



Aberdeen *Group*

The Emergence of the 'Chief Service Officer'

*Benchmarking the Prominence of Service Management
in the Corporate Agenda*

September 2005

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Executive Summary

Aftermarket service is rapidly climbing to the top of corporate agendas in multiple industries. Product-centric OEMs have historically viewed post-sales service as an inevitable cost of doing business, but leading companies looking for profit margin, revenue growth, and competitive advantage are now crafting new business models and deploying technology solutions to more strategically leverage their service operations.

Senior service executives are taking on P&L responsibility and reporting to CEOs on bottom- and top-line performance targets. To sustain service-based revenue models, these service champions will need to revisit and better automate long-standing business processes that support service order management, call dispatching, routing/scheduling, asset diagnostics, asset repair and replacement, service parts planning, distribution, and pricing.

Key Business Value Findings

- Best-in-class companies Aberdeen surveyed identified the following top three strategic objectives for their service operations: **improve customer satisfaction/retention, increase overall profitability, and increase service-related revenues.**
- The number-one challenge in running service as a business, according to polled companies, is that **processes in manufacturing, sales, marketing, and service are not well integrated.**
- Nearly half of **small companies** (\$50M or less in annual revenues) surveyed report having a senior vice president or higher overseeing service.
- Senior-level service executives are most common in **consumer-facing industries** and **high-tech manufacturing** companies.

Implications & Analysis

- Companies that reported having director-level or higher positions overseeing service outpaced those companies with no senior service management in such areas as percentage of **overall revenues derived from service; overall profitability**, as a percentage of gross revenues; and **percentage of customer base under service contracts.**
- In nearly every data category, at least half of companies indicated that they require **on-demand access to the information**, but no more than 30% of companies currently can provide real-time data access in any individual data category.
- On average, companies that have deployed **mobile field service solutions** have reaped such top-line dividends as a 19% boost in customer retention, 17% increase in overall profitability, and 13% growth in service revenues.



Recommendations for Action

Companies of all maturity levels should consider the following as potential building blocks of a strategic service organization:

- Bring field service and parts logistics under one operational umbrella
- Promote and empower senior service executives from within
- Validate, document, and publicize service delivery excellence
- Forge stronger ties between service and manufacturing
- Leverage existing and new technology to synchronize four service pillars: process, people, parts, and data
- Address process deficiencies before deploying technology
- Clearly define requirements and success criteria before evaluating technology solutions
- Leverage partnerships with service and logistics providers
- Involve stakeholders early and often in transformational process
- Adopt a two-pronged approach to measuring after-market service efficacy: operational and customer-facing



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Chapter One: Issue at Hand

Key Takeaways

- 37% of best-in-class companies currently have senior vice presidents or higher overseeing service operations.
- Nearly two-thirds of best-in-class companies reported that customer requirements for improved and extended service support constituted a critical impetus for senior-level focus on service.

Very few corporations currently have a “Chief Service Officer” on their payroll – just 5% of those polled in this study. But as more product categories become commoditized, as product-based profit margins slim over time, and as competition stiffens, companies will increasingly rely on their post-sales service organizations for revenues, profitability, and competitive differentiation.

Historically viewed as a temporary crutch when product sales wane during economic downturns, service and support is emerging as more of a consistent revenue driver. Original equipment manufacturers (OEMs) used to competing on product features and functions are now edging competitors with premium service offerings, extended warranties, remote asset diagnostics, and other value-added services. As such, keeping close tabs on service chain performance has become mission-critical for many companies.

A company’s performance in delivering post-sales service to its customers depends on its ability to coordinate and optimize the supply of service at the lowest total cost, while meeting or exceeding the needs of customers for the most total revenue. The result: a profitable service operation that positively impacts overall corporate performance and shareholder value.

To effectively manage this “service chain,” best-in-class companies must cost-effectively manage channel partners, third-party logistics providers (3PLs), contract technicians, and other third parties that often provide the service “supply,” while deriving profitable revenue from the end-user enterprises that have purchased assets and service contracts and provide the service “demand.”

As the top-line ramifications of service continue to broaden and intensify, so does the strategic importance of service management within the overall corporate agenda. Leading

PACE Key (For more detailed description, see Appendix A)

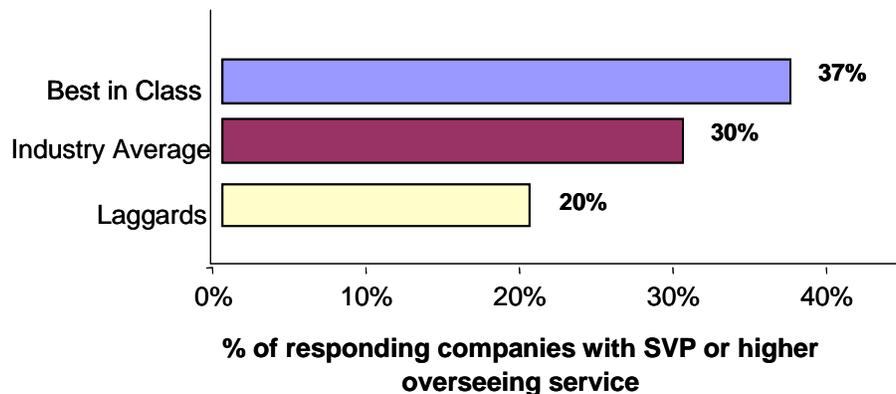
Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:

- *Pressures — external forces that impact an organization’s market position, competitiveness, or business operations*
- *Actions — the strategic approaches an organization takes in response to industry pressures*
- *Capabilities — the business process competencies required to execute corporate strategy*
- *Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices*



companies are appointing senior-level executives to optimize service performance and meet specific revenue, profitability, and customer satisfaction targets. In fact, 37% of best-in-class companies currently have senior vice presidents or higher overseeing service operations (Figure 1).

Figure 1: Companies with SVPs or Higher Overseeing Service



Source: [AberdeenGroup](#), September 2005

All told, 68% of all respondents have vice presidents or higher overseeing service. With the career paths of counterparts in procurement, product development, and marketing as leading indicators, many of these service executives will soon rise to C-level positions.

Market Pressures for C-Level Focus on Service

What market pressures are driving companies to elevate the strategic importance of service within their organizations? For best-in-class firms, three driving factors stand out:

1. *Customer requests for improved and extended service support*

With very few exceptions, end-users in multiple industries are expecting higher frequencies of first-time resolution, greater guarantees of asset availability, and more visibility into service performance. Indeed, nearly two-thirds of best-in-class companies reported that customer requirements for improved and extended service support constituted a critical impetus for senior-level focus on service.

In the medical equipment sector, for instance, asset operators in research labs, physicians' offices, and pharmacies have begun to expect remote diagnosis capabilities from their equipment suppliers. Companies like Roche Diagnostics – a major provider of medical testing solutions – are investing in intelligent asset diagnostics technologies and business process reengineering initiatives to meet this escalating demand. In fact, in 2006 Roche Diagnostics will debut a discrete professional services business unit with dedicated executive oversight.

2. *Customer service is becoming a competitive differentiator*

As the relative importance of service and support over an asset’s lifecycle continues to rise, those OEMs and service providers that keep pace are incorporating their differentiated service offerings in marketing and sales activities. Not surprisingly, 59% of leading companies polled in this study said that the increasing prominence of customer service as a competitive differentiator has heightened executive focus on service chain management.

