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## The lure of start-ups

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# HOW BIG IS YOUR AFTERMARKET SERVICE?

An effective aftermarket experience helps original equipment manufacturers in branding and improve customer intent to repurchase

BY T R MADAN MOHAN, RUDRESH S BASAVARAJAPPA & R GANAPATHY

**W**ith sales of new vehicles and profits looking southwards, aftermarket is becoming an important source of revenue for many OEMs (Lele 1997). Aftermarket involves any product service or support provided over complete life cycle of end customer vehicle, after original purchase has been made (Bundschuh & Dezvane 2003). After-sales revenues can come from repair and maintenance of parts and service or replacement of functional parts that wear and worn out over natural usage of vehicle. For automotive and other industries, aftermarket revenue consists of sales and services of functional parts and consumable (Corey et al., 1989). However for heavy engineering industry players like construction equipment OEMs, aftermarket revenues involves sales and service revenues of not just functional parts, periodical replacement parts, but also remanufacturing parts, ground engineering tools (GET) such as bucket tooth, roller, sprocket and under carriage (UC) like track shoe etc.

After market revenue contribution to OEMs varies between 30-50 per cent. Aftermarket is also highly profitable, as gross margins may vary between 35-50 per cent. Effective aftermarket offers

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PHOTOS: DALIP KUMAR

other advantages too (Levitt 1983). Firstly, risk associated with after-sale revenues is very low and revenues monetise over years till vehicle is replaced or abandoned. In aftermarket, OEM is servicing an existing customer and hence the cost of serving is significantly lower than the cost of acquiring a new customer. More importantly, economic downturns do not impact sale of parts and services. Since investment required for maintaining reliability and performance of vehicle is significantly lower than buying a new vehicle, customer makes this investment to utilise existing vehicle. In difficult times, many customers may also postpone purchase of new vehicle fearing additional debt burden. Therefore, consumers would spend on consumables and parts required to sustain existing vehicle. An effective aftermarket experience helps an OEM in branding and customer intent to repurchase. Customers satisfied with usage of their vehicle spread through word of mouth and can be powerful influencers of purchase. OEMs will find in many cases find their aftermarket value creation strategy is not aligned with customer perceptions or operational excellence (Ehinlanwo & Zairi 1996).

Our analysis of Indian heavy equipment and automotive markets indicates that OEMs either do not know or do not care enough about effectiveness of aftermarket. Many OEMs are merely reacting to competition and do not have a comprehensive aftermarket strategy. Reasons could be many. Aftermarket parts sale involves parts that are at least 20 times more SKUs than a new vehicle sale. OEMs would need to make appropriate investments to manage these inventories. Proliferation of multiple brands, lack of parts rationalisation, poor parts and inventory management practices may make the shift to scientific approach would need top management support and investment. OEMs have been content with sales and not made investments in aftermarket resources and processes. OEMs are not only exposed to revenue leakages, but also ineffective customer and dealer experiences. Some OEMs have made rudimentary investments in aftermarket and have no strategic parts plan or parts availability plan. The effect, customers vehicle wait at dealer workshop for

## AFTERMARKET COMPONENTS

- Parts administration
- Service administration
- Support administration
- Dealer administration
- Customer administration
- Information administration
- Performance administration
- Partner administration

their parts to be sourced and shipped. With lead time for parts averaging around 4 weeks, there is good reason for customers to fret and fume. When these kind of situation arises, there is all possibility that customer could look for local parts and local support for service, which results in loss of revenue to OEM/ dealer on both parts and service, but might reduce life of machine or health of machine. Major impact of this is brand dilution/ dissatisfied customer and machine life.

Aftermarket requires OEMs to identify strategic parts that they are going to stock and manage complete supply chain to ensure availability. Aftermarket requires OEMs to derive SLAs that they can support and sustain over length and breadth of their dealers/ partners.

