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Where Global Service Executives Sharpen Strategy



THE 2014 SERVICE OUTLOOK

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SUMMARY

In years past, competition in service was unheard of or limited to who could give service away the cheapest. Those organizations that focused on improving service to their customers were looked upon as being responsible but not financially sound. That has all changed. Competition in service is very real and is forcing organizations to re-think their value proposition to customers. While, in most cases, the service business is shown to be more profitable than the product side of the business, service margins are being compromised by increasing prices, increasing customer competition and the continued proliferation of services commoditization. That said, competition is driving innovation in the service realm as organizations look to differentiate the value that they offer to their customers. As Herbert Hoover once put it, *“Competition is not only the basis of protection to the consumer, but is the incentive to progress.”*

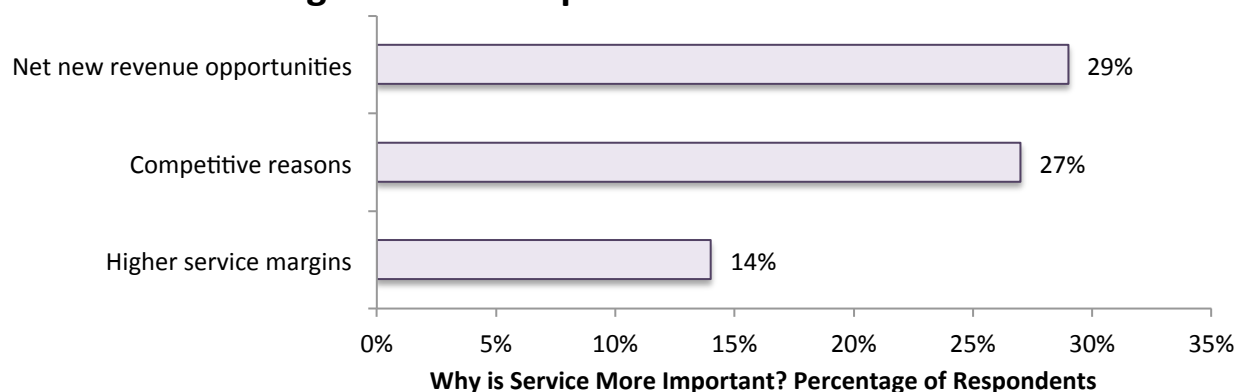
REPORT HIGHLIGHTS

- *Nearly two-thirds of organizations indicate that service margins are greater than or equal to product margins.*
- *Increasing service revenue is the top goal for service organizations in 2014*
- *Increasing competition is seen as the top challenge hindering service business growth in 2014*
- *Customer experience management, performance management and collaboration are the key areas of focus for organizations in 2014*

A SNAPSHOT

Across the board, organizations are raising the focus on service and support and The Service Council’s (TSC’s) latest research shows that 70% of all organizations have an initiative in place to elevate the discussion around service and support. Most of these organizations are doing so not only to raise satisfaction levels, but also to partake in the benefits that follow a stream of satisfied, loyal and engaged customers.

Figure 1: The Importance of Service



Source: The Service Council, 2014 Trends, Q1 2014

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The relationship between happy customers and financial growth is no longer adversarial, but is in fact complementary. Happier customers are more loyal and more likely to be candidates to renew or increase their spend with an organization. Our research on customer experience revealed that customer service and pricing were two most vital components in determining customer loyalty and retention.

Along the lines of financial reasons to support a stronger service organization, the margins on service are greater than those on products and equipment for those organizations that have a product to service. Sixty-two percent (62%) of organizations indicate that their margins on service are either greater than or the same as the margins on products (Note: 23% don't know how their margins compare). Twenty-seven percent (27%) indicate that their service margins are greater than product margins by a factor of 20% or more, indicating healthy service growth opportunities. Average margins in service for respondents to TSC's survey fall in the 25% - 27% range, consistent with those reported in previous years. However, during the 2013 timeframe service margins took a dip in the fourth quarter of the year primarily due to smaller service organizations struggling in two areas: renewals management and price integrity.

