



Turning a Non-core Service into a Core, Key Differentiator

After-sales Service for Manufacturing

Manufacturing companies are slowly beginning to realize that their core business alone may not satisfy bottom-line expectations, and that the time has come to expand what has so far been perceived to be the core. Their focus has to now go beyond just the sale of products they manufacture to incorporate after-sales service as a core component of their business strategy. This calls for an extension of their business model, and a re-modeling of the corporate culture and approach.

This white paper from WNS provides insights into how manufacturing companies can **'extend their enterprise'** and **outperform** their competition through after-sales service excellence.



After-sales Service in the Manufacturing Industry

In the past three decades, only a handful of global manufacturing leaders have recognized the opportunities that after-sales service provides, and re-looked at the way their businesses are structured. Pioneers like GE have reaped the benefits through increased profits from after-sales services.

The foresight of GE founder Jack Welch helped the company weather the lows in the market for manufactured goods in the early part of this century. To counter the threat to profit margins in product sales, Welch created a strong after-sales services offering and culture in the company. This provided GE a key differentiator in the market, besides boosting its revenues and profitability. In 2008, GE reported revenues in excess of USD 35 billion from product-related services, with an average profit margin of more than 25 percent.

A 2006 Deloitte study of leading manufacturers world-wide succinctly established the business potential for after-sales in manufacturing. The manufacturing businesses studied reported on an average 75 percent more profits from

the services and parts operations than the main product business. On an average, after-sales accounted for 26 percent of their revenues, while in some cases, it sometimes accounted for more than 50 percent of total revenues.

After-sales provides benefits in the form of recurring revenue streams, provides new sources of differentiation and offers a new counter force to the commoditization in mature industries. However, it continues to remain an untapped opportunity throughout the industry.

Many companies even today treat after-sales as a necessary evil rather than a potential source for revenue generation at higher margins. They do not realize how big a drain it can be on the company's bottom-line if it remains unoptimized.

For the year 2010, for U.S.-based manufacturers that file reports with Securities Exchange Commission:

- The warranty accrual was **USD 22.8 billion**, up **6.5 percent** from USD 21.4 billion in 2009
- Claims paid totaled to about **USD 23.6 billion**
- Warranty reserve funds totaled to about **USD 33.5 billion**

Source: Warrantyweek.com

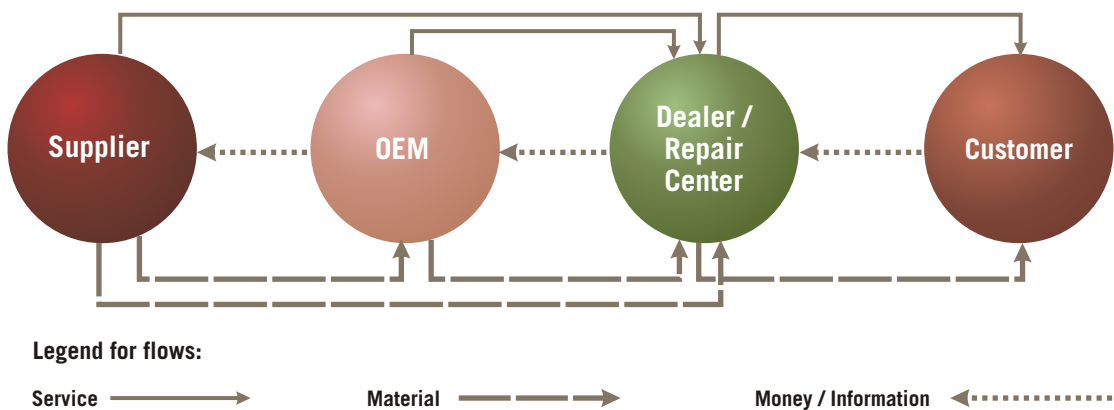
Manufacturers spend anywhere from **0.5 percent** to **7 percent** of product revenue on warranty claims. In the United States alone, this represents approximately **USD 23 billion** of opportunity to the industry.