For an effective aftermarket strategy, OEMs must address deployment of people, resources and products (contractual and services). OEMs have an option of rendering service through exclusive OEM owned service centres or at OEM approved third party owned service centres. They could also offer a plain-vanilla service centre or multi-brand service centre. OEMs also have an option of positioning as parts wholesaler or a second part brand. OEM owned service centres may exhibit a lackadaisical attitude unless service centres are managed as a profit centres and OEMs consistently place high premium on customer engagement. Third party service centres pose problems of maintaining consistent process and quality of experience. Administration costs of bonding, monitoring and enforcement increases. Unless dealer buy-in is

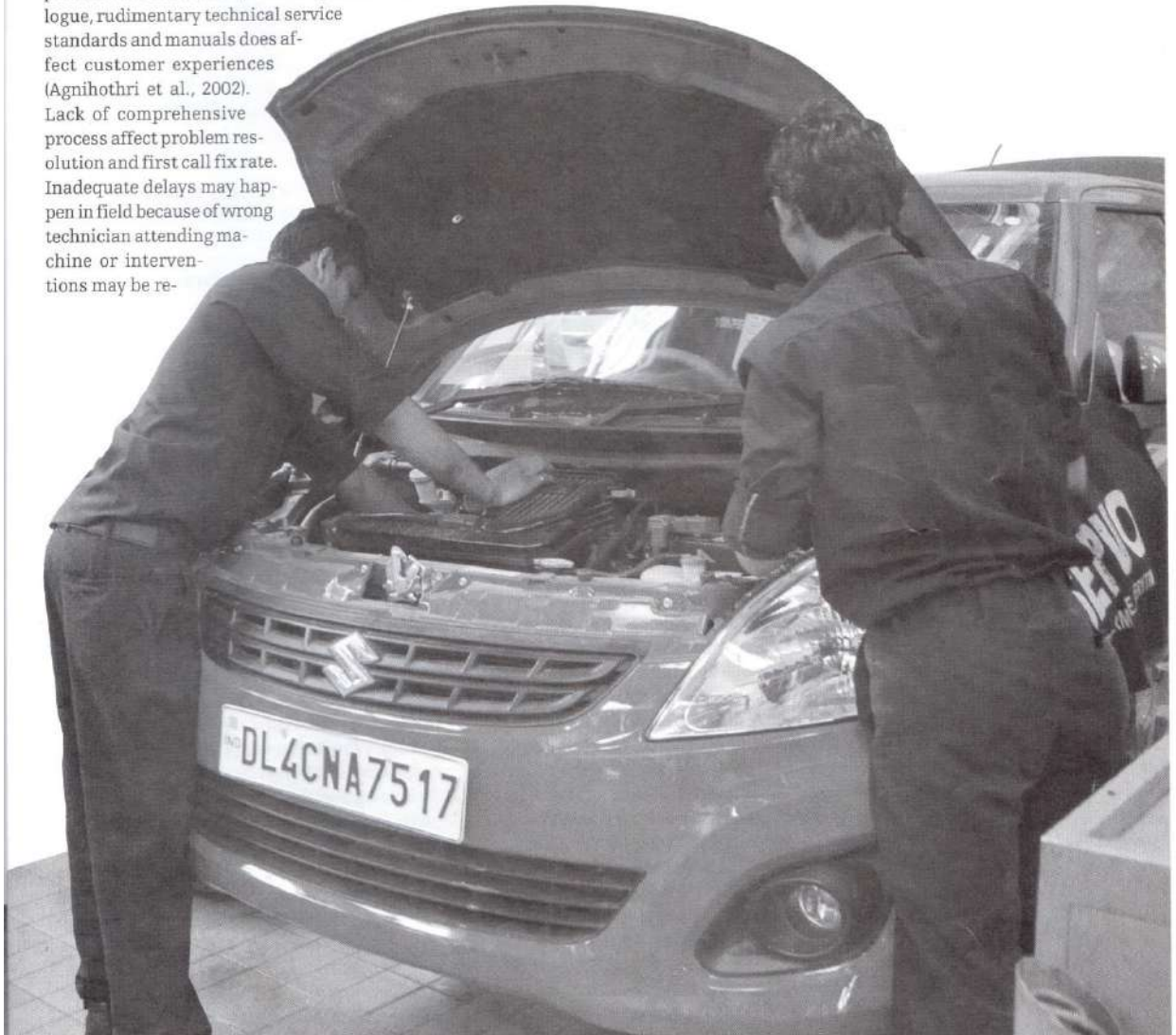
**Another challenge OEMs face is high turnover of technicians and mechanics at dealer and field service operations. Poorly trained service engineer can cause unwanted damages**

