

# ***Get Customers Inspired — A Call to Action for Industrial Machinery and Equipment Manufacturers***

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WHITE PAPER

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## **EXECUTIVE SUMMARY**

IDC Manufacturing Insights recently ran a worldwide survey of 465 enterprises from multiple manufacturing sectors including industrial machinery and equipment, high-tech and metal fabrication, across 13 countries. The resulting white paper — *Get Customers Inspired: How Modern ERP Can Support Greater Customer Experience* (IDC #IDCW13V) — summarizes the key findings from this survey and provides essential guidance for manufacturers developing their own business strategies.

In this paper, IDC Manufacturing Insights provides essential guidance and a call to action for industrial machinery and equipment manufacturers in order to get their customers inspired and achieve greater customer experience through the use of modern ERP.

## **SITUATION OVERVIEW**

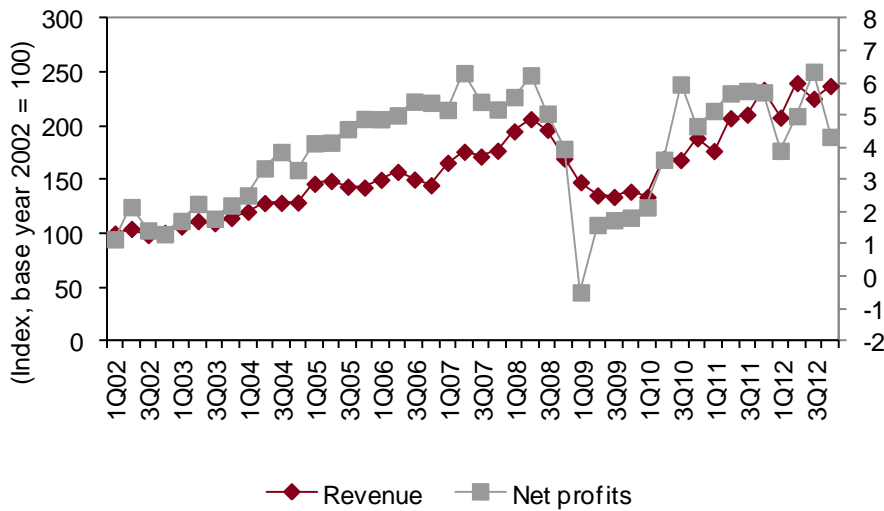
The industrial machinery and equipment (IME) industry is a capital-intensive and cyclical sector that tends to be severely hit by downturns when there is a significant contraction in capital expenditure. Today's difficult economic conditions — with many major economies in trouble — are significantly impacting the industrial equipment industry as the majority of clients are adopting a wait-and-see approach and are essentially reining in capital expenditure.

The industry's performance over the past 10 years is shown in Figure 1, which presents IDC Manufacturing Insights' benchmarking database GPI (Global Performance Index). Data shows that the industry recovered quickly after the slump in revenue caused by the crisis of 2008–2009, but over the past couple of years net profit margins have been unstable and fluctuating significantly.

This holds particularly true for some companies in developed regions that are still facing serious profitability issues, as the global competition is making prices sink in a deadly "race to the bottom". This challenging development of profit margins is generated by a number of factors, including the difficulty in retaining existing clients and the struggle to expand into new, emerging markets.

**FIGURE 1**

Worldwide Industrial Machinery and Equipment Revenue and Net Profit Trends, 1Q02–4Q12



Note: The IDC Manufacturing Insights Global Performance Index (GPI) tracks growth metrics from 800+ publicly traded global firms in the manufacturing and retail industries. The GPI tracks general trends in manufacturing and retail subindustries based on the performance of a sample of companies from those subindustries. Historical data in the index may be adjusted between quarters based on the addition or subtraction of companies in the index or company restatements of historical filings. Estimates by Reuters.

Source: IDC Manufacturing Insights' Global Performance Index, 2013

### ***IME Manufacturing Initiatives***

The top business initiatives emerging from our survey show that the future business focus for IME manufacturers is about growth and differentiation through value-added services and improved customer experience. The shift toward value-added services has been evident for a while, but the importance of improving customer experience is now appearing as significant.

