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The Service Revolution: Building a World Class Service and Parts Business.

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"A business absolutely devoted to service will have only one worry about profits. They will be embarrassingly large."

Henry Ford
Founder, Ford Motor Company

Agenda

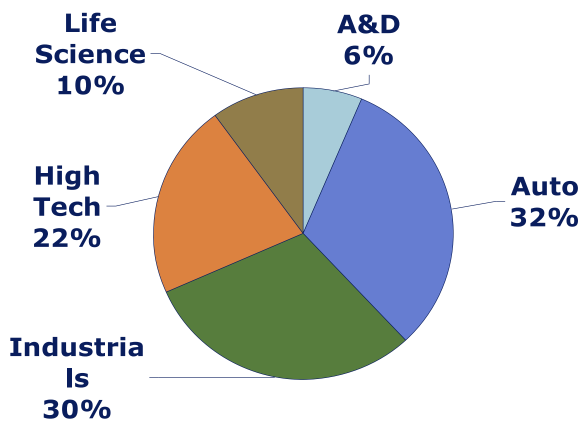
- Driving profitable growth through the service business

- Transforming the business through service excellence
  - Strategy: Laying the foundation
  - Operations: Leapfrogging through process and technology maturity
  - Execution: Delivering service excellence one customer at a time

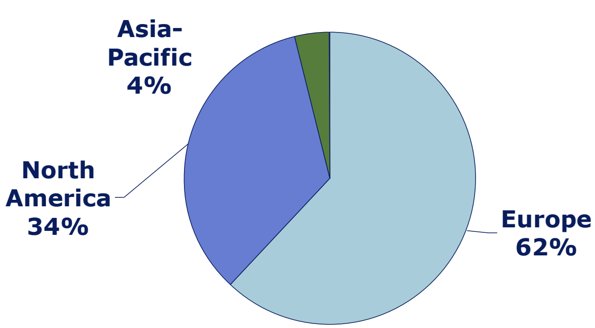
- Summary

To understand the service revolution, Deloitte is conducting a Global Service and Parts Management Benchmark study

