Tech-Clarity

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Service Lifecycle Management for IT Equipment

Tackling the Profitability Crunch

Executive Overview

Your customer contacts the call center. Their equipment is down. Your service representative begins to document and diagnose the problem. A trouble ticket is generated and a service technician is dispatched to resolve the problem. This scenario is repeated countless times a day, it is routine for your service organization. But from the customer's perspective—this is not routine at all. It may be a central piece of equipment such as a server that is down or it may just be an individual PC or printer. No matter what the situation is, it is stopping your customer from running their business. Somebody is not working—or not working in a fully effective way—and they are relying on you to get them back in business. This is your chance to prove your value and re-earn your service contract.

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Managing service processes effectively allows service companies to continually prove the value of their offerings. Effectively running any services organization can be greatly enhanced by following the tenets of Service Lifecycle Management (SLM). SLM, coined by industry analyst firm AMR Research, is a strategic approach to improving customer service while simultaneously reducing service costs. Leading service organizations are increasingly reaping the benefits of adopting SLM principals. Companies that focus on servicing Information Technology (IT) related equipment, in particular, are turning towards SLM to address the increasingly challenging IT Services market. Three things are clear about servicing IT assets in the current climate:

- The job is not getting any easier
- Competition is getting stiffer
- Profit margins are getting smaller

The combination of these three factors means that leading service organizations must continue to aggressively adopt better service practices in order to prosper in a challenging market. This paper provides insight gained from recent conversations with some leading service companies to discover how SLM principals are being used to combat the increasing complexity, growing competition and shrinking profit margins in the IT Services Industry. These companies, like all service companies in the IT industry, face the challenge of combating the profitability crunch while continually improving service to their customers.

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The Job's not Getting any Easier

The simple fact is that servicing IT-related equipment is becoming more difficult. The complexity of today's technology infrastructure has become far more involved. The landscape consists of networked, interdependent systems that make pinpointing a problem much harder. The actual fix may be just a simple component swap—but which part should be swapped has become the primary challenge. Because problems in interconnected systems can be masked, it is often hard to diagnose the real problem. Often times hardware problems can appear as software problems—making the process of determining the root cause of the problem more of a challenge. Coupling this complexity with the increasing speed of change in equipment—and the software that supports it— leads to a tougher service job. It is now a huge challenge to stay up to speed on what's in the field, not to mention providing the right skills and appropriate inventory to repair it properly.

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At the same time that equipment service has become more difficult, customer reliance on their IT infrastructure has increased dramatically. Roger Davis is the western region technical services manager for Lowry Computer Products, a leader in barcode data management systems. Mr. Davis explains that when something goes wrong with a customer's implementation, it can become a very important issue in a hurry. "*If a line is down at the customer facility, it gets very expensive,*" Mr. Davis remarked. "*You have to consider the cost of the payroll, not just the product that isn't shipping.*" Lotta Rohdin, system manager at services company WM-data, echoed the increase in technology reliance within their customer base and highlighted how higher IT equipment dependence has increased customer expectations. "*If the IT System collapses, there is a greater problem for the customer because they have much stronger dependence on the technology,*" Ms. Rohdin remarked. "*It has now become like going into the house and putting on the light—they just assume that it will work.*" Increased dependence on technology infrastructure has dramatically increased customer expectations for support. After all, many feel they can no longer conduct business when the systems are down. People expect to be able to call one phone number to get them back in business, and to have that one phone call take care of the problem for them. "*The end users' timeline expectations are diminishing and their expectations for knowledgeable service organizations are higher,*" sums up Kurt Canova, president of Tech Electronics. "*They are just expecting a higher level of service.*"

It's not just the technical aspects of service that have gotten more difficult, though, the business aspects of service have become more challenging as well. Increased equipment reliability and decreased equipment cost have also made selling the value of service contracts more difficult. Service companies now have to sell added value as opposed to simple break/fix contracts, because the end user sees no value in break/fix when the equipment is less likely to break, or the replacement cost makes it easy to toss it out and get a new one—possibly a faster/cheaper one—to replace it. The job of servicing IT equipment has clearly become more difficult, even before considering increased competition for service contracts.

