operation's financial performance, which was their stated concern, was heavily (50%) dependent on complement income, which was entirely dependent on sales order volume. In essence, I would be asked to reduce service quality because of poor sales order performance. However, these were future conflicts. At the time of my initial visit to Geneva all of these performance issues had yet to appear.

SETTING CUSTOMER EXPECTATIONS.....Toto, We're Not In Kansas Anymore.

One of the topics that I discussed with Fred were the probable difficulties we would have with U.S. based computer customers who had little or no experience in the Middle East. He correctly anticipated that we would spend a lot of time explaining, justifying and resolving issues related to our longer (than in the U.S.) response times and our higher (than in the U.S.) prices. Also, something that was not anticipated was the rejection of warranty billings sent to the U.S. Manufacturing divisions due to our much higher (than in the U.S.) hourly labor rates. Note: Even though the Complement Program was in place we were still required to bill the U.S. factories on an hourly basis for services provided during their 3-month warranty period.

Unrealistic Expectations.....Riyadh Is Not Seattle

As time passed, we received an increasing number of inquiries from HP entities in other countries about shipping systems into our area. The HP offices in Europe and their customers understood the support situation in the Middle East, but HP's U.S. sales offices and customers were completely ignorant, and this created problems. U.S. based customers, who were shipping to end-users in our area, were appalled by the cost of HP service in the Middle East. Thanks to HP's glossy P-R brochures, like "Where In The World Are We?", which stated that the company had "worldwide support", the U.S. sales engineers and customers just assumed that all of HP's domestic prices and policies would apply. When faced with the facts U.S. based customers were extremely unhappy about not only the higher service prices but also by the long response times, which in our area were measured in weeks not in days. From both response time and cost perspectives providing support from Athens to Riyadh was not the same as from Bellevue to Seattle.

Setting Realistic Expectation.....And Dealing With Complaints

By 1975 some of the major accounts (Hughes, General Dynamics, etc.) in the Neely (Western U.S.) Sales Region were complaining so bitterly that the Neely Region Sales Manager sent Jim Kemp, the Customer Engineering Manager, to Athens to meet with me. Having worked with Jim when we were both customer engineers I knew that I would be able to present him with the facts and he would do a good job of representing us with the U.S. sales regions. His visit to Iran was a real eye opener. The inflated cost of

everything just blew Jim away. Upon returning home he shared what he had experienced with the sales force and customers. Thanks to Jim's continued efforts, the volume of complaints gradually diminished.

I was lucky to have Jim's help. On an earlier trip, to Hawaii, which was in the Neely Sales Region, when Jim's flight was in the process of landing in Honolulu some construction equipment that was encroaching on the runway forced the pilot to execute a go-around just as the plane was touching down. As the plane lifted off it hit a construction crane, which tore one of the engines off the wing. Thanks to the skill of the pilot the plane eventually landed safely. Talk about a close call !

Educating Our Inter-Corporate Customers.....Warranty Billings To HP Manufacturing Divisions

As previously mentioned, even though "time and materials" service was not available to customers we still had to establish a labor rate with which to charge HP's manufacturing divisions during their 3-month factory warranty period. There was no such thing as "market based" pricing in the Middle East. As most everything sold in the area was treated as a special, by both HP and our competitors, no one had published standard pricing. The (for internal use only) hourly rate that we charged the HP manufacturing divisions for warranty service was based on our cost, which came out to \$85 an hour. At this time the U.S. based service organization was charging \$35 an hour. As a result we experienced a lot of warranty billing rejections until we were able to convince the division quality assurance managers that the \$85 an hour charge was not a mistake and really was the cost of doing business in the Middle East. Even so, this was an on-going battle.

A RISKY PROPOSITION FOR EVERYONE.....Heading Off Into Uncharted Waters

From day one HPSA management knew that the Athens based operation they had approved would be risky. How much risk HPSA was really willing to take, and for how long, was unknown. No one knew what the oil exporting countries would do with their growing wealth. Even so, we were all very excited and optimistic about the prospect of opening new and lucrative markets for HP. Of course, we were also very aware that there were risks for each of us as well, both personal and professional, as we all headed off into unexplored territory. However, regardless of any concerns we may have had we were all committed to the success of HP's Mediterranean and Middle East initiative. Unless HPSA had second thoughts the operation would be built according to the original plan.....and from the beginning all of the stake holders knew that it would be expensive.

