Service as a Strategy

A new Capgemini study provides insights into best practices of service management and suggests that a strong service strategy can have a positive impact on financial performance. This executive summary highlights the key findings.

Competition, cost pressures and empowered customers are forcing manufacturers to look beyond their products to drive profitable business growth. Many are turning to service management. While some manufacturers still view service as a cost element, an increasing number have successfully grown their service business while transforming it to a profit-center perspective.

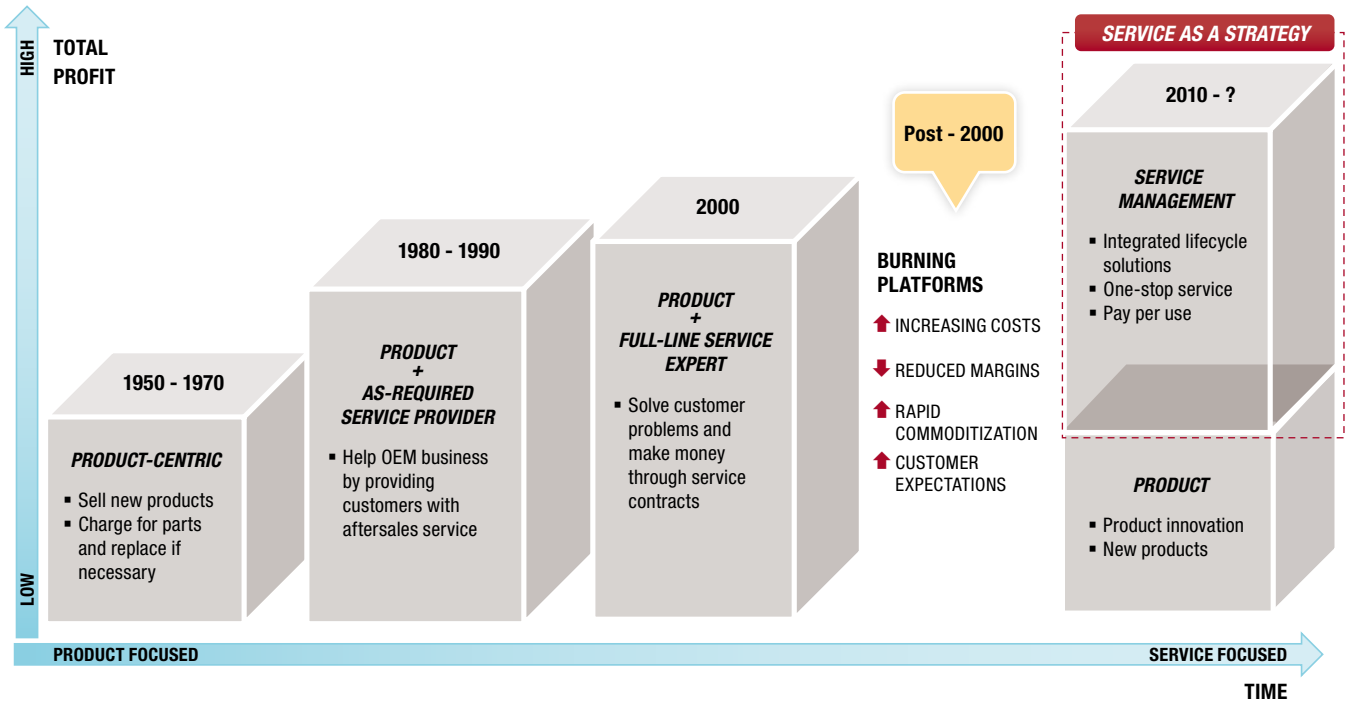
Companies have discovered that service management can help them address current challenges facing their business. For example, rising costs related to raw materials, labor, and environmental and regulatory compliance are squeezing margins ever tighter. Service revenues can mitigate shrinking margins and drive topline revenue growth.

In addition, sophisticated and demanding customers are looking more closely at the total cost of ownership, expecting manufacturers to provide lifecycle maintenance services and a comprehensive solution and service experience around their products. At the same time, globalization and the rapid commoditization of products have put additional pressure on product lines, forcing manufacturers to constantly innovate to create sustainable differentiating factors. Increasingly, service management is being viewed as a differentiator and competitive advantage.

For those companies that have begun the process of transforming from a product-centric to a service-focused approach, service is viewed as a strategy. And evidence suggests that a strong service strategy can have a positive impact on a manufacturer's financial performance.

New research by Capgemini examines how best-in-class manufacturers across the Aerospace and Defense, Industrial Products, Medical Equipment and High Tech segments have adopted differentiating strategies to increase their service revenues.

