

Frequently Asked Questions – Service Parts Management

Q: What is Service Parts Management?

A: Service Parts Management is a critical component of Strategic Service Management. It is best defined as ensuring the *right part* is available at the *right place*, at the *right time*, which is critical to the delivery of world-class service and maximizing revenue, profits and customer loyalty. Service Parts Management is the linchpin of any effective service operation. It is the process of planning, forecasting and aligning service parts inventories, resources and processes to ensure optimal customer service levels with minimal risk and cost.

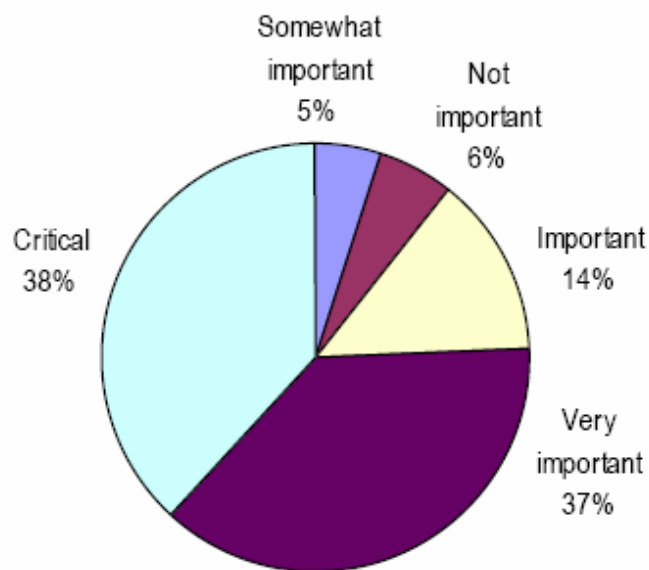
Q: Do most companies consider service parts to be critical to service business success?

A: As global competition intensifies, the service delivered after the initial sale of a product is becoming increasingly strategic to revenue, profitability and customer loyalty. This is driving companies around the world to investigate how they manage service resources including service parts, workforce technicians and fleets. As a result, the efficient and effective management of service parts is now recognized as being critical to service business performance and is therefore rapidly becoming an executive level topic.

The Aberdeen-IndustryWeek Service Parts Management Benchmark Study revealed that 89% of respondents consider effective and efficient SPM to be critical, very important or important to the success of their business.

Figure 1: Service Parts Management Is Critical to Most

How important is the efficient and effective management of service parts to the overall success of your company?



Source: Aberdeen Group, September 2003

Q: How do most companies manage service parts?

A: Although most companies consider Service Parts Management to be critical to business success, most manage service parts with a costly, "just order more parts" strategy, stocking excess parts in multiple locations to meet the growing demands of service agreements.

"Enterprises are struggling with excess inventories, sub-optimal performance levels, diminishing customer satisfaction, and missed opportunities for cross-selling and up-selling aftermarket services and parts. Such factors leave Aberdeen to conservatively estimate that **industry is missing out on billions of dollars in potential, savings, sales, and profits each year through inefficient management of service parts inventories and operations.**"
AberdeenGroup

These practices are extremely inefficient when applied to global, multi-million-dollar inventories. Yet most leading companies continue to manage significant investments in global service parts inventories with spreadsheets, disparate systems, and inconsistent manual processes, often leading to:

- Sub-optimal service levels
- Excess inventory and costs
- Sub-optimal service parts pricing
- Inefficient use of capital
- Missed revenue and profit opportunities
- Low customer satisfaction and loyalty

Q: Are leading companies implementing SPM solutions?

A: Yes, while many companies continue to under-invest in after-sale service applications, an increasing number of leading companies like Avaya, Dell, Eurocopter, EMC, General Electric, Honeywell, IKON Office Solutions, LG, InFocus, Motorola, Maytag, Subaru, Sun Microsystems, Toshiba, Volvo and others have strategically invested in Servigistics solutions to dramatically improve profitability and drive a competitive advantage.

These and other leading companies understand the strategic value of superior after-sale service, and are investing in the capabilities needed to effectively and efficiently manage the service resources needed to profitably deliver on the service commitments they've made to their customers.

"By investing in improving Service Parts Management operations while others are ignoring it, enterprises can drive customer loyalty, profitability, and competitive advantage."
Aberdeen Group

Q: How is the value associated with efficient and effective Service Parts Management measured?

A: With post-sale service and parts generating profit margins that are as much as 10 times that of original product sales, it's not surprising that the value delivered through superior Service Parts Management is significant. By focusing on what most companies

are ignoring, an increasing number of leading companies are delivering value to their top and bottom lines while significantly improving customer loyalty. With the help of Servigistics, these leaders have achieved significant results including:

- Improved gross profit 5-20%
- Increased service and parts revenue 5-15%
- Improved parts availability 10-20%
- Reduced parts inventory 20-60%
- Increased productivity 50-100%

Q: How can world-class Service Parts Management be used to increase revenue?

