



RESEARCH REPORT

2023 SERVICE SUPPLY CHAIN: SERVICE PARTS MANAGEMENT

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EXECUTIVE OVERVIEW

For the last few years, the supply chain has been a source of frustration and unease for service leaders, as they attempt to weather the disruptions caused by the pandemic, geopolitical unrest and global shortages.

While these challenges have not necessarily abated, efforts to create a more resilient supply chain seem to be paying off and many organizations are finding success in mitigating the disruptions. In the 2023 Service Leader's Agenda survey, Service Council™ found that, when asked what the most significant factor was impacting their service business, supply chain challenges dropped from the number two to the number three spot. This decrease tells us that efforts around service supply chain management is paying off.

However, this doesn't mean that supply chain challenges are resolved. According to KPMG, "Disruptions to supply chain operations are set to stay in 2023, whether they be existing or new geopolitical conflicts, inflationary pressures and the recessionary environment, climate change weather events, or other issues yet to emerge. [These disruptions] will impact access to goods and how they flow to their final destination, create port holdups, reduce container and ocean freight availability, and surge prices, among other concerns."

In March, Service Council launched the 2023 Service Supply Chain: Service Parts Management survey. This report looks at the challenges, efforts, strategies and successes experienced by service leaders.

The intent of this research survey was to:

- Identify the leading challenges, focus areas, and strategic investment priorities amongst service supply chain leaders.
- Uncover best practices in inventory management, parts planning, parts logistics, parts returns and more.
- Understand the leading key performance indicators (KPIs) and metrics organizations utilize to measure their service parts business, including current attainment.
- Identify characteristics of organizations performing at low, average and high levels across major KPIs and metrics.

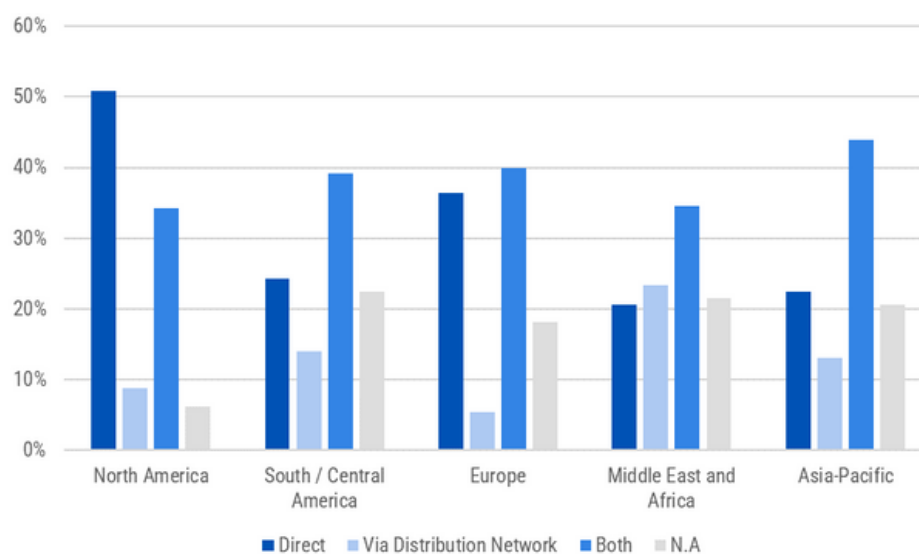
SURVEY DEMOGRAPHICS

The survey had 150 participants, made up of service leaders from multiple industries, including medical and healthcare, industrial, agricultural and high tech. The majority (71%) of organizations were manufacturers that provide repair, maintenance and installation services, while 14% were service providers only.

When asked what their organization's revenue was, 19% said 1-2.5 billion dollars annually, while 17% said greater than 5 billion dollars annually, and 15% said less than 25 million annually. Nearly half of respondents said their service organization's service coverage was global, while the majority responded that their coverage was multi-continental.

The survey also asked how parts were sold within each geography in multinational corporations. The findings signal a trend of using indirect methods to sell parts as organizations expand outside of North America.

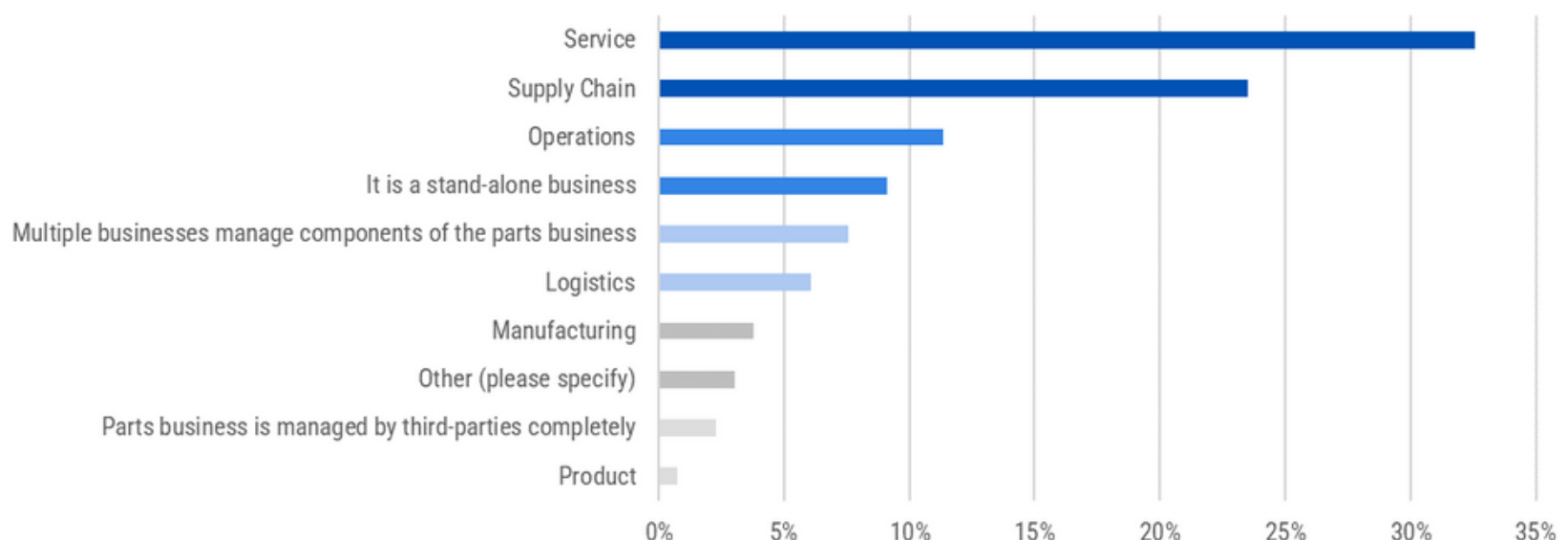
How are parts sold in the following geographies?



