



Service Management Report

A QUARTERLY E-NEWSLETTER FOR THE SERVICE EXECUTIVE

VOLUME III

WINTER 2008

Feature Article

Bullish about Post-Sale Service

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Subprime mortgage market disasters. Volatile stock markets. Declining durable goods orders. Dwindling product-based margins. Wall Street analysts forecasting recession.

Sounds like a bear market – and that's no bull.

But it could be bullish for the post-sale service business. While durable goods orders decline and product-based margins diminish in maturing industries, service margins remain very healthy. In fact, service margins can be 30% to 200% greater than product margins, a fact that is now garnering the attention of operations executives across diverse industries.

Difficult economic times create a hidden opportunity for durable goods manufacturers to up-sell Service Level Agreements and other peripherals while improving profit margins and customer loyalty. While consumers may not be purchasing a new automobile or washing machine, they will pay to have their existing ones serviced – but they don't want to waste time waiting for the repair person. Businesses won't purchase new servers or the latest phone systems, but they, too, will pay for immediate repair as businesses can not afford to lose time waiting on a field technician.

In a bearish market, the service delivered after the initial sale of a product is what truly differentiates competitors from one another. After-sale service is very difficult to replicate. When consumers or businesses focus more on maintaining what they have vs. purchasing a new product, it can have a substantial impact on a company's revenue, profitability, and customer loyalty levels.

In fact, a recent article in Harvard Business Review, entitled "Beating the Market with Customer Satisfaction," featured a study conducted by University of Michigan's National Quality Research Center that substantiated the connection between customer satisfaction and Wall Street success. According to the research, "the companies with high customer satisfaction scores have blown the S&P out of the water." Not only "have they produced higher stock returns, but their stock values and cash flows have been less volatile."

Steve Simpson, Senior Director of Supply Chain Management, Sun Microsystems, has witnessed the power of service as a differentiator. "In the high-tech industry, which Sun plays in, there's a commoditization of the hardware," Simpson said. "As products become commoditized, where do you compete? It's in services. Customers look to services to help them make their purchase decisions." In fact, Simpson also confirmed the Harvard Business Journal research that links customer satisfaction to revenue. "The belief is that well-served customers become repeat customers," Simpson said. "Repeat customers create a continuous revenue stream for your company."

But it's not limited to hi-tech nor is it limited to the US. Customer expectations extend across industries and country borders. For example, France-based Eurocopter also recognizes the significance of providing outstanding customer service. "As Eurocopter advances its service network, the ability to meet our critical service level agreements on time is imperative to our reputation as well as our bottom line," said Jean Pierre Dedieu, Support and Services, Eurocopter.



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So why haven't all companies tapped this opportunity, especially when service margins are 30-200 percent greater than product margins? This is partly due to the fact that most service businesses are, for the most part, very inefficient - especially when compared with manufacturing operations. The reason being: Service operations are tremendously underinvested in technology. On average, manufacturers channel less than 10 percent of overall annual IT spending to the service side of the business .

"We've had this fixation on the idea of the perfect order, getting the right product to the right place and the right quantity at the right time," said Bruce Richardson, Chief Research Officer, AMR Research. "What we've missed, on the other hand, is the idea of the perfect response. If a customer has a problem, a part's not working and they need a replacement, we haven't really, to date, been focused on how do I get the right person with the right part at exactly the right time to solve that customers needs."

While a recent AberdeenGroup study reports that leading companies across durable goods industries achieve 25 percent or more of their total revenues from their aftermarket service business, most companies are still lacking integrated service systems. To gain that competitive advantage and boost market share, the industry leaders are beginning to take a more strategic approach to managing their service business by implementing fully integrated service solutions that align all aspects of their service business in order to streamline operations, enhance revenue and profitability and improve service levels- all at the same time.

"Strategic service management is a concept where you bring all of the pieces that delight customers, making sure their after-sales support experience is the best it can be," said Simpson. "It's bringing people, parts, systems, technology, knowledge management together so that you can capture that customer and make them a repeat customer."

Strategic Service Management (SSM) represents a shift in how manufacturers approach service. SSM is not all about software or enabling technology. It is more about aligning service business processes onto a single, integrated view of the post-sale service operation, one that takes into consideration the planning and forecasting of service resources and the strategy and management of customer commitments, service partners, service pricing, and knowledge. It is this holistic view that delivers the dramatic performance improvements.

