



Supply Chain Management

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What's So Hard about Effective Service Parts Management?

Issue@Hand

The typical company provides support services and parts for an average of more than seven years after the initial product sale. These aftermarket parts and services have a profit margin as much as 10 times those for initial product sales. Post-sale service is key to securing customer loyalty, fostering the company brand and maintaining competitive differentiation. All told, aftermarket service and parts account for 20% to 30% of revenues and about 40% of profits for most manufacturers. With these kinds of numbers, why are so many companies dropping the ball on aftermarket service?

Aberdeen Perspective

In July and August 2003, Aberdeen Group and *IndustryWeek* magazine examined the service parts planning, management, and execution performance of 115 enterprises. This joint *Services Parts Management Benchmark Study* revealed that, despite their potential for cutting costs and generating revenue, service operations are grossly underperforming and underfunded at most companies.

Hurdles Along the Road to Efficiency

Efficient and cost-effective service operations hinge on an organization's ability to accurately plan inventories and spare parts. Still, nearly all companies struggle with effectively forecasting demand and planning stocking levels and locations for service parts inventories. Chief hurdles to effective service parts management cited by respondents were nearly all associated with inventory planning:

1. *Creating accurate demand plans and forecasts:* More than 80% of survey respondents rated creating accurate plans and forecasts for spare parts consumption as “challenging” to “extremely challenging.”
2. *Creating accurate inventory plans and forecasts:* Similarly, 80% of respondents described the activity of planning spare parts inventories as “challenging” or greater.
3. *Avoiding excess inventory:* Nearly 70% of respondents said that they were “more than challenged” with curbing excess spare parts inventories.
4. *Maintaining required service levels:* Just below 70% of respondents said that they were “more than challenged” to maintain the performance levels agreed to in their service contracts.
5. *Avoiding stockouts:* More than 60% of companies said that avoiding stockouts was a “greater than average challenge.”

Synopsis

Service parts management is the process of planning and aligning service parts inventories, resources, and processes to ensure optimal customer service and response with minimal risk and cost. An Aberdeen-*IndustryWeek* survey found that many companies fail to take advantage of post-sale service and support, thus denying an opportunity to maximize revenue, increase profits, and ensure customer loyalty. The survey identified five hurdles that companies must overcome to maximize their service parts management organizations.

Why Is Service Parts Planning So Difficult?

Aberdeen found that ailing service operations are likely to suffer from common problems.

1. *Lack of visibility into service parts and inventory levels:* You can’t efficiently run a service parts organization if you don’t know what you have on the shelves. Survey results clearly demonstrated that few businesses have clear insight into the type and amount of services parts in inventory at any given time. The result: companies find themselves with excess inventory, high expediting costs, longer repair cycles, and inconsistent performance among various third-party replacement parts.
2. *Disparate sources for services parts data:* Most companies run their service parts operations using a variety of business systems ranging from enterprise resource planning (ERP) to warehouse management systems (WMS) to transportation management systems (TMS) to basic spreadsheet applications. With information locked up in a multitude of disparate and often incompatible systems, companies are challenged to exchange and aggregate data required for effective planning and reuse of service parts inventories.
3. *Inconsistent naming conventions:* A rose is a rose is a rose, or at least that is how it should be. Nonetheless, that is not always the case. Sometimes a rose is part number 3634 and other times it is part number 9999. The distributed nature of service operation is such that a single part is often assigned a different name by each stakeholder in the service chain. To develop effective inventory strategies, companies must reconcile these disparate part names with a common classification schema.
4. *Disconnected inventory planning and execution procedures:* Many service operations function as multiple, disconnected businesses — each optimized and aligned to individual geographies or sites. This focus may help maintain service levels in discrete areas, but it cultivates excess inventory and higher operational costs across the service chain, both of which reduce aftermarket service performance and profits.
5. *Insufficient and fragmented use of automation:* In many companies, attempts to automate spare parts management operations have been largely ad hoc and disconnected, resulting in pockets of automation across the service life cycle and an insufficient ability to integrate

and align service information and procedures. Aberdeen found that most spare parts management automation efforts are driven by two types of business systems: ERP and basic spreadsheet applications. Both technologies have fundamental weaknesses: ERP systems do not effectively manage and plan spare parts inventories across distributed service networks, and spreadsheet applications are limited in their ability to assimilate and analyze large amounts of data.

Aberdeen Conclusions

Customers are demanding more from their purchases. Revenue, profits, and customer loyalty are no longer being driven by the initial product sale, but by what a company does afterward: the post-sale service and support.

The Aberdeen-*IndustryWeek Service Parts Management Benchmark Study* reveals that many businesses are failing to seize this opportunity, believing that the hurdles are too great to overcome. Still, by investing in improving service parts management operations while most others are ignoring it, enterprises can drive customer loyalty, profitability, and competitive advantage. The hurdles recounted above are not stumbling blocks.

If enterprises know how to accurately define their hurdles, they will have little trouble surmounting them.

This Perspective is excerpted from Aberdeen Group's full length report, *Service Parts Management - Unlocking Value and Profits in the Service Chain*, for more information or to obtain a copy of the report please visit www.aberdeen.com, or follow this link:

http://www.aberdeen.com/ab_company/hottopics/serviceparts/default.htm

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