Among the most critical initiatives industrial equipment companies will be putting in place over the next three years, we identified:

- **Expansion in emerging markets** — Many IME companies have taken advantage of past crises to expand into new and emerging markets. Many have disruptively grown by acquisition. Although this was an essential strategy to create a sustainable business in today's global marketplace, it also created a number of challenges. These include serving new and diversified markets, competing with local low cost IME organisations, and a proliferation of engineering and production centres worldwide. Over the next three years, IME manufacturers will be busy becoming truly global organisations.

- **Selling value-added services on products** — Capital investment has continuously declined over the past few years as buyers have favoured the lower risk of equipment rental rather than capital expenditure. In this context, product features — such as functions, quality, and design — offer no more assurance of lasting competitive advantage if not accompanied by service capabilities. This has led industrial equipment companies into a complete shift in their strategic focus from products to services. Our survey results show how 42.9% of IME manufacturers already state that the single most critical factor driving new product purchases is how value-added services are delivered and supported.
- **Improve customer experience** — Leading IME companies already understand the importance of customer experience to build business opportunities. In this sector, an enhanced customer experience paves the way to customer loyalty and longer lasting relationships between suppliers and purchasers. IME companies across the globe will be concentrating on serving their customers better as a way to get out of the dead end of poor economic growth and low customer loyalty.

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### ***Why Customer Experience is so Important***

There are several possible definitions of customer experience. One that is common and well accepted is that customer experience is defined as "the sum of all experiences a customer has with a supplier of goods and services over the duration of the relationship with that supplier".

In the modern IME industry, providing greater customer experience is becoming an essential capability to generate growth and higher profit.

The IME industry is a project-based sector in which customers buy or rent highly customised machinery and equipment that needs to fit their specific requirements perfectly. No customer request is the same, so IME companies must serve their clients individually. Servicing the clients and prospects at best from presales bid management through aftermarket services is essential for success.

In this industry, customer experience no longer refers only to meeting needs for product features and functions. It extends to aftermarket services including meeting installation, operation and maintenance service requirements. Customer experience also encompasses a number of critical capabilities including how easy it is to do business with an organisation, supplier reliability, speed of interaction, and willingness to help or serve.

Unlike other surveyed verticals, companies in the IME industry already have a mature understanding of what customer experience is and what critical business benefits it can deliver.

- Today, IME manufacturers are particularly focused on expanding and improving aftermarket services for their physical products, and through that on developing a greater customer experience. Sales

and aftermarket departments are well aware of their role in this regard, but other functional groups in many IME organisations are lagging behind in developing a customer-centric approach.

- Going forward, nurturing a customer-centric culture among all employees across a number of business functions is considered by IME respondents to be the most appropriate strategy to further improve customer experience over the next three years. This shows how companies in the sector are taking customer experience to a level that goes beyond simply reacting to customer requests, and really setting it as a strategic target.

The main barrier that IME manufacturers feel on their way to creating greater customer experience is essentially related to lack of funds to implement the required changes. Organisational issues, such as lack of back-office/front-office integration, an inability to rapidly adapt business processes to change and poor decision making capabilities all point to an inability to access and utilise data — and ineffective, inadequate or rigid IT systems. Both are identified as critical barriers to creating a greater customer experience.

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### ***How Modern ERP Can Support Greater Customer Experience***

For most if not all IME manufacturers, ERP is the essential system of record to run their business, and our respondents indicate that they won't be able to operate without an ERP system in place.

When it comes to how ERP contributes to delivering superior customer experience, nearly 40% of IME manufacturers believe the ERP is vital as the platform that connects the back office and front office and streamlines business interaction with suppliers and customers.