Competition Demands Superior Service

Recent conversations with service companies indicate that the competition for service contracts has become much more intense. In part, this may be due to the economic conditions that many manufacturers faced in the recent economic downturn. Many equipment manufacturers have decided to recapture declining revenue by increasing their role in the aftermarket. These manufacturers have recognized the value available from service, and have increased their interest level in providing the service directly. Other manufacturers have taken another approach, outsourcing their service to standalone service companies in order to reduce cost. Both of these trends have an impact on the level of competition faced in selling or renewing service contracts.

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When competition is fierce, companies have to focus even more intently on providing world class service. Months or years worth of great support can be compromised by one unfortunate experience. While one poor service experience is usually not a critical event for a particular customer, it can open the door to allow a competitor in to try to unseat the current provider. Avoiding potential service level problems requires that service level agreements are monitored carefully and proactively in order to meet or exceed customer requirements. But competition often requires more than just offering superior service—it requires *proving* superior service. Service practices must not only enable customer satisfaction, but actually defend why the annual contract needs to be renewed.

Where did all the Margin Go?

The job is more complex and the competition is stiffer. To add to that less-than-positive news—margins are declining. The natural result of greater competition in a market is a reduction in profit margins resulting from competitive discounting. There are other factors at work, however, that have caused the margin crunch in IT-related equipment service. One of the time-tested sources of profitability—materials—has been taken away. Service companies were often able to make up the profit margin with material charges when they were forced to compete on hourly rates. Now, the service provider has much less control on margins for materials. With the Internet, the end user has made the parts a commodity. Mr. Canova described a scenario where customers can look on E-bay to find parts at lower costs. Although the parts may not be the current model or revision level, they reflect reduced prices. Because of this, service companies may have difficulty covering their inventory procurement and carrying costs—let alone make up for lost margin on labor.

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Another factor in diminishing margins is the value of the service contract itself. In part, this is due to competition. It is also an outcome of changes in the IT equipment market. Today's IT equipment is less expensive than before, so it is much easier to replace. Equipment may now be considered a consumable—as an expense as opposed to an asset—compromising the relative value of a service contract. Also, because of lower costs, a piece of equipment that may have been mission-critical to a business in the past may now have a backup available—reducing the impact of equipment downtime. The perceived value—and the price that can be charged for servicing IT equipment—has gone down. On the upside, as Mr. Canova of Tech Electronics points out, it should increase the opportunity for services like upgrades. "*But to see a return on moves, adds and changes, you have to be proactive and educate the customer on the benefits of new features, enhancements and complementary products*," Mr. Canova said. "*You can't sit back, you have to create the opportunity.*"

IT equipment has not only become less expensive, it has also become more reliable, and therefore may need to be serviced or replaced less frequently. Ms. Rohdin of WM-data points out the impact of reliability on both the revenue and cost sides of the margin equation. "*The number of calls is declining, but the calls that we do get are much more complicated*," Ms. Rohdin remarked. "*Our call volume is down over 75%, but problems are much higher level, need more time to address, and require a more skilled technician.*"

Based on declining equipment cost and service needs, keeping an individual piece of IT equipment serviced is not as critical. This is a positive trend for the users of IT equipment as a whole, but adds to the margin crunch if service customers place a lower value on the service provider.

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Superior Service—But Not at all Costs

Increased complexity, more intense competition, and disappearing margins are having a significant impact on IT service companies. There is a "catch-22" here, where combating competition requires increased service levels and managing complexity drives up costs, but the competitive market dictates that prices must go down instead of up. What it means to the service provider is that sub-optimal processes that worked in the past will not stand up to the test as the IT Services Market continues to commoditize.

When margins are tight, costs must be actively managed. The challenge is that managing costs requires attention and focus at a very detailed level. The difference between profit and loss can be as simple as missing a manufacturer's warranty for a replaced component or dispatching an overqualified technician for a particular job. Being smart about service is the difference between profit and loss. Service Lifecycle Management can help by providing a template for best business practices. SLM provides an approach that highlights getting the basics right and focusing on the right details to improve service and manage profitability.

