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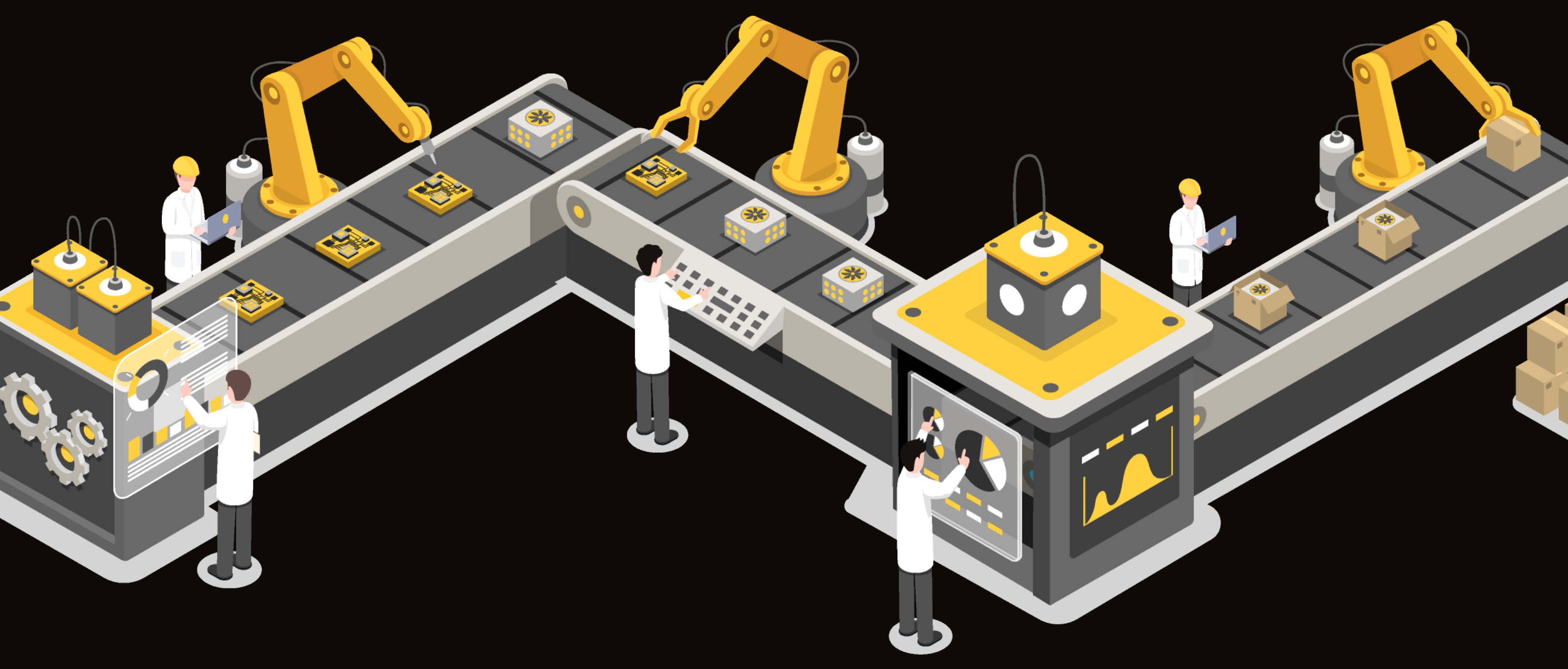
Aftermarket Benchmark Survey Report 2021



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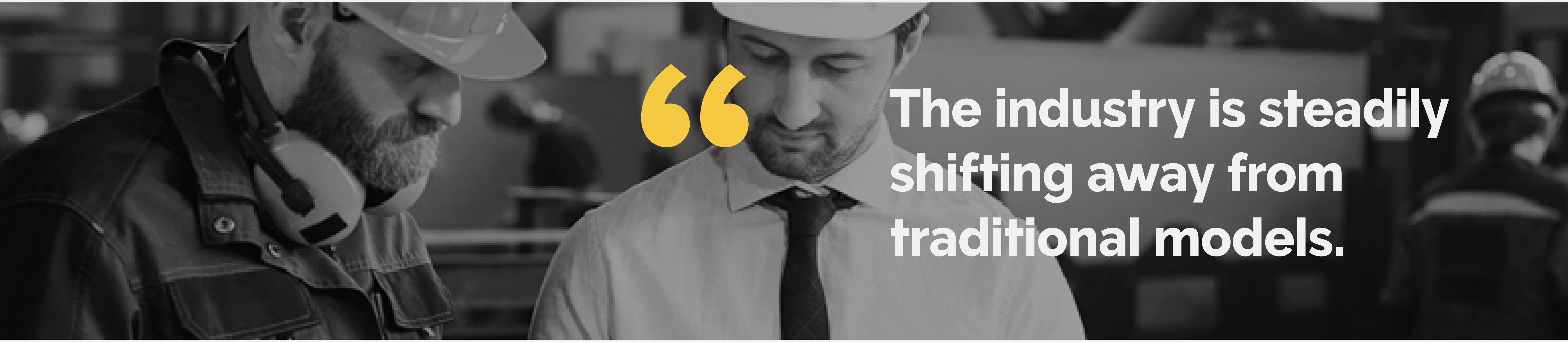
Chapter 1

Introduction



> **The industry is steadily shifting away from traditional models.**

Transformation is not an overnight success. As we analyze and report on the evolution of the service industry every year, we know that any significant business change takes a lot of time and consideration—not to mention resources. Although disruption and market volatility has forced some service leaders to take huge leaps last year in terms of digitalization, the industry's journey toward digital maturity continues.