Industry Demographics



Regional Demographics

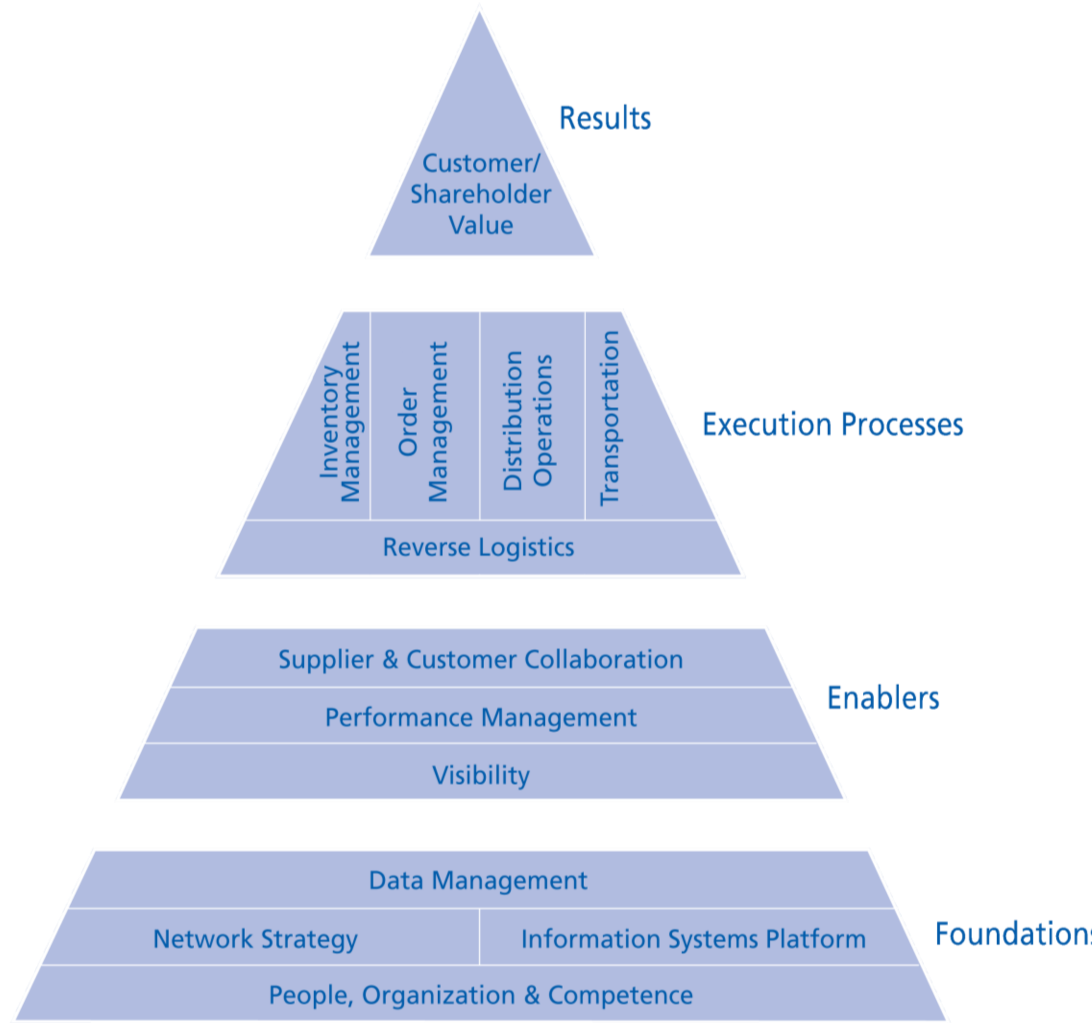


- Global benchmarking program includes over 900 multi-national companies
- The Global Service and Parts Management Benchmark survey
  - Includes over 100 service businesses
  - Combined corporate revenues exceeding $1.5 trillion

The Global Service and Parts Management Benchmark study covers all Service Parts Building Blocks

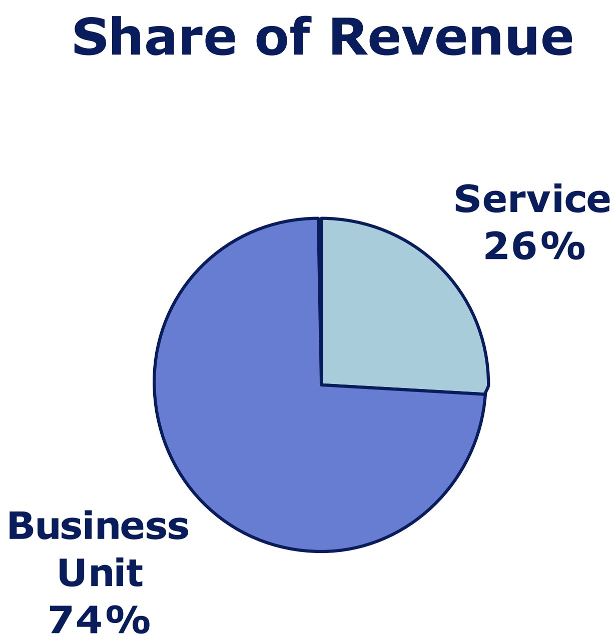
The service parts supply chain is divided into 12 major service parts building blocks – with each component supporting the ones above it.

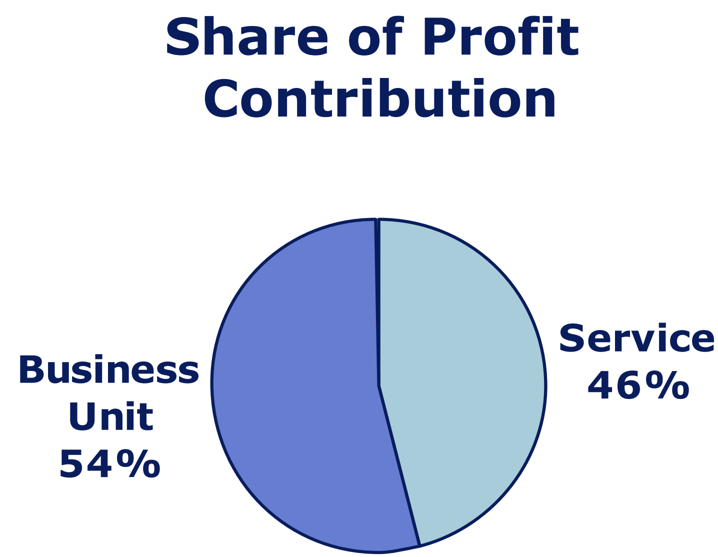
- *Results*
- *Execution Processes*
- *Enablers*
- *Foundations*