Respondents were also asked what business

function within their organization typically manages parts. One third said that it was housed in the service department, while 23% said it was housed in the supply chain part of the business. Just over half (56%) of respondents indicated that service parts had its own profit and loss, while 40% indicated that it did not.

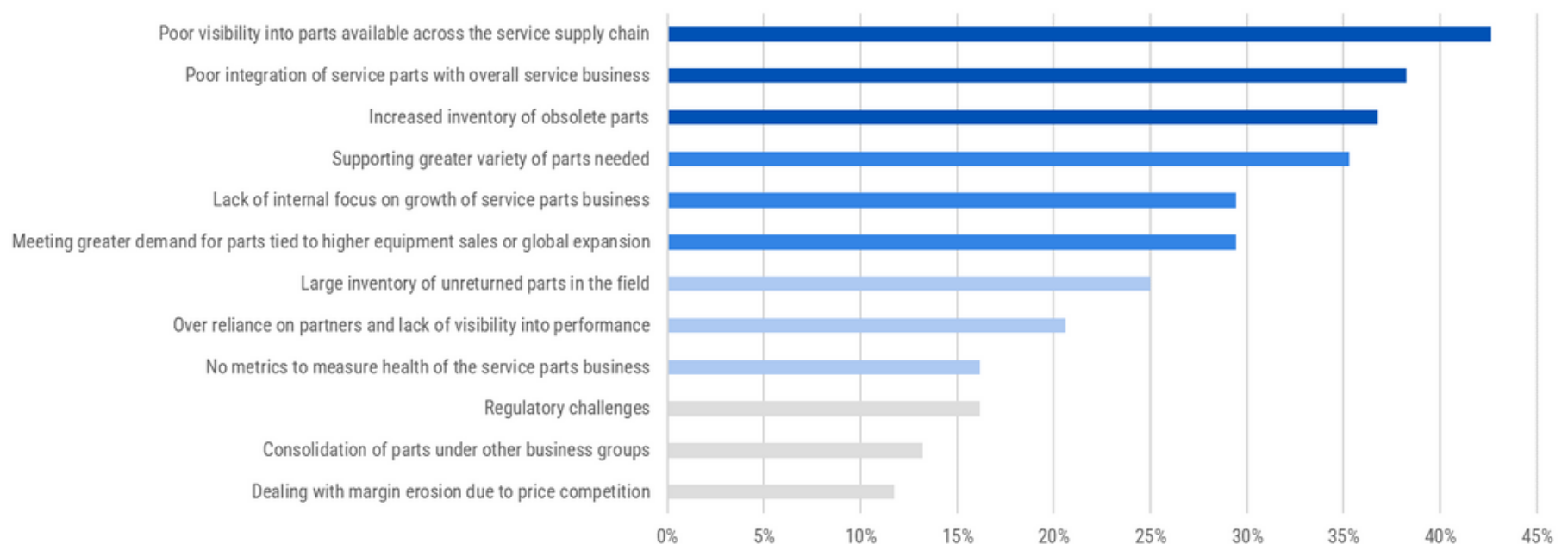
What business function manages service parts?



SUPPLY CHAIN CHALLENGES AND STRATEGIES

When asked the top challenges they faced in their service parts business, nearly half (43%) of service leaders said poor visibility into parts availability was the biggest obstacle. Additionally, 38% indicated that poor integration of parts within the service business was a top challenge, as was overstock issues. Increased inventory of obsolete parts and supporting a greater variety of parts needed were the third and fourth biggest challenges.

What are the biggest challenges currently faced by your service parts business? (Please select TOP FOUR)



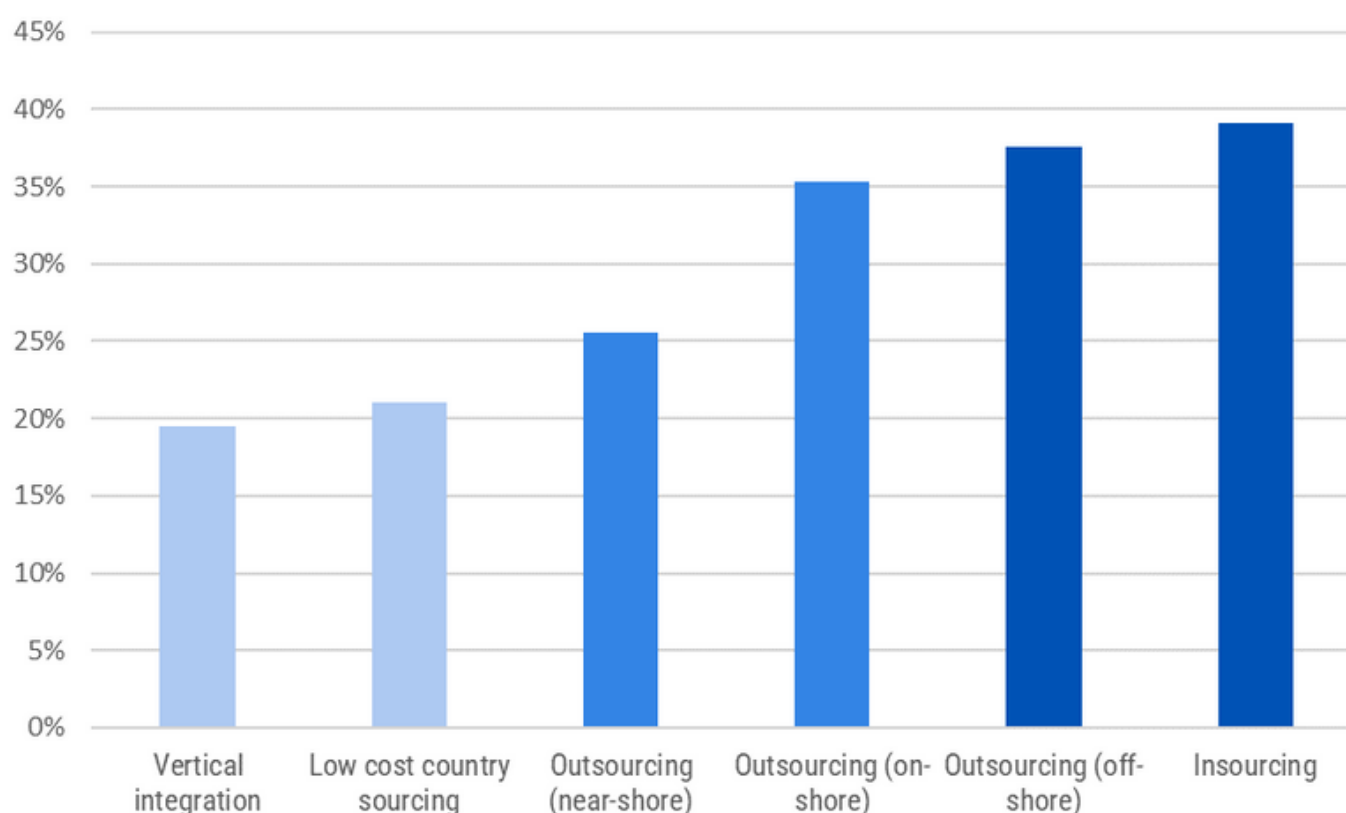
The importance of a transparent supply chain is a topic that has been much discussed in the last few years. Disruptions increased during the pandemic and the need to track parts both externally, and internally, became increasingly more difficult. According to Service Council's 2022 Voice of the Field Service Engineer survey (n=1886 technician respondents), the top requests for mobile capabilities included inventory visibility (#1), parts ordering (#3) and ability to trade truck stock inventory (#5). The criticality of available service parts continues to rise given its impact on service delivery and ultimately customer satisfaction.

