



*Service now! Time to wake
up the sleeping giant*

How service can boost long-term growth
with attractive returns in industrial goods businesses

IMPRINT

Editor

Bain & Company
Germany/Switzerland, Inc.
Karlsplatz 1, Munich, Germany
Rotbuchstr. 46, 8037 Zurich, Switzerland

Contact

Pierre Deraëd
Marketing Director
Tel. +49 89 5123 1330

Katharina Weindl
Marketing & Communications
Tel. +49 89 5123 1243

Design

ad Borsche GmbH, München

Print

Kastner, Wolnzach



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Executive Summary

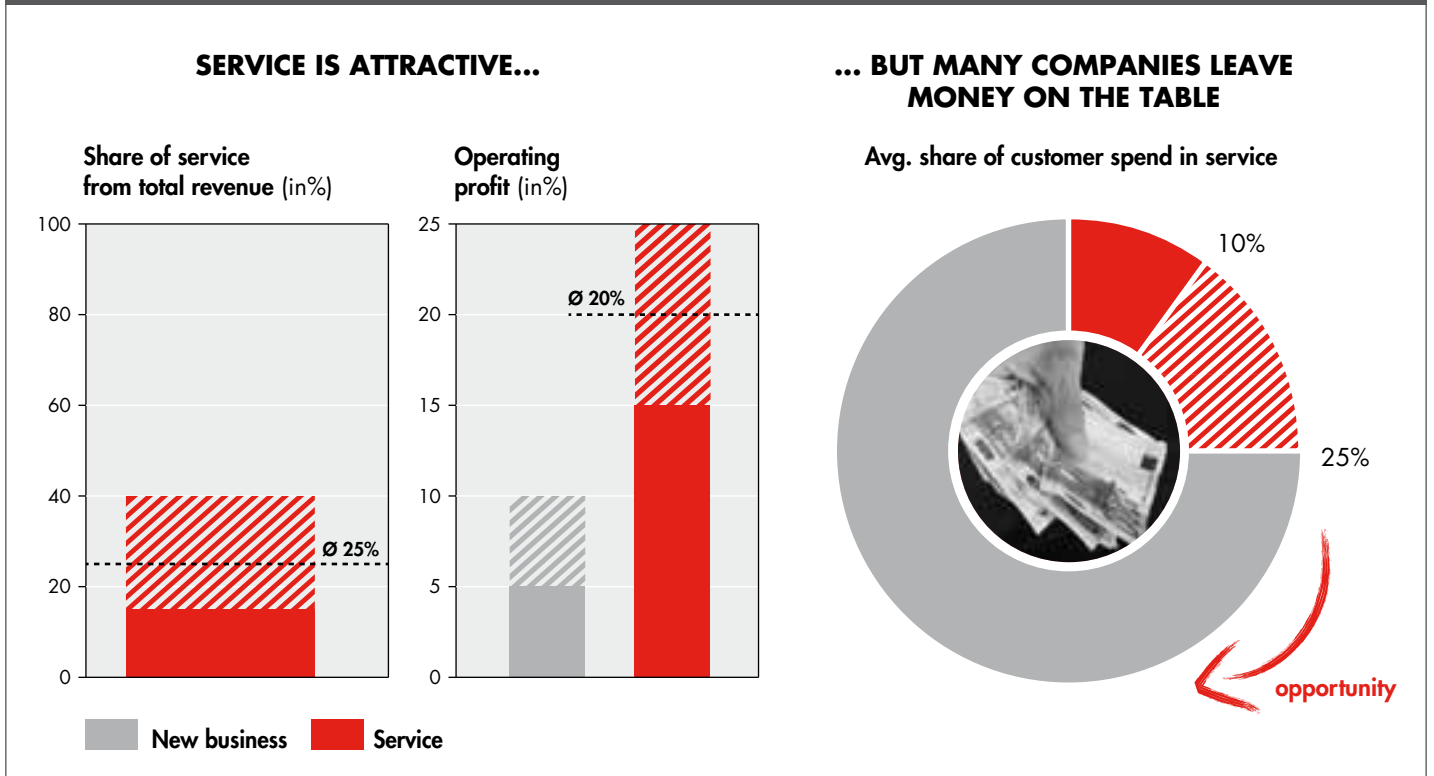


Be ambitious!

Services generate about 20% of revenues for many European industrial goods manufacturers, but they account for half of the sector's profits and are growing steadily at 5% annually. In spite of this impressive performance, services remain an under-exploited opportunity for most original equipment manufacturers (OEMs). Their service initiatives are typically halfhearted. When considering the full-service potential of their installed base, companies typically reach only 10% to 25% of potential revenue – and often companies don't even know where they stand with their service potential. OEMs' engineering roots have led them to focus their attention and investments on technical innovation and new product sales. Careers are made in the products division, while services are seen as a backwater. As a result, service improvements have been difficult to develop and implement.

That's beginning to change, however, in the wake of the financial crisis, as the industry confronts slower growth. Executive boards are taking a more ambitious approach, aiming to multiply their service business instead of settling for incremental growth. At the heart of this change is a shift in thinking about the value of service for an industrial goods manufacturer. Executives now see that an efficient service line can not only raise their company's profitability and increase its resilience to economic cycles, but it can also become the main avenue for significant future growth, strengthening the new equipment business and producing a "service champion" that generates value year after year. What's more, companies can expand their service business in careful investment steps and with less risk than manufacturers accept in their traditional equipment business.

Figure 1: Service the untapped potential for growth and operating profit



Source: Bain benchmark study industrial goods companies, excluding top and bottom quintile

This study introduces Bain’s Service Excellence Framework, a program to help manufacturers design and build more efficient and profitable service businesses. In it we describe how to manage the transition from a traditional OEM selling product innovation to a customer-focused service provider. A transformation of this scope requires a sustained change management program that focuses on cultural and behavioral attitudes, as well as necessary improvements in strategy and operations. It’s a challenging endeavor, but the potential rewards can be great. Depending on the industry, an effective service line can generate 20% to 35% of revenues. In some areas where equipment and its operational wear and tear are particularly critical and where the OEM’s competence far exceeds the customer’s capabilities, service revenues can make up more than 50% of revenues (see Figure 1). Generating the lion’s share of profits through service is a realistic ambition for most industrial goods manufacturers.

With these opportunities at hand, many leading companies are no longer content with 5% annual growth in service revenues. Equipped with a robust framework, ambitious executives can set more ambitious goals for growing their service revenues to as much as three times the existing service revenues and more in some cases.

1. The service opportunity

Historically the industrial goods industry has focused its attention and investments on product improvements and high-volume deals. Service, with its smaller deals and requirements to continuously tend to the customer, has remained a passive offering for most manufacturers, responding only to customer demand. Service initiatives often spring up during

economic downturns, only to fade away as soon as the next up cycle delivers new equipment sales. Now, however, the picture is changing: Growth in many developed industrial goods markets has slowed with no signs of a quick recovery, and service offers the prospect of achieving sustainable competitive advantage while contributing to the bottom line.

Introduction: Service is already on the strategic agenda

The elevator industry offers an impressive example of service champions delivering better performance than their peers that focus only on new product sales, even in times of an economic downturn. The four leaders in Europe's elevator industry – Otis, Schindler, Kone and ThyssenKrupp – managed to increase their earnings before interest and taxes (EBIT) by an average of 56% during 2008 and 2009, whereas industrial goods manufacturers collectively saw earnings decline by 37% over the same period.

The financials stick

What's more, service investments continue to pay off over the long term. Over the business cycles, the average industrial goods firm reaches EBIT margins between 5% and 10% in its core business with technical products. By contrast, the service business, which on average accounts for 25% of revenues in industrial goods companies, sees EBIT margins around 20%. Top performers reach service revenues of as much as 60% and service EBIT margins well above 25%.

Industry executives understand...

Of course, these examples and figures are not new to decision makers in the industry. Bain research finds that 80% of industrial goods manufacturers recognize service as an area of growing importance. And 85% of industrial goods companies see long-term growth potential in the service business and believe there is still significant scope for performance improvements in their organization. Most CEOs of those companies now view growth and optimization of their service businesses as one of their most important strategic tasks.

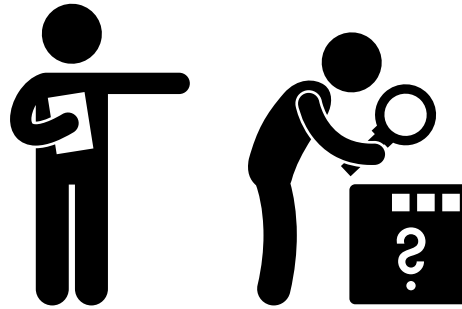
...but implementation still lags

However, Bain's experiences with industrial goods manufacturers suggest they have yet to act (see Figure 2). Sales of spare parts still account for more than half of service revenues, suggesting that many customers turn to manufacturers only when they have no alternative. Few manufacturers exploit the full potential of services, such as inspection, maintenance and repair, for their own installed base. Within manufacturing companies, the service unit is often neglected, with poorly developed processes, haphazard performance indicators and a reactive salesforce waiting for customers to call. With few ambitious development programs in the works, investments in services are hesitant and likely to dry up as soon as the next equipment boom begins to fill the order books.

Bain's framework for developing service strategies not only focuses on a company's own products, but also takes a comprehensive view of the company's full capabilities, as well as its customers' requirements. Only by taking all of these factors into account can a manufacturer turn its service arm into its greatest business asset.

Figure 2: There must be more, at better margin**MISSED SALES OPPORTUNITIES**

- **Installed base** not fully known
- **Third-party service** dynamics not tracked
- **Service products** not developed
- Large unexploited potential in “traditional” **product life-cycle service**
- **New services** not developed systematically from customer needs

TYPICAL OPERATIONAL CHALLENGES

- Reactive **sales** approach
- No systematic **pricing**
- **Service processes** far less developed than in new business
- **Supply chain** subordinated to new business
- **People** development is low priority
- Only basic **KPIs** available

Source: Bain & Company

Overview: Central questions on strategy and implementation

Successful growth initiatives need a systematic and comprehensive service strategy and a transformation program that can bring the strategy to life. Bain’s Service Excellence Framework offers a comprehensive approach to the development of service strategy (see Figure 3). Three central questions target eleven different fields of strategy, action and organization to be addressed by service. A fourth question centers on how to transform the company into a service champion.

