



## The 8 Solutions & Benefits Driving the B2B Extended-Services Marketplace

As defined in this post, an **Extended-Service** is a:

- B2B standard or customized agreement bundled as a
- portfolio of services engaged in the
- maintenance-processes of
- specified-machines for a
- defined-period at a
- fixed-fee with
- entitlement-assurances

**A brief example of an Extended-Service agreement:**

- commercial buyer will be committed to a 3-year agreement at
- \$1,000/month fixed-fee in which the
- seller will manage a portfolio of services engaged in the
- maintenance management of
- 3 specified-machine units located in San Diego
- Two of the services within the portfolio are:
  - Supplying all technicians, parts and tools employed in the correct-failure (e.g. break/fix) unplanned maintenance process, but the buyer will be overseeing the process. There is an entitlement-assurance that the resources will be on-site within 2-hours of a buyer's request, within any 24/7 period.
  - Supplying technicians and tools employed in the annual inspection planned maintenance process, as well as overseeing the process. There is an entitlement-

assurance that the resources will be on-site within a 2-week window of the planned event and that the process will be completed within 4 hours during a period other than 0700-1600 from Monday to Friday.

Extended-Services are not only applied to the top level of a Bill Of Material [BOM], a machine model, but as well as for lower levels (e.g. subsystems, components). Note that the parts suppliers of an Original Equipment Manufacturer [OEM] often have developed their own Extended-Services solutions independent of the OEM or the OEM's distribution channels. For this post, all Extended-Services will be referred as applying to the top BOM level of machines, though they will as well often be applicable to lower level BOMs.

### **The 8 Solutions Driving the B2B Extended-Services Marketplace:**

1. **Attachment**

The sale of the Extended-Service is “attached” to the transaction supplying a specified-machine to the buyer (e.g. machine sale, lease, & sharing). The limited manufacturer's warranty is bundled into the Extended-Service.

2. **Warranty-In-Effect Conversion**

An Extended-Service is offered to an enterprise without an Extended-Service agreement attached, but with specified-machines under a limited warranty that has yet to expire. The remaining life of the limited warranty is bundled with the Extended-Service.

3. **Warranty-Expiring Conversion**

An Extended-Service is offered to an enterprise for specified-machines without an Extended-Service agreement attached; machines are under a limited warranty that is expiring.

4. **Warranty-Expired Conversion**

An Extended-Service is offered to an enterprise for specified-machines without an Extended-Service agreement attached; machines are under a limited warranty that has expired.

5. **Up-Selling**

Extended-Service revision in which deliverables have been expanded.

6. **Down-Selling**

Extended-Service revision in which deliverables have been reduced.

7. **Cross-Selling**

Extended-Service revision in which an expansion of specified-machines has occurred.

8. **Renewal**

Extended-Service agreement expiring in which a new agreement is developed for the specified-machines covered by the previous contract; up/down-selling and or cross-selling may occur as part of the renewal solution.

Recently, Blumberg Advisors and Giuntini & Company performed an in-depth global survey of the configuration and marketing of Extended-Services agreements, with a primary focus upon the B2B marketplace.

**Below is the survey's key findings related to B2B Extended-Services solutions:**

- 36.5% of the machines supplied by an enterprise are attached with an Extended-Service agreement.
- 19.9% of Extended-Services sales occurred after the attachment period; when a limited warranty was either still in effect, expiring or expired.
- 56.5% of machines supplied were covered by an Extended-Service sometime during their lifetime.
- 72.4% of expiring Extended-Service agreements were renewed
- 59.6% of existing Extended-Service agreements were revised as a result of an up-sell, down-sell or cross-sell.
- Majority of the sellers of Extended-Services anticipate higher sales over the next two years as a result of intensely targeting renewal rates and configuring more customized solutions.
- Note that some of the statistics above would need to be modified if the Extended-Services seller also engaged in cross-selling specified-machines that they did not supply to the buyer.

It is my belief that an enterprise should strive for at least a 75% of the specified-machines they have supplied being engaged in an Extended-Service agreement throughout the lifetime of the machine; the caveat is that to reach such levels there are many strategic and tactical issues that the seller of Expanded-Services must address.

**The Seller's Benefits of Extended-Services are the following:**

1. **Recurring Revenues**  
Provides a significant repeatable source of cash flow; a hallmark for investors to favorably assess the financial stability and in turn market value of an enterprise.
2. **Profits**  
Provides a level of profit margins that are higher than that of the transaction supplying the machine; again attractive to investors.
3. **Relationships**  
Creates a long-term relationship between the seller and buyer. Increases the "stickiness" of the relationship that enables greater opportunities to sell a stream of Extended-Services throughout a machine's lifetime.
4. **Production Learning Curve Mitigation**  
Provides the recurring revenue positive cash flow to support the production losses of machines in their early production life cycle stage due to the "production learning curve."
5. **Data Collection**  
Provides a stream of valuable detailed information acquired from the seller's service operations; design flaws employed by design, poor parts quality from suppliers for purchasing, poor quality of assembly for production and more.

**The Buyer's Benefits of Extended-Services are the following:**

1. **Operating Expense [OpEx] assurance**  
Expenditures incurred in machine maintenance processes defined in the agreement are fixed. Note that "supplemental" charges, incurred as a result of activities performed that

are outside of the activities defined in the agreement, can often become a point of contention between the buyer and seller.

2. **Investment reduction**

Direct investment in parts, and indirect investment in facilities, tooling, test equipment and more involved in managing maintenance processes are often materially reduced.

3. **Machine employability increase**

Incentive of seller, through entitlements related to machine uptime/availability, to achieve high levels of employability through robust management of maintenance processes.

4. **Regulatory compliance assurance**

Seller's Body Of Knowledge [BOK] regarding federal, state and local regulations is often more comprehensive than that of the buyer; avoids potential fines for buyer.

5. **Adjusted machine asset value increase**

Seller's records management of work performed and entitlements to manage adjusted machine values can decrease depreciation, and resulting in a favorable impact upon the income statement.

In conclusion Extended-Services has evolved from a "minor" factor in the capital goods machine marketplace to one that is obtaining greater visibility within the financial community, in turn resulting in a greater focus by the C-Suite, and in turn resulting in a greater tactical focus of an organization.