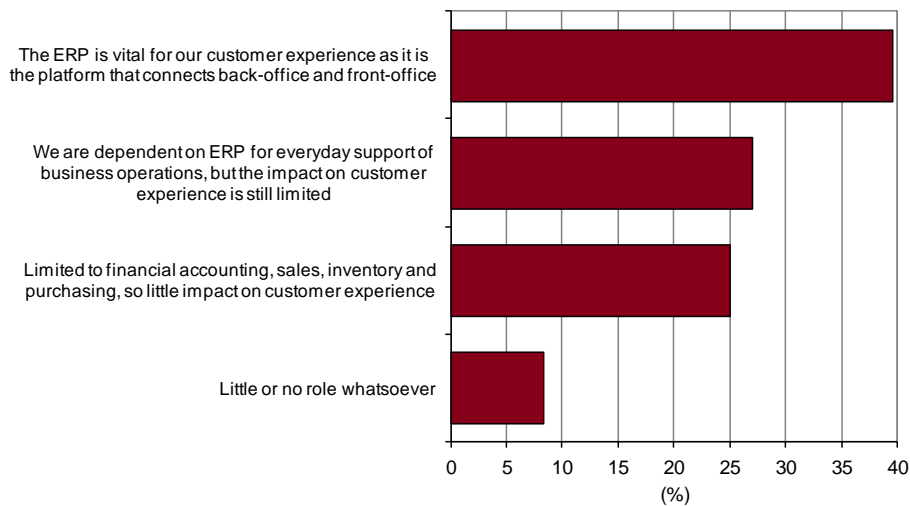
If we exclude responses from small to midsized IME manufacturing enterprises, nearly 85% of large IME organisations with 5,000 employees or more indicated that their ERP is a vital platform for delivering a good customer experience.

However, survey results also show that most IME companies find that traditional ERP systems don't fully support their need for fast and timely access to information or the need to further improve collaboration across business functions.

**FIGURE 2**

**The Role of ERP in Customer Experience Generation — Industrial Machinery and Equipment**

Q. *In your organisation, what role does your ERP play in contributing to or delivering a good customer experience?*



Number of valid respondents: 155

Base: All Sample

Source: IDC Manufacturing Insights, 2013

***Beyond Traditional ERPs***

When thinking about the future requirements of ERP, IME manufacturers think that these applications should be able to:

- Improve access to accurate, real-time customer data 24 x 7 including mobile formats.
- Improve collaboration across the organization, in particular by enabling employees to share information and streamline business processes.
- Offer a simplified way to integrate seamlessly with other business applications.
- Support the ability to analyse historical customer interaction data.

Respondents to our survey revealed a range of additional customer-facing functions that are needed beyond traditional operational or financial-focused ERPs to deliver superior customer experience. These include warranty management, aftermarket and field service management, and customer relationship management (CRM). Over the next three years, leading IME manufacturers will be looking for a flexible ERP system that includes or easily integrates more customer-facing functions able to provide more timely information and that enable more collaboration. Such modern ERP solutions can support

the most immediate business needs of leading manufacturers and will be central to creating a better customer experience.

## **ESSENTIAL GUIDANCE**

IME manufacturers have come to realise that providing superior customer experience has to be one of their top initiatives. They acknowledge that engaging on deeper levels with their customer base is the only way to get out of the dead-end of poor economic growth and low customer loyalty.

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### **Advice for IME Manufacturers**

- **Consider improving customer experience among your key initiatives.** Leading companies have well understood the importance of customer experience to build business opportunities. It is not enough to have a strategy in place that dictates your company needs to improve customer experience. You need also to make sure the whole company is committed to implementing it. This requires nurturing a customer-centric culture. Evidence shows that leading manufacturers have created a successful customer experience enforced by a customer-driven culture within their enterprise.
- **Invest in an open and modern ERP system as your customer experience backbone.** Not all ERP systems are able to deliver or support higher levels of customer experience, if not properly integrated with other customer-facing IT applications. This includes warranty management applications, aftermarket, field service applications, and CRM. Flexible ERP systems that include or easily integrate those applications will add the most value to manufacturers in relation to creating a superior customer experience.

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### **Call to Action**

By considering the following questions you will be able to identify areas of improvement in the drive to improve customer experience:

- Expand to emerging markets by delivering value-added services
  - Do you have a strategy to tackle emerging markets?
  - Are you focusing on value-added services to differentiate from competitors and drive business growth?
  - Are you aware of the importance of creating superior customer experience?
- Create superior customer experience

- Are you committed to providing full support to your customers, including installation, operation and maintenance for your products?
- Are you actively nurturing a customer-centric culture among all your employees?
- Do you acknowledge that customer experience also encompasses capabilities such as how easy an organisation is to do business with, supplier reliability, speed of interaction, and willingness to help or serve?
- The role of the ERP
  - Do you think that the ERP system you have in place is enough to deliver superior customer experience?
  - Does your existing ERP support collaboration among business functions and provide timely information when needed?
  - Does your current ERP provide integrated customer-facing functionalities such as CRM, warranty management, and aftermarket and field service management?

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