In the 2020 Aftermarket Benchmark Survey Report, we've seen that the number of respondents without a clear digital strategy has significantly decreased since 2019. Likewise, this year, that number has significantly decreased yet again, with more and more service leaders realizing the importance of digitalization.

For this year's report, we have surveyed over 100 decision-makers across the service business spectrum, including industrial equipment and machinery, oil and gas, automotive, marine, and more, to see how the service business has evolved regarding digitalization, pricing, and resilience to current and future challenges.

Our analysis this year reveals that there are **5.51%** fewer respondents than last year who operate on a reactive, break-and-fix service model, and more respondents operating on planned, proactive, or predictive models. This indicates that the industry is steadily shifting away from traditional models and exploring new opportunities created by advanced technology and connectivity.

Since priorities regarding the improvement of commercial process capabilities remained the same as last year **(48.08%)** or moved higher on the list **(45.19%)** for most of our survey respondents, this shift is a natural outcome of trying to meet evolving customer expectations.

In the chapters that follow, we dive deeper into the digital journeys of our survey participants and look at the pricing models supporting their service businesses while also identifying the strategies that will help them address present and future challenges. —

Chapter 2

Digital Transformation in the Service Business

Key takeaways

Up to 30.19% of survey respondents have a clear digital strategy today—12.01% more than last year.

The number of respondents who have all new products connected has almost doubled since last year, reaching 15.09% in 2021.

Remote diagnostics remains the top choice for investment, with 59.43% of respondents planning to invest in this technology within the next 12 months.

Digital transformation is a process that requires constant effort and alignment with advanced technology and evolving customer expectations. In recent years, it has become one of the biggest objectives for businesses in the service industry, and the number of leaders realizing the importance of digitalization continues to grow every year.

Today, up to **30.19%** of our survey respondents have a clear digital strategy, **12.01%** more than last year. Others have a partially clear strategy **(36.79%)** or one that is currently under development **(19.81%)**, but the number of those who don't have a digital strategy at all has dropped from **15.15%** in 2020 to **11.32%** in 2021.

This is a significant change, although not a surprising one. The COVID-19 pandemic forced service businesses to expedite their digital transformation initiatives to stay afloat in times of crisis. But the digitalization trend is here to stay, especially because it facilitates a more connected installed base for businesses that have servitization on the top of their priority lists.

Over the past year, investments in sensors, customer communication, and IoT-enabled technology have increased, as reflected in this year's data regarding the installed bases of our survey participants. Currently, there are **27.36%** survey respondents with all new products connected and some old models retrofitted with sensors, **3.12%** more than last year.

However, most respondents, up to **38.68%**, continue to have only some of their new products connected. Also, the number of those who have all new products connected has almost doubled since last year, reaching a whopping **15.09%** in 2021.

For our survey participants, the progress made on the digital front alongside the more connected installed base

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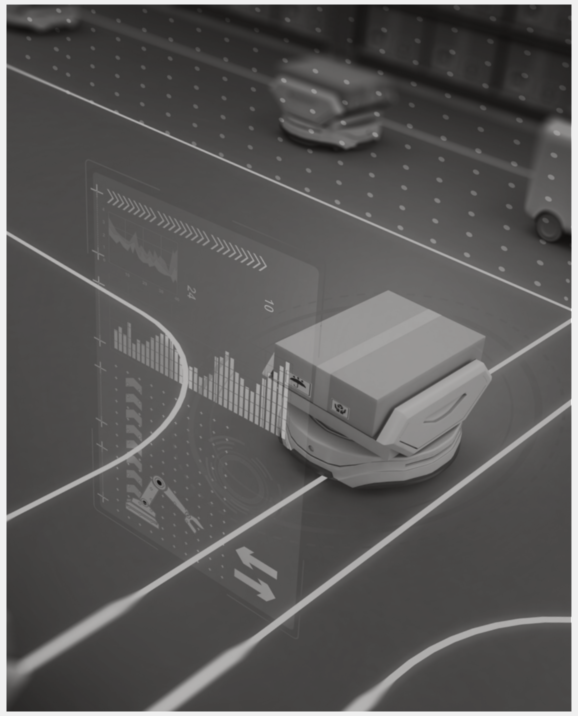
promoted the transformation of their service models as well. Last year, most respondents described their service model as planned with a focus on equipment reliability and scheduled maintenance. Although better than the reactive model, the planned service model is still not on par with evolving customer expectations.

