

Old service business models no longer suffice as customers demand better visibility, enhanced experiences, and quality support. Manufacturers must deliver new services to meet the demands of the experience economy.

Manufacturers Explore New Service Business Models: Deliver Enhanced Customer Value Through Servitization

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Questions posed by: ServiceNow

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Q. What is causing manufacturers to rethink their service business models regarding remote assets and equipment?

A. Manufacturers are finding a need to evolve the way they do business as expectations for improved service have increased quite drastically recently. Customer expectations for enhanced service that goes above and beyond the traditional service contract or the work order demand that OEMs evaluate their current service model and address these concerns. In conjunction with rising customer expectations, there is increased competition around who can provide service on equipment — manufacturers or third-party service providers, a choice that historically wasn't an issue. OEMs or their preferred partners are no longer the only potential providers of service; third parties and independent service organizations now have the expertise and capability to service equipment or products they didn't manufacture.

Along with these external pressures to transform service business models, manufacturers are also finding that internal demands for growth are putting pressure on the service organization to generate new revenue streams and margins. Across manufacturing verticals, product commoditization is placing downward margin pressure; service seems to be a path to recoup revenues and discover new ways to deliver customer value.

Q. What are the barriers that have delayed new service models, such as servitization, to this point for manufacturers?

A. Transformation into new service models can't be completely successfully with the turn of a switch. It demands much more than just a one-off investment or simple deployment of technology. Servitization as defined by IDC Manufacturing Insights refers to product as a service, which includes selling usage, uptime, power by the hour, remote monitoring, or service analytics. The challenge, or one of the most stated barriers by manufacturers, in making this transition is the lack of real-time data being captured from equipment and assets in the field currently. In recent IDC research, manufacturers stated that

only about one-third of equipment currently connected today is able to provide real-time data on performance, and that number will increase to just under half in three years. This is a major barrier to servitization because this new set of services demands real-time asset data that can be captured, accessed, and analyzed to support predictive service.

Another barrier to this transformation is buy-in from senior leadership. This is buy-in beyond the compulsory lip service of wanting to be more customer centric. Customer centricity and servitization can come at a cost. Also, this type of service model is a moving target because what may be good enough today will not necessarily be so in the next month, year, or decade. Therefore, continuous evaluation of what customers value and are willing to pay must go hand in hand with a transition to a servitization model. Leadership must be open to the growing pains because this transition is rarely swift and success can't be measured on a quarterly profitability cycle.

Q. What role should technology play regarding servitization and new business models for service?

A. Technology must play a large role in the move from standard service contracts or break/fix service to servitization-led models. First and foremost, the service team must have real-time visibility into asset performance to move beyond reactive service, which is the cornerstone of a servitized model. The ability to predict future failures and make insights accessible to the various stakeholders across the service chain who need to make data-driven decisions is imperative. The Internet of Things (IoT), therefore, is critical for this transformation.

Beyond IoT and connected product performance data, manufacturers need tools and technologies that can automate the analysis of the volumes of data that will begin to flow into the organization. This automation also must be integrated with a service response that will coordinate the most efficient action, enabling the right service part and the right service worker to be directed to the right asset in time to solve the issue before failure or degraded performance. Technologies such as artificial intelligence and machine learning will be integral in this service transformation.

Historically, paper-based and manual processes led to siloed activities across the service chain, which could be completed only by extra effort and often happened after the customer notified the service organization of a failure. Servitization or service offerings that guarantee uptime depend on the service team getting ahead of failures. Automated processes and analysis buoyed by technology are critical.

Q. Who benefits most from a transformation in the types of services being offered?

A. Two groups will benefit greatly in a transformation to newer service models such as servitization: the customer and the manufacturer. Customers will reap the benefits of enhanced value, which go beyond innovations with the product, increased visibility into product performance, and less or better shared risk with the OEM because now they will pay for outcomes as opposed to paying primarily for the asset. These benefits better align the goals of the customer with the goals of the OEM and allow the customer to maximize the productivity of its employees because downtime will often be a planned activity as opposed to an unknown disruption.

The manufacturer will also benefit greatly from this model transformation. Increased revenue opportunities, tighter customer relationships, and improved access to asset data, which historically could be lost through the dealer or partner network. The ability to access real-time product performance data provides intelligence on customer behavior, asset quality, and in-service data. It can't be overstated that manufacturers often lose sight of the products they make when they are sold by a dealer or a distributor. Connecting a servitization model to the asset opens up a line of sight, which was previously a black box. This connection also provides the opportunity to improve product design and quality for future products based on in-use performance and collaboration with the service team.

Q. What does servitization mean for field service technicians, and how will their role change in the future?

A. The transformation that occurs with new service business models will impact not only customers and manufacturers but also the service technicians who will deliver on these promises. Often an afterthought in transformation, the field service team will see several changes within this transformation.

For example, service technicians will be expected to engage in different types of interactions with customers in this model compared with historical break/fix models where they were primarily expected to close as many work orders as possible as quickly as possible. A transition from volume service work to a focus on enhanced and engaging interactions will require data about the product, customer, and service history to be available to technicians in real time. These technicians will also need to be more attuned to customer needs, which go beyond what's on the work order, so that they can explore additional opportunities to deliver value within interactions.

About the Analyst



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As Program Director, Service Innovation and Connected Products Strategies, Aly Pinder Jr. leads IDC research and analysis of the service 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. He is also responsible for research that aids manufacturers as they evaluate innovative technologies like 3D printing for service operations, augmented and virtual reality in field support, and the use of IoT and advanced analytics.

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