



Frank Lynn & Associates, Inc.

Is Your Aftermarket an Afterthought?

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Companies pursuing growth focus on their main products – equipment, hardware, whole goods, “big iron,” lead lines, etc. These products typically account for 60-80% of a manufacturer’s revenue. However, companies seeking growth often overlook their aftermarket. This is a big mistake. Aftermarket sales are a significant revenue growth opportunity and an even larger profit growth opportunity. Companies need to apply strategy to their aftermarket sales just as they do with their main products.

The aftermarket consists of several categories of products and services – parts, repair and maintenance services, professional services, accessories, supplies and software tools.¹ The aftermarket has several unique characteristics:

- Margins are generally higher (sometimes significantly higher) than primary products
- The average selling price (except for professional services) is generally lower
- As the name implies, aftermarket products are mostly sold or delivered after the sale of the initial product
- Aftermarket sales are often pursued with less vigor, structure and professionalism by both manufacturers and distributors/dealers
- Often proprietary parts and services are copied and offered by competitors as “will-fit”, private-label or compatible brands

Why the Aftermarket is Strategic

The aftermarket is of strategic importance for many reasons. First, as noted above, margins are higher than primary products and therefore the aftermarket represents a disproportionately larger (and often under-recognized) share of most companies’ overall profitability. Second, the aftermarket gives manufacturers, and their channel partners, an opportunity to build an on-going relationship with customers. With capital equipment, customers may only purchase once every three, five or even ten years. The aftermarket provides the manufacturer with an opportunity to maintain its brand image, predict the beginning of the next buying cycle and monitor customer needs/trends during the intervening years. Third, the aftermarket is an avenue for competitor entry, so manufacturers need to defend their aftermarket.

¹ Aftermarket software does not include primary licenses, but can include maintenance contract renewals; add-on modules linked to a primary program; mobile apps for monitoring, trouble-shooting, wireless use, etc.

Otherwise competitors can offer non-proprietary supplies, parts and services as a means to build relationships and eventually compete for primary products.

Building a Strong Aftermarket Program

The first step in building an effective aftermarket program is ensuring that senior management is on-board and that a competent, strategy-minded executive is assigned to run/coordinate aftermarket sales and marketing.

With leadership in place the company should then conduct a customer segmentation study looking at the aftermarket in terms of product needs, pricing, preferred sourcing, etc. For example, some customers may run equipment into the ground looking only for low-cost repair options, when necessary. Other customers may have the sophistication to repair equipment themselves. Others may prefer to pay a premium for dealership service with OEM parts. Still others may adhere to a fixed maintenance schedule and even purchase preventative maintenance or extended warranty contracts.

Manufacturers need to adapt their product, pricing, and channel strategies to meet each segment's unique characteristics.

- Global/multi-regional accounts – these customers may expect a very high level of consistency in service and parts availability. Manufacturers often need to take a leading role in coordinating the activities of multiple dealers supporting a single, large, demanding account. This may include creating a formal key account program that establishes performance standards and tracks dealer results
- Preventative maintenance customers – again, the manufacturer may need to establish a formal program with specific processes and procedures, from both a technical and sales/marketing perspective
- Brand loyal accounts – to satisfy and grow this segment some manufacturers create marketing and certification programs to bolster the image of the brand. These programs are akin to GM's "Mr. Goodwrench" program and emphasize the use of "Genuine GM Parts"

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- Price sensitive customers – of course one strategy is to convert these customers into brand loyalists by emphasizing the value inherent in OEM-brand parts and service. To support this strategy a manufacturer can forbid or dissuade dealers/distributors from selling competing lines through a variety of contractual and economic approaches. Another strategy is to develop an entry-level or “fighting brand” that competes at the lower price point. The challenge with this latter strategy is avoiding cannibalization of the high-end brand
 - Professional services buyers – a big trend in the services business is moving up from basic repair or installation services to so-called “professional services” such as consulting, monitoring, etc. Professional services can build much deeper relationships with customers. However, they also introduce several complications. Most dealers (and many manufacturers, lack the capability to sell, price or perform these higher-end services). Another problem is that a manufacturer may compete with its dealers for the same service. To manage these potential problems manufacturers may opt to certify a small subset of dealers for professional services. The certification program would leave simpler services to the dealer, and more complex services to the manufacturer. Both sides can even coordinate activities, say, when the dealer provides a monitoring service during working hours and the manufacturer takes it over at night

After segmenting the customer base and developing appropriate strategies manufacturers then need to administer those strategies through specific programs, policies, and tools.

Best-Practices for Aftermarket Success

To build a strong aftermarket strategy, manufacturers need to implement best practices internally and at their channel partners. Best practices at the manufacturer level include:

- Developing of a comprehensive parts and service training program for channel partners; possibly even a test-based certification program
- Focusing training on key parts and service metrics, for example absorption rates and parts inventory turn levels
- Offering higher in-warranty reimbursement rates for dealers that meet specified certification levels – caution, this may be illegal in some states

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- Establishing requirements and incentives for partners to attend training, such as a better discount or purchase price (could be on both parts and equipment!)
 - Requiring dealers to submit various data including “first time fix” rate, “part in-stock” rate, and “continues to run” rate
 - Using regional distribution centers to provide high (95%+) fill rates on parts shipped to dealers, especially for ‘B’ and ‘C’ parts
 - Encouraging local partner walk-in business at distribution centers, and delivering anywhere overnight. These are service levels that many will-fitters can’t offer to dealers
 - Setting minimum order levels and emergency-order price penalties to encourage to maintain an adequate stock of ‘A’-level parts
 - Offering a quarterly parts loyalty rebate in order to combat will-fitters
 - Hiring a dedicated aftermarket marketing manager to provide dealers with targeted sales and promotional material

At the partner level, best-in-class practices include:

- Investing in a modern ERP/CRM system – to track installed base of equipment, parts and service histories, expiring service contracts, service proposals, etc.
- Using smart monitoring of parts inventory levels, obsolescence, fill rates, etc.
- Using smart monitoring of service jobs – % use of in-stock parts, stage of repair, finish-to-promise time, etc.
- Emphasizing sales of higher-end equipment – customers are less likely to self-maintain/repair these more complex products
- Having a well-maintained, well-merchandised retail space and counter
- Hiring technically competent and sales-oriented counter people and parts managers
- Separating the roles of parts manager and service manager (except at smaller dealers or branch locations where it may not be financially justified). The parts manager should be skilled in inventory management not just technical issues (such as read schematics, do diagnostics)
- Assuring that the separate service manager has a broad skill base – great technical background, but also people management skills (especially for handling employees out of the office), e.g. dispatching, tracking re-work time, monitoring billable hours. Must also have good sales skills and spend time in the field (especially with larger accounts)

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- Training service technicians to upsell, especially on “wear” items. The technician is the employee seen the most by the customer, and often becomes the most trusted representative of the dealership
 - Building a program where parts and service business generate 40-50% of total dealership revenue
 - Creating a formal plan to sell maintenance and preventative maintenance programs. The selling effort should be on-going including at the time of repair, and during repair job follow-up calls. Best-in-class dealers offer preventative maintenance contracts on competitive and complementary equipment too. It provides a reason to visit, monitor competition and gain share

The aftermarket represents a huge, but complex opportunity for manufacturers. Just like selling the original equipment, the aftermarket requires research, planning, strategy development, and detailed implementation. Many companies overlook the aftermarket. However, those that take the time to understand it enjoy greater profits, longer-lasting customer relationships, and deeper partnerships with their dealers.

If you have questions or would like to comment on this article you can reach Bob Segal at bobsegal@franklynn.com or 312.558.4808.