WHITE PAPER

The Installed Base Economy

Unlocking the profit that's already yours

Contents

Foreword

Growth has traditionally been measured by what organizations sell next. That model hasn't disappeared, but across most asset-intensive industries it is becoming a less reliable engine. Equipment markets are more volatile than they were a decade ago, sales cycles have lengthened, and margin pressure has become structural rather than cyclical. Meanwhile, the gap between what customers expect from service and what most operations can deliver continues to widen.

The organizations responding most effectively are doing so by reorienting toward value they already hold. The equipment, assets, and systems in the field represent a substantial and structurally resilient source of recurring margin — one shaped primarily by internal decisions rather than external market conditions, and one that most organizations have only partially learned to govern.

For leaders closest to aftermarket performance, this is already self-evident. Those responsible for parts and service see the commercial weight of the installed base daily — in revenue capture, margin retention, and customer loyalty. The challenge has always been getting the rest of the organization to see it the same way.

What has lagged is governance. In most organizations, parts and service are still treated as operational functions rather than strategic value systems. Ownership is fragmented, metrics emphasize cost and throughput over value retention, and decisions are optimized locally — even when doing so erodes profitability across the lifecycle. While the P&L captures the consequences of those decisions, it rarely connects them back to their source.

What follows makes the case for governing service parts decisions — across planning, pricing, and execution — as a profit system. Put plainly, parts decisions are P&L decisions dressed in operational clothing. Until organizations treat them that way, a significant and controllable source of profit will continue to be managed by default.

65%

The majority of revenue never comes from the sale itself

The McKinsey Service Benchmark shows that 65% of revenue in construction equipment comes from aftermarket and service — ahead of aircraft engines and mining equipment at 55%.

[1] McKinsey, Jun 2024

[1] McKinsey & Company, Why Aftermarket and Service Are Vital to OEMs — and How to Excel, Simone Vesco, June 28, 2024.

The Economics Have Shifted

27 %
VS
11 %

Service margins are structurally higher

Kearney reports average EBIT margins of 27% for aftermarket services versus 11% for new equipment — a structural gap that holds across cycles.

[2] Kearney, Apr 2025

For decades, new equipment sales anchored forecasts, investment decisions, and performance expectations, even as parts and service generated a growing share of profit. That misalignment has become harder to ignore.

Public disclosures from large manufacturers increasingly point to plateauing unit sales and tighter equipment margins alongside growing reliance on aftermarket revenue to sustain performance. PHINIA describes its aftermarket business as a stabilizing force, driven by recurring demand insulated from new equipment cycles. Caterpillar positions services as central to its long-term growth strategy, with the installed base providing more predictable, resilient revenue. Parker Hannifin's 2025 acquisition of Filtration Group Corporation reflects the same logic applied at a portfolio level — capital moving toward businesses with strong aftermarket economics because of their margin durability.

Syncron's own State of the Aftermarket 2025 research reinforces the trajectory: most OEMs already generate 10–29% of total revenue from aftermarket parts and services, with many expecting that share to reach 30–49% within five years as equipment sales growth moderates.[3]

What distinguishes installed base economics from traditional growth models is the degree of control involved. Where new equipment performance depends heavily on market timing, installed base performance is shaped by internal decisions — how parts are positioned, priced, replenished, and governed across the lifecycle. Value is created or surrendered through everyday choices that compound over time. And unlike market conditions, those choices are within the organization's control.

[2] Kearney, Tapping into the Growing Opportunity in Aftermarket Services, April 2025.

[3] Syncron, The State of the Aftermarket 2025, October 2025

The P&L Tells You What Happened, Not Why

Installed base economics now underpin margin quality and resilience across most asset-intensive businesses. The question is why they are still governed primarily as operational concerns rather than financial ones.

The answer lies in how most P&L frameworks were originally built. Traditional financial models assume value is created at the point of sale — recognized transactionally, measured in volume and unit margin, with costs managed function by function. That structure works when value creation is episodic. Installed base value behaves differently: it accumulates over time, shaped by decisions across pricing, inventory positioning, and service execution that are deeply interdependent but almost never governed as a single system.

The result is a financial view that tells leadership what happened, with limited visibility into why, and almost no early warning of where value is being lost. When margin erodes, the P&L confirms it — after the fact. Pricing pressure gets attributed to market conditions even when the root cause is an availability failure upstream.

