



COMPETENCE CENTER CHINA

by sim, ZHAW SML & Swiss SME China  
for Swiss SMEs



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## ***After-Sales Services of Small and Medium sized companies in China***

SIGNIFICANCE & CHALLENGES

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OPTIONS IN CHINA

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CONCLUSION

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## **What is the significance of After-Sales Services for Swiss SME?**

Due to an ever increasing scope of globalization, competition among companies has accelerated over the last decades. As a consequence, the pressure on revenues, profits and margins has intensified as well. This is especially true in the B2B sector of industrial companies. Very often it is not sufficient for a firm anymore to simply offer a product such as machinery, equipment or vehicles. Customers increasingly expect a comprehensive solution. including pre- and after-sales services. Industrial companies are

Servitization can be understood in various ways, ranging from adding more individual services to complement a manufacturing product to developing entirely new long-term servitization business models.

The business impact of servitization can be substantial. After-sales services have the potential to support product sales, retain customers, secure revenues and increase a company's reputation. Evidence shows that such services - and especially after-sales services - can make up to 40% of profits and 20-30% of revenues, and the respective profit margin can account for 15-25%, while for the basic product it lies between 5-10%.

Swiss industrial SME are known not only for the high quality and advanced technology of their machinery and equipment, but also for their impeccable after-sales services. Over the past decades, Swiss companies have perfected their services offerings and can nowadays in many cases deliver a 24/48 hour servicing of their machines and equipment. A necessary precondition was that clients in the western hemisphere have widely accepted after-sales services, being ready to pay for a good service quality in order to sustain the long-term use of the machine they invested in.

However, the profitable offering of after-sales services such as spare parts, installation, maintenance, overhaul, repair, field services, training or rental agreements remains a challenge for Swiss SME operating in the Chinese market with its high degree of complexity and competition. The Chinese market runs fast and cash-driven, which leaves little room for service offerings. Maintenance is only done when absolutely necessary, and in many cases the products and spare parts are simply run down and replaced thereafter. Services are still deemed to be part of the machine-purchase, and hence are expected from the supplier and cannot really be charged for. An increasing number of Swiss SME is therefore struggling with their after-sales services business in China.

## **What are the challenges for Swiss SME to operate After-Sales Services in the Chinese market?**

During our research among a dozen Swiss industrial SME, we have investigated in depth the current set-up of their after-sales services business in China, and the related challenges to run this business efficiently and profitably. The following case can be seen as representative for a Swiss SME from the MEM industry (machinery/electronic/metal) operating in the Chinese market. The company with 150 employees manufactures compressors in Switzerland with Europe as the main export market, followed by the US and Asia. With its compressors, the company has achieved a market leader position in the industry due to the high product quality, continuous innovation and effective customer services. The Chinese market has gained increasing significance in the last ten years, contributing 20% to the overall sales of the company. Through its sales office in Shanghai, the company offers after-sales services to its Chinese customers such as product installation, spare parts, maintenance, repair and training. Whereas the company's after-sales-service business turns out to be profitable in Europe and the US, it loses money on its after-sales services in China. The analysis revealed external and internal causes. Main external reasons are the low willingness of the Chinese customers to pay for services, the easy option to copy certain services such as spare parts via local producers, the do-it-yourself mentality of Chinese clients to repair a machine themselves and a short-time planning horizon to rather replace a machine than maintaining it. Major internal reasons are a too long reaction time and a too high pricing for delivering the after-sales services, a lack of available management and financial resources to run the after-sales services business professionally and an inappropriate intercultural understanding of the special characteristics of the Chinese market.