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In May of 2003, Tech-Clarity published a white paper titled <u>The Service Lifecycle Management Approach - Strong Customer Relationships Result In Profits in the Service Industry</u>. That paper highlighted some practical ways in which companies could adopt SLM concepts into their business and improve profitability in the product aftermarket. The following overview highlights these approaches:

Never Ignore a Call for Help

Every call from a customer is an opportunity to increase customer satisfaction and possibly get an order. Many companies can gain value simply by providing their employees with visibility to all of the contacts from a customer—regardless of the source—so they can get a full picture of the customer's needs. By automating the capture and response to requests through tools such as remote access, workflow, automated escalation and integrated e-mail, companies are ensuring that customer calls are captured and acted on in a timely manner. Even better, by proactively predicting a problem or supply need, customers see value from service contracts through prevention of a problem as opposed to firefighting, and the service company can decrease the need for expensive and disruptive emergency service calls.

Reduce Waste in the Call Center and Office

In order to improve call efficiency, companies are providing shared knowledge of problems, resolutions, occurrence rates and causes to their representatives. By providing information that can be quickly searched for relevant answers, the time spent with customers is more productive and provides more value. If a customer can find the answer to their problem or question through self-service, customer satisfaction can come at a significantly reduced cost. Automated web response, if done properly, can also save significant resources and maintain high customer satisfaction levels.

Avoid the Service Call (or at Least Reduce the Urgency)

By providing customers and customer service representatives with broad access to product and service-related knowledge, many service calls can be avoided. If the problem can be fixed without dispatching a technician, the cost of the technician and related overhead expenses can be saved. By preventing emergency calls with planned maintenance or repair, customer satisfaction can be increased with less need for urgent response. Also, through better scheduling, some service calls can be avoided by taking advantage of the existing service schedule for routine maintenance and meter-reading calls, or combining them with other calls. By providing the technician with the right information about the customer and upcoming service, technicians can often "kill two birds with one stone" and save on the total number of calls required.

Make the Right Calls First

Service calls should be prioritized based on customer need, but also on the value of the customer and the service level that the customer has paid for. Nobody wants to leave a customer in need, but knowledge of the contracted service agreement can allow company representatives to properly prioritize limited resources to the appropriate customer. Customers that continually request urgent responses outside of their service levels can be targeted for an upgrade to their service plan and provide more income for the company. Any service calls that are trending towards an SLA violation or customer service failure can be reported in advance and the appropriate person notified while there is still time to address the problem.

Close the Call the First Time

By closing the call the first time, the number of service calls can be reduced and customer satisfaction can be increased. Fixing the problem the first time requires the right technician, with the right knowledge, the right parts, the right tools, the right customer data and the right product information in hand. By having predefined response lists for problems that outline the appropriate actions, tools and materials required to make the correction, service technicians can show up prepared to get the job done right. Through visibility to the equipment installed, the service history and the call history, the technician can more accurately diagnose and resolve the issue. And closing the call means that the customer signs off that the problem is corrected—as soon as the problem is corrected.

Keep Technicians Productive, not Just Busy

The service technician is critical to resolving customer problems, but also to maintaining service history and providing information for billing. Reducing the amount of time that the technician spends on paper work through automation allows the technician to take more calls, reducing employee expenses from overtime and hiring additional technicians. Mobile technology and self-service capabilities can significantly reduce both the load on the call center from technicians and the amount of time the technician must spend on the phone and away from helping customers. Optimizing schedules and keeping technicians updated of schedule changes—in real-time—is another way that they can be kept productive.

Turn the Service Call into an Opportunity

Companies with field service personnel trained to spot sales opportunities can add a significant new source of revenue, provided that it is easy for them to communicate those opportunities back so the order is captured or turned over to Sales. Service technicians that have visibility to contract expirations, upgrade availability and complementary products can increase customer satisfaction as well as sales revenue. A service technician with a piece of equipment to fix will probably not look in another system to identify a sales opportunity, but if they are proactively notified of the opportunity in the course of their work they can uncover new orders for the company.

