



## Commentary

### Servigistics' Alchemy: Turning Post-Sales Service Into Profits

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We were in Washington D.C. this week to attend Servigistics' EXCHANGE user conference. Compared to the oversized gatherings hosted by SAP and Oracle, this was a more intimate networking event populated by more than 100 evangelists for the nascent "strategic service management" (SSM) market.

Mike Landry started the company in 1999 with the goal of providing decision support software to help customers manage service parts. His second customer was the legendary Ernie Boch, New England's super car salesman. Mr. Boch bought the software for improving his share of the Subaru aftermarket parts business. Through acquisitions, Servigistics has added software for workforce management and service parts pricing.

Matching labor and parts is a natural pairing; why send a service rep if the part is not there?

Pricing is a very clever offering. In the past, many companies charged for parts on a cost-plus basis or a multiple of the part's cost. Servigistics said that its pricing software can help customers increase revenue from service and parts by 5% to 15%. It achieves these results by monitoring competitive data, customer reaction to price changes, and part availability data.

The company also recently built a new command center application, which Dell currently has implemented. In my one-on-one meetings with customers, nearly all had made the pilgrimage to Texas to see Dell's Enterprise Command Center. Imagine a large map of the United States with lights indicating the status of people and parts. Overlaid on the map can be data on local/regional weather and traffic. As soon as a service request comes in, Dell begins the dispatch process. Every dispatch consists of a series of time stamps that track the technician and parts. If one misses a "gate," a "red alert" is sent to the ECC to save the customer call. Recently, bad weather in Houston grounded a DHL flight. Dell was able to alert the affected customers and service partners that shipment was going to be delayed. The next step will be to adopt the FedEx approach and let customers track their own status.



## Commentary (continued)

Dell's ECC is a great marketing tool, too. A tour is included as part of every customer briefing. All of the Servigistics customers I talked to developed a bad case of "ECC envy" after touring the facility.

What's next... warranty management and/or simulation?

If customers have their way, the next additions to SSM will be warranty management software for helping determine customer entitlement at the time of the service request and additional, what-if simulation capabilities. Every customer also wants faster and cheaper integration with its ERP vendor(s). More than 60% use either SAP or Oracle.

The company has a very impressive customer base. Its 100 customers are brand names drawn primarily from high tech, automotive, aerospace, medical equipment, consumer products, third-party logistics firms, and other discrete manufacturers. With the current interest in direct store delivery (DSD), there may be a play in consumer packaged goods (CPG), though it's hard to think of snack foods as service parts. The command center, though, would be very cool for virtually every industry.

Servigistics is one of the fastest-growing companies that we cover. In a briefing before the conference, the company said revenue had grown more than 65% year over year. Deal sizes have quadrupled. A deal in excess of \$1M is now the norm.

While competitors will likely e-mail me to question the revenue or the deal size (this is a bitterly contested market), it would be hard for them to doubt the customer satisfaction. Every customer described them as a partner, not a vendor. The challenge will be to retain that sense of partnership while managing high growth. Opportunity: replacing millions of Excel spreadsheets. If you add the revenue from all of the SSM/service parts planning vendors, it would come in somewhere between \$100M and \$200M. The potential market is enormous.

Ask a company what it was using before Servigistics, and there is a 90% chance that it will answer "spreadsheets." Our research shows that post-sale service represents 24% of revenue. More importantly, it contributes 40% to 80% of profit.

Packaged software can cut your cost-to-serve by 10% to 15% by cutting parts inventory and logistics costs, increase first time fix to 95%, and lower inventory by 10%. For the first time, you can optimize all of your service assets, people, parts, and fleets, while sharply improving customer loyalty and employee morale. Don't take my word for it—ask a customer.

In the meantime, I welcome your comments and ideas— [brichardson@amrresearch.com](mailto:brichardson@amrresearch.com).

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