Service also continues to serve as a major differentiator for businesses and 48% of organizations indicate that it is the biggest driver of competitive advantage along with Research & Development (24% of respondents). However, it is no longer sufficient to compete by just offering service or a service solution to customers. Given the case for better service, organizations are heavily investing in their service capabilities and creating a competitive marketplace for service offerings.

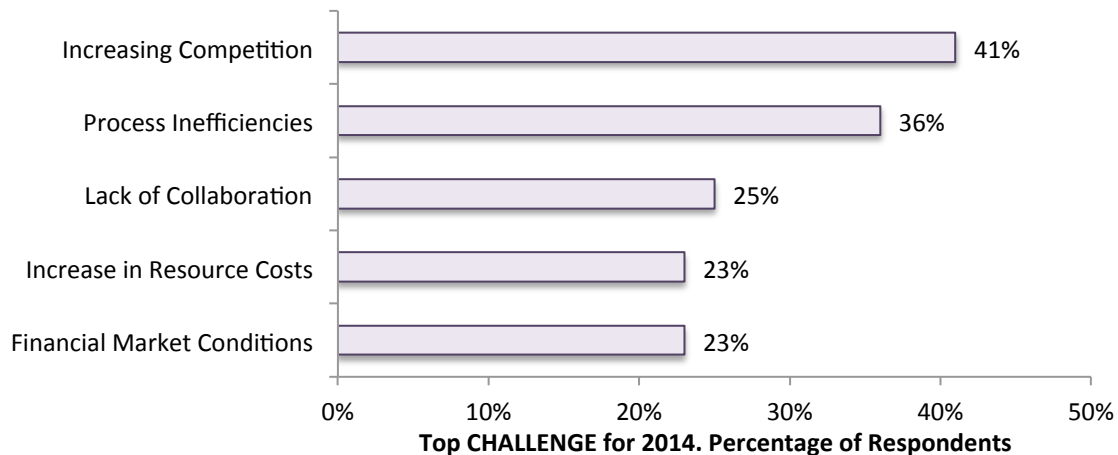
COMPETING IN 2014

Most organizations expect an increase in service revenues over the next 12 months, as indicated by 74% of respondents. Fifty-seven percent (57%) expect a 10% or less increase when compared to revenues in 2013. On the cost side, 31% expect an increase in service-related costs vis-à-vis 2013, with 38% indicating no change in service costs.

The attainment of service revenues, either via existing renewals or net new customer acquisitions, will not be easy. Organizations across industries face an increasing amount of competition in the service realm, primarily due to the significant prospects for growth and profitability in the service industry.

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Figure 2: Head Winds in 2014



Source: The Service Council, 2014 Trends, Q1 2014

It is no secret that service is the business to be in, thereby leading to a greater network of competitors in the service space. For manufacturing organizations, these competitors come in the form of:

- 1- Other Original Equipment Manufacturers
- 2- Third-Party Service Providers
- 3- Service Delivery Partners (e.g. Dealers, Resellers, Distributors and More)

For more consumer-oriented industries, self-service is a viable option and while not always viewed as competition, it could lead to organizations moving away from their primary providers when seeking service information.