Service Parts Building Blocks

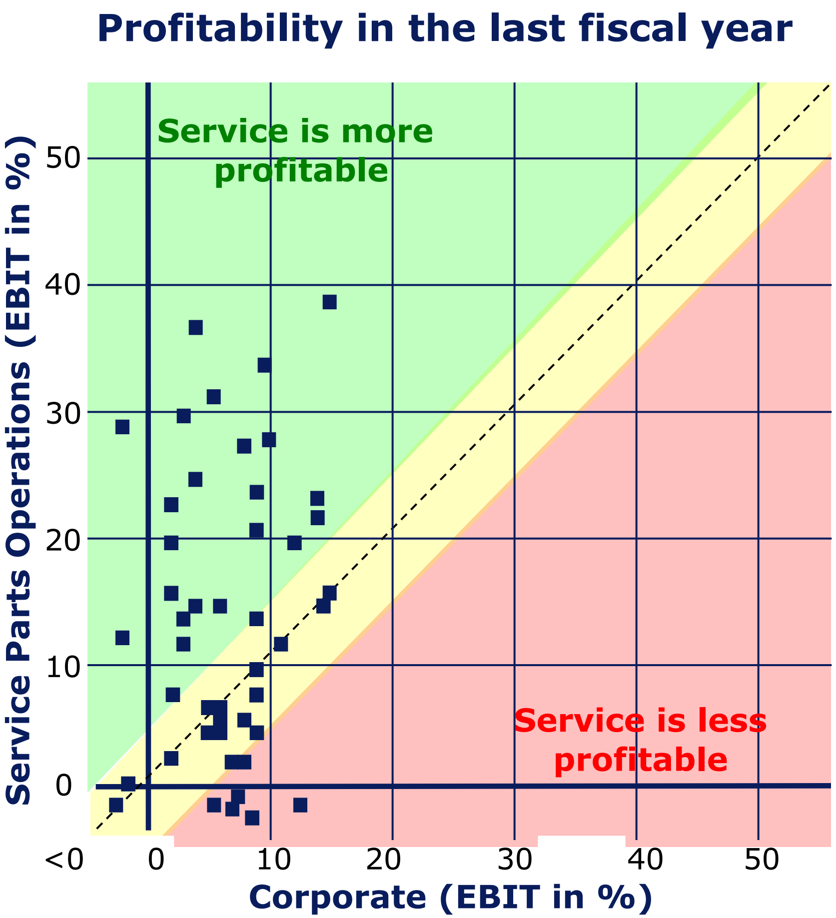
Companies are driving revenue and profits through the service business





In fact, many manufacturing companies would achieve little or no profitability without the service business

Service and parts operations drive profits for most companies benchmarked

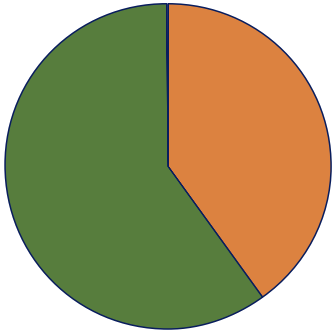


- Service businesses have much higher profitability than the overall business unit
  - 76% higher on average
  - 250% higher for top quartile
- Service business grow faster than the overall business unit
  - 10% higher on average
  - 120% higher for top quartile

However, two-thirds of companies fail to grow the service business faster than the overall business unit

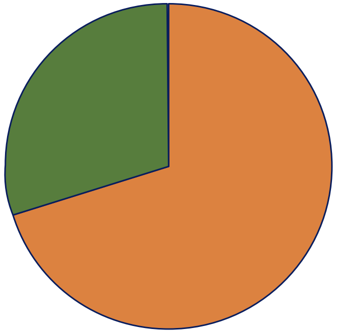
The potential to capture additional service business is enormous

After-sales service market



60% of installed base not being served

After-sales spare parts market



30% of installed base not being served

The non-captive market represents even a much larger opportunity

Market shares show strong potential for growth, yet a majority are struggling to join the service revolution

	Service market share (median in percent)		Spare Parts market share (median in percent)	
	Of Captive Market	Of Total Market	Of Captive Market	Of Total Market
Aerospace and Defense	20%	5%	75%	75%
Automotive and Commercial Vehicles	0%	0%	70%	18.5%
Diversified Manufacturing and Industrial Products	50%	20%	60%	22.5%
High Technology and Telecommunications Equipment	40%	15%	90%	15%
Life sciences/Medical Devices	90%	10%	95%	35%
All companies	40%	10%	70%	25%

Inviting competitors to exploit captive markets for service and parts is a dangerous game

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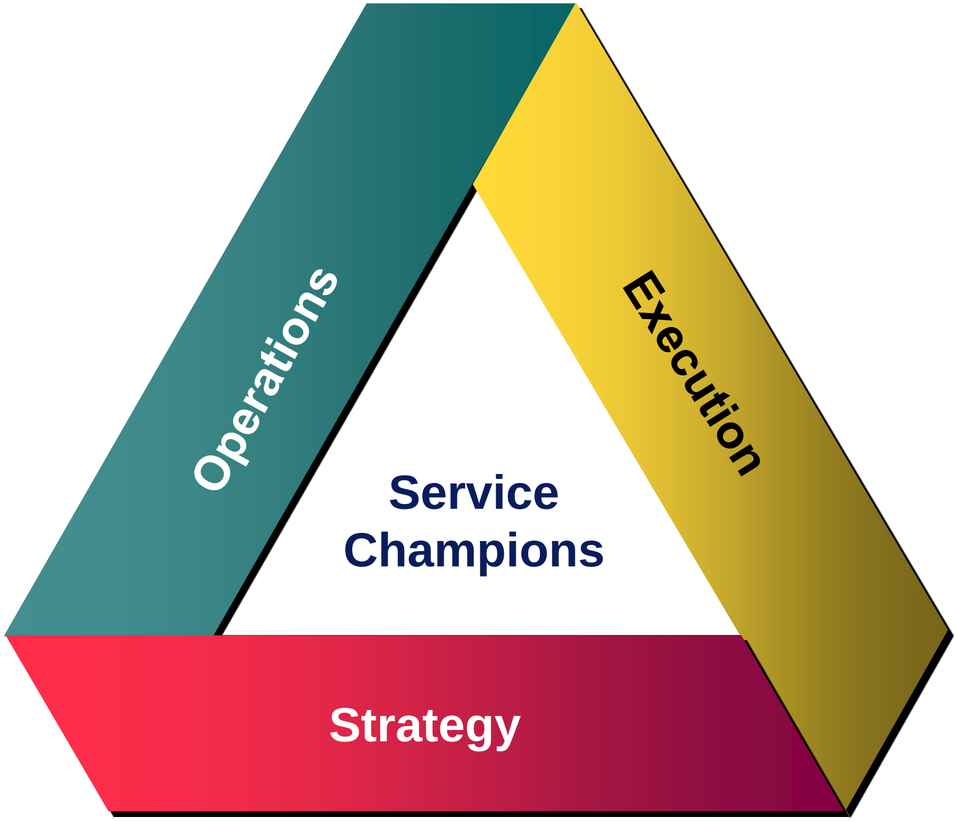
Transforming the service business through service excellence



