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# Strategic Service Management: Moving Beyond the Tactics

May 2007

# Executive Summary

Shrinking product-based profit margins, commoditization and intense global competition has compelled corporate executives to increasingly rely on their post-sale service operations to drive corporate growth. This benchmark study shows that forward-thinking companies have overwhelmingly embraced this new approach and as such, no longer regard post-sale service as an inevitable cost of doing business, but actively leverage it to drive revenue, profit and customer retention.

This new approach, referred to as Strategic Service Management, is rapidly climbing to the top of corporate agendas. The success of the approach depends on effective colloboration across functions, enterprise-wide decision support and an underlying integrated technology infrastructure to support the business processes. **In fact, such strategic initiatives have yielded such gains as 17% improvement in SLA compliance, 16% increase in service revenues, and 14% higher customer retention and service profits.**

**Appliance Manufacturer**

"Delivering quality and reliable service for all major appliance brands is a significant growth opportunity for Maytag. To fully capitalize on this opportunity, we need industry-leading technology to further enable best-in-class processes, maximize performance and deliver market-leading service to customers."

Art Learmonth, President, Maytag Services

## Best-in-Class Performance

The value of a Strategic Service Management approach can be gauged by the financial and operational results it can help deliver. In this research effort, Aberdeen used four key performance indicators (KPIs) to distinguish Best-in-Class from the rest. Across these metrics, Best-in-Class organizations reported the following performance: **28% of Total Revenue derived from Post-Sale Service; 38% of Total Profits derived from Post-Sale Service; 83% Customer Retention Rate; 56% Customers Covered by Service Agreements.**

**Medical Device Manufacturer**

"While product sales still overshadow post-sales service, we anticipate service playing an increasingly critical role as competition stiffens on the product side of the business. In five years, with proper execution and organizational support, post-sales service will comprise up to 50% of the company's total business."

Senior Service Executive, Infection Control Division, Getinge Group

## Competitive Maturity Assessment

Survey results show that firms realizing Best-in-Class performance shared several characteristics including **managing post-sale service as a profit center; Senior executive (VP level or higher) responsible for post-sales service; Systematic planning, forecasting, and alignment of service resources and demand based on robust analytics; Regular and frequent measurement of service profitability, customer retention and service revenue.**

## Required Actions

To achieve Best-in-Class performance, manufacturers must:

- Manage post-sale service business as a profit center.
- Migrate to a preventative and predictive service model.
- Tie service employee compensation to performance metrics.
- Offer multi-tiered service level agreements and contracts.

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# Chapter One: Benchmarking the Best-in-class

## Aberdeen Analysis

Globalization, cost pressures, and empowered customers are forcing businesses to distinguish themselves on the uniqueness of their products and the quality of their service operations. Increasingly, revenues, profits, and customer loyalty are being driven not by the initial product sales but by post-sale service and support. **Strategic Service Management represents a fundamental shift in how a service operation is managed.** Forward-thinking companies have moved away from managing service as a tactical cost center to managing it as a strategic profit center. They have rejected the traditional siloed approach in favor of a more holistic and integrated approach that includes managing resources (people, parts, vehicles), partners (internal, external), contracts, and customers with a razor-sharp focus on the corporate goals and objectives. Companies that have successfully used Strategic Service Management approach have delivered on the four key precepts of a strategic business unit – customer value, competitive differentiation, financial performance and product quality. **Companies that continue to ignore the core principles of Strategic Service Management will in the next 5-7 years not only forfeit significant growth opportunities, but may increasingly become irrelevant in the marketplace.**

Aberdeen research reveals that a company managing its service operation as a profit center is a good indicator that it has embraced the tenets of strategic service management. Interestingly, **89% of best-in-class companies are currently managing their operations as a profit center** compared to 47% of all other companies. They have changed their business processes to fit customer needs and are adopting integrated, service-specific technology solutions to strategically leverage their service operations.

## Maturity Class Framework

The value of strategic service management can be assessed by measuring the resulting change in financial and operational performance. In the following analysis, Aberdeen used four KPIs to distinguish best-in-class companies from industry average and laggard organizations. The KPIs were

- Percent of Total Revenue derived from Post-Sale Service
- Percent of Total Profits derived from Post-Sale Service
- Customer Retention Rate
- Customers Covered by Service Agreements

A weighted average was defined and calculated based on the four

**Fast Facts**

Best-in-Class Performance:

- 28% Revenue derived from Service
- 38% Profits derived from Service
- 83% Customer Retention
- 56% Covered by Service Agreement

The top four KPIs measured by Best-in-Class companies:

- Revenue derived from Service
- Profits derived from Service
- Customer Retention
- Customers Covered by Service Agreement

89% of Best-in-Class companies manage the service operation as a profit center.