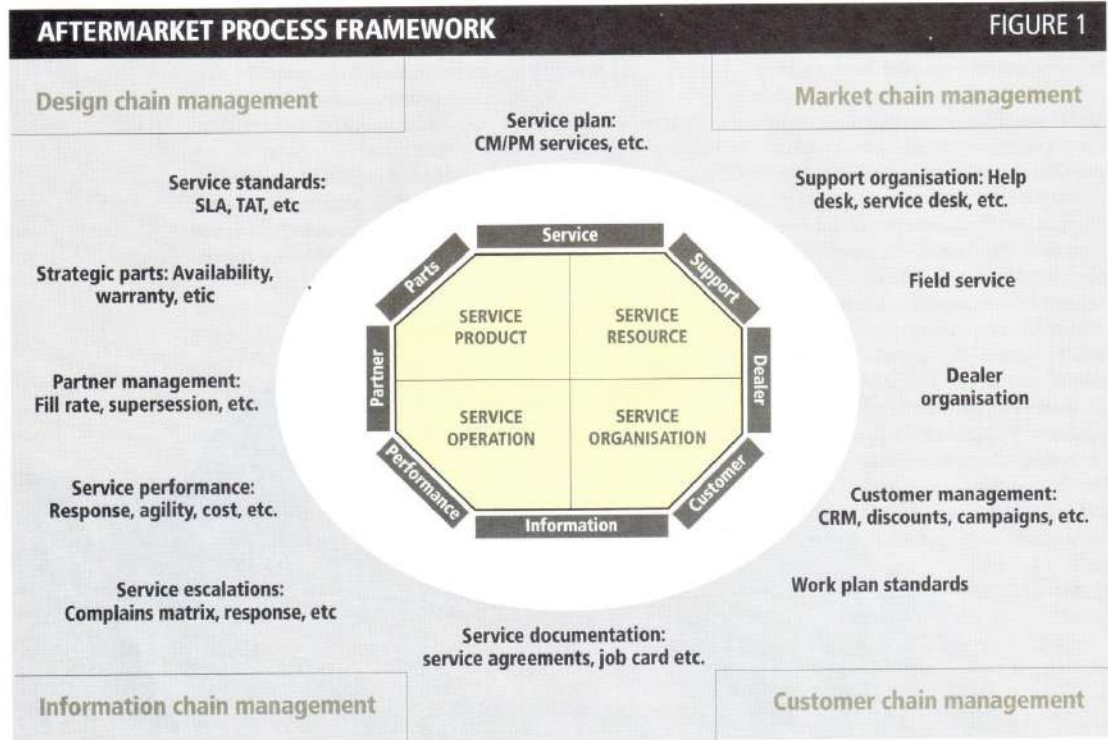
complete in the adoption of standard operating procedures, OEM may suffer from inconsistent brand experience and poor aftermarket service.

A consistent service design requires comprehensive definition of service and exceptions so that customer expectation can be managed. An effective aftermarket service strategy requires OEMs to define on-site/ off-site repair replacement procedures, approvals and service completion. Inadequate installation and repair documentation, incomplete product documentation, lack of parts catalogue, rudimentary technical service standards and manuals does affect customer experiences (Agnihotri et al., 2002). Lack of comprehensive process affect problem resolution and first call fix rate. Inadequate delays may happen in field because of wrong technician attending machine or interventions may be re-

peated for same customer for same machine because of wrong or misuse of part. OEMs also need to clearly define remanufacturing and recycling policies so that cannibalisations are minimised, brand value dilution does not occur and segmentation strategies can be attained.