Companies can find benefit from improving in any of the areas, but Service Champions achieve transformation by excelling in all

Strategy: Laying the Foundation

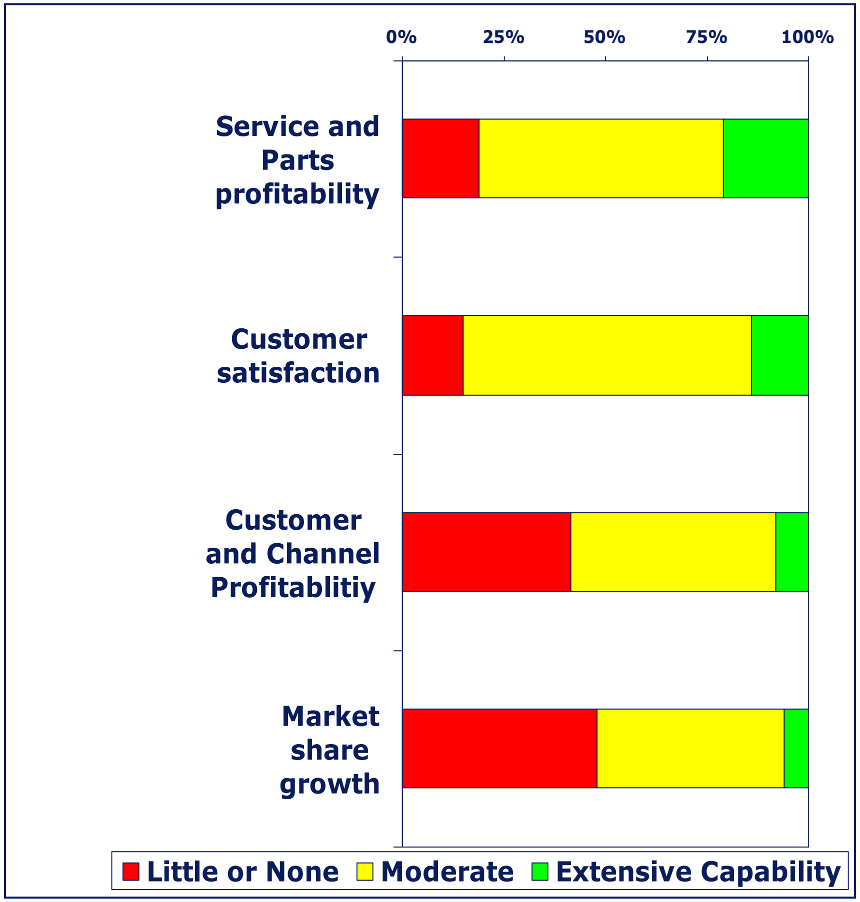
Integrate service as a core part of the overall business strategy

- Distinguish yourself on service
- Commit to service innovation
- Design the business for service excellence