A: Improving service parts can dramatically increase revenue through:

- **Improved Asset Utilization** – Assets in motion generate revenue for customers and enable manufacturers to avoid downtime penalties.
- **Increased Part Availability** – Improved part availability and fill rates means increased part or service sales in competitive situations.
- **Improve Customer Loyalty** – Recent studies show that superior service generates even more customer loyalty than superior products. Customer loyalty is essential to retain and grow the customer base.
- **Identify High Margin Opportunities** - With complete visibility into the capacity, economics, and capability of service parts operations, sales and service marketing can easily identify and capitalize on high-margin business opportunities.

“We don’t have a single dealer on our advanced inventory management program using Servigistics that has a decrease in sales. Every one of them is realizing a substantial increase in sales this calendar year.” **Brian Klugh, Vice President Fixed Operations, Subaru of New England**

Q: How can Service Parts Management be used to reduce service business costs?

A: Costs can be reduced through:

- **Reduced Planning Costs** – By automating the service parts planning process, service planners can proactively plan rather than reactively expedite parts.
- **Reduced Expediting Cost** – By optimizing field stock, there is less need to rush parts to customer sites, thereby reducing expediting costs.
- **Minimized Technician Visits** – With the right part in hand, technicians can fix the problem on the first call and eliminate the costs of broken tickets and repeat calls.
- **Reduced Inventory** - The right stocking plan can reduce inventory levels by as much as 60%, resulting in less procurement expense, lower repair costs, reduced inventory carrying costs and improved cash flow.
- **Reduced Obsolescence** – Efficient management of the entire product life cycle reduces inventory obsolescence and write-offs.
- **Part Repair Avoidance** – With complete visibility of the service parts network, the correct field stock plan can be maintained which includes parts available from the repair loop which typically leads to a reduction in part repair.

“During the first three months following our implementation we recognized \$3 million through part repair avoidance.” **Jeff Gartner, Avaya**

“The Servigistics’ solution has enabled CNT to quickly improve the management of our service parts inventory while reducing inefficiencies and cost; and this has had huge impact on our business. Servigistics is to planners what spreadsheets are to accountants.” *Mary Young, McDATA*

Q: How are Service Parts Management systems different from Enterprise Resource Planning (ERP) systems?

A: There are a number of fundamental differences between Service Parts Management applications and ERP, but the most noticeable difference is that ERP is centered around a company’s general ledger while Service Parts Management solutions are centered around customer service commitments.

Service Parts Management solutions provide decision support for all decision makers involved in the management of the service parts operation. It leverages existing investments in execution or transaction systems like Customer Relationship Management (CRM), Supply Chain Management (SCM) and ERP. Service Parts Management systems provide actual and historical information on parts, locations, products, demand, customers and stock levels. In turn, Service Parts Management delivers results, such as forecasts, stock plans, stock movements and procurement and repair order recommendations.

Service Parts Management is most often confused with SCM, but SCM and Service Parts Management are very different solutions designed to solve very different business problems. SCM was designed to plan and forecast material for the manufacturing side of the business, whereas Service Parts Management is specifically designed to meet the unique challenges of the service side of the business.

Although the functionality of Service Parts Management and SCM seems similar – i.e., both forecast, order, stock, move and fulfill – the challenges and objectives of SPM are very different. For example:

- Demand for manufacturing parts is highly predictable, whereas demand for service parts is intermittent, unpredictable, variable and often low in volume. Accurately forecasting service parts requires the use of optimization science, advanced forecasting algorithms and leading indicators.
- Material sources in service are very different from those in manufacturing. Manufacturing material sources are limited to new parts, whereas service material sources include new procurement of parts, repaired/refurbished parts, cannibalized parts, and returns, all acting in concert with various lead times and wash rates
- The location hierarchy for service parts often includes many different locations, including central locations, country hubs, regional depots, branch offices, parts kiosks and technician trunks, each with different stocking strategies and requirements.
- Part attributes such as part cost, type, product line, demand volume and criticality typically require different stocking strategies and requirements in the service business.
- Complex relationships and part interchangeability require sophisticated algorithms that ensure accurate forecasting, stocking ordering and fulfillment results in order to minimize out-of-pocket expense and working capital investment.
- Repairable parts are often shipped back to central locations for eventual repair and restocking for reuse. Also known as reverse logistics, repairable parts make a significant difference in stocking and replenishment decisions.

- Multi-tiered Service Level Agreements incorporate response time targets which drive decisions related to service network design and stocking strategy.

Q: How is the Servigistics Service Parts Management solution different from other parts planning solutions?

A: Most service parts planning vendors claim the standard selling points: increased service levels, reduced inventory costs, maximized efficiencies, etc. Servigistics delivers far beyond these standard benefits – just ask our extensive list of industry-leading clients. These organizations wanted a holistic solution that would deliver maximum value across their service chains; they wanted a Strategic Service Management solution that would support future efforts to drive higher levels of performance and introduce new, game-changing service business models to include workforce management and service pricing.

