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Where Global Service Executives Sharpen Strategy



## THE PATH TO SERVICE TRANSFORMATION

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## THE PATH TO SERVICE TRANSFORMATION

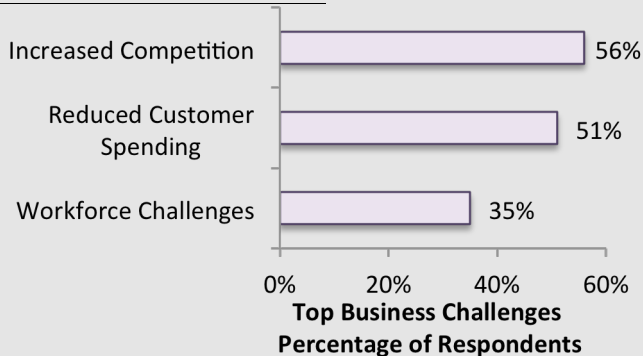
### SUMMARY

The discussion of transformation in service is no longer tied to the debate of cost vs. profit center. In most organizations, the profit center argument has won out, and won out several years ago. The discussion around transformation now focuses on a sea of change wherein the service business is viewed as a vital cog in the way relationships are built within the organization and with customers.

No other business group can claim the impact that service has on customer relations and customer growth as well as on internal business processes and relationships. Service organizations are no longer just working to deliver better support to their customers, but are looking to redraw the lines of how relationships are formed between organizations and their customers. Similarly, the value of service and customer insight is creating a new relationship paradigm within the organization between service and other business functions such as sales, marketing, product design and engineering.

Service transformation is a change in mindset around how relationships are built across the employee-organization-customer spectrum. This change is necessary given the prevailing challenges felt by enterprises globally.

**FIGURE 1: CHALLENGING TIMES**



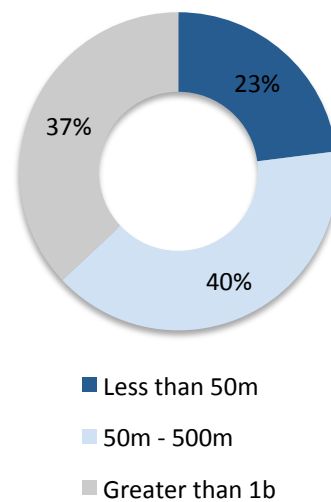
Source: The Service Council Data, 2014

This paper will document the changing mindset around service in organizations and highlight areas of aspiration when it comes to the role of service in supporting business growth.

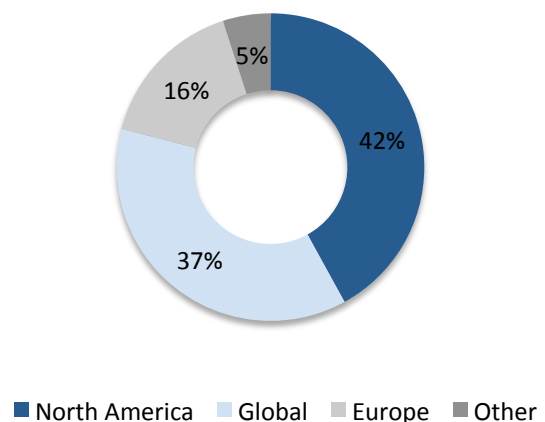
### RESEARCH PARTICIPANTS

*In early 2014, The Service Council polled **160 organizations globally** to gauge the maturity of their service operations and service processes. Data captured also touched upon the maturity of service transformation initiatives and potential areas of future transformation.*

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



**Participants by Service Coverage Area**



Source: The Service Council Data, 2014

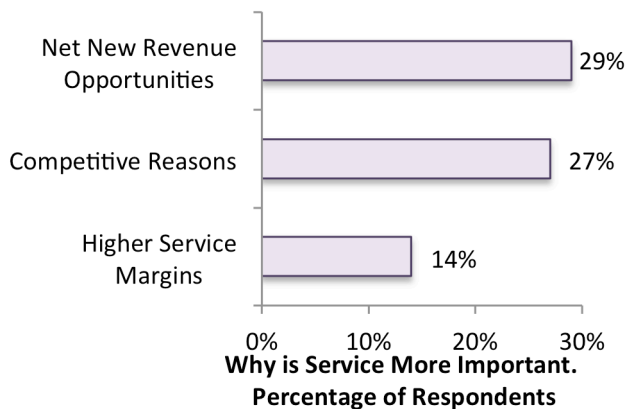
## THE PATH TO SERVICE TRANSFORMATION

### THE RISE OF SERVICE

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.