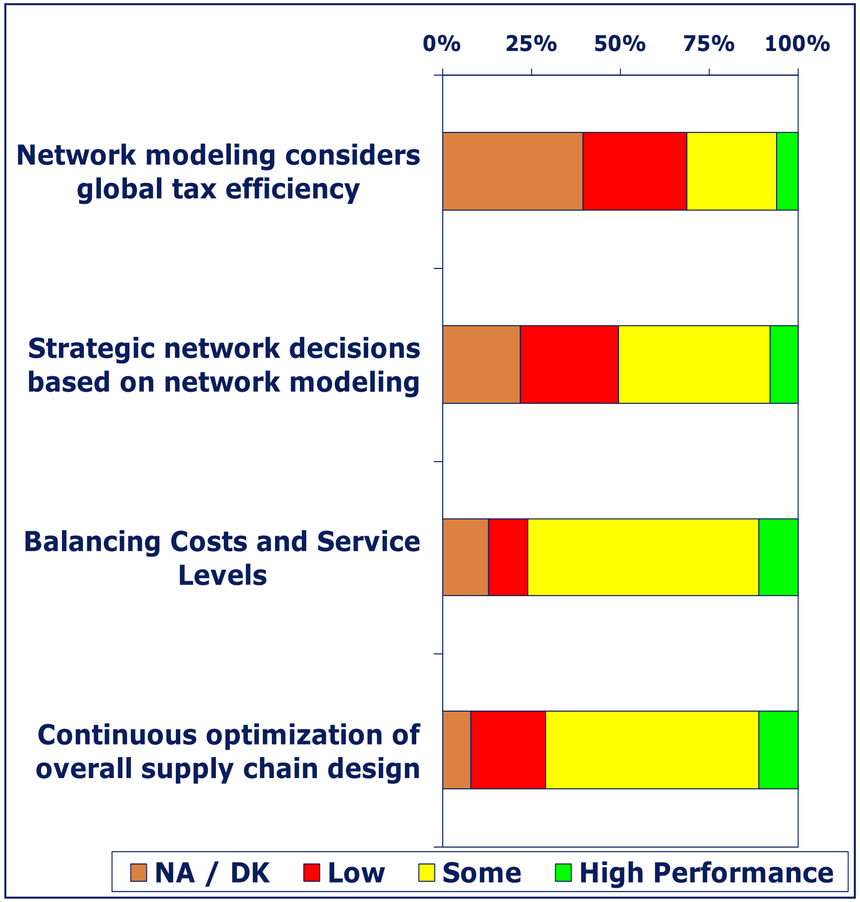
Service Champions make their service business central to their corporate strategy

Companies lack visibility to key business drivers . . . and few can optimize the business design

Visibility



Optimization



It is not surprising that companies struggle to build a world class service business

Operations: Leapfrogging through process and technology maturity

- Effectively plan and optimize the service operations
- Establish robust collaborative processes
- Streamline and integrate transaction processes

Few companies have adopted leading processes and technologies required for Service Excellence