Best-in-class companies derive 75% higher revenue and 111% higher profits from their service operations than other companies.

Best-in-class companies are three times as likely to report customer retention rate greater than 90% and twice as likely to achieve SLA compliance rate greater than 90% as other companies.

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KPIs, and the responses were segmented with Best-in-Class companies defined as the top 20% of performers, Industry Average companies defined as the middle 50%, and Industry Laggard companies defined as the bottom 30% of performers. The defined KPIs were chosen because they represent the core metrics that a service organization needs to measure in order to effectively manage its operation as a profit center. It is not surprising that the best-in-class companies that embrace a Strategic Service Management approach also realize significantly better financial and operational performance than their average and laggard counterparts (Table 1).

**In fact, best-in-class companies derive 75% higher revenue and 111% higher profits from their service operations than other companies. They are also three times as likely to report customer retention rate greater than 90% and twice as likely to achieve SLA compliance rate greater than 90% as other companies.** Interestingly, companies with a profit center approach reported that 22% of their revenue and 28% of their profits are derived from service compared to 15% and 17% respectively for companies that are managing service as a cost center. Furthermore, companies with a profit centric approach are twice as likely to report customer retention and SLA compliance rates greater than 90% as the ones with a cost centric approach.

**Table 1: Top Performers Earn "Best-in-Class" Status:**

| Definition of Maturity Class | Mean Class Performance |
|---|---|
| **Best-in-class:** **Top 20%** of aggregate performance scorers | • 28% of Revenue is Derived from Service<br>• 38% of Profits is derived from Service<br>• 83% Customer Retention Rate<br>• 56% Customers Covered by Service Agreement |
| **Industry Average:** **Middle 50%** of aggregate performance scorers | • 17% of Revenue is Derived from Service<br>• 21% of Profits is derived from Service<br>• 79% Customer Retention Rate<br>• 38% Customers Covered by Service Agreement |
| **Laggard:** **Bottom 30%** of aggregate performance scorers | • 12% of Revenue is Derived from Service<br>• 12% of Profits is derived from Service<br>• 74% Customer Retention Rate<br>• 40% Customers Covered by Service Agreement |

Source: AberdeenGroup, May 2007

**Data Storage Manufacturer**

""In this day of commoditization, service is the one thing we can do to add to our bottom-line."

Director, Worldwide Field Operations, Large Data Storage Manufacturer

**Maturity Framework Key**

The Aberdeen Maturity Framework defines enterprises as falling into one of the three following levels of practices and performance:

*Best-in-class (20%)* — practices that are the best currently being employed and significantly superior to the industry norm

*Industry norm (50%)* — practices that represent the average or norm

*Laggards (30%)* — practices that are significantly behind the average of the industry

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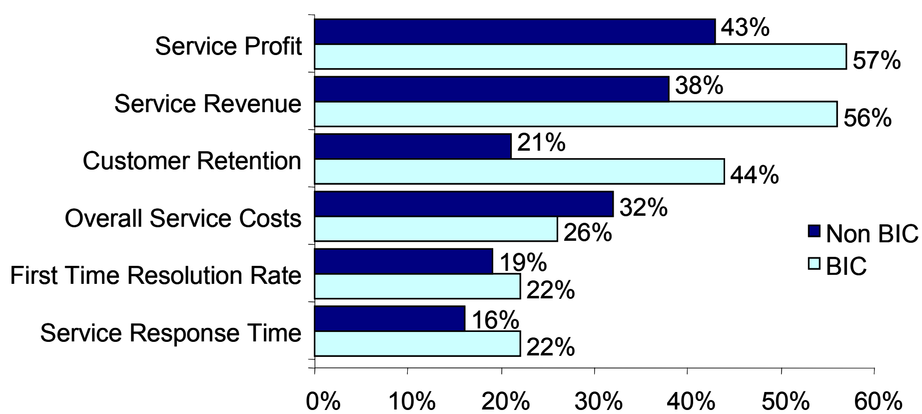
## *Metrics Measured*

Managing service as a strategic business requires a new set of performance metrics, many of which are more indicative of the total customer experience. In fact, customer retention is one the leading key performance indicators (KPI) used by best-in-class companies to measure service performance. They are **twice as likely to measure customer retention as the other companies** (Figure 1). Companies with a tactical approach to post-sale service tend to measure performance with internally focused metrics like work orders completed per day per technician, and service part fill rates. Internally focused metrics alone are insufficient in measuring the total customer experience. Today's senior service executives need visibility into customer-focused metrics like first-time resolution rate, on-time arrival compliance, continuity of care and mean time to repair (MTTR). In fact, **78% of best-in-class companies systematically and frequently measure service profitability, customer retention and/or service revenue** compared with 41% of the other companies.

