

## Customer Support Becomes Strategic

By: Mike Landry, Founder and CTO, Servigistics and Sara Wessman, Executive Director, Interlog Winter

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As global competition and customer demands intensify, the service delivered after the initial sale of a product is now what truly differentiates competitors from one another in today's increasingly service-driven marketplace. While products and features can be duplicated, aftermarket support is very difficult to replicate and 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 says. "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 says. "Repeat customers create a continuous revenue stream for your company."

DHL and Capgemini, recently published research that also unveils today's challenges and major trends for OEMs, and compares the major trends of engineering and manufacturing companies vs. those of the high tech industry, the perceived spearhead of aftermarket strategies. These findings *also* revealed that service logistics is fast becoming an area where businesses are differentiating themselves from their competitors and are being forced to alter their business model accordingly.

While high tech companies are more focusing on efficient returns management today, after optimizing the supply stream over the last years, E&M companies are still challenged to meet increasing service level expectations of their customers. In addition, global reach and consistency are a core focus in this industry, more than in high tech.

So why haven't all companies tapped this opportunity, especially when service margins are 30 to 200 percent greater than product margins? This is partly due to the fact that the service centers 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, according to a report by the Aberdeen Group entitled, "Service as a Profit Center: The CFO's View."

"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," says 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 Aberdeen Group study reports that leading companies across durable goods industries achieve 25 percent or more of their total revenues from their aftermarket support 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 support business by implementing 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. An important component of launching service as a strategy is through exchanging ideas at forums like Interlog Winter.

Eleven years ago, senior aftermarket product support executives came together for the first time at an Industry conference called Interlog Winter, to set into place their organizational initiatives on moving past “Aftermarket as an Afterthought” to develop the perfect response that Richardson describes. Over 70 research interviews with these senior service parts logistics and product support executives in aerospace, automotive and the heavy manufacturing industries contribute to the in-depth and forward looking content of the program. The conference producers largely focus on the OEMs struggles, where they intend to spend their resources in the next six months, what new initiatives they are implementing to increase productivity, and who these executives want to network with and learn from to most efficiently solve their common challenges.

But all agree that service has become much more strategic. “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,” says 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 fundamental shift in how manufacturers approach service. SSM is not about software or enabling technology. It is 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.

However, providing post-sale product support 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. Providing service not only for the OEMs’ own range of products but also for a competitor’s product is another paradigm shift in the industrial service market as identified in the DHL/Capgemini report. The study shows that companies are changing their shape to accommodate the highly competitive environment in which they work.

Those companies looking to increase their aftermarket competitiveness with more than just great service are implementing new initiatives such as customer incentive plans, quarterly rebates, new parts marketing initiatives, and creating a separate parts and service marketing department to increase aftermarket business and profit.

At the end of the day, all these additional concerns create 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 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 partners 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.

Peter Manni, Vice President of North American Client Support Services, Siemens IT Solutions and Services, agrees that the aftermarket logistics picture has really changed, due to competitive and economic conditions and that partners will play a larger part. “The industry has evolved from an ‘Own-It-All Model’ to a partner support model,” he says. “Today service organizations look to partners as an extension of the end-to-end process flow.”

Manni describes some of the new partnerships that are changing aftermarket product support. “Suppliers now own and hold critical inventory,” he states as one of the key changes happening in the industry. In addition, “support organizations no longer need planners and CRM packages to ensure that the proper inventory levels are maintained. This is now the responsibility of the parts suppliers,” he says. Another trend Manni sees is expanded outsourcing to specialists in storage and warehousing as well as courier transportation.

In the end with more customers to support, strategic parts planning and service equals greater customer satisfaction and profitability. According to Aberdeen Group’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.

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 fast-paced, commoditized, frenetic 21<sup>st</sup> century marketplace, companies have another way to step ahead of the competition. Conferences like Interlog Winter provide a forum for cutting edge companies to share best practices and benchmark against their peers on where they need to be investing in technology and on providing higher customer satisfaction. While new “bells and whistles” are significant, the pace of technology ensures that your competition will have the same bells and whistles in no time. What can’t be replicated, however, is the satisfaction of the customer who needs product support and needs it now. Once that service is delivered without exception, that customer will repeat his or her business, leading to more revenue and more customers.



### **About The Authors**

Mike Landry: As Founder and Chief Technology Officer for Servigistics, Mike is responsible for product strategy and business development. Mike has 20 years of experience delivering software and consulting solutions for service, most recently with Vantive. Since starting Servigistics in 1999, he has led the creation, development and implementation of the Servigistics solution for a roster of blue chip clients.

Sara Wessman is the Executive Director of Interlog Winter, a conference designed for executives to share best practices to achieve optimum aftermarket product support and service parts logistics. To identify the top issues and current trends for the event, she conducted over 70 interviews with senior-level executives of mostly heavy manufacturing OEMs. For more information on the Interlog Winter conference, please refer to the official [Interlog Winter](#) site.

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