Define the Problem

The Case of STC

Introduction:

Located in Smalltown, Illinois STC, LLC, is a technology based company specializing in PC repair, affordable remote back up services, web hosting and design, as well as content security. The tech company is founded and led by managing partner Bob Richmond, who was previously a law enforcement detective with more than 15 years of experience in high-tech crime investigation.

STC is, in some ways, an invested partner in his customers' businesses, working with each one with the same level of dedication and loyalty as any paid member of the staff. Bob himself believes in the importance of quality and customer satisfaction along with the belief that reputation is one of the best marketing tools a company can perpetuate.

With a “Computer Solutions for Everyone” mentality STC along with the 4 other employees involved in the company are prepared to expand the business. Within the last year he and his partners have begun to foster an innovative idea for expansion. With PC repair being one of the largest components of the business, Mr. Richmond and his associates wanted to develop a way of expanding this division. Soon with the help of his associates, Bob thought of creating drop off points at existing locations for small town customers to leave their computers for pick up and repair.

Company Analysis

Customer Base and Deliverables

STC offers a wide selection of services to small local businesses such as law firms, hospitals and computer consumers. Some of the services provided as mentioned earlier are remote PC repairs, remote training sessions, remote back-up, web page design/hosting, online marketing, content filtering and security assessment. Majority of the revenues currently stream from small businesses. However, because of the current project partnered with C-store’s in promoting PC repairs in small towns, STC wants to expand and change its major customer base to individual consumers living in small towns. After implementing this new project of promoting its services to about 50 small towns, STC would like to focus on providing one main service, remote PC repairs. This would be achieved only if the project with C-store’s becomes successful and profitable.
**Revenue & Expenses**

STC generates revenue of approximately $300,000 annually. About 70 to 80 per cent of its revenue stream comes from its PC repair service. STC offers three price packages for remote PC repairs that are priced at $135, $155 and $185. The majority of the customers choose the basic plan at the price of $135. This plan includes a hardware assessment along with a software check up for problems. It repairs on average 8 computers on a single day.

Another revenue stream is its webpage design service and remote backup storage. However, the majority of their revenue stream flows from its PC repair services. Their fixed rate includes the repair only and does not include any onsite assistance or technical service over the phone. The PC repair service is a high margin operation that does not include much human labor. With the addition of the drop off center, STC plans to pay $20 per month along with $20 per computer. With the help of C-store’s presence in multiple locations, the repair service has the potential to generate revenue at an exponential rate.

A major concern that STC may face is that it does not have a competitive edge service that will deter competitions from entering into this market. We are uncertain at the moment if there are any existing competitions that are tapping into smaller towns in other locations. Also, with the price, they may be at risk for a price war with others.

**The Computer Repairing Business**

**Industrial Overview**

The computer repair business has boomed over the last decade as consumers purchase computing equipment for personal and business purposes. Computer repair covers a wide variety of services from software installation to fixing keyboards or computing hardware. However, most of the users don’t have the skills, the time or the desire to do their own computer service, repair and upgrades. Therefore, the need for home computer repair professionals is growing at pretty much the same pace as the internet. According to a recent report, sales of computer services are expected to exceed $47 billion at the year 2006 in the U.S. alone, with PC repair leading the way.

Two main types of companies operated in the computer maintenance and repair industry: third-party maintenance (TPM) companies, which performed service contracts on equipment from various manufacturers; and original equipment manufacturers (OEM), which both manufactured and serviced computers and peripheral equipment. This distinction was less pronounced in reality, however, because OEMs often subcontracted their service agreements to either affiliated or unaffiliated TPM firms.
The computer maintenance and repair industry grew dramatically in the 1980s and 1990s as computer sales skyrocketed. From total shipments of less than 2,000 units and $600 million in 1960, the computer industry topped 900,000 units and $16 billion by 1980, and reached 7 million units and $44 billion by 1990. By 2003, this number was expected to double to more than 15 million units annually. This rapid growth, along with a shift from mainframes to PCs, introduced opportunities for small, independent TPM companies to compete against the large OEMs. Nonetheless, in the late 1990s, OEM companies were reported to hold as much as 80 percent of the maintenance and repair market in some categories, such as high-end system and mainframe services.