Where to play

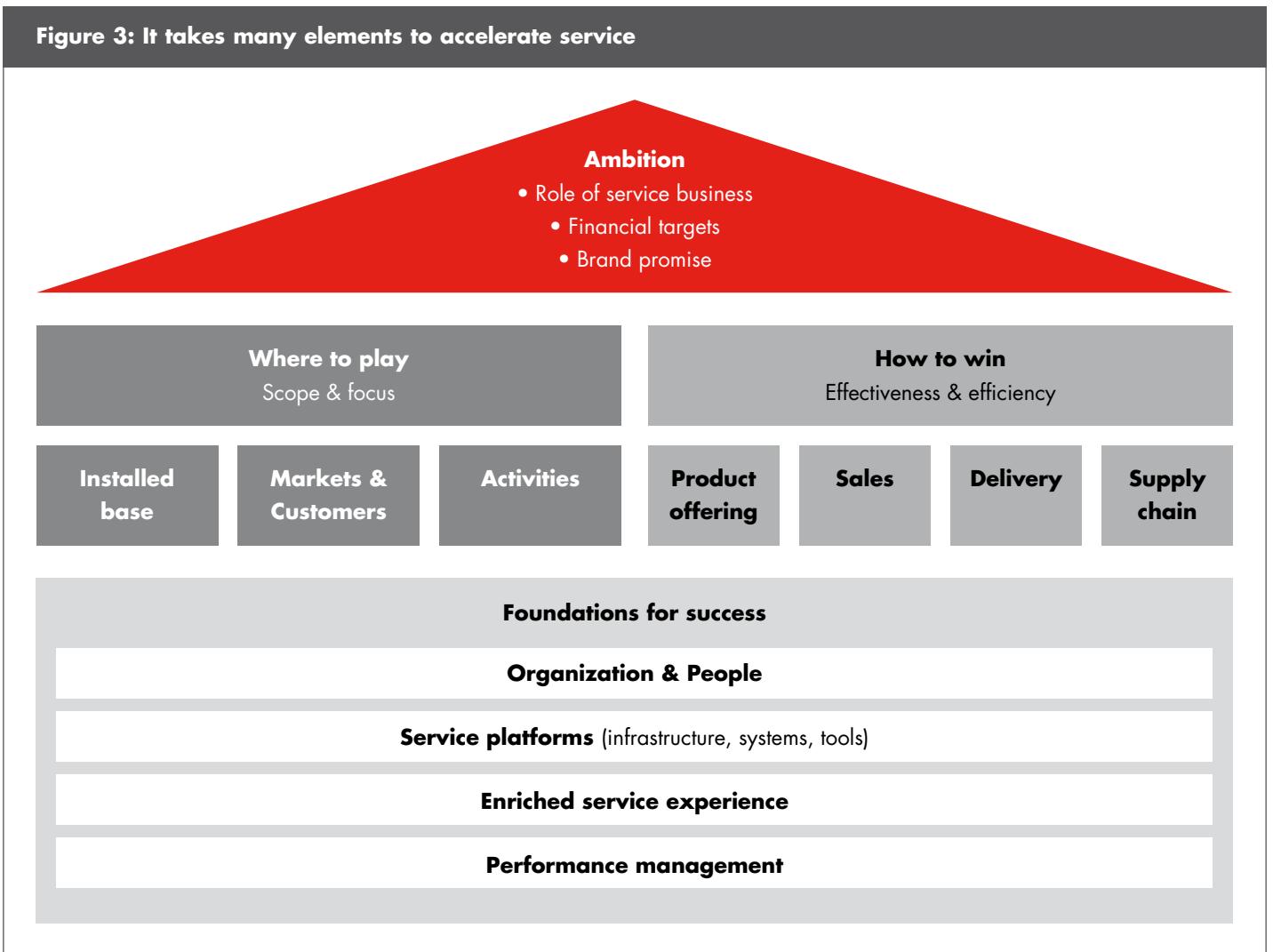
Success requires analysis and focus. Winners begin by taking an inventory of their installed base and its service status, including the competitive situation. They then define the most interesting customer segments and prioritize industries as well as regions.

This involves looking beyond their own equipment and taking a broader perspective of customer processes and their needs for performance, reliability, safety and environmental concerns. They align their service activities with their capabilities and locations.

How to win

A good service strategy needs a clear value proposition across customer segments. Service bundles need to be defined on the basis of standardized service elements that are easy to describe, perform and price on the value they create for the customer. Enhanced sales processes and tools will empower the sales teams to sell priority services to priority customers. On the execution side, standardized processes plus load balancing the service network ensure first-class delivery.

Figure 3: It takes many elements to accelerate service



Source: Bain & Company

Capabilities needed to succeed

Service leaders clearly define the respective roles of the equipment and the service organizations. In almost all cases, companies need to build up their service capabilities, including service sales, field technicians and support. They introduce relevant key performance indicators and link them to incentives. Global or regional functions support the service operations and help them provide excellent customer service that differentiates the company in the marketplace.

How to make it happen

Most companies have seen service initiatives start and fail. They massively underestimate the effort needed to turn a product-focused company into a service-minded one. A continuous, often multiyear change program that will overcome organizational inertia and instill true service thinking into the company is needed. Top management must be fully committed to mobilizing people throughout the organization and empowering local teams. The service business needs the same management attention, investment priority and career path significance as the new equipment business. Significant investments in people and capabilities are required to achieve a mind-set shift in the organization toward service.

2. Setting the right ambitious objectives

Leading organizations set ambitious service objectives from the top. Bain's experience shows that setting an overarching vision and targets is crucial to overcoming the limits of incremental growth in service. It sends a strong signal through the organization that we can only achieve this if we start to do things differently. Without such a signal the planned service initiative will almost inevitably fall short of achieving the ambitious goals in service revenues. However, overly ambitious targets can lead to failure and frustration (see Figure 4).

What service champions do

- **Appoint a dedicated executive committee member responsible for service**
- **Set ambitious yet realistic targets to accelerate the service business**
- **Secure long-term management attention to service issues**

Spotlight: How to develop balanced service objectives

There is no “right” service message – and no right level of service – for all manufacturers. The right program depends on the particular segment within the industry and on the point of departure for the company. However, all service plans should include three aspirations.

The service aspiration defines the role that service will play, a vision of what service can achieve for the company as a whole. For example, a company might aim to make service the largest source of revenue, pricing new equipment sales at a level that builds up the installed base. Or service may be just a way to keep customers satisfied, thereby boosting equipment sales. Service could be a diversification move to soften future economic cycles, a tool to stay close to customers while increasing the life-cycle value of the products. Depending on the vision, the service business could act as an independent provider, or service could remain closely attached to the new equipment business in an integrated business model.

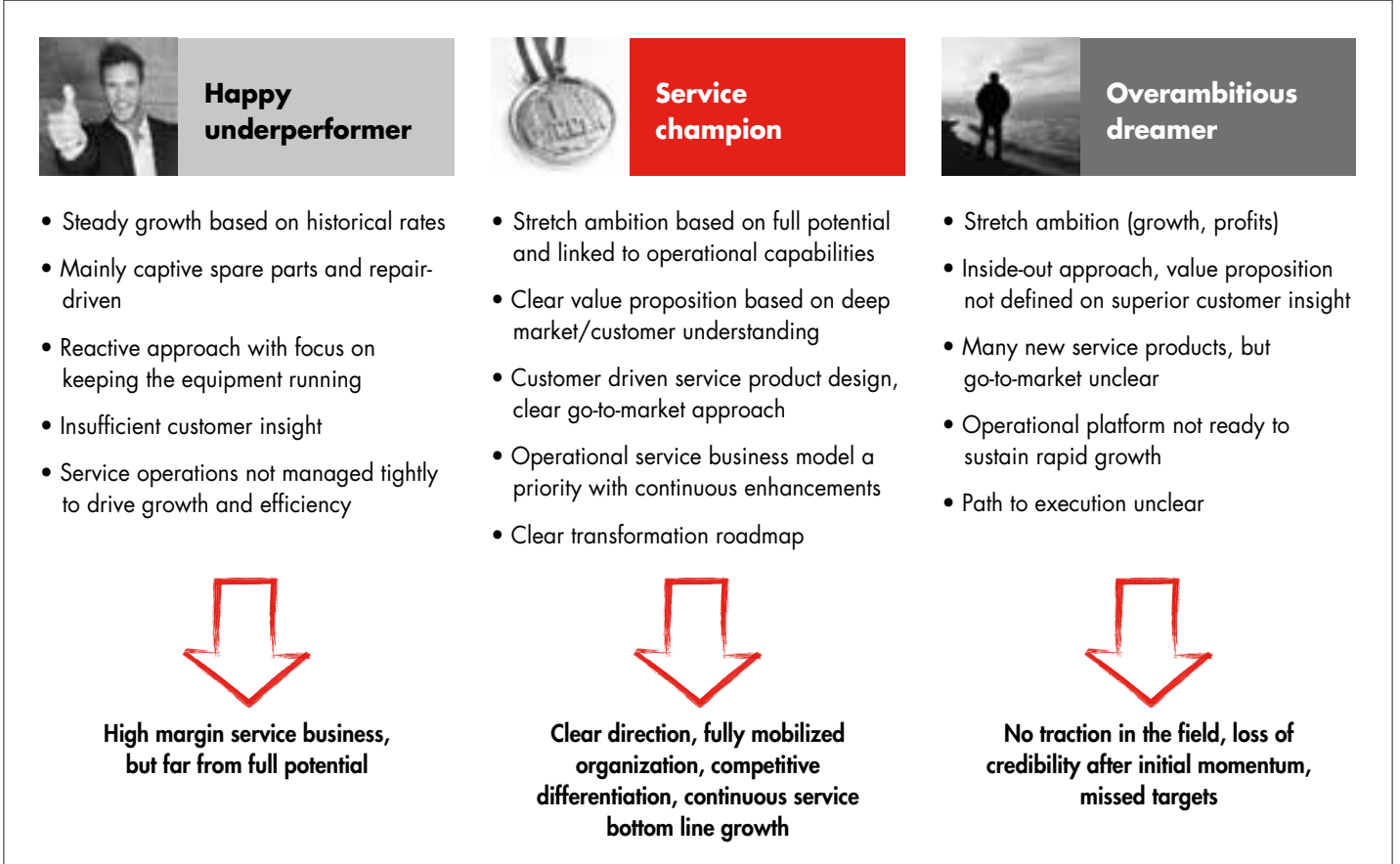
The financial aspiration refers to targets for revenue, profitability and levels of risk and return, based on an evaluation of the potential in service offerings. Managers can base their aspirations on historical performance, competitors' achievements or optimized sales and operations ratios. They should consider industry characteristics such as the criticality of equipment, operational wear and tear, service competence of original equipment manufacturers (OEMs) compared with customers and special

legal requirements like regular emissions or safety checks. Bain's method assesses the full potential of the service business. This method starts with an inventory of the number of serviceable pieces of equipment, then works out potential revenues for installation and training, maintenance and repairs, spare parts, consulting, upgrades and retrofits, based on operational expenses of customers. It then adjusts the figures according to the expected price sensitivity of customers, their attitude towards service and customers' competence compared with the manufacturer. When considered along with the broader competitive landscape, this delivers realistic targets.