For one data storage company Aberdeen interviewed, customer satisfaction is of paramount importance. At the conclusion of every service call, the company sends a survey to the customer, signed by the vice president, inquiring about wait times, field technician performance, and other aspects of the service experience. The company collects, analyzes, and publishes this customer satisfaction data and features it prominently in sales calls. The organization has even invested in third-party service quality assurance programs to add further ballast to its service message.

3. *Increased competition for product sales*

Most OEMs have long histories of building marketing and sales campaigns around product attributes and functionality. But in many product-based industries the market has become crowded over the past decade, and profit-margins have taken a beating. As such, 59% of best-in-class companies reported that ruthless competition for product sales has spawned a dedicated focus on post-sales service.

“In this day of commoditization, service is the one thing we can do to add to our bottom line,” said the data storage company’s director of worldwide field operations.

Competitive Framework Key
The Aberdeen Competitive Framework defines enterprises as falling into one of three levels of practices and performance:
<i>Best-in-class (20%)</i> — practices are the best in use today and are significantly superior to the industry norm
<i>Industry average (50%)</i> — practices represent the average or norm
<i>Laggards (30%)</i> — practices are significantly behind the industry average or norm



Chapter Two: Key Business Value Findings

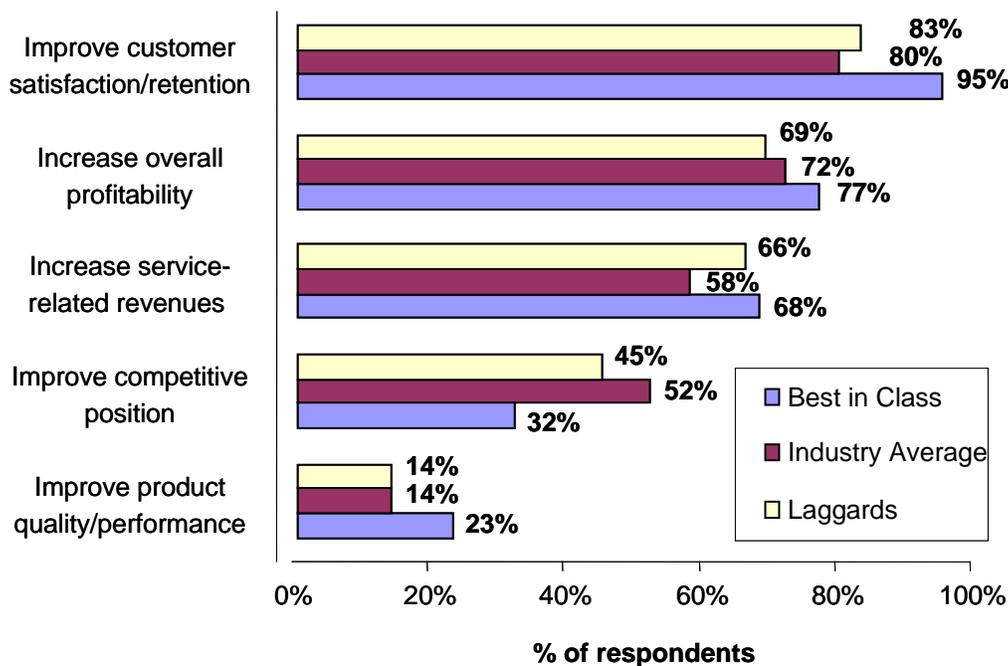
Key Takeaways

- Best-in-class companies Aberdeen surveyed identified the following top three strategic objectives for their service operations: improve customer satisfaction/retention, increase overall profitability, and increase service-related revenues.
- The number-one challenge in running service as a business, according to polled companies, is that processes in manufacturing, sales, marketing, and service are not well integrated.

Facing these inexorable market pressures, leading OEMs are entrusting service process re-engineering and automation initiatives to increasingly seasoned executives. This is largely because these companies are setting top-line-oriented goals for their service organizations.

Best-in-class companies Aberdeen surveyed identified the following top three strategic objectives for their service operations: improve customer satisfaction/retention, increase overall profitability, and increase service-related revenues (Figure 2).

Figure 2: Objectives of Post-Sales Service Operations

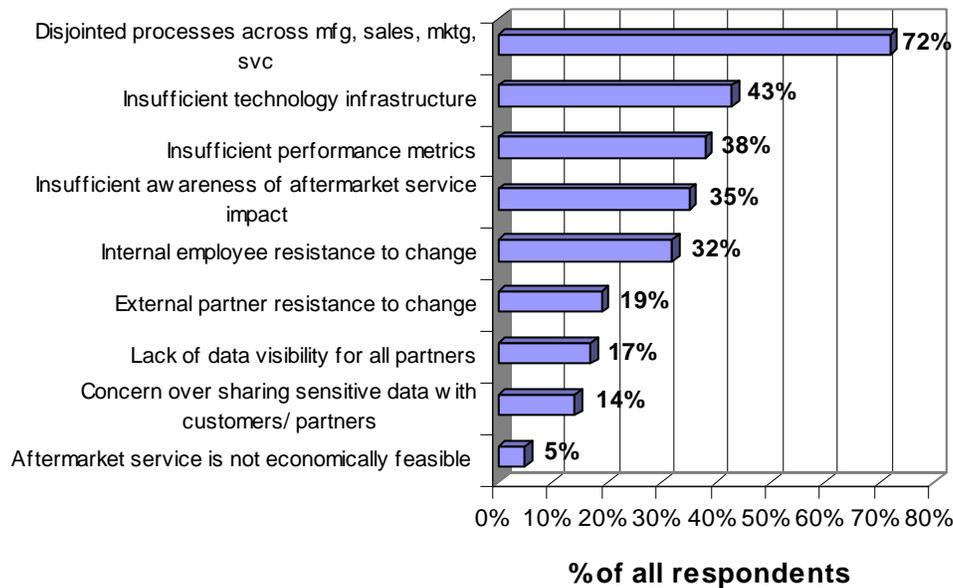


Source: **AberdeenGroup**, September 2005

Obstacles to “Service as a Business”

But even with these strategic objectives in place, many companies continue to struggle with making the switch from running their service operations as a cost center to a profit center. The number-one challenge by far, according to polled companies, is that processes in manufacturing, sales, marketing, and service are not well integrated (Figure 3).

Figure 3: Obstacles to “Service as a Business”



Source: AberdeenGroup, September 2005

1. Disjointed processes and communication across manufacturing, sales, marketing, and service

To continuously improve service performance and maximize revenue impact, service must be managed as a critical link in the value chain. For instance, manufacturing and engineering organizations could use information about product performance, durability, and serviceability to improve subsequent generations of products.

UK-based facilities management service provider Romec was able to capture and separate costs associated with service maintenance works carried out on cleaning equipment. This insight enabled the costs linked to the chemical dosing systems to accrue to Romec’s customer, a major cleaning chemicals provider, while the remaining costs which were associated with the base equipment could be charged back to the owner. This has enabled a dramatic reduction in service costs associated with the dosing systems.

