

Hardware is only half the story

A case for services mindset

McK – "There's a **gold mine in aftermarket services**. But companies first need to know where to dig—and how hard."

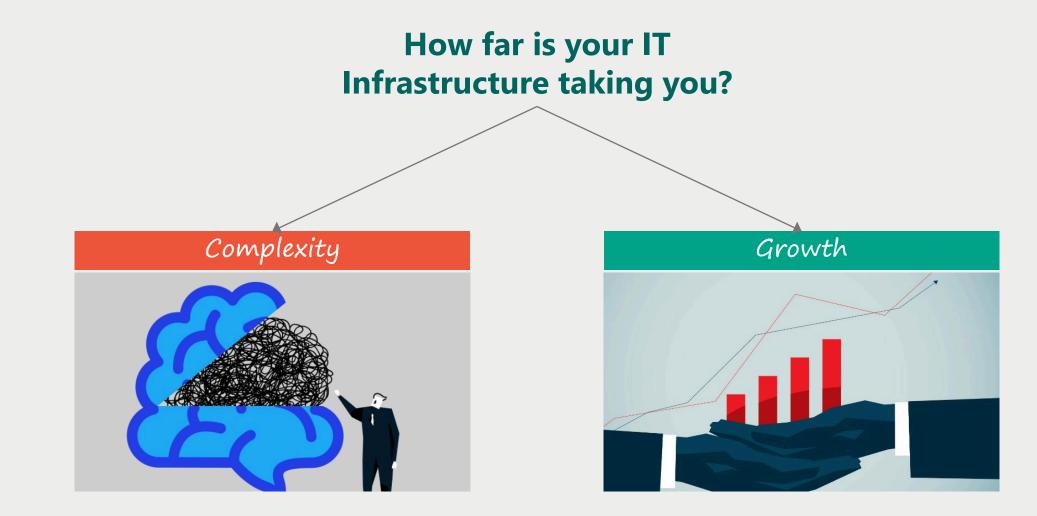




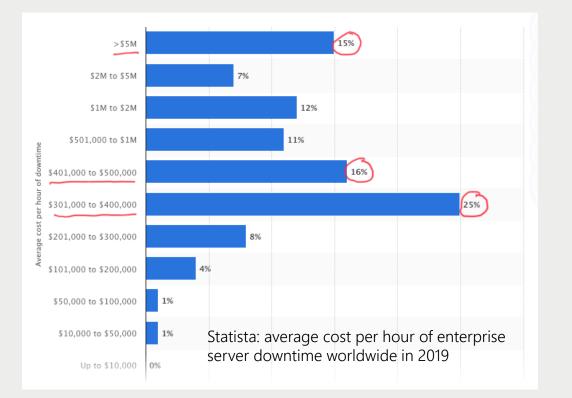
Purpose of this document

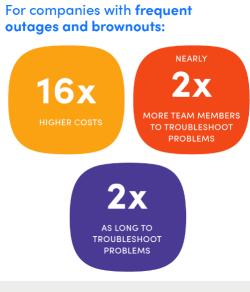
To provide external perspectives on the importance of infrastructure services and how to drive sales acceleration.

Question for the C-suite



Downtime – An expensive deterrent to customer success





Source: IT Outage Impact Study 2019 by LogicMonitor

KEY FINDING Downtime is Expensive

It is no wonder that IT professionals are so concerned about availability. Downtime is expensive, and it also impacts the business as a whole. The following list shows the top business impacts of downtime, as described by global IT decision makers.

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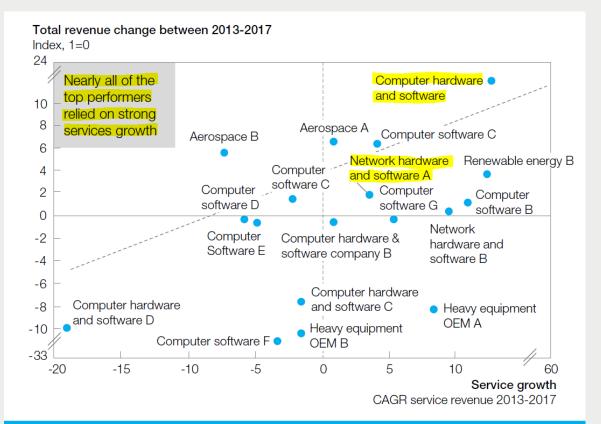
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Business Impacts of Downtime

- Lost revenue
- Compliance failure
- Damage to the brand
- Lowered stock price
- Mitigation costs
- Lost productivity
- Costs to mitigate and recover from a brownout
- Career negatively impacted
- Business failed

McK on Services | OEM's Secret Weapon

Companies that invest wisely in services are rewarded with high revenue growth



Key distinctive facts about top performers that led to their winning market position

- Longitudinal view of the customer's journey throughout the product lifecycle vs. point-in-time view
- Intimate familiarity with products that helps create more robust next-generation products
- Regular inflow of cash vs. large swings in cash-inflow cycles (for products-only companies)

A services business generates value in numerous ways

- Growth acceleration. OEMs can double their services revenue within three to five years, without requiring large investments in capex, new product development, or extensive cost-reduction programs.
- Margin improvement. EBIT margins of services can be up to four times higher than those of original equipment, with a doubling of margins possible in three to five years.
- Income stream predictability. Life cycle benefits are also much greater, as the services business spans the entire product life cycle and provides a cash source that is more sustainable and predictable and less cyclical.
- **Customer intimacy.** Service provision allows a company to build a life-cycle view of the customer with respect to needs and usage, among other attributes. Whereas touchpoints for product sales end when a sale is completed, touchpoints for services occur on a regular basis and in multiple locations. Companies can use the more frequent contact to expand their knowledge of customers' personnel and locations. They can apply this knowledge to improve service levels and tailor targeted offerings of products and services.
- Product intimacy. A company can gain better visibility into how customers use its products and how the products are performing. The insights provide the basis for refining product designs and developing the next generation of products.