As far as our service operation was concerned, HP's top management always believed that satisfied customers would result in increased product sales, which would result in increased service revenue, which would result in service cost recovery. The traditional objectives of the customer service organization were to: 1) Make customers happy and, 2) Recover the cost of doing so. My challenge would be to maintain a balance between these objectives, which would be very difficult. Due to the huge up-front investments required to create a satisfied customer base, which would lead to increased product sales, recovering all of our costs in the short term would not be possible. There would be no light at the end of tunnel for several years. The question became, how much was HPSA management willing to invest in our service build up and how long were they willing to wait for a return. This was unknown in 1974.

HP GRENOBLE.....A Valuable Resource That Came Along At Just The Right Time

In November of 1970, HP announced plans to purchase a 45-acre site near Grenoble for development into a research and manufacturing facility. HP began manufacturing 2100 computers in a temporary facility for sale into the European market; the first two computers shipped in January of 1972. Karl Schwarz was the general manager of the start-up operation. By July of 1974, HP had 150 employees in Grenoble including nine working in R&D. The operation moved into its permanent 20,000 square meter plant in 1975, when it shipped its 1400th 2100 computer.

Before returning to Athens following my meeting with Fred and Franco I took a day to travel to Grenoble with Harm Van Rijn, who at that time was still the HPSA Data Products Service Manager reporting to Kurt

Aeberli. HP Grenoble, which was in its infancy, was operating out of a collection of prefab buildings and surplus World War II Quonset huts. With the expected volume of HP 2100 mini-computers, HP 7900 disc drives, and HP 7970 tape drives (Grenoble's only products at that time) expected to begin shipping into the Middle East I was very interested in talking with HP Grenoble's founding general manager, Karl Schwarz, about our service plans for the Middle East and his willingness and ability to provide us with training, service kits and technical support.

People on the move

Joe Barr, to managing director, HP Singapore, from International, Palo Alto; Leonardo Cardenas, to business manager, HP Mexico, from Xerox de Mexico; **Richard Hornor**, to foreign assignment, HP Taiwan, from Customer Service Center; **Karl Schwarz**, to manager, new business development, from foreign assignment, YHP; Charles Williams, to foreign assignment, HP Geneva, from HP Stockholm; David Yewell, to foreign assignment, from HP GmbH, from San Diego Division; Sergio Flores, to administrative staff, Intercontinental Sales Region, from business manager, HP Mexico; Harry Spieler, systems analyst, Intercontinental Sales Region, from Bay Area EDP Center.

From HP Measure Magazine – Nov 1970

Karl and I immediately connected and we quickly discovered that his career and mine had followed similar tracks, beginning in the U.S. followed by Asia and then moving on to Europe. He had set up manufacturing at HP's joint venture in Japan (YHP) in the mid-1960's and had been asked by H & P to repeat the exercise in Grenoble to improve delivery times and also to satisfy the demands made by several European countries for HP products to have "local content". The meeting with Karl turned out to be very beneficial, resulting in a high level of cooperation between our two organizations.



Wim

As time passed my routine contact in Grenoble became Wim Roelandts, the training manager, who was responsible for arranging several special training programs for my HP and distributor new-hires. Wim must have been extremely gifted or must have had some very special friends because he quickly rose to the position of Senior Vice President of HP's Computer Systems Organization. After leaving HP he became the chairman of Xilinx and a board member at Applied Materials.



HP Grenoble - 1974



HP Grenoble - 1975

SETTLING IN.....We Finally Have A Home Again

The morning of the day that I returned to Athens from Geneva our furniture was delivered and by the time I arrived at our apartment Joella had everything organized. It had been eight months since we had sold the house in Montreal and had stored everything. After living in a small apartment and several hotels it was nice to have a home life again and be surrounded by all of our personal belongings. ■