Figure 1: The Rise of Service as a Strategy



Source: Capgemini

Key Findings

The research revealed that key differentiating factors include top-management commitment towards services (Figure 2), including executive representation on the board; an innovative service business model; and motivating employees to shift focus from product sales to ownership experience. Following are a number of specific findings:

1 Best-in-class manufacturers have moved beyond managing service as a cost center to managing it as a strategic profit center largely by restructuring their organizational capabilities. Companies that view service as a profit center are likely to categorize it as its own business unit across product lines and will report service revenues in their financial statements.

2 Manufacturers are continually looking for innovative financial solutions for their capital needs as well as to provide customer payment flexibility. Service-focused companies are moving beyond obtaining financing for their products to financing their service deals and are in turn providing customers with product usage/service payment flexibility. For example, a leading High Tech company has an agreement with a financial institution to receive one-off funding payment in lieu of its future cash flows (from rent).The benefit is passed on to the customer in the form of a flexible payment plan for services offered.

3 Best-in-class companies adopt a strategy focusing on mergers and acquisitions and partnerships to build the service business and extend their service portfolio. Traditionally, manufacturers built service capabilities internally, but today many are setting up service facilities through the acquisition of niche service-focused companies. Manufacturers are also entering into alliances or joint ventures with companies that have service expertise. A leading Aerospace and Defense company has increased its service revenue at a compounded rate of 9% through acquisitions of service businesses. Through this approach, it has also achieved significant cost reduction, and increased service efficiency and customer satisfaction.

4 Manufacturers are moving beyond servicing their own products and are offering a range of "smart" services within the segment. Today customers typically need to turn to multiple manufacturers offering different services. However, the business model likely to evolve will be one that offers one-stop services (Figure 3). These may include product lifecycle management, transaction and further data analytics, inventory management, modeling and simulation, logistics, outsourcing and financial engineering.

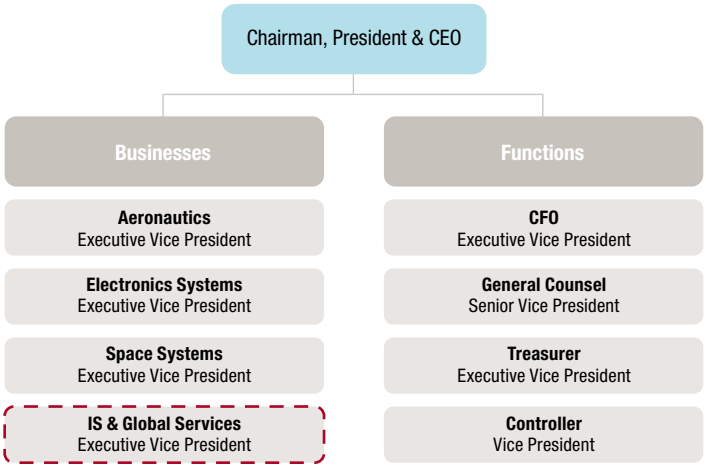
5 Companies are moving beyond aftermarket service management towards product lifecycle maintenance services, thus increasing their service portfolio. These services typically include training, material management,

migration and upgrade, and recycling. Service offerings driven through this model tend to be more comprehensive than traditional aftermarket service management, thus creating a win-win situation for both the manufacturer and the customer.

6 Manufacturers are shifting from traditional contracts to offer product "functionality" through performance-based service contracts. In this model, customers sign a long-term performance contract (typically five years) with the manufacturer for an asset. Support and service are handled by the manufacturer as part of the managed-services contract. A leading Industrial Products company offers a program where customers pay a fixed rate for maintenance based on the number of hours used. This provides the customer with continuous warranty and a more accurate way of budgeting operations. The manufacturer gains a long-term contractual relationship with the customer, insights into the usage pattern, and opportunities for profit from spares and overhaul operations. Another leading manufacturer offers ongoing performance of the product without charging the customer for maintenance and service parts contracts anymore.