Planning and Optimization

Demand planning

Inventory planning

Transportation planning

Collaboration and Info Mgmt

Product and service data mgmt

Product development / Lifecycle mgmt

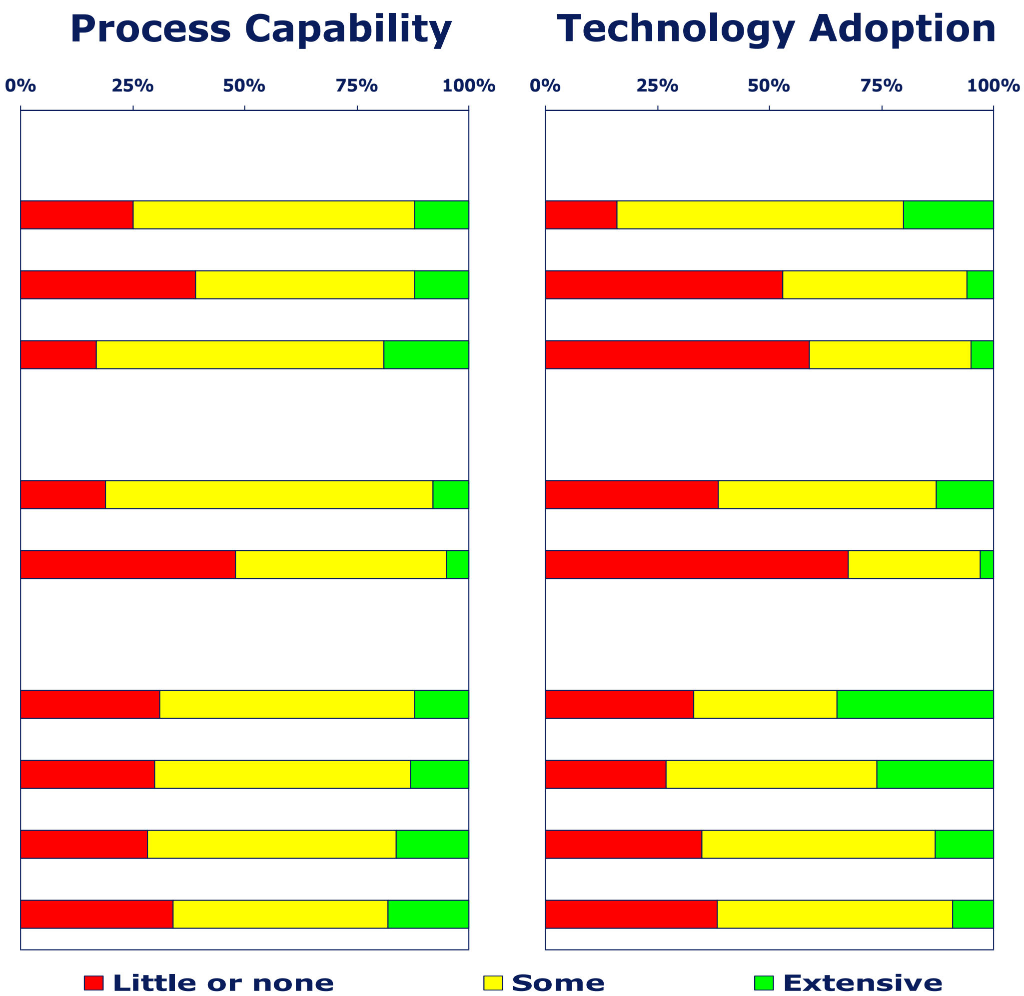
Transaction Processes

Order management and fulfillment

Warehouse Operations

Field Service

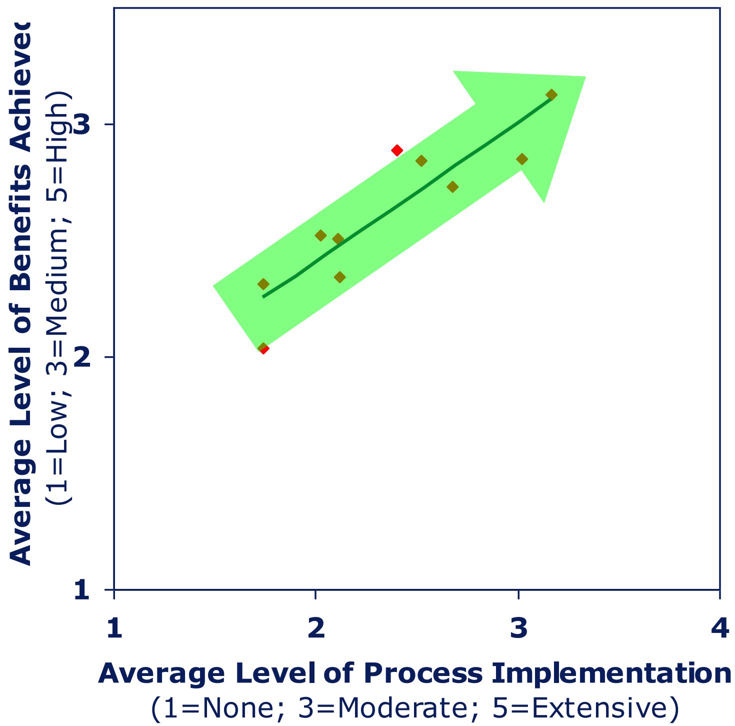
Returns



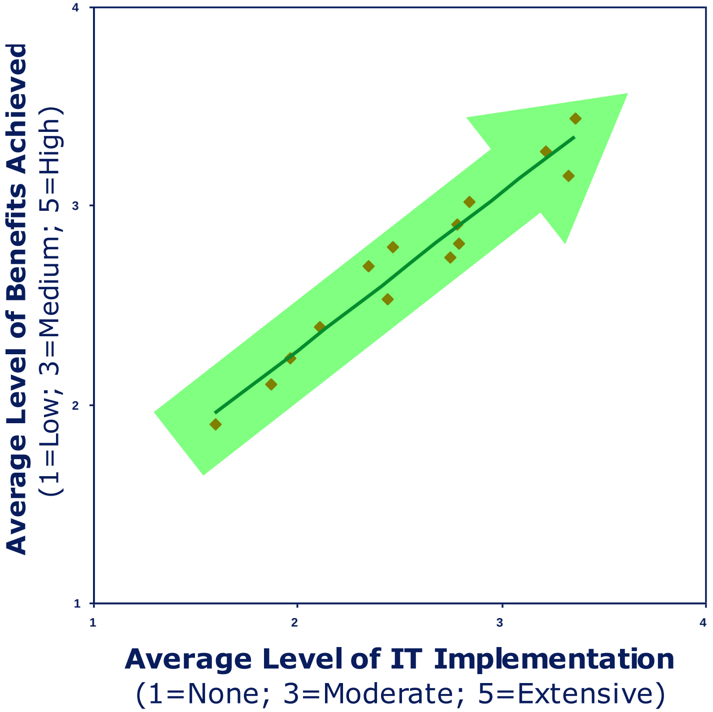
Today’s maturing technology solutions support advanced processes that are driving the service revolution

