STRATEGIES
FOR UNLOCKING HIDDEN VALUE
within your Service Supply Chain

I. The Opportunity

It is probably no surprise to you that truly exceptional companies have been able to generate substantial profits from better management of their service supply chain. In fact, some companies have seen tremendous growth in both top line revenue and bottom line profitability by maximizing the value of their Service Supply Chain.

In essence, they've gone through a major transformation from managing their services and support operations as cost centers to profit centers, or strategic lines of business. For best in class companies, service can present 45% or more of total corporate revenue and 30% or more of total corporate profits. Furthermore, companies who are truly maximizing the value of their service supply chain and managing it as a profit center can experience Net Operating Income (NOI) in excess of 25% on the service revenues they generate.

Despite these impressive results, the large majority of high tech companies don't give this function the attention it deserves. And, as you might be painfully aware the impact on customer loyalty and bottom line profitability is huge. We've put together this whitepaper to share our insights and perspectives on how best-in-class companies have been able to maximize the value of their service supply chain to produce phenomenal gains in service profitability and customer satisfaction.

II. Revenue Maximization

Revenue growth is probably the single most important objective for executives who are responsible for managing service as a profit center or strategic line of business.

"I want to double my service revenue in the next 3-5 years" is an incantation that we hear constantly from business owners and executives. That equates to a 20% or more growth rate per year. Sure, this type of growth is easily achievable if the market is growing at this rate or faster. While high revenue growth in a low growth market is difficult, it's not impossible. A little hard work is usually required to achieve a 20% growth whether the market you service is large and growing, or mature and declining.

To understand where the emphasis is needed, let's look at where service marketing programs may fall short:

1. **Lack of clarity on service market size & growth rate:** Some companies fail to maximize the value of their service supply chain because they do not understand the revenue potential that is available to them. It is absolutely critical that you develop an assessment of the size and growth rate of the market you serve. This will help you understand the market potential available to you and how to best allocate internal resources to take advantage of this opportunity. Typically, the total available market (TAM) is a function of the size, age, and service requirements of the installed base of technology your company supports.

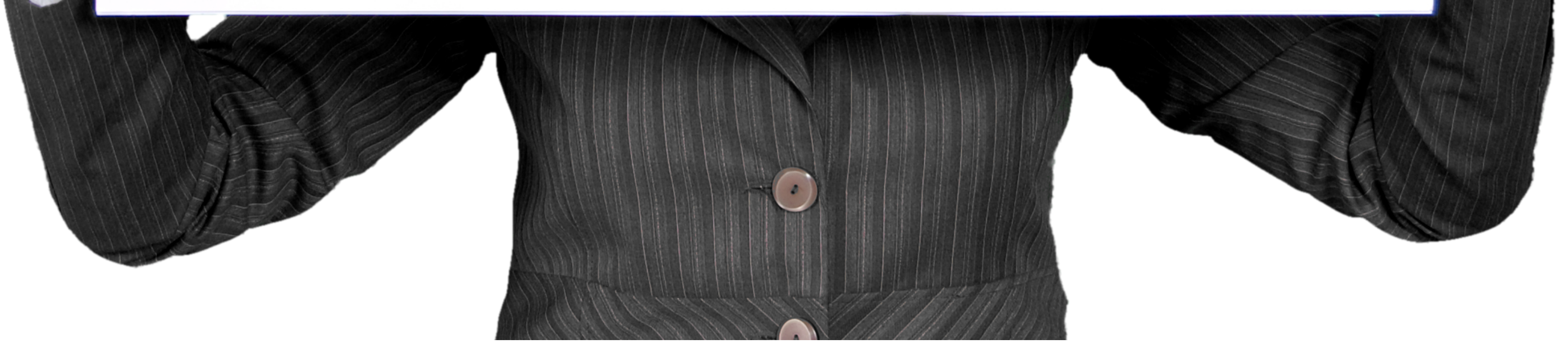
2. **Failure to understand competitive threats:**

Many service providers, particularly those that are divisions of manufacturers, fail to understand the options that their customer have when it comes to obtaining services and support. In essence, they fail to recognize the competitive threat from Third Party Maintenance (TPM) companies, other OEMs, or in-house service providers. That's why it is extremely important that you periodically complete a competitive SWOT analysis and continuously evaluate your value proposition in light of the competitive landscape.

3. **Service Portfolio not meeting customer needs:**
Quite often service providers fail to meet their revenue objectives because their service portfolio is no longer meeting customer requirements. In other words, they have failed to offer services that effectively address customer needs. For example, offering only next day response when customers require same day, or offering only break-fix service when customer require a broader array of value added services (e.g., training, managed services, remote diagnostics) to deal with more complex operating environments.