Parts silos that exist due to poor integration also contributed greatly to the lack of visibility across the supply chain. The challenge of overstock may be due to several different factors, including mergers and acquisitions, and rapidly growing and advancing products, which in turn means that older assets are becoming obsolete and outdated more quickly. However, even if these assets are outdated, there may still be many in the field, which makes it necessary for organizations to continue holding the related parts.

SUPPLY CHAIN CHALLENGES AND STRATEGIES OF FOCUS

Modern supply chains have become increasingly more global and complex, due in part to the rise in sourcing strategies such as outsourcing and offshoring. When asked what sourcing strategy their organization currently utilizes, offshore outsourcing (38%) followed very closely behind insourcing (39%).

What sourcing strategies does your organization CURRENTLY utilize? (Please select all that apply)

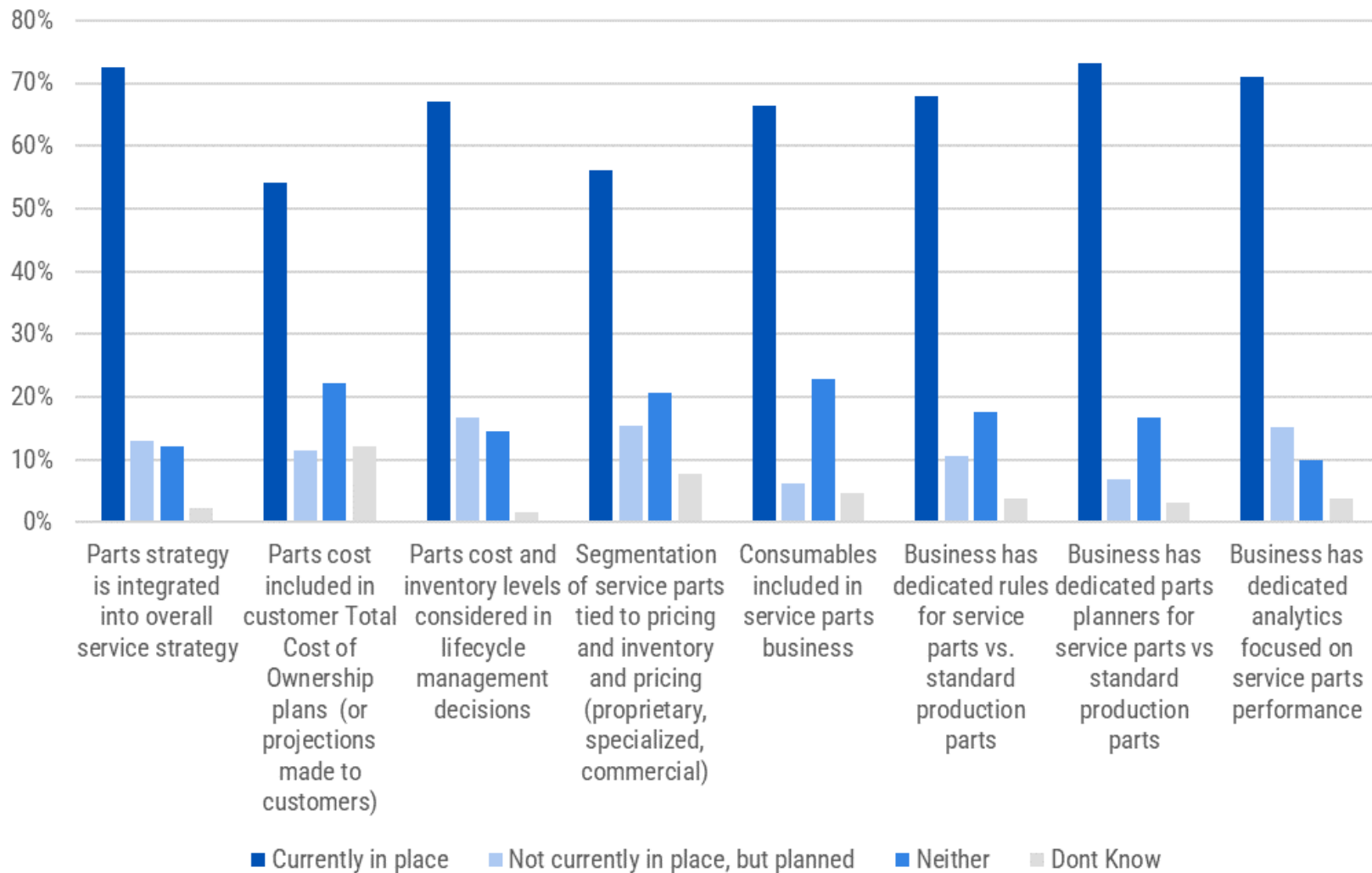


As supply chains grow more complex, they also become more vulnerable if the lack of end-to-end visibility decreases. We are starting to see more redundancy built into strategies, however. To create a more visible and circular supply chain, organizations are turning to approaches like insourcing, nearshoring and sourcing through channel partners. A 2022 report from Deloitte found that 62% of manufacturers have started reshoring or nearshoring production capacities.

The survey also delved into the strategies and business practices that organizations currently have in place. Interestingly, 73% indicated that parts strategy is already integrated into overall service strategy, and 13% are planning on integrating, which should alleviate some earlier challenges mentioned around integration.