The brand aspiration relates to the role of the “new” company and its promises. Some companies may prefer the role of a traditional supplier that keeps the equipment running, with an expanded range of superior service offerings on demand. Others may go further, portraying themselves as a risk-sharing partner, pricing services based on performance or savings achieved. The brand aspiration closely corresponds to the service aspiration. If, for example, service is to soften the impact of economic cycles, the OEM will want to go for long-term service contracts or place resident engineers on-site – moves that ensure ongoing revenue.

Once these three fundamentals are clear, companies can decide how best to achieve growth. Will growth come through servicing additional equipment, offering new service products, opening new service

Figure 4: Ambition: how high is high?



Source: Bain & Company

centers covering previously underserved areas or by acquiring new service companies? Will all of the services be offered under the company's name, or

should some of the service initiatives feature competitive offerings from a service subsidiary operating under a separate brand name?

Example: From delivering spare parts to becoming a service partner

A metal-forming company had built a large equipment base but had not emphasized its service business, which consisted mainly of spare parts sales. Customers said they valued the company's products, but also perceived it as slow, reactive and neglectful of their after-sales needs. As a result, competitors were capturing 80% of the service business on their equipment. The CEO decided to make service a cornerstone of the company's business, setting a goal of doubling its after-sales business and becoming the leader in servicing its own products by getting closer

to customers and guaranteeing maximum equipment productivity. To meet these objectives the company covered geographic white spots, broadened the service product portfolio, proactively approached customers and put in place a new management team – all closely monitored by the CEO. Steadily, the company became a service champion growing sales volumes year after year and improving customer loyalty. Along the way it also identified a series of quick wins that helped it fund the necessary investments.

3. Strategy development: Where to play

Developing a service strategy starts with a clear understanding of the current state of the manufacturer's service business and then making choices about its future and its impact on the rest of the company. Leaders begin by gaining a clear picture of the existing installed base and competitive situation and then clarifying the full-service potential. The ambitions for new services should reflect future customer development, define clear customer value and allow for regional differences. Manufacturers can expand their service ranges along three vectors: products that can be serviced, customers who are in easy reach and existing capabilities that can be tapped.

What service champions do

- Identify service share distribution with international customers, country by country, and align service market share with new product shares
- Offer a free diagnosis to "lost" customers to re-engage the relationship
- Develop complete ready-to-replace modules or kits for competitor equipment, and address customers with a mixed installed base of competing equipment

Spotlight: Assessing and exploiting installed base service potential

The most important source for OEM service contracts is their own equipment already installed with customers. However, Bain experience has shown that few industrial goods manufacturers know the location and characteristics of every piece of their equipment. In fact, most companies only know where about half of their equipment is. A deep understanding of the installed base is fundamental for the development of a winning operational plan. An OEM must know the full potential and how it breaks down by equipment type, customer segment, geography and competitive situation.

Create an installed base inventory

The first step in expanding product-related services is to develop a complete picture of the equipment to be serviced. Identifying the relevant equipment types, numbers and technologies in use at customer sites is a time-consuming task, but the effort pays off. In Bain's experience, increasing identification of installed equipment to 80% to 90% can help double service possibilities.

Assess service potential per unit

The second step is to compute the potential service revenues that can be made from the identified installed base. A full-potential assessment multiplies the installed base with the maximum number of services possible for each equipment type and compares this with the total of actual service market sizes in each region. Analyses of customer buying behavior, regional differences, offerings of existing service providers and regional differences in prices and customer uptake give a picture of how much additional service business the OEM can gain. Usually such an assessment will uncover significant service growth potential.

Initiate service improvements

Once companies have assessed the potential, they can set to work selling service by finding regional gaps, increasing the coverage of the field workforce, acquiring service companies, identifying industry segments with low service penetration rates, raising salesforce effectiveness, and offering pricing incentives and maintenance contracts. Current customers are good prospects for upgrades and replacement offers. OEMs can bundle service contracts with new equipment sales or at other key moments, including installation, the end or extension of a warranty or after repairs.

Example: Exploiting full-lifetime value

When assessing the full-service potential of its installed base, a packaging machine manufacturer discovered through technician and customer interviews and data analysis that the lifetime value of some of its machines was as much as three times that of their initial selling price. By changing the perspective from what the company offered to what its customers needed, many new offerings came in sight, such as tooling, consumables, retrofit and upgrades to increase the lifetime, performance and functionality of its equipment. The manufacturer raised service revenue targets significantly, and now service revenues exceed new equipment sales in its more complex machine lines.

Background: The service ladder

Service landscapes – by industry and by region – mature over time, creating the opportunity for manufacturers to offer higher levels of service, due to rising complexity and their customers’ increasing focus on core capabilities.

Step 1

Passively responding to customers’ requests

Traditional service for industrial goods focuses on fixing problems – start-up, repairs, training staff. Manufacturers offer field service, expert counsel and spare parts delivery, but generally only in response to customers’ requests. This service model prevails, for example, in the markets for standard machines in many of the developing Asian markets.

Step 2

Actively offering continuous service contracts and upgrades

The next rung on the service ladder turns “service on request” into continuous and active “service on schedule.” Regular inspections or service agreements provide a continuous stream of service revenues while reassuring customers of the equipments’ soundness. Equipment upgrades and performance improvements enhance customer productivity. This service level is common for machine tools or for rail vehicles, where the manufacturer typically undertakes regular inspections.

Step 3

Helping customers improve

Predictive maintenance, service bundles and maintenance on other manufacturers’ equipment can help customers simplify their business and increase the efficiency of operations. For example, equipment manufacturers in the paper industry offer preventive maintenance and line optimization services independent of the original supplier of the machinery. In the metallurgy equipment industry, online maintenance and process engineering support are standard offerings by OEMs.



Step 4

Taking risks and worries off the customers' shoulders

At the highest level, manufacturers relieve customers of many operational tasks and risks by taking over the management of operations or facilities. Some customers may outsource the management of entire plants, including equipment from other manufacturers. For example, some compressor manufacturers build and operate complete compressor stations and charge their customers based on up-time. Engineering, procurement and construction (EPC) companies may take over the planning, building and management of bulk chemicals production plants for their customers.

In some cases, manufacturers will encounter barriers that prevent them from moving up the service ladder:

Unique and protected technologies

Proprietary technology may render third-party service impossible, thus restricting service competition. This is common in medical engineering, where some manufacturers only certify themselves to service the equipment and critical spare parts cannot be obtained from other sources.

Unfavorable cost-value ratio

In some cases, the potential for service revenue isn't great enough to warrant a more sophisticated offering. Industrial lighting systems, for example, are inexpensive, with few parts susceptible to wear and tear and fewer still for continuous maintenance.

Independent service networks

Industries with robust service networks already in place make it difficult for manufacturers to redesign the structure of service offers. Makers of agricultural equipment, for example, tend to rely heavily on extensive and diverse sales and service networks.

Customers defining service as own core

Some customers prefer to keep specific services within their own sphere of influence. Most banks, for instance, prefer to service their own data centers, considering them too sensitive to be serviced by third-party companies. In other cases, a company's philosophy may limit service opportunities: Chemical company BASF defines plant management and on-site equipment optimization as one of its core competencies, limiting the opportunities for external service providers.

Spotlight: Defining the right service product offering

The diversity of the industrial goods industry means that service portfolios must be tailored for different industries and customer segments. The right portfolio for a machine tool manufacturer may not suit an electric motor manufacturer. Many OEMs produce a wide range of equipment or sell to different industry segments, each of which requires variations in their service portfolios. Finally, individual strategies may require service products with a clear differentiation from competing OEMs or pure service providers within the same segment.

Assess the state and development of service in your sector

It pays to examine closely the service levels in the sector, including the degree of competitiveness, the practices of competing service firms, customer trends and the direction that services are likely to take over the next few years. With so many OEMs currently engaging in service initiatives, it is particularly important to establish whether the market you operate in will enter a new development phase soon (see "The service ladder"), particularly with regard to servicing other manufacturers' equipment.

Create clear value propositions

Analyze each customer segment in your sector for required scope, quality and pricing. Each service value proposition includes four dimensions:

- Types of equipment serviced, from single machine service to full-process facility management
- Range of services offered, from simple product-based to more complex services, partly unrelated to the initial product sale
- Service level, defined by reaction time and service quality
- Pricing, from effort-based to value-based

Adjust to regional differences

Service initiatives often extend to several countries, each with a different service culture. In the US customers are accustomed to service offers and are able to appreciate and compare the full set of benefits offered by service providers. Customers in developing

countries like Brazil tend to be very cost conscious, and in China the market is just beginning to open (see “Service in China?”). Manufacturers should adapt their offers to meet various local needs.

Example: Different value propositions

A leading global producer of industrial pumps maximizes its service portfolio close to its product with a suite of life-cycle services (“Total Pump Management”) and complementary services ranging from technical consulting on pumping tasks to pump-rental services. At the other extreme, a German car manufacturer capitalizes on its expertise by extending its offers to include a series of engineering and process services. Its subsidiary develops car concepts and improves systems such as motor sounds and suspension systems for other automakers, as well as optimizes production lines in several industries.

Background: Three vectors for service growth

From basic spare parts and simple repair services for their own equipment to complex management and financing solutions for whole plants, industrial goods manufacturers can develop their service portfolios along three principal growth vectors (see Figure 5):

1. Growing services along the product’s life-cycle

The most promising avenue of growth for most manufacturers is to focus their services on products they supply in two ways:

- **Increase count.** The easiest way to boost service sales is to service more equipment, either by servicing more customers or working on similar equipment from other manufacturers.
- **Increase intensity.** OEMs can also sell more services throughout the product’s life-cycle, including product bundling, maintenance contracts, retrofit packages or online assessment services.

Boosting service along this vector begins by mapping the services that customers buy today or might buy in the future. Competitive analysis shows where other companies are headed, including independent service providers. Every trigger event, such as a warranty expiry, service calls or part replacements, is an opportunity to sell warranty extension, maintenance and repair bundles, upgrades or retrofit solutions.

