Industrial Machinery Manufacturing: Trends, Insights and Opportunities

UPS® research reveals potential of aftersales and service
**Aftersales or afterthought?**

One-third of midsize industrial machinery manufacturers say that up to 75% of their profitability comes from parts, service and consumables; 78% say their customers’ expectations for aftersales services are rising. However, only 12% consider aftersales and service important differentiators for their businesses (Figure 1).

Figure 1:

What is your top competitive point of differentiation for all of the machines that you sell?

- Machine performance: 45%
- Machine quality: 43%
- Aftersales service: 12%

These findings from a survey UPS conducted with independent research firm IDC (www.idc.com) show that while respondents are rightly focused on meeting their customers’ demands for quality and performance, excellence in aftersales support may offer another avenue for manufacturers to differentiate and grow.

Excellence in aftersales support may offer another avenue for manufacturers to differentiate and grow.
**Offsetting the limitations of lifecycle**

With most manufacturers saying the average lifetime of their equipment and machines is 10-19 years (Figure 2) there is a natural limitation for new sales opportunities.

Could revenue from aftersales support help to balance the droughts of a long sales cycle?

For many manufacturers, it already does. Figure 3 shows that 35% get more than half of their annual revenue from aftersales support.

In contrast, 65% say it makes up less than 50% of their annual revenue.

Of course, ramping up aftersales support is not the right strategy for every manufacturer, and not all choose to manage their own service operations. Still, the opportunity may be worthy of consideration.

**Figure 2:**

What is the average lifetime of your machines/equipment?

- **11%** Less than 10 years
- **61%** 10-19 years
- **18%** 20-29 years
- **9%** 30-39 years
- **1%** 40 or more years

**Figure 3:**

Aftersales — What percentage of your company’s annual revenue comes from aftersales?

- **34%** 50-74%
- **24%** 1-24%
- **36%** 25-49%
- **5%** 0%
- **1%** 75-99%
Offering an enhanced level of aftersales support comes with its challenges when the majority of manufacturers surveyed sell broadly across multiple industry segments (Figure 4); from multiple facilities (Figure 5); to locations around the world (Figure 6).

Figure 4:
Which of the following best describes how your company targets industry sales?

- 64% We sell broadly across all industry segments
- 26% We mainly target one industry (e.g., Automotive, Food & Beverage)
- 10% We sell to a select number (2-5) of industries

Figure 5:
How many different manufacturing locations does your company have?

- 25% 1
- 45% 2-4
- 23% 5-9
- 4% 10-20
- 3% More than 20

Figure 6:
To what regions does your company sell your machines/equipment?

- 52% North America
- 15% Europe
- 13% Asia
- 12% South America
- 2% Africa
- 6% Middle East
Servicing a global customer base is a challenge unto itself. Add the six-month service cycle most manufacturers say they provide (Figure 7) and a service network can look like a global spider web.

**Figure 7:**
Which of the following best reflects how often your machines/equipment are serviced?

- **26%** Every month
- **47%** Every 6 months
- **27%** Annually

How well are industrial equipment manufacturers meeting their customers’ service needs? Figure 8 shows that most report an average of 2-3 day service response time. Given the potential for significant lost productivity and revenue, that 72 hour window is likely unacceptable. Downtime creates lasting memories and anything less than immediate service can dim the prospects for a repeat sale.

**Figure 8:**
Which of the following best reflects the typical response time for new parts or machine repair?

- **14%** 1 day
- **60%** 2-3 days
- **21%** 1 week
- **5%** 1 month

*Downtime creates lasting memories and anything less than immediate service can dim the prospects for a repeat sale.*
Risks vs. rewards

The risks of building or buying a service organization can be daunting in this unpredictable global economy. That may be why 44% of those surveyed are currently working with a third party to provide service and support, or plan to start. (Figure 9). By tapping into an established aftersales infrastructure they can reduce or eliminate capital outlay and gain speed to market.

In-house management of service and support remains the primary model used by the majority of respondents (56%) with no plans to change.

Meeting the needs for quality, performance and service is no doubt difficult when manufacturers feel their customers care most about the first two. Even if there are no plans to engage a third party to manage aftersales support, simply consulting with an organization specializing in post-sales service could deliver quantifiable benefits well into the future.

Figure 9:

Which of the following best reflects how your company delivers aftersales parts to your customers?

- We primarily do this ourselves through our own in-house team and plan to continue doing that (56%)
- We primarily do this ourselves through our own in-house team but plan to use a 3rd party distributor (27%)
- We primarily use a 3rd party distributor and plan to continue doing so (14%)
- We primarily use a 3rd party distributor but plan to start doing this ourselves through our own logistics team (3%)
Concluding thoughts

Machinery manufacturers have a long tradition of engineering high-performance products for discerning customers. But with the increasing complexity of industrial machinery comes a growing, often contractual, need for timely maintenance and repair.

Are machinery manufacturers fully leveraging the potential of aftersales support? Research suggests the answer is probably not.

Managing spares, maintenance schedules and service are considered a cost of doing business for those who feel their customers are more interested in having the highest performing, most innovative and productive machinery. But in the face of global competition and a long product lifecycle, manufacturers should take a harder look at aftersales as an engine for differentiation and growth.
About the survey
This paper is based on the results from a March 2015 survey of 77 industrial machinery manufacturers. The respondents were from companies with between $10–50 million in annual revenue. All participants were U.S. based and had just over half of their business in the United States, with the rest evenly divided between South America, Europe and Asia, and a small percentage in the Middle East and Africa.

The majority of respondents were from makers of automation equipment, CNC machines and packaging machinery, while the balance were from makers of pumps and pumping equipment, air and gas compressors, ball and roller bearings, and HVAC systems.

Most respondents were from manufacturing operations (43%), corporate management (17%) and IT (13%). All were decision makers for, or had visibility into, the key business, supply chain and service initiatives in their organizations.

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