As illustrated in this example, a rudimentary feedback loop from service to manufacturing could have enormous impact on in-warranty repair costs, market penetration, and customer satisfaction. Yet nearly three-quarters of companies Aberdeen surveyed said there

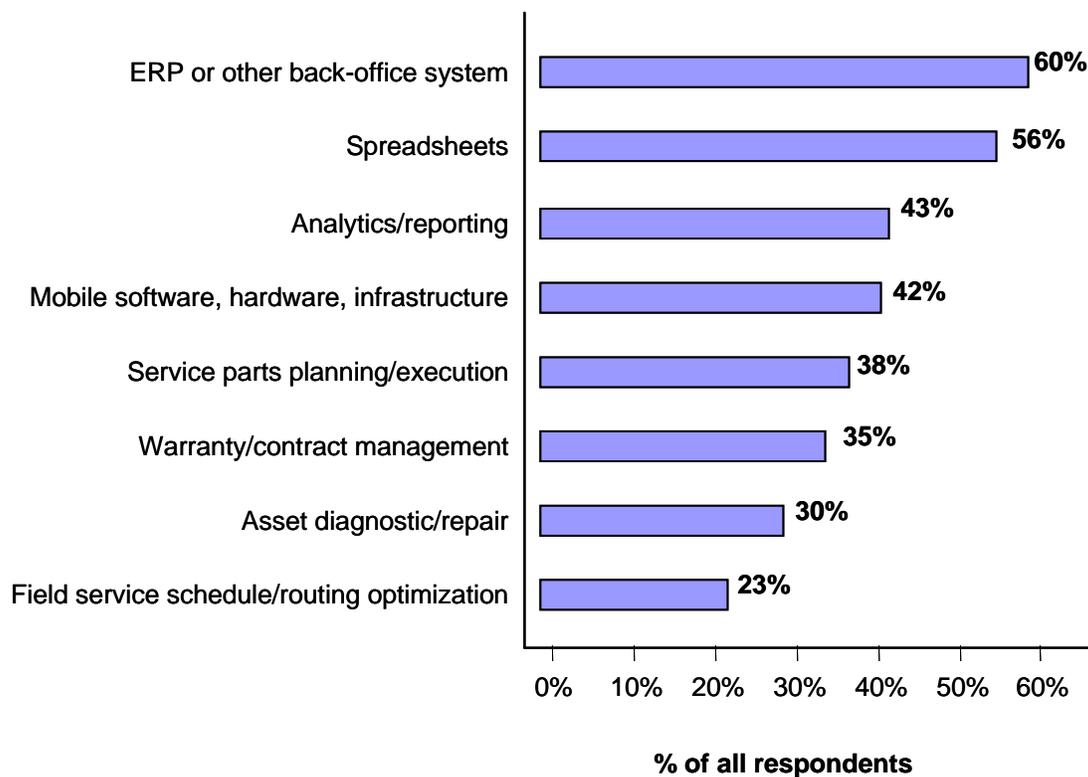


was only ad hoc collaboration at best between their service and manufacturing organizations.

2. *Insufficient deployment and/or integration of field service/service parts management technology infrastructure*

Due to its legacy as primarily a tactical operation, the service chain is lagging significantly behind the supply chain in the area of automation and optimization. Most companies are relying on ERP or back-office service management systems to support service delivery, but 56% are using spreadsheet applications (Figure 4).

Figure 4: Technology Solutions Currently in Use to Support Service Delivery



Source: [AberdeenGroup](#), September 2005

Just 38% of companies surveyed are using service parts planning and execution systems, and less than one-quarter are using field service schedule and route optimization solutions.

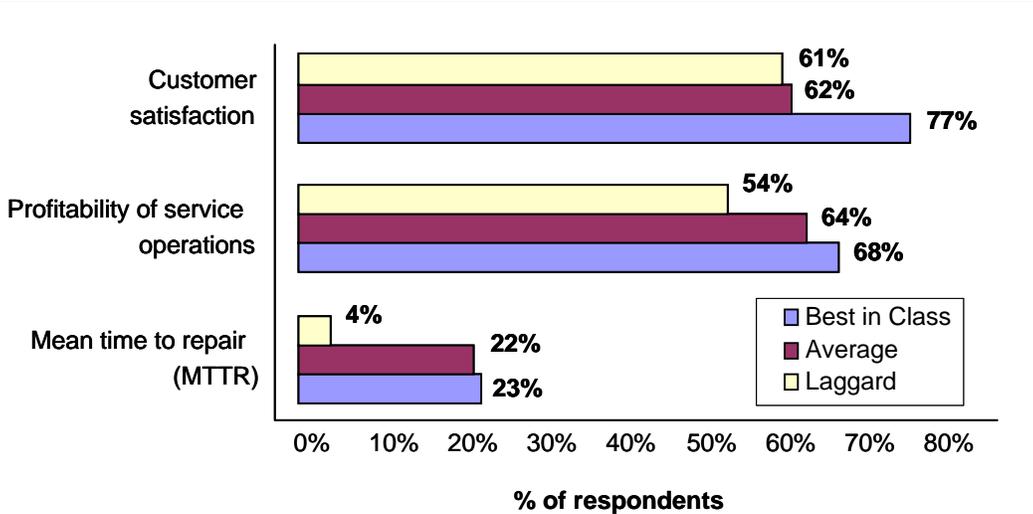
As such, companies are struggling to collect and leverage critical service data required to consistently meet service level commitments and to uncover opportunities to drive incremental service-based revenues.

3. *Insufficient metrics to monitor service performance*

Managing service as a business requires a new set of performance metrics, many of which are more indicative of customer experience. In fact, customer satisfaction is the leading key performance indicator (KPI) used by best-in-class companies to measure service performance (Figure 5).

Tactical service operations tend to measure performance with internally focused metrics like work orders completed per day per technician, service part fill rates, and wrench-to-windshield-time ratios. Most of these tactical metrics are insufficient to measure customer experience. Today’s senior service executives need visibility into customer-centric indicators like machine uptime/availability, first-time resolution rate, and mean time to repair (MTTR).

Figure 5: Top 3 KPIs for Service Performance Management



Source: **AberdeenGroup**, September 2005

“A few years ago, we did not measure first time fix rates,” said Steve Wickiser, area services director at Roche Diagnostics. “Today, we’re focused on this as a key customer satisfaction and loyalty metric.”

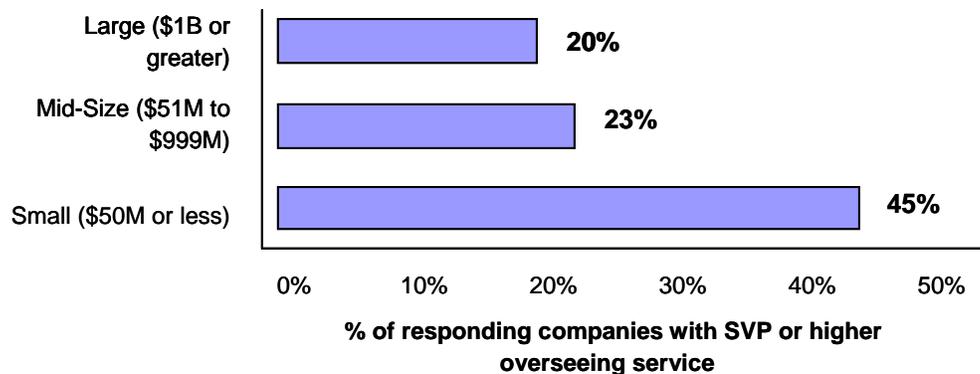
SMBs and Consumer-Driven Firms Lead with Service SVPs

In several manufacturing sectors, smaller companies are using service to compete more effectively with their larger counterparts. Indicative of this shift in strategic focus, nearly half of small (\$50 million or less in annual revenues) companies surveyed report having a senior vice president or higher overseeing service (Figure 6).