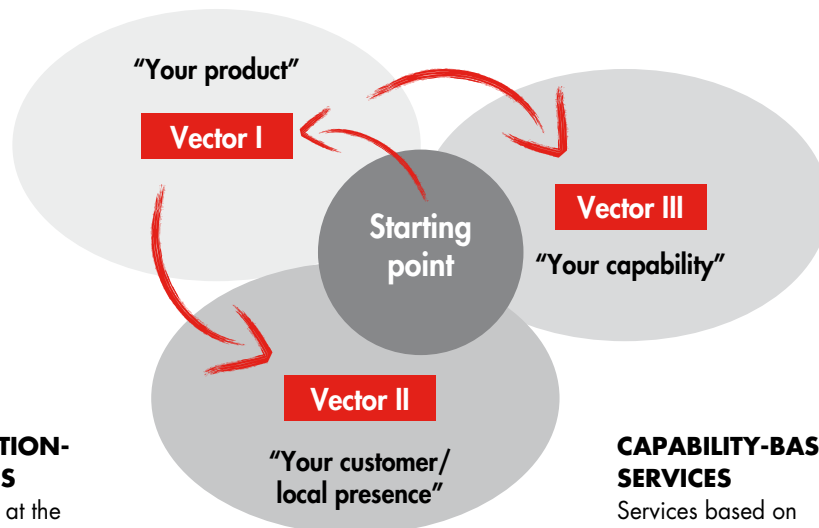
2. Sector or location growth

Concentrating services in certain industry clusters – or physically where customers are located – can reduce travel, sales and delivery costs and help manufacturers scale investments in industry expertise. There are two general dimensions for those services:

- **Location-based services** build on the unique knowledge and relationships a service provider gains over years of servicing equipment at a given site. OEMs often place resident engineers at the customer’s site, working with and for the plant’s

Figure 5: Product life-cycle services and beyond**PRODUCT LIFE-CYCLE SERVICES**

Services directly linked to the product/equipment
 Services on own and 3rd party installed base

**SECTOR-/LOCATION-BASED SERVICES**

Additional services at the customer site, often multiplied within sectors

CAPABILITY-BASED SERVICES

Services based on unique capabilities and parenting advantages

Source: Bain & Company

Example: Expanded services pay off

A leading manufacturer of processing, packaging and filling machines has continuously expanded its offers along the entire life-cycle of its machines and lines. It now offers technical and productivity support, training seminars for staff and management, retrofitting and upgrades, analytic tools and services, and services to help customers sell or relocate equipment. It also offers contracts for inspection, support and maintenance throughout the product life-cycle. As a result the company was able to protect its equipment from attacks by other service providers and also to increase its revenues from existing customers. By understanding the kind of services its customers needed at different stages of the equipment's life-cycle, as well developing products tailored to customers and selling services that delivered solid value, this company increased its service market share by more than 10%.

service teams. The firsthand knowledge of installed competitor equipment and planned upgrades, as well as the familiarity with employees at the site, can offer a competitive advantage for selling more and better services. An OEM for power equipment used information from its resident engineers at oil platforms to help expand its contract from servicing its own motors and switchgears to servicing all motors and switchgears installed at the oil platform. It then went on to expand the scope of its service to managing the service teams.

- **Sector-based services** capitalize on a provider's experience with a set of critical customer processes. Success depends on attaining a level of expertise unmatched by either the equipment operator or rival service providers. A large automation OEM, for example, working at many mining sites around the world gained enough unique expertise in operations at different types of sites that it was able to become an advisor on mine and plant opera-

tions globally. As a result the company expanded its portfolio from servicing specific equipment to optimizing processes and performance in specific areas of a mining operation.

Services in this growth dimension typically help customers in these areas:

- **Increased return on assets.** Some services, such as preventative maintenance contracts or waste-elimination schemes, offer measurable efficiency gains, improved utilization or higher reliability.
- **Risk reduction.** This largely untapped niche aims to mitigate customer risk in industrial safety, environmental damage, regulatory compliance, data security or even political risk. Auditing supervision and best practice and benchmarking are among the services that can be offered.
- **Knowledge acquisition.** Many industrial goods producers possess production and process know-how that they can share with their customers, for example, in paid training and qualification seminars or in facility optimization services.
- **Complexity reduction.** Services like facility management, financial services or production process consulting relieve customers from managing non-core tasks, allowing them to focus on core competencies.

Example: Risk and complexity reduction

A coating systems specialist built a successful service business by operating complete coating centers to which customers can outsource their coating needs instead of buying coating lines. Where customers need to integrate coating into their operations, the company provides inhouse coating centers. This way, customers can reduce capital expenditure and complexity, while they are in a position to change rapidly to other coating technologies.

3. Capabilities-based growth

Manufacturers can take advantage of their relative capabilities and expertise to provide consulting, business process support or other advanced services to customers. These are typical capability areas that have proven to be particularly promising for establishing services:

- **Energy efficiency.** Industrial goods manufacturers often have a deep understanding of the sources of energy consumption and loss. This expertise can be “productized” in service offerings such as energy consumption assessments, energy flow mapping and energy enhancement projects.
- **Health and safety.** Proactively managing health and safety incidents has become a critical challenge for all plant and equipment operators. Safety risk audits, emissions and radiation monitoring services and safety enhancement programs have become a rapidly growing opportunity for service providers.
- **Environment.** Anticipating the environmental impact of plant operations on the environment is crucial and, if poorly managed, can dilute profits. Typical offerings in this area include wastewater and emissions disposal, hazardous gas processing, and support for administrative processes and authorization.
- **Operational risk management.** Protecting assets against physical attacks and natural disasters and securing data against cyberattacks on networks are just two examples of emerging needs.

Example: Making the most of technical and process know-how

A manufacturer of food processing equipment has a traditional strength in oilseed processing and handling. Its Engineering Center concentrates the company's experience, gained from working with customers engaged in multiple oilseed processing applications all over the world. It possesses technological capabilities that customers cannot afford on their own and offers unique customer services to help customers optimize their processes and products, including benchmarking, simulating stocking, weighing,

pelletizing and other processes. The Engineering Center not only generates healthy service revenues, but also strengthens the company's customer relationships and provides inputs into its product development. While the first growth vector (growing services along the product's life-cycle) offers the easiest path to service growth, the other service types help develop longer-lasting customer relationships and greater differentiation in the market. Thus companies should investigate all three growth vectors.

Spotlight: Service in China?

China has traditionally been a difficult market for industrial goods services. Customers in China often expect to receive free services from their equipment manufacturers, considering these as a ticket to qualify for the next round of purchases. There is little demand for high-end consulting and life-cycle services, and most maintenance and repair jobs are performed by the customers' large in-house maintenance and repair centers.

However, as China's manufacturing sector matures and labor costs rapidly increase, the landscape is changing. Customers are beginning to appreciate the importance of service, recognizing the benefits of a well-maintained plant. But a clear market strategy and a local Chinese service business model are essential. In our work we have identified a set of common themes to be addressed by global OEMs:

Clear segmentation

Identify and target the market clusters with service potential. Typical criteria include:

- Complex versus simple equipment
- Importance of safety, precision, etc., versus importance of cost
- Regulated versus unregulated environment
- State-owned enterprise versus private entrepreneur
- Western-style versus Chinese-style counterpart

Localized business model

OEMs must be open to redesigning products and services to local Chinese business practices. For example, they may need to allow more service tasks to be executed by the customer's technical staff or build complexity into parts to prevent local copying. Another issue is the price pressure on OEM spare parts. Many companies have started to develop special Chinese spare parts that meet local requirements not only in price, but also in specifications.

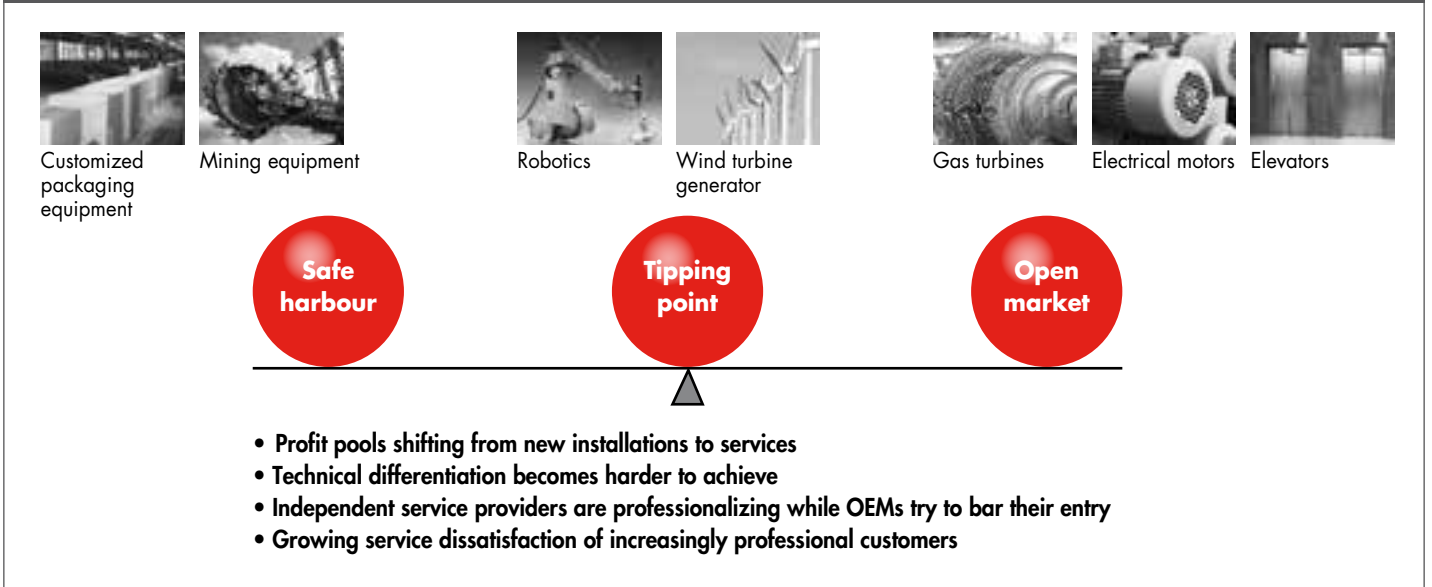
Good market coverage

Low demand for services has led OEMs to limit the number of service centers in China. But with emergency repairs being the most important single service, response time is critical. Therefore, OEMs should improve their basic service capacities in China with small local service bases centered on customer clusters in China's heavily industrialized areas.

Parts availability

Many Chinese customers complain about unacceptable delivery times of spare parts. OEMs should address this by adapting their warehousing and delivery structures to suit their customers' needs.

Figure 6: Third-party service: Choice or necessity?



Source: Bain & Company

Background: Attacking third-party equipment

Manufacturers should weigh carefully the decision to begin servicing other manufacturers' equipment. The addressable market is often a multiple of an OEM's own installed base. But this move can invite competitors to fight back by offering to service your equipment in return. Still, in some cases it may be a market that is necessity to remain competitive, depending on the development stage of the service market (see Figure 6). Market dynamics and the relative market share versus competition are the key determinants in finding the right answer.

When to attack. In segments where technologies are mature (such as gas turbines or electric motors) the service market often has fully opened up to allow independent providers and OEMs alike. As a result, customers (like power plant operators) increasingly tender service contracts to all types of service providers. In these situations, servicing third-party products has become a necessity to fulfill the customers' needs and to build critical operational scale.

