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Where Global Service Executives Sharpen Strategy



## SERVICE TRANSFORMATION: THE BUSINESS CASE

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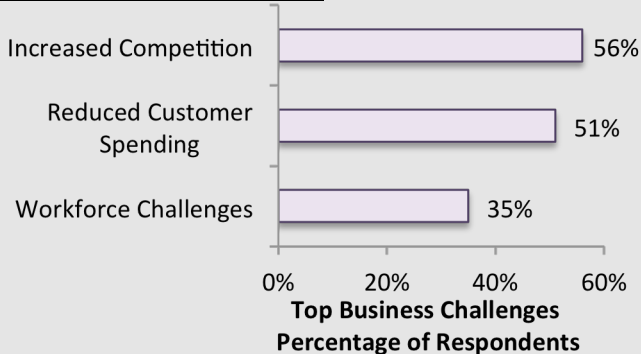
MAY 2014

## SERVICE TRANSFORMATION: THE BUSINESS CASE

### SUMMARY

Customer service is king. For most organizations, this is no longer just a marketing tagline but is a mantra that governs how they will survive in an extremely competitive business environment. Customer service is the biggest differentiator for organizations and those that are able to align themselves to meet and exceed customer needs continue to have the permission to conduct and grow their business with customers. Service also plays a vital role in impacting the overall customer experience. Given the increasing role that the post-purchase experience plays on revenue fortunes for organizations, the value of service has been significantly amplified. As a result, the value of service is no longer just tracked with fuzzy metrics, but is evaluated with raw numbers and figures.

**FIGURE 1: CHALLENGING TIMES**



Source: The Service Council Data, 2014

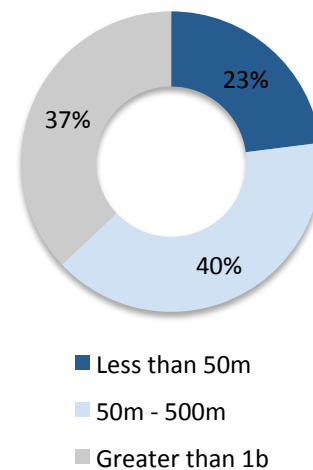
No other business group can claim the impact that service has on customer relations as well as on internal business processes and relationships. Just as service groups are changing how relationships are established between organizations and customers, the value of service and customer insight is creating a new relationship paradigm within the organization between service and other business functions.

This paper will document the changing mindset around service in organizations and highlight the increasing importance that service plays in supporting business growth.

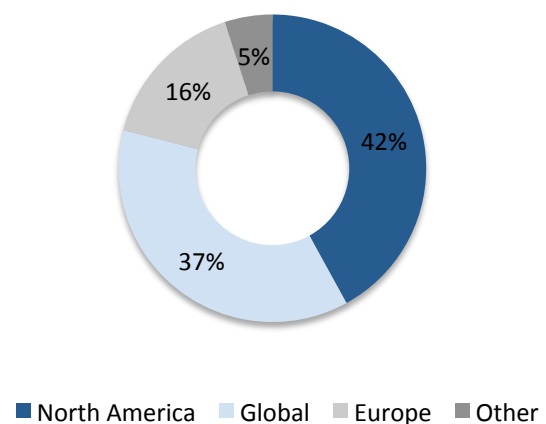
### RESEARCH PARTICIPANTS

In early 2014, The Service Council polled **160 organizations globally** to gauge the maturity of their service operations and transformation initiatives. For the purpose of this paper, transformation data was supplemented by a 2013 research effort of 180 organizations on the importance of customer experience management.

**Participants by Size (Annual Revenue in USD)**



**Participants by Service Coverage Area**



Source: The Service Council Data, 2014

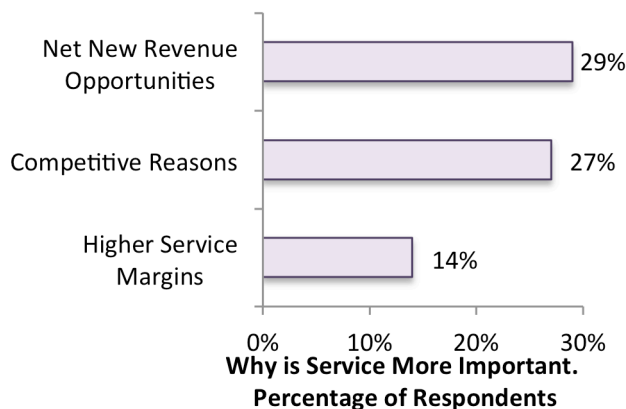
## SERVICE TRANSFORMATION: THE BUSINESS CASE