This year, the majority of our survey respondents **(41.51%)** still describe their model as planned, but the number of those who have a reactive model has decreased from **26.26%** to **20.75%**, and the number of those who operate on a proactive model has increased from **25.25%** to **30.19%.** Perhaps the most interesting change is that the number of respondents who have implemented a predictive model has increased from **6.06%** to **7.55%**.

Although difficult and expensive to achieve, predictive maintenance with a focus on equipment productivity, full automation, and analytics to foresee machine failures before they occur, is revered as the most profitable way to meet customer expectations, gain a competitive edge, and deliver excellent service in a digital-first world.

Digital transformation is a process that requires constant effort and alignment with advanced technology and evolving customer expectations.



For many, achieving the level of digital maturity necessary for predictive service remains a challenge. But for our survey respondents, the biggest challenges on their transformation journeys are:

- Designing new service business models **(21.70%)**
- Integration of new technologies into the current IT infrastructure **(20.75%)**
- Communicating new value-added offerings to customers **(20.75%)**
- Getting top management support in cultural transformation **(17.92%)**
- Lack of skills or competence from the current workforce **(12.26%)**

Like last year, the majority of our respondents have difficulty designing new service business models **(21.70%).** Although the number has decreased by **2.54%** since last year, this continues to be the greatest challenge, closely followed by the integration of new technologies in the current IT infrastructure **(20.75%),** similar to last year.

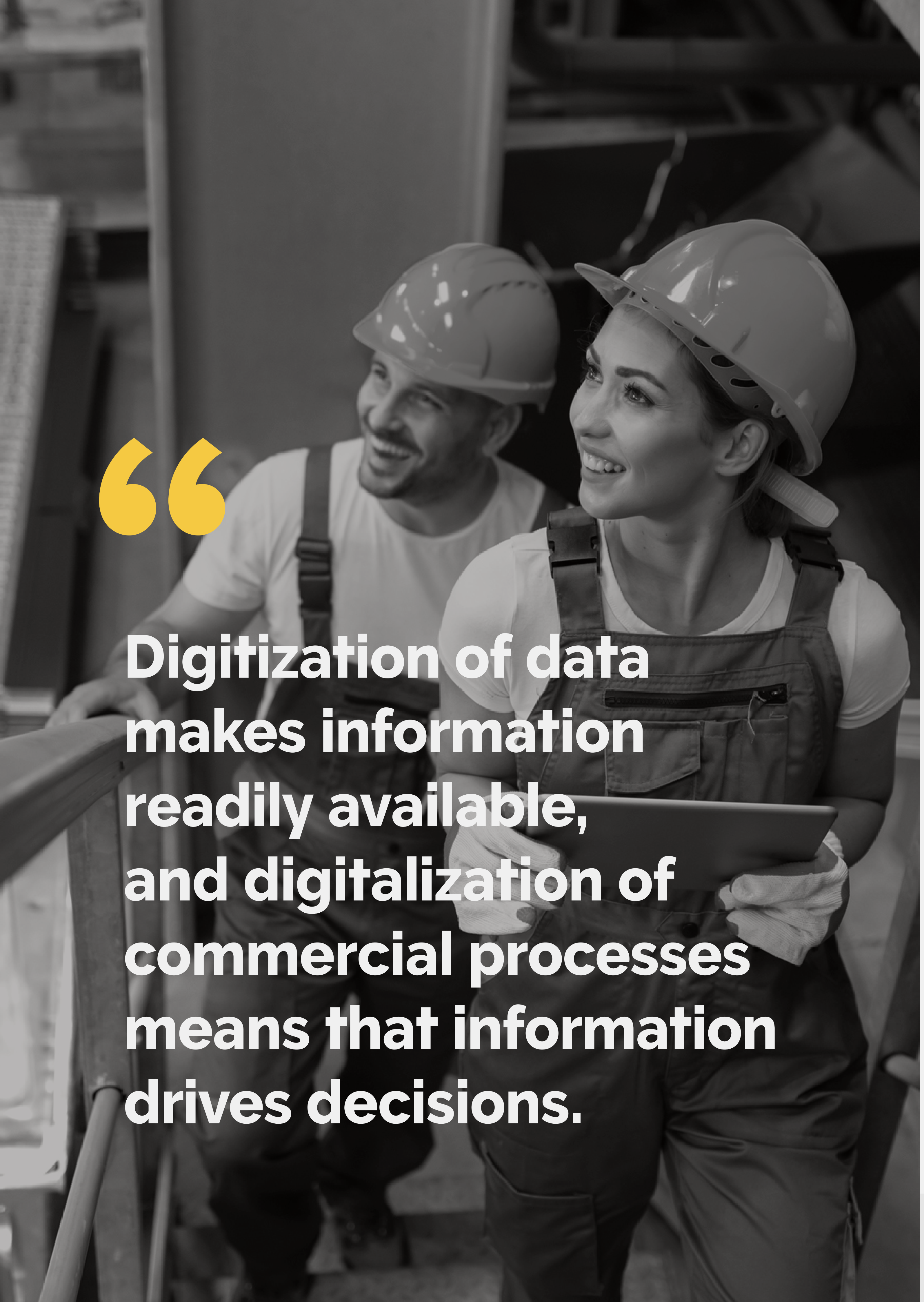
One of the challenges that seem less prominent than last year is the lack of skills and competence from the current workforce. The number of respondents addressing this challenge has dropped from **18.18%** in 2020 to **12.26%** in 2021.