4. **Pricing not optimal:** If your revenue is flat or declining, you might want to look at how you price your services. Perhaps your service prices are no longer competitive. On the other hand, you may be underpricing your services in relation to the value you provide when in fact you can charge a premium price and obtain higher margins. These missteps in pricing occur when companies fails to adequately understand alternative price scenarios and/or the level of price sensitivity within the market they serve.

5. **Failure to articulate value:** How well have you articulated the value of your service offering to current and prospective customers? Do they understand the cost of downtime or the pain points that your services help solve? It is important that you not only articulate value to your customers but make sure that your sales people understand it and you provide them with the appropriate sale aides and marketing collateral to support it.



6. **Lack of communication & follow-up:** One way to increase service revenue is by improving contract renewal rates. These rates often decline though lack of consistent communication and persistent follow-up about the value of services provided, when contracts are up for renewal, special incentives for renewing, and information on when they are about to expire.

7. **Not asking for referrals:** Referrals are the best and least expensive source of qualified prospects. The problem is most service providers forget to ask for them. Remember your customers speak to each other. They may be involved in the same networks and trade associations, or call on each other for advice and guidance. Why not enlist them in your business development efforts?

8. **Lack of customer appreciation:** Your customers will remain loyal to you and purchase more from you when you let them know how much you value and appreciate their business. It's the simple things like a courtesy phone call/visit, thank you card, small gift (i.e., rewards program), newsletter, or special offer that let them know you value their business.

These eight areas have one thing in common, they all benefit from market research. Whether its information that will help you redesign your service portfolio or modify pricing, market research provides you with an unbiased and unfiltered perspective on what your customers are actually thinking and saying. You will learn things that you may not otherwise from a sale's call or courtesy call made by a company executive. Market research is critical to the long term success of your service business!

III. Managing the Cost of Revenue

The ability to maximize service revenue is the first building block to operating a profitable service operation. The second building block toward a profitable operation is to be able to manage the cost of service revenue while maintaining high levels of service quality and productivity. Simply put, profits are a function of revenue less the cost of the revenue. To be profitable at delivering service & support, you don't only need to know how to generate revenue but you also need to manage the costs so that they are less than the revenue received. This is very simple advice but not everyone understands the keys to managing the cost of revenue.

We recently conducted a market survey among 250 service managers and executives on critical trends facing the Field Service industry. As part of this research effort, we asked respondents to indicate which issues where the most challenging to their company. Reducing the cost of service delivery while maintaining high levels of quality was at the top of this list. Over two-thirds of the survey population indicated that this issue was either somewhat (40%) or very (29%) challenging for their organizations.

The truth is that taking a disciplined approach to reducing costs is critical to a business' long term growth and sustainability. One way to ensure high profits, year after year, is to consistently find ways to reduce cost by at least 10% per year. They are not simply cutting expenses haphazardly by laying-off people, taking short cuts, asking vendors for price concessions, or making do with less. Those tactics have negative consequences on morale, productivity, and quality which ultimately hurt rather than help a business.

Instead, world class companies take a strategic approach to cost – cutting. They pursue an approach that leads to long term growth, improved market share, and an enhanced reputation among customers and employees. In other words, an approach that makes them the type of company that makes people want to do business with, work for, or invest in.

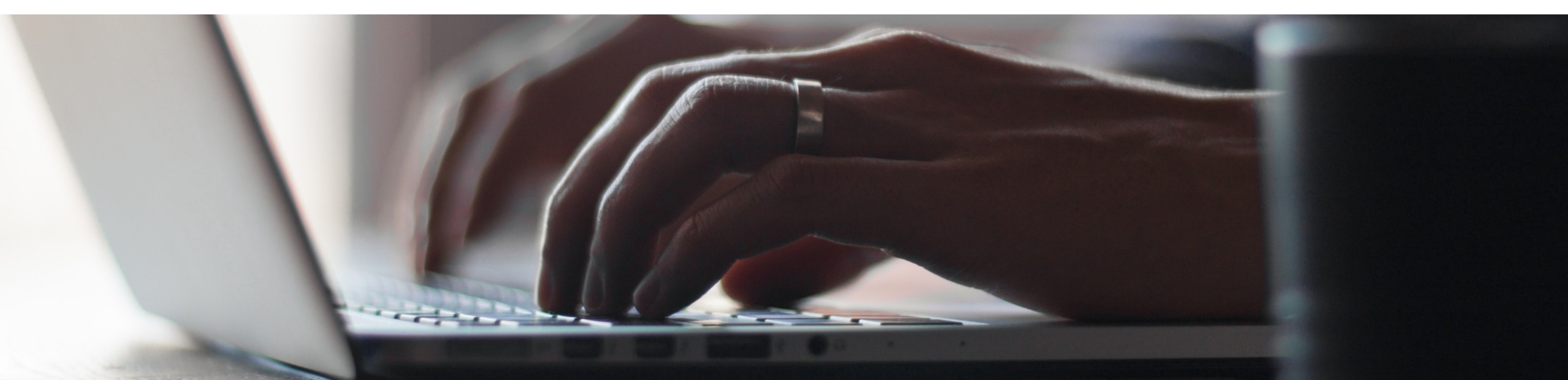
Here are a couple of key principles to keep in mind when applying a cost cutting strategy to your service operations:

It never ends – Just because you are able to find a 10% savings today doesn't mean that costs will remain the same next year. Your operating expenses will always find a way to creep up on you. There will always be a learning curve associated with rolling out new technologies and launching new services. Even when it comes to delivering existing products and services, waste and inefficiencies will multiply if left unchecked.

Know your numbers – There are two old adages that you need to remember when managing a service business – 1) quality is not free and 2) you can't improve anything you don't measure. That's why it is important to keep an eye on key performance indicators that impact both quality and cost such as First Time Fix Rate, Utilization Rates, Repeat Visits/Repairs for the same problem, No Fault Found, and Dead on Arrival. Try to continually benchmark your performance and find ways to improve in these areas and cost savings will follow.

Pursue process and systems improvements - It goes without saying that cost savings can be achieved by streamlining processes and deploying technology to automate manual processes. For example, to achieve a 25% or more improvement in operating efficiency by implementing a disciplined approach to call management, remote resolution, and technician dispatch. Best in class companies achieve this result through the deployment of advanced technology such as knowledge management tools, mobile communications, and dynamic scheduling solutions. The result is a better level of service for the customer as measured by First Time Fix rate, SLA compliance, and speed of service resolution time.

Seek alternative delivery models - Outsourcing has traditionally been viewed as an effective alternative for reducing costs without jeopardizing quality. However, new advances in crowdsourcing platforms and sharing economy business models offer another alternative for companies to gain economies of scale, improve operating efficiency, and maintain high levels of service quality by contracting directly with independent contractors to create a variable workforce model.



IV. Summary & Conclusion

In summary, significant gains in productivity, efficiency, and quality are available to companies who maximize the value of the service supply chain. These gains have a direct impact on bottom line profitability, customer loyalty, and market share. To transform the service supply chain into a profit center or strategic line of business, companies must be able to continuously maximize their revenue potential and diligently manage their internal costs without jeopardizing service quality. This needs to be performed on a consistent, deliberate, and consistent basis. It also helps to have an experienced advisor in your court to help you identify areas of improvement and achieve measurable results.

Whether you need to grow your service revenue and profit, or your margins are low or declining and therefore need to cut costs and/or improve productivity, we are familiar with virtually all field service and reverse logistics problems.

Here are just a few common problems we help leaders address every day:

- Overcoming obstacles to maximizing service revenue and profits.
- Obtaining critical market intelligence to win new customers and expand market share.
- Benchmarking service performance against industry standards and best in class targets
- Ensuring the right systems and processes to ensure repeat business from existing customers
- Resolving challenges to improving cost efficiency, utilization, and service productivity.
- Achieving consistent and sustainable results on Key Performance Indicators (KPIs) and Benchmarks (e.g., SLA Compliance, First Time Fix, Renewal, DOA, etc.)

Many firms think strategic consulting is a waste of time and money. But, what if there was a way to get the kind of results you need at an affordable cost? You know results that can lead to a 30% or increase in revenue and profits within 12 months.

The solution is **Blumberg Advisory Group**; we help your firm gain insights that drive profitable business decisions. Helping as an in-house member of your team, or on a project basis, we work on improving your profitability by helping your company make smarter business decisions. We are the only strategic level consultant with a deep understanding of service supply chain best practices and the ability to provide over 40 years of industry data and analysis. Our ethical unbiased business insights, industry experience and quality market research are delivered on a rapid and cost effective basis.

Our deliverable, simple – better decision making based on the science of solid research, analysis, and planning. Consider your current situation and the outcomes you'd like to achieve for your business. Then ask yourself, if having an experienced strategic resource working alongside you, solely focused on identifying low risk high reward opportunities that drive profits, what effect that would have on your business.

Want to maximize the value of your service supply chain, **contact us today at 855-643-9060 ext. 703 or email (info@blumberg-advisor.com)** for a free consultation today to explore options.

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