In the area of remote service, Roche Diagnostics – part of a \$25 billion pharmaceuticals and medical equipment giant – is carefully monitoring the technology strategies of much smaller competitors. These more modest-size outfits are responding to widespread demand for pre-emptive service by aggressively investing in intelligent asset diagnostics technologies. These investments were undoubtedly endorsed by senior-level service champions.



Figure 6: SVPs of Service More Common at Smaller Companies

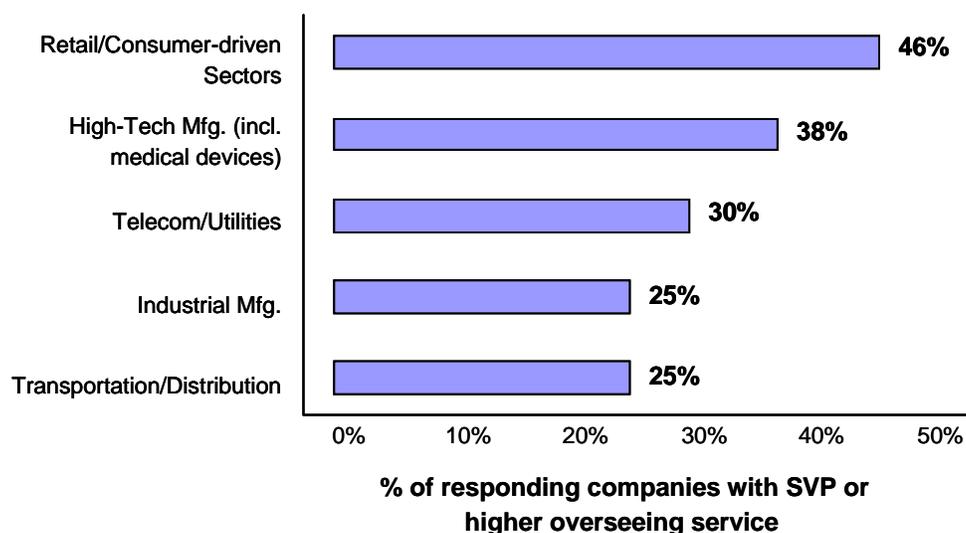


Source: [AberdeenGroup](#), September 2005

Not surprisingly, consumer-facing companies reported the highest percentage – 46% – of senior vice presidents or higher level service executives (Figure 7). Perhaps a more telling take-away, however, is that 38% of high-tech manufacturing companies said they have SVPs or higher overseeing service.

High-tech manufacturers have notoriously based their branding, sales, and marketing strategies on product functionality. Now, with these products under increasing commoditization pressure, the manufacturers are looking for ways to win customers based on service levels. Due to the highly dynamic nature of the high-tech supply chain, senior-level acumen will be required to successfully integrate service into corporate strategies for growth and profitability.

Figure 7: Retail and High-Tech Manufacturers Lead Service SVP Push



Source: [AberdeenGroup](#), September 2005

Chapter Three: Implications & Analysis

Key Takeaways

- Companies having director-level or higher positions overseeing service outpaced those companies with no senior service management in percentage of **overall revenues derived from service**; **overall profitability**, as a percentage of gross revenues; and **percentage of customer base under service contracts**.
- In nearly every data category, at least half of companies participating in a related Aberdeen study indicated that they require **on-demand access to the information**, but no more than 30% of companies currently can provide real-time data access in any individual data category.
- On average, companies that have deployed **mobile field service solutions** have reaped such top-line dividends as a 19% boost in customer retention, 17% increase in overall profitability, and 13% growth in service revenues.

As Table 1 shows, each survey respondent fell into one of three categories – Laggard, Industry Average, or Best in Class — based on their companies’ performance and a weighted assessment of their characteristics in five key categories: process; organization; knowledge management; technology; and performance measurement.

With few exceptions, those companies that demonstrate best-in-class characteristics in these areas are having the most success driving top-line performance gains with their service operations.

Process

Companies that reported having director-level or higher positions overseeing service outpaced those companies with no senior service management in such areas as percentage of overall revenues derived from service; overall profitability as a percentage of gross revenues; and percentage of customer base under service contracts (Figure 8).

A core tenet of adopting a strategic approach to aftermarket service is leveraging service efficiencies and heightened customer satisfaction levels to drive revenue growth. Several companies Aberdeen interviewed have been able to offer premium service level agreements (SLAs) with tighter response times. Further, some have even taken on the service workloads of other manufacturers, for significant upticks in revenue.

For one mid-size industrial equipment company, service transformation was not just about bottom-line improvements. The company also had designs on building out differentiated service offerings to complement basic equipment maintenance, such as asset-management services for optimizing equipment utilization and value. In the two years since embarking on its service reengineering initiative, the company has increased technician productivity from 55% to 70% billable hours and improved revenue per technician by 25%.