In fact, Doug Derrick, Partner, Post-Sale Service, Accenture, stresses how pivotal SSM can be to corporate performance: "Strategic Service Management is the business strategy and philosophy that leading companies practice and followers fail to understand."

However, providing post- sale service is becoming more complicated than ever. OEMs are, by default, responsible for supporting all products currently being manufactured. They are also charged with servicing all the obsolete products still in operation. This creates a service management challenge that is much more complex than any supply chain planning problem faced by the manufacturing side of the business.

For example, service organizations are expected to manage and track hundreds, if not thousands, of stocking locations. They have to work diligently to synchronize the service workforce, not only from a capacity standpoint but also from a technician skills standpoint, based on the nature of each service call and changes in the installed base. There is also the complex issue of synchronizing technicians with parts availability. To ensure customer commitments are kept, both technician and parts



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planning and provisioning need to be tracked in real time, with the ultimate goal of solving the problem within the timeframe committed to the customer.

To add to the complexity, the number of third party service providers used in service operations for most companies is growing, and every partner can either negatively or positively impact the end-customer experience. As such, in addition to managing upstream suppliers and in some cases downstream dealers and distributors, managing partners who provide technicians, maintenance and repair, or logistics services only adds to the challenge. Visibility into partner operations is often critical to successful service delivery, yet few companies have the visibility they need to maintain control.

As a result of these inherent complexities, service operations present a fundamentally different set of operating challenges from those that exist on the production side of the business. These challenges require a different paradigm; they demand an integrated, closed-loop approach that can provide a single view of all business processes involved in delivering, funding, and meeting service level commitments.

Just as any successful organization is governed by separate but aligned processes that work together to achieve that company's specific business goals, the Strategic Service Management approach applies that same concept to a company's service organization and focuses on aligning and improving the core business processes that create a best-in-class service organization within that company. Those processes are Service Resource Planning, Service Commitment Management, Service Partner Management, Service Price Management, and Service Knowledge Management.

According to AberdeenGroup's report, "The Convergence of People and Parts in the Service Chain," companies that align service labor and inventory processes are nearly three times more likely to have first call service order resolution rates greater than 85 percent and asset uptimes of greater than 95 percent. While point solutions can add value to a company's service operations, the strategic service management approach enables companies to maximize bottom-line results because the solutions are designed for a company's service business and not its general ledger, supply chain or point service problem.

"Service is extremely strategic to Juniper [Networks]," said Steve Blaz, VP, Global Service Operations, Juniper Networks. "It is about 20 percent of our total revenues on a yearly basis, and so it is strategic from a monetary standpoint. It is also extremely strategic for our customers because we're all about customer service. We're all about ensuring that the networks are running."

The results strategic service management can bring speak for themselves.

Global communication systems leader, Avaya, designs, builds, deploys, and manages networks for enterprises at more than 90% of the Fortune 500 companies. As a 100-year old company that has grown through numerous acquisitions, at a time, Avaya's service organizations were operating as separate business units and their customer service levels were at their lowest. In order to improve service levels and remain competitive, Avaya needed to gain control over its inventory and improve service part availability.

Avaya made the decision to implement a strategic service management solution and achieved significant results in record time. In less than one year, Avaya improved first-time fill rates by more than 35% and cut its service parts inventory from \$250 million to \$160 million. Most importantly, Avaya turned its customer satisfaction around in less than six months.



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Avaya is just one example of a leading company that has transformed its service operations with a SSM solution and recognized measurable business value in the form of dramatically improved revenue, profitability, and customer loyalty.

When Sun Microsystems exponential growth caused the company to over-stock service parts across four separate geographies in order to achieve their Service Level Agreements (SLAs) commitments, Sun's executives recognized the need to improve their operational efficiency globally, while reducing inventory and maintaining high service levels. To achieve this, Sun made the decision to implement a strategic service management solution that would enable the company to meet its SLAs, align its global service organization, reduce inventory and ensure profitable service contracts. In just 25 weeks, Sun was able to streamline its global service parts network and in less than one year, Sun saved \$45 million.

Therefore, in the face of a bear market, leading companies across diverse industries and borders are using post-sales service as a new path to profitability. An optimized service business ensures that your competition cannot replicate outstanding service. Once that service is delivered without exception, your customer will repeat his or her business, leading to more revenue and more customers. And that's no bull.