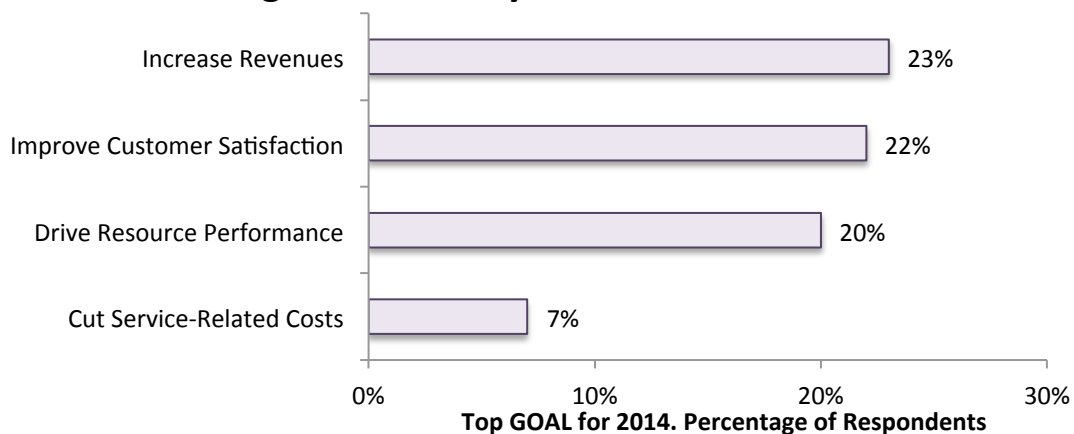
The three layers of competition highlighted above signal three very different battles for manufacturers and three very different value propositions to customers. The first is a competitive battle taking place on the grounds of customer convenience and customer value wherein a single vendor is looking to take over the service and support of all the equipment in an entire plant floor, or in an operating theater, or on an office floor. This is often referred to as multi-vendor services and customers like it as it provides a single vendor with whom they have to transact with. The second competitive battle is purely over price and manufacturers are being forced to compete with smaller third-party providers who can charge much less for their service given the niche type of service or niche type of product being serviced. Hence their resource investments are not as large as those committed by the manufacturer. In certain instances, these price battles take place in the form of auctions therefore having a significant impact on service margins. The final battle is between OEMs and its delivery partners. This isn't a significant issue at this stage but is festering especially as more OEMs look to take a greater stake in the end experience delivered to customers. Lack of visibility into customer experience is a scary thought, as OEMs are concerned of the emergence of new service providers.

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THE SHOW MUST GO ON

In spite of the challenging competitive environment, service organizations are still tasked with improving revenue numbers in 2014, the top goal among TSC's survey respondents. They are looking to do so via improved customer relationships and enhanced customer loyalty.

Figure 3: Priority List for 2014



Source: The Service Council, 2014 Trends, Q1 2014

From a profitability perspective, organizations continue to look to improve the efficiency and productivity of their service employees and resources (the denominator in the equation $\text{Service Profitability} = \text{Service Revenues} / \text{Service Costs}$) and rightfully so. One manner in which you can improve profitability is by increasing revenues (the other is by decreasing service costs). The relative similarity in focus for the top three goals indicates that there isn't a single focus area that will dominate service organizations in 2014. It is more likely to be a balanced approach to support better business profitability with the aid of enhanced customer relationships.

That said, most organizations are facing a major decision with regards to their path to differentiation in 2014. Some will focus on increasing customer value, a long-term growth path, whereas others will seek to focus on internal efficiencies and reduce cost in the business. For the 2nd group, price becomes the primary factor in winning customer transactions.

As Figure 3 shows, most organizations are looking at a blended internal strategy but need to determine the path they would like to follow when it comes to building and sustaining customer relationships. While customer transactions can be won on price, customer relationships are built on value delivered. Therefore TSC advocates a strategy where organizations review their service delivery portfolio and understand which aspects are viewed as transactions and which ones are viewed as relationship