Another area OEMs have a challenge is in customer base management. OEM concern in customer base management is customer reach based on population of their products (coverage of dealer/ part-





ner network in sq. kms area). OEMs find pricing of parts, defining right service packages for preventive and corrective maintenance, defining warranty contracts, warranty claim approval and customer management most challenging. Incomplete customer information, undirected/ unmanaged campaigns, proper discount management not only lead to revenue leakages, but affect overall customer satisfaction and intent to repurchase. Another major challenge OEMs face is high turnover of technicians and mechanics at dealer and field service operations. Poorly trained service engineer can cause unwanted damages. Even though technicians are available upgrading periodically on products, improvement on servicing, tools and skill level improvement is biggest constraint. The resultant effect is avoidable customer complaints/ dissatisfaction and its effect on branding and intent to purchase, but also the budgeted costs of warranty and replacement parts.

Finally, no aftermarket strategy can work without adequate planning and involvement of partners. OEMs need to build processes and systems that help their vendor to plan and stock required parts

or dispatch in agreed lead time (Dennis & Kambil 2003). OEMs need to ensure there is no discrepancy in right quantity of parts delivered at the right location at the right time without any damage/ discrepancy. Right bin, proper packing and distribution would ensure OEM and its dealer/ partner face no interventions either at offsite or onsite for wrong part or defective part from vendor.

### Aftermarket process framework

Based on Supply Chain Council, Supply Chain Operations Reference (SCOR) framework (SCC, 2013), we identify for fundamental aftermarket management processes: 1) Design chain management, 2) Market chain management, 3) Customer chain management and 4) Information chain management (Saccani et al., 2007). 'Design Chain Management' covers planning for strategic parts, research appropriate parts policies, interpret and amend/ improve after the roll out. 'Market Chain Management' covers plan service roll outs, analyse and create service standards, work plans, launch and revise them to meet market requirement and OEMs learning. Maintaining relation between production

and aftermarket parts and service. 'Customer Chain Management' process involves planning, selling, contract and support customer through right product and services. 'Information Chain Management' encompasses all aftermarket activities that deal with generation, dissemination, analysis and storage of information. Information chain management thus will capture right from a customer request/complaint, escalations, follow ups, information about service allocation, service completion, operation efficiency and post service feedback.

While the above four are the fundamental processes that drive aftermarket, most researchers represent aftermarket services as four arrays of services, 1) service product, 2) service resources, 3) service organisation and 4) service operations (Armistead & Clark 1991, Bundschuh & Dezvane 2003, Cohen et al, 2006). 'Service Product' encompasses identification of what strategic parts does an OEM want to support, what are service policies, aftermarket parts sales, committed free offerings/ services, warranty coverage and comprehensive service plan. 'Service Resources' would entail on-field/off-field service resources, technicians, mobile service vehicle, mobile tools, fixtures, and their work plans. Work plan administration also includes workshop service, scheduled services, service training, certification, bay management, etc. 'Service Organisation' refers to dealer/ partner and OEM support network including help desk, service desk, parts desk, etc. Service organisation would also define service standards, customer complaint management, campaign management and CRM. Finally, 'service operations' include service documentation, partner management for fill rate and availability, service protocols and service performance.

For our analysis, we have grouped all four fundamental processes and service dimensions into eight aftermarket components: 1) Parts administration, 2) Service administration, 3) Support administration, 4) Dealer administration, 5) Customer administration, 6) Information administration, 7) Performance administration and 8) Partner administration. *Figure 1* shows the complete aftermarket processes.