SUPPLY CHAIN CHALLENGES AND STRATEGIES OF FOCUS

Please answer the following questions tied to your parts business:



SUPPLY CHAIN METRICS

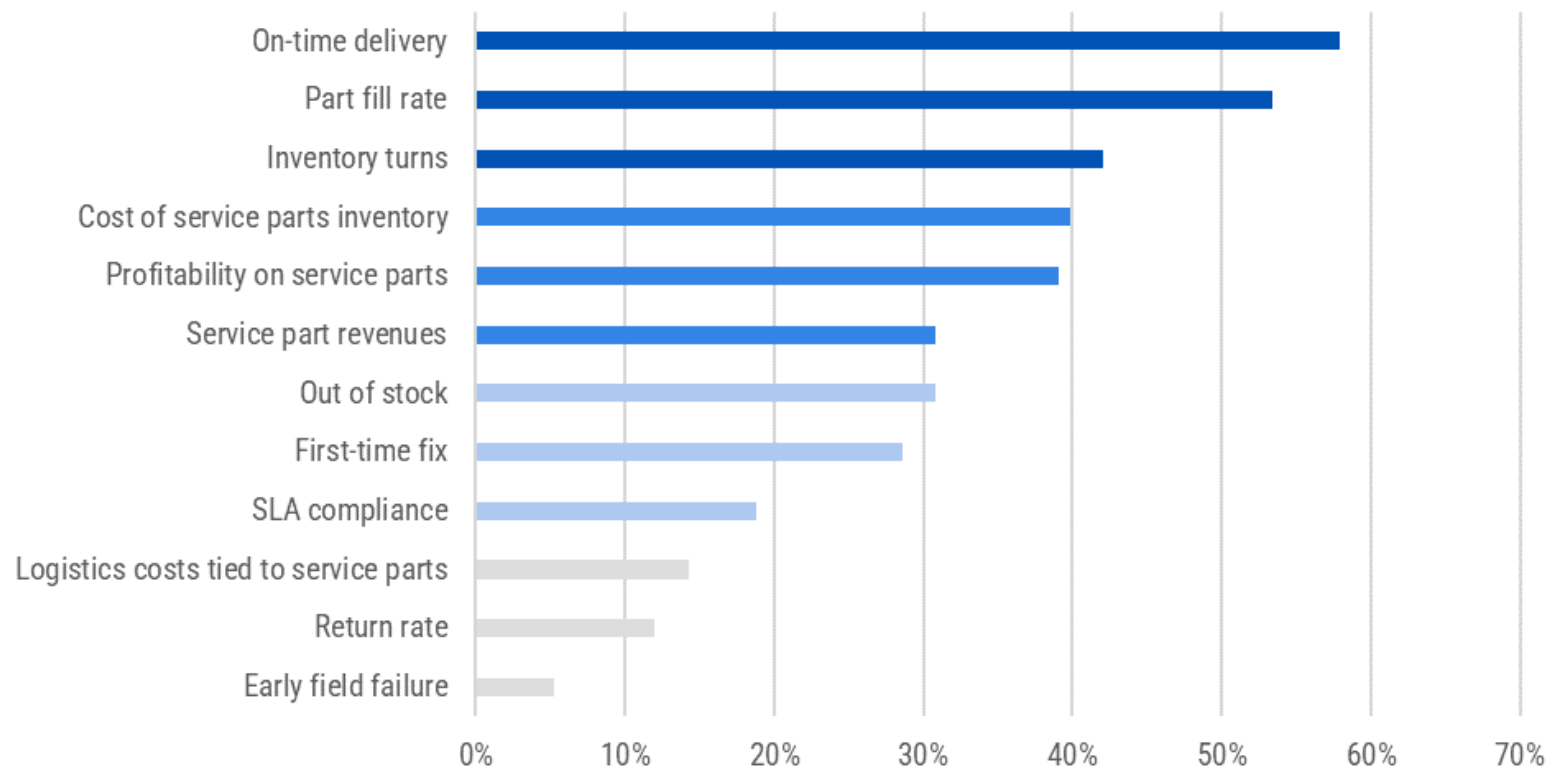
The survey also examined the topic of metrics and how organizations are measuring the health of their parts business. Service leaders were asked the top four indicators they used to track parts business performance.

On-time delivery was the top metric, with 58% of service leaders indicating this was an important indicator for them in terms of business health, while parts fill rates came in a close second with 53%.

SUPPLY CHAIN METRICS

These results show that the customer still reigns supreme, as both of these are causal metrics that are directly related to the erosion of customer experience.

What are the top metrics or indicators that you use to measure the health of your parts business? (Please select top FOUR)



Shockingly, profitability on service parts was fifth, with 39% of respondents indicating this was a top metric for them. In the last several years, service organizations have begun transforming from cost centers to profit centers. Parts play a large role in this as it is often a big profit lever for service organizations. Those who are not prioritizing this metric may be missing opportunities for revenue growth and larger profit margins. Service Council research shows that the cost of dispatch has risen to between \$250 - \$2,500+ depending on disposition and complexity of asset. Dispatch costs have become the single greatest cost to a service organization. Appropriately triaging and diagnosing issues that require a replacement service part is critical to containing dispatch costs and eliminating repeat visits.

Return rates came in second to last, with only 12% of respondents indicating that this was an important metric for them. With more focus on the circular economy and refurbishment of old parts, we predict that return rates will continue to rise in the next few years. Organizations who place more