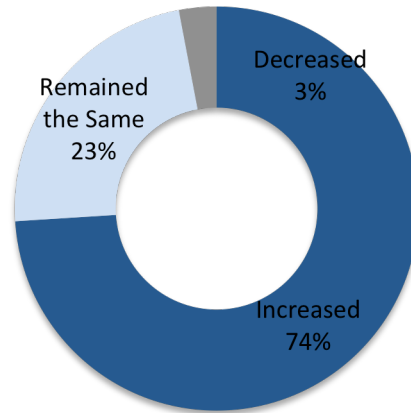
**FIGURE 2: WHY SERVICE?**



Source: The Service Council Data, 2014

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**FIGURE 3: THE IMPORTANCE OF SERVICE**



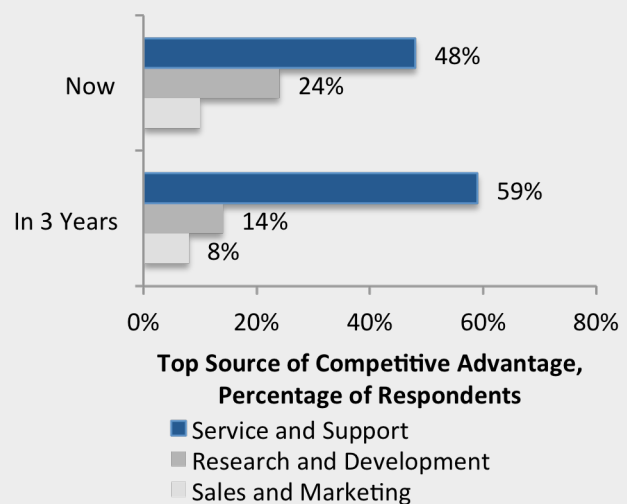
**Importance of Service - Compared to 3 Years Ago.**  
Percentage of Respondents

Source: The Service Council Data, 2014

### SERVICE AS A COMPETITIVE DIFFERENTIATOR

Looking ahead, organizations are going to place a greater emphasis on the role of service as a competitive differentiator. While other areas continue to be extremely important, organizations are more aware of the role that service plays in impacting the performance in other functions.

**FIGURE 4: A FUTURE ADVANTAGE**



Source: The Service Council Data, 2014

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### TAKING THE INITIATIVE

Service transformation isn't a pie in sky concept or a feel good program for organizations. More than half indicate having a formal initiative in place to transform their service business and relationships. 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 1: 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.”***

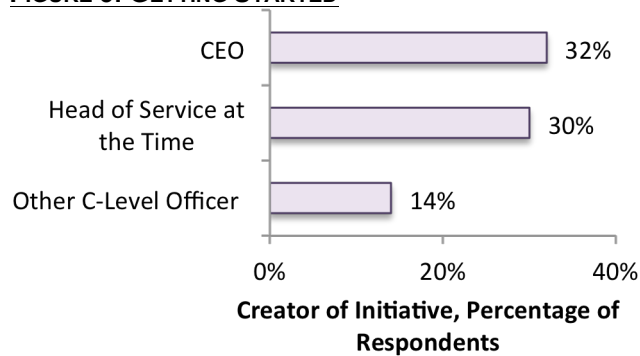
***“As a product manufacturing company, we would define service transformation as now having service involved in every aspect of the product lifecycle.”***

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)

While the intent is to make service more profitable, the overall idea is to improve customer results and support better business profitability. **Sixty-three percent (63%) of organizations report that the margins on service are higher than, or in line with, those on the products that they deliver.** However, organizations understand that growing service margins needs to be paired with stable product margins in order to support business growth. This connection between service and the rest of the organization requires executive ownership and support of transformation initiatives and as seen from Figure 5, nearly a third of initiatives are actually spearheaded those at the very top.

**FIGURE 5: GETTING STARTED**



Source: The Service Council Data, 2014

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### THE BUILDING BLOCKS

Fifty-two percent (52%) of organizations developed a business case to support their transformation initiatives. In fact, building a well defined service business plan that covers:

- Growth objectives and forecasts
- Resource requirements
  - o People
  - o IT
  - o Financial
  - o Partnerships
- Service delivery plans
- Collaboration avenues
  - o Partners
  - o Customers
  - o Employees
  - o Other Business Groups
- IT requirements
- Leadership succession

is essential to transformation success. When respondents were asked what first step was essential when going down the path of transformation, the following answers were well represented:

- Set clear goals and objectives
- Build executive support
- Understand customer needs and tendencies
- Identify the current state

These first steps are also closely aligned with the factors that are deemed most important when considering the success of service transformation initiatives (Table 2). In subsequent sections, we will review where organizations are in terms of having the key success criteria in place to support their transformation initiatives.