> **Telecom Provider**
>
> "At our company, keeping customers satisfied is job number one. With up-to-date information on service requests and resources available, we can not only make effective day-to-day decisions, but also handle exceptions very well, resulting in high levels of customer service."
>
> VP, Service and Support, Tier-1 Telecom Provider

**Figure 1: Best-in-Class Companies Measure Service Performance**




Source: AberdeenGroup, May 2007

## Best-in-class PACE Model

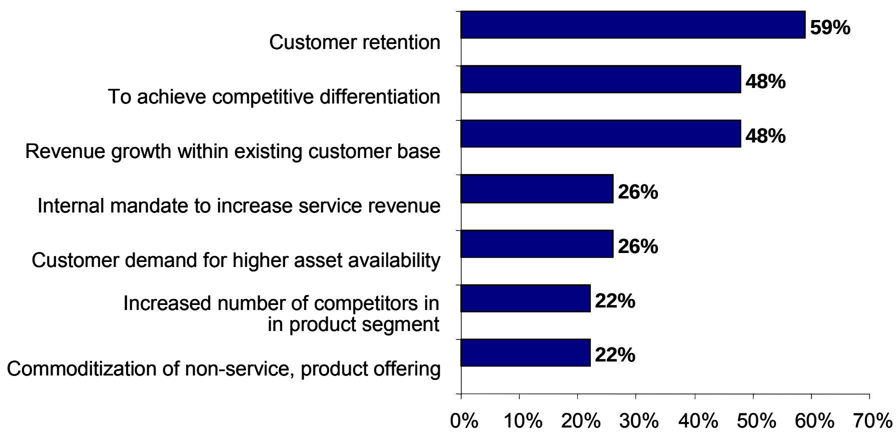
Aberdeen's PACE framework provides Industry Average and Laggard companies attempting to become a Best-in-Class organization, a structured way to understand how Best-in-Class companies achieved their superior performance.

What market pressures are driving companies to invest in their post-sale service operations? For best-in-class companies, the following influential factors stand out.

**Customer Retention:**

Research has shown that it typically costs five to seven times as much to acquire a new customer than to retain an existing one. It should not be surprising then that **for almost 60% best-in-class companies, customer retention is the number one pressure**. Customer retention does not have to be measured at the end of the fiscal year, but can be pre-determined if a company measures customer-centric metrics such as uptime, first time fix rate and on-time arrival compliance, and mean time to repair on a regular basis.

**Figure 2: Market Pressures Driving Service Optimization**




Source: AberdeenGroup, May 2007

**Competitive Differentiation:**

Best-in-class firms state they are aiming to leverage superior customer service to edge out competitors. This mindset reflects a strategic understanding that it is far easier to replicate product functionality and loose the competitive advantage than it is to replicate high level of customer service.

**Service Revenue Growth within Existing Client-base:**

Intense competition and extended product lifecycles has limited the opportunity for companies to up-sell and cross-sell products within existing customer base. So, best-in-class firms are selling smart services, premium service contracts to achieve top-line growth.

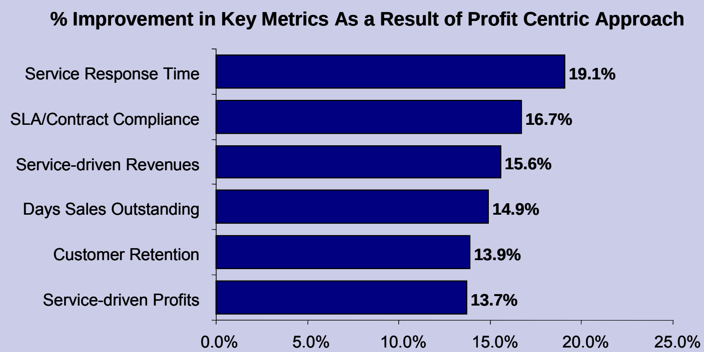
**Medical Device Manufacturer**

"We don't just sell machines; we sell a suite of services — technical support, clinical support, training, and repairs."

Jeff Gaulin, Manager, Customer Service and Depot Repair, Haemonetics

**Aberdeen Insights – Profit Centric Approach Is the Key to Success**

A core tenet of strategic service management is taking a profit centric approach. Companies that have adopted such an approach over the past two years have realized significant operational and financial improvements.




Source: AberdeenGroup, May 2007

Aberdeen research indicates that companies that accurately identify the market pressures are the ones that take the most transformational and effective actions to achieve superior performance. In other words, company performance strongly correlates with the PACE choices it makes and how well it executes.

All service organizations should examine their prioritized PACE selections and compare them to those of best-in-class companies to determine where they need to make adjustments.