This may be the result of reskilling and upskilling as well as the use of remote diagnostics, virtual reality, and visual assistance tools, which have become critical over the past year to not only ensure business continuity but to also enable the younger or less experienced workforce to receive support from expert seniors.

Last year, **65.66%** of our survey respondents planned to invest in remote diagnostics and **29.29%** planned to invest in virtual and augmented reality technology to support their servitization and digitization initiatives over the year. In 2021, remote diagnostics remains the top choice, with **59.43%** of our survey respondents planning to invest in this technology within the next 12 months, followed by investments in:

- eCommerce platforms **(43.40%)**
- Artificial intelligence and machine learning **(38.68%)**
- Service automation **(30.19%)**
- Pricing tools or software **(28.30%)**
- Augmented and virtual reality **(22.64%)**
- Configure, price, quote (CPQ) software **(12.26%)**
- 3D printing **(7.55%)**
- Drones **(2.83%)**

Almost the same percentage **(43.43%)** of survey respondents planned to invest in an eCommerce platform last year as well, indicating that this is still a top investment this year for a significant number of service leaders due to the mass migration toward online shopping in the B2B sector. However, there are **2%** fewer respondents than last year planning to invest in pricing tools or software within the next 12 months.



> **“Digitization of data makes information readily available, and digitalization of commercial processes means that information drives decisions.**

The great awakening: **30%** of survey respondents have a clear digital strategy, compared to just **12%** last year. Leaders in B2B organizations are **waking up to the fact** that their services and aftermarket business units are the best way to lock in long-term profitable relationships with their customers. That's because there are ebbs and flows with capital investment decisions, and odds are that capital equipment already in place and installed will need to keep running. Maybe even longer or with more difficult operating conditions than originally estimated.

Even in your customers' business units where investment money is not exactly tight, there's more pressure than ever for up-time and availability for production assets. Your offer to those customers for aftermarket services are your best way to prove your worth as a reliable partner when times are tough, and you'll be first in line when it's time for them to select whose equipment they are going to buy.

What's different now? A recognition that digital solutions are universally available to make this transition—though challenging—easier than ever before. Digitization of data makes information readily available, and digitalization of commercial processes means that information drives decisions.

However, technology by itself is not sufficient. For successful digital transformation, solutions need to be combined with past-proven, future-proofed process knowledge, delivered by and implemented with people with hands-on commercial experience. Yes—there's a 2.5x growth in the number of organizations that now have a digital strategy —but realization of that strategy requires the combination of technology, process, and people. —

Chapter 3

Profitability and Pricing Models for Service

Key takeaways

As many as 46.23% of survey participants use value-based pricing as their main method.

Price revisions have become more frequent, with 34.91% of respondents sharing that they review pricing two or three times per year now.

Different price levels in different markets represent the biggest price management challenge for 46.00% of respondents.

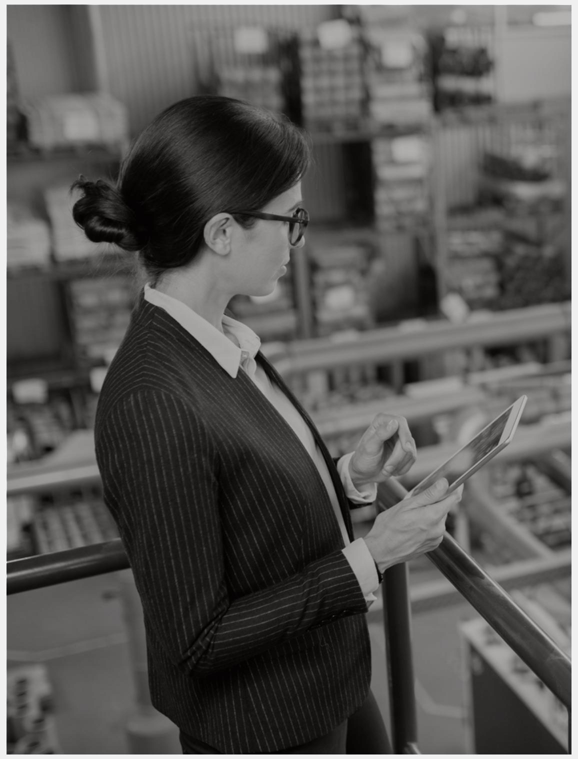
There is a direct connection between pricing and profitability that can help service leaders get ahead of the curve. Only **19.39%** of our survey respondents report that **50-69%** of their company's total profit comes from their service business. And even fewer, **12.24%**, report that **70%** or more of their company's total profit comes from their service business. Their pricing practices can inspire the rest of their peers who derive lower profitability to reconsider their service pricing models and adjust.

The main pricing method for **47.17%** of our survey respondents is cost-plus, which is considered one of the simplest and most common pricing methods. Last year, cost-plus was also the main method for **50.51%** of our respondents. Value-based pricing comes second, with **46.23%** of survey participants using it as a method this year, **2.25%** fewer than last year.