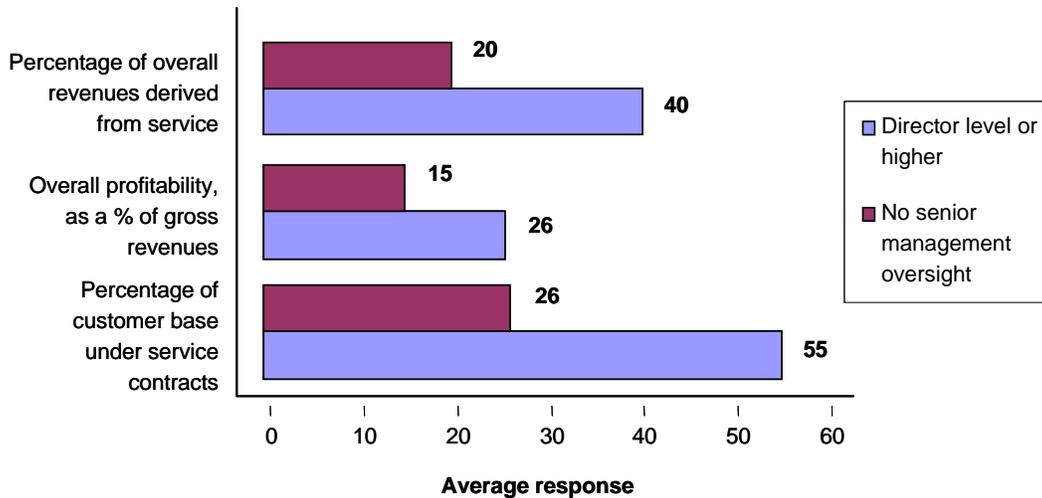


Table 1: Service Management Competitive Framework

	Laggards	Industry Average	Best in Class
Process	Service is viewed purely as cost, and there is no discrete management or P&L for service operations	Director-level executive oversees cost-cutting and productivity targets for service operations	Vice president or higher level executive oversees profit-and-loss (P&L) for service operations
Organization	Service stands as an independent department with little integrated communications	Non-standard, ad hoc integration/communication	Standardized, codified integration/communication
Knowledge Management	No stakeholder (executives, call center, dispatch center, parts depot, field technician) has the most current and accurate view of inventory, contract, resolution, and other service-related data	Visibility into inventory, contract, resolution, and other service-related data declines in currency and accuracy while moving from call center to dispatch center to field technician	All stakeholders have on-demand or real-time access to the same inventory, contract, resolution, and other service-related data
Technology	Primary technology solution is spreadsheet-based	Primary technology solution is a back-office ERP and/or service management system (SMS)	Primary technology solutions are back-office service management systems (SMS), service parts planning and execution systems, and mobile wireless communication/transaction systems
Performance Measurement	Level of service optimization not systematically tracked and measured	Level of service optimization measured with operational metrics (e.g., ratio of dispatchers to technicians, first-call resolution rate, work orders completed per technician per day)	Level of service optimization measured with operational metrics (e.g., ratio of dispatchers to technicians, first-call resolution rate, work orders completed per technician per day) <i>and</i> customer-facing metrics (e.g., service revenue growth, customer retention, SLA compliance)

Source: **AberdeenGroup**, September 2005

Figure 8: Senior Service Management Maps to Top-Line Performance Gains



Source: **AberdeenGroup**, September 2005

Knowledge Management

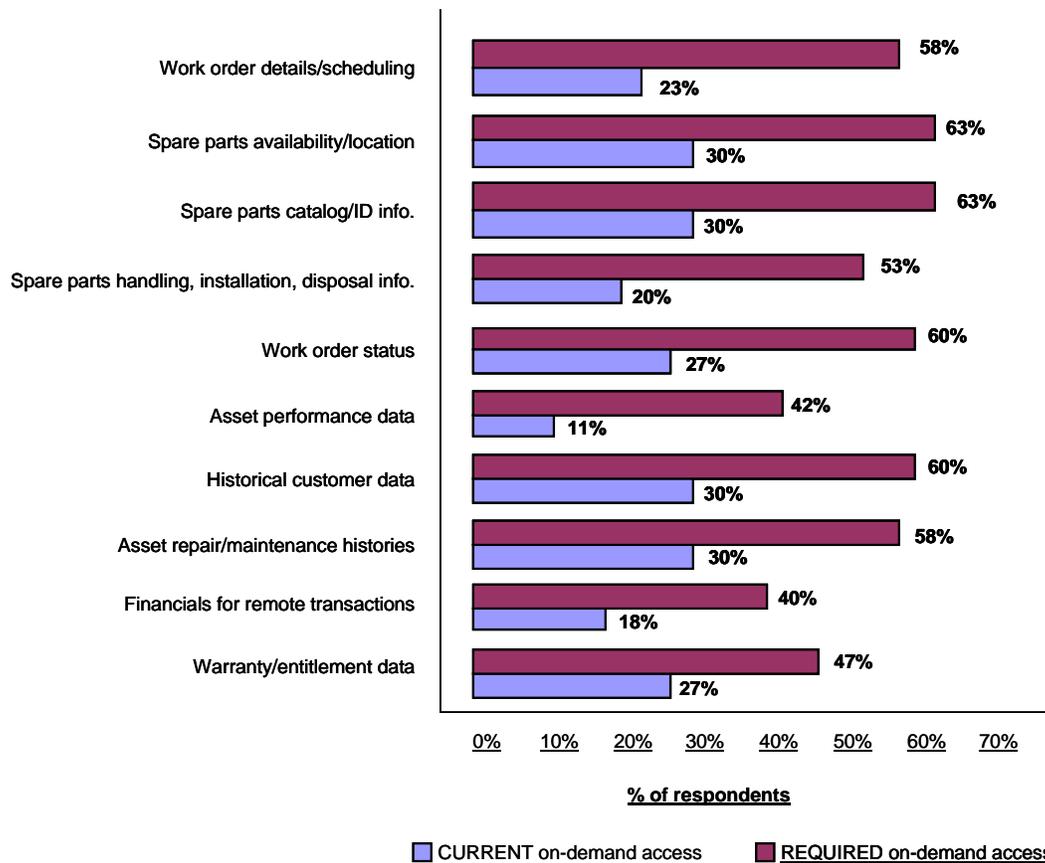
To successfully make the shift from running service as a tactical cost center to a strategic profit center, most companies will have to shore up their data management processes. Companies hoping to drive and measure growth with their service operations must ensure that critical business data is up-to-date, accurate, universally accessible, secure, and relevant by role. Pertinent data types to which service workers require accurate and timely access can be classified by a few key categories:

- *Transaction*: service order details, schedule/route information, warranty/entitlement information, etc.
- *Customer*: special requirements/preferences, historical service activity, SLA commitments, etc.
- *Asset*: historical service trends, current performance status, best practices for problem diagnosis/resolution, etc.
- *Inventory*: spare parts location, availability, etc.
- *Performance*: productivity of field technicians, SLA compliance, first-time resolution rate, etc.

In nearly every data category, at least half of companies participating in a related Aberdeen study indicated that they require on-demand access to the information (Figure 9). But in their current service operations, no more than 30% of companies can provide real-time data access in any individual data category.



Figure 9: Current vs. Required On-Demand Data Access in Field Service



Source: [AberdeenGroup](#), September 2005

For instance, nearly 60% of companies said their technicians need on-demand access to work order and scheduling information, but just 23% are currently meeting this requirement.

At KLA-Tencor – a major supplier of process control and yield management solutions for the semiconductor and microelectronics industries – the lack of timely access to work order data was causing billing cycles to run 45 days or more. Field technicians were spending ample time after-hours inputting data from home, since they had no connectivity during the course of their work days. In addition to impeding cash flow, paper-intensive processes introduced risk of revenue loss, invoicing errors, and customer dissatisfaction.

KLA-Tencor chose to tackle the problem with a wide-area wireless field service solution that allows field technicians to remotely locate required spare parts among the 700,000 available and to close and invoice service orders immediately while still on-site at the customer location.

Due to the multi-faceted technology landscape at companies like KLA-Tencor, there are very few firms that have the luxury of a single centralized and normalized database for



all its business data. Regardless, leading companies are leveraging portals and other tools to aggregate data that resides in disparate solutions and present a unified and normalized view into business performance. With this federated data model, enterprises can capture accurate, often real-time, views of performance data, including customer histories, sales opportunities, repair statuses, and forecasts for assets, labor, spares inventory, and the like.

Organization

Data management in the service chain can be especially challenging because companies are increasingly turning to third-party service network partners to deliver field service, depot repair, and parts logistics capabilities.

The reality for many manufacturers is that managing the service chain is not a core competency. For instance, more than half of companies participating in a related Aberdeen study utilize 3PLs or other third-party outfits to manage service parts stocking locations.

As the German printing systems company Heidelberg discovered, outsourcing service management can drive significant performance gains. The nearly \$5 billion company used to manage its 2,500 daily outbound service parts shipments from its 45,000 square-foot internal distribution center (DC).

