

Selling in the aftermarket: How to win the sales street fight

At high-growth industrial companies, services aren't just an optional add-on, but an essential revenue driver deserving thoughtful investment.

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As margins on traditional products are squeezed and as growth from original equipment sales slows, it is common for industrial OEMs to look toward their aftermarket business to fuel growth. For example, in the aerospace industry and in a series of well-publicized strategic moves, Airbus, Boeing, Bombardier and Embraer all announced plans to grow their aftermarket revenue significantly. We anticipate these aftermarket-focused growth strategies will continue. But once the path has been defined, do OEMs know how to execute?

In working with dozens of industrial companies on achieving their services growth aspirations, we find that OEMs often struggle to sell in the aftermarket because they try to tackle services sales the way they do original equipment sales. Instead, growing aftermarket starts with recognizing what's unique about it, and then transforming the sales team's approach to adapt to that unique environment.

Unique considerations for aftermarket sales

In our work with industrial OEMs, we have identified seven unique elements of selling in the aftermarket:

1. *OEMs know their installed base (unless they sell through distributors)*—they typically know how many pieces of equipment they've sold, and to whom. Even when that data is scattered, a short analytical burst can recreate a view of the installed base. This is a critical advantage vs. original equipment sales, where anyone could be a potential customer: in services, the world of possibilities is primarily bound by customers who own your equipment.
2. *OEMs are often best-placed to anticipate maintenance needs*—Based on the holistic performance of their installed base and accounting for known variables (e.g., environment, average run time, prior scheduled maintenance, etc.) OEMs can predict major maintenance needs, which helps optimize sales (lead generation) and inventory (demand forecasting)
3. *OEMs can calculate what their addressable market is worth and their 'gap to entitlement'*—we define 'gap to entitlement' as a measure of their customer's aftermarket spend that they are not capturing today. Because OEMs know their installed base and have a unique vantage point into how that installed base performs, they are among the only ones who can truly know how big the services market is, and how much of it they don't capture today.
4. *OEMs can develop unique services products to lock in their installed base*—OEMs have both the engineering knowledge and the installed base knowledge to design the most valuable upgrades for their fleets. This combination also allows OEMs to have targeted cross-selling conversations with their customers, e.g., "based on the buying habits of your peers, you should add this service to remain on an even playing field".
5. *Putting all this together, OEMs can generate highly-tailored sales leads*—we find that by incorporating gap-to-entitlement, cross-selling probabilities, and specific upgrades for any given customer, effective aftermarket sales organizations have very scientific ways to fill their pipeline, and do not just rely on flooding the market indiscriminately with spare parts.
6. *OEMs can typically decide what to sell directly vs. through distributors*—we have found that the most profitable aftermarket OEMs find an optimal balance between selling directly to stay

close to their customer needs and creating win-win partnerships with strong distributors for products or regions that were too costly to serve. They use very active performance management with their distributors (including volume rebate incentives, data-sharing platforms, joint sales lead generation) to get the most out of their partnerships.

7. *OEMs can create a base revenue through long-term contracts (e.g., power-by-the-hour)*—few players can compete on long-term contracts, especially in industries where the complexity of the equipment is high.

How best-in-class aftermarket sales organizations work

Overall, these seven unique elements of aftermarket sales tend to give OEMs a competitive advantage. But this is often not enough to maintain high market share. Selling in aftermarket is like a street fight: customers often buy services in a piecemeal, transactional way, and OEMs have to win over and over again, even with customers they thought were locked in. To win the street fight, we have observed that the most effective aftermarket organizations follow a simple recipe based on science and process rigor:

1. Recognize that aftermarket is unique and create a *separate salesforce*;
2. Develop *Sales Operating Plans* for each sales person, with detailed quarterly, monthly and weekly activities to exceed the sales target. Each plan incorporates sales leads generated through a scientific approach (see below);
3. Use a *gap-to-entitlement algorithm* to identify customers with whom market share is low and/or declining to feed the Sales Operating Plan pipeline and facilitate management weekly meetings;

4. Use *predictive algorithms* to determine what to sell to each customer, and when to sell it;
5. Define an *OEM-only Value Proposition*—to combat the low price offered by independent parts brokers or repair shops, the OEM value proposition must be different. In some industries, the mere OEM brand carries enough value to justify a price premium. In others, OEMs can compete through non-price levers (e.g., longer warranty, higher parts availability). In a few industries or for some customer segments, price is all that matters, and the most effective players have developed separate arms to source parts at cheaper cost (e.g., through secondary / used channels) and to sell them with lower overhead. In any case, having a clear view of what value each individual customer derives from doing business with the OEM is essential;
6. *Continuously train and mentor sales teams*—from our experience, sales teams are too often under-trained on how to effectively sell in aftermarket environments. In particular, sales teams are typically reluctant to use data to inform Sales Operating Plans. They rely too much on relationships. Training can help overcome this;
7. *Obsessively manage performance*—aftermarket sales teams are often dispersed geographically and are reluctant to undergo scrutiny from their leaders. Yet there is no shortcut: in the context of the street fight, sales activities must be measured and reviewed on a very frequent basis. Developing a live *Sales Cube* (that tracks sales-to-date vs. budget and vs. last year in three cuts: by product, by sales person, and by customer segment) is the first step in ensuring all white space is covered. On a weekly (and sometimes daily) basis, sales leaders review the cube with their teams to redirect their energy appropriately.

Even the most entrenched OEMs are seeing increasing competition from parts brokers, low-cost repair shops, and digital solutions providers and risk seeing their aftermarket share erode. In this context, boosting the aftermarket sales teams and embedding a more scientific and rigorous way to sell is essential to maintain and grow share. ■

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