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SSM: An integral part of a cost- reduction program

As Chief Financial Officer, it's my job to ensure that the company does more with less in order to deliver increasing value to our shareholders. It appears that "doing more with less" is a common refrain among companies across the globe in the current economic climate of increasing costs and slowing top-line growth. Many of these global companies – whether they are high-tech, aerospace and defense or motor vehicles – are struggling to deliver increasing value to shareholders as pressure on profits increases.

So what can companies do? It reminds me of a conversation I had with a buddy of mine the other day. He's in sales for a major high-tech company. His wife just had their third child and she chose to leave her legal career several years ago to be a stay-at-home mom. And now he's feeling the crunch: deal flow isn't as strong as it used to be and he's not making the commissions or bonuses he anticipated. He's struggling to support his household on what he's making. His wife is talking about going back to work. He's even considered taking a second job to boost the family's top line.

That's certainly one way to compensate. But he could also trim his household costs and relieve the pressure on his family's bottom line – its disposable income. As he and his wife began examining their family's spending habits, he realized that in more abundant times he and his family had developed less efficient habits and assumed more was necessary than was actually the case. He and his wife implemented a system of financial priorities consistent with their values and a more disciplined decision making process regarding what constituted necessary expenses and realized that he could actually increase his disposable income (bottom line) without increasing his income.

So it is with business. Shrinking profit margins means companies need to wring out bottom line cost-savings. And that's the value proposition of Strategic Service Management (SSM). Companies needn't sell more finished goods to increase margins. Instead, they can do just what my friend did – look internally, especially in service operations. By optimizing service parts inventory, proactively

managing prices based on anticipated market response, efficiently scheduling and routing service technicians and leveraging web-based knowledge (aka case-based reasoning) to circumvent unnecessary service calls, companies not only significantly reduce overhead costs, but they can also increase profit margins on service.

Recently I spoke to an executive at a leading transportation company who complained that due to rising fuel costs, he had to reduce overall spending by about 20 percent. How could he possibly invest in Strategic Service Management solutions if his edict is to cut spending and costs? With consistently short time-to-value experiences and proven return-on-investments, SSM should be an integral part of the cost-reduction program. Temporary cuts in discretionary spending and headcount reductions result in short-term cost savings that most often make a gradual return. Yet, permanent improvements in the way businesses deliver on-going services result in long-term cost savings that continue to deliver value long after the initial investment is made.

However, like most CFO's, the proof of the pudding is the eating. Sun Microsystems, a manufacturer of servers, storage devices, and microelectronics, realized \$47 million in its first year after implementing Servigistics Service Parts Management by reducing inventory and eliminating purchases. Avaya reduced inventory from \$250 million to \$160 million.

According to AMR Research, Service Parts Planning and Optimization can:

- Decrease spare parts inventory by up to 66%.
- Increase first-time fill rates by up to 26%.
- Drive service levels up to 98%.

And all of that is just the parts piece of the puzzle. When one of the world's largest multi-billion dollar manufacturer of agricultural and construction equipment implemented Service Part Pricing technology, it realized an increase of \$25M in annual profit.

On the service technician side, consider that the average service van or truck that gets about 10 mpg (miles per gallon). At \$4 per gallon, the truck averages \$.40 per mile. Toss in an additional \$.13 for miscellaneous costs (maintenance, depreciation, etc.) and now you're paying \$.53 per mile for every truck that rolls. If the average fleet vehicle travels about 39,000 miles per year and the average company rolls at least 250 vehicles, that'll cost a company more than \$5M per year. However, optimizing the scheduling and routing of technicians can save 28% of those costs, which means a yearly savings of almost \$1.5M. Imagine the significant savings opportunity for the entire service operation if it ran on a single data model that included the field technicians, parts prices, customer commitments and service knowledge.

After all, energy costs aren't going down orders for new goods are not going up any time soon. The silver lining is that customers still need service – and they're willing to pay for it. ♦