

Service Capability Assessment Case Study

'Facilitating Leadership decision making'

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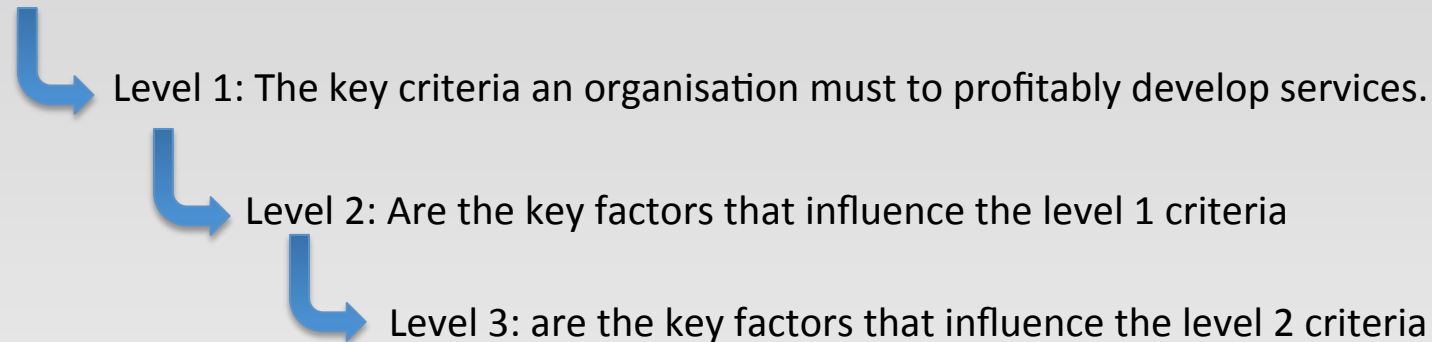
Service Capability Assessment Case Study

Introduction

1. The Service Capability Assessment is a tool that PSi have developed to analyse and communicate to Business Leaders the Organisational Gaps they might have in profitably developing services for their business
2. The assessment is based on a questionnaire and research developed by Professor's Werner Reinartz of Koln University and Wolfgang Ulaga of HEC-Paris. The interpretation used in the case study was developed by PSi.
3. The case study has been based on a project completed in the 2nd quarter of 2010, in which a number of people were interviewed in the organisation.
4. The case study demonstrates how PSi's Service Capability Assessment can be used to provide an all round picture to Business Leader's to enable good strategic decisions. Since this project was completed, the methodology has been significantly improved in terms of it's statistical robustness, and ability to benchmark other industries & organisations

Methodology: A 101 question are rated 1 to 7 by the client. They are analysed and broken down to 3 levels, with follow up discussion by the consultant

101 questions questions categorised at 3 levels of :



Example

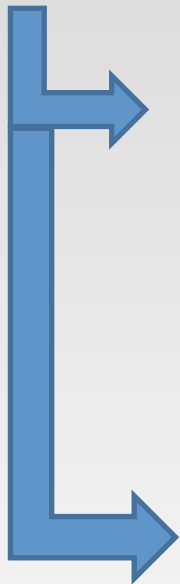
| ID | Question | Level 1 | Level 2 | Level 3 |
|----|---|---|---|---|
| 1 | We understand how service creates value for customers | 1. The Organisation has POTENTIAL to deliver Service Value to its customers | 1.1 Clients operations and key drivers are UNDERSTOOD | 1.1.3 The potential value of services within the customers operations is UNDERSTOOD |
| 2 | In our business unit we have a systematic process for collecting Customer information | 1. The Organisation has POTENTIAL to deliver Service Value to its customers | 1.1 Clients operations and key drivers are UNDERSTOOD | 1.1.1 Customer data collection process FORMALISED |
| 3 | We have an intimate understanding of our customers business | 1. The Organisation has POTENTIAL to deliver Service Value to its customers | 1.1 Clients operations and key drivers are UNDERSTOOD | 1.1.2 Customer process is INTIMATELY UNDERSTOOD |
| 4 | We really understand what we can do to help our customers become better off | 1. The Organisation has POTENTIAL to deliver Service Value to its customers | 1.1 Clients operations and key drivers are UNDERSTOOD | 1.1.2 Customer process is INTIMATELY UNDERSTOOD |