A significant number of Servigistics clients are former customers of competitors. They made the tough strategic decision to scrap multi-million dollar and multi-year investments in other solutions to implement Servigistics in order to achieve significant and measurable top and bottom line results. They have compelling visions for the future that require the capabilities that only Servigistics delivers.

The Servigistics solution is the Strategic Service Management solution that delivers value across the entire extended service chain, including Service Parts Management, Service Workforce Management and Service Pricing Management. Servigistics provides substantially more value through effective Service Parts Management than any other company. The future competitiveness of your service business and the level of profitability, cash flow, and customer satisfaction needed to drive shareholder value require the deployment of a Strategic Service Management solution.

Q: Which industries are served by the Servigistics Service Parts Management solution?

A: It's a fact, service is becoming strategic! It doesn't matter what industry you're in – the service delivered after the initial sale of a product is becoming increasingly strategic to revenue, profitability, competitive differentiation and customer loyalty.

That's why leading companies from industries as diverse as high-technology, motor vehicles, aerospace, industrial equipment, medical equipment, office equipment and telecommunication have partnered with Servigistics to transform their service businesses. Servigistics Strategic Service Management (SSM) solutions are designed to meet the unique needs of diverse industries and are comprised of software, services and domain expertise that assist companies in efficiently delivering on their service commitments, while establishing new sources of competitive differentiation and accelerating their journey toward bottom-line success.

Our 100% referenceable Service Parts Management clients include such global leaders as:

Agfa, Avaya, CNT, Dell, Diebold, Electolux, EMC, Eurocopter, Hitachi Data Systems, General Electric, Hamilton Sundstrand, Home Depot, Honeywell, IKON Office Solutions, InFocus, Juniper Networks, LG, Maytag, Motorola, MTD Products, Rolls-Royce, StorageTek, Subaru, Sun Microsystems, Synstar, Toshiba Tech Corporation, Toshiba Medical Systems, United States Postal Service, Volvo and others.

Q: Does the Servigistics Solution integrate with CRM, ERP and legacy systems?

A: Yes. The Servigistics Service Parts Management solution is successfully integrated to a variety of systems, including Oracle, SAP, Clarify, Siebel, JD Edwards, PeopleSoft, MAPICS, Great Plains and others. The Servigistics solution is SAP Netweaver certified and uses powerful integration technology to seamlessly integrate with virtually any back-end transaction system.

Most of our clients have integrated Servigistics to a number of transaction systems around the world to enable global visibility and consistent decision-making across numerous geographies, organizations, and systems, and leverage the investments they have made in disparate execution systems.

“Siebel and Servigistics interacting together is totally transparent.” **Mary Young,
Director, McDATA**

Q: How quickly is the Servigistics solution implemented?

A: Servigistics delivers the industry’s fastest time-to-value with average implementations completed in 15 to 22 weeks. Servigistics combines extensive domain knowledge with powerful integration technology, a proven implementation methodology and flexible configuration to quickly deliver high ROI and very rapid payback in hard dollar savings.

“As well as being delivered ahead of schedule, the Servigistics solution was delivered under budget.” **Brian Turnbull, Vice President Technology Service
Business, Toshiba Medical**

Q: Is the Servigistics Solution a repeatable solution or a custom application?

A: The Servigistics solution is a repeatable solution that has been tested and proven by market-leading, global companies. Unlike some service parts solutions, Servigistics was designed from the ground-up as Web-native, commercial software, which is highly configurable using a metadata-based framework. Through our common code base, and Web-native architecture that only requires the user to have a Web browser for access, Servigistics provides the ability to preserve integrity of data mapping as clients migrate to newer versions with enhanced functionality. With substantial, ongoing investment and emphasis on R&D, Servigistics boasts an unparalleled track record of innovation that delivers more and more value over time to every client.

Servigistics offers the most comprehensive service parts management solution available today, with solutions developed around a proven, highly scalable and flexible Web-native architecture that provides global multi-language and multi-currency capabilities.

Q: Has the Servigistics solution been implemented globally?

A: Yes, for nearly all of our clients. To date, the Servigistics solution has been implemented on virtually every continent. Our solution was specifically designed to enable leading companies to reap the benefits of global implementation with users accessing a single system via a Web browser from anywhere in the world. Security permissions enable companies to assign unique profiles, which control access and

capabilities of users. Additionally, users can select the language and currency of their choice.

Q: Can the Servigistics solution manage parts across central and field locations?

A: Yes. The Servigistics solution is specifically designed for implementation across the entire hierarchy of service parts locations, from central locations all the way to the smallest field stock locations such as technician trunks and parts kiosks. The Servigistics solution manages all parts across all locations in a single system, rather than the multiple system configurations offered by most service parts planning vendors. The result is that Servigistics delivers global parts visibility and maximum value with the lowest total cost-of-ownership, all through a single instance application and common database that allows for holistic analysis, strategy development and implementation.