Leading OEM firms included many of the nation's best-known technology companies, such as IBM Corp., Sun Microsystems, HP, Electronic Data Systems, and AT&T Corp. While the majority of TPM firms were smaller local and regional providers, several service firms operated on the national level, including the Cerplex Group, ENTEX Information Services Inc., and Inacom Corp.

The U.S. Census Bureau estimated revenues specific to this industry at $15.4 billion by the late 1990s, up more than 50 percent from $7 billion in 1990. The total U.S. market for services performed by this industry was estimated at much more—$62 billion for 1998. Less than one-quarter of this market, however, was served by firms primarily engaged in computer maintenance and repair. Instead, the bulk of maintenance and repair revenues were generated by larger, diversified companies like IBM and AT&T that had a presence in many industries. The New York Times reported that the lucrative PC segment of the computer repair market was worth $28 billion alone in 1995, based on a Dataquest study, and was expected to grow at 14 percent annually in the late 1990s. Within the PC segment, the home PC repair market was considered an emerging—but largely untapped, according to Dataquest—customer base for this traditionally business-focused service industry.

As demand for computer maintenance and repair surged in the 1980s and 1990s, TPM companies developed new strategies to address the lower cost and increased reliability of computer hardware. First, TPM firms reduced repair time by replacing components instead of repairing them. Next, they developed remote diagnostic software to minimize the need for costly on-site service. Finally, they expanded their services to include installation and software maintenance, including virus protection, Internet connectivity, and site-authoring services by the late 1990s.

OEMs also changed their strategies as computers became increasingly similar. They began to differentiate their products by enhancing their maintenance services. Many even started supporting competitors' equipment. As the industry entered the late 1990s, several discount or "clone" manufacturers reduced their support and forced customers to handle their own maintenance. This provided a new opportunity for TPM firms, which offered disaster-recovery services and started supporting software and multimedia to satisfy more demanding customers. At the same time, corporate emphasis on outsourcing—
the practice of hiring external firms to perform specialized functions formerly done in-house—translated into new business for TPM providers. Cerplex, for example, actively branded itself as an outsourcing solution.

Employees in the computer service industry generally possessed a high school degree and technical training in computer science, electronics, and circuitry. Training programs were offered by computer manufacturers, TPM companies, and vocational/technical schools. Some study programs took 3-6 months, but formal programs required 1-2 years. Continuous education was required to keep up with fast-paced technology improvements.

**Difference between home and small business customer versus large corporation**

Many complaints such as “My computer’s so slow,” “it keeps locking up when I go online” and “these things keep popping up at me and I’m going to throw the stupid thing out the window soon!” are a few common complaints that home users and small businesses usually say.

However on the other hand, large office environments that have corporate firewalls and antivirus programs with network policies restrict users from being able to download and execute programs which increases protection against pop-ups, potential viruses and etc. Unfortunately, home users and small businesses however don’t have this protection.

**Service Trend**

In the early 90s, running a PC repair business usually centered around selling parts and products, with service on the side. Today, it’s about selling hours. The companies are making money by selling management services of computers, networks and servers. The company used to passively obtain a work when a virus needed cleaning up or parts broke. Now they are helping their customers prevent problems before they start by using management technology.”

**Potential Competition**

For the TPM companies, based on the business scale, it can be categorized into the following three types:

- National chain stores: Best Buy’s “Geek Squad” and Circuit City’s Firedog service, both of which make house calls to perform installations and upgrades and to troubleshoot.

- Regional small firms: Simplified Computers and PC On Call which provides mobile computer repair service. A list of local small computer repair firm was provided in the appendix.

- One person workshop: people with computer repair knowledge posts small ad on local community with relative low price and short working time.
Vision

STC (Small Town Computers) would like to expand its business to a wider market focusing on the niche market of small towns. STC’s long-term vision is to eventually provide its services to many towns out of Illinois and eventually selling this business for high profit. For its short-term goal, STC is hoping to successfully provide its services to these 50 selected C-store’s stores in the small towns while increasing revenue. Additionally, STC would like to move away from providing a wide variety of services to only providing remote PC repair. They want to slowly make these changes in their business successfully while not losing its majority of existing customers and losing profit.