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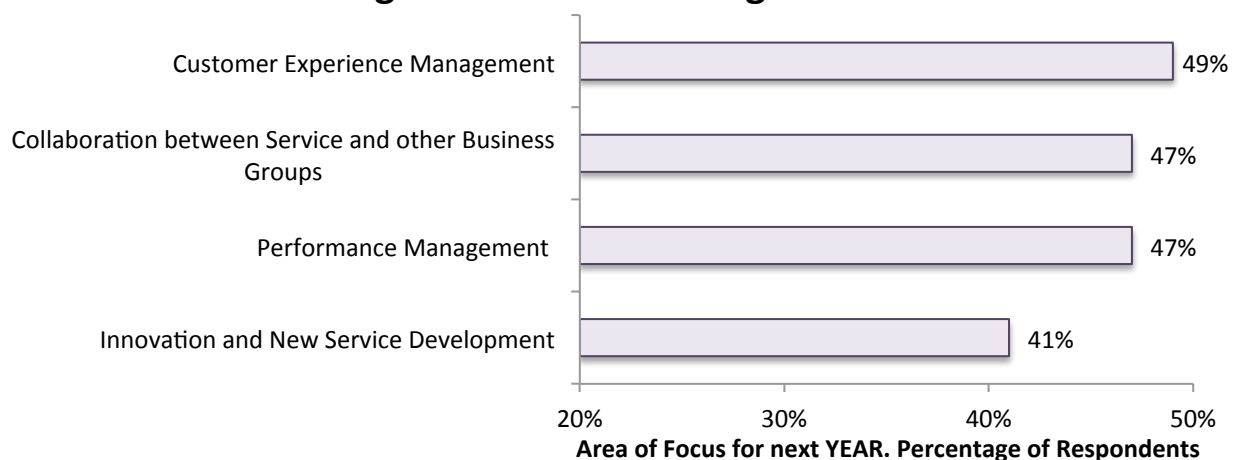
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enhancers. Those services that are transactional can and will be commoditized wherein price becomes the key selection factor. The relationship building interactions are the ones that cannot be commoditized and are areas that can be focused on to enhance customer value. More so, transactional opportunities can be bundled into larger service relationships, wherein they continue to occur to support customer satisfaction and form a base on which a broader customer relationship can be built. For example, individual field service visits are viewed as transactions. While speed and efficiency are key, only a handful of organizations and consumers are willing to pay extra for increased speed of delivery. Price tends to be the single most important selection factor if field service visits are viewed as individual transactions. Now, when field service workers form relationships with customers and advise customers on getting the most from their purchases, the vendor-customer partnership is viewed as less of a transaction and more of a relationship. Now, customers see their vendors and their employees as partners and look to them to generate additional value. Efficiency and price are still very important and relationships will sour if basic field transactions aren't dealt with in an expedited manner, but there is a reduced chance of customer turnover if a relationship has been established based on enhancing customer value (people and culture continue to be two of the most important factors in establishing successful service relationships).

Figure 4 highlights how organizations are keenly focused on enhancing customer relationships in 2014 and in looking at ways to drive additional value for their customers. It is no longer just about service efficacy, but more about the customer experience delivered of which service efficacy is just one piece. Therefore, we also see more organizations looking to improve the collaboration between service and other business groups in order to improve the experience delivered across all customer touch points. If the sales and marketing components of a transaction are sub par, an excellent service experience might not be sufficient to ensure customer retention.

Figure 4: Differentiating in 2014



Source: The Service Council, 2014 Trends, Q1 2014

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Performance management initiatives are also being prioritized by service organizations in 2014. Some of this is tied to enhancing efficiency in field service and in the contact center (often times the first line of defense). However, most is focused on developing a true picture of customer performance and understanding where the servicing organization can fill a gap or meet a need in order to enhance customer value. Better performance management will also serve as the foundation for increased innovation in the service enterprise. A better grasp of customer needs will support the development of new service offerings and new service delivery methods focused on improving customer value while enabling newer revenue streams for the servicing organization. Our research on Service Transformations reveals that 44% of organizations have already started offering new services over the previous three years.

2014 IN FOCUS

Here are some of the areas that TSC believes will see an increased amount of attention in the next 12 months:

1- Workforce and People Management Strategies

The choice of how organizations choose to differentiate and brand themselves will determine the type of employees they want in place to build customer relationships. This impacts employment at the front lines, at the management level, and at the senior service executive level. In areas where front-line service employees aren't a competitive advantage, we will see a greater reliance on third-party or outsourced workforces. In areas where front-line employees are the core of the service message, we will see changes in hiring, training, and incentives to support a differentiated service message.

