

# Industrial Marketing Services.

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*Helping organizations grow!™*

## The Service Business Opportunity Study™. 2006.

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## ***Foreword:***

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The organizations are experiencing a fundamental shift in the recent years. Fast growing economy has attracted number of competitors, both within the country & from overseas. Margins are under pressure, Products are being commoditized while customer expectations are soaring. The outlook is brighter, for companies that are generating profits in the after-sales market — an essential link to profitability.

Today more & more organizations are earning profits from the services build around the products they sell. As the tangible differences between the products are diminishing, wrapping the product with "intangibles" (services) becomes a major source of competitive advantage. Services are the fastest growing segment in the country's economy. Yet the sector has been generally much slower than manufacturing in applying the principles of marketing.

Services although are major source of profits, however the following questions need urgent attention:

- Where within the service business should we enter?
- What are the critical success factors?
- How should we design the service processes?
- How can real value be generated for service customers?
- How long will this business stay attractive?
- Is the present staff sufficiently equipped with necessary skills & knowledge?

Based on past two decades experience we conducted the subject study amongst 12 key sectors covering 965 decision makers.

## ***Executive summary:***

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In a growing economy, Services & After sales service is one of the fastest growth areas for any organization. They can contribute a larger share of profits to the organization. Industrial Marketing Services conducted an extensive 4 months' "The Service Business opportunity study™. 2006".

The study focused on;

- A.1:** After sales & Service management capabilities.  
2: Growth plans in the next three years.
- B:** To access organizations' support capability.
- C:** To access organizations' services' marketing capability.
- D:** Business processes improvement plans.

### *Key findings-*

Major issues facing the organizations –

- >53% of the respondents have after sales service revenue of less than 10% of their turnover.
- >Virtually all have understood importance of service revenue & plan to substantially improve it.
- >65% feel a for a successful service business, separate marketing plan & market segmentation needs to be conducted.

Data was gathered from 1<sup>st</sup> March 2006 till 31<sup>st</sup> July 2006 from 965 respondents. These respondents were selected, representing key positions in their respective organizations. Data was collected from our dedicated website & directly from selected key decision makers of the industry.

The majority of the respondents were from India.

The study was designed as exploratory research. Formal statistical procedures & tools were employed to analyze the data.

**Structure of the respondents' sample:**

<b>Sr</b>	<b>Industry Type</b>	<b>Qty</b>		<b>Job Title</b>	<b>%</b>
1	Manufacturing	34%	1	CEO/COO	26%
2	Industrial & Chemical	13%	2	President	9%
3	Technology & Software	9%	3	V.P Sales/Marketing	9%
4	Healthcare	8%	4	Director Marketing	10%
5	Consumer Products	8%	5	Manager –Sales/Marketing	27%
6	Utilities	6%	6	Regional sales manager	8%
7	Finance & Insurance	5%	7	Sales engineer	7%
8	Energy	5%	8	Service engineer	4%
9	Media	4%			
10	Business Sevices	4%			
11	Transportation	2%			
12	Pharmaceuticals	2%			
<b>Total</b>		<b>100%</b>	<b>Total</b>		<b>100%</b>

## ***The types of Services.***

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Traditionally, services in the industrial sector has been seen as “necessary add-ons” to the main physical product and mainly centred around initial “custom-design” activities and the spare parts business later on. Users wanted to be treated as “customers” and expected to be “served”. From their perspective, services were redefined as having timely & reliable interactions with suppliers when buying original products and spare parts. It was not considered, services as distinct product & deliverable.

Hence, we find a wide range of potential services remained untapped and demand is growing every year. Services have turned into important source for increasing customer loyalty and developing new revenues. There is also increasing trend to transform fixed costs into variable ones, resulting in further growth for services business opportunity. On the other hand, this development has constituted a threat to OEMs as new companies, which are focused solely on services, are entering the market.

It is understood that pre-sales services, such as helping customer in buying process, or consulting, are fundamental for making a sale, the subject study, is focused on the services directly related to or provided subsequent to installation of the physical product.

It is found that the service offerings, which have major impact to the company bottom line, are,

<b>Service Labour.</b>	<b>Materials.</b>	<b>Information.</b>
Installation & Commissioning.	Replacement Parts	Parts Management.
Technical Support.	Service Kits.	Maintenance scheduling.
Dealer Service.	Accessories.	Service administration.
Product Maintenance	Product up-gradation	Calibration Services.
System/Performance audit	Buyback.	System integration
Annual maintenance.		Product configuration.

All of these types can be offered / requested individually or as service bundles. Bundles can be unique combinations of hardware, services and capabilities packaged as a “solution” to a specific problem.

## ***The main Findings:***

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### **A. 1: After Sales & service management capabilities.**

After sales and service is a strategic focus in our company and linked to corporate strategy.