When to defend. In industries where single-brand fleets or single-brand plants are standard (as is often the case in mining) or where a high degree of custo-

mization is necessary (common in the packaging industry) offers to service third-party equipment will rarely succeed. Industrial goods manufacturers operating in such environments should instead focus on protecting their own installed base from others' service attacks, for example, with long-term maintenance contracts or by protecting vital equipment parts through patents.

When to consider. More and more segments of the industrial goods industry are opening to all providers, a development often triggered when customers seek broader service contracts or by independent service providers specializing in certain kinds of services. Typical signs of an opening market include:

- Profit pools shifting from new installations to services
- Technical differentiation becoming harder to achieve
- Independent service providers are professionalizing while OEMs try to bar their entry
- Growing service dissatisfaction of increasingly professional customers

4. Sales and operational improvement: How to win

Because service operations tend to generate high margins, operational excellence still gets little management attention in many service operations. As a consequence, service performance is driven more by the individual capabilities of the frontline technicians rather than by the strengths of a well-defined operating model. Successful players define repeatable service models that can be scaled, measured and managed globally. Such a model clearly defines what will be sold and delivered – and how. By getting it right, a service organization can unleash enormous potential to delight customers and continuously gain bottom-line benefits through efficiency improvements. Companies with repeatable service models do four things well: create service packages with a clear value proposition targeted at attractive customer segments, achieve sales and pricing excellence, define efficient delivery processes in a well-designed service network and optimize the service supply chain.

What service champions do

- **Optimize spare parts pricing based on segmentation, according to part exclusivity, criticality and price sensitivity**
- **Establish a database of their installed base, including technical characteristics, and monitor equipment usage as a platform for proactive retrofit and upgrade offers**
- **Launch sales campaigns for specific spare parts with clear customer value**
- **Run a last call initiative for parts before they cease keeping them in stock**
- **Use home-based technicians to maximize market coverage and proximity to the customer**

Spotlight: Boosting business through sales management and pricing

Service is typically a high-margin business with lower-volume transactions. But industrial goods manufacturers are used to thinking in terms of large-volume sales. So they may easily overlook smaller opportunities and not manage their service sales to the full potential. Service priorities and price resilience often suffer, particularly where service sales are combined with new product sales, because under these circumstances service often gets little attention and becomes one of the first areas to be sacrificed in price negotiations.

Our work shows that companies can pull a set of practical levers to enhance service sales performance:

Full market coverage

OEMs should scale their salesforce relative to the full market potential of their installed base rather than to historical headcount levels by leveraging a deep understanding of their installed base. Where potential is too low for an independent presence, the development of an agent network can be a viable alternative.

Proactive sales management

Change the sales model from a reactive taking of orders to a proactive development of the market. This includes launching new services that address a clearly identified market need, offering more services to existing customers where share of wallet is low, submitting proactive modernization offers based on usage data or targeting lost customers with dedicated recovery campaigns.

Smart pricing and discounting

OEMs can shift away from a cost-plus approach to pricing and instead move to differentiated pricing models based on competition, criticality and customer sensitivity. For example, customers may be sensitive to the prices on high-volume commodity parts, but less sensitive to price on critical parts and services. The next step is to avoid margin leakage by establishing rules or granting discounts to customers and enforcing them with discipline.

Well-designed salesforce incentives

OEMs must explicitly reflect the particular nature of services in their incentive systems. The starting point is to separate service and new equipment when setting sales volume and margin targets. Then targets can be linked to concrete service business objectives, like new equipment to service, service contract penetration rates or upgrade package sales, or contract loss reduction.

Example: Complexity and poor incentive structures can block service sales

The salesforce of a machine tool company had incentives to sell high-margin spare parts. When asked, many said they also knew of higher-value service products their customers might be receptive to. But they knew that the sales process would take months and require long discussions with customers, including discussions on prices and risk, especially if more than one business unit was involved. Most importantly, such sales would come with lower margins. So they chose to ignore the customer's full potential and concentrate on the highly incentivized business of new equipment and spare parts.

Spotlight: Driving field efficiency

At most industrial goods manufacturers, performance varies to a large degree across service branches and among field technicians. It is not unusual to see the efficiency for perfectly identical service tasks vary by a factor of two to three. Comparable spreads would not be accepted elsewhere in the company where margins are thinner. Narrowing the performance spread by bringing everyone up to adequate efficiency levels holds enormous potential to drive the bottom line. The example of a coating service company improving branch gross profit by 10% over a period of four years nicely illustrates the power of stringent performance management (see Figure 7).

Structural efficiency

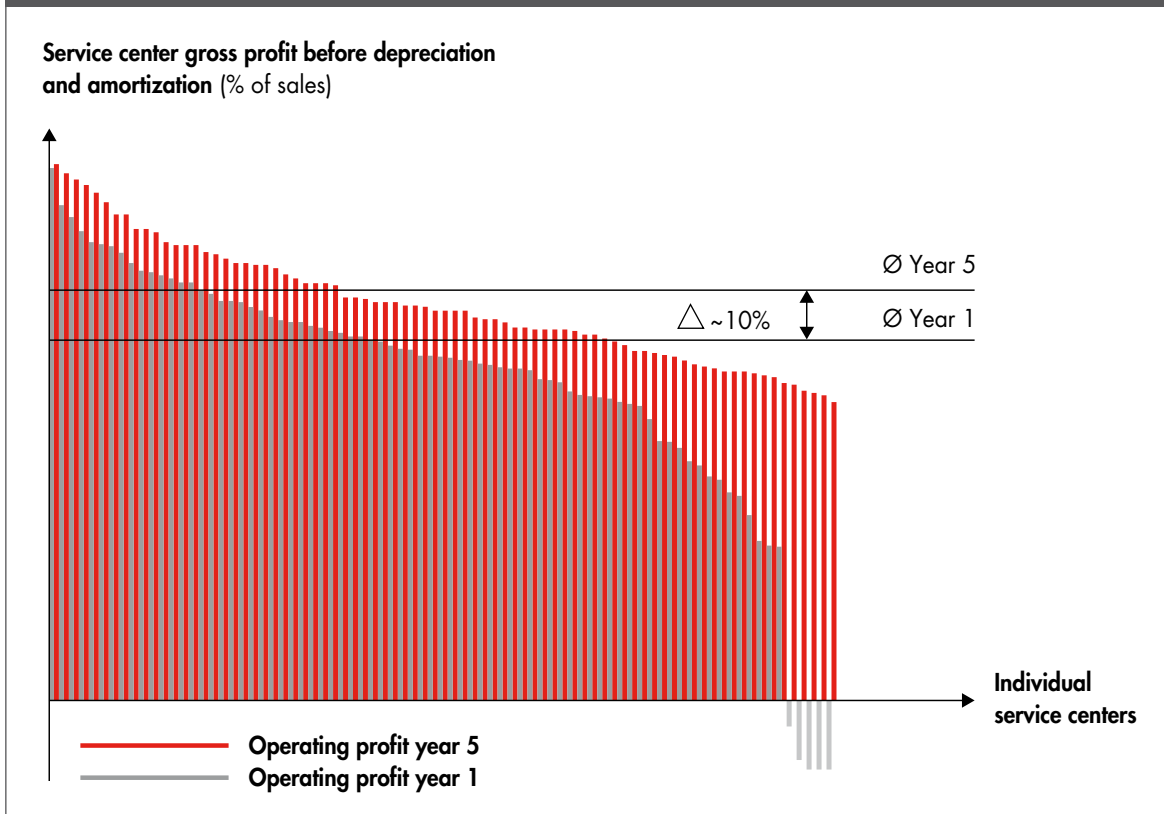
Field efficiency starts with an effective organization of the service center network. A delicate balance must be found between the need for local presence close to the customer versus the buildup of deep technical expertise in central units, for example, competence centers for complex upgrade projects. The answer to this challenge is so-called tiered service organizations with multiple expert support levels. In this setup the local service centers are staffed to reflect the local market's general needs. Specialist resources are then bundled in regional or cross-

regional organizations to allow scale efficiencies by sharing these specialist resources across a broader whole-service network.

Personnel efficiency

Because labor is the largest cost block in running a services operation, improving field technician productivity is the best way to improve service efficiency. Companies can pull many levers to improve their service productivity:

- Increase billable volume by cutting unproductive tasks – for example, boosting the first-time-right ratio, decreasing re-works and avoiding unnecessary trips
- Increase technicians' rate of work by optimizing workflow or providing better tools
- Reduce problem resolution times through training and by providing access to expert support
- Shorten travel times with better dispatching by applying sophisticated workforce deployment and routing techniques
- Lower average hourly costs by reducing overtime and contractor usage
- Optimize overhead cost by streamlining and automating administrative tasks

Figure 7: Stringent performance management across service centers

Source: Bain & Company

Continuous improvement

Service leaders never stand still. They challenge the status quo and steadily invest in improving their processes by applying a set of common practices:

- Performance benchmarking across service centers and field service teams
- Best practice sharing across the organization
- Development of standard methods based on proven best practices
- Usage of new technologies (e.g., mobile devices, GPS tracking) to better support the field force and manage efficiency

Example: Efficiency improvements require comparable tasks

A building technology manufacturer wanted to optimize service processes by benchmarking service performance worldwide. Local technicians resisted comparability, arguing they worked in different markets on equipment of different ages and had different workloads due to different cultural specifics and regulations concerning product safety. It was only when the team broke down service tasks into single strokes of work that they were able to establish comparability. The resulting insights led to major improvements in the consistency and quality of service activities. One interesting finding was that face-to-face customer feedback on equipment condition was an important factor in customer satisfaction – though it was less so in Germany than in Italy.