### THE RISE OF SERVICE - INTERNALLY

Service is becoming extremely important to the success of organizations and that level of importance continues to increase with time. As seen in Figure 3, nearly three-fourths of respondents to The Service Council's (TSC) research on service transformation indicated that the importance of service had increased over the previous three years. Even compared to 12 months ago, 71% of organizations indicate an increasing importance being placed on service. This 71% is consistent even when we remove those with service and support roles from the sample set. All other business disciplines, including executive leadership, see an increasing focus being placed on service and support.

This rising interest in service is not just to satisfy more customers, but also to build new business opportunities from loyal and committed customers (Figure 2). These opportunities lead to additional revenue streams and also enable organizations to stave off competitive advances from other businesses. As the VP of Escalations at a large technology organization puts it, ***“Customers want you to win so that they can continue to do business with you”*** essentially highlighting how customers revere valuable relationships.

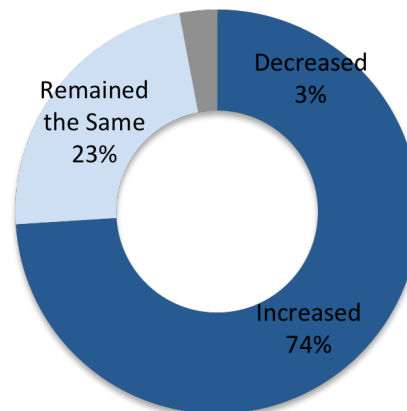
**FIGURE 2: WHY SERVICE?**



Source: The Service Council Data, 2014

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**FIGURE 3: THE IMPORTANCE OF SERVICE**



**Importance of Service - Compared to 3 Years Ago.**  
Percentage of Respondents

Source: The Service Council Data, 2014

### THE VIEW FROM NON-SERVICE PROFESSIONALS

While service leaders are bound to report an increasing focus in their roles and businesses, those responsible for other business functions also recognize the increasing importance of service. More than fifty percent of these individuals report that service is more important now to their business fortunes than it was three years ago. And as seen earlier, 71% have seen an increased importance placed on service over the previous 12 months.

For these business leaders the increasing focus on service is primarily due to competitive factors. In their roles they identify that customer attrition is attributable to a combination of the following factors:

- Non-competitive pricing
- Poor customer service

As these leaders begin to truly understand the impact of service on their business functions and on overall revenue, we will see an increased push for collaboration with the service business group.

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### WHY - COMPETING FOR CUSTOMERS

As seen in Figure 1, competition is the biggest challenge impacting organizations globally. And competition is no longer just limited to price as it extends to service delivery and the overall customer experience. Within service, equipment manufacturers and product providers are no longer guaranteed a service relationship by default. Third-party providers deliver service at a lower price whereas other manufacturers, retailers, distribution partners and more are looking to offer an end-to-end service and support solution to capture new customers.

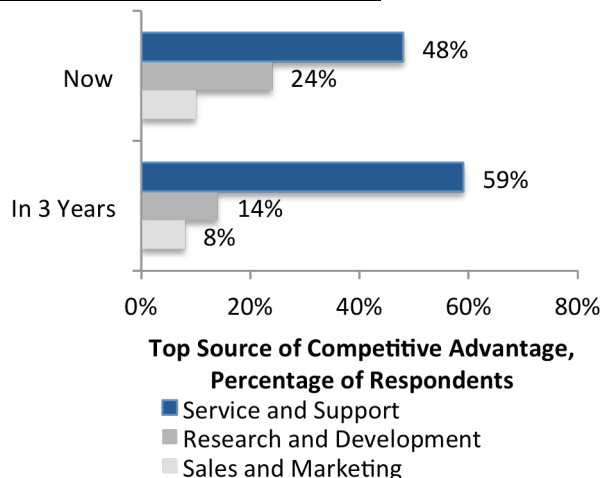
As a result, organizations are facing a strategic decision with regards to their relationships. The need to differentiate is very real, but there are two primary paths to differentiation:

1. By delivering improved customer value
2. By lowering price and focusing on increased internal productivity

While some elements of both can and need to be incorporated in a customer management strategy, the two philosophies are very different. The path chosen, impacts the decisions that these organizations will take with regards to investments to support service and other business functions. It will also impact the type of talent that is sought after to support service delivery and enhance the customer experience. One strategy is customer-focused and the other is purely cost focused. While both might support short-term profitability, the customer value strategy is the one that needs to be incorporated to support long-term growth. The secret to success is, as defined by a TSC-pollled manufacturer:

***“Creating and sustaining long-term value for the customer via best in class service delivery processes supported by optimal usage of capacity within a given cost structure.”***

**FIGURE 4: DIFFERENTIATION PLAN**



Source: The Service Council Data, 2014

In executing a differentiation strategy that is focused on delivering value, organizations are cognizant of the increasing role played by service. They also understand that the importance of service will increase over the course of the coming three to five years. Nearly 60% of organizations see that service and support will be the top source of competitive differentiation in three years.

The traditional view of service dictated that service was necessary when a product failed or a customer had an issue. Therefore the overall objective of the service organization was to fix, repair, or replace, at the lowest possible cost. The cost of service was equated with the resources necessary to get an issue resolved. Gradually, with the increased use of service contracts, the cost of mismanagement in service was no longer just tied to resource commitments but also linked with the penalties associated with missed obligations.

What we see now is that cost calculations include the resource and contractual costs but also factor in the cost of customer loss, which is tied to:

- Retention revenue lost
- Cost of new customer acquisition to replace revenue from lost customers

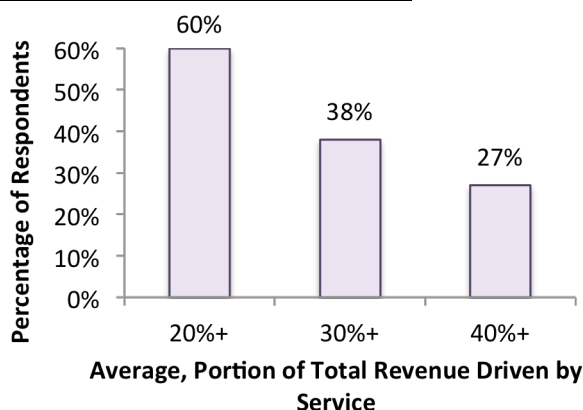
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### WHY – REVENUE AND PROFITABILITY

Organizations are also beginning to understand the impact that service has on net new revenue opportunities via existing customers or net new customers brought to the company via referrals or word of mouth. To add the cost calculations on the previous page, the cost of poor service now also factors in revenue opportunities that could have been had with satisfied customers. As seen in Table 1, satisfied customers support revenue growth opportunities and serve as an invaluable marketing and branding resource in sharing the organization's promise and value to other potential customers. This in turn lowers the cost of new customer acquisition. These satisfied customers also add to the revenue coffers by increasing their annual spend primarily taking advantage of new services or up-sell or cross-sell initiatives.

New customers acquired via word of mouth, referrals or positive sentiment aren't eventually included in service revenue, even though they might as well be. However, service-based revenue streams delivered via the sale of service products offer a significant source of revenue.

**FIGURE 5: CONTRIBUTING TO REVENUE**



Source: The Service Council Data, 2014

**TABLE 1: SATISFIED AND MORE**

The Importance of Satisfied Customers	Average Rank (7 Options)
They continue to spend on products and services	1
They increase their spend on products and services	2
They bring in new prospects / customers	3
They promote the organization's brand	4

Source: The Service Council Data, 2013

Our research shows that 60% of organizations indicate that service accounts for at least 20% of total business revenue.

When considering revenue growth, organizations indicate that net new service opportunity sales provide the biggest prospect for improvement. Fifty-six percent (56%) believe that service sales are still relatively untapped and offer a vital opportunity for growth, more so than any other revenue growth medium.

Service sales become even more enticing considering the margins on these service-generated products and services far outshine those seen on traditional products. Twenty-seven percent (27%) of organizations indicate that their service margins are greater than product margins by 20% or more. Overall 63% of organizations state their service margins are the same or better than those delivered products and only 14% state that product margins are much more attractive when compared to those on service. Therefore, the impact of service on overall business margins can be quite significant whether delivered directly or indirectly in the form of increased product sales and renewals.

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### FORMAL INITIATIVES TO TRANSFORM

Given the increasing importance of service, more and more organizations are establishing initiatives to transform their service businesses to support enterprise-wide revenue and growth objectives. More than half in TSC's research indicate having a formal transformation initiative in place.

Sixty percent (60%) of organizations indicate that these formal initiatives have been in place for less than three years. Therefore while the focus on service has steadily been increasing, formal plans to transform service have been laid down in the recent past.

