



White Paper

Equipment service management

Maximizing profit and customer value over the equipment lifecycle

Executive overview

Current market dynamics have put profitability and margins in equipment service at risk. Increased competition and slim margins in equipment sales and rental place a heavy burden on dealers, rental companies, and service businesses to improve their service performance. Improving service in these conditions is critical to maintaining margins and growing profitability.

In order to compete effectively, there are two fundamentals that service organizations must master to rise above the competition. These two fundamentals, operational control of service operations and equipment intelligence, allow companies to move to proactive service approaches and make better business decisions.

To instill these two fundamentals, world class service organizations are adopting equipment service management processes and tools. This approach provides organizations with an integrated view of their business, so they can improve the value their customers derive from their equipment and subsequently improve their own profitability.

This paper help companies compare their organizations to best practices, and offers tangible suggestions to help them reach world class levels of service performance, resulting in greatly enhanced financial performance and profitable growth.

Equipment service management: Opportunity and challenge

Equipment service management has become simultaneously more strategic and more competitive. Some companies have taken this as far as viewing the initial product sales as the minor event—simply an entry point to the profitable service lifecycle—and selling the product at or near cost. These companies have realized that the total lifecycle profitability carries the potential to be many times higher than the margin on the initial equipment sale.

This added focus on service has dramatically heightened competition on a global scale.



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Dealers facing tight margins on products are turning to service for profitability. An executive at a large equipment dealer summarized the trend and the opportunity by saying: “The equipment sales business is not a high margin business; products are being commoditized and now differentiation comes through support and total customer experience.” He added, “Our customers will spend more on maintaining the equipment than on the capital purchase, and we have a corresponding sales opportunity.”

At the same time that competition has grown stiffer, customers have begun to expect more from their equipment and their service contracts. Equipment owners are demanding higher levels of performance and availability. They want contracts based on the value they receive from the equipment, instead of straight warranty or break-fix support. An executive at a company that provides temporary power, temperature control, and oil-free compressed air systems explained the importance of meeting customer expectations for their rental equipment by saying, “Customer satisfaction is fundamental to our reputation and has a large financial impact on our business. Being a global leader in providing equipment for critical uses means we have to make sure it’s reliable. It’s a key part of our strategy because in the rental business, no matter what relationship you build up with the customer, you are only as good as your last job.”

Customer demands for shared risk or “skin in the game,” commoditized pricing on equipment, and stiffer service competition require dealers, service businesses, and rental companies to get the most out of every opportunity. These companies are turning to equipment service management in order to maximize the profitability of each piece of equipment they support, while simultaneously maximizing the value their customers receive from the equipment.

Stepping up to world class equipment service management

To drive profitable growth and increase customer value, world class service organizations must have two fundamental capabilities:

- Operational control
- Equipment intelligence

Without these two fundamentals, companies will struggle to make the right decisions to support themselves and their customers, resulting in poor customer satisfaction and costs spiraling out of control. With companies locked into long-term, fixed cost and performance-based maintenance contracts, companies can’t afford to lose control of their operations on a global basis. Unfortunately, most companies struggle with gaining control of their operations and developing confidence in their information. The problem is that these companies lack an integrated view of their equipment over the full equipment lifecycle. Without integrated processes and access to good information, companies will underperform.

Lack of operational control leads companies to increased costs and poor customer satisfaction. Service organizations without control of their business will not be able to identify service issues in advance, and will suffer from a break-fix reality. They will lose money by fixing things under warranty that the customer isn’t entitled to or lose an opportunity to transfer the claim to the manufacturer because they don’t have the information to back up their settlement claims. They will not be able to fix an issue the first time because they lack the ability to consistently have the right people, the right tools, and the right parts in the right location to get the job done.

Worse, lack of confidence in their equipment knowledge and lack of proper information will lead them to make poor decisions. Without this confidence in their equipment intelligence, they can't effectively compete in a performance-based or solution-based market. They will face the uncomfortable reality that they can't assess, let alone predict, the profitability of a piece of equipment through its lifecycle, leaving them with two poor choices:

- Choose to add a healthy, conservative safety margin on each bid in order to reduce risk (and lose the deal).
- Or choose to bid aggressively, sell bad business (and lose their shirts).

To make an optimized bid, companies need to be able to predict equipment profitability across its lifecycle. As one equipment dealer comments, "We should be able to see machine availability, profit, and contribution without using spreadsheets; see the profitability of a fleet of equipment without adding it up manually. Typically, though, warranty, sales, travel costs, and field service are all in isolated systems."