**TABLE 2: SUCCESS FACTORS**

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

### EXECUTIVE SUPPORT AND SERVICE ORGANIZATION STRUCTURE

It's not surprising that the rise of a more profit-centric view of service coincides with:

- The increased treatment of service as an independent business unit. As transformations commenced, only 29% of organizations treated service as an independent business. Forty-four percent (44%) indicated service fell under sales or product with another 26% indicating service being led by operations.
- The rise in seniority of the leader responsible for service. Sixty-one percent (61%) of organizations indicated that they initially had service under Director-level or lower oversight at the initial stages of their transformation. Now nearly 50% have a VP-level leader in place.

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Organization Structure 			
(Percentage of Organizations, Most Popular Category)			
Attribute	Initial State	Current State	Desired State
<b>Service Organization Focus</b>	Cost Center – 51%	Profit Center or in Transition – 82%	Profit Center or in Transition – 91%
<b>Service Leadership</b>	Manager or Lower – 33%	VP-Level or Higher – 46%	VP-Level or Higher – 70%
<b>Ownership</b>	Under Product or Sales – 45%	Independent or Executive Ownership – 50%	Independent or Executive Ownership – 70%
<b>Service Business Review</b>	Semi-Annual or Less Frequent – 52%	Quarterly or More Frequent – 63%	Quarterly or More Frequent – 84%

Leadership is necessary to support accountability so that service is actually treated as a business with a profit objective in mind. It is also essential in order to support the development of a specific service strategy, for the identification of opportunities for innovation, for the development of a service-oriented culture, and for the support of increased collaboration across the organization.

Speaking of accountability, TSC's data reveals service performance is being reviewed in a more consistent manner in order to identify areas of focus and improvement. More so, performance measurement is no longer just limited to customer satisfaction or service cost. We now see that service executives are being held


accountable for revenues, margins and customer commitment. While satisfaction scores continue to remain important, organizations are placing an increasing level of importance on customer retention, customer renewals and overall revenue. Our research indicates that revenue from the service organization makes up nearly 30% of total organization revenue on average, making service revenue an extremely vital metric to monitor overall. More so, service revenue also serves as a pre-cursor to product revenue via renewals, up-sells and cross-sells, thereby necessitating an increasing accountability tied to service revenue performance.

**TABLE 3: CHANGING SERVICE METRICS**

Metric	Percentage of Respondents Indicating Service Accountability for Metric		
	Initial State	Current State	Desired State
<b>Service Revenue</b>	59%	71%	72%
<b>Service Cost</b>	58%	58%	64%
<b>Service Margins</b>	48%	69%	81%
<b>Customer Satisfaction</b>	50%	78%	90%
<b>Customer Retention</b>	23%	42%	73%
<b>Renewals</b>	20%	44%	61%

Source: The Service Council Data, 2014

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Service Delivery and Commitments 			
(Percentage of Organizations)			
Attribute	Initial State	Current State	Desired State
<b>Preventive Service</b>	Percentage of Visits that are Preventive >30% - 38%	Percentage of Visits that are Preventive >30% - 51%	Percentage of Visits that are Preventive >30% - 72%
<b>Contract Attach Rate</b>	Less than 20% – 49% More than 50% - 20%	Less than 20% – 32% More than 50% - 36%	Less than 20% - 14% More than 50% - 65%
<b>Contract Renewal Rate</b>	Less than 20% – 28% More than 80% - 23%	Less than 20% – 15% More than 80% - 34%	Less than 20% - 7% More than 80% - 67%

### SERVICE DELIVERY AND COMMITMENTS

The definition of service excellence has transformed with time. Initially the idea was to respond and react to customer inquiries in the shortest time frame possible. Then excellence was defined in terms of the efficiency in being able to deal with customer issues, measured via first-time fix, first-call resolution, or call back rates. Eventually organizations began to realize that they could deliver service in a more preventive manner usually carried out via time-based maintenance programs. Its only a matter of time before preventive programs become predictive in nature, wherein service is delivered before a problem occurs based on the likelihood of that problem occurring based on better knowledge of product performance trends.

This knowledge of performance usage and trends also lends to the creation of new services, discussed later.

As organizations have transformed, they have also looked to bring in greater predictability into (and renewability of) service revenue streams via a greater focus on contract management. As seen above, attach and renewal rates have consistently risen along the path of transformation. At the beginning most organizations focused on leveraging standard service contracts that promised a particular response time or set of response times. While standard SLAs continue to be popular, we see organizations slowly increase their use of performance-based contracts tied to usage, availability or output.