Better processes and information technology matter to service excellence

Better processes pay off



Technology adoption generates results



Investments made in leading processes and technologies yield results

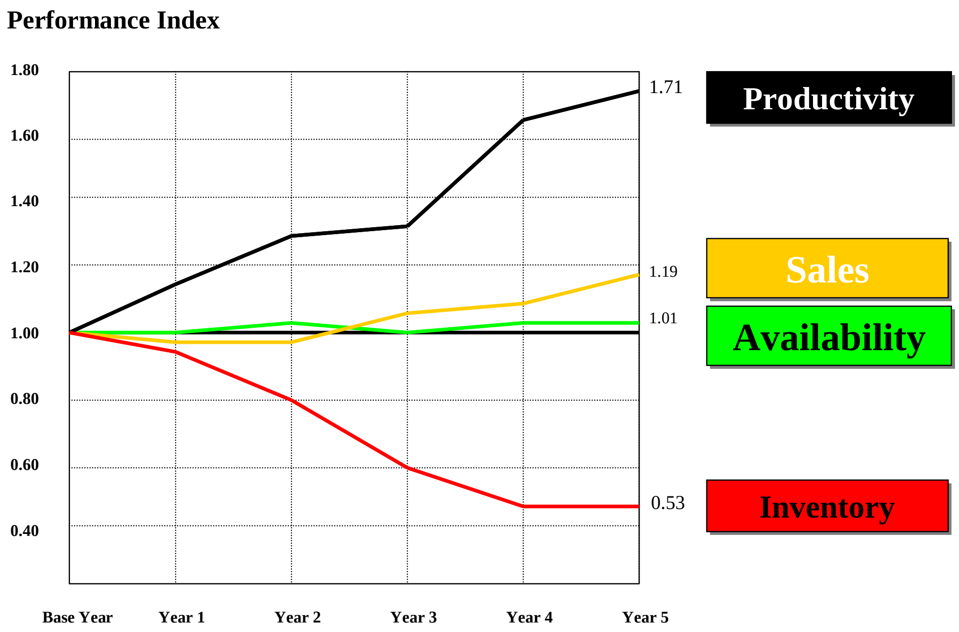
Execution: Delivering service excellence one customer at a time

- Establish and monitor key performance metrics
- Raise the bar on customer service
- Balance service and cost

Strategy and Operations alone do not guarantee success. Companies must master execution

Companies need to establish and monitor a scorecard of key service performance metrics