**PACE Key — For more detailed description see Appendix A**

*Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:*

***Pressures*** — external forces that impact an organization's market position, competitiveness, or business operations

***Actions*** — the strategic approaches that an organization takes in response to industry pressures

***Capabilities*** — the business process competencies required to execute corporate strategy

***Enablers*** — the key functionality of technology solutions required to support the organization's enabling business practices

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**Table 2**: Best-in-Class PACE Framework

| Pressures | Actions | Capabilities | Enablers |
|---|---|---|---|
| Increased focus on customer retention and revenue growth from post-sale service within existing customer base | • Appoint senior-level service chain executive<br>• Document customer needs, feedback and expectations<br>• Offer tiered service level agreements and contracts<br>• Align internal business processes with customer needs<br>• Tie compensation to financial, operational and customer retention metrics | • Systematic and frequent measurement of service profitability, customer retention and service revenue<br>• Senior executive responsible for post-sales service reports directly to CXO<br>• Multi-tiered service level agreements and contracts<br>• Systematic planning, forecasting, and alignment of service resources and demand based on robust analytics<br>• Real-time capture and integration of customer and product specific information | Strategic Service Management Infrastructure:<br>• Business Intelligence/ Analytics<br>• Mobile and M2M communications hardware, software and wireless connectivity<br>• Warranty/ Contract Management<br>• Constraint based schedule and routing optimization<br>• Pricing optimization<br>• Resource Planning and Forecasting System<br>• Returns/ Exchange Management |

Source: AberdeenGroup, May 2007

**Industrial Equipment Manufacturer**

"We have started treating our service operations like a business. The word profit center was not in our vocabulary before – now it is; we did not have a annual business plan before – now we do. It has all to do with the mind set."

Kurt Bradtmueller, Director, Panasonic Factory Solutions Company of America

# Chapter Two: Benchmarking Requirements for Success

## Competitive Assessment

Based on the Maturity Class Framework, Aberdeen established Best-in-Class characteristics in five key categories: (1) process; (2) organization; (3) knowledge; (4) technology; and (5) performance management.

**Table 3: Competitive Framework**

| | Laggards | Average | Best-in-class |
|---|---|---|---|
| Process | Systematic planning, forecasting, and alignment of service resources and demand based on robust analytics: | | |
| | 20% | 54% | 59% |
| | Multi-tiered service level agreements and contracts offered at initial product sale: | | |
| | 43% | 37% | 70% |
| Organization | Senior executive is responsible for post-sales service. He/she directly reports to a CXO: | | |
| | 43% | 44% | 70% |
| Knowledge | Real-time capture and integration of customer- and product-specific information with all value chain counterparts: | | |
| | 17% | 19% | 33% |
| Technology | Service-specific technology solutions currently in place: | | |
| | AVL/GPS | | |
| | 25% | 26% | 31% |
| | Business Intelligence/ Analytics | | |
| | 21% | 36% | 48% |
| | Field Service Automation | | |
| | 12% | 27% | 36% |
| | M2M/ RPS | | |
| | 13% | 13% | 21% |
| | Pricing Optimization | | |
| | 23% | 35% | 44% |
| | Resource Planning and Forecasting | | |
| | 20% | 40% | 41% |
| | Returns/ Exchange Management | | |
| | 62% | 61% | 57% |
| | Schedule and Routing Optimization | | |
| | 33% | 32% | 36% |
| | Service Parts Management | | |
| | 21% | 58% | 74% |
| | Warranty/ Contract Management | | |

**Fast Facts**

The Best-in-Class characteristics:

- Almost 60% conduct systematic planning, forecasting, and alignment of service resources and demand based on robust analytics
- 70% offer multi-tiered service level agreements and contracts
- 70% have a senior executive responsible for post-sales service
- 78% regularly and frequently measure service profitability, customer retention and service revenue

Best-in-Class companies dedicate 17% of their IT dollars to post-sales service initiatives.

14% of Best-in-Class companies are planning to deploy a service management system in the next 18 months.

| | Laggards | Average | Best-in-class |
|---|---|---|---|
| | 39% | 53% | 64% |
| Performance | Systematic and frequent measurement of service profitability, customer retention and service revenue: | | |
| | 30% | 53% | 78% |

Source: AberdeenGroup, May 2007

**Avaya Improves Business Performance by adopting Strategic Service Management Approach**

By aligning parts management and field service automation initiatives, two of the major components of Strategic Service Management, Avaya Global Services reduced field spare parts inventory by 30% and increased technician productivity.