Level 1: There are 8 key organisational success factors

1. The organisation has the POTENTIAL to deliver Service Value to its customers
 - Without demonstrating capability to supply value in the eyes of the client, there is no business
2. The Service has been DESIGNED (as part of a business process) to provide value to the target customer
 - A company which has a 'service development process', is more likely to be successful in terms of revenue and profit
3. We can communicate a COMPELLING argument to the customer
 - Even with a great service concept, if the customer is not convinced they will not buy.
4. Sales management process for services is DELIVERING v targets
 - If it can not be demonstrated that Sales are selling services, the business potential is unlikely to be met
5. Service operations INDUSTRIALISED delivering optimum cost
 - Being in control of costs is key to profitability
6. We are good at EXTRACTING value from clients for this service
 - Key to profitability: are we getting the expected revenue from services either directly or indirectly
7. Service Strategy being EXECUTED with purpose
 - Are the leadership team and employees fully engaged in the execution of the services strategy.
8. We view ourselves as SERVICE Centric rather than Product Centric
 - Does our culture and focus support the growth of services

Level 2 & 3 break down the criteria to enable more detailed analysis & review

1. The organisation has POTENTIAL to deliver Service Value to its customers



1.1 Customer Operations and key drivers are understood



1.1.1 Customer processes are intimately understood

1.1.2 Customer data collection process is formalised

1.1.3 The potential value of services within the customers operations are understood

1.2 Product expertise RECOGNISED by customers

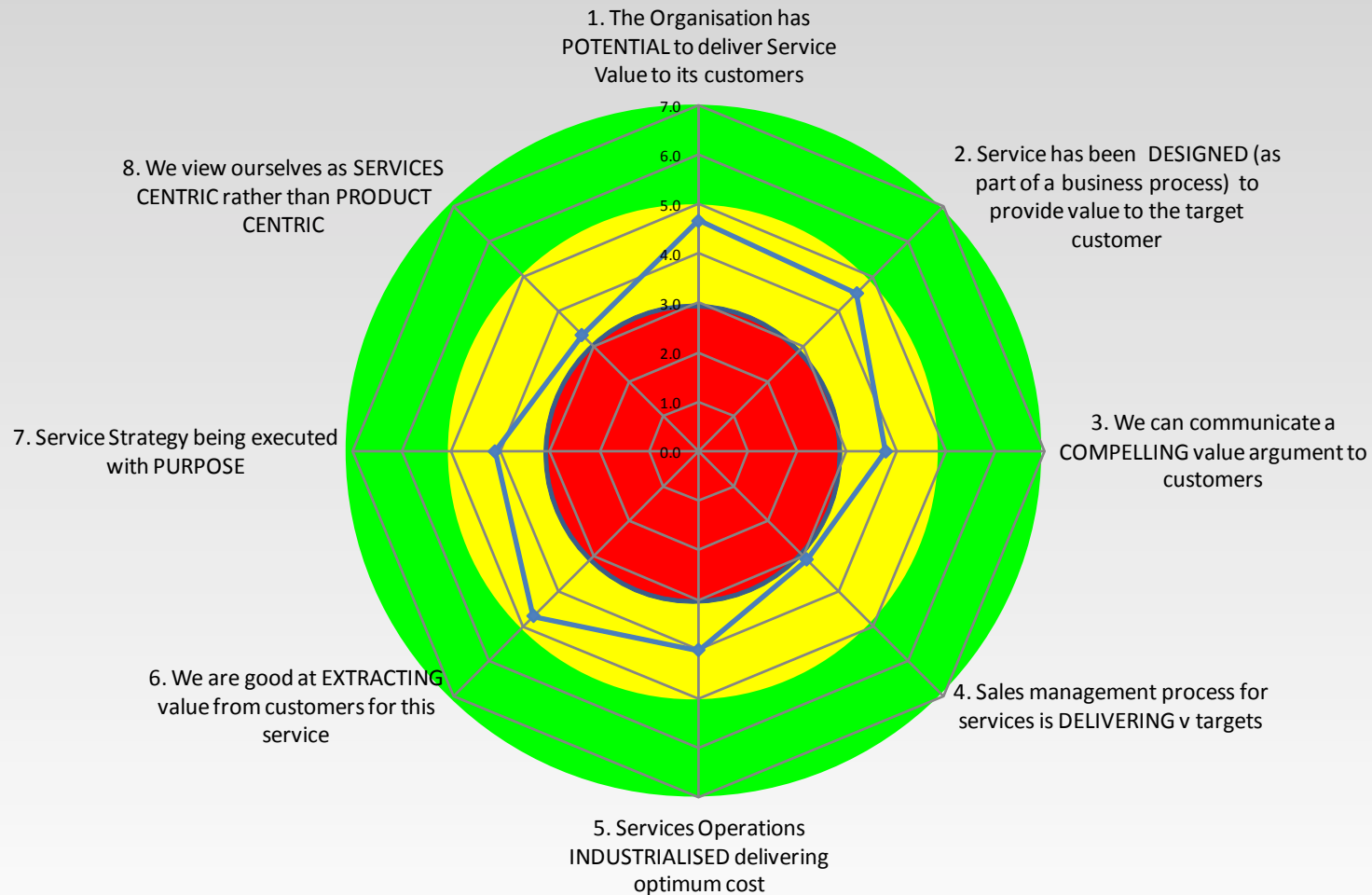
Company A Case Study

Capital Goods manufacturer within a process industry

- Multinational business with manufacturing in America's, Europe and Asia-Pacific
- Sell capital equipment and systems
- Services represent approximately 15- 18% of turnover
 - Spare Parts
 - Field Service
 - Preventive Maintenance programs
 - Equipment Engineering reviews
 - Refurbishment & Upgrades
- The project goal was to understand the strengths and weaknesses in delivering an Engineering Review & Preventive Maintenance Services
- The analysis was made at the global level.

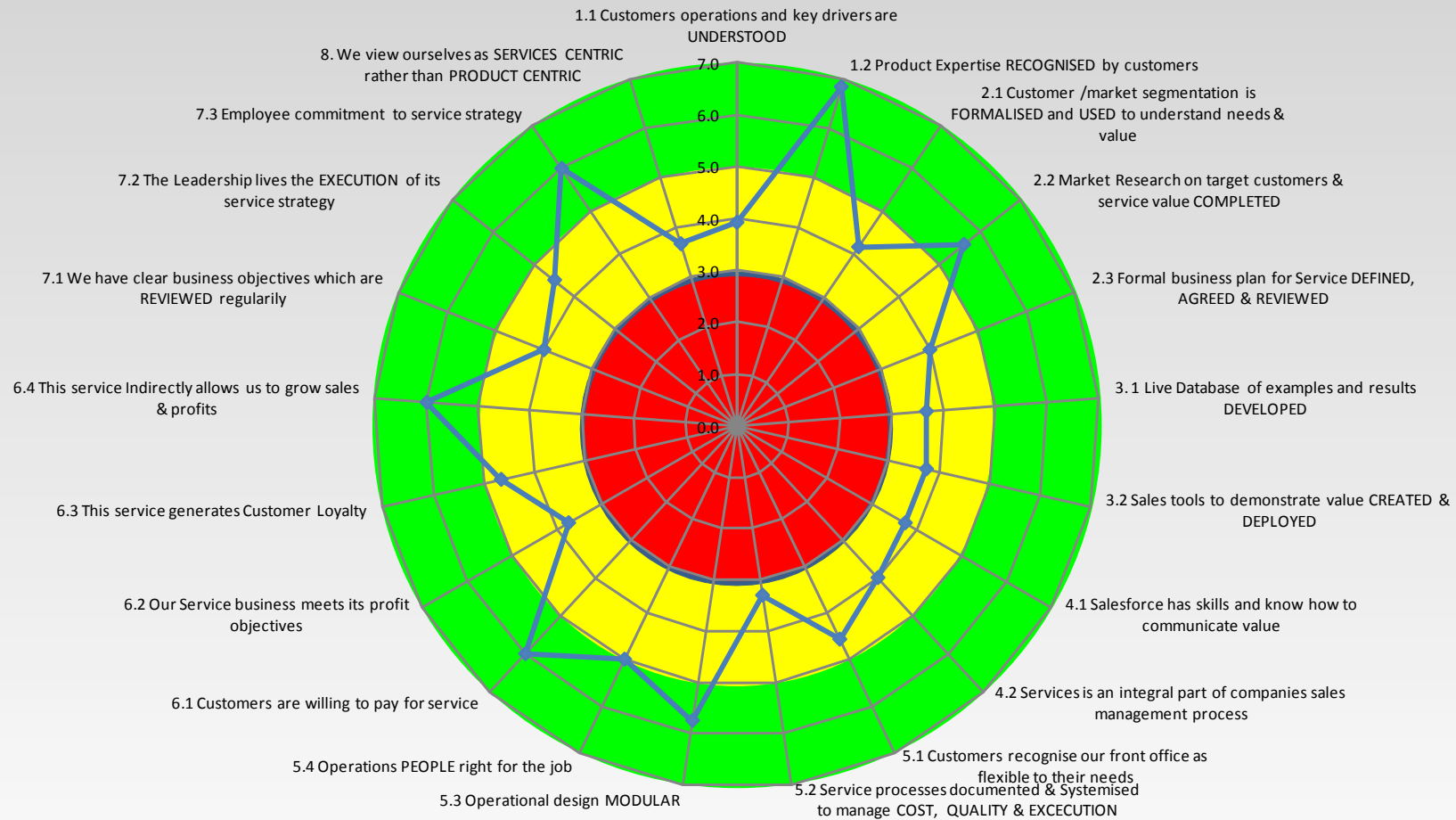
OVERVIEW: Company A has the potential to grow their services business, but needs development in all areas. Key element of focus should be developing value based sales arguments, Sales management process & training, industrialisation of service operations and understand how to overcome a Product Centric culture in developing the services business