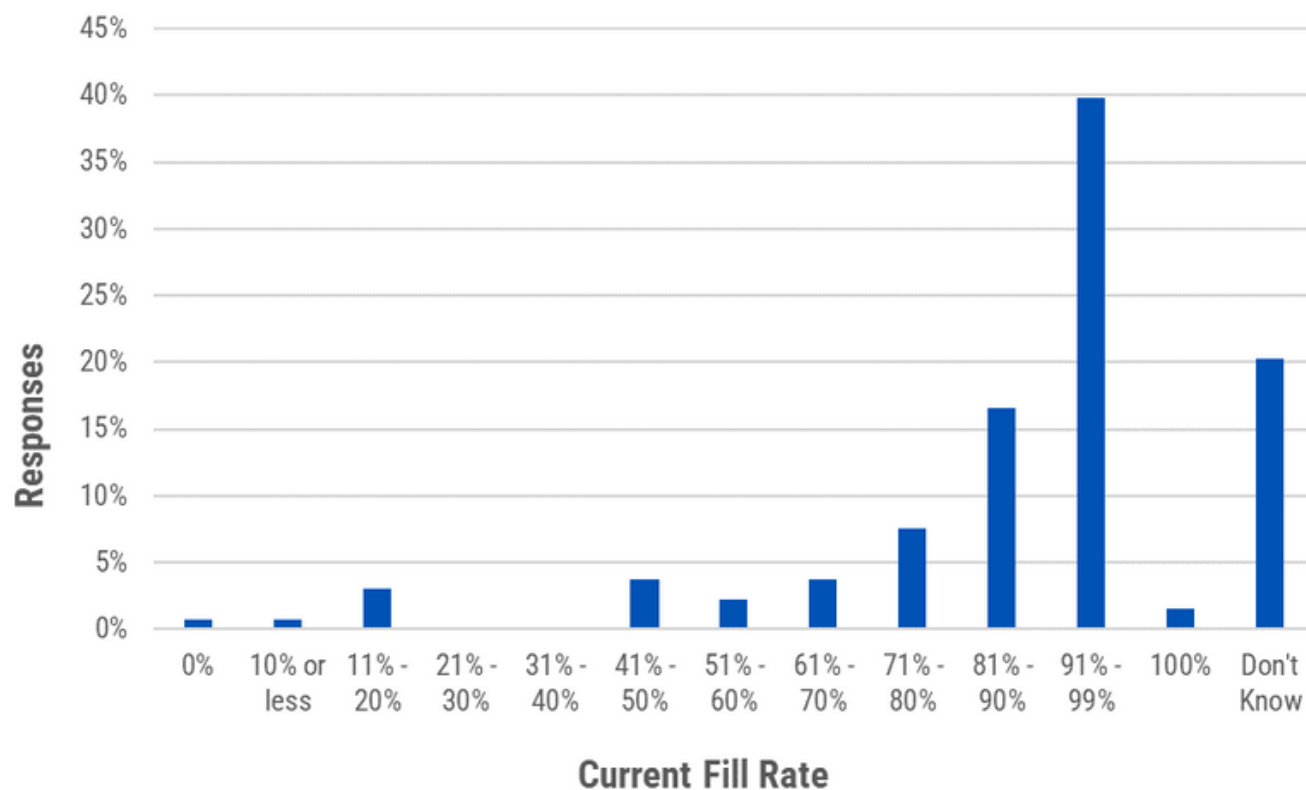
SUPPLY CHAIN METRICS

emphasis on return rates now will be ahead of the game in terms of sustainability practices, as well as in terms of supplementing their supply chain moving forward. According to McKinsey, “More than 90% of S&P 500 companies now publish ESG reports in some form.” Deploying sustainable (and responsible) supply chain practices will be on the rise. Below are two supporting data points to suggest this:

- According to Gartner, 67% of G2000 orgs have defined sustainability KPIs.
- IDC reports that, by 2026, 45% of G2000 orgs will operationalize integrated sustainability in the supply chain and report impact data.

The survey also delved into certain metrics to look at what organizations are currently achieving. In regard to parts fill rates, nearly 60% responded that their current parts fill rate was above 80%. According to the 2022 KPIs and Metrics survey conducted by the Service Council, best-in-class organizations were achieving a 93% fill rate, while average performers were achieving a 76% fill rate.

What is your current fill rate on spare parts?



When asked whether these rates had improved in the last three years, 46% responded that they had, while 40% responded that rates had either stayed the same or dropped.

It's promising to see such a high percentage of organizations that are experiencing an increase in fill rates and moving closer to, or achieving, best-in-class standards. However, nearly 35% of respondents indicated that either their organization was performing below average, or they didn't know their organization's fill rate, which certainly shows large room for improvement.

Also notable, one third of respondents indicated that 10% or less of unsuccessful field visits (i.e., not completed on a first visit) were due to unavailability of the appropriate part. This is interesting considering that the 2022 KPIs and Metrics survey indicated that the difference between first-time fix rates for average (82%) and best-in-class performers (92%) was only 10%. For organizations that wish to achieve best-in-class performance, investing in tools and resources that deliver better parts forecasting and visibility may be key.

15% of respondents report that their average profit margin on parts was between 41% and 50%, and only 28% of respondents indicated that they had improved their margins in the last 3 years, suggesting a potential lost opportunity for increasing revenue. 42% responded that their service parts inventory turns 1-2 times per year, while 28% said 2-3 times per year. 28% of respondents said that they have been successful in improving service parts inventory turns in the last 3 years, while 35% said that service parts inventory turns had remained consistent.

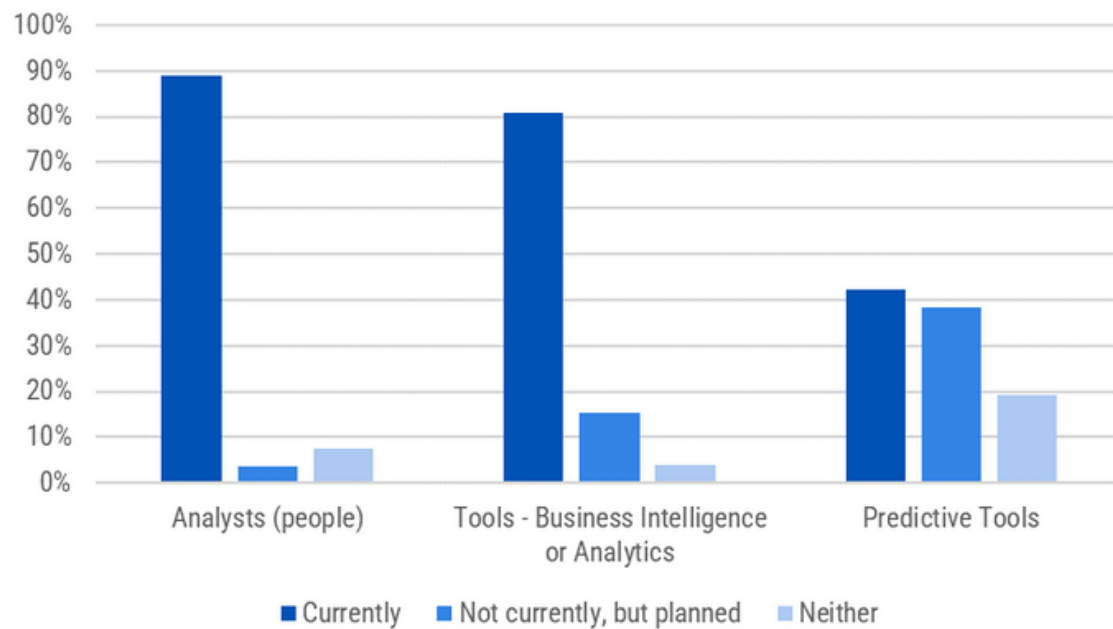
FORECASTING CAPABILITIES, TOOLS AND RESOURCES

The survey also examined the dedicated resources, tools and strategies that organizations have invested in to manage the parts business. When asked whether their organization had dedicated resources for the planning and execution of service parts, 89% responded that they had analysts, and 81% responded that they had either business intelligence or analytics tools in place.

Interestingly, only 41% replied that they had predictive tools in place, while 38% said that they had a planned investment in predictive tools.