Equipment service management provides an integrated view to the processes, status, and profitability of each piece of equipment and allows companies to move from a break-fix support resource to a trusted advisor role. Customers will be more loyal—and profitable—when they see that their service partner is helping them maximize the value they receive from their equipment, as opposed to just billing service hours. Equipment service management is the key to integrating processes, providing a trusted view into the equipment across its lifecycle, controlling the business to optimize cost, and enabling better decision-making that enhances profitability.

Gaining operational control of service.

What is not controlled, can't be measured, and what can't be measured can't be improved. Today's service business demands control. Skilled manpower shortages dictate that companies get the most out of these limited resources. Stiff competition means that companies can't afford excess inventory or the cost of expediting parts. They need to have a good parts planning process at the enterprise level. Increasingly complex warranties and entitlements, often consisting of bundled warranties that cover an integrated piece of equipment (such as a hauler with onboard diagnostics or a GPS tracking system) have to be managed closely.

Equipment preparation and systems integration all require project management control in addition to process control. And control has to extend beyond the office into the field, to the sales counter, to remote depots, and to rental operations. Control requires processes and status transparency across the business. As one executive at a major equipment dealer says, "You need visibility into the process and the ability to see how it progresses. You need to know you have the parts, resources, and shop space in order to provide a reliable repair date or delivery date."

Companies in control can get in front of failures and move to predictive and preventative service to get away from break-fix and improve uptime and availability. To accomplish this, they need to service at the right time, with the right skills, the right tools, and the right parts in the right location. Today's service level agreements (SLAs) and performance-based contracts put the service company at risk, demanding higher levels of control.

Establishing equipment intelligence and confidence in service knowledge

Beyond control, world class service organizations must possess a deep understanding of the equipment that they service. These companies know their customers' equipment better than their customers know it. This knowledge extends to service history, but also to the value the equipment provides to the company operating it, and the profitability it generates for the service business itself. An organization that is in control should be able to develop a P&L by each individual piece of equipment (or even a component, like an engine) that incorporates all activities, all costs, and any overhead, such as dedicated repair facilities.

"Our customer is the piece of equipment; we want to know everything about it," says the dealer manager. "It's less important that we know about Joe, but rather that we know everything about his equipment. You get a lot of relationship mileage from helping Joe reduce the total cost of his equipment," he adds.

Companies should be able to measure equipment value and profitability, but that is difficult or impossible with data spread across disparate systems and paper records. For a company to succeed in today's competitive market, it must be able to predict and plan profitability so it can maintain margins without adding too much "cushion" to each deal. Instead of arguing about what the cushion should be, the company needs to be free to debate what the margin should be on a deal based on strategic value and customer relationship.

Equipment knowledge also helps contain cost. World class service organizations understand what service they owe to the customer, and what can be invoiced. Too often, service organizations fix more than they should for free because they lack the right information to back up their decisions. Companies can't afford to fix too much.

On the other side, dealers, rental companies, and service businesses often don't know what their own entitlements are from the manufacturer and fail to pass on costs, absorbing the full burden themselves.

Beyond cost containment, good equipment knowledge can help improve sales. If a company has the right knowledge, its people can not only determine the right support to provide, they can also show their customers the value that they provide. It's hard for the customer to notice uptime and availability. The sad reality is that when a world class service organization is doing its best, it doesn't get noticed or appreciated. Good knowledge helps customers see the higher value provided from preventative and predictive maintenance as opposed to seeing their service provider on site in break-fix mode.

Pulling it all together for proactive service management

The combination of control and equipment knowledge allows the world class service organization to be proactive about service. This goes well beyond preventative maintenance, leveraging equipment knowledge to help companies address problems before they occur.

“Before our integrated system, we didn’t have visibility into equipment issues without manually trawling through records,” comments an equipment executive. “Visibility helps you improve by understanding your service engineering costs and identifying challenges or a problem on a particular range of equipment. Knowing what has caused the problem and being able to get to it quickly, versus reviewing hundreds or thousands of records, helps us improve equipment reliability and customer satisfaction,” the executive explains. By analyzing service history across the fleet, common problems can be identified and fixed before the equipment goes out of service.

Beyond fixing problems early and reducing costs, a proactive view helps to increase the value the customer receives from their equipment. The manager of the predominant equipment dealers relates a story on how a deep understanding of equipment helps serve their customers better. “Monitoring the pressure on suspension struts and calculating the load on the truck allows us to monitor overloading, which will break suspension pieces. They’re not trying to break the truck, but the operators don’t always realize the consequences.” By informing the customer of the risky behavior, the dealership can prevent future problems without any intervention, other than a phone call. By having the right equipment intelligence consolidated and available, service organizations can improve both sides of the profit equation—revenue and cost.

