Drivers for Growth in Service

"How companies prosper in an increasingly digital services led world"

Research conducted by

Noventum, HSO and Microsoft

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Our research clearly showed that technology companies recognise that their customers are demanding much more than just “keep my systems/machines/plants operational”.

These customers are increasingly expecting solution providers to be fully engaged in helping them to achieve their business goals... to increase production, to meet their energy efficiency targets, to increase patient throughput, to improve manufacturing operations, to enhance their brand!

This Executive Summary is the result of a research initiative from Noventum, HSO and Microsoft. At the end of 2019 & early 2020, several companies were interviewed and others participated in electronic surveys to explore how manufacturers and technical service companies prosper in an increasingly services led world. We would like to thank all participants for their contribution.

01 Drivers for change *towards a service-led company*

Recognising the need to change and enacting the change are two different things of course. The research identified four primary change drivers;

1. The market demand for customer business-related services was strong in many sectors.

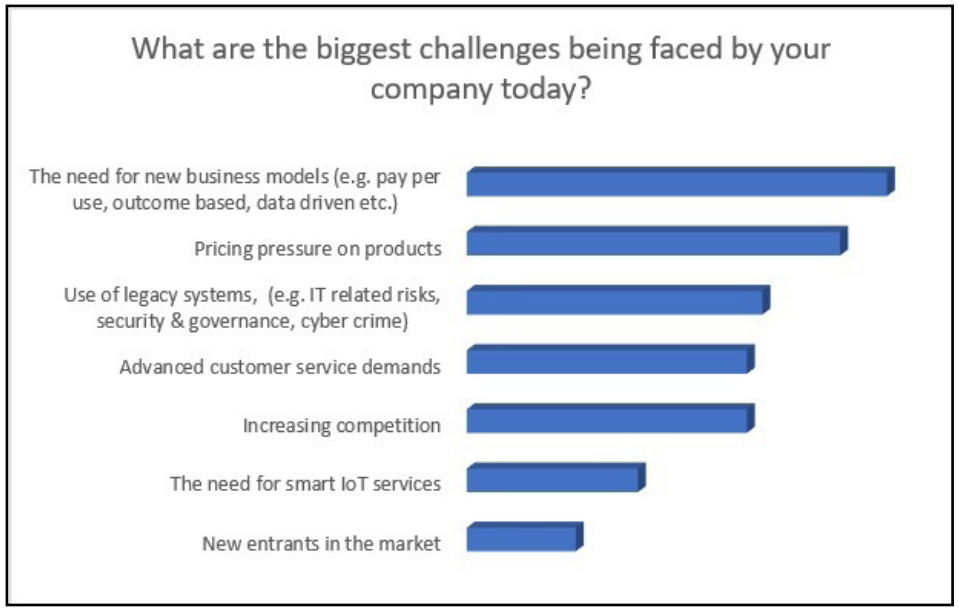
2. The flat or declining revenue coming from the product business was presenting a financial risk to the company.

3. The vision of a new CEO or executive team was engaging the collective competence of the whole organisation to create a new customer-centric focus.

4. Companies already successful in delivering “customer value” services see the opportunity to accelerate their growth through the expansion of their services portfolio.

02 Business Challenges
Your response

When asked “What are the biggest challenges being faced by your company today”, it was the need for new business models, to be able to deliver outcome-based, data driven, pay-per-use type services that came out on top.



Take advantage of this growth opportunity

We learned that a critical success factor, to be able to take advantage of this services growth opportunity, is that ALL company functions must be fully engaged in driving the new strategy. This is not about increased collaboration across functions... but about true departmental integration and understanding, where the lines between R&D, sales, product management, service, manufacturing..... deliberately overlap, allowing multi-disciplined teams to work cross-functionally on business development opportunities.

Changing the type of conversation that is held with the customer, i.e. focusing on their service needs and business outcomes often brings unexpected benefits. Our research respondents spoke about increased product pull through for replacement products, but also about how this conversation unlocked new business opportunities in areas previously inaccessible to them.

Product sales companies who derive the majority of their revenue from hardware sales, reported revenue growth was stable, or in some cases declining, but that software development was becoming a potential growth driver for them and delivering increased customer value around their solution. They acknowledged however that they sometimes used services sales as a way of maintaining revenues between product launches.

But while customers may be clear about what their solution provider should do for them (i.e. address their business challenges), they are not so clear on how this should be delivered. In the past, customers saw improved service levels as a way to help them to increase performance, and demands for faster response times, shorter resolution times and increased system availability became the standard metrics of service agreements. These elements, however, were also the standard attributes of a service organisation and essentially the customer was "driving" the service supplier.

The dilemma that both the customer and the service company are now facing is that the customer is saying "show me how your solution will improve my business!"

One medical device manufacturer echoed the general message from many respondents that "... customers are putting operational efficiency above product functionality. Customers are looking for partners who can help them to improve their operational outcomes".

In this new world, it is the service provider's job to make the customer aware of the improvement opportunities they have and how the provider is uniquely positioned to help the customer.

When asked "what service do you believe customers will request most often in the future" with a choice of basic services, advanced product related services, or customer business related services, 60% responded with the latter.

In responding to this need for customer business related services, 81% of companies stated that they are either currently delivering these services (32%) or that they were planning to develop customer business related services (49%).

04 IT infrastructure

Support new business models

The next question however, about whether their company's IT infrastructure is designed to support product and services sales and delivery, found that only 28% of respondents stated that their ERP, CRM and service management systems were fully integrated and aligned to the new business models.

IT resources are not the only challenge in this new services world as one Industrial Automation executive told us ... "resource acquisition is one of the biggest challenges because we are looking for "consultants" who have vision and knowledge in the technology but can also have the conversations with the senior execs of the customers. In general, competencies need to be people-oriented first and engineering-based second"

So, what about digitalisation and the product-related advantage of using IoT, machine data, artificial intelligence? All companies saw the advantage that product manufacturers now have, to leverage product design as a way to develop remote services, advanced customer services, create added value for the customer and to facilitate new business models.

Digitalisation is certainly viewed as a strong growth driver, particularly in mature markets such as the US and parts of Europe where the customer demand for business and outcome-based services is strong. It can even be a "qualifier", as one respondent reported being locked out of a tender because te proposed product solution was not a "smart connected" product!

But only 15% of companies reported that they have a digitalisation strategy and business model that "engages the whole organisation", with 51% currently working on developing their strategy. There was however some strong advice from our research respondents that, even if the digitalisation journey seems daunting... just start!

You probably have more capability in areas such as remote services, with data points available from your current product solution, than you think!

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