



# Service Management Report

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## Q&A with AMR Research

Bruce Richardson, Chief Research Officer



### Q: Have you seen a shift in service in the past five years?

**Bruce Richardson:** One of the questions we always get asked is why is strategic service management such an important part of investment decisions that many, many manufacturers are starting to make and I think there's a couple of different reasons for it. One reason is if you look at what's happening in manufacturing, 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.

What we've missed, on the other hand, is the idea of the perfect response. If a customer has a problem, a parts 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 customer's needs. So, the perfect order really has to – actually has to respond to the idea of the perfect response.

You know, if we're really concerned about customer intimacy or customer centricity, it's all about solving or meeting the customer's needs when they most need it and that's usually around the service parts. The second part of that is I think if you're not – so, if you have the perfect order on one end, the flip side of that is the concept of the perfect response.

A customer has an issue, a parts not working, how I get not only the right part, but the right person to do that repair, to swap that out. So, it's the right part plus the right person at exactly the time the customer needs it. So, what we are seeing now is the companies are focusing on the perfect response as sort of the next logical step in maintaining customer intimacy, customer loyalty, customer centricity.

The second thing that companies are finding is once they focus on strategic service management they realize how profitable the service parts business is. We're finding when we interview customers, our clients, that between 40 and 80 percent of profits are generated by the service parts base. It may only represent 24 percent of revenue, but again, it's 40 to 80 percent of profit.

So, you're not only doing it because it's the right thing, but it's the profitable right thing.

### Q: Do you think service is one of the key differentiators companies need to use in the increasingly global marketplace?

**Bruce Richardson:** Having been a marketing person in a past life, I'm very focused on the total product. And nowadays, the total product is not just the physical part, it could be the software, but increasingly it's more around the service. It's building the whole customer perception of what it is that you're actually delivering as part of the product.

And service makes up a more and more important piece. Here, let's face it, I come up with a good idea for a product; there's no reason why a competitor can't source that same product in China or India within 30 days or 90 days. So, how do I keep my competitive edge? It's through the service that I'm providing.



## Q&A with AMR Research (continued)

**Q: So, do you think we need to break down the service silo's or how do you think companies should run operations moving forward?**

**Bruce Richardson:** When you look at service, there's a number of different elements that are critically important. One is the planning to figure out how much I'm going to need in inventory in the event that something goes wrong or there's a product failure. Second, and a part that has been overlooked to date, has been the labor part. It doesn't do me any good to ship a spare part if I don't have a technician available to install it.

Third, and an increasingly important focus is on service parts pricing. Yeah, in the old days we'd use a multiple of the cost plus model. Now we realize through software that by pricing it right, you can get a five to 15 percent revenue boost.

The next part is probably extending that overall model onto the warranty side and doing a better job of capturing all of the cost and opportunity around the whole product. So, I think in the future, you'll see warranty management being an important part of the overall solution.

**Q: Do you think companies and boardrooms are now investing more in technology than any one past, especially around service?**

**Bruce Richardson:** When you look at investments in technology, we're pretty much back at the prove it or show me stage. So, I think what's happening is people are very interested in finding solutions, but they're a lot more cautious than they were ten years ago. So, we're starting with what's the ROI, how long is this going to take me, how much is this going to cost, what kind of people are going to need to be involved on my end, am I going to have to hire a bus load of consultants?

So, the whole focus really is on ROI. With that said, when you look at areas that can add to the bottom line, particularly as it relates the whole service parts business in taking what may have been a cost center and turned it into an important source of revenues and profits, I think that's grabbing a lot of people's attention. For example, one of the things that we've done is track the growth within this strategic service market from 2005 to 2006.

The market grew 30 percent. This year it's going to grow 44 percent. And if you look at what Servigistics has done, they've been growing almost twice as fast as the overall market. This is clearly an area that's getting on the radar at the C-level and at the board level.

**Q: Do you think that there's going to be consolidation in this market place? What impact do you think that's going to have on the end users?**

**Bruce Richardson:** One of the things we always look at is what's happening in terms of consolidation within the software space. I mean, you look at what Oracle, Microsoft, IBM have done, as an analyst, your biggest fear is that you wake up at the end of the year and you have four customers, SAP, Oracle, IBM, and Microsoft. Then you say, "Geez, what happened to all the innovation that we had out there?"



## Q&A with AMR Research (continued)

I think while consolidation is going to continue, I still see a lot of strong growth within the best of breed market. We're operating in a real time world, we need a real time response to real issues.

**Q: When you look at investments in strategic service management, where do you think that companies should begin?**

**Bruce Richardson:** When you're looking at strategic service management for the first time, the logical starting question is, where do I start? Do I start on the labor side? Do I start on the parts side? There's a lot that we can do and I think it's the logical thing to say, "Well, where's the pain point?"

I mean, if you look at the really successful companies that have adopted solutions in this space, they've managed to cut the parts cost usually by 10 to 15 percent. They've done a much better job on labor utilization and that's kind of all over the board in terms of what the savings can be. I think an important metric is first time to fix, so a customer has a problem, you go on site to solve it, what percent of the time can you solve it that very first time because the customer doesn't want you to come back with another box two weeks later. They want it solved then and there.

And we're seeing first time to fixed rates growth of 95 percent for people that have invested in this solution. It's all part of making the customer happy and a customer you have is a lot easier to retain than to go out and get first time customers.