The rise of the aftermarket services industry
Exploring a new imperative for industrial manufacturers

Manufacturers are increasingly offering more aftermarket services. Now more than ever, manufacturers need to understand current challenges and look for new growth opportunities. How can manufacturers position themselves for success in these uncertain times? Aftermarket services is an increasingly valuable part of a manufacturing business—one that has proven to be a critical driver for stabilizing the business and ensuring consistent revenue flows during times of economic slowdown and global crises.

What’s driving investment in aftermarket services?

**Greater business value**
Many large original equipment manufacturers who haven’t focused on the aftermarket in the past seem to realize the potential value and are trying to expand their service offerings.

- Average operating margins from the aftermarket business globally are **150 percent higher** than those from new equipment sales.
- In the next 10 years, it’s projected manufacturers may shift their product and service offer **mix from the current ratio of 50:50 to 75:25**

**A changing business model**
As more customers emphasize service-level agreements that guarantee product uptime, they’re looking for service providers who can proactively support their equipment before it’s out of service. In return, customers are willing to pay a price premium.

- Industrial product customers have defined “zero unplanned downtime” as their top priority, making it crucial for manufacturers to partner with their customers in achieving the targets.
- Pay-per-use and subscription-based pricing could become the mainstay for aftermarket services in future.

**Stabilization of profit**
As demand for new equipment is likely to remain subdued due to economic pressures and the COVID-19 pandemic, aftermarket products and services are likely to stabilize the industrial businesses and help partially offset the pressure. Manufacturers may consider:

- Focusing on their aftermarket business to generate recurring revenue streams.
- Reinventing their customer relationships, ensuring continuous support and parts availability.

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**Figure 1. Many US manufacturers are expanding into services as they offer higher margins**

<table>
<thead>
<tr>
<th></th>
<th>Product/equipment</th>
<th>Services</th>
<th>Revenue contribution (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>7% 78%</td>
<td>16% 22%</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>8% 77%</td>
<td>18% 23%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>9% 76%</td>
<td>23% 24%</td>
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</tbody>
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1 Deloitte analysis of data from financial reports of major US manufacturing companies and executive interviews.
Accelerate a new wave of growth
Aftermarket services are an increasingly valuable part of a manufacturing business. These services can offset the impact of a crisis on the sale of manufacturing equipment and generate new growth opportunities.

Learn how Deloitte can help with your aftermarket services strategy so you can gain a competitive edge, stabilize, and grow your business. Explore our full article “Aftermarket services: Transforming manufacturing in the wake of COVID-19 pandemic” to learn more.

What challenges could get in manufacturers’ way?

- **Increased competition**: Apart from aggressive competition from suppliers and partners, manufacturers are facing intense price pressure from the counterfeit parts market.
- **Lack of service-oriented culture**: Manufacturers are finding it difficult to shift away from their product-oriented mindset.
- **Delivering high service quality**: Customers, still hesitant to pay for services, require significant efforts and persuasion to shift their perception.
- **Disruption**: COVID-19–related slowdown could further disrupt manufacturers’ business models as new equipment orders slump and capital spending comes into question.

Where are the aftermarket services growth opportunities?

- **Sell outcomes, not only products**: Manufacturers can use this pandemic as an opportunity to reposition themselves as solution providers.
- **Promote digital services**: Digital services could be a significant driver of revenues in the future, according to two-thirds of executives interviewed.
- **Work with customers**: Some manufacturers are setting aggressive service revenue growth targets, expecting service revenues to triple over the next decade. Working closely with customers will be key to achieving these outcomes.

How might digital technologies hold the key to aftermarket services success?

- **Remote assistance capabilities**: can help ensure business continuity, as dispatching field service technicians might not be feasible.
- **Digital strategies**: that deliver customer-centric outcomes are showing high returns and enhancing the customer experience with:
  - Decreased unplanned downtime
  - Proactive service offerings
  - Predictive maintenance
  - Improved service efficiency
- **Smart connectivity**: in products and processes will help manufacturers monetize and provide world-class service offerings with:
  - In-depth information about their installed base
  - Seamless integration and communication
  - Better visibility and data insights

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