

Aftermarket audit to gain **COMPETITIVE LEADERSHIP**



CMA Aishwarya Nair

Junior consultant
Browne & Mohan
Bangalore



Dr. TR Madan Mohan

Managing Partner
Browne & Mohan
Bangalore



Balasubramaniam D

Director
Browne & Mohan
Bangalore



Rudresh Basavarajappa

CEO and Chairman of Quest
Informatics Pvt Ltd
Bangalore

Aftermarket is an important source of revenue for many companies. Aftermarket involves any product, service or support provided over the complete life cycle of end customer vehicle, after the original purchase has been made (Bundschuh&Dezvane 2003). After-market revenues come from repair and maintenance of parts and service. Aftermarket revenue contribution to OEMs varies between 30-50% and is also highly profitable, as the gross margins vary between 35-50%. Effective aftermarket offers other advantages including customer loyalty, de-risk of business from economic downturns and higher margin business.

However, aftermarket brings its own challenges. Proliferation of multiple brands, lack of parts rationalization, poor parts and inventory management practices would need top management support and investment. OEMs are not only exposed to revenue leakages, but also ineffective customer and dealer experiences. According to a study by Genpact, revenue leakage can cost a typical US\$1 billion service provider as much as US\$80-100 million in missed revenues and US\$10-15 million in lost profits. Revenue leakage occurs at any step in an organization's 'revenue value chain' which includes pricing, proposal, negotiation, contract management, order management, billing, accounts receivable and collections. OEMs often lose out on revenue due to ineffective deployment of resources, both products and people.

Aftermarket Audit: a comprehensive internal audit

There is a need for OEM's to conduct a comprehensive audit of all aftermarket operations including its dealers, warehouse, warranty, people and service. . In each of these steps, contract terms and conditions must be accurately captured and documented. Then the enterprise must act upon this information in a correct and timely manner. Traditional recovery audits are not the complete answer, as they miss the root causes - i.e. process inefficiencies. An effective aftermarket audit must not only capture the process, but customer experience, supply chain management, sales and service operations. Aftermarket audit is an internal audit, but can draw from some of the section of statutory audit reports.

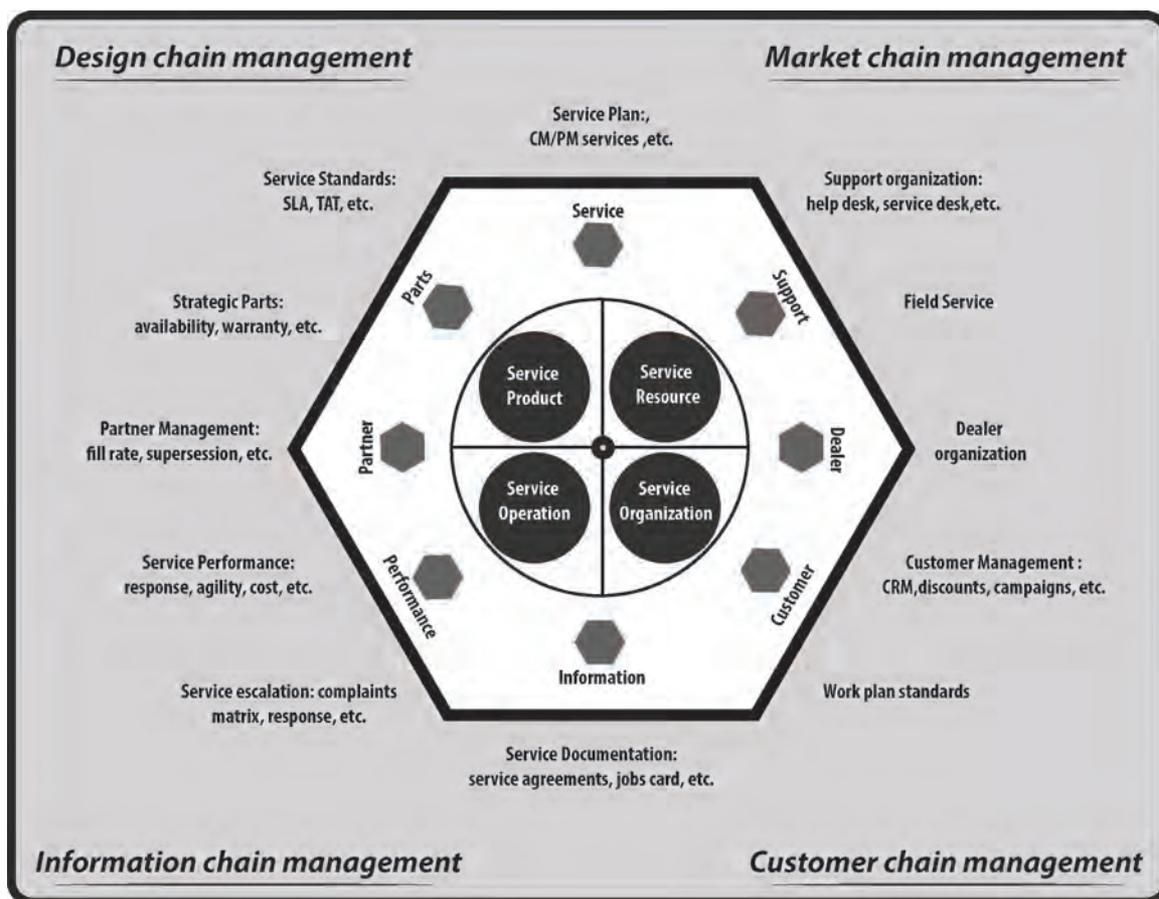
For a comprehensive aftermarket audit, we propose auditing of four arrays of service: service product, service resources, service organization, and service operations (Armistead & Clark 1991, Cohen et al., 2006). This framework is based on Institute of Cost and Works Accountants of India (ICWAI) 2009 guidelines for an internal audit. An aftermarket audit is an appraisal of company's aftermarket operations, evaluation and monitoring of risk management, reporting and control practices. As an internal audit, aftermarket audit provides inputs on: control environment, risk assessment, control actions, information and communication and monitoring of complete gamut of aftermarket activities. We therefore recommend an aftermarket audit to capture:

- ✓ Service product encompasses identification of what strategic parts does the organization want to support, what are the service policies, aftermarket parts sales, committed free offerings, warranty cover, and the complete service plan.
- ✓ Service resources would entail the of field and off-field service resources, technicians, mobile service vans, mobile tools and fixtures, and their work plans. Work plan administration also includes workshop service, planned services, service training and certification, Bay management, etc.
- ✓ Service organization refers to the dealer and OEM support network including help desk, service desk, parts desk, etc. Service organization would also define the service standards, customer complaint management, campaign management, and CRM.
- ✓ Service operations include the service documentation, partner management for fill rate, and availability, service protocols and service performance.

Figure 1 presents the scope and details of an aftermarket audit. This can be used at either an OEM level or OEM and its constituents (Dealers, partners).

Aftermarket audit must capture

- ✓ Lack of SOP adherence
- ✓ Operational problems
- ✓ Mismanagement
- ✓ Irregularities
- ✓ Lack of controls



Scope of Aftermarket Audit

As shown in the Figure 1, Aftermarket Audit must cover following areas:

- ✓ Parts administration broadly covers strategic parts planning, inventory management, in/out goods, parts pricing, discounts, parts claim management from customer and to the suppliers, etc. A lack of control of parts in transit can be used by any associate at the expense of the dealer. Parts that remain in transit indefinitely, or parts lost on the way are clear indication of a failure in the process or an operational mistake. Inventory control also becomes critical to reducing revenue leakages. Both lack of inventory and excess of it could cause significant losses.
- ✓ Service administration covers service planning, free and paid service plan, service requests and service campaigns management, etc. Lets just look at open repair orders. A repair order could remain open due

to justifiable reasons or otherwise. An ineffective system could also lead to repair orders remaining open unintentionally. A major revenue loss is unmade service calls to existing customers or low coverage of campaigns. Customers may obtain their services from 3rd party providers causing a revenue loss and rendering the campaign ineffective. Goodwill is an area where adjustments are made beyond a certain period and sometimes for frivolous or unacceptable reasons. Extending goodwill is a management decision and hence must have the required protocols to support it. Add-on service is a huge area of leakage and customer dissatisfaction which happens when repair problems detected do not match with customer complaints. This happens when job card information is poor or service team coordination between shifts is not good. Comeback repairs, where problems reoccur or new ones prop up also are clear indicators of service administration.

