

# SERVITIZATION CASE STUDY

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## CATERPILLAR & ITS DEALERSHIPS

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**SERVICES FOCUS ON UPTIME; THE  
NUMBER ONE CONCERN FOR  
CUSTOMERS**

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**CUSTOMERS CAN CHOOSE FROM THREE  
LEVELS OF SERVICES DEPENDING ON  
THEIR NEED AND PREFERENCES**

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**CATERPILLAR STANDARDISED SERVICES  
ACROSS DEALERSHIPS AND IMPROVED  
MARKETING OF THEIR VALUE**

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**T**he history of the track-type tractor dates to 1904 when two separate but similar ideas were tested, with the first patent issued in 1907 for a continuous track tractor known colloquially as a 'Caterpillar'. The Caterpillar Tractor Company was formed in 1925 and its manufacturing plant in East Peoria, Illinois was one of the major industrial sites in the USA by the 1930s. In 1951 the company opened its first overseas manufacturing facility, in the United Kingdom.

By the year 2000, Caterpillar manufactured more than 300 models for a range of industries, including construction, mining, power generation, heavy goods vehicle manufacture and locomotive manufacture. In 2017, it employed over 98,000 people with revenues of over \$45bn.

**C**aterpillar's machines are often integral to their user's operations; downtime can mean inconvenience and financial losses. Services provided through its renowned dealer network therefore aim to deliver whatever it is customers need to ensure uptime - be that data, advisory support or full time fleet management - while also enabling the customer to operate their fleet as efficiently and effectively as possible.

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In 2005, Caterpillar's outgoing CEO launched 'Vision 2020', its fifteen year enterprise strategy for growth. A key aspect of the strategy was to work closely with its impressive dealer network to 'be the global benchmark in delivering integrated business solutions to customers'. Caterpillar and its dealers had to become less product-focused and more customer outcome-focused to deliver such a high standard of solutions.

## CUSTOMER SUPPORT AGREEMENTS

There are over 180 Caterpillar dealers globally, managing customer relationships, servicing equipment and providing parts. By 2005, Customer Support Agreements (CSAs) had been offered in various forms by dealers for years. However, patchy sales, disappointing contract renewal rates and unreliable delivery had led to doubts about their ability to generate profits.

Caterpillar realised that services needed to be much more standardised among its dealers (e.g. what was included in the service offering, the description and marketing of services, delivery systems and KPIs). As the manufacturer whose name was on the product, it needed to lead this standardisation exercise across its dealer network.

## OUTPACING THE COMPETITION

A key motivating factor for focusing on services as a core part of the competitive strategy was to stay ahead of the competition both from third party providers and other manufacturers:

- Third party service providers service a company's entire fleet of vehicles, made by any manufacturer, and being internationally organised (unlike Caterpillar dealers which are territorially-based) they give the customer the flexibility to work on national or international projects without having to use several dealerships for services
- Small local workshops, often set up by ex-Caterpillar dealer mechanics, also compete on repairs, as do in-house mechanics employed by companies with larger fleets.
- The supply of cheaper non-Caterpillar parts via aftermarket distributors accounts for 30-50% of the spare parts aftermarket
- Customers with mixed fleets of vehicles from both Caterpillar and its competitors, such as Komatsu and Volvo, compare product support offers between brands

## References

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## STEP 1: REVIEW SERVICE QUALITY

Caterpillar and its dealer advisory panel reviewed services that were being delivered in Latin America using a gap analysis based on the Service Quality Gaps Model and identified issues to be addressed.