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McK on Services Selling | A Street Fight

McK – "Selling in aftermarket is like a **street fight**: customers often buy services in a piecemeal, transactional way, and **OEMs have to win over and over again**, even with customers they thought were locked in."

- 1. Recognize that aftermarket is unique and create a separate salesforce;
- Develop Sales Operating Plans for each sales person, with detailed quarterly, monthly and weekly activities to exceed the sales target. Each plan incorporates sales leads generated through a scientific approach (see below);
- Use a gap-to-entitlement algorithm to identify customers with whom market share is low and/or declining to feed the Sales Operating Plan pipeline and facilitate management weekly meetings;
- Use predictive algorithms to determine what to sell to each customer, and when to sell it;
- 5. Define an OEM-only Value Proposition—to combat the low price offered by independent parts brokers or repair shops, the OEM value proposition must be different. In some industries, the mere OEM brand carries enough value to justify a price premium. In others, OEMs can compete through non-price levers (e.g., longer warranty, higher parts availability). In a few industries or for some customer segments, price is all that matters, and the most effective players have developed separate arms to source parts at cheaper cost (e.g., through secondary / used channels) and to sell them with lower overhead. In any case, having a clear view of what value each individual customer derives from doing business with the OEM is essential;

- 6. Continuously train and mentor sales teams—from our experience, sales teams are too often under-trained on how to effectively sell in aftermarket environments. In particular, sales teams are typically reluctant to use data to inform Sales Operating Plans. They rely too much on relationships. Training can help overcome this;
- 7. Obsessively manage performance—aftermarket sales teams are often dispersed geographically and are reluctant to undergo scrutiny from their leaders. Yet there is no shortcut: in the context of the street fight, sales activities must be measured and reviewed on a very frequent basis. Developing a live Sales Cube (that tracks sales-to-date vs. budget and vs. last year in three cuts: by product, by sales person, and by customer segment) is the first step in ensuring all white space is covered. On a weekly (and sometimes daily) basis, sales leaders review the cube with their teams to redirect their energy appropriately.

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Services Sales Acceleration Framework

Align to your sales strategy

Design to reduce seller burden

Guiding

Principles

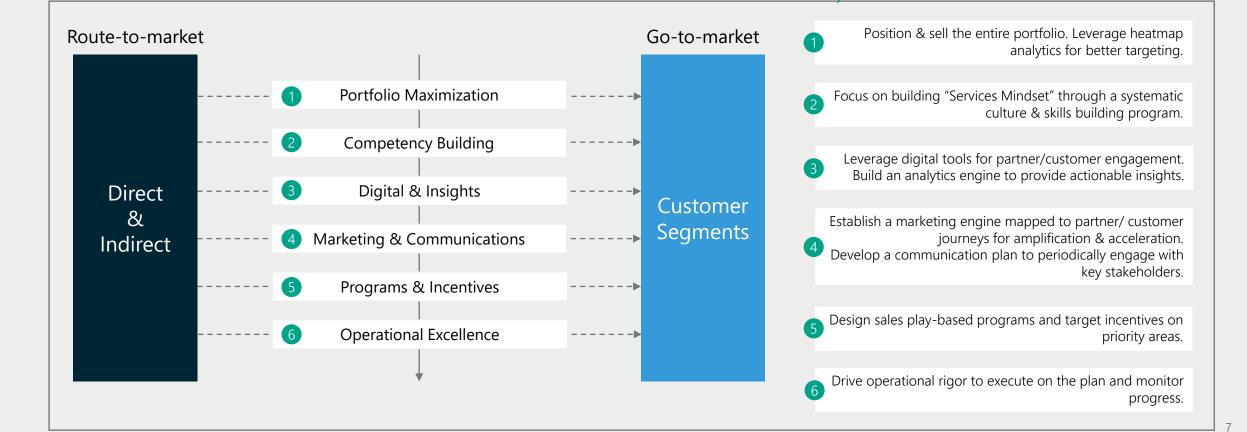
Gather "Outside-in" and "Inside-out" perspectives

Drive buyer enablement to enhance sales experience

Steer cross-functional collaboration for faster time to market

Ensure Speed and Agility in value creation

Package this into a <u>sales</u> <u>playbook</u> for your direct & indirect salesforce





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"At high-growth industrial companies, services aren't just an optional add-on, but an essential revenue driver deserving thoughtful investment...**The growth of services is a key driver of both the top line and bottom line for any product-based organization**."

McKinsey & Company (McK)



Thank you

For further guidance, meet us at: <u>www.csgadvisory.com</u>

Connecting the dots | Building a narrative | Developing a point of view