2- Customer Segmentation

Organizations will look to tailor their service and support offerings to match the needs and requirements of customers. A one-size-fits-all approach will be abandoned for a more customized and personalized approach, especially for higher value or longer-term customers.

3- Changing Buyer Personas and Preferences

Across B2B and B2C organizations alike, buyer personas and preferences are evolving. In manufacturing and facilities management environments, we are seeing buying decisions tied to service and maintenance offerings being taken out of the hands of plant or facility managers and placed in the hands of teams that involve service, operations, finance, procurement and IT. This is occurring to allow for economies of scale and standardization across multiple plants or facilities as well as to accommodate the newer types of services being offered.

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In terms of buyer preferences, self-service options are a must for consumers and enterprises alike. While the depth of functionality offered to consumers is greater, enterprise customers are also looking to take ownership of the service experience with the aid of self-service options. As such, these customers are looking to be able to access information, account management capabilities, initiate service requests, track service performance and more at their own convenience. More so, they are looking to do so via mobile devices and we anticipate the creation of mobile self-service portals and apps aimed at the enterprise customer.

4- Focus on Account Management and Value Reporting

Quite often, the service buyer or relationship owner at the customer level isn't aware of all service transactions that have taken place. Therefore TSC sees a greater push from organizations in providing consistent touch points and reporting to customers to make them aware of all of the value delivered by the servicing organization. Our service transformation research shows that while 16% of organizations currently have frequent value discussions with their customers, 65% would like to host periodic value discussions in the near future.

From the servicing organizations perspective, this also changes the role of service managers. No longer are these individuals solely focused on operational responsibilities, but they are also provided customer management roles in assisting customers to understand the true value and potential of the service relationship.

5- Integration of Service and Sales

Figure 4 highlights collaboration between service and other business groups is a key area of focus for 2014. Currently, the service-sales paradigm is a significant challenge and organizations are looking to better align the two groups to provide a unified front to customers while opening the door for new revenue opportunities.

6- Formalized Voice of the Customer (VoC) Programs, Customer Effort Scores and Improved Analytics

Seventy-four percent (74%) of organizations currently have a customer survey program in place but only a portion of those organizations blend survey data with other sources of feedback and performance. To truly understand customer needs, organizations will take a greater interest in formalized VoC programs that focus on feedback collection, as well as, feedback analysis and activity. Therefore information and data collected via customer surveys will need to be integrated with other avenues of service data to get a true picture of customer experience improvement opportunities. We also anticipate the use of Customer Effort Scores in order to get a true feel of the ease with which customers can access

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information, seek support and manage their interactions with their vendor partners.

7- Knowledge Management

Organizations are looking to provide their front-line employees with better access to knowledge in order to support customer relationships. The knowledge management being spoken about is the integration of traditional knowledge bases with customer history and more so that front-line employees can get a complete picture of customer needs.

8- Mobile Maturity in the Field

As field agents become relationship ambassadors, the type of information afforded to them needs to evolve. No longer will mobile applications just replace paper-based processes, but will need to support better relationship management.

9- Service Innovation and Design

Service leadership will be tasked with looking at customer usage and other feedback data to develop, price, and support additional services that can be delivered to enhance customer value. These range from training to reporting and consulting services that are aimed at providing customers with better knowledge into how their products are being and should be utilized.

10-The Internet of Things

Sixty-four percent (64%) of organizations polled by TSC indicate that remotely captured machine data will impact their business transformation initiatives in the next three years. Remotely captured machine data can support efficient and intelligent service delivery via remote resolution or field service. The information captured can also be used to support customer value discussions while enabling the development of new revenue generation services. More organizations will investigate how sensor-based machine and product data will impact their service delivery and customer engagement models in 2014.

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. For general inquiries please submit an email to info@theservicecouncil.com.