'Parts Administration' broadly covers strategic parts planning, inventory management, logistics management, goods receipt/ issues, parts pricing,

discounts, parts claim management from customer and to vendors, etc. 'Service administration' covers service planning, free and paid service plan, service requests and service campaigns management, etc. 'Support administration' encompasses on-site and off-site field study, customised repair programs, workshop management, customer and partner help-desks, parts help desk to support dealers, customer and partner service desks etc. 'Dealer administration' involves complete sales, service and support process at dealer, pricing, dealer SOPs, dealer discounts and commission, etc. 'Customer administration' covers customer relationship process, pre-purchase and post purchase, campaigns, community programs, customer discounts, FOC commitments, etc. 'Information administration' covers complete capture, storage, processing, retrieval and use of aftermarket documentation right from service agreements, technical publications, service bulletins, etc. 'Performance administration' covers measurement of dynamism of aftermarket services, agility, speed of response, reliability of process, standardisation, etc. Finally, 'Partner administration' covers parts, service and support partner policies, SLAs, receivable/ payable etc.

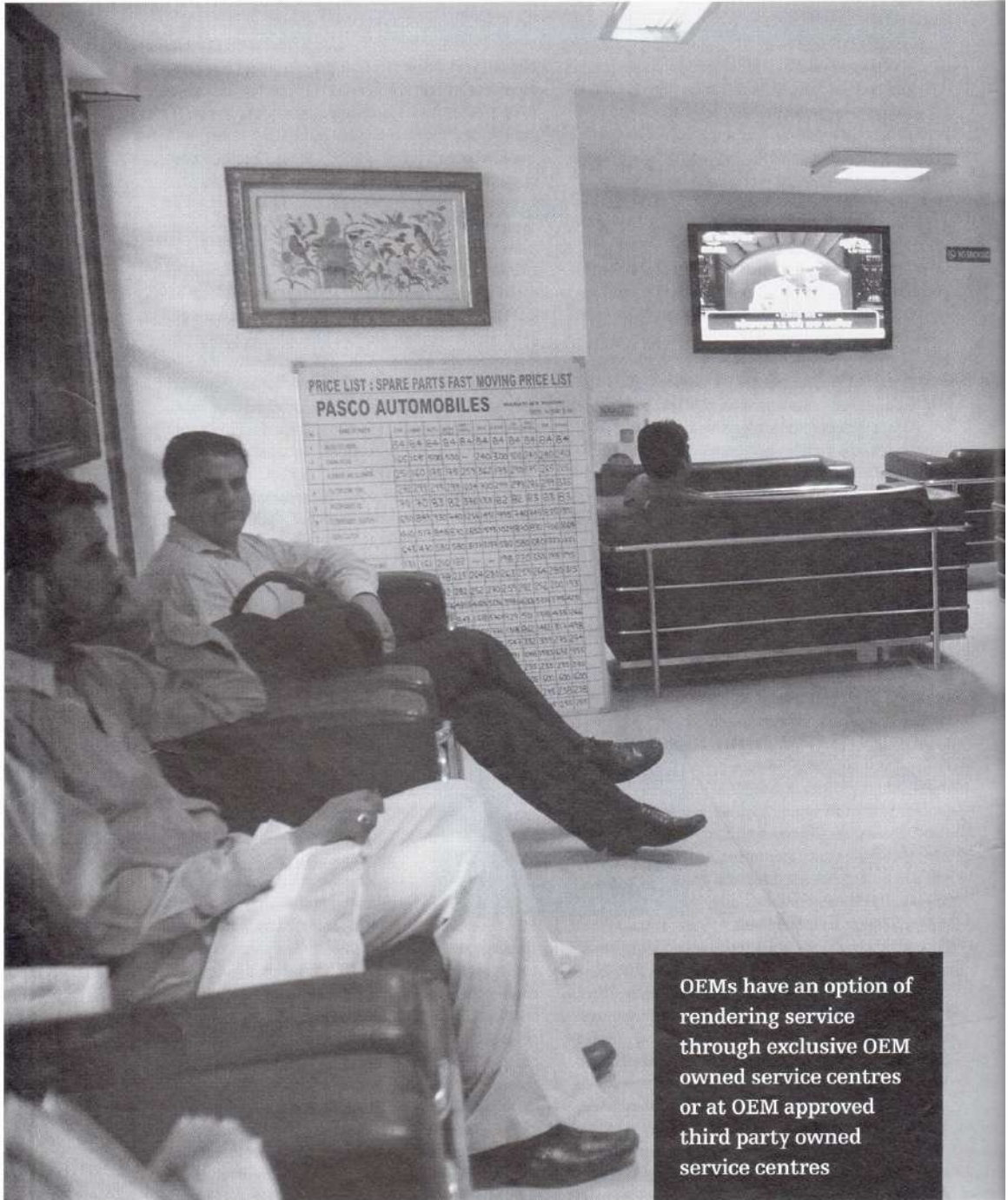
While above dimensions describe characteristics of aftermarket, maturity of an organisation's after-