Pulling it all together for better business decisions

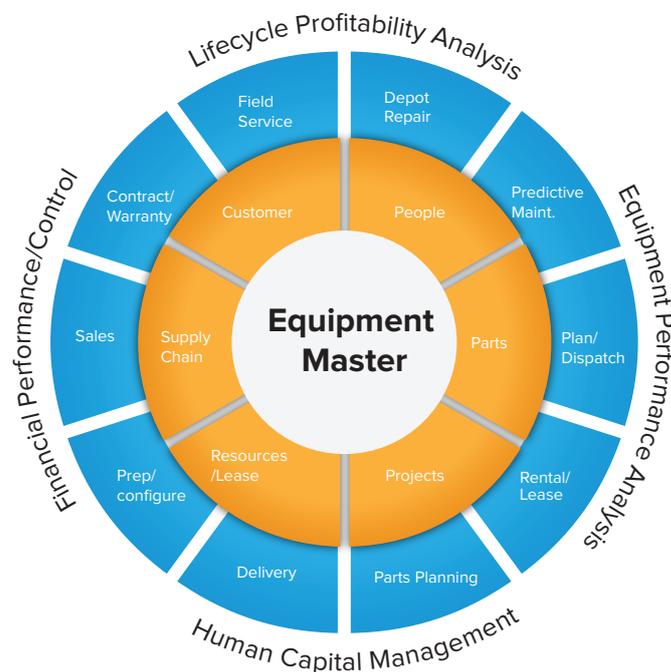
The purpose of improving operational control and equipment intelligence is about making better business decisions. Ultimately, the goal of the world class service organization is to move to be a trusted advisor to its customers. Armed with the knowledge of how the equipment is performing, companies can make defensible recommendations to their customers on when they should repair, overhaul, or even replace their equipment. When equipment owners recognize that the service organization is in tune with the value they are seeking from their equipment, they will look to the service company as the provider of a solution, instead of a provider of equipment and/or service. Who will they call first: someone who can sell them equipment or someone who will solve their problem?

To move to a trusted advisor role, companies need to move from cost indicators to value indicators, such as cost per hour of operation or cost per ton. These measures are stated in terms of the customer’s received value. To do this, the service company needs to look beyond its internal operations to measure uptime, availability, and performance at the customer site. Without a consolidated view of all activity and all costs, the business is not in control and business decisions are made subjectively. Some decisions will be good, some will be bad, and in the end they average out. Unfortunately, “average” is just not good enough—especially in today’s competitive service landscape.

The equipment service management framework

Most companies lack the integrated systems infrastructure to control their service operations. Without an integrated solution, they struggle to gain visibility into accurate equipment knowledge. They are unable to “pull it all together” effectively, to service equipment proactively and make better business decisions. The myriad of point solutions that most companies operate with don’t allow for a consolidated view of their business. The data is in too many places, and in too many different formats. In this scenario, it is almost impossible to really understand where money is being made and lost. Companies can’t analyze and measure without knowledge, and can’t manage without transparency.

Here is an evaluation framework to help companies determine their Equipment Service Management needs.



Centralized, equipment-centric data lies at the core of the framework. Integrated processes and capabilities to gain control of service operations surround the core of centralized data. The data and the processes are supported by an enterprise-level platform that provides analysis and financial control of the full service business. This integrated infrastructure, which includes all operational elements within a single domain, is best suited to helping companies achieve world class levels of service performance, customer value, and corporate profitability.

Summary

Equipment service management is the key to enhanced profitability in the service industry. World class service organizations are gaining control of their operations and establishing confidence in their equipment intelligence. Through these two fundamental capabilities, they are equipped to provide more proactive service, increase equipment reliability, enhance equipment performance, and deliver real value to their customers. By leveraging an integrated equipment service management approach, these companies are raising the bar on services to bypass the competition and grow their businesses.

Recommendations

- Centralize and integrate equipment intelligence and service knowledge to provide “one version of the truth” about the equipment, including current configurations, service history, and usage.
- Integrate equipment service management processes across organizational and enterprise boundaries to gain operational control of service.
- Provide enterprise transparency to service processes and status of work.
- Extend control to field engineers, branches, parts counters, and rental operations to contain cost and develop a broader array of service knowledge.
- Develop enterprise-level analysis to determine profitability of customers, contracts, and equipment.
- Support service operations with financial control and analysis to increase the value to both the service organization and the customers.



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