Spotlight: Managing maintenance contracts

Many industrial companies understand that maintenance contracts are an attractive way to secure stable service revenues while providing the customer with improved equipment performance. But their maintenance contract growth strategies often fail to deliver on their expected volume and margin targets. Even worse, in some instances, badly designed service contracts even incur substantial losses cemented by long-term contracts that are hard to exit. In our daily work we have identified a combination of typical mistakes that can turn a promising opportunity into a deficit maker:

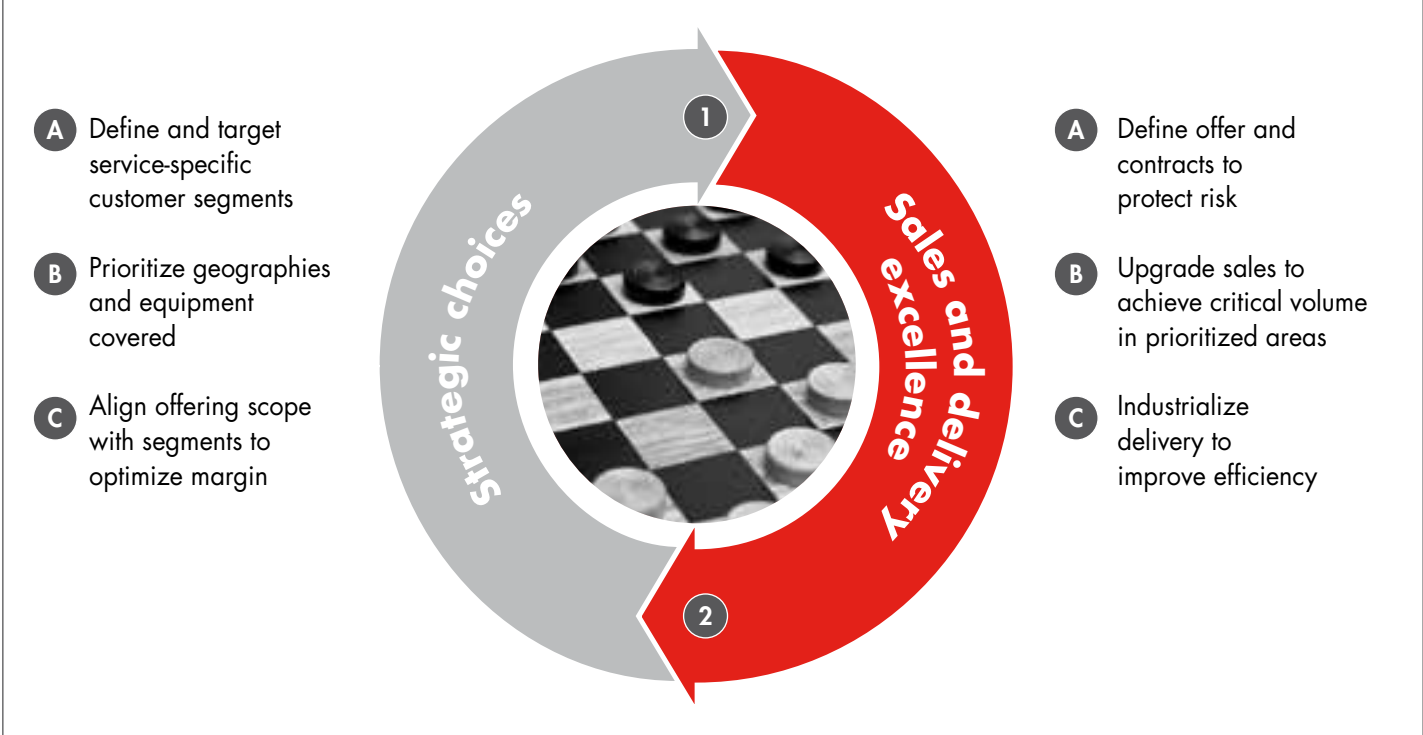
- The offerings in the contract are too broad, going beyond the competencies of the OEM's service field force
- Tools are not in place to properly precalculate delivery cost and facilitate adequate contract pricing
- Pricing doesn't reflect the operational risks assumed in the contract
- The field force is not ready for the volume of contracts sold due to resource and capability gaps
- Sales capabilities are insufficient for selling to the customer the additional value generated by service contracts, resulting in low margins

These pitfalls can be avoided. Successful selling follows a clear business development path and requires a salesforce that is closely attuned to the specific needs and opportunities of the market and customer segments (see Figure 8).

- **Identify attractive segments for service contracts**, e.g., by analyzing equipment usage patterns and inhouse capabilities
- **Develop segment-specific value propositions** that create economic or operational benefits, such as operating cost savings, quality improvements, higher uptime
- **Design smart contracts** with standardized modules to reduce complexity, exclude bulk risks and define clear exit clauses
- **Set up a value pricing system** linked to the customer's operational benefits and including regular price increases, e.g., by establishing a link to labor and material cost indexes
- **Build a systematic sales process** supported by strong sales arguments and sales support tools, target relevant equipment systematically, combine contracts with new equipment sales
- **Structure sales processes to drive efficiency** by increasing regional portfolio density to shorten travel time
- **Make costs and profitability visible** by developing relevant key performance indicators (KPIs) and management dashboards

It is also important to recognize that maintenance contracts are not viable in all situations. There are clear indicators to show where potential is low, such as customers regarding maintenance as one of their core competencies, failure of the OEM to achieve scale advantages or excessive operational risks that cannot be properly controlled by the service provider.

Figure 8: Build contracts strategically



Source: Bain & Company



5. Foundation building: What is needed to succeed

A service organization requires a structure that supports its unique business needs but still keeps it aligned with the new equipment sales business. Service is local, and local service heads must assume entrepreneurial responsibilities to develop the workforce and respond to customer demand. Local units should aspire to deliver optimum customer support, while global and regional functions should provide expert support, steer service development and delivery excellence initiatives, as well as monitor a set of relevant KPIs.

What service champions do

- Establish clear ownership for the service business at top management level
- Break the internal silos among service operations by establishing cross-company service platforms
- Establish service as an attractive career option by providing clear career paths
- Build a service culture across the whole organization
- Make service a standard topic in key management meetings

Spotlight: Finding the right organizational design

There is no single blueprint for the right design of an industrial goods manufacturer's service organization. The solution can lie in a fully integrated new equipment-and-service provider model or a totally separate service organization. Most of the time, it will be a model in between. In hybrid organizations, central headquarters support the regional business units and manage the entire service business. Advanced regional service business units reach across and beyond the competencies of individual product units. Full matrix organizations, on the other hand, specialize and separate most functions between new business and service, from supply chain to sales. But they ensure collaboration and joint decision making between everyone concerned (see Figure 9).

When designing the organizational setup of service, OEMs should keep consider these factors:

Consider the starting position

Most companies start with central competence centers when they seriously commit to growing the service business. Some service organizations, where the degree of expected change is large, may benefit from being separate from the rest of the organization. A certain autonomy allows them to develop the necessary specialization and focus on growth. After

time, it may make sense to bring service closer to the equipment business again, which can help it stay current with technology development in the rest of the organization and embed service ideas back into product development – both important to long-term success.

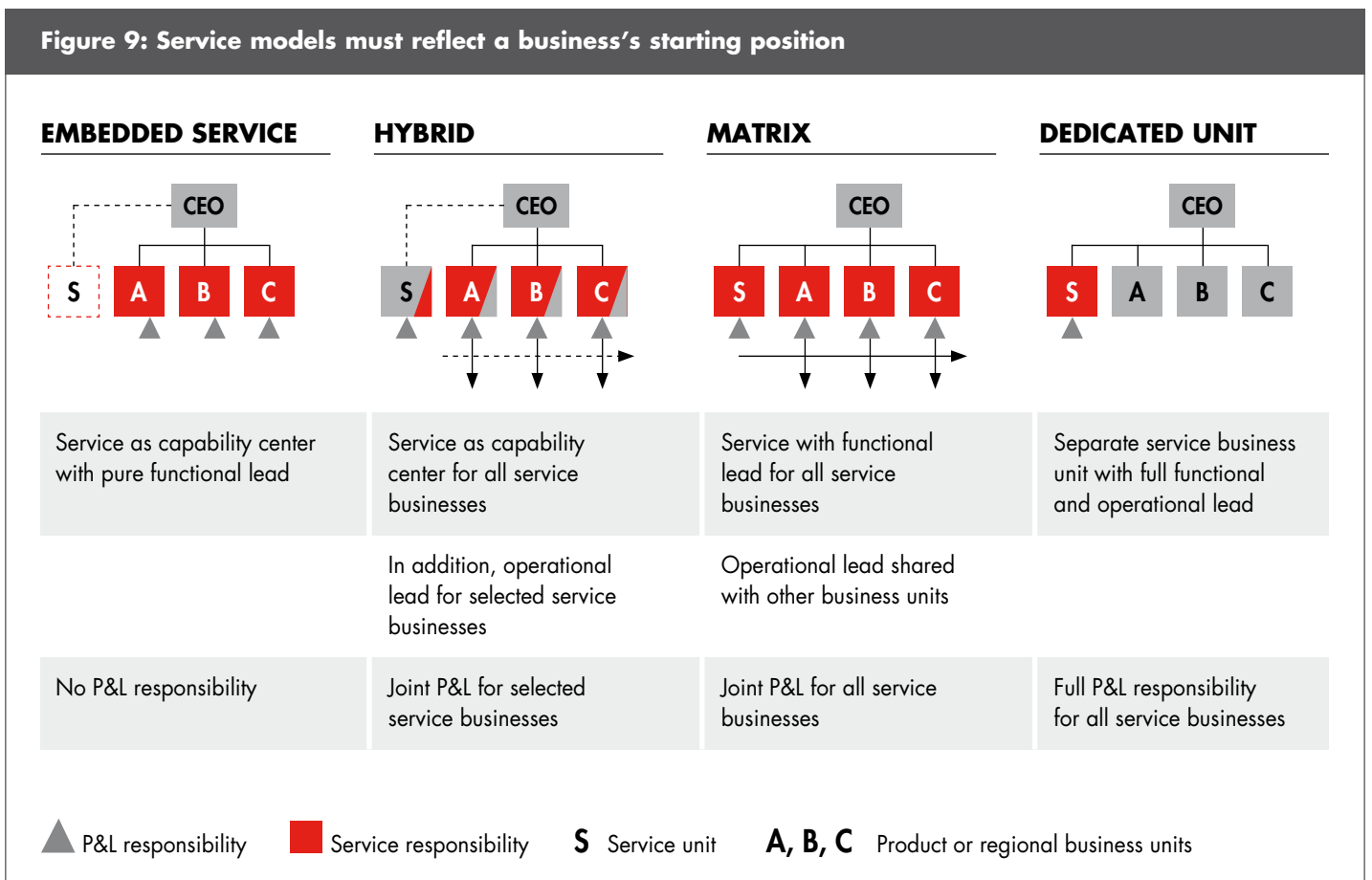
One face to the customer

Customers should see an integrated offer of products and services under the OEM's brand with closely coordinated customer relationships and seamless handovers from new business to service. A silo mentality within the manufacturer, triggered by the company's internal structure, can severely damage customer satisfaction. It is counter-productive to have uncoordinated offers coming from different units of the same company. In the same way, it would be a missed opportunity for new equipment sales if a recent upgrade offer was made to a customer before a member of the sales staff had a chance to assess whether an upgrade or a new equipment offer was better.

Build the service organization starting at branch level

Even a global service organization needs to be built from the bottom up. The branch structure should

Figure 9: Service models must reflect a business's starting position



Source: Bain & Company

be designed along business and customer dimensions to provide the best possible local service. The right setup may be to separate regular maintenance from the more project-driven business. Others may choose to organize functionally, separating service delivery from sales. The right answer can be found by looking closely at the nature of customer interactions and drivers of internal efficiency.