Turn Service into Cash – Rapidly

Perhaps one of the best ways to increase the profitability of services work is to enable the service technician to create an invoice on the spot, starting the payment cycle immediately. In addition to being paid earlier, the service technician can get approval at the time of the service. Part numbers, time and expenses are much more accurate when captured quickly so nothing is lost. To generate an accurate invoice in the field requires easy access to understandable information on contracts, warranties, service history, call history and customer information. With the right information to generate the invoice accurately and get it approved, the company will have less disputes and credits, and increase cash flow positively. Creating an *inaccurate* invoice, however, may be worse than delaying the invoice, so attention to the details is required here.

Stop Revenue Leaks

Revenue leaks occur when customers are not billed for services they should pay for. The goal is to give the customer everything they are entitled to—but nothing more—or the service company is leaving money on the table. Without easy access to the proper information it is often unclear if expenses are billable or not, so they are typically not billed. Revenue leakage is difficult to identify after the fact, because it occurs in small but frequent occurrences, and requires access to detailed history and account knowledge. Similarly, supplier warranty information must be readily accessible and easy to understand in order to track returnable or refundable items. A systematic approach can provide significant benefit by recouping out of pocket expense and lost revenue by providing visibility and eliminating guess work.

Enhance the Customer Relationship

Customer satisfaction is extremely important to building long term relationships, and it is good business because it leads to greater profitability through customer retention and repeat business. Moving from a break/fix relationship to one of trusted advisor and value-added service provider results from handling problems proactively, ideally fixing the problem before the customer realizes there is one. To move from "break/fix," a company does more in the way of preventive maintenance, remote equipment monitoring, failure analysis for retrofit and future design improvements. In this way, the customer is receiving something that they value more than a fast repair call: continuous availability.

Grow Revenue by Restarting the Service Lifecycle

The first step in selling additional products is identifying the opportunities. By mining the information already captured about customers and their equipment, effective marketing campaigns can be developed to target customers for additional products based on accurate, detailed information. Because the campaign is targeted based on real customer knowledge, it can be very focused on real, specific needs of the customer.

Turn to Proactive Management

Through increased visibility in the service business, companies can gain better control, find bottlenecks and make better management decisions. With better information and tools, they can switch to proactive management through alerts and real-time information, as opposed to reactive management from reports that show history after the fact. Better management results in higher revenue and reduced costs, improving profitability from both income and expense perspectives.

Carrying Inventory—No Longer Practical?

The SLM approaches highlighted above, implemented incrementally or in combination, can help to improve service through better information, reduced complexity and better planning and control of service operations. In addition to the areas already discussed, one particular issue worth discussing regarding SLM for IT Equipment is the changing view of spare part inventory. Many companies that focus on servicing IT Equipment believe it is no longer strategic to hold inventory because they can no longer differentiate by holding inventory of a special part. "*Everybody wants to use somebody else's parts, nobody wants to own parts,*" says Mr. Davis of Lowry Computer Products. "*It used to be good to own inventory, but all of those rules have changed.*" The rules have changed because service companies must balance the value of having the right part on hand with the risk of having an expensive part in inventory that may become obsolete before it is needed. Service companies can't afford for technicians to hoard parts, so visibility to inventory and strong inventory planning methods are essential.

"I was a parts advocate, I didn't think we could live without inventory," Mr. Davis commented. *"The more we looked at it, a technician could have $50,000 worth of parts and $45,000 of it they haven't touched in 2 years. We just couldn't afford that."*

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But as a service organization, you have to maintain a certain amount of parts. Customers have an expectation that you are going to carry the stock required to service their equipment. This poses a dilemma for service companies that would like to carry the stock to satisfy their customers, but can't afford to stock expensive parts that may only be good for six months to a year—particularly when those same customers are not willing to pay the premium for part availability. *"From a cash flow perspective, it is critical to manage inventory,"* Mr. Canova cautioned. *"It's easy to manage profit, but managing cash flow and preventing obsolescence is critical, or you will wake up one day without cash and wonder where it went."* Parts are one of the biggest costs for service companies, Mr. Canova explained, and it takes a lot of labor savings to make up for obsolete inventory that can't be used or can't be returned. Carrying too much or the wrong inventory is not practical, but having the right inventory can provide for better customer satisfaction, faster service response and reduced service costs. Balancing those factors is critical to maintaining shrinking margins without reducing service levels and losing customers.