Although the number of survey respondents using market reference pricing has increased from **38.38%** last year to **39.62%** this year, a more significant increase regards the model based on the willingness to pay, which has increased from **12.12%** in 2020 to **16.98%** this year. Meanwhile, competitor-based pricing has dropped from **31.31%** to **23.58%.**

This suggests that digital transformation and the development of new services that it has enabled is transforming pricing as well. Competitor-based pricing is not as relevant as the willingness of the customer to pay for added value. And with the customers' willingness to pay for full access to services increasing during the pandemic, it's safe to assume that this pricing trend will continue to spread and create new opportunities for further servitization.

Another trend emerging over the past year is frequent price revisions, which is not only tied to the customers' evolving willingness to pay but also to recent, pandemic-



There is a direct connection between pricing and profitability that can help service leaders get ahead of the curve.

driven economic changes. Previously, survey participants used to do price revisions once per year or less.

However, this year, that practice has become less popular, decreasing from **71.43%** practitioners to **53.77%.** Price revisions have become more frequent, with **34.91%** of respondents sharing that they review pricing two or three times per year, which is almost double the increase from **17.35%** last year. Like last year, quarterly, monthly, or weekly revisions are still rare among survey respondents, with only **7.55%** claiming to perform revisions once per quarter at the present.

The majority of our survey respondents **(50.48%)** indicate that they have performed price revisions at the same intervals in the past couple of years, but **23.81%** revealed that they do them somewhat more frequently now. As many as **20.00%** of our survey respondents claim to do them much more frequently than before. The key considerations taken

Competitor-based pricing is not as relevant as the willingness of the customer to pay for added value.

into account by our survey respondents when revising or setting prices are based on:

- Central transfer prices with all market pricing set locally **(26.67%)**
- Central directives with opportunities for limited local adjustments **(23.81%)**
- Local market decisions **(13.33%)**
- Central coordination with most decisions and adjustments being local **(12.38%)**
- The joint effort between central and local **(12.38%)**
- Completely central decisions **(11.43%)**

For **46.00%** of our survey participants, the biggest challenge when setting and managing prices is the different price levels in different markets, suggesting the need for price discrimination strategies. Other challenges for setting and managing prices include:

- Increased global competition **(42.00%)**
- Better informed customers **(29.00%)**
- Lack of understanding customer value drivers **(28.00%)**
- More volatile price levels **(24.00%)**
- Conflicting internal strategies **(23.00%)**

- Response time to market changes **(21.00%)**
- Lack of internal alignment and cooperation **(19.00%)**
- Lack of relevant internal price management systems **(16.00%)**
- Unclear or lack of internal structures and processes for price management and revisions **(15.00%)**
- Lack of consistency within the pricing process **(14.00%)**
- Lack of support in defending or explaining prices **(12.00%)**
- Unclear internal roles and responsibilities **(9.00%)**
- Too much local adjustment to central prices **(8.00%)**
- Too rigid central pricing that does not account for local differences **(6.00%)**

We may argue that many of these hurdles are interconnected, increasing the complexity of the already complicated issue of pricing in a world that's now recovering from a global crisis with dramatic economic impact. Although price revisions have become more frequent in the past year for a significant number of respondents, many are still struggling with an unstructured management and revision approach, which is also tied to the lack of consistency, and unclear responsibility.

To overcome these challenges, a solid pricing strategy that is also congruent with an online sales strategy might do the trick. Furthermore, with the lack of well-informed customers being the third biggest challenge on the above list, it's vital to consider the importance of product information as part of the larger sales strategy.

Accurate product information keeps customers informed and communicates the value of the item in a relevant way, thus also addressing the challenge of communicating new value-added offerings to customers that **20.75%** of our respondents are tackling on their transformation journeys.