The company analyzed the geographic distribution of its customer base and decided to outsource the entire DC to an Indiana-based 3PL. As a result, it realized the following benefits:

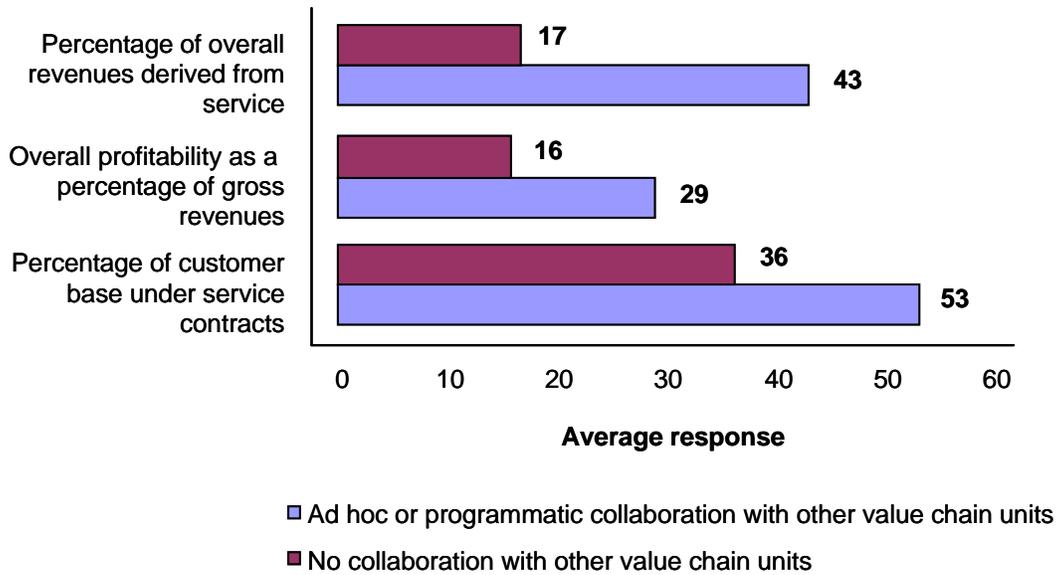
- Converted hundreds of thousands of dollars in expedited air shipment charges to ground charges, due to the closer proximity of the outsourced DC to its customers.
- Removed the financial burden of operating the DC as a company-owned asset.
- Gained access to industry-leading technology solutions deployed at the 3PL site.
- Simplified customs clearance processes by housing inventory assets in a foreign trade zone.

Particularly in a network service model like this, companies must guard against operational silos and ensure that external stakeholders are communicating and collaborating with internal stakeholders.

Those companies that reported having at least ad hoc collaboration among its service operation and value chain counterparts outperformed companies with no collaboration in such areas as percentage of overall revenues derived from service; overall profitability as a percentage of gross revenues; and percentage of customer base under service contracts (Figure 10).



Figure 10: Service Collaboration with Value Chain Counterparts Pays Off



Source: **AberdeenGroup**, September 2005

Technology

A by-product of the increased strategic focus on post-sales service has been a widespread re-evaluation of and, in many instances, investment in service management technology solutions. Most companies that view service as a business growth and competitive differentiation opportunity require such systems as call/order management, mobile field service, spare parts optimization, and warranty management.

For distributed field forces, wireless mobility has driven enormous bottom and top-line performance improvements. On average, companies that have deployed mobile field service solutions have reaped such top-line dividends as a 19% boost in customer retention, 17% increase in overall profitability, and 13% growth in service revenues (Table 2).

Table 2: Average Performance Improvements from Mobile Field Service Solutions

Key Performance Category	Average Improvement
Worker productivity	+27%
Customer satisfaction/retention	+19%
Overall profitability	+17%
Service revenues	+13%

Source: **AberdeenGroup**, September 2005

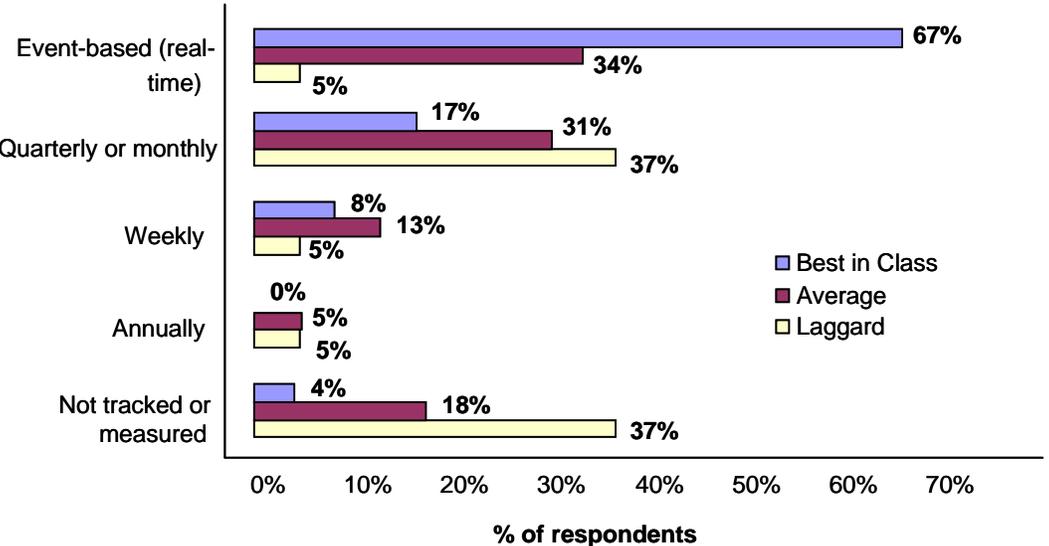
For Triton Plc, a UK-based manufacturer of domestic electric, power, and mixer showers, 50% of its total sales are to existing customers, so post-sales service can make or break the company’s top-line performance.

Thanks in large part to a schedule optimization and mobile field service solution, Triton has not only made significant strides in increasing efficiencies and reducing overall service costs, but it has also tapped into service-driven growth opportunities. Due to a reduction in administrative tasks and more efficient use of technicians’ time, the Triton service organization now has the capacity to entertain opportunities to take over the service workloads of other manufacturers. This has given birth to a previously untapped revenue stream.

Performance Measurement

As mentioned previously, managing service as a business requires executives to measure service performance with more customer-centric metrics. In addition, leading companies are monitoring performance much more frequently. About two-thirds of best-in-class companies check service performance on a real-time basis (Figure 11).

Figure 11: Frequency of Service Chain Performance Measurement



Source: **AberdeenGroup**, September 2005

Romec provides its customers – which include the BBC, Marks & Spencer, the British Museum, and the Houses of Parliament – with portal-based visibility into their performance against stated service level commitments. Romec reports that this on-demand performance visibility alone has allowed the company to secure several service contracts in such areas as mechanical/electrical maintenance.

Enterprise requirements for real-time service performance visibility and control are likely to become even more stringent and widespread, as more companies are relying on their



service operations for revenue growth, customer retention, and competitive differentiation.

Pressures, Actions, Capabilities, Enablers (PACE)

Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance a company achieves is strongly determined by the PACE choices it makes and how well it executes.

All service organizations should examine their prioritized PACE selections and compare them to those of best in class companies to determine where they might make adjustments (Table 3).