$4.9 billion Avaya provides and maintains communications networks for enterprises, including 90% of the Fortune 500 companies. Avaya has 2,000 locations across the United States to store parts: Avaya regional offices, technicians' vans, and the locations of Avaya's 3PL (third party logistics) provider. Avaya wanted to improve profitability, reduce customer complaints and return to its focus of being a service-focused company. Traditionally, they had relied on manual, paper based processes and telephones to coordinate service calls. Based on the aggressive profitability goals, reliance on such processes was not sustainable. Avaya decided to adopt an end-to-end approach to service.

The company applied Six Sigma (defined as a disciplined, data-driven approach and methodology for eliminating defects) to improve parts distribution and implemented a technician optimization and mobility solution that enabled them to manage the entire service cycle – from receipt of service request, to dispatching and monitoring the service contractor, and billing. Essentially, they deployed a strategic management solution to manage field service, call center, inventory, and partners.

Post deployment, all information related to each service request was consolidated into their customer service center. Avaya receives notification of needed repairs in its customer service center. This notification comes in through calls and e-mails from customers, as well as via automatic alarms from the self-diagnostic software within some of Avaya's equipment. When a call or alarm comes in, it goes into Avaya's proprietary case management system, and the staff at the service center — mostly skilled equipment engineers — attempt to resolve the call remotely. Ninety-five percent of the time, they do. The other 5% of the time, a technician is dispatched.

With a strategic service management approach in place, Avaya can measure success across the service organization. Notable improvements in service operations include a reduction in real estate throughout the United States, a 30% reduction in inventory, and increased technician productivity amounting to 1½ hours of additional productivity per tech, per day. In addition, the company reported improved customer satisfaction based on their annual client conference.

## Organizational Capabilities and Technology Enablers

Two-thirds of best-in-class companies have a VP level or higher person overseeing service operations. Such companies out-pace those without executive level service leaders both in financial and operational performance. For instance, **companies with a senior service executive reported 50% higher service revenue; 42% higher service profitability; and 53% higher percentage of customer base under service contracts than companies which did not have such a capability**.

An accurate and real-time view into near- and long-term service demand (maintenance, repair, or installation incidents) and resource capacity (people, parts, vehicles) is a critical supporting element of Strategic Service Management. **Even the most sophisticated approach to Strategic Service Management will fall short of optimal performance levels without preemptive forecasting and planning of both the resource supply and the service demand**.

Patterns of planned service orders serve as critical input to calculating the optimal resources needed to address the future service demand. However, a change in business direction and/or unplanned work orders can have a monumental impact on the service demand. Companies must anticipate these events to effectively plan and forecast service resources. Likewise, a forward-looking view into resource capacity and availability allows a company to proactively make adjustments to address demand fluctuations and to more accurately promise response times to customers, which in turn impacts retention. Service managers must stay on top of future technician availability, training time, spare parts availability, vehicle availability. With real time service demand forecasts and resource allocation plans in place, companies can ensure seamless service delivery.

In order to successfully make the transition to running the service operation as a strategic profit center, most companies need to shore up their data management processes. Companies hoping to drive growth from their service operations must ensure that critical customer, resource, work-order, contract and asset information is up-to-date, accurate, universally accessible, secure, and relevant by role. Pertinent data types to which service workers require accurate and timely access can be classified into a few key categories:

- **Transaction:** service order details, schedule/route information, warranty/ entitlement information, etc.
- **Customer:** special requirements/preferences, historical service activity, SLA commitments, etc.
- **Asset:** historical service trends, current performance status, best practices for problem diagnosis/resolution, etc.
- **Spare-parts Inventory:** spare parts location, availability, etc.
- **Performance:** productivity of field technicians, SLA compliance, on-time arrival compliance, continuity of care, first-time resolution rate, etc.

**Electric Shower Manufacturer**

"By approaching our service operation as vital source of business growth rather than a cost center, we achieved our strategic company goals. We changed our mission statement to begin with - the quality of our service is the quality of our company. Technology enabled us to remove costly latencies from the service operation."

Graham Neve, General Manager, Service
Triton, PLC

At most companies such information resides in disparate systems such as ERP, CRM, Financial and Accounting, service parts planning, scheduling and routing, intelligent asset diagnostics, returns management, warranty and/or contract management. As stated earlier, however, forward-thinking companies that truly have moved to managing service as a strategic unit have adopted a holistic and integrated approach to managing resources (people, parts, vehicles), partners (internal, external), contracts, and customers. Hence, they are increasingly adopting service management systems that include much of the aforementioned functionality in one place. In fact, **67% of companies that have run their service operation as a profit center for more than 2 years have either integrated their service-specific point solutions or deployed a strategic service management solution to allow the executives to gain a global view of their service operations thereby enabling enterprise-wide decision support and performance optimization**.