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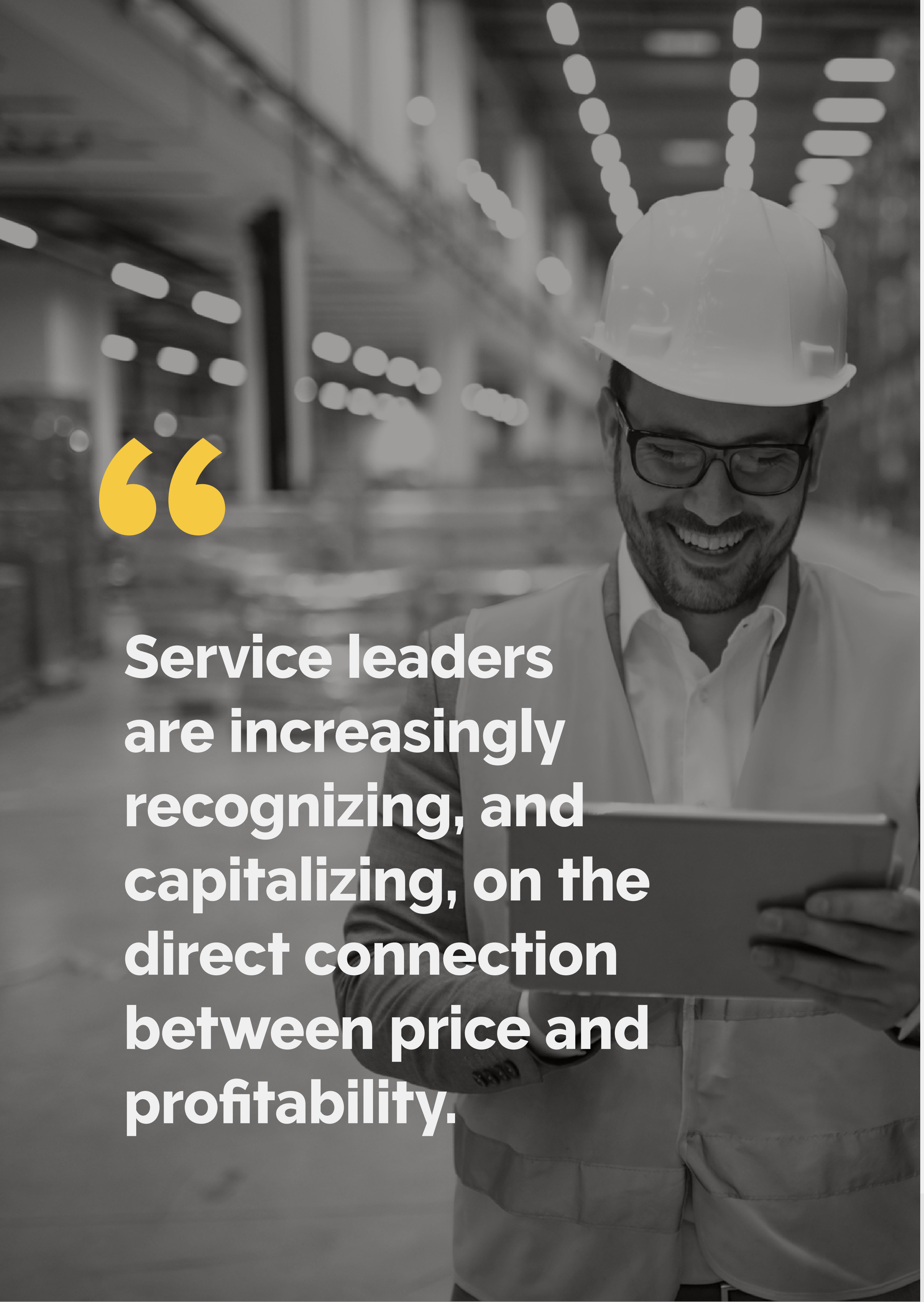


Service leaders are increasingly recognizing, and capitalizing, on the direct connection between price and profitability. The survey revealed that **value-based pricing**—a relatively advanced model—came in second at just over **46%,** just behind cost-based pricing at **47%**. These figures are each down a couple percentage points from last year, suggesting that the service industry trend towards more sophisticated pricing strategies might have stalled in the face of market turbulence in the last year or so. There is plenty of headroom to adopt modern best practices, like utilizing customers' **willingness to pay** for the full benefits of a comprehensive services offering.

A key best pricing practice that did clearly improve was the frequency of **price revisions.** The survey shows more firms are upping the frequency of their pricing changes: **36%** of respondents reported that they review prices two to three times per year. In last year's report, only **17%** of respondents reported price revisions at the same frequency.

This higher frequency was certainly a step in the right direction—and likely driven by the same turbulence that slowed other advances—significant changes demand significant action. But many firms continue to struggle with an unstructured approach toward price revisions.

One of the largest challenges identified by the survey was **setting and managing prices within different markets.** This suggests that while progress in basic price management for greater revision frequency has been made, capabilities for agile price discrimination haven't are not yet sufficient to meet today's market challenges. —

Chapter 4

Addressing Current and Future Challenges

Key takeaways

The number of respondents who already experience a lack or shortage of skilled labor today has increased from 44.44% to 50.48% in just one year.

In 2021, pandemic-related cost-cutting measures such as headcount reduction continued for 24.27% of respondents.

The number of respondents who are planning to invest in new business models moving forward has increased from 9.18% to 16.50%.

Advanced technology such as augmented reality, remote diagnostics, and visual assistance has played a key role in decreasing the difficulty of this challenge for many service businesses.

The number of respondents who consider the lack of skills or competence from the current workforce as a challenge has dropped from **18.18%** in 2020 to **12.26%** in 2021. Advanced technology such as augmented reality, remote diagnostics, and visual assistance has played a key role in decreasing the difficulty of this challenge for many service businesses.

This year, the number of respondents who don't foresee a lack or shortage of skilled labor in the next five years has decreased from **24.24%** in 2020 to **20.00%**. Likewise, the number of respondents who foresee a shortage of skilled labor in the next five years has also decreased from **31.31%** to **29.52%.**

However, the number of respondents who already experience a lack or shortage of skilled labor today has increased from **44.44%** to **50.48%** in just one year. This dramatic increase is no surprise considering that **38.78%** of respondents had to cut costs at the height of the COVID-19 pandemic by reducing headcount in 2020. In 2021, headcount reduction continued for **24.27%** of our respondents, who had to let people go as they dealt with the impact of the pandemic.