- ✓ Support administration encompasses onsite and offsite field study, customized repair programs, workshop management, customer and partner help-desks, parts help desk to support dealers, etc. An example of revenue leakage is a field engineer who is out in the field fixing a product. While on-site, a problem with another product is uncovered. To maintain a high level of customer satisfaction, the field engineer fixes the product, but they cannot access the customer's contract and cannot know if the work is covered under the warranty. If it's not and the customer refuses to pay for the service, revenue is lost, customer satisfaction is impacted, and everyone loses.
- ✓ Dealer administration involves the complete sales, service and support process at dealer, pricing, dealer SOPs, dealer discounts, etc. Dealer's adoption of SOP on test drives, pick & drop, showroom experience or merchandize may not be consistent. Often dealers may not use factory fluids (engine oil, transmissions or coolants) or carry out extensions that may invalidate repair or void warranty. Leverages can happen when chargebacks are not raised. Scrap administration is another pain area if they do not stay in the parts department until parts claim payments are made. Sometime, small oversight opens a potential avenue for leakages and cause of major heartburn between OEMs and dealers. Lack of stamping on the repair order or lack of details of parts numbers or lack of initials of the receiver on repair order can all become potential irritants.
- ✓ Customer administration covers customer relationship process, pre-purchase and post purchase, campaigns, community programs, customer discounts, etc. Many organizations still develop sales contracts manually using 'cut and paste' processes. Pertinent clauses can be inadvertently left out, pricing can be wrong or outdated, terms and conditions can't be tracked, and clauses can't be well maintained for reuse in future contracts. The sales contract itself is often built from a series of other sales documents such as the customer proposal or statement of work, previous contracts, pricing catalogs, etc., all of which can impact potential revenue and create opportunities for error. Moreover, negotiations with customers can often lead to non-standard outcomes. Customers often produce custom pricing, unique payment terms, and one-off performance obligations resulting in non-standard terms and conditions. These non-standard terms are difficult for organizations to capture and report on across the enterprise. Complicated contracts always increase the likelihood of errors.
- ✓ Information administration covers the complete capture, storage, retrieval and use of aftermarket documentation right from service agreements, technical publications, service bulletins, etc. The root cause of warranty leakages is a lack of visibility into warranty coverage and costs. Complexity also adds to the management of warranty. Many companies lack comprehensive, easily accessible data about contracts, warranties, and entitlements. Many times the data is there; it's just difficult to access. If, for example, the contact center is not connected to all the contract and entitlement data, center staff may send out field technicians for support that is not actually covered under the contract. With the proper contract information readily available, service staff can recognize out-of-contract circumstances and sell the client the needed services. There is also a need for warranty and contract automation. Every service transaction can be delivered properly. This will ensure that the business doesn't under deliver or over deliver for what the customer wants and has paid for.
- ✓ Performance administration covers measurement of the dynamism of aftermarket services, the agility, speed of response, reliability of process, standardization, etc. The good old adage "What gets measured gets done", aptly sums up the role of performance measures. From a management perspective performance measurement systems are required for control and reporting. Traditionally, most performance measures are financial measures. However, accounting professionals have recognized the value of integrating financial and non-financial measures using Balanced Score Card (BSC) or Results Based Management (RBM) to provide a robust integrative view of the company. Companies without service or utilization measures may not be cost competitive. It is imperative to have measures like % of appointments completed on time, repeat calls to measure field service performance. Service contract uptime (% of uptime for an installed product covered by a contract), First time fix rate, Utilization, Mean time to repair, Mean time to complete, and Repeat visit are some key measures to evaluate the status of aftermarket in a company. It is importantly not only to capture measurement

of each outcome, but also to evaluate whether measures link individuals, departments and the organization as a whole. Audit also whether the measures are based on desired strategy and linked to long-term vision of growing aftermarket revenues.

- ✓ Partner administration covers the parts, service and support partner policies, SLAs, etc. Overpayments to suppliers due to pricing errors, rebates, and duplicate payments are a significant issue. They can create leakage of up to 1 percent of revenue, reduce cash flow by up to 5 percent, and inflate working capital requirements by up to 6 percent.

Being an internal audit, a comprehensive aftermarket audit can be conducted every 3 years or whenever major warranty and parts policy changes are announced. Consistent with the guide notes on Internal audit 2009 by ICWAI, aftermarket audit planning, complementing system auditing with pre-audit of various functions and reporting formats for management review can be customized for each company.

Conclusion

Aftermarket services and support do influence customer relationships to a significant level. Effective Customer care, parts management and service can enhance the effectiveness of aftermarket operations. Dealers and their management of moments of truth are crucial to reinforce the brand experience and service quality. An aftermarket audit can not only reveal the cost and service dimensions of current operations, it can help them to align the employees at all levels to be aware of their organizational goals and have the attitudes towards the services. An aftermarket audit can help a company:

- ✓ Efficiently manage their cost structure
- ✓ Develop systems and process that ensure consistent response and quality of delivery
- ✓ Streamline operations to reduce waste
- ✓ build cost effective business continuity mechanisms

The starting point for each OEM seeking to enhance an affective aftermarket strategy is different. But the challenges are common: increasing competition, quarter by quarter drop in new sales, new technology developments and legislative changes. A comprehensive aftermarket audit is a must to assess current state; uncover challenges, and an active evaluation of where their aftermarket future lies. **MA**

References

1. Armistead, C., & Clark, G. (1991). A framework for formulating after-sales support strategy. *International Journal of Physical Distribution & Logistics Management*, 21(9), 22-29.
2. Bundschuh, R. G., & Dezvane, T. M. (2003). How to make after-sales services pay off. *McKinsey Quarterly*, 12(4), 117-127.
3. Cohen, M. A., Agrawal, N., & Agrawal, V. (2006). Winning in the aftermarket. *Harvard Business Review*, 84(5), 129-138.
4. Corey, R.E., Cespedes, E.V. and Rangan, V.K. (1989), *Going to Market: Distribution Systems for Industrial Products*. Harvard Business School Press, Boston, MA, pp. 22-59.
6. Gaiardelli P., Saccani N. and Songini L. (2007) "Performance measurement of the after-sales service network- Evidence from the automotive industry" *Computers in Industry*, 58 (7), pp. 698-708.
7. Lusch, R.E, Vargo, S.L. and O'Brien, M. (2007), "Competing through service: insights from service-dominant logic", *Journal of Retailing*, Vol. 83 No. 1, pp. 5-18.
8. The Institute of Cost and Works Accountants of India (2009), 'Guidance Note on Internal Audit', January, Kolkatta.

aishwarya@browneandmohan.com



Dr. V.S Chauhan, Chairman UGC, being felicitated by CMA Manas Kumar Thakur, President of the Institute on April 21, 2017