

Manufacturers are in the throes of a transformation. Buoyed by digital technologies, the service operation is delivering new business models to enhance the customer experience, drive new revenue streams, and launch new innovations.

Look Beyond Operational Efficiency to Deliver New Servitization Business Models and Enhanced Customer Experiences

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Written by: Aly Pinder Jr., Program Director, Service Innovation and Connected Products

Introduction

Service has never been more important than in this current market. Manufacturers and service organizations are seeing a shift in the value delivered by the services associated with a product. Customers have begun to demand experiences and not just minimum service levels. One of the reasons customers can demand that organizations deliver services at a level that exceeds baseline service-level agreements (SLAs) is the emergence of competition by third parties and contractors for service business. In the past, a desire to focus on internal efficiencies drove the service team. Now, the customer, competition, and revenue growth determine a successful service operation.

This IDC Technology Spotlight explores the evolution of the value and offerings delivered to customers via service operations. Digital transformation is equipping service organizations to move beyond the delivery of static SLAs in order to aid customers in meeting their own goals.

Definitions

New service business models are changing the way products and equipment are installed and maintained. This transformation also has a direct impact on the way service organizations interact with customers, which has led to a convergence between digital transformation and the services offered to customers. A few key service terms that highlight the changes in the market are as follows.

- » **Servitization** is an offering and a model that can come in several forms. IDC defines servitization as product as a service, which can include selling usage, uptime, power by the hour, remote monitoring, or service analytics.

AT A GLANCE

WHAT'S IMPORTANT

Service is no longer an afterthought or a set of activities meant solely to drive down costs. Manufacturers are looking to service to drive revenue, innovation, enhanced customer value, and competitive differentiation.

KEY STATS

According to the 2019 IDC Manufacturing Insights *Product and Service Innovation Survey*, organizations planned to apply artificial intelligence and machine learning in the following areas:

- » Better service planning and execution: 35.7%
- » Product ideation and design: 35.3%
- » Customer experience optimization: 29.7%
- » Connected products installed that suggest design improvements: 29.0%
- » Product portfolio optimization: 28.0%
- » Connected products installed that "self-heal" or suggest preventive maintenance: 27.7%

- » **Digital transformation (DX)** is transforming decision making with technology, and it remains a board-level initiative that is at the heart of business strategies for all companies. DX uses 3rd Platform technologies such as cloud, mobile, social, and big data/analytics as well as innovation accelerators, including the Internet of Things (IoT), robotics, 3D printing, and augmented reality/virtual reality (AR/AR).
- » **Connected products** are physical products that contain software, sensors, and IP-enabled connectivity.
- » The **IoT** is a network of uniquely identifiable "things" that communicate without human interaction using IP connectivity.
- » **Product-service networks** are networks of connected products and connected services that deliver an outcome in a way that cannot be attained by individual products or services alone.

Benefits

The transformation to a servitization business model offers organizations more than just the opportunity to tap a new revenue stream, although that is clearly one of the driving reasons to establish this type of offering. Other benefits include the following:

- » **Enhanced customer experience.** The ability to meet a static SLA is no longer a differentiator. Customers have begun to expect consumer-grade experiences from the service operation. Long wait windows, lack of visibility into resolution status, and reactive service models that put the burden of effort on the customer are obsolete. Servitization and service business models that depend on a more intelligent set of processes that can predict and proactively deliver resolution ensure the customer experience is improved. The disruption of a future failure on the customer's operations can be better planned for or avoided altogether.
- » **Increased visibility into service across the enterprise.** Servitization business models require a different approach to data and collaboration. Multiple enterprise teams and functions need access to and insight into service data because their decisions directly impact the serviceability of equipment and products. This visibility requires a bidirectional data flow that enables service to leverage data sources in functions such as engineering, design, quality, sales, and marketing and vice versa.
- » **Ability to deliver predictive and proactive service.** Reactive and break/fix service models will not deliver the type of outcomes necessary in a servitization business model. Service must be more predictive and proactive to meet the needs of an outcomes-based service model or pay-for-usage model. Resources need to be reserved, positioned, and deployed based on expected service demands and not reactive service calls.
- » **Alignment with customer goals and outcomes to create lifetime relationships.** As organizations deliver service offerings that are linked to a customer's business goals through a servitization model, each party's success becomes a partnership and not a traditional supplier/customer set of transactions.
- » **Growth in service margin.** Delivering reactive and break/fix service is costly within this model. It is difficult to plan for service demands, which can lead to overtime costs to meet minimum SLAs. However, as service success is measured based on customer goals, production, and outcomes, the ability to boost the revenue associated with added value is enabled. Also, as service organizations better plan to proactively support customers, equipment costs will drop because they won't have to scramble to deliver basic service.

New servitization business models also change the way an organization views service. As these models drive revenue and the customer experience, delivering service as a differentiator ignites an enterprisewide desire to enable innovation. The entire organization is now invested in the success and delivery of service. Servitization business models bring the service operation to the forefront of the customer journey and thus the organization's strategic future.

Trends

The time is now for change and transformation. In IDC's *Future Enterprise Resiliency and Spending Survey*, 66.2% of manufacturers reported that they started a new digital transformation (DX)/technology initiative in 2020. Manufacturers and service organizations have begun to focus on customer value and new paths to enhanced engagement, with service life-cycle management being an integral part of customer excellence initiatives (see Figure 1).