As many as **24.76%** of our survey participants were moderately to severely impacted by the pandemic and changes had to be made to ensure business continuity. And headcount reduction was not the only reaction to the pandemic in 2021. Up to **18.45%** of our respondents had to cut costs by reducing business investments this year as well.

However, a more positive reaction this year is increased technology investment for the improvement of business processes, which went up from **8.16%** in 2020 to **13.59%.** The same can be said about investments in new busi-

Whether through rehiring, acquiring new talent, reskilling, or upskilling, service businesses are expected to have the **best agents on the frontlines and in the field** to ensure their services are delivered to customers effectively.

ness models, which has increased from **9.18%** to **16.50%**, and the expansion of existing business models, which increased from **12.24%** to **16.50%** as well.

Up to **26.67%** of respondents plan to continue the expansion of their existing business models moving forward, while **25.71%** will continue process improvement through investments in technology and **20.95%** will continue to invest in new business models. Cost-cutting measures are also predicted to decrease, with only **4.76%** of respondents planning to reduce personnel and **8.57%** planning to reduce business investments. Some, however, plan to rehire their talent and expand as the market recovers.

On the same note, addressing the lack of talent shortage in the future is essential to delivering service excellence. A retiring workforce, headcount reduction, and lack of training tools make it difficult for service companies to acquire and retain the talent they need to differentiate themselves when facing the customer.

Whether through rehiring, acquiring new talent, reskilling, or upskilling, service businesses are expected to have the best agents on the frontlines and in the field to ensure their services are delivered to customers effectively.

At the moment, most service businesses **(73.33%)** view themselves as somewhat attractive to job seekers, followed by those who consider themselves very attractive **(20.95%)** and the rest who consider themselves not attractive at all **(5.71%).** The majority of respondents are working on enhancing their appeal to attract new, skilled talent by:

- Going digital and enabling new ways of working
- Focusing on sustainability and digitalization
- Differentiating through innovation with a clear focus on diversity and inclusion
- Developing opportunities for international talent, both junior and senior
- Sharing more information about the company and its culture
- Focusing on the employee experience
- Providing good career options, a flat hierarchy, and growth based on skill and competence
- Strengthening relationships and cooperation with educational institutions
- Defining clear development plans for young talent
- Offering bonus programs independent from location.

The intention of our survey participants and the direction they're heading in with regard to digitalization, company culture, and innovative ways of performing work are likely to increase their popularity with the younger generations entering the workforce as well as less experienced junior who are looking for opportunities to grow. —

If the pandemic taught us anything, it's that **change is the new *status quo*.** Business conditions can go sideways in a heartbeat, and the most agile firms are the ones who prosper.

Two major trends seem to be counteracting each other: On one hand, businesses are finding the **lack of skilled human resources** to be a major challenge to contend with. On the other, pandemic inspired **investments in new technology,** *i.e. Digital Transformation,* are ushering in some much needed relief, filling in *some* of the gaps created by the lack of skilled contributors.

The share of respondents reporting trouble in finding skilled workers was **51%**—up from **44%** only one year ago. Though most respondents already viewed themselves as attractive to current job seekers, many are committed to further enhancing their appeal. These firms are investing in **going digital** and offering flexibility in work location; opening up opportunities for **international employees;** and expanding **diversity and inclusion** initiatives. While these are great starting points, these firms will still be facing an uphill battle to attract new talent, as similar efforts are underway in the broader job market.

On a positive note, the same digital transformation efforts that are helping to address gaps in skilled labor—AI-driven sales solutions, for example—will also attract a new generation of employees expecting a modern, digitized, perhaps work-from-anywhere workplace. And with a **60%** increase in respondents reporting an increase in technology investments from 2020 to 2021—it appears those efforts are well underway. —

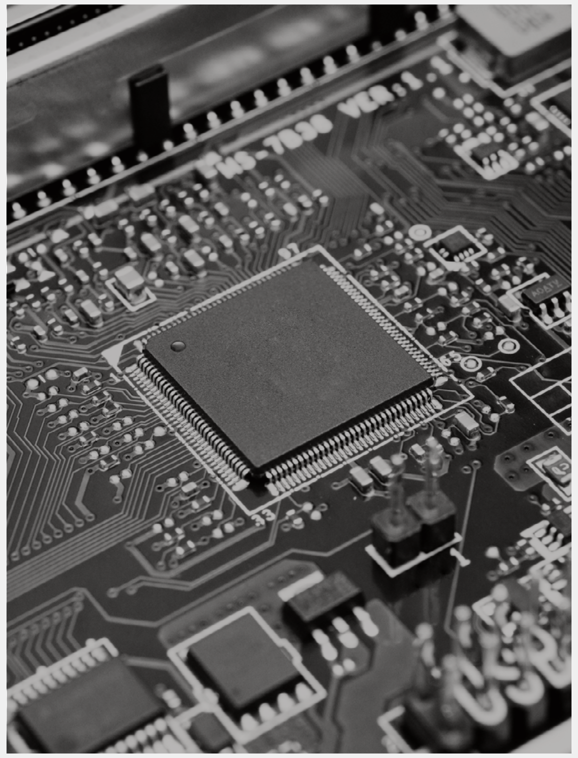
Conclusion

Compared to last year, most of our survey respondents **(57.28%)** placed more importance on their performance improvement in the aftermarket business unity, while **35.95%** paid the same amount of attention. The rest of **6.80%** have paid less attention than last year. This increased attention to performance improvement is reflected in the changes that have occurred since 2020 for most of our respondents.