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SLM Means Smarter Service

Service Lifecycle Management means servicing IT Equipment in a smarter way. SLM requires attention to the details and broad communication of information to and from the customer, call center, depot and service technicians. This additional detail and communication, however, can't come at an additional cost to the business when margins are already thin. In order to provide the right information, at the right level of detail, to the right person and at the right time requires automation. SLM requires integrated, service industry oriented software applications to implement the required business processes. Profitability and superior service rely on smart service decisions, which in turn require good information, and therefore good information systems.

Ms. Rohdin of WM-data described their old service management systems as a financial system with customizations made to handle service calls. This system, however, couldn't handle logistics, contracts or service level agreements which forced WM-data to manage a large portion of their service processes manually. Ms. Rohdin described how their new service management environment allows WM-data to know they need to dispatch, when an SLA is running out, and that they can monitor what's happening in the call in an entirely different way than before. With their old system, they couldn't give information about whether they did a good job or not. "*Now we have the right data available and can report back to our customers on how many calls we made and what kind of calls they were*," Ms. Rohdin concluded. "*Astea Alliance has given us the information we need to work more proactively.*"

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Mr. Davis of Lowry Computer Products also described the value of having better information from using SLM applications from Astea International. Mr. Davis described how processes were improved because they had the right information available at the right time. They now know who to call, what equipment needs to be worked on—including model, type and serial number—and what the reported problem is. In addition to better service, he described that Lowry Computer Products is now able to capture more valuable information and be able to pull it back out of the system the right way. "*We used to tell our customers that our guys worked really hard*," he said. "*Now I have reports that I could have only dreamed of before.*"

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Tech Electronics President Kurt Canova also described the value of SLM applications. "*You want employees to see one hundred percent of the information so they can make the best business decision for the customer*," Mr. Canova said. "*Now when we look at a customer in Astea Alliance, I can see all of the information about our relationship with that customer, including systems installed, open projects, open service orders, sales activity and our response time for their corresponding work orders.*"

Recommendations

- Get the basics of SLM right. Provide an environment where employees understand the value of better service management and the benefits it offers to customers and the service company.
- Be passionate about servicing your customers – or someone else will. The competitive nature of the service environment today demands customer satisfaction.
- Focus on cost at a very detailed level. Profit and loss is in the details, and with tight margins the difference between profit and loss can come from minor details that can be overlooked without automated processes.
- Get the inventory out. Strike a balance between the risk of obsolete or slow moving inventory and rapid response.
- Optimize technician time. Technician productivity can make or break profit margins; make sure that technicians are kept busy on the right service calls.
- Don't forget to focus on the top line. Grow revenue by increasing value-added services and looking for add-on sales opportunities.
- Gather, mine and leverage service data. By analyzing good service data, service companies can find internal improvement opportunities as well as sales opportunities. But the value begins with gathering the right service-oriented information in the right way.

Summary

The IT Equipment Service market is riddled with complexity, plagued by competition and challenged by shrinking margins. To combat these factors, service companies must implement better service practices. Better information and applications provide the needed infrastructure to support world class Service Lifecycle Management Processes, which can help today's IT Equipment environment achieve smarter service—providing better service at lower costs and developing winning long-term relationships with their customers.

About the Author

Jim Brown has over 15 years of experience in management consulting and application software focused on the manufacturing and service industries. Jim is a recognized expert in software solutions for manufacturing and service and has broad experience in applying enterprise applications such as Product Lifecycle Management, Supply Chain Management, ERP, and CRM to improve business performance. Jim began his professional experience at General Electric before joining Andersen Consulting (Accenture), and subsequently serving as an executive for software companies specializing manufacturing and service solutions. Jim is the president of Tech-Clarity, a research and consulting firm dedicated to making the value of technology clear to business.

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