### Understanding of customer expectations

- Service reliability, responsiveness and relationships needed improvement
- Product differentiation and quality were not enough to offset issues with service
- Customers cared about uptime, peace of mind, risk reduction and convenience, but these factors rarely featured in branding and marketing of CSAs

### Delivery of services

- Technicians were selected, trained and rewarded on the basis of technical performance. Communication with customers was not taken into account, yet they often had most contact with customers
- Parts, services and sales departments didn't work together well
- Dealers didn't have a formal way of keeping track of service intervals and customers often forgot to request servicing

### Service design and standards

- CSAs were complex and customised, there was no consistency. It often wasn't clear what had been promised to customers, there were no common performance standards and measures, and expectations were often unclear or not met
- Where they existed, performance standards focused on dealers' operations (cost, revenue, technician time) rather than on the benefits delivered to customers
- Complexity and customisation limited marketability, the dealer's ability to deliver and sales teams' willingness to sell services

### Communication with customers

- Promotional material focused on product features; there was no written material about services or their benefits, making them difficult to sell
- Services went unnoticed by business owners because field technicians interacted with machines and operators. Often nobody would know they had been on site

## STEP 2: TALK TO CUSTOMERS

Caterpillar commissioned over 50 focus groups to find out what customers wanted from a services contract. They created a menu of potential services offerings and asked customers to discuss and rank them.

The focus groups were run by an independent agency, with Caterpillar and its dealers observing so they could see first hand what customers valued. Feedback was used to develop services offerings and videos and recordings from the sessions were used subsequently to train sales teams.

## STEP 3: CONSOLIDATE THE SERVICE OFFERING

Caterpillar identified three groups into which its customers could largely be categorised:

**'Do it myself'** customers who have sophisticated infrastructures in place to look after products and get the best out of them  
**'Work with me'** customers who have some technical expertise but need support with more complex issues  
**'Do it for me'** customers who do not have the in-house expertise and look to outsource as much as they can to dealers

This concentrated the service offering at the three levels of support customers were looking for, rather than having individually-tailored agreements with every customer.

## STEP 4: PROTOTYPE AND TEST

A process of scoping, prototyping, piloting and evaluating services offerings was implemented, to test whether they were marketable, could be delivered consistently and would produce the right outcomes for customers, dealers and the manufacturer. Branding was reviewed to make the naming and promotion of services consistent and articulate their value. 'Touch points' were created so the customer saw services being delivered; technicians left a card when they had serviced a vehicle, or followed up with a call. The emergence of telematics in the past decade has enabled development of the services on offer to customers today.

# SERVICE OFFERINGS ACROSS VARIOUS DEALERS

In the past decade Caterpillar has adopted technologies, such as telematics, that have made it possible to refine and extend its services offering. While services offerings still vary in some cases, there is a great deal more consistency and a strong services portfolio across all dealers:



## INFORM

### Monthly reports measuring health and utilisation

- Automated monthly reports show health and utilisation trends and comparisons with the average for similar fleets in the area
- Reporting on: operator-induced faults, machine run time, fuel burn and idle time
- The customer can contact the dealer for help with issues in the report data
- Asset Tracking monitors the location and deployment of assets and hours in use, in real time across multiple sites
- Fleet Benchmarking Report compares the performance of equipment over time, for early identification of maintenance concerns and operating inefficiencies that negatively impact the bottom line



## ADVISE

### Access to advice on fleet management and maintenance

- Condition Monitoring Advisors at the dealership use real time data to identify potential problems, notify the customer and advise on actions
- Incoming data and equipment histories are used to give service and maintenance advice to improve uptime and reduce operating costs
- Strategies to best use equipment, optimise operator training and efficiently schedule maintenance and repairs are recommended



## PARTNER

### A dedicated contact to manage assets around the clock

- The dealer tracks machine health and utilisation and schedules and performs preventative maintenance
- Equipment is monitored 24/7 and issues are responded to proactively with emergency support
- The dealer carries out maintenance and repair and recommends ways to gradually drive down long-term operating costs.
- Uptime, cost-per-hour and availability can be covered by guarantees

## ABOUT THE AUTHORS

The **Advanced Services Group** at Aston Business School is a leading research centre of excellence in servitization and advanced services, providing research-led education, training and executive development to global and local businesses and the next generation of the industrial workforce.