Written by Bob Baldwin, Editor
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Competition today is not between products, it's between business models. I read that late last year in Fortune magazine. And last month I heard about one such business model, one that could have a profound effect on some maintenance practitioners. The model involves original equipment manufacturers (OEM) and services, and it was explained by Ron Giuntini, guest speaker at the recent annual meeting of the Machinery Information Management Open Systems Alliance.

Giuntini has examined the $660 billion primary capital goods market and concludes that OEMs find themselves at an historical crossroads. The manufacturing-centric build-and-sell model they have embraced for the past 150 years is in jeopardy because it cannot create sustainable and predictable profit streams. A new customer-centric, post-production product-services model seems likely to allow OEMs to reinvent themselves to significantly increase the wealth of their shareholders (check out *www.oemservices.org*
).

The OEMs, it seems, are currently stuck with an average before tax profit (BTP) of only 5 percent on new equipment sales. This produces about $33 billion in BTP. Meanwhile, the product services market (covering overhaul, repair, operation, training, documentation, service parts, consumable supplies, etc.), estimated to be about half of new equipment sales, enjoys an average 16 percent BTP and returns roughly $53 billion.

Giuntini sees some capital equipment OEMs changing to a product-services business

model, perhaps along the lines of one of the models used in the office copier business. The user takes possession, but not ownership, of the equipment. The product-services agreement with the manufacturer covers use of the equipment, accessories, training, maintenance, supplies, and more, at a much higher margin than for selling the equipment outright.

How would this business model affect the plant and its maintenance staff? It could produce more reliable equipment because the OEMs would have a stronger incentive to design in reliability if they knew that they might have to maintain it. Also, will the plant still need maintenance technicians on staff when the equipment supplier furnishes them? That's a scary proposition.

On second thought, the question is not whether the equipment will be maintained, but who will do it and how they will be paid. Perhaps it is time for maintenance practitioners to consider another business model--that of a free agent. In the future, the plant maintenance professional could be on the equipment supplier's payroll rather than the plant payroll. **MT**

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