Table 3: Best-in-Class Service Management PACE (Pressures, Actions, Capabilities, Enablers)

Priorities	Pressures	Actions	Capabilities	Enablers
1	Customer requests for improved and extended service support	Improve customer satisfaction/retention	Aligning metrics and incentives to drive improved customer service	ERP or back-office service management system (SMS) integrated with order management system
2	Customer service becoming a competitive differentiator	Increase overall profitability	Post-sales service processes aligned with other business functions (i.e., finance, sales, marketing)	Analytics and performance reporting functionality
3	Increased competition for product sales	Increase service-related revenues	Formal and standard measurement of company service performance	Access to asset and customer data (e.g., health, history)
4	Shrinking product-based profit margins	Improve competitive position	Effective collaboration with partners (e.g., third-party logistics providers, contract field engineers)	Service parts planning and execution systems
5	Customer requirements for better asset performance measurement	Improve overall product quality and performance	Effective visibility and alignment of technician supply to work-order demand	Warranty/contract management system

Source: **AberdeenGroup**, September 2005



Chapter Four: Recommendations for Action

Key Takeaways

Building blocks for a revenue- and customer-centric service organization include:

- Bring field service and parts logistics under one operational umbrella.
- Promote and empower senior service executives from within.
- Validate, document, and publicize service delivery excellence.
- Forge stronger ties between service and manufacturing.

Is it necessary for companies to appoint a Chief Service Officer in order to reap the top-line benefits available from post-sales service? Not necessarily. But, as this study uncovered, executive-level endorsement is a must.

Companies of all maturity levels should consider the following recommendations as potential building blocks of a strategic service organization.

Building a Service Business

1. Bring field service and parts logistics under one operational umbrella:

The first step to address service as a cohesive business operation with top- and bottom-line ramifications is to coordinate the planning and execution of field service technicians and service parts. Often, the only way to accomplish this is to structure the organization so that parts and people are under one umbrella.

At one communications company Aberdeen interviewed, operational silos persisted after initial collaboration attempts, so a team of managers submitted a formal proposal to executives to unite the management of service and logistics. With the merger in place, the company has its sights set on unprecedented levels of service performance and customer satisfaction.

2. Promote and empower from within:

Where are senior service executives coming from? Among the companies Aberdeen interviewed, regional and divisional customer and field service managers are stepping up to the challenge. In some cases, as service offerings become more integral to product sales strategies, sales and marketing managers are assuming more pivotal roles in service leadership.

As leading companies assign more strategic importance to service, they are either promoting existing service managers to assume more top-line management responsibilities or are adding service P&L oversight to the plates of existing senior executives in sales, marketing, or operations.



3. Validate, document, and publicize service delivery excellence:

Sales executives and prospects may find many aspects of service delivery to be intangible and difficult to quantify. So as OEMs increasingly lean on post-sales service as a differentiator, it is imperative that they capture and communicate tangible metrics of past and predicted levels of service in the sales process.

Companies have invested significant time and resources into surveying customers and quantifying the service experience. In addition, some companies are turning to third-party organizations to validate and even certify service excellence, in much the same way companies have used ISO certifications.

4. Forge stronger ties between service and manufacturing:

Historically, service has operated as a discrete entity at most OEMs, separate and distinct from product engineering, design, and manufacturing. As stated previously, nearly three-quarters of polled companies see only ad hoc collaboration at best between their service and manufacturing organizations. Unfortunately, this has prevented valuable insights gleaned from the field regarding product performance and serviceability from making their way back into product design cycles.

Companies looking to reduce warranty exposure, simplify break/fix and preventive maintenance procedures, and improve overall product performance and availability must formalize a collaborative relationship between service and manufacturing.

Many manufacturers in the medical equipment sector, for instance, are responding to increasing demand for intelligent asset diagnostics by upgrading next generation design specifications to include networkability within physical assets. This will allow the service organization to more accurately and preemptively monitor equipment performance and deploy service resources more efficiently.

5. Leverage existing and new technology to synchronize four service pillars:

Companies that have already deployed ERP, order management, or CRM systems are well positioned to add service management functionality. These systems house critical customer and product data that will be needed in a service management system. When evaluating service technology providers, companies — especially in the mid-market — should ensure that full integration with existing systems is possible without unreasonable extensions to the implementation timeline or price hikes.

Companies that are building ties between service and logistics are working toward consolidated “command centers” that overlay parts and technician planning and tracking systems — and serve as single front-ends for visibility and exception handling.

In addition, leading companies are exposing inventory management capabilities to field workers through mobile devices. In this model, field technicians can report parts usage data from the field. The system then automates the process for restocking vehicles by monitoring parts usage and adjusting stock counts.

6. Address process deficiencies before deploying technology:

Best-in-class companies Aberdeen surveyed noted that growing an aftermarket service operation from a tactical cost center to a strategic profit center has more to do with creative and efficient business processes than with technology selection.



One notable example is Triton Plc, whose service operations account for 25% of its overall business. The company knew it needed to develop a customer-centric culture and revisit its business processes in order to better position itself for long-term growth.

To accomplish this, the shower manufacturer set out to improve specific areas of deficient performance such as time spent on customer service calls, work order taking and scheduling procedures, and order resolution speed. The result: not a single process is the same today as it was five years ago.

7. Clearly define requirements and success criteria before evaluating technology solutions:

The adage about an ounce of prevention also holds true for planning a service transformation. To select the appropriate technology solution and continue to derive maximum benefit from it over time, companies must take the time to document and prioritize their requirements and criteria for success.

In the case of The Bobst Group, the company distinguished between primary and secondary objectives for success of its M2M-enabled service initiative. The company's primary objective was to find a high-speed, remote service platform with a rapid ramp-up time, so that benefits could be realized quickly. The essential components of this solution were three-fold:

- Minimal infrastructure to allow for immediate deployment with manageable costs and an expedient installation period;
- Minimal training for service technicians; and
- No additional administrative requirements.

And when Komax Corporation embarked on launching a mobile field service solution, it clearly identified its requirements in two critical areas: the robustness and frequency of connectivity the field service operation required, and an intuitive user-interface and workflows, so that technicians could easily learn and use the system. Komax evaluated how much "lag time" the company could live with and still achieve operational performance and customer satisfaction targets.

8. Leverage partnerships with service and logistics providers:

In many cases, companies can better meet customer service targets by establishing partnerships with contract service technicians and third-party logistics providers. As part of their service strategy, many mid-market companies are outsourcing all or part of their service operations. They are turning to third-party logistics providers to manage processes such as service parts inventory planning and distribution, reverse logistics, and repair depot management. They are also contracting with centralized (often offshore) call centers to manage inbound customer inquiries, and contract with independent service providers to manage break/fix and preventive maintenance processes.

The tactic of having channel partners participate in service delivery makes for a fragmented service chain, creating especially demanding requirements for business process integration and seamless transaction throughput. There are also risks associated with outsourcing service operations, including potential interruptions in customer service levels during the transition from in-house to third-party, and customers' experiences with the channel partner will directly impact their satisfaction levels with the OEM. But with the



right partners and properly installed integration bridges, the benefits that accrue to companies from an outsourcing approach usually outweigh the risks.