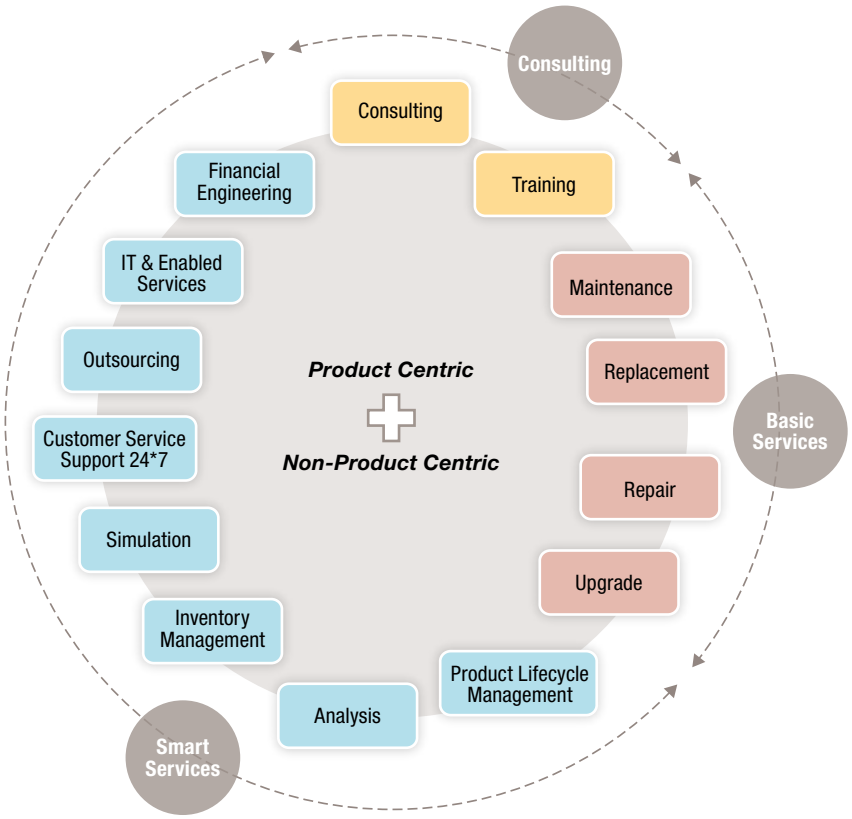
7 Manufacturers are leveraging new technologies to shift from a reactive to a pre-emptive mode for service management and delivery. For example, a Remote Monitoring System (RMS) provides the service department of an Industrial Products company with an early indication of product failure. This enables the technician to locate the malfunctioning part and have it replaced before receiving a customer complaint or a call for replacement. In another case, a Medical Equipment manufacturer has expanded its service offerings to include wireless monitoring of its mobile imaging centers. This system enables engineers to monitor and maintain mobile imaging centers in near real time.

Figure 2: Top-Management Commitment Key to Service Success



Source: Capgemini

Figure 3: The One-Stop-Service Model



Source: Capgemini

8 Best-in-class companies are measuring customer loyalty and linking it to their employee performance management system. With this approach, sales executives address customer service needs, thus maintaining a relationship with the customer. At the same time, customers rate the overall experience, which in turn is linked to the executive performance management system. Some manufacturers use the Net Promoter Score approach as a key measure to improve the overall customer experience and as a means to achieve organic growth.

Can Service Management Boost Financial Performance?

It became evident from the research that focusing on service as a strategy can bring a manufacturer significant benefits, including increased revenue and profits, reduced costs and improved customer experiences. As part of the research we further analyzed the financial performance of companies that have a growing and profitable service revenue.

Of course, many elements affect share prices, and a company's financial stability and profitability are, among others, important factors. However, our research provides evidence to suggest that the share prices of manufacturing companies that have a best-practice service management business have outperformed those of their competitors.

How Capgemini Can Help

Capgemini's service management research offers benchmarks to help manufacturers make the shift from a product-centric operation to one focused on service. This executive summary provides a topline view of key findings from the study. Yet there is much more that can be explored and applied to your own organization.

Our Service Management "Insight Days" can help manufacturers develop their own service management transformation strategy and roadmap to the future state, including a toolkit of best practices, case study examples and benchmarks.

Study Methodology

Capgemini's "Service as a Strategy" research was designed to identify how certain manufacturing companies have succeeded in growing their service business. The study focuses on service as a profit center in four key manufacturing segments: Aerospace and Defense, Industrial Products, Medical Equipment and High Tech.

Service revenue data from 2001 to 2009 was studied for more than 10 key players within each segment. Of those, two best-in-class companies were selected for in-depth analysis based on their service revenue performance.

For the purposes of the research, service was defined as comprising all activities necessary to maintain and restore the functionality of a product during its useful lifetime.

About Capgemini and the Collaborative Business Experience

Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies. Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working, the Collaborative Business Experience™. The Group relies on its global delivery model called Rightshore®, which aims to get the right balance of the best talent from multiple locations, working as one team to create and deliver the optimum solution for clients. Present in more than 30 countries, Capgemini reported 2009 global revenues of EUR 8.4 billion and employs 90,000 people worldwide.

More information is available at **www.capgemini.com**

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