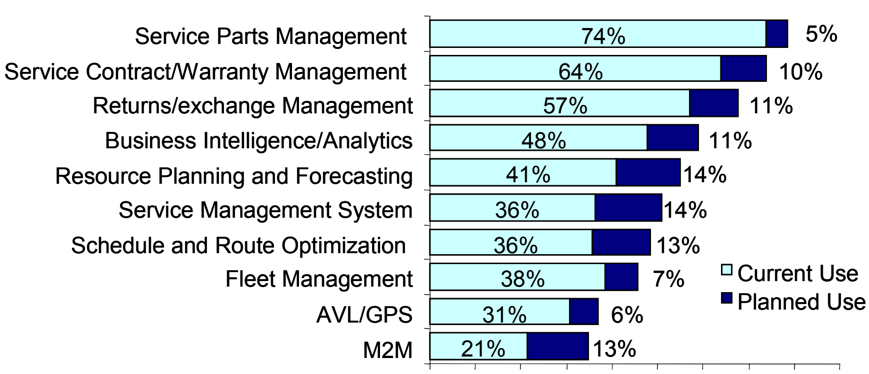
On average, companies dedicate 13% of their IT budgets to post-sales service initiatives. **Best-in-class companies however, dedicate 17% of their IT dollars to post-sales service**. Interestingly, companies that run the service operations as a **profit center allocate 21% of their IT budget to post-sale optimization efforts**. As highlighted in Figure 3, 14% of best-in-class companies are planning to deploy a service management system in the next 18 months.

**Technology Service Provider**

"Good service is no longer sufficient. To remain competitive during the forthcoming decade leading companies must delight their customers. To do this, service must become a business strategy rather than a low-level tactical function."

Robert Garratt, Associate Partner,
IBM Global Business Services

**Figure 3: Current and Planned Best-in-Class Technology Adoption**




Source: AberdeenGroup, May 2007

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### First Service Networks Improves Business Performance with Service Automation

Providing maintenance services to more than 40,000 sites, First Service Networks wanted to improve profitability and customer satisfaction. Traditionally, they had relied on manual, paper based processes and telephones to coordinate service calls. Based on the aggressive profitability goals, reliance on such processes was not sustainable. First Service Networks decided to adopt an end-to-end service management system. The company selected a solution that enabled them to manage the entire service cycle – from receipt of service request, to dispatching and monitoring the service contractor, invoice creation, cost containment, and billing. Essentially, they deployed a single solution to manage the field service, call center, customer self-service, and partners.

Post deployment, all information related to each service request was consolidated in one system including details of the service ticket, parts, asset repair history, and customer history. Customer Advocates at First Service Networks began leveraging the system to route the service requests based on the pre-assigned location, availability, customer preferences, and skills. Upon work-order completion, the technicians began sending the details of work performed, invoice including parts and labor hours in real-time back to First Service Networks. The fact that the service management system was integrated with the company's financial application; accelerated the billing process. Such improvements allowed the company to reduce mean time to repair by 3 hours, reduce the number of call-center phone calls by 50%, achieve a 25% reduction in time to invoice the customer, and expedite invoice and collection by 50%. In addition, the company reported a 40% increase in quote approvals from customers. All said and done, the improved productivity helped the company in meeting its profitability and customer satisfaction objectives.

### Aberdeen Insights – Technology

Aberdeen research revealed that companies that have deployed best-in-breed service-specific point solutions have on average realized higher performance gains than those that implemented service modules of ERP and CRM solution providers.

| Key Performance Metric | ERP or CRM Service Module | Best of Breed Solution |
|---|---|---|
| Percent of Total Revenue derived from Service | **16.4%** | **24.4%** |
| Percent of Total Profits derived from Service | **22.0%** | **29.9%** |

Source: AberdeenGroup, May 2007

# Chapter Three: Required Actions

Whether a company is trying to move from "Industry Laggard" to "Industry Average," or "Industry Average" to "Best-in-class," they would be well-served in considering the following action items as potential building blocks of a strategic service organization:

## Laggard Steps to Success

- *Measure service profitability, customer retention and service revenue on a regular basis.*

  On average, 30% of the laggard companies measure the aforementioned metrics on a regular basis. Systematic measurement of such metrics will enable laggard companies to accurately identify where to focus their efforts and resources.

- *Evaluate outsourcing some service chain functions to third-parties.*

  In many cases, companies can better meet customer service targets by establishing partnerships with third parties such as ISOs, and 3PLs. As part of their service strategy, 41% of best-in-class companies are outsourcing parts of their service operations. They are turning to 3PLs to manage service processes from "cradle to grave" including service parts inventory planning and distribution, reverse logistics and repair depot management. They are also contracting with centralized (often offshore) call centers to manage inbound customer inquiries, and are leveraging ISOs to manage break/fix and maintenance processes.