Define clear roles for local, regional and central service managers

While units at country level usually undertake standard tasks and high-frequency projects that require local presence, national and regional service hubs can deal with more complex service projects. They may have dedicated engineering teams and other resources that can serve the whole region, as well as account management teams to deliver top care for larger customers. Global service functions should

continuously enhance the worldwide service model while delivering central support, such as training, marketing, controlling and service product development (see Figure 10).

Embed a service mindset in the organization

To make the most of the service opportunity, manufacturers must shift from a product-centered view to one that puts the customer at the center. Services and equipment sales should act as a single entity, with aligned decisions and incentives. Over time, executives should acquire as much expertise in services as they have in products.

Figure 10: Service is local, but central support is required

	COUNTRY-LEVEL SERVICE UNIT	GROUP-LEVEL SUPPORT
Marketing and business development	<ul style="list-style-type: none"> • Sales planning and execution • Local service strategy application 	<ul style="list-style-type: none"> • Service strategy (esp. customer segmentation, competitor profiling) • Service product management and marketing
Account management	<ul style="list-style-type: none"> • Local account management • Relationship/ contract management 	<ul style="list-style-type: none"> • Global account management • Contract support • Risk management
Sales and pricing	<ul style="list-style-type: none"> • Service offering adaption, tactical pricing • Local P&L responsibility • Local budget 	<ul style="list-style-type: none"> • Service offering portfolio and global pricing • Sales support • Financial target setting and controlling/tracking
R&D	<ul style="list-style-type: none"> • Delivery planning and execution • Service engineering • Information gathering and update 	<ul style="list-style-type: none"> • Service design • Delivery process definition and optimization • IP codification and generation
People and organization	<ul style="list-style-type: none"> • Local HR planning and execution (e.g., staffing, recruiting processes) 	<ul style="list-style-type: none"> • Selected HR support (e.g., recruiting guidelines, training and skills development, etc.)
Operations	<ul style="list-style-type: none"> • Local infrastructure • Local supply chain • Local technical support 	<ul style="list-style-type: none"> • Selected infrastructure (e.g., parts, training, etc.) • Global supply chain • IT tools development and maintenance • Operational standardization

Source: Bain & Company

Spotlight: Human Resources – Investing ahead of the curve

People are often the single most important limiting factor in service. Without the right number of employees with the correct skills, manufacturers cannot realize their growth ambitions. OEM organizations often have administrative routines in the hiring process that are not tuned to services and so hinder growth. Among the barriers encountered are fragmented decision making over several organizational layers, hiring policies that demand locked-in service business before hiring can commence, and problems in finding and retaining the right candidates. Having the right people requires good planning, hiring and talent management.

Work out a staffing plan

To achieve significant growth in services, industrial goods manufacturers need to plan and invest in human resources before the business can expand. They can deduce the required staff numbers from the market potential based on their installed base and their customers' full installations. In situations where a company's service market share of its own equipment is less than 25%, additional hiring is almost always necessary. Investing in salespeople or technicians typically yields returns within 12 to 18 months, and these investments can be easily tracked and scaled back if the expected market success does not materialize. During the ramp-up process, it is important to keep a healthy pyramid of managers compared with engineers and technicians in order to sustain service delivery and keep the promises made to the customer.

Prepare to invest in talent

Competitors are gearing up for service growth, too, which will make it difficult to find experienced candidates, especially in developed markets. Some can be wooed away from other companies by offering attractive compensation and career paths. But manufacturers will also need to invest in basic training for people coming out of engineering or vocational schools. In developing markets large talent pools are available, but the quality of candidates is challenging

and it is difficult to retain employees. These situations require up-front investment in the right recruiting and training capacities in order to undertake a large-scale hiring, training and retention process.

Establish efficient hiring processes

Rapid service growth demands rapid hiring. Preparing job profiles in advance for each service position to be filled can help. Managers should be prepared for the screening process: A regional hub that wants to hire 100 people will need to screen 500 to 1,000 candidates. During the ramp-up phase, local and regional service centers should be allowed to conduct blanket hiring in order to remain flexible and make their own choices rather than having to wait for decisions from headquarters.

Example: A dearth of trained personnel limits growth

A German service provider wanted to ramp up a wind turbine service business from scratch. On-the-job training proved to be the company's main restraint on growth. Typical dispatching foresees a maximum of two service agents for efficiency reasons: one experienced technician to actually perform the service work and one new hire to learn on the job. The learning period usually took six to 12 months until the new hire was deemed experienced enough to go out alone – though still not experienced enough to train another colleague on his own. Consequently, the business's growth was restricted by the lack of experienced service technicians to pass on their practical experience. This limitation had to be reflected in the growth plans and related customer acquisition activities.

6. Service transformation: How to make it happen

Many industrial goods manufacturers have tried and failed to boost their service businesses. Common reasons for failure include a lack of motivation, support and freedom for service executives and local service managers to act. Any new service initiative needs not only a smart strategy and thorough execution, but also a change program that communicates the targets and makes the tools available to everyone, reaching out to even the remotest service technician. It must motivate, inspire and lead people to believe the initiative is real and fully backed by management. Transforming service successfully is about changing the attitudes of people throughout the organization (see Figure 11).

What service champions do

- Show visible commitment from the executive level
- Create alignment among sponsors across all units
- Invest in service ahead of the curve
- Reward outstanding performance

Figure 11: Service transformations are special



Affects often **thousands of people** spread out over the world, some without even an office or home base



Turns around **internal reputation of service**, whose value is systematically underrated



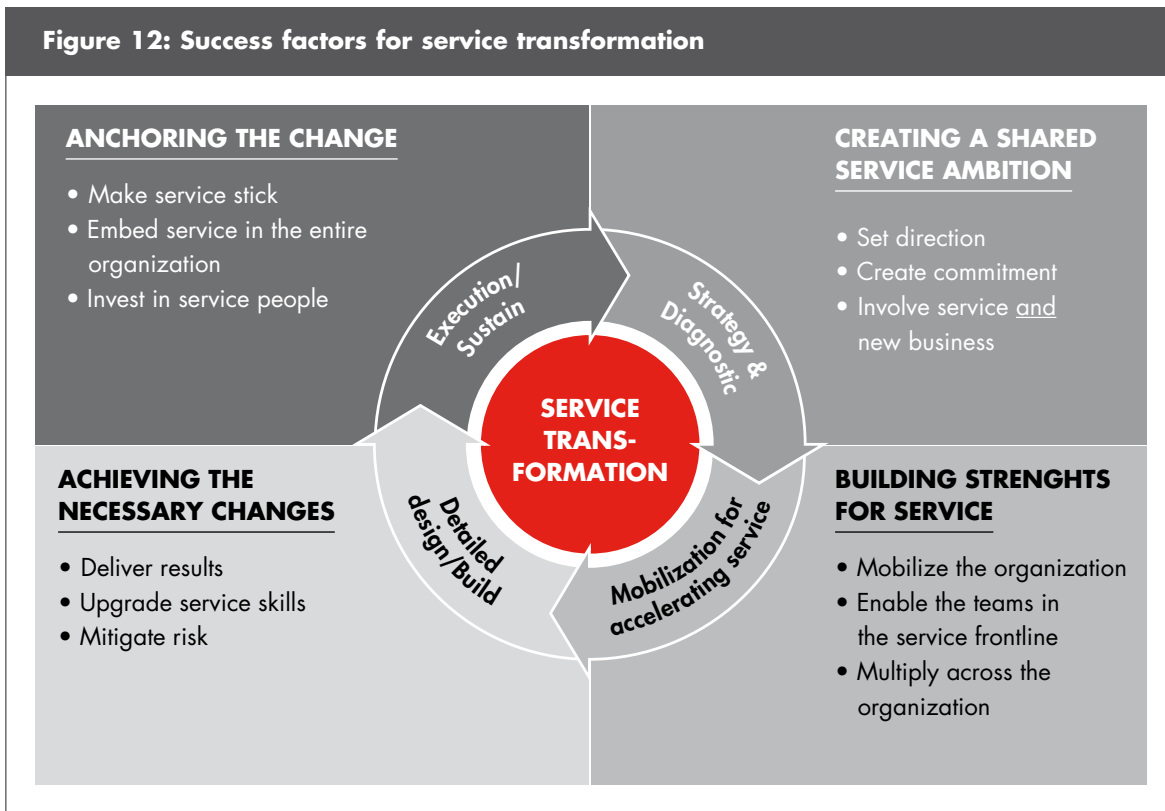
Works **against product culture**, where technical superiority and large deals count



Regarded as **shifting power** away from new equipment business, while organizational anchoring initially still weak

Source: Bain & Company

Figure 12: Success factors for service transformation



Source: Bain & Company

Spotlight: Enabling teams and driving results

No company can achieve ambitious service goals simply by developing strategy slide decks and passing them on to individual service units. Service teams, including local sales and service staff in remote regions, need to be mobilized, enabled and supported (see Figure 12). This requires steady communication at all levels, a network of change agents across departments and regions, and constant support from the management board. This is true for any new strategy, but even more so in service, where the only product is an employee’s actions at a customer’s site.

or the number of new customers signed. They make sure that these are stretch goals compared with previous achievements, more than just incremental, but within reach. Targets must take into account the specifics of individual service businesses, spare parts different from maintenance contracts, in order for them to be accepted. Competition among service managers, salespeople and field technicians to achieve these targets can help motivate staff.

Clearly define business priorities

In successful service organizations, managers set specific and achievable targets, staged over time, starting at the lowest levels of the business and track success from the outset. They clearly communicate their priorities and expectations for teams and team members. They adjust staffing levels with priorities and ensure that escalation procedures are in place in case of misalignment.

Set direction

Set inspirational targets

Leading service organizations set ambitious targets in financial and nonfinancial terms, such as achieving new levels of efficiency or customer satisfaction,

Mobilize

Create companywide service ambition

Successful service organizations communicate frequently about their service ambitions to embed the service idea and language in the company. They involve teams throughout the organization, including the new equipment salesforce, to make sure everyone understands their role in the service initiative – and that everyone will benefit from it.

Make service a top priority with board support

Transforming an organization from a product-focused company to one focused on services requires sustained support from top management. Services should be at the top of every meeting agenda at both headquarters and regional offices – not just for months, but for years. Career paths should include exchanges between the product and service businesses to signal that work in the service business is as attractive and rewarding as work in the product business. Only those executives who visibly support the shift will succeed in the long term.

Cascade information

Staff at every level needs to understand their role in the transformation. Training of hundreds of change agents helps cascade information down through organizational levels, from senior management to the frontline. New equipment sales staff is most critical to reach and win over.