FORECASTING CAPABILITIES, TOOLS AND RESOURCES

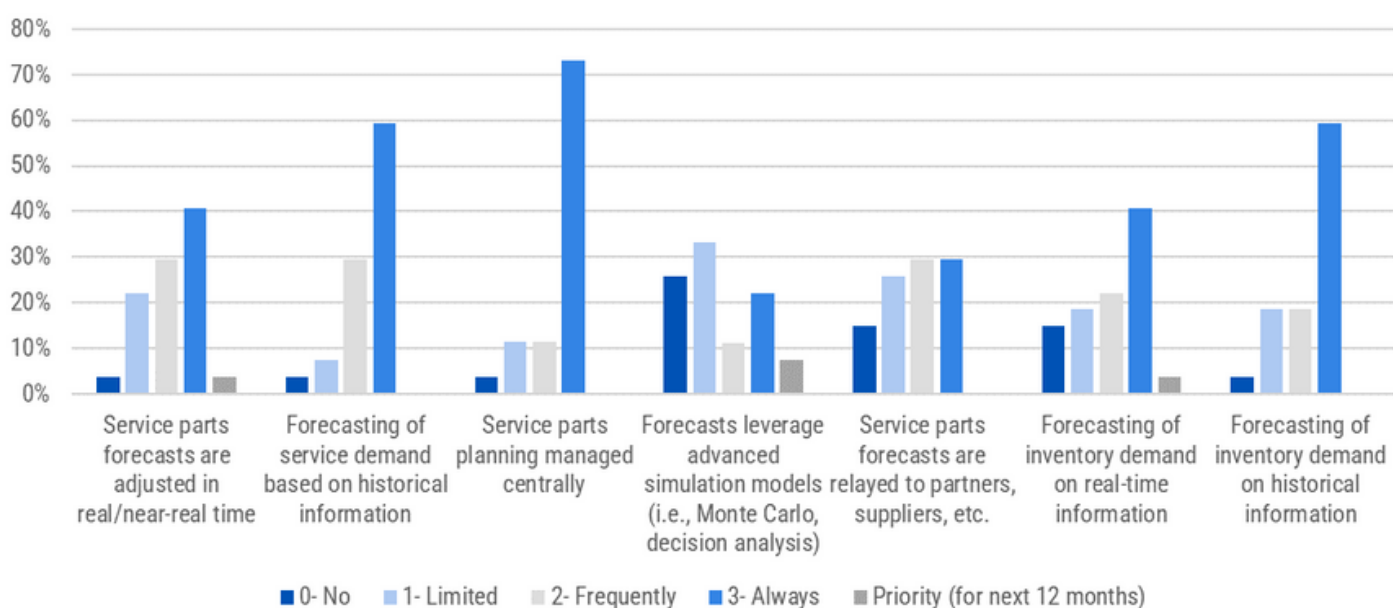
Does your organization have dedicated resources for the planning and execution of service parts?



In the Service Council's 2023 Service Leader's Agenda survey, when asked what stage of evolution they expect to witness with respect to their organization's maturity, 45% of service leaders said predictive and proactive. If organizations wish to achieve predictive and proactive service delivery, predictive tools that deliver demand forecasting, inventory management, predictive maintenance and similar capabilities is imperative. Therefore, it's encouraging to see planned investment in these tools.

Looking at parts planning capabilities, the survey asked respondents to indicate the type of service parts planning activities their organization performs. An interesting data point showed that over 70% of organizations have real-time or near-real time parts forecasting capabilities, and 60% are relaying parts forecasting to suppliers and partners.

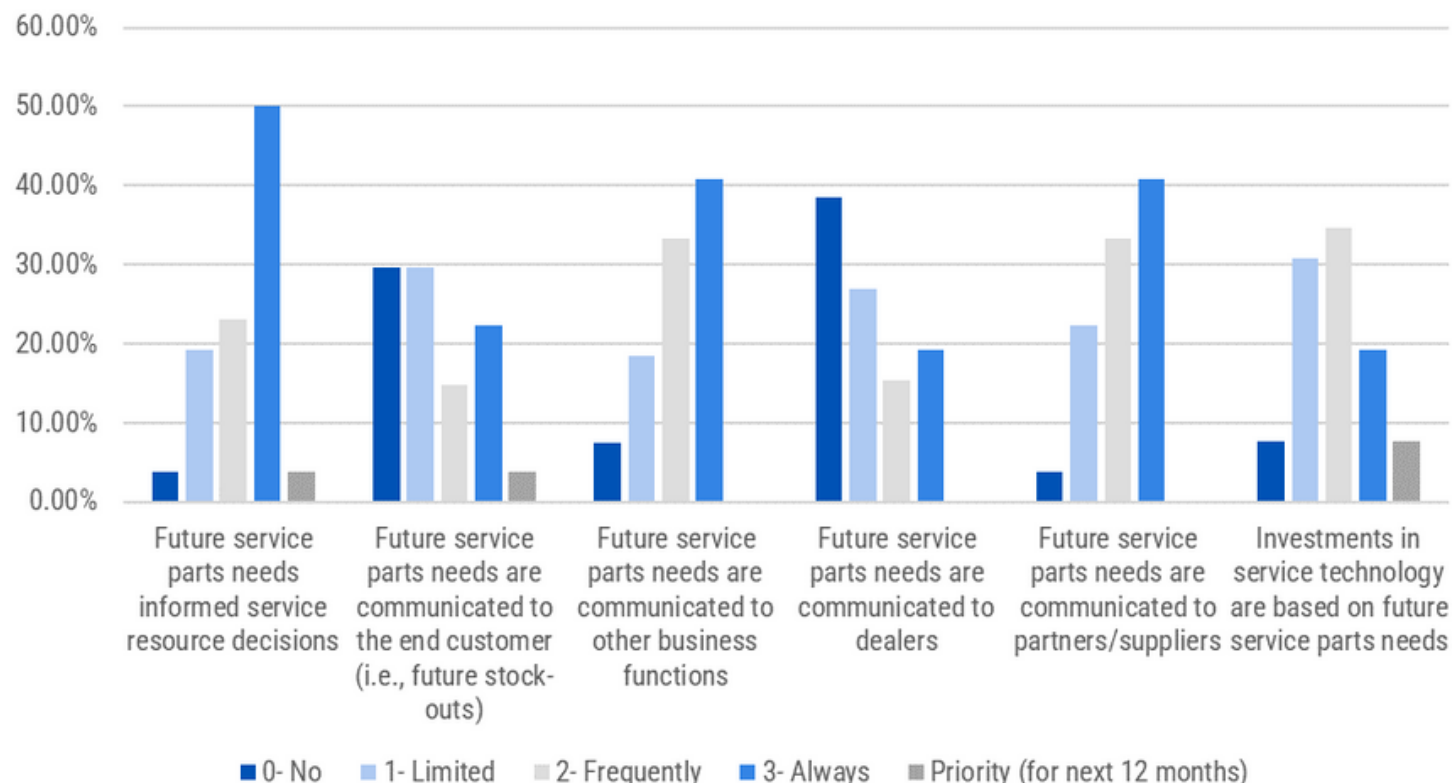
What type of service parts planning activities does your organization conduct? (Please select 1 of the first 5 options and indicate if an area is a future priority)



FORECASTING CAPABILITIES, TOOLS AND RESOURCES

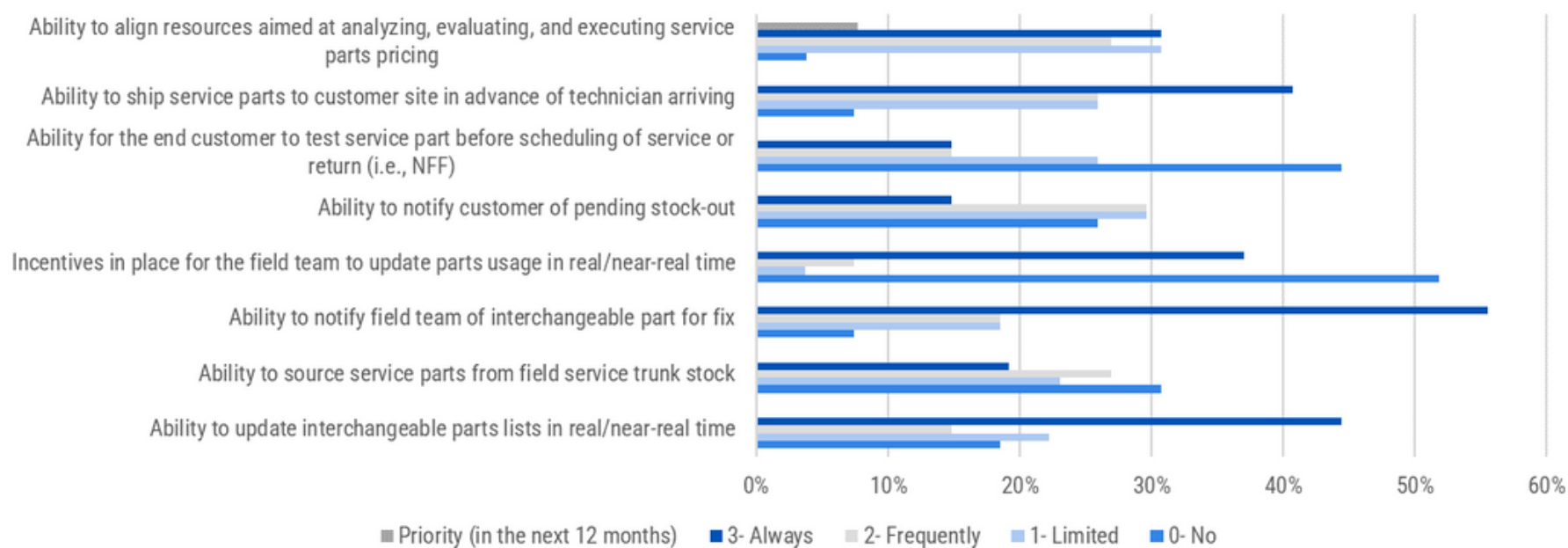
The survey also indicated that, while as many as 1 in 3 organizations have limited to no capabilities in activities like communicating future service parts needs to end customers, partners/suppliers, or other business functions within the organization, these areas have little to no priority in future roadmaps.

In your organization...(Please select 1 of the first 5 options and do indicate if an area is a future priority)



Responses from the survey did show that, where the frontline is involved, capabilities that are key in supporting KPIs such as first-time fix rates and mean time to repair, as well as predictive and proactive service delivery are becoming more prevalent.

Does your service organization have...

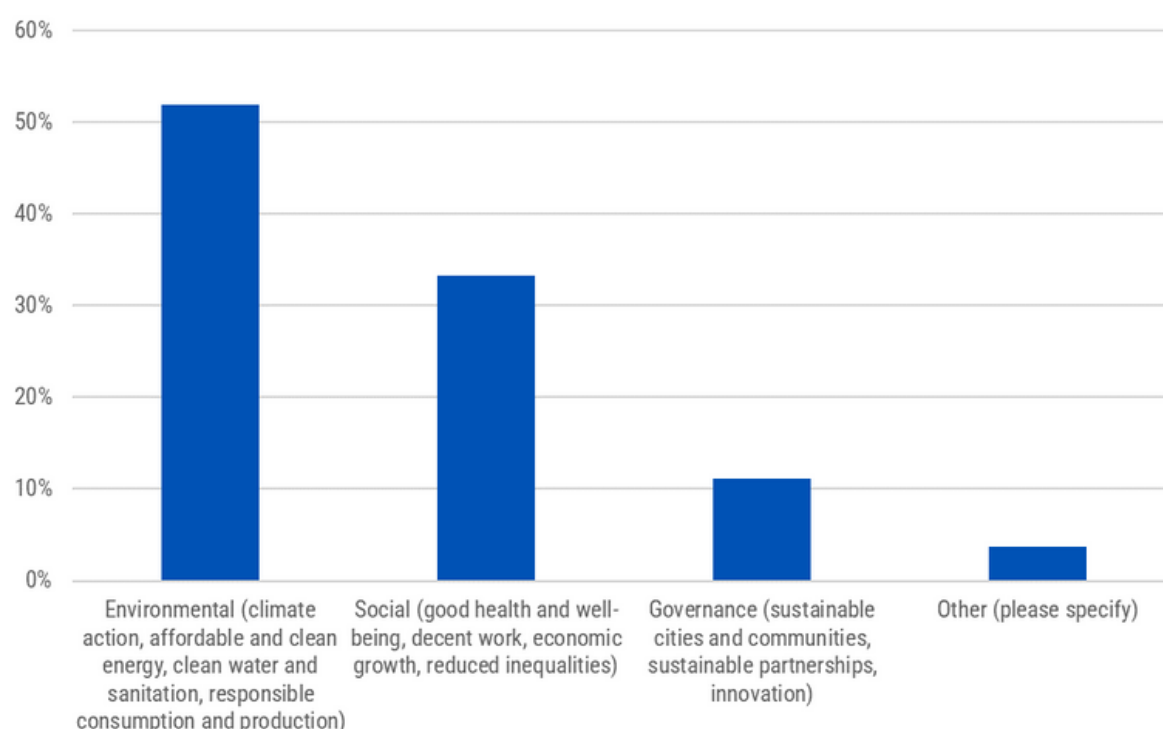


KEY FOCUSES IN SERVICE PARTS MANAGEMENT

Environmental, Social and Governance (ESG) initiatives continue to be prioritized by best-in-class organizations globally. According to McKinsey, companies (both B2B and B2C) with a strong sustainability proposition have higher customer loyalty and retention. Research has found that a better ESG score translates to about a 10% lower cost of capital, due to reduced business risks. Another advantage is attracting and retaining talent. Younger generations want to work for companies that mirror their own values, care about their wellbeing and are accountable for their environmental footprint.

The survey asked service leaders what the primary focus areas of their company's ESG strategy was. 52% responded that environmental impacts, including areas such as climate action, affordable and clean energy, clean water and sanitation, and responsible consumption and production, were the primary focus. 33% responded that social impacts, such as good health and well-being, decent work, economic growth and reduced inequalities, were their top focus. Only 11% indicated that governance issues, such as sustainable cities and communities, sustainable partnerships, and innovation, was their priority.

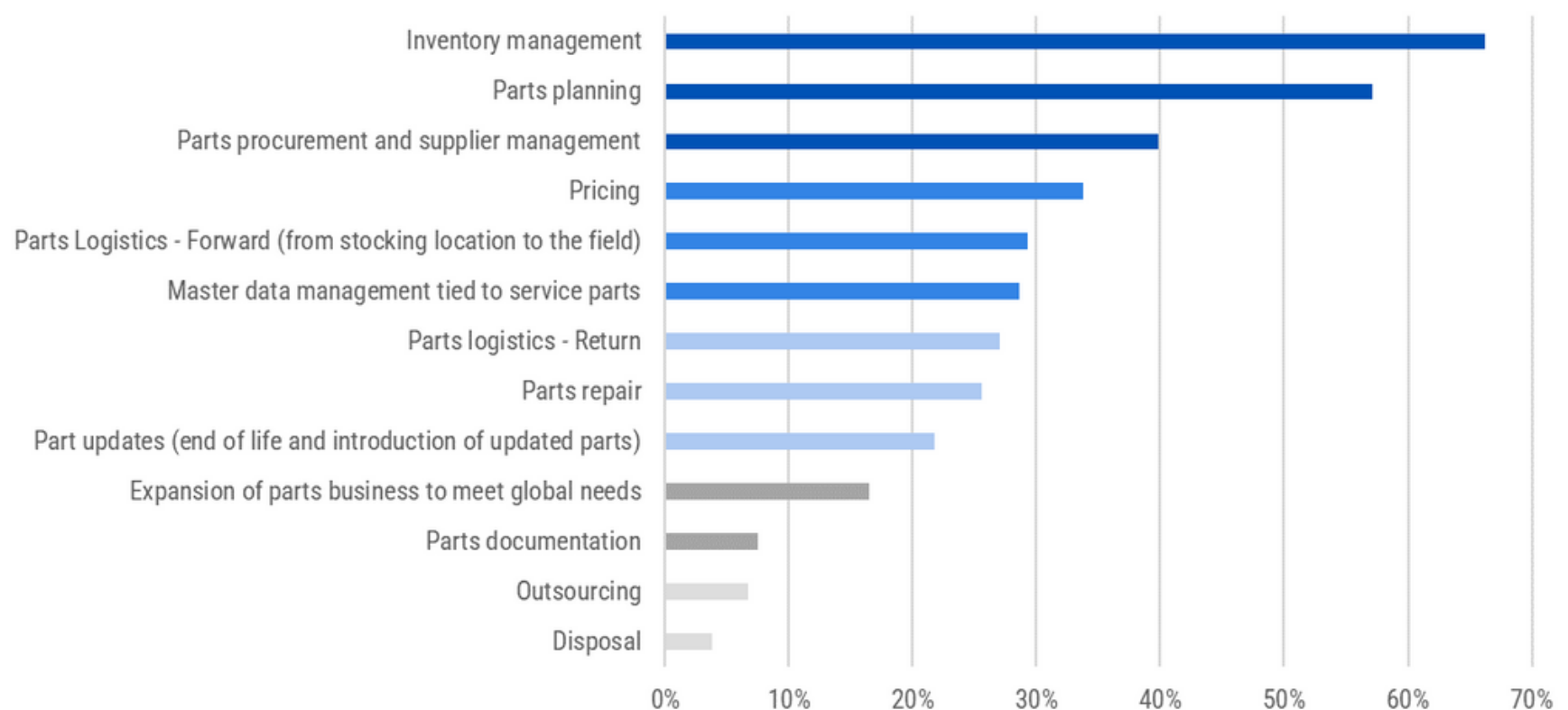
What are the primary focus areas of your company's Environmental, Social & Governance (ESG) strategy?



KEY FOCUSES IN SERVICE PARTS MANAGEMENT

Delving into other areas of focus for organizations' parts business, the survey found that inventory management (66%) and parts planning (57%) were the top two areas of major focus for the next twelve months. Parts planning is a critical ingredient to achieving predictive, proactive and outcome-based services which many manufacturers are seeking to mature into.

Which areas of your parts business are a major focus for the next 12 months? (Please select Top FOUR)



As we saw earlier in the report, parts visibility, integration and overstock issues were the top challenges currently facing the parts service business. Therefore, focusing on inventory management and parts planning, as well as parts procurement and supplier management makes sense. However, it is interesting that parts returns are not being prioritized more, considering that returns play an important part in reducing the need for procurement as well as ESG efforts.

As organizations increase focus in these areas, they appear to be taking a multi-pronged approach that involves people, processes and technology. Participants were asked what the increased focus entailed, with 43% indicating it entailed dedicated strategy and 33% indicating it involved investment in process change. Close behind, at 32% and 31% respectively, respondents said that investment in intelligence and analytical tools, as well as technology, were also a part of their increased efforts.

FINAL TAKE

Ongoing turbulence in global supply chains continue to challenge service organizations. Lack of end-to-end visibility and the existence of siloes throughout the service parts business continue to hinder the frontline and first-time fix rates.

Digital transformation is paramount, organizations need to prioritize implementing technology and intelligence tools to alleviate the challenges they are facing in their service supply chain and parts planning. Those organizations who are incorporating these resources into their overall parts management strategy are those that will see a climb to best-in-class. We predict that these investments will increase in the coming years.

If organizations want to mitigate inventory and procurement challenges, they must also shift their mindset from the front-end of supply chains to the back end and give more focus to returns. Pushes for manufacturers in all industries to become active participants in the circular economy will continue to grow. Therefore, it is imperative that parts businesses – and, more broadly, service organizations – must figure out a strategy for streamlining front- and back-end functions.

Additional Resources:

Smarter Services™ Webinar: "2023 Service Supply Chain: Service Parts Management Summary Findings": <https://servicecouncil.com/event/2023-service-supply-chain-service-parts-management-summary-findings/>

Smarter Services™ Webinar: "Improving Global Supply Chains: Predictions and Opportunities for 2023": <https://servicecouncil.com/event/improving-global-supply-chains-predictions-and-opportunities-for-2023/>

inService™ Podcast Series: Building an Agile Supply Chain Strategy with guest Shannon Beecher, IBM: <https://servicecouncil.com/in-service-podcast/building-an-agile-supply-chain-strategy-w-shannon-beecher-ibm/>

inService™ Podcast Series: Supply Chain Sustainability & Resiliency with Alex Ward, Cummins: <https://servicecouncil.com/in-service-podcast/supply-chain-sustainability-resiliency-with-alex-ward-cummins/>