Excess inventory appears as a balance sheet concern rather than evidence of a planning and execution gap.

> The financial framework in place was designed to account for outcomes, not to surface the relationship between a decision made in parts planning and the margin impact
> three quarters later.

The financial framework in place was designed to account for outcomes, not to surface the relationship between a decision made in parts planning and the margin impact three quarters later.

This places aftermarket leaders in a structurally difficult position. They carry accountability for revenue, margin, and customer loyalty, while the decisions that drive those outcomes are distributed across functions with different priorities and no shared economic objective.

Governing installed base value requires a different financial lens — one that treats parts as value-bearing assets with clear ownership and investment logic. Without it, downstream profitability continues to be managed reactively, even as its contribution to the business grows.

+20pts / +15%

Installed base value is often under-monetized

BCG's work with machinery companies has shown it is possible to expand service penetration by 20 percentage points — and when combined with inside sales, machinery operations can boost services revenue by 15%.

[4] BCG, Feb 2025

[4] Boston Consulting Group, Aftermarket Services Drive Growth and Higher Margins for Industrial Manufacturers, February 18, 2025.

Parts Don't Just Reflect the Health of the System. They Reveal It First

Parts sit at the intersection of pricing decisions, inventory positioning, service execution, and customer behavior — which makes them uniquely diagnostic. When those elements are well-aligned, parts flow predictably, margins hold, and service consistency strengthens customer loyalty. When they drift, parts performance is typically the first place it becomes visible, often well before the financial impact registers.

The commercial stakes are real. Siemens estimates the cost of a single hour of unplanned downtime in a large automotive plant at $2.3M. At that scale, a parts availability failure carries genuine P&L weight — and that weight multiplies across every asset in the installed base. Most organizations interpret parts signals narrowly, treating a shortage as a fulfillment problem or channel leakage as a competitive one. Approached differently, those signals are diagnostic: they reveal where value creation is breaking down and, importantly, they reveal it in time to act.

The organizations that benefit most from installed base economics have learned to read parts performance as a leading indicator of system health — using what the parts function surfaces to govern value across the lifecycle, rather than waiting for consequences to appear in reported results.

> A parts availability failure carries genuine P&L weight — and that weight multiplies across every asset in the installed base.

Governing Parts as a Profit System

In most organizations, parts planning, pricing, and execution sit in separate teams, optimized against separate objectives, and reviewed through operational metrics that have little to do with lifecycle value. Performance is assessed after the fact, and financial outcomes are treated as the result of market conditions as much as internal decisions.

That governance model is a product of how parts have historically been categorized: as a support function, adjacent to the real business rather than central to it. As parts become a primary driver of margin quality and customer retention, that categorization no longer fits the economic reality.

Governing parts as a profit system requires treating parts decisions as interdependent economic choices with shared ownership and a common financial objective. Three changes make that practical.

1. Govern parts end to end.

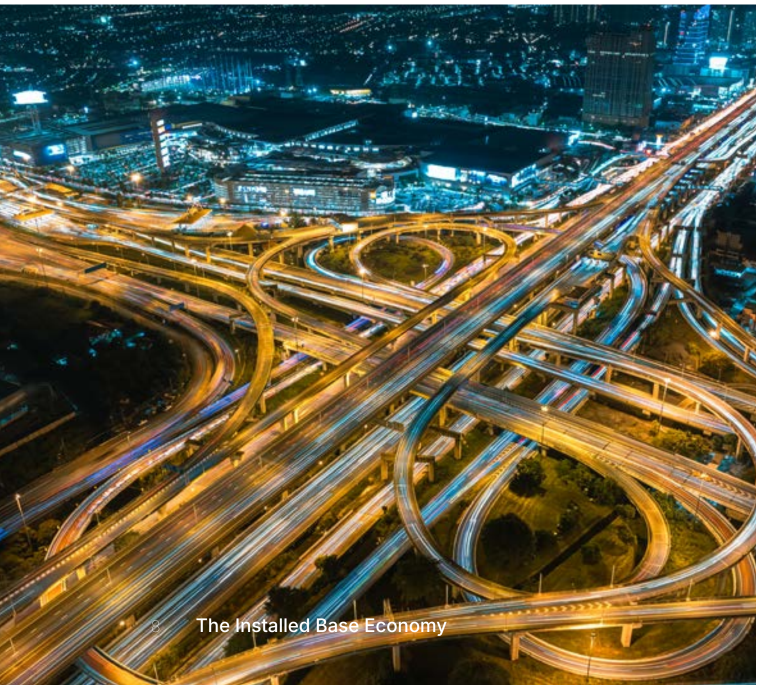
Installed base value is shaped by decisions across forecasting, inventory positioning, pricing, and channel strategy. When those decisions are made against separate functional targets, trade-offs get resolved in favor of local efficiency rather than lifecycle value. A shared economic objective — applied across the system, not within each function — is the foundational shift.