Level 1: Summary



Next level of review: An analysis of the key drivers, shows the strength's on which the organisation can build in order to transform itself from a product centric to a service centric approach.

Level 2: Key Drivers of Summary



1. There is significant potential for success due to expertise that is well recognised by its customers.

| | |
|---|------------|
| 1. The Organisation has POTENTIAL to deliver Service Value to its customers | 4.9 |
| 1.1 Customers operations and key drivers are UNDERSTOOD | 3.9 |
| 1.1.1 Customer processes are INTIMATELY UNDERSTOOD | 4.3 |
| 1.1.2 Customer usage data collection process FORMALISED | 2.0 |
| 1.1.3 The potential value of services within the customers operations is UNDERSTOOD | 4.3 |
| 1.2 Product Expertise RECOGNISED by customers | 6.8 |

Company A is an organisation with the potential to have a very successful services business based on the foundation of the Preventive Maintenance contracts and Engineering consultancy. An overall score of 4.9 indicates that the potential for these products is almost in the 'benchmark' category.(A rating of 5-7)

Company A's product expertise is extremely well recognised by its customers.(score 6.8)

As a business it has an excellent understanding of it's process, but a much poorer understanding of how the machine fits into the customers operations and the general business environment.

It does not have a formal process for collecting customer usage data (score 2.0). In fact there is a limited understanding of mean time to failure on critical parts and parts usage by machines, as spare parts sales are not logged against machine configuration, even though it's ERP has the capability for such data collection.

Internally Company A for the most part recognises the potential value it can offer from Services (score 4.3). It is universally recognised that fixing customer problems quickly helps drive the next sale, but the value of Proactive Services is not so well understood or aligned in the business. There is a significant divergence of opinion within the service organisation, sales and some senior management.

Recommendation: A specific project undertaken to systematically collect performance data and satisfaction from customers

2. Some element of Service Design, but the key weakness is operational readiness in some geographic regions

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| 2. Service has been DESIGNED (as part of a business process) to provide value to the target customer | 4.5 |
| 2.1 Customer /market segmentation is FORMALISED and USED to understand needs & value | 4.2 |
| 2.2 Market Research on target customers & service value COMPLETED | 5.6 |
| 2.3 Formal business plan for Service DEFINED, AGREED & REVIEWED | 4.0 |

Until recently, Company A Service services products did not go through a development processes but were developed adhoc.