market processes is described by reliability, responsiveness, sustainability and service cost (Luschetall, 2007, SCC, 2013). Reliability is critical to success of OEMs aftermarket sales and services. Reliability of asset management and product critically affect aftermarket operations and customer satisfaction. Reliability of aftermarket not only covers asset availability and product maintainability, but also reliable

consultation and quality of service network. Trained technicians who can ensure high quality in all time is a must to gain and sustain customer trust. Reliability also covers authenticity of parts with committed precision. Reliability from a service angle covers committed support resolution time, right support routing, trained technician with right parts at the onsite or document accuracy related to services.

Responsiveness to customer needs/ feedback and market environment are vital for aftermarket operational success. To survive and to make grow

**Reliability of asset management and product critically affect aftermarket operations and customer satisfaction**



OEMs have an option of rendering service through exclusive OEM owned service centres or at OEM approved third party owned service centres





aftermarket revenues and customer satisfaction, companies must respond continuously to service opportunities and competitor threats. Increase in number of free and preventive maintenance services or warranty period by competitors must be addressed as they affect perceived quality of a product. Responding quickly when a product is not meeting required quality standards or performance is below par, OEMs must respond quickly to recall product (Cohen et al., 2000). Ford's voluntary recalled Ecosport compact SUV just after few weeks after vehicle was officially launched for glow-plug control module (GPCM) appeared to be vulnerable to malfunction or damage due to moisture.

Quick and right decision response helps OEMs to regain customer confidence and build stronger customer relationships (Lam et al, 2004, Kandampully 2010). OEMs improve responsiveness by investing in better information processing, reduce unwanted red tape and lead time, create clear and transparent policies that can foster self-directed teams work and inculcating a service oriented culture and process right through their extended network, right from supplier to dealer. Timing and speed are two important elements of OEMs aftermarket response (White, Vasal and Dacin, 2003). Mean time to respond for corrective maintenance, mean time to repair in preventive maintenance or waiting time to deliver spare parts to dealer are some measures that help OEMs to assess themselves (Melcher 2012).

Sustainability refers to OEMs ability to do 'surprise management'. Sustainability is element necessary to carry on and enhance aftermarket process and responses with changes in demand and changes in service segments. For OEMs to be sustainable, they need to be proactive but simultaneously flexible. OEMs must be alert enough to new demand, but also manage volume and service mix variations effectively. Ability to handle unscheduled request during peak season, number of co-operative solutions from help-desk, time to manage unplanned request are measures that help OEMs evaluate their aftermarket processes. Cost refers to cost of spare parts, warranty costs, cost of help desk, cost of support personnel and other costs including inventory costs. The costs include both dealer and OEM level costs. For dealer costs of spare parts, services costs, cost of mistaken incidences, infrastructure costs, resources, etc. **IM**

The concluding part of the article will appear with the December issue of the *Indian Management* magazine.