After sales and service provides a significant source of revenue & profitability	% Respondents
(5) After sales and service revenues > 25 percent.	17%
(3) After sales and service revenues > 15 percent.	30%
(1) After sales and service revenues < 10 percent.	53%

### **2: We plan to grow our after sales and service business significantly within the next three years.**

Budget targets	% Respondents
After sales and service revenues > 25 percent.	42%
After sales and service revenues > 15 percent.	48%
After sales and service revenues < 10 percent.	10%

#### **Key facts/notes:**

- Most of the organizations' were found to have service as a strategic focus defined in the corporate strategy. However only 17% of these organizations currently have over 25% of revenue coming from after sales service activities.
- Recognizing growing profit opportunity & demand from their customers, most of the organizations have plans to improve after sales service business substantially.
- The manufacturing sector has found excellent opportunity in improving service revenue & recognizing respectable profit from this activity.

**B. Assess your company's after sales and service customer support capability.**

1. Technical/service documentation is accurate, latest & complete.

Strongly Agree	Agree	Not Sure	Disagree
19%	30%	39%	12%

2. The customer database is accurate and complete with an up-to-date record of customer installations.

Budget targets	% Respondents
> 80 percent of customer installations.	17%
> 50 percent of customer installations.	55%
< 30 percent of customer installations	28%

3. Field service staff/dealer training is conducted regularly (at least once a year). It includes the latest product and diagnostic technologies and encourages proactive selling with a variety of customer-care skills.

Strongly Agree	Agree	Not Sure	Disagree
16%	29%	42%	13%

**Key facts/notes:**

- Most of the organizations were found to be lagging in terms of equipping their staff with the tools & knowledge, to effectively carry out the service.
- The documentation, latest customer information & requisite training are the major areas of concerns.
- Although organizations have ambition of improving service business the necessary knowledge will be the major limiting factor to achieve this goal.

### C. Assess your company's after sales and service; sales and marketing capabilities

1. Sales & marketing efforts for after sales & service offerings are a well-designed process with objective of leveraging extensive customer base.

Strongly Agree	Agree	Not Sure	Disagree
14%	12%	56%	18%

2. Extensive customer segmentation is used to improve sales, profitability and strategic attractiveness.

Strongly Agree	Agree	Not Sure	Disagree
16%	16%	58%	10%

#### Key facts/notes:

- Majority of the organizations were found to be lagging in having sales & marketing processes specific for marketing of services. Most of the times service staff is expected to bring in orders. A specialized skill found to be most lacking.
- Service business is many times customer initiated. This gives a feeling that no separate sales-marketing activities need to be planned!
- Even if organizations equip the front end for tools & knowledge for service business, lack of marketing efforts, will result in lower than expected results.

#### D. Current & future business process improvement plans.

Which of the following after sales and service projects have your company executed, or will execute in the near future?

	<b>Project</b>	<b>Already executed</b>	<b>Planned in the coming year.</b>	<b>Not of interest</b>
1	Installed customer base verification and documentation.	46 %	36 %	18 %
2	Improve sales force effectiveness for service & after sales service business.	32 %	56 %	12 %
3	Online customer and equipment history.	20 %	50 %	30 %
4	Integrated online technical documentation.	20 %	54 %	26 %
5	Kit/ service parts configuration.	46 %	16 %	38 %
6	Spares/service business -planning & forecasting.	36 %	36 %	28 %

## *Suggestions to address the service business opportunities.*

Our study, with the key 12 sectors of the economy revealed, how organizations perceive & address the opportunities.

- **A sale happens once, but service goes on forever.**

It is observed that a company that institutes a first-rate service management capability can increase its service revenues by 10 ~ 20 percent. Moreover, by making its service functions more efficient, a company can reduce operating expenses, the knowledge gained by the service organization, which is in constant contact with the customers, can be fed back into the manufacturing organization to help it make better products. Better products translate into reduction in warranty expenses & better customer satisfaction.

- **As competition escalates, new equipment sales have limited impact on profit.**

Margins continue to be squeezed, forcing prices downward. It is no wonder most companies are urgently seeking new ways to boost bottom-line profits and cultivate customer loyalty.

As the **tangible differences between the products are diminishing**, wrapping the product with "intangibles" becomes a major source of competitive advantage.

### **Offer a solution.**

A solution addresses specific customer needs or challenges. In order to develop a value-generating solution, the solution provider needs to think like a customer & find out exactly what they need.

A solution is a combination of products, services and support that creates value beyond the sum of its parts. It is often a mixture of existing and/or potential new offering elements.

***Some thoughts on the marketing of Services':***

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1. The core of Services' marketing is the service itself!
2. The first step in service marketing is your service.
3. Every act is a marketing act. Make every employee a marketing person.
4. Setting your price for the service is like setting a screw. A little resistance is a good sign.
5. Give your service a name not a monogram.
6. Make your service easy to buy.
7. Write mission statements, but keep it private.
8. Don't raise expectations you cannot meet.



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***About: Industrial Marketing Services.***

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With two decades of experience in Sales, Sales Management, Marketing and Corporate Management, we bring wide-ranging expertise in developing, growing and running sales & marketing organizations in today's economy.

We work with senior management to help them change & adapt for a long-term sustainable results.

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