FIGURE 1: **Better Service Drives Service Revenue Opportunities**

Q What are the top 3 drivers for your organization's service life-cycle management (SLM) efforts?



n = 150 manufacturing respondents

Source: IDC Manufacturing Insights' Product and Service Innovation Survey, May 2019

New servitization business models and DX are not like the technology deployments of the past, which often resulted in siloed pilots or disconnected projects. The business impact of DX initiatives is quite measurable. Nine out of ten manufacturers noted a direct financial improvement from DX initiatives, with 51.3% achieving an improvement of more than 10% in financial results. Some of the technologies that are driving DX strategies and a transition into servitization business models are as follows:

- » **The IoT.** Connected products create a real-time data flow, which ensures manufacturers and service providers can monitor remote assets and triage and resolve issues efficiently. In a servitization business model, it is critical that service organizations understand the reason for failures or degraded performance and trigger the right service response.
- » **Big data/analytics.** Insight-driven decision making, especially when automated and integrated into the execution of core customer-centric processes, allows organizations to innovate as needed to deliver consistent value to customers. Customer expectations evolve rapidly, and organizations need to be agile with regard to solutions offered.

- » **Social business/collaboration tools.** Aspects of distancing and limits on physical presence will persist, and service organizations need to resolve issues regardless of proximity to the asset. Collaboration in real time provides a structure for delivering service even when an engineer or a field technician can't physically be in front of the equipment or asset. These tools also enable best practices and expertise to be shared across the team to help achieve resolution on a first visit.
- » **AR/VR.** Manufacturers are leveraging AR/VR for customer service and in cost, price, and quote (CPQ) activities to deliver remote expertise and support. The ability to visualize products and equipment throughout the customer life cycle ensures the right products are purchased, content is personalized and context sensitive, and the right fixes occur, thus improving the customer experience.

Considering NTT DATA

Manufacturers looking to accelerate DX must link technology initiatives with the creation of new service business models. Siloed approaches to transformation are doomed to miss an opportunity to move beyond a pilot to sustained innovation. Innovation initiatives at scale and speed are necessary to address disruption, elevated customer expectations, and competition. NTT DATA seeks to provide a road map to sustained innovation and digital transformation across the end-to-end life cycle of a customer relationship.

- » The company's approach is based on the following principles:
 - Provide thought leadership of customer excellence market trends and best practices
 - Assess life-cycle customer operations and digital maturity
 - Build digital transformation road map with staged approach
 - Identify innovation initiatives and structure for continuous improvement
 - Establish a work plan for new business model implementation
 - Create a framework that integrates technology services to build customer value

As manufacturers navigate digital transformation, a strategic partner ecosystem can power a scalable innovation cycle. In IDC's *Future Enterprise Resiliency and Spending Survey*, manufacturers noted that as they future proof their businesses, they find that the risk of failure, being too busy running the business, and a lack of talent hinder the development of innovative new products/services and business models. Utilizing its domain expert resources, NTT DATA works with an organization to create an environment and structure that can accelerate innovation at scale. NTT DATA seeks to provide value in lowering the risk of innovation and creating a road map that enables manufacturers to pick the right option based on best practices from across industries and technology maturity.

Challenges

NTT DATA must address several challenges in aiding service organizations in their business model transformation:

- » The company needs to educate manufacturers regarding the urgency of disruption and the impact of evolving customer expectations for more personalized experiences. The ability to establish a digital transformation road map that incorporates an ecosystem approach can be challenging. Furthermore, CPQ, personalization, real-time journey management, social integration, and other customer support-focused technologies have been disconnected historically, so bringing them together will require integrating homegrown/legacy solutions with enterprise applications.
- » The market looks for partners that can blend both industry focus and broad knowledge, which can be a complex dynamic to operationalize. Manufacturing often lags behind other industries such as retail and financial services in the ability to rapidly innovate and change.
- » As manufacturers embrace servitization and value-added service offerings, the end customer will need to see the value of IoT connectivity for its business. Manufacturers will have to be willing to give up access to data and share IP models to reap the full value of this new service model.

Manufacturers must view service not as a result of selling equipment but as a differentiator that can enhance the customer experience.

Conclusion

Customer expectations for enhanced value and shared goal attainment will not wane. The ability to deliver service beyond an SLA must not be where service organizations stop. Exploring new servitization business models means establishing a partnership with customers. As this shift occurs, manufacturers and service organizations will need to leverage digital capabilities and a partner ecosystem to innovate at scale and at the speed of customer expectations.

About the Analyst



Aly Pinder Jr., Program Director, Service Innovation and Connected Products

As Program Director, Service Innovation and Connected Products, Aly Pinder Jr. leads IDC research and analysis of the service, maintenance, and customer support market for the manufacturer, which includes topics such as field service, warranty operations, service parts management, and how these service areas impact the overall customer experience.

MESSAGE FROM THE SPONSOR

The rise of online commerce, rapid changes in customer preferences, and new competitors have driven manufacturers to focus on the end-customer of their products and services. To succeed in a market where customer excellence is a key driver of competitive advantage, manufacturers should:

1. Define customer excellence in broad terms to address traditional sales funnels, fulfillment, after-sales service, lifetime experience, and loyalty-driven repeat purchase
2. Balance transactional efficiency for short-term revenue impact with sustainable longer-term on engagement, experience and intimacy
3. Integrate data across customers, channels, sales operations, purchases, marketing, and external sources such as social media, to develop a 360-degree view of customer behaviors, emotions, and motivations
4. Drive predictive, proactive and personalized customer engagement through real-time insight-driven experience management
5. Leverage customer insights, real-time data operations and partner ecosystems to create new service-driven business models and new revenue sources based on consumerized and servitized products
6. Drive collaboration across a broad set of stakeholders not typically served as a corporate technology priority, and ensure gaps in culture, governance and skill sets are addressed



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IDC Research, Inc.
140 Kendrick Street
Building B
Needham, MA 02494, USA
T 508.872.8200
F 508.935.4015
Twitter @IDC
idc-insights-community.com
www.idc.com

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