The PM and Engineering services product development was done by people with a deep understanding of the European market, which is why there was adequate market research even if it was adhoc and had a regional bias.(score 5.6)

There was an element of customer segmentation in understanding the needs of the customer, but this is not formalised into the companies planning.(score 4.2)

The biggest weakness would be in the business plan, as it does not have a formal analysis of the readiness of the service operations to execute the products across the world. The ability to deliver these services is very variable between regions from Good to very Poor.

Recommendation: Company A should focus on developing a organisation in weaker regions that can deliver the services, or dramatically change the service offering

3. Collecting data on performance from the customer is key to developing a compelling sales argument

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|---|------------|
| 3. We can communicate a COMPELLING value argument to customers | 3.7 |
| 3.1 Live Database of examples and results DEVELOPED | 3.7 |
| 3.2 Sales tools to demonstrate value CREATED & DEPLOYED | 3.8 |

Company A has some high level data and 2 or 3 case studies on the value that these services offer its customers. However the data base is small, does not cover many industries and is not being actively developed. Hence the creation of compelling value arguments, backed up by case examples is a significant weakness.

The sales tools that have been developed are payback calculators and high level presentations. These have proved very effective when presented by a person with a deep technical understanding of the product and the manufacturing environment. However they are not so effective for Sales people who turn quickly to the Product Specialists for support.

Recommendation: Company A requires a development project to understand the true cost of production of its system in their customers in order to develop compelling sales tools.

4. Sales force need clear target, regular reporting and specialist support, in order to facilitate the services selling process

| | |
|---|------------|
| 4. Sales management process for services is DELIVERING v targets | 3.9 |
| 4.1 Salesforce has skills and know how to communicate value | 3.8 |
| 4.2 Services is an integral part of companies sales management process | 4.0 |

The Sales force has the knowledge to communicate value of the service at a high conceptual level. However once the discussions become more detailed, most sales people look for specialist support, as their knowledge of the customers machine history is not technically strong enough to discuss the impact of specific upgrades and service actions. Hence a score of 3.8 indicates this as a major area of weakness.

Services revenues are part of the sales compensation plan, but the financial systems struggle to provide revenue & margin reports at a customer level on the services provided. This makes it difficult to motivate the sales team through the sales management process. Instead there are Sales specialists who follow up with the sales people on individual opportunities. However these specialist are a bottle neck in the development of the business.

Recommendations

Within the Sales Management process:

1. Consider how to use the field service organisation to support sales through acting as the customer's 'trusted advisor'.
2. Sales training focusing on increasing the sales tools that demonstrate to customers the value of the service.
3. Identify how to make Service sales revenues by customer available on a regular basis to all Account managers, so as to change/facilitate greater emphasis on services in the portfolio.

5. These services have been reasonably well designed and with the right people skills in place. However execution has not been cost effective due to poor process documentation and infrastructure for contract management

| | |
|---|------------|
| 5. Services Operations INDUSTRIALISED delivering optimum cost | 4.2 |
| 5.1 Customers recognise our front office as flexible to their needs | 4.6 |
| 5.2 Service processes documented & Systemised to manage COST, QUALITY & EXCECUTION | 3.3 |
| 5.2.1 EFFICIENT COST EFFECTIVE process & systems to manage & execute these services | 3.1 |
| 5.2.2 Service delivery process DOCUMENTED and STANDARDISED | 3.6 |
| 5.3 Operational design MODULAR | 5.8 |
| 5.4 Operations PEOPLE right for the job | 5.0 |

There is some work to be done in Industrialising the delivery of the PM and Engineering products, although the severity of this issue varies by region. For these products, customers do recognise that Company A is quite flexible to their needs.(4.6) The scope of an Engineering analysis is always discussed before hand with the customer to ensure all concerns are managed. The PM product has been modularised so that it is flexible enough to meet the individual needs of different customers (5.8).

The company generally has the right people to execute these jobs, although training is not consistent across territories.

The description of the products are well documented, but the Preventive Maintenance delivery process is poorly defined(score 3.6), leading to significant operating issues.