1 — Digitalization
Starting with digital transformation, the **12.01%** increase in the number of respondents who now have a clear strategy suggests that the trend is here to stay and that more and more service businesses will have to adapt if they want to keep up with their peers. Digital transformation is essential to service excellence. The level of connectivity and digitally-enabled know-how demanded by customers will become key differentiators moving forward.

2 — Intelligent service
The industry is shifting away from reactive maintenance toward AI-powered maintenance, with predictive maintenance being the ultimate dream. The number of respondents with a reactive model in place has decreased from **26.26%** to **20.75%** in just one year, suggesting that the trend is accelerating and it is congruent with digitalization. As new levels of digital maturity are unlocked, so are intelligent service opportunities.

3 — Frequent pricing revisions
Last year, most survey participants performed price revisions once per year or less. This year, service businesses



The level of connectivity and digitally-enabled know-how demanded by customers will become key differentiators moving forward.

have become more attentive, with **34.91%** of respondents now reviewing pricing two or three times per year. These frequent revisions are likely driven by market volatility as well as the transition to online sales. The trend is likely to grow not only because the market continues to change, but also because developing a clear pricing revision and management strategy is a healthy practice.

Although not entirely new, these trends are the result of significant changes that have occurred over the past year in the service industry. As we see increases in the number of respondents connecting their installed base, investing in remote diagnostics, developing clear digital strategies, and shifting towards proactive maintenance, we see more stability than last year and a more defined route toward delivering service that truly satisfies the needs of customers while also developing more resilience to cope with present and future challenges, including the current shortage of talent and the increasing global competition.

Our perspective on the Report? It ratifies what we have observed over the past couple of years in our customers' aftermarket sectors, as well as what we've heard from those customers directly. They realize there is a need for price optimization and margin maximization—and the need has become glaringly apparent to more corporate leaders as the dangers and negative impacts of the pandemic snowballed.

The pandemic may not have been the source of the root issues that are convincing companies to invest in digital transformation. The risks those enterprises are now facing existed all along, in one way or another. COVID-19 simply **exacerbated those dangers.**

Agility has become everything. In the heavy equipment aftermarket, for instance, a company with the right people, processes, and technology in place to address the COVID-driven spike to repair (rather than replace) could insulate itself against lost revenue from lower sales of new equipment.

That need for agility is reflected in how price optimization is clearly one of the key platforms that can help any B2B company, as the report notes:

To overcome these challenges, a solid pricing strategy that is also congruent with an online sales strategy might do the trick.

To serve such a strategy in such complex markets, where a company's SKUs can number in the hundreds of thousands or more, and where it is business-critical to capture every selling opportunity and wring the best possible profit from each sale, technology supplies the only reasonable answer. The biggest challenge for the report's respondents in setting and managing prices was coordinating that activity across multiple markets. Compound that challenge with the number of different products being sold, as well as the competitive dynamics that go on within every aftermarket segment for every product, and it's obvious that traditional approaches to pricing are as useful as a buggy whip.

That need for agility is reflected in how price optimization is clearly one of the key platforms that can help any B2B company

The impacts of the pandemic are still with us, and have driven a shakeout that was practically Darwinian. For service-business companies, those impacts will continue to resonate. It's good to see, from the Report, that many now grasp the need for new pricing technologies—for leading-edge visibility into their entire business landscape, and the pricing management and optimization tools that will equip them to survive this disruption—and the next. —

About Copperberg

Herbert Spencer once said: “The great aim of education is not knowledge, but action”.

Copperberg creates physical and digital platforms bringing together the manufacturing community in order to grow and build relationships globally. During the recent global pandemic, we have been focusing on virtual events and digital content—ensuring our community remains connected. So, how do we actually do that?

On a daily basis, we work hard to improve, develop and innovate our concepts and original content in order to ensure the best hands-on, real-life strategies for all our community members. Our ambition is to provide ideas, networking, and industry exchange between peers, that inspires and leads to action.

info@copperberg.com **copperberg.com**

About Vendavo

Vendavo powers the shift to digital business for the world’s most demanding B2B companies,unlocking value, growing margin and accelerating revenue.

With the Vendavo Commercial Excellence platform, companies develop dynamic customer insights and optimal pricing strategies that maximize margin, boost sales effectiveness, and improve customer experience. With an annual margin improvement totaling more than $2.5 billion across companies in chemicals, distribution, high-tech, and manufacturing, Vendavo delivers cutting-edge analytics and deep industry expertise that help companies stay one step ahead.

Vendavo is headquartered in Denver, CO, and has offices around the globe.

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