  The strategy of having channel partners participate in service delivery makes for a fragmented service chain, creating especially demanding requirements for business process integration and seamless transaction throughput. But with the right partners and properly installed integration bridges, the benefits that accrue to companies from an outsourcing approach usually outweigh the risks. The ideal mix of in-house and outsourced processes should result in the highest possible levels of customer satisfaction, without compromising operating efficiencies, revenue growth opportunities, or total cost of technology ownership.

- *Conduct systematic planning, forecasting, and alignment of service resources and demand.*

  Fully, 80% of laggard companies do not engage in planning forecast service demand, and 63% do not forecast service supply, or they rely on spreadsheets for this purpose. Companies working to manage service as a strategic business unit need to align their service demand with the service resources at their disposal. They need to apply the

**Fast Facts**

To achieve Best-in-Class status manufacturers must:

- Migrate to a preventative and predictive service model based on real-time asset monitoring.
- Tie compensation to financial, operational and customer retention metrics.
- Offer multi-tiered service level agreements and contracts based on customer needs.
- Appoint a senior executive responsible for post-sales service who directly reports to a CXO.
- Conduct systematic planning, forecasting, and alignment of service resources and demand.

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same level of rigor to planning and forecasting service technicians, parts and vehicles as they do to execution.

With a pre-emptive approach to service chain planning, including tactics such as pre-positioning of technicians to meet anticipated customer demand, companies can achieve new level of service performance excellence and get away from the daily fire-fighting.

## Industry Norm Steps to Success

- *Appoint a senior executive (VP level or higher) to manage post-sales service who directly reports to a CXO.*

  Over half of the average companies do not have a senior executive in charge of post-sale operations. Executive ownership does not ensure best-in-class status on its own accord but is a critical step in the journey. The one issue that clearly separates the best-in-class companies from the rest is the single-point of accountability with access to the CXO table. It is imperative that the service operation function as a cohesive business unit in order to deliver top- and bottom-line results.

- *Offer multi-tiered service level agreements and contracts based on customer needs.*

  Aberdeen's survey revealed that only a third of the average companies offer multi-tiers SLAs and contracts. A majority have chosen to use a "one size fits all" approach thereby not only forfeiting the opportunities for revenue growth based on service contracts with varying levels of value proposition, but also leading to high customer dissatisfaction particularly in industries such as medical device, aerospace and defense and high-tech manufacturing.

- *Change business processes to align with customer needs and expectations.*

  Transforming post-sale service operation from a tactical cost center to a strategic profit center has a lot to do with creative and efficient business processes supported by technology. Mapping business processes to customer needs and expectations will enable a company to better position itself for long-term growth such as incorporating customer preference for a technician in the scheduling and routing process.

**Plumbing Service Provider**

"Our service isn't usually a planned purchase. So, when an emergency occurs, customers expect reliability with a level of urgency or the customer goes elsewhere. We realized that in order to stay competitive and retain our customers, we have to adopt a customer-centric mentality and change business processes at every level."

Steve Poppe, CIO,
Roto-Rooter

## Best-in-class Steps to Success

- *Migrate to a preventative and predictive service model based on real-time asset monitoring.*

  Aligning service resources with unplanned demand can force a company to fall back into tactical "firefighting" mode. To avoid this and continue on the path of strategic service management, service organizations need to leverage emerging M2M-enabled solutions to preemptively take corrective action based on remote asset monitoring. In fact, best-in-class service organizations currently using such solutions, have noted such gains as 38% improvement in customer retention, 30% reduction in field technician dispatches, and 20% improvement in service revenue.

- *Leverage post-sale service to aggressively grow the top-line.*

  A key benefit of adopting a strategic approach to post-sales service is revenue growth due to service efficiencies resulting in heightened customer satisfaction. Several companies that Aberdeen interviewed stated that it was much easier to demonstrate the value proposition of premium service level agreements with tighter response times or performance based contracts while the customer satisfaction is high.

- *Tie service employee compensation to financial, operational and customer retention metrics.*

  The fact that compensation drives behavior is not a secret. Organizations tend to operate in silos and stakeholders from various departments have conflicting priorities and agenda. According to past Aberdeen research, human change management is one of the most significant impediments to enacting service chain optimization. No measure of process improvements or technology adoption will impact performance if the personnel at the call center, dispatch, warehouse, manufacturing and the field do not work collaboratively to achieve the strategic corporate objectives. Linking compensation to revenue, profitability and customer retention metrics will enable behavior modification rapidly and effectively.