## What options do Swiss SMEs have to run After-Sales Services in the Chinese Market?

The Chinese market is characterized by its large size, the high degree of competition and diversity, the need for speed in business and the expectation of a 24/7 availability. Swiss SME operating in China need to adjust to these specifics (i.e. they need to localize their business) in order to be profitable. Our research found that the key success factors for after-sales services in China are a short delivery time, a competitive pricing, a personalized customer relationship management and a comprehensive technical know-how, all of which Swiss SME seem to struggle with. While market characteristics cannot be changed, internal processes towards better providing to the market's needs can. As a result, a local presence becomes inevitable to be close to customers and capitalize on the success factors. Besides the traditional fly-in/fly-out approach, our investigation has identified two business models how Swiss SMEs offer after-sales services in China:



### **Fly-in / Fly-out**

This service model is currently still used by many Swiss SME with operations in China, especially of those with only occasional sales in China. At first glance the fly-in/fly-out approach might look attractive, as neither infrastructure nor training of additional engineers has to be invested in. However, the reaction time of such service offerings lies normally between 6 to 10 days, whereby the often necessary supply of spare parts is not yet included. Also, such services tend to be far too costly and rarely profitable, especially considering that the service-technician or engineer is during his trip to China unavailable for other customers in Europe.

### **Local Presence via own Service Center**

With this service model, an own service center is established within the radius of important clients and run by local staff. It offers technical support and field services. It allows a company to deliver after-sales-services within 48 hours and to use servitization as a means to build up long-term customer relationships. This business model is feasible if the machine or equipment to be serviced is complex, plays an important role in the client's manufacturing process and the installed base of machines is large enough to generate profitable business volumes. The establishment of an own service center can be considered when a company has gained considerable market knowledge and a solid customer base in China, thus being already in a mature stage to do business in the Chinese market. However, the setup of an own service center and the employment of local personnel can be a tricky and costly venture.

### **Local Presence via Approved local Chinese Service Partner**

An own service center is not an absolute necessity, especially when the sales volumes do not allow running the after-sales-service business profitably on-site. This can occur when a company has limited financial and management resources to run a service center locally, has not yet a large enough installed machine base in China and the services can largely be standardized. Given these parameters, it makes sense to outsource the after-sales services to an approved local Chinese service partner. The requirements towards such a service partner are a proven track-record in the delivery of after-sales services, comprehensive in-house technical know-how, a high «Swiss-related» quality commitment as well as the import license to run the spare parts business. This business model is feasible for SME which aim to sell their machinery in China but do not want or do not have the capacity to offer and manage

after-sales services on their own. Depending on the expectation of Chinese clients, a mixed business model with running its own service center and cooperating with an approved Chinese service partner can be an option for a SME as well. This business model is feasible when main clients expect a local presence of the Swiss company and require customized and technically demanding services for their machines or equipment. These A-customers are served directly via the own service center whereas B- and C-customers are handled by the approved service partner. The approach of cooperating with a local Chinese partner however requires a rather elevated level of confidence in local partners, their problem-solving ability and their reliance.

### **The sim After-Sales and Maintenance (ASM) Hub**

The After-Sales and Maintenance (ASM) Hub of sim has been created to combine a cost-efficient and high-quality delivery of after-sales services in China. Experienced and approved Swiss and European service-technicians and engineers stationed in Shanghai and working for this platform will intervene for and on behalf of foreign industrial companies within 24 or 48 hours depending on the service level requirements. Reaction time and hence costs can be reduced substantially, while reliance in Service Quality and Customer Relationship increases. The ASM hub services shall be enlarged in the near future by a shared warehouse solution for the main spare-parts. With this business model, Swiss SME do not have the need to open or manage an after-sales service center on their own in China, hence still having the required local presence represented by a reliable service partner familiar with and competent in bridging the high Swiss quality standards with the complexities of the Chinese market.

## **Conclusion**

Given the size, complexity and dynamics of the Chinese market, many SME are in need to find a pragmatic and cost-efficient solution for their after-sales service offerings in China. As long as the density of the installed machine base does not allow running the after-sales services business profitably, it makes little sense for an SME to build up a costly local servitization infrastructure in China. Rather should the cooperation with a reliable service partner be considered. And within those options, the ASM Hub fulfills in our opinion best the needs and qualitatively high service levels of Swiss SMEs.

***The Competence Center China for Swiss Small and Medium sized companies is a joint initiative of sim (selective international management) Co. Ltd., ZHAW School of Management & Law and Swiss SME China (the representative of SKV in China).***



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