

July 1, 2002

Downstream distribution, factored in

Manufacturers capture downstream value using new and re-purposed automation tools

Having long ago trimmed the fat from their organizations, and now faced with a sluggish economy, many manufacturers are in search of new revenue sources. One area of special attention is deriving revenue by delivering additional value to customers that already use a manufacturer's products and services.

Concurrently, software vendors are adapting existing tools, and developing new ones, to allow manufacturers to show up on their customers' doorsteps precisely when necessary. A number of industry analysts and vendors point to the automotive, aerospace, and electronics industries as being at the forefront of the movement to capture downstream value from their products.

Minnesota Elevator, Mankato, Minn., is one company that is using applications from its enterprise software provider to enhance its ability to provide service—not only on the elevators it makes, but on other companies' products as well. The company's service group recently implemented Chicago-based enterprise management software supplier IFS' Service Management module to centralize maintenance data and improve dispatching procedures.

"We had been struggling to present a consistent stream of data to our service technicians—and to our customers—to get questions answered quickly," says Mike Burns, director of Minnesota Elevator's Information Systems Group. "With the new system, we are able to track customers' regular maintenance needs and automatically generate job tickets that contain a listing of all of the customers' equipment. The bottom line is that we're better able to manage a win-win relationship with the customer."

Reaching out to more

"We are talking about a changing paradigm," says Cecelia Casillas, industry manager for IFS. "Manufacturers typically saw themselves as companies that built stuff, sold it—and that was about it. But as these manufacturers' understanding of their own markets increases, they discover that while they're selling Products X-Y-Z, people will buy add-ons from a universe of other providers. And the manufacturers realize that they could be the ones selling those add-ons."

The increasing attention to downstream opportunities also is a reaction to growing customer expectations, Casillas adds.

"Consumers are asking for products that are customized to their needs and wants, so there's an opening to sell all kinds of features and options," says Casillas. "If I buy those options from you, or from one of your ten competitors, it may not make a whole lot of difference in terms of price. But, if you better understand me because you've been paying attention to other things I've been buying, there's an opportunity to establish a long-term relationship with me."

The ability to capture accurate, historical data on the product and convert that data into useful information is the common thread that runs through enabling applications. In some cases, this means developing new applications, and in others, enhancing and re-purposing existing software.

For example, **Entrada Software**, Scottsdale, Ariz., has developed Kinnosa, a system that incorporates state-of-the-art auto identification technology, familiar Web-based portal technology, and a newly developed registry that is similar to the Internet's Domain Name Service to enable users to track a detailed "biography" of every product a company makes or services.

"If a tire maker is aware that there is a risk of failure in a particular set of tires made at a particular plant during a specific period, our system would allow the manufacturer to contact precisely those customers who own those tires," says Bruce Williams, Entrada's president and CEO. "If the

manufacturer informs its customers of a product's problems and replaces it, that's the kind of thing that cements a long-term relationship."

SAS Institute, Cary, N.C., and **Entigo Corp.**, Vienna, Va., recently teamed up to produce and market an end-to-end collaborative warranty system for automotive manufacturers. The system embodies the Entigo Warranty application, which automates the interaction between manufacturers, channel members, and component suppliers for the processing of warranty claims; and SAS' Warranty Analysis, to analyze and report on the data. According to Thomas Roehm, SAS' automotive industry manager, the system allows automotive companies to accelerate the processing of warranty claims and, through analysis of those claims, it allows manufacturers to identify trends in equipment failures and opportunities to serve customers.

"The challenge most automotive companies have is that there are just so many issues and so much data that they don't know about," says Roehm. "We're looking at using analytics and presenting [data] to them through a friendly interface."

In most cases, however, it would be a mistake for manufacturers to think that they can implement production-related applications for customer relationship management, enterprise resources planning, and supply chain management without making additional investments, cautions Karen Peterson, a research director with Stamford, Conn.-based research firm **Gartner**.

"You can't just take production capabilities and flip them around for use in service," she says. "In service, you might be taking something apart or adding new parts, as opposed to production, whereby you're building something new. In planning, I have to take into account that I have parts with no demand because of failure levels. So there are components to this that are very different from production."

Competition in the after-market

As manufacturers increase their efforts to capture revenue from existing products, they face competition from other companies already providing service. Automakers, for example, can expect resistance from dealers who "own" the customer relationships and are ferociously protective of them, said SAS' Roehm.

In the aviation industry, equipment manufacturers must vie with independent service organizations and the airlines themselves in providing after-market services.

"The OEMs would like to think that by providing the after-market services, the airlines would just say, 'great,' and give it to them, but that's not the case," says Mike Burkett, an aerospace industry analyst with **AMR Research**, Boston. "The airlines want to take that business and do it themselves, and in the middle of this are the independent service organizations, which are consolidating and expanding their capability to be more global."

Fortunately, that competition is yielding better service for the end user.

Burkett concludes, "If each of those three groups wants to be in the service business, the question they're all trying to answer is, 'How can we be best at it?'"

—Dan Sussman, contributing editor

Dan Sussman is a veteran marketing consultant in high technology and industrial automation. After a long career as a newspaper writer and editor, he spent two years as a public relations consultant to IBM and six years as a marketing communications manager with Honeywell's Industrial Automation Division. For the past six years, he has served as an independent communications consultant to numerous providers of industrial automation hardware, software and services, including Emerson Process Management; Parametric Technologies Corp., Invensys, Intellution and MycroSENSOR Technologies. In addition, he is a contributing editor to MSI magazine, a leading publication on the strategic use of industrial and business automation systems in manufacturing.