- *Integrate and share customer and product information with internal value chain counterparts.*

  Historically, service has operated as a discrete entity, separate and distinct from product engineering, design, and manufacturing. Aberdeen's survey revealed that only 26% of the best-in-class companies share this information with their value chain counterparts. Unfortunately, this has prevented valuable insights — gleaned from the field regarding product performance and serviceability — from making their way back into product design cycles. Companies looking to reduce warranty exposure, simplify break/fix and preventative maintenance procedures, and improve overall product performance and availability must formalize a collaborative relationship between service and manufacturing.

**High-Tech Manufacturer**

"Asset availability is our value proposition. The company is aggressively pursuing a goal of 99.9999% asset uptime. Ability to remotely monitor asset condition, proactively take corrective action and accurately diagnose root cause/s of failure prior to technician dispatch is critical to achieving this goal."

Dennis Arena, Product Support Manager, Stratus Technologies

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# Appendix A:
# Research Methodology

In April-May of 2007, Aberdeen Group examined the Strategic Service Management initiatives of over 280 companies across many industry verticals.

Responding executives completed an online survey that included questions designed to determine the following:

- The degree to which Strategic Service Management initiatives are deployed across the service organization and the impact of such initiatives on the company's overall financial and operational performance;
- The change over the previous two years;
- The actions and strategies organizations have used to improve the effectiveness of their post sale operations;
- Current and planned use of software solutions and technologies to aid business processes; and
- The benefits realized from implementing new business initiatives, processes and solutions.

Aberdeen supplemented this survey effort with telephone interviews with select survey respondents to gather additional insights on pressures, actions, experiences, and results.

The study is focused on identifying best practices and to provide a framework by which readers can benchmark their own capabilities.

Responding enterprises included the following:

- ***Job title/function:*** The research sample included respondents with the following job titles: CxO, President, VP (39%); Director, Manager (52%); Other (9%).
- ***Industry:*** The research included respondents from the following industries. The highest represented industries were Hi-Tech Manufacturing (19%), Industrial Equipment Manufacturing (15%), Telecom/Utilities (13%), Medical Manufacturing (11%), Aerospace/Defense (5%), and Automotive (4%).
- ***Geography:*** The majority of respondents (69%) were from North America. Remaining respondents were from Europe (18%) and the Asia-Pacific region (7%).
- ***Company size:*** About 44% of respondents were from large enterprises (annual revenues above US$500 million); 31% were from midsize enterprises (annual revenues between $50 million and $500 million); and 25% of respondents were from small businesses (annual revenues of $50 million or less).

### Table 4: PACE Framework

**PACE Key**

Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

*Pressures* — external forces that impact an organization's market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)

*Actions* — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy)

*Capabilities* — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing)

*Enablers* — the key functionality of technology solutions required to support the organization's enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)

Source: AberdeenGroup, May 2007

### Table 5: Maturity Framework

**Maturity Framework Key**

The Aberdeen Maturity Framework defines enterprises as falling into one of the following three levels of practices and performance:

*Best-in-class (20%)* — Strategic Service Management practices that are the best currently being employed and significantly superior to the industry norm, and result in the top industry performance.

*Industry norm (50%)* — Strategic Service Management practices that represent the average or norm, and result in average industry performance.

*Laggards (30%)* — Strategic Service Management practices that are significantly behind the average of the industry, and result in below average performance.

Source: AberdeenGroup, May 2007

### Table 6: Competitive Framework

| Competitive Framework Key |
| --- |
| *Process* — What is the scope of process standardization? What is the efficiency and effectiveness of this process? |
| *Organization* — How is your company currently organized to manage and optimize this particular process? |
| *Knowledge* — What visibility do you have into key data and intelligence required to manage this process? |
| *Technology* — What level of automation have you used to support this process? How is this automation integrated and aligned? |
| *Performance* — What do you measure? How frequently? What's your actual performance? |

Source: AberdeenGroup, May 2007

### Table 7: Relationship between PACE and Competitive Framework

| PACE and Competitive Framework How They Interact |
| --- |
| Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute. |

Source: AberdeenGroup, May 2007

# Appendix B:
# Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- *Service as a Profit Center: The CFO's View* (August 2006)
- *The Emergence of the 'Chief Service Officer'* (September 2005)
- *Best Practices in Service Chain Performance Management* (August 2006)
- *Service on Time, All the Time* (April 2007)
- *Service on the Move: Driving Profitability via Fleet Management* (March 2007)
- *The Mobile Field Service Benchmark, 2007 and Beyond* (December 2006)
- *The Service Network Optimization Benchmark Report* (March 2006)
- *Industry Best Practices in Reverse Logistics* (January 2007)
- *Service Parts Management Update* (October 2006)
- *The Convergence of People and Parts in the Service Chain* (March 2006)

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

Author: Amit Jain, Research Director, Service Chain Management
amit.jain@aberdeen.com