Source: IDC Manufacturing Insights, 2011

The Top 5 Challenges in After-sales Service

Over the years, the importance of having a strong service outlook has been slowly gaining traction in the manufacturing industry. But companies have not been able to monetize the investments

made. The following are the top five challenges that prevent companies from achieving profitability in after-sales:





Key Challenges

1. Value Chain Inefficiencies:

The after-sales ecosystem is highly fragmented. Though the after-sales value chain may seem to appear simple at first glance, in reality, it is a highly complex network of parts and service providers that is difficult to monitor and manage. There may be thousands of parts in each product being supplied by hundreds of vendors. The complexity further increases, considering that the lifecycle for different parts varies. Some may need to be serviced for many decades, while others may need to be delivered to remote parts of the world, and at any time of the day. The nature of services itself is varied. It could be preventive maintenance, consulting and financial services, spare-parts supply, repairs, retrofits, upgrades, disposal and / or recycle of parts.

2. Weak After-sales Strategy:

Manufacturers segment customers for their product requirements. But they seldom do basic market research to segment customers based on their service needs. This leads to inaccurate creation of the portfolio of services to take to the market.

While after-sales profit margins can be very high, companies often struggle to achieve such margins due to an improper pricing strategy.

3. Costly and Inefficient Execution:

Most manufacturers struggle to provide services that are excellent and still cost-effective. This is mainly because of process inefficiencies and inability to effectively leverage technology to attain service excellence. Some have invested in technology to build a service infrastructure without paying much attention to the processes that are required to manage the system efficiently.

Most after-sales processes are labor-intensive, transaction-heavy and often with limited information systems support.

Inefficient claims management impacts operating costs negatively. The key pain points being:

- High rate of wrong entitlement disbursements
- Discrepant repair claims and parts reconciliation
- Limited ability to identify expiring product warranties

Inefficient spare parts and quality management affects the overall product quality. The key pain points being:

- Lack of analytics on failure trends and metrics
- Lack of inventory visibility (spare parts, seed stock)
- Sub-optimal parts planning
- Inadequate collaboration between reverse logistics and engineering on failure trends and product enhancements
- Inconsistent NPI and end-of-life planning of resources
- Inconsistent usage of fault codes in systems

Sub-optimal service management leads to increased service costs and reduction in service revenue. The key pain points being:

- Manual order processing
- Lack of real-time service request status
- High number of discrepant or open RMAs
- Lengthy time-to-resolution
- High cost of returns logistics
- Poor vendor (3PL, repair, parts) collaboration
- Poor SLA compliance or enforcement rate
- Low field service utilization
- Lack of visibility into repair cycle
- Inefficient disposition and salvage of rejects
- No ability to up-sell and cross-sell products, parts and supplies during service delivery
- Inability to exploit data effectively to derive service insights.

Inefficient customer operations have a negative impact on customer experience, besides increasing costs. The key pain points being:

- Inadequate front-end information capture
- Missed SLAs
- High call center and technical support costs
- Problem re-discovery costs
- Low contract renewals

4. Step-motherly Treatment and 'Reactive' Service Culture:

In many companies, the service division does not enjoy the same privileges as the products division. Hence, working in after-sales services is not considered as attractive or prestigious. The picture that often comes to one's mind is that of a business suit clad sales person in an attractive car showroom vis-a-vis an overall clad service technician at a non-descript workshop.

Most service personnel are 'reactive' in their approach. They are trained to provide the services demanded or agreed upon but seldom proactively assess service needs and try to up-sell or cross-sell services.

5. Poor Governance:

Many manufacturers do not have a senior management position responsible for running the after-sales business efficiently. Clear definition of roles and responsibilities is often missing. There is also not much clarity on the right metrics to monitor and drive continuous improvement.

<p>1</p> 	<p>The 5 Point Formula for After-sales Service Excellence</p>	<p>2</p> 
<p>Designing the Right Portfolio of Services</p>		<p>Pricing the Services Right</p>
<p>3</p> 	<p>4</p> 	<p>5</p> 
<p>Effective Contract Management</p>	<p>Well-orchestrated Execution</p>	<p>Governance</p>

1. Designing the Right Portfolio of Services

The after-sales business, like the product business, must have a sound strategy based on the knowledge of the customers to be serviced and their needs. This is absolutely essential in order to unlock the value in the after-sales service value chain.



Arriving at the right mix of services involves a four-step process as given below.



The current capabilities of the manufacturer and the important market trends are key to this process. Analyses should also be done about what can be done in-house (based on the manufacturer's core competence) and what needs to be outsourced.

Similar to the manner in which a manufacturer would segment customers for their product requirements, it is necessary to do basic market research to segment customers based on their service needs. Some customers would want to spend less

and prefer 'no-frills' services while some would be willing to pay higher to get better levels of service.