As your company weighs this risk/benefit equation, keep this in mind: The ideal mix of in-house and outsourced should result in the highest possible levels of customer satisfaction, without compromising operating efficiencies, revenue growth opportunities, or total cost of technology ownership.

For its part, the data storage company Aberdeen spoke with services its major U.S. accounts with about 50 full-time field engineers, and augments this with a team of about 400 contract engineers to service its mid-tier products. And third-party engineers handle nearly all of the company's non-U.S. accounts.

9. Involve stakeholders early and often in transformational process:

According to Aberdeen's research, change management is one of the most significant impediments to transforming service into a revenue-driver. No measure of process documentation or technology tools will impact performance if call center workers, dispatchers, field technicians, and other service workers do not believe in their value.

At one industrial equipment company, project managers attribute the success of its service overhaul effort in large part to the enhanced accountability and ownership assumed by stakeholders throughout its service operations. With service personnel taking ownership for the success of the initiative, the company was able to gain and sustain the necessary enterprise-wide buy-in to successfully transform its service organization from a regional to national business in less than two years.

Likewise, one of the keys to IR Hussmann's continued success with its service management strategy has been its proactive technician training program, which has helped the company gain buy-in for the new approach to servicing customers. Following the deployment of the *SmartTech Service System*, IR Hussmann rolled out its Tech-Ed Program to increase awareness of work order processes and promote accountability among technicians. By creating a program that gives service engineers a sense of ownership in their roles, IR Hussmann establishes them as change agents and places them in a position to drive the company's profitability.

10. Adopt a two-pronged approach to measuring after-market service efficacy:

If your company has not done so already, ask your existing customers whether they are satisfied with the current level of service you're providing, and how they measure your company's performance. This information will be critical for establishing a set of customer-centric KPIs by which you should be measuring your service business.

First, track operational metrics that include average daily work orders completed per technician, average hours per technician per day spent working on customer sites ("wrench time"), and first-time part fill rates.

But to gauge the impact service is making on business growth, companies must tune in to the following customer-centric metrics:

- First-call resolution rate
- Customer retention/service contract renewal rates
- Product/equipment availability



- Mean time to repair (MTTR)
- Percentage of work orders completed late
- Service contract compliance percentage
- Percentage of service contracts with priority-based time constraints
- Service revenue growth

It is critical for companies to adopt a customer-first mentality and weigh every decision regarding service technology, process, strategy, and performance against the backdrop of customer impact.



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Greg Coleman, vice president of certification
Service Strategies Corp.
11075 Via Del Campo, 2nd floor
San Diego, CA 92127
858.674.4864
toll free North America 800.552.3058
info@servicestrategies.com
www.servicestrategies.com

Author Profile

Mark W. Vigoroso,
Vice President
Service Chain Management Research
Aberdeen Group, Inc.

(617) 854-5278
mark.vigoroso@aberdeen.com

Mark Vigoroso spearheads primary market research in field service management and assesses software and services that automate and streamline these and other value chain processes.

Vigoroso's current efforts include quantifying Global 5000 executives' strategies, experiences, and deployment plans in the area of field service optimization.

He has published research in the areas of strategic sourcing, supplier performance measurement, enterprise spending analysis, total cost management, global trade management, and asset management.

Vigoroso has spent years covering electronic procurement, supply chain, and logistics management trends as a journalist, editor, speaker, and columnist for various industry publications. Specializing in e-business applications and strategies, he was an editor at *Purchasing* magazine and *Manufacturing Marketplace*. He has also been a columnist and feature writer for *The E-Commerce Times*, *ZDNet TechUpdate*, and *Workz.com*.



Appendix A: Research Methodology

In August 2005, Aberdeen Group examined the service management procedures, experiences, and intentions of more than 100 enterprises in high-tech, discrete and process manufacturing, telecommunications, as well as other industries.

Customer service, operations, sales & marketing, manufacturing, and logistics executives completed an online survey that included questions designed to determine the following:

- How best-in-class service organizations are bolstering company revenues with growth-oriented strategies, processes, and personnel
- Which roles are likely to change and who will assume the “Chief Service Officer” role
- How the most successful service organizations are quantifying their impact on their customers’ performance.
- What specific actions companies in multiple industry segments can take to adopt a more strategic approach to aftermarket service.

Aberdeen supplemented this survey effort with interviews of select survey respondents, gathering additional information on service management strategies, experiences, and results.

The study aimed to identify emerging best practices for service management and provide a framework by which readers could assess their own service management capabilities and opportunities.

Responding enterprises included the following:

- **Job function:** The research sample included respondents with the following job functions: customer service (36%); operations (23%); marketing (16%); logistics/supply chain (10%); sales (10%); manufacturing (2%); finance (1%); and procurement (1%). One percent of respondents did not provide job function data.
- **Industry:** The research sample included respondents from the following industries: high technology (35%); manufacturing (21%); consumer-driven industries (14%); business services (11%); transportation/distribution (8%); and public sector (1%). Ten percent of respondents did not provide industry data.
- **Geography:** Survey respondents from the U.S. represented 76% of the survey sample; from Europe, 18%; from Canada, 2%; from Asia-Pacific, 1%; from Latin America, 1%; and from the Middle East, 1%. One percent of respondents did not provide geographic data.
- **Company size:** About 21% of respondents were from large enterprises (annual revenues above US \$1 billion); 43% were from mid-size enterprises (between \$50 million and \$1 billion); and 36% of respondents were from small businesses (\$50 million or less).

Solution providers recognized as sponsors of this report were solicited after the fact and had no substantive influence on the direction of *The Emergence of the Chief Service Officer*. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Table 4: PACE Framework

PACE Key
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <ul style="list-style-type: none"> • Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive) • Actions — the strategic approaches an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product/service strategy, target markets, financial strategy, go-to-market, and sales strategy) • Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing) • Enablers — the key functionality of technology solutions required to support the organizations’ enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)



Table 5: Relationship between PACE and Competitive Framework

How PACE and Competitive Framework Interact

Aberdeen research indicates that companies that identify the most impactful pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance a company achieves is strongly determined by the PACE choices they make and how well they execute.

Table 6: Competitive Framework

Competitive Framework Key

The Aberdeen Competitive Framework defines enterprises as falling into one of three levels of *field service* practices and performance:

Best-in-class (20%) — Service management practices are the best employed now and significantly superior to the industry norm, and result in the top industry performance.

Industry average (50%) — Service management practices represent the average or norm, and result in average industry performance.

Laggards (30%) — Service management practices are significantly behind the industry average, and result in below average performance.

Appendix B: **Related Aberdeen Research & Tools**

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Mobilizing the Data-Driven Service Chain*](#), September 2005
- [*Service Parts Management Solution Selection Report*](#), September 2005
- [*Best Practices in Strategic Service Management*](#), June 2005
- [*Field Service Optimization Benchmark Report*](#) – Part 2, May 2005
- [*Optimizing Field Service to Achieve Profitability Goals*](#), March 2005
- [*Managing Service Chain Performance for Competitive Advantage*](#), February 2005
- [*Next Generation Post-Sales Service Benchmark Report*](#), December 2004

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AberdeenGroup, Inc.
260 Franklin Street
Boston, Massachusetts
02110-3112
USA

Telephone: 617 723 7890
Fax: 617 723 7897
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September 2005

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