**TABLE 4: CONTRACT UPGRADES**

Contract Type	Percentage of Respondents Indicating Contract Type Offered to Clients		
	Initial State	Current State	Desired State
<b>No Contracts Sold</b>	29%	10%	7%
<b>Standard SLA</b>	60%	67%	47%
<b>Performance-Based (Output)</b>	17%	24%	36%
<b>Performance-Based (Uptime)</b>	7%	22%	47%
<b>Performance-Based (Savings)</b>	5%	10%	40%

Source: The Service Council Data, 2014



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Output-based service contractual models, wherein organizations get paid on the output of the asset as opposed to the asset in itself, or savings-based models, where the organization gets paid a fraction of the savings delivered to the customer as a result of product/service use, are changing the way that customers purchase and utilize products. For instance, most organizations state that their customers either purchase equipment or product up front or pay a periodic flat fee for a lease. However, more organizations are offering their customers pay-per-use models in which the customer pays based on the hours of usage or total number of uses.

Periodic Usage Fee (Hours of Usage or Pay-per-Use)

- Initial State – 24% of respondents
- Current State – 28% of respondents
- Desired State – 40% of respondents

Given this shift, a preventive and predictive service model becomes even more important, as the servicing organization is taking on the risk of the asset and only getting paid when the product is actually up and running.

### COLLABORATION

As seen in Table 2, collaboration between service and other functions is seen as a major factor governing the success of service transformation and customer management initiatives. Collaboration requires more than just the ad-hoc sharing of information or a gathering of business functions when there is a customer crisis. Collaboration needs to take place in the form of:

- Sharing of information
- Development of customer management processes
- Execution of customer management plans
- Sharing of IT resources
- Analysis of customer usage and feedback

Most organizations prioritize collaboration only in a time of crisis, while the connection between service and other business groups needs to be much more periodic. This leads to better customer results and increased revenue, and can also lead to increased product quality and reliability. There is greater momentum around establishing a link between service and sales to promote better account management and drive revenue. However collaboration between service and other business groups, especially design and engineering, needs to become a higher priority.

<b>Enterprise Collaboration</b>			
<b>(Most Popular Answer, Percentage of Organizations)</b>			
Attribute	Initial State	Current State	Desired State
<b>Collaboration with Sales</b>	Ad-hoc or none - 79%	Per customer visit/touch - 55%	Periodic (once a month or more) - 68%
<b>Collaboration with Product Design / Engineering</b>	Ad-hoc or none – 68%	Upon major event or increased incidence of repair – 49%	Periodic – 72%



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### DEDICATED SERVICE FUNCTIONS

To promote collaboration and to increase the focus on service-specific offerings, a large number of organizations have invested in dedicated service sales, marketing or engineering functions.

These teams are comprised of employees dedicated to the service business or ones who take on a hybrid role connecting service with other business functions. Given their understanding and knowledge of multiple disciplines they are aware of the constraints and challenges faced by the separate business groups and are able to employ a unique perspective when dealing with business challenges.

Service product development, marketing, and sales teams are primarily used to create, raise awareness to and sell service-specific offerings. However, roles such as Service IT are put in place to enable the automation needs of the service organization while working with established enterprise-wide standards and constraints for solution adoption.

### CUSTOMER COMMUNICATION

While most of the changes detailed in the sections above deal with internal modifications, there are adjustments being made by businesses to customer interactions. These adjustments relate to:

- The frequency of interaction
- The type of information delivered

Previously interactions with customers post-purchase were limited to service visits upon request or pre-renewal visits from the sales team. This was not conducive to the development of a relationship between the organization and the customer.

As seen earlier, service visits are now being timed to be preventive and predictive in nature. Similarly, relationship management philosophies are being applied to customers where account managers periodically connect and communicate with their customers. The focus of these connections isn't only to capture customer feedback but also to communicate the value being delivered via the servicing organization. This becomes extremely vital especially when service is being delivered remotely or if the person purchasing service isn't aware of service activity and its impact on business operations.

**TABLE 5: DEDICATED TO SERVICE**

Dedicated Function	Percentage of Respondents Indicating Function in Place		
	Initial State	Current State	Desired State
Service Operations	71%	84%	79%
Service Sales	38%	59%	77%
Service Marketing	18%	46%	68%
Service Product Development	20%	48%	63%
Service IT	14%	27%	61%

Source: The Service Council Data, 2014

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### CONCLUSION – CONTINUED TRANSFORMATION AND THE HURDLES IN THE WAY