2. Extend visibility beyond execution.

Leaders governing installed base value need to see how availability and pricing decisions translate into margin retention and demand capture — in time to influence outcomes, not only to explain them. Operational metrics, on their own, don’t provide that line of sight.

3. Align accountability with economic outcomes.

When ownership of parts performance is distributed, so is accountability for the results it produces. Clear decision rights and incentives tied to lifecycle performance, rather than local operational efficiency, are what make parts governable as a profit system rather than manageable as a cost.



The underlying capabilities — functional expertise, operational discipline — are usually already present. What connects them, and what most organizations are missing, is a common economic lens through which decisions made in different parts of the business are evaluated together.

A Leadership Test for Parts Performance

If parts are a primary driver of installed base value, leadership teams need a way to assess whether that value is being shaped by the organization or simply produced by it.

The questions below cut across functions, decision rights, and incentive structures. For aftermarket leaders, many will confirm what you already know. That is precisely their value: they translate what is operationally obvious within your function into questions the broader leadership team can be asked to answer.

Do we know where profit is being lost before it shows up in the P&L?

Can leaders see margin erosion and channel leakage as they happen — or only once the financial impact has been absorbed?

Are pricing, inventory, and service decisions governed together?

When trade-offs arise between availability, margin, and efficiency, is there a shared economic objective guiding them — or do functional targets determine the outcome by default?

Is accountability for parts performance clear at the enterprise level?

Is there a single point of ownership for lifecycle outcomes — or is responsibility distributed in a way that makes profit everyone's concern and no one's job?

Do incentives reinforce lifecycle value?

Are teams rewarded for protecting margin and capturing demand over time, or primarily for hitting local operational targets?

Are we governing parts as assets or managing them as inventory?

Are decisions framed around value retention and demand capture — or around stock levels and turns?

Taken together, these questions reveal whether installed base performance is being shaped deliberately or left to emerge on its own. For the aftermarket leader, they are a structured way to open a conversation. For the leadership team, they are the beginning of an honest assessment.

Three Decisions That Change Everything

Organizations that respond effectively to the installed base economy begin by making a small number of foundational choices explicit: how value is defined, who owns it, and how decisions are evaluated when trade-offs arise. Transformation follows from clarity on those questions — it doesn't precede it.

Elevate parts performance to an economic discussion.

This means reviewing parts through their contribution to margin, demand capture, and lifecycle value and making those outcomes visible at the executive level. What leadership measures and reviews is what the organization learns to manage.

Align decision rights across parts pricing, inventory, and service execution.

Leading organizations establish shared economic priorities that guide how availability, margin, and efficiency decisions are made together. The objective is coherence across the system so that a pricing decision and an inventory decision made in different functions point in the same direction.

Assign clear ownership for installed base outcomes.

When accountability for lifecycle value is explicit, parts performance becomes something leaders can actively shape. This doesn't require new organizational structures — it requires unambiguous answers to who owns the outcome and what they are being held to.

Conclusion: The Installed Base Economy Demands Governance

As expansion-led growth becomes less predictable, long-term performance is increasingly determined by how deliberately organizations govern the value already in the field.

Parts are where that governance is made concrete. Availability decisions translate directly into revenue or missed demand. Pricing decisions shape margin or surrender it. Service execution builds customer loyalty or erodes it — one interaction at a time, compounding across the lifecycle. And what the parts function surfaces in real time is a signal that most financial frameworks won't register for months.

In the installed base economy, margin is a function of how clearly value is governed. Customer loyalty and recurring revenue follow from the same discipline. The organizations building durable performance in this environment have understood something straightforward: the profit was already there. The work is in learning to govern it.

> Parts decisions are P&L decisions dressed in operational clothing. Until organizations treat them that way, a significant and controllable source of profit will continue to be managed by default.

Date: May 2026 - Version 1.0