It is beneficial to create catalogs of service offerings that help provide written assurances to customers of the services they can avail and also help manage customer expectations from after-sales service.

2. Pricing the Services Right

The key to pricing services right is to understand the different ways in which services can be priced. Then the right ones have to be chosen for the set of service offerings in such a manner that the needs of the target segment are met, while maintaining healthy margins. The right pricing has to complement the right mix of services.



Companies often find service pricing more difficult than product pricing because of the intangible nature of service benefits. Measuring the cost of a service depends on a variety of factors, like the tools used to service, the technical expertise of technicians and operating conditions. It is important to factor these while pricing each service. The pricing itself could be of different types, including time and material based, fixed-price and value-based.

3. Effective Contract Management



The factors that form the basis of a contract are dynamic and hence require close monitoring and management. Some customer segments may require a different type of service or some regions may become more expensive to serve. Effective contract management would mean proactively managing market conditions that could impact the way a company delivers a service to a customer. Monitoring contracts closely gives companies the insight on how and when to modify contract terms (for example change prices), so that the cost of the service to the company does not go up.

4. Well-orchestrated Execution

The service designed, targeted and priced appropriately has to be delivered cost-effectively for the company to make profit from it. Well-orchestrated execution of services entails reducing the time taken to deliver a service, ensuring zero downtime and constantly upgrading the skills of technicians to meet the expectations of customers. Service processes need to be standardized and aligned across the organization.

Effective warranty reserve management is essential to reduce blocked capital and improve margins. The cycle time for claims

review and reimbursement is usually long. Effective claims management can reduce the cost per claim and the number of fraudulent claims. There is tremendous scope for building higher process efficiencies, and hence cost reduction can be achieved in functions like warranty management that are labor-intensive, transaction-heavy and operate with limited information systems support. There is also a need to control revenue leaks by standardizing and streamlining the processes.



After-sales service offers tremendous scope for gathering actionable business insights to improve sales and customer relationships. Service intelligence using the right analytics can help companies improve spare parts inventory management, parts failure analysis and root cause analysis of quality issues, and improve service levels.

The defining value proposition of a strong after-sales business is to take customer experience to the next level. After-sales service accounts for a significant portion of the total interaction with customers, mainly through customer contact centers. Excellent customer contact center operations are essential to keep customers satisfied.

It is also essential to change the mindset of field service personnel from a 'reactive' to a 'proactive' one. The personnel must be trained to not just reactively provide the service, but also be trained to proactively identify and sell services to the target segments.

5. Governance

In order to run a thriving after-sales business, it is essential to accord after-sales business its due within the organization. Based on our experience, it also augurs well in most cases to have a separate business unit for after-sales service with its own P&L. It is necessary to make sure that the after-sales business leadership is kept at the same level as that of the product business. It is prudent to define a Chief Service Officer (CSO) role to focus on creating and running the after-sales business efficiently. A clear marking of roles and responsibilities within the after-sales organization is also essential for achieving success.

It is essential to establish key performance indicators (KPIs) to monitor the after-sales business. Performance must be benchmarked periodically to support efforts for continuous improvement.

Information gathered from after-sales service can serve as early warning signal to identify product / part defects in time, which in turn helps to improve product quality and the manufacturing process. This however necessitates a good collaboration between the product and the service business.



Conclusion

Having a strong after-sales function augurs well for a manufacturer. An efficient after-sales service with high ROI takes the heat off the products division that generally offers lower margins. By boosting revenue and productivity, this dark horse can help to turn the tide in favor of manufacturing companies. An after-sales service business built on strong, proven

capabilities in process efficiencies and built-in analytics has the ability to unlock the latent potential and turn the fortunes of a manufacturing company. In recent times, businesses that have invested in after-sales excellence have been able to survive periods of economic slowdown much better.

About WNS

WNS is a leading global business process solutions company. WNS offers business value to 200+ global clients by combining operational excellence with deep domain expertise in key industry verticals, including Travel, Insurance, Banking and Financial Services, Manufacturing, Retail and Consumer Packaged Goods, Shipping and Logistics, Healthcare and Utilities. WNS delivers an entire spectrum of business process outsourcing services such as finance and accounting, customer care, technology solutions, research and analytics and industry-specific back-office and front-office processes. WNS has delivery centers world-wide, including Costa Rica, India, the Philippines, Romania, South Africa, Sri Lanka, UK and US.

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