Enable

Enable teams

Service leaders invest in local teams, ensuring they have the resources necessary for the task at hand. In addition to budgeted investments in staffing and technology, local teams should be encouraged to request additional funds for promising projects. It needs to be understood that in many situations the service engine first has to be built before it can rev up. Monetary and other incentives help support their service efforts and reinforce the importance of services throughout the company.

Achieve and broadcast quick wins

No initiative can hope to last long without early successes. Leaders broadcast these successes and the lessons learned from them throughout the organization.

Make service an equal partner in the company

The service organization should participate and in all meetings on companywide topics, through a dedicated service leader. Service salaries should align with those in new equipment sales, and service should be a compulsory career step for aspiring executives.

Deliver results

Establish external and internal feedback loops

Service organizations should continuously monitor their progress in customer satisfaction so they can understand new issues as they arise and respond promptly to them. They should also understand which of the requirements for service growth, as initially defined, are met and which fall short. Then they should act quickly, make necessary changes in training or investments in new capabilities.

Reward outstanding performance

Special service achievements need clear and visible rewards, financially and publicly. Substantial incentives, including awards such as Service Team of the Month, can sustain motivation within the teams and communicate success stories throughout the organization.

Spotlight: Drawing up a systematic road map

Service transformation is a complex multiyear project that is hard to visualize or memorize. A detailed road map makes it easier to execute (see Figure 13).

Plan for a multiyear development

Organizations progress through several steps to move from their current state to the aspired vision. These steps include defining a global strategy and intended level of service excellence, breaking the grand plan down into regional and local strategies and achieving first wins. Next steps are building an improved service network along with the necessary processes and capabilities. One step cannot be taken before the other, so organizations need to define the transformation path clearly.

Coordinate necessary advances in the different parts of the organization

Each step involves parallel developments among different departments, regional and local service operations, global service and HR support, service product development, sales and marketing. Organizational change can only work if the different units advance along the transformation path in unison. For example, a new service product cannot be delivered if HR fails to employ or train enough personnel, nor can the planned sales campaign start if marketing does not deliver the target customer list and proper sales arguments.

Approve an official road map

Management should approve and support a step-by-step plan that fixes the waypoints and dates of the planned service transformation. This enables local change agents to remind colleagues of the approved service development path and assert their position in internal discussions.

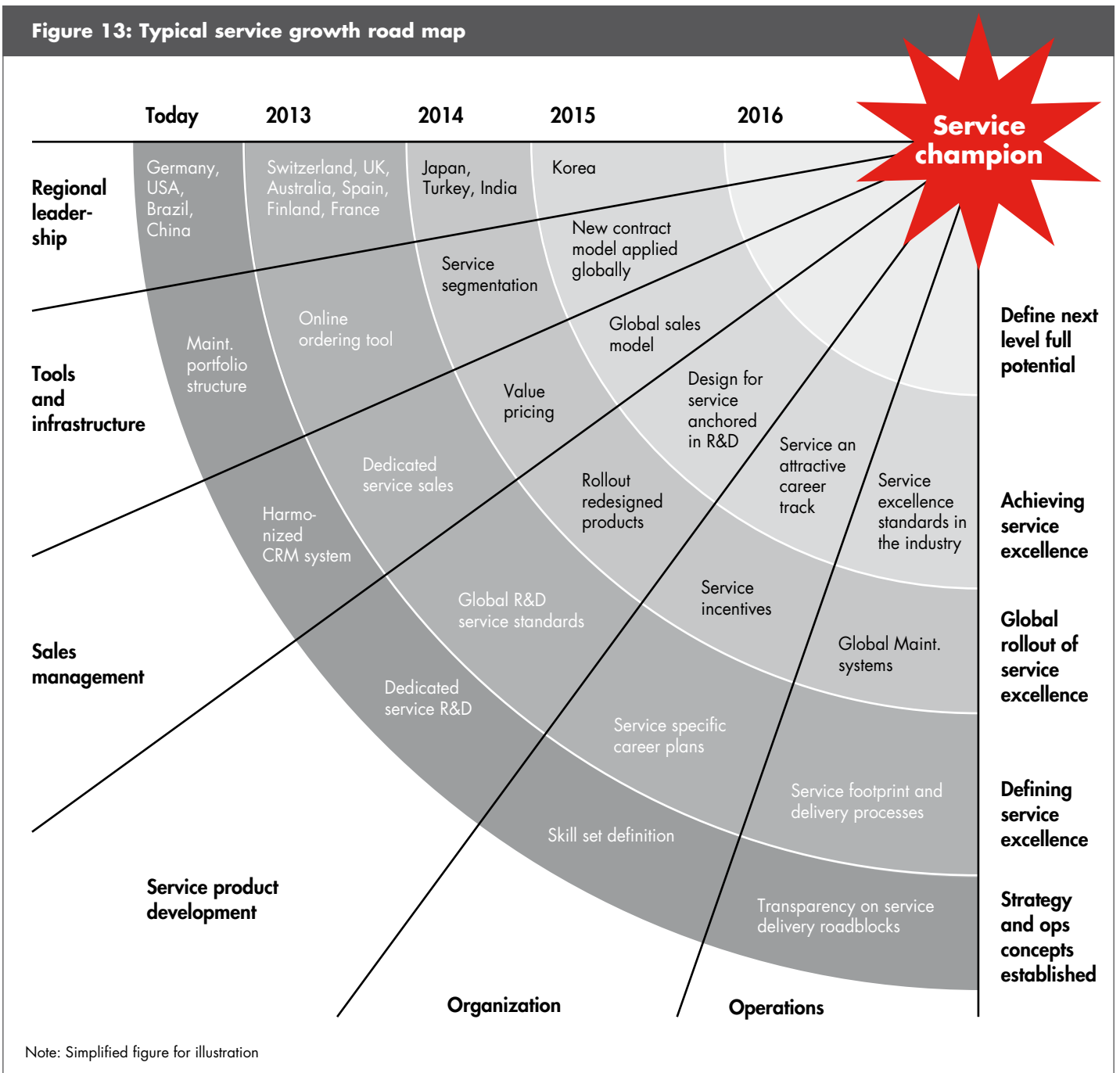
Make the journey visible

Visualizing this crucial plan with a multidimensional road map, which defines the different steps in one lucid chart, helps communicate the whole service initiative more effectively. Starting from the status quo, the chart should show the targets that each department or project has to reach in a given time. In addition to the major chart of the global transformation path, it is useful to produce as many regional and departmental breakdowns as seems necessary to visualize the transformation path more directly.

Example: How a visible road map helped to keep the transformation on track

A company in the machinery sector visualized its service initiative with a multiyear, multidepartment development plan. The plan, which explained management's long-term strategy, was printed in color and distributed to all project and change leaders in the company. Many executives and managers pinned the plan on their office walls, impressing a common picture of the service transformation path throughout the company. It is frequently used in internal discussions to keep the wider picture in mind and remind each other of the agreed-on steps of the service development initiative. Necessary changes can be applied by taking into account the cross-relationships of individual initiatives.

Figure 13: Typical service growth road map



Source: Bain & Company

Conclusion



Achieving your service ambitions

With public debt looming, currencies under pressure and the financial sector stretched, economic growth will remain volatile for many years to come. Most industrial goods manufacturers will continue to face difficult times in their traditional equipment business. Service is the most secure way to achieve growth with comparatively small investments and at a comparatively low risk.

Depending on your industry segment and your aspirations, a service growth initiative can deliver stable revenue increases of 4% to 5% annually with a solid 15% profit margin – or it can enable a three- to four-fold expansion of your service business with profit margins of 25% or higher. Five steps help companies assess and exploit opportunities in the service business:

Assess your service potential

Service is about creating value for others by extending the life of your equipment, enhancing the productivity of your customers or helping them to be more effective. An assessment of service potential starts by analyzing the total service market size according to equipment types and location, possible services and value creation. The potential for growing service lies in the difference between turnover and profits actually achieved and those you might realistically capture if the offering successfully anticipates the needs of customers.

Stake out your service targets

Service initiatives require a strategic board decision on the direction and size of the initiative required for exceptional growth. Experience shows that am-

bitious – but not overly ambitious – targets will release employee creativity and overcome organizational hurdles. The organization must be absolutely convinced of the seriousness, permanence and management support of the service initiative. Without those conditions, the initiative is unlikely to succeed.

Complete your service portfolio

An OEM's primary field of competencies will always derive from its equipment, and that is where the service portfolio should start. All economically serviceable equipment must benefit from a full range of meaningful life-cycle services. Customer-oriented pricing should make the service offerings more attractive to the customer and include alternatives that offer payments aligned with value – for example, maintenance fees based on machine uptime or productivity, or even all-in-one leasing or rental schemes. Additional advanced services may stem from the OEM's expertise in customer processes, from customer proximity or from capabilities that the customer lacks.

Industrialize delivery

In order to separate service successes from local specifics and abilities, service should be a standardized and repeatable process. Creating clearly structured service offerings is one side of industrialization; defining and monitoring service quality and processes is the other. Industrialization is not only a precondition for the successful international rollout of service offers; it is also a necessary step for homogenous service standards and service efficiency improvements.

Establish a companywide service culture

Giving service more autonomy compared with the equipment business may be the right solution at the beginning of the journey. However, companies should be sure that, from the customer's point of view, the company acts in a unified way, consistently communicating the customer benefits and seamless support throughout the life-cycle of the equipment. For this to become a reality, industrial goods manufacturers must become more customer-focused, striving as much for continuous improvement in their service organization as in their product business.

Bain's experience shows that the transformation from equipment provider to service champion, though not easy, can be achieved. Manufacturers learn to design maintenance and serviceability into their products from the start. Planning product and service sales together becomes standard practice. Rather than just developing new equipment and selling upgrades, service organizations develop solutions that take worries off the customers' shoulders, creating more loyal customers.

Service is the biggest growth opportunity for the industrial goods industry over the next decade. The race has already started. Can you afford to delay?

ABOUT THE AUTHORS

Oliver Strähle

is a partner at Bain & Company Switzerland, with responsibility for Bain's Industrial Service Competence Center in Europe. He has supported service development for industrial clients in a broad set of sectors, ranging from operational improvement to full service transformations and organization design.

oliver.straehle@bain.com

Michael Füllemann

is a partner at Bain & Company Switzerland, with responsibility for Bain's Industrial Service Competence Center in Europe. He has extensive consulting and line management experience in the service sector and supports his customers more broadly on strategic and operational topics. He is also an expert in growth strategies for emerging markets.

michael.fuellemann@bain.com

Oliver Bendig

is a principal at Bain & Company Germany and a member of the European Industrial Goods and Services practice group. He has extensive experience in working with leading machinery and equipment companies. In his more than 15 years working on industrial services related topics he has worked in multiple regions, incl. Europe, Americas, China and India.

oliver.bendig@bain.com

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