Every organization has a different definition of service transformation. Some talk about getting more proactive in their service delivery while others talk about changing the organization-customer dynamic around the ways customers consume products and services. Some of the pertinent definitions highlighted by survey takers are listed below:

***“Transforming service from support function to profit contributor”***

**TABLE 2: FORMAL INITIATIVES**

Service Transformation	Percentage of Respondents
Initiative in Place	51%
No Formal Initiative, But we are Transforming	36%
No Formal Initiative, But we will Initiate in Near Future	7%
No Initiative and No Plans	6%

Source: The Service Council Data, 2014

***“Creating and sustaining long-term value for the customer via best in class service delivery processes leveraged by optimal usage of capacity within a given cost structure.”***

***“As a product manufacturing company, we would define service transformation as now having service involved in every aspect of the product lifecycle.”***

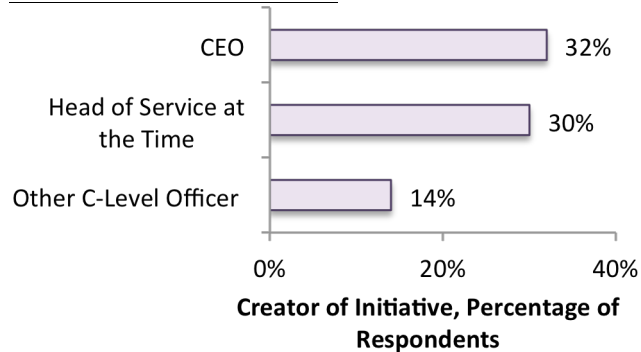
Note the focus of transformation on internal and external stakeholders. While definitions differ, most organizations agree that the goals of transformation are two-fold:

- Customer-focused (49% of respondents)
- Financial for overall organization (22% of respondents)

Nearly a third of initiatives are actually spearheaded by those at the very top and not solely by those leading service businesses. As a result, we see financial objectives for transformation initiatives. Actual transformation primarily occurs along the following fronts:

- Organization structure
- Service delivery and commitments
- Enterprise collaboration
- Dedicated functions
- Customer communication and account management

**FIGURE 6: GETTING STARTED**



Source: The Service Council Data, 2014



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### CONCLUSION – SUCCESSFUL TRANSFORMATION

For service transformation initiatives to be successful, there needs to be a transformation in the way service is viewed across the entire organization. The identity of service has to transform from a pure support function to one that delivers customer value, is profitable, and can significantly impact the performance of other business functions.

It's not that service is the new marketing or the new sales, but that a well-performing service group offers these business functions a leg up in enticing and engaging customers. The advantage delivered via differentiated service is much more sustained and long-term when compared to the advantage delivered via a temporary price cut.

**TABLE 3: THE BUILDING BLOCKS**

Most Important Factors for a Successful Transformation Initiative	Average Rank (14 Options)
Executive Leadership	1
Customer Insight and Feedback	2
Service-centric Culture	3
Well Defined Service Business Plan	4
Engaged Service Workforce	5
Collaboration between Service and Other Business Functions	6
Continuous Performance Measurement	7

Source: The Service Council Data, 2014

As seen in Table 3, a successful transformation of the service organization requires a dedicated focus, team and strategy. More so, there needs to be a dedication to service excellence and a commitment to meet and exceed customer needs.

None of the discussions around renewal, up-sell, cross-sell or referrals can even be approached if customers are unhappy with the service provided. And the primary reason for customer dissatisfaction is poor customer service. Therefore, as much as we fantasize about the next generation service organization and its impact on sales, revenue and profitability, there needs to be a primary focus on understanding customer expectations and delivering on customer commitments.

## ABOUT THE SERVICE COUNCIL™

The Service Council™ is an exclusive community of Services Executives representing global, industry-leading, service-centric businesses. The mission of The Service Council™ is to provide a platform for innovation sharing, shaping and sharpening; where uncommon service-centric businesses can emulate the strategies deployed by Global Service Leaders.

The Service Council™ presents its annual *Smarter Services*™ Executive Symposium in April – May. The Symposium provides an invaluable opportunity to meet and network with Services, Customer Experience and Customer Management Executives in an environment conducive to advancing Executive relationships.

For more information on The Service Council™ visit [www.theservicecouncil.com](http://www.theservicecouncil.com). For general inquiries please submit an email to [info@theservicecouncil.com](mailto:info@theservicecouncil.com).