Large Industrial Equipment Manufacturer



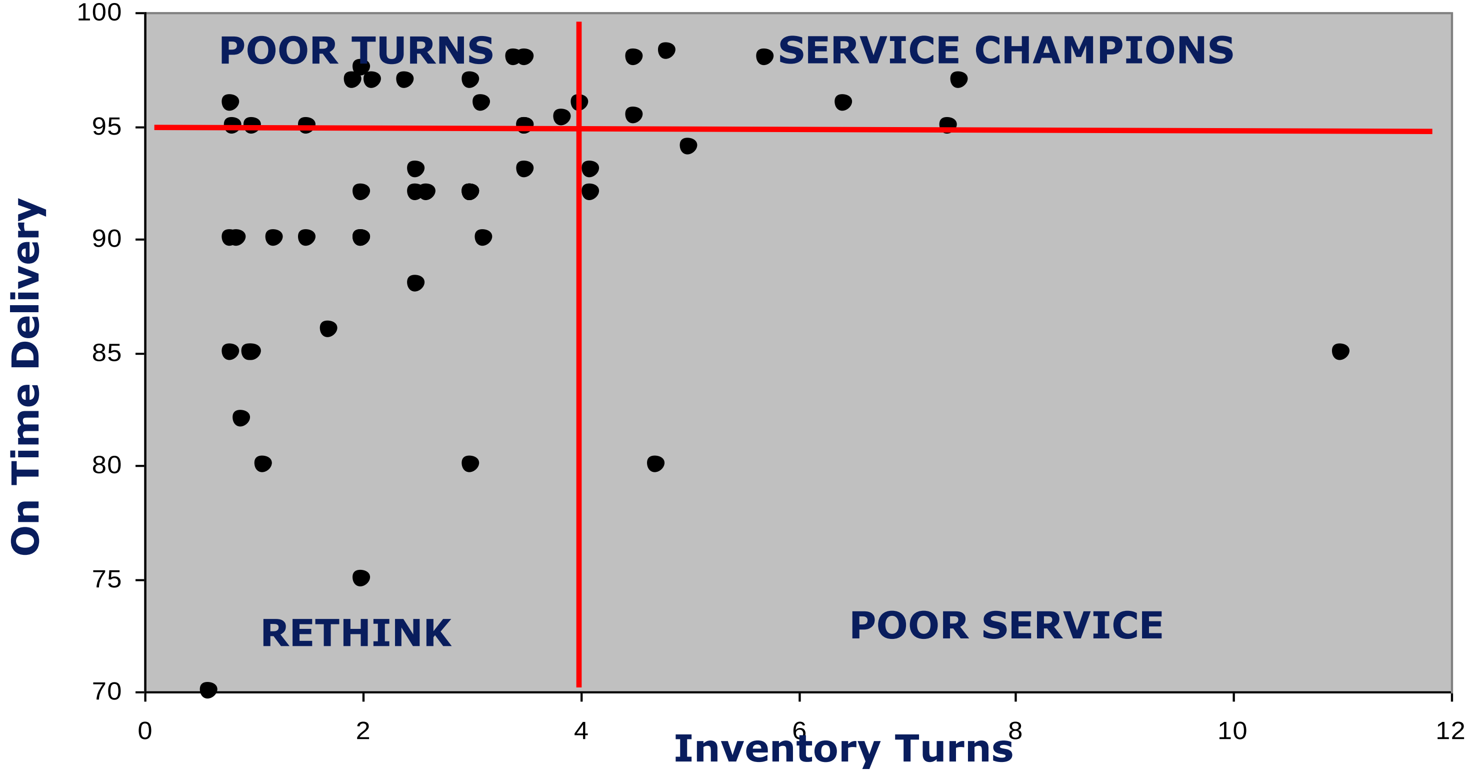
Sampling of Key Performance Metrics

	Msd	Est	NA
Customer Service			
On-time delivery	56%	27%	18%
First call fix rate	16%	30%	54%
SLA Response Time	9%	21%	70%
Productivity			
Warehouse Worker	32%	27%	42%
Inventory Accuracy	52%	33%	15%
Planned PM	9%	24%	67%
Cost/Profitability			
Material Mgmt	29%	29%	42%
Warehouse Mgmt	29%	28%	43%
Transportation	33%	30%	37%
Total Logistics	24%	28%	48%

Companies that fail to track key performance indicators will not be able to execute consistently

Service Champions can deliver high customer service with lower inventories

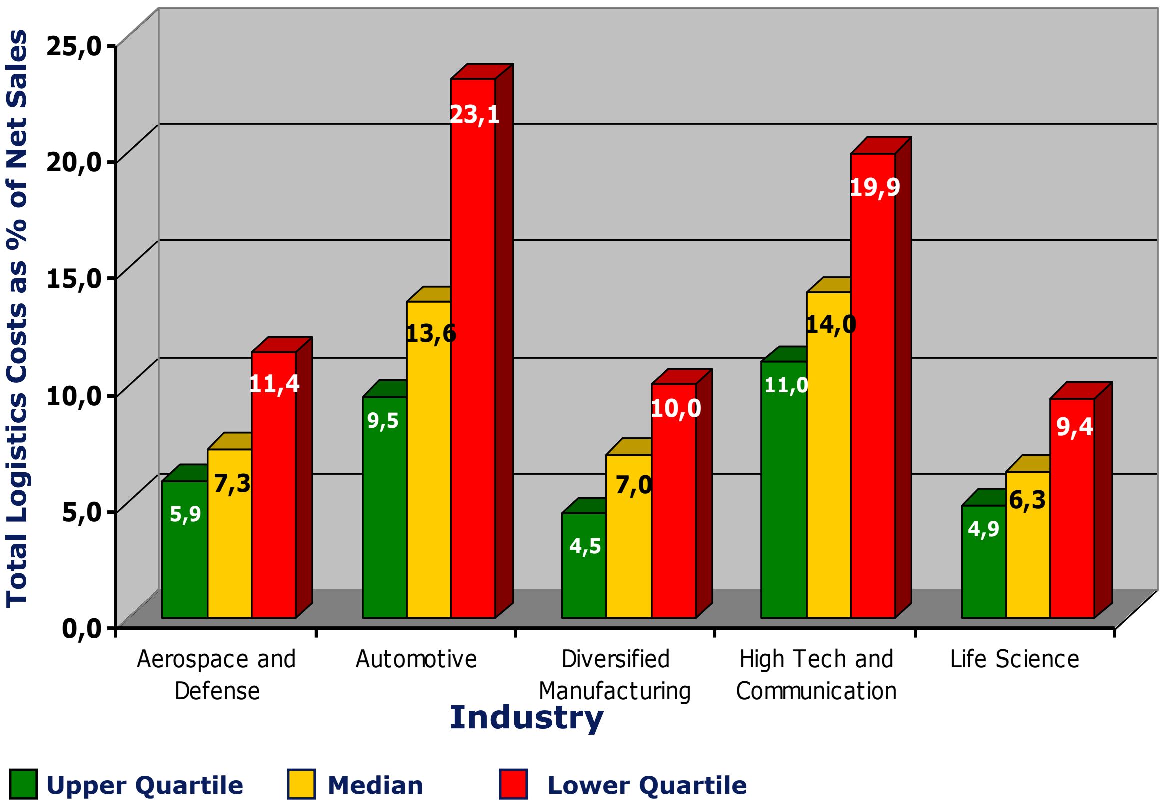
Customer Service (On Time Delivery) vs. Inventory Turns



High inventory levels do not guarantee higher service

Companies need to manage Total Logistics Costs

Total Logistics Costs as % of Net Sales – per Industry



- High-Tech and Automotive companies most likely face high logistic costs
- Particularly in Automotive the spread between upper and lower quartile is extensive
- Life Science has the lowest logistic costs

Service Champions balance costs and service level

Are you a Service Champion?

- Strategy
  - Is service an important part of your core business strategy?
  - Is the service strategy integrated with your product strategy?
  - Does your service business differentiate you from competitors?
  - Can you optimize your service network?
- Operations
  - Do you have a focused program for process improvements and the adoption of leading practices?
  - Do you have the technology platform to effectively manage and optimize a global service business?
- Execution
  - Do you have the right metrics in place?
  - Are you consistently delivering high customer service?
  - Does your service business deliver stellar growth and profits?

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