Not having a contract management module in the Service Management ERP introduces significant manual input and hence costs

Recommendation: Implement a Contract Management module

6. Customers are willing to pay for these services, but management of services cost and profit is weak and needs action

| | |
|---|------------|
| 6. We are good at EXTRACTING value from clients for this service | 4.9 |
| 6.1 Customers are willing to pay for service | 6.0 |
| 6.2 Our Service business meets its profit objectives | 3.8 |
| 6.3 This service generates Customer Loyalty | 4.7 |
| 6.4 This service Indirectly allows us to grow sales & profits | 6.0 |

Overall Company A is good at extracting value from its clients for these services, although it is not consistent across regions.

Customers are willing to pay for preventive maintenance as it is an extension of the reactive maintenance which is a paid service. (score 6.0) Usually they see the value from Engineering evaluations and an indication is that if properly targeted, the penetration of follow on work is high. Sales have offered this Engineering evaluations to deal with a customer satisfaction issue, in which case the pay back is indirect.(score 6.0)

The key weakness around extraction of value is that the business does not have the systems in place to measure the profitability of the service hence a lower score of 3.8.

Recommendation: Company A should develop the systems and processes to monitor the profitability of these services

7. A disconnect between the Leadership's strategy and the rest of the organisation requires understanding if the transformation is to be successful

| | |
|--|------------|
| 7. Service Strategy being executed with PURPOSE | 4.8 |
| 7.1 We have clear business objectives which are REVIEWED regularly | 4.0 |
| 7.2 The Leadership lives the EXECUTION of its service strategy | 4.5 |
| 7.3 Employee commitment to service strategy | 6.0 |

Service being executed with purpose is driven by the high level of commitment from the Service employees around the world to Customer Satisfaction. (score 6.0) Company A strives to be a very professional service organisation and is certainly the leader in its industrial segment.

The senior management is publicly committed to Services as a strategy, but the lower score in question 7.1 indicates their ability to articulate this strategy into a meaningful action plan is questioned.

Recommendation: The senior management team needs to understand why there is a disconnect between their articulated strategy and the organisations perception of their actions.

8. Alignment of Services strategy to the corporate goals will be key to success

8. We view ourselves as SERVICES CENTRIC rather than PRODUCT CENTRIC

3.7

Company A does not view itself as highly Service Centric, but rather as a Technology company who sees services as a revenue and profit opportunity, as well as supporting Customer Satisfaction. This is consistent with their current position on the product Service continuum shown below

| Product Centric | | | Service Centric | | |
|---|---|--|--|---|--------------------------|
| Level 1: | Level 2 : | Level 3: | Level 4: | Level 5: | Level 6: |
| P | P+(S) | P+S | P & S | S+(P) | S |
| Product only with the minimum Customer Support and warranty | Services offered that add value during the products lifecycle | Services are designed into the product | Stand-alone services alongside product | Services Provider based on Product technologies | Service replaces product |

Market perception of Company A

However if Company A's future business strategy is to provide their customers with a 'black box integrated system', then this is a move to a service centric strategy. The concept being that the system being a black box must be maintained by the OEM to ensure maximum throughput.

Recommendation : If the corporate strategy is to achieve competitive advantage by offering a 'black box integrated system', then Company A should re-evaluate its Services strategy to ensure alignment with its corporate goals

Recommendation Summary: for profitable implementation of Preventive Maintenance and Engineering Services

- 1. Systematically collect performance data and satisfaction from customers**
- 2. Focus on developing the organisation in weaker regions that can deliver the services, or dramatically change the service offering**
- 3. Development project to understand the true cost of production of its system in their customers in order to develop compelling sales tools.**
- 4. Sales force need clear targets, regular reporting and specialist support, in order to facilitate the services selling process**
- 5. Implement a Contract Management module & so develop the systems and processes to monitor the profitability of these services**
- 6. A disconnect between the Leadership's strategy and the rest of the organisation requires understanding if the transformation is to be successful as alignment of Services strategy to the corporate goals will be key to success**

PSi: Helping manufacturing & technology business to bridge the gap from Products to Services

PSi supports product orientated companies to increase profits through the services innovation.

- ✓ Opportunity identification
 - New revenues
 - Improved customer retention
- ✓ Strategic Options review
- ✓ Organisational Gap analysis
- ✓ Transformation planning
- ✓ Training, Coaching & Execution

