



Channel CAR1 83.0MHz—Automotive Industry

Tracking Parts—Mark Morley, GXS Director of Industry Marketing for Automotive, explains the challenges with tracking service parts through the supply chain. Mark offers advice for manufacturers on how to grow aftermarket service revenues using technology.

Steve Keifer: Welcome to Trading Grid Radio. My name is Steve Keifer and I am your host for the program. Today we are happy to welcome back Mark Morley. Mark is the Director of Industry Marketing at GXS for several of the industrial manufacturing industries including Automotive. Welcome back, Mark.

Mark Morley: Hi Steve and thanks for inviting me back on your show.

Steve Keifer: Thanks for coming out again. Today we wanted to get your insights on a fast growing and interesting area of the supply chain, which is the idea of aftermarket service and specifically managing spare parts or service parts. I thought maybe we could start by you giving us a little bit of a background or a primer on what exactly service parts are, and maybe you could just give us a few examples of how they're used in different industries.

Mark Morley: Okay, Steve. In terms of what service parts actually are, they're sort of categorized as key parts that are really used to keep the piece of machinery or equipment in operational service. So typical examples of service related parts could include air filters, brake pads, wind-spring wiper blades, rubber drive belts. And today many products, for example cars, computers, and jet engines are designed from the outset to enable easy replacement of service parts. You might be thinking, Steve, well why should companies focus on these service parts area of their business environment?

Steve Keifer: Yea, right.

Mark Morley: Well with the current economic downturn in many countries around the world, companies are realizing that they can achieve higher profits in the aftermarket side of their business than in the sale of new machinery or equipment. With many companies choosing to keep existing machinery in service for longer periods of time rather than purchasing new equipment, especially in the current economic downturn, many of the equipment manufacturers see the service side of their business as being relatively recession proof. So, you know, as an example for many countries in the aerospace and defense sector, the service part side of their business can generate an average of about forty-five percent profitability, which in turn can contribute to up to twenty-five percent of their annual revenues. So in terms of industry examples, from the high-tech sector, computers and servers are normally in service for anywhere in between three and five years. Computer parts are relatively low-value and they're supplied in a much lower form. For example, CPUs or memory boards to basically aid quick and easy replacement within the computers. So computer parts are normally distributed by both retail stores and specialty service centers, and many PCs and servers today will typically have a twelve month warranty period.

Steve Keifer: Right.

Mark Morley:

In the automotives sector, parts are typically supplied from the manufacturer or an OEM DLO network. So parts, such as brake pads and air filters are normally replaced as part of a predefined service program or warranty claim. Typical warranty periods for a car last anywhere between three and seven years, so car manufacturers need to be able to provide spare parts for these entire warranty periods. Now finally moving across to the aerospace sector is a final example of service parts that are relatively high in value. Parts for an aircraft or jet engine will follow strict preventative maintenance routines, really to maximize their up time and availability. As planes are likely to be in service for anything up to twenty years, the suppliers of the jet engine for example will typically provide a complete service and parts package for the entire life of the engine, as these are extremely profitable, often more profitable than the sale of the initial jet engine. So as you can see, Steve, each industry has a different requirement for managing the delivery of the spare parts, but they all have one common goal, and that is to ensure that service parts are delivered to the correct location and at the correct time.

Steve Keifer:

So to that point, I think when many of us, at least when I think about a supply chain, I tend to think of new products being manufactured and then shipped out to their ultimate point of consumption, rather than thinking about what happens to those products after consumers or businesses buy them as they use them throughout their useful life cycle. So I'm curious, from a supply chain perspective, what are some of the issues and challenges associated with spare parts, or service parts?

Mark Morley:

Well in terms of, well, would you like me to talk about the technologies as well as the challenges?

Steve Keifer:

Yea, that was going to be what I asked next.

Mark Morley:

Okay, so in terms of the technologies, and also the challenges which all follow in afterwards, it can really be broken down into two areas. Firstly is the hardware that's needed to track the parts, and secondly the software or services infrastructure behind the scenes which helps to process the information. So from a hardware point of view, there are solutions such as RFID tags, barcodes, laser parts, etching solutions that can be fitted or attached to parts, but need to be tracked. Though all of these technologies require a significant investment from an implementation point of view, especially when you are talking about implementing a global network of RFID tag readers.

Steve Keifer:

Right.

Mark Morley:

In addition, information, read devices that needs to be processed and distributed for the logistics companies so that they know where the parts are in the shipping process. Land Rover, here in the UK for example, they've installed an RFID solution that they applied in the UK to help them track their vehicles across their manufacturing sites. But you could always ask the question, what happens to these vehicles once they leave the factory gates? So, from a company at GXS, we are starting to see an increasing trend from car companies who want to try and track vehicles and parts outside of the manufacturing sites, and ultimately through to where the cars are sold, maybe in the global dealer networks. So to help companies improve the visibility of service parts, GXS recently introduced a new service parts visibility solution. The new solution provides real time accession based visibility into a supply chain. It allows the progress of shipments to be tracked through a simple to use web browser based user interface. As this solution works within our fully hosted web-based environment, it means that there is no software to deploy across a company's service parts supply

chain. Mainly it gets sent to the world's freight carriers and most of the major border control and customs agencies are already connected to GXS' trading grid, our B2B network, so it allows shipments to be tracked across all modes of freight transport and across most country borders around the world. The fact that a customs agency can get access to a web-based solution to enter shipping information means that delays caused by processing excessive amounts of paper can be removed from the shipping process. This solution helps the company in a number of ways. Firstly it helps to improve the data stay management of logistics carriers and provides a means of measuring that operational efficiency in a much better way. It also helps to minimize downtime of expensive machinery, and helps to reduce buffer stock inventory levels, and using expedites related to shipping costs. For example, shipping a part that might be required very quickly by an airline or by FedEx to the other side of the world. Finally, all partners in the server supply chain are able to view real time information from a single consolidated platform.

Steve Keifer:

Well I want to thank you for coming on Mark. Unfortunately we are out of time for this edition of the program, but you've definitely given us some excellent insights as always. I certainly think that this is something manufacturing companies ought to be very focused on this year given the economic state that you pointed out. So thanks for coming on.

Mark Morley:

Okay, thanks Steve.

Steve Keifer:

And thanks everyone for listening in. We hope you will join us for a future edition of Trading Grid Radio.

ABOUT GXS

GXS is a leading global provider of B2B e-commerce solutions that simplify and enhance business process integration and collaboration among trading partners. Organizations worldwide, including more than 70 percent of the Fortune 500, leverage the on-demand services on GXS Trading Grid® to extend supply chain networks, optimize product launches, automate warehouse receiving, manage electronic payments and gain supply chain visibility. GXS Managed Services, GXS' B2B outsourcing solution, empowers customers with the expertise, technical infrastructure and program support to conduct B2B e-commerce with trading partners globally. Based in Gaithersburg, Md., GXS has an extensive global network and has local offices in the Americas, Europe and Asia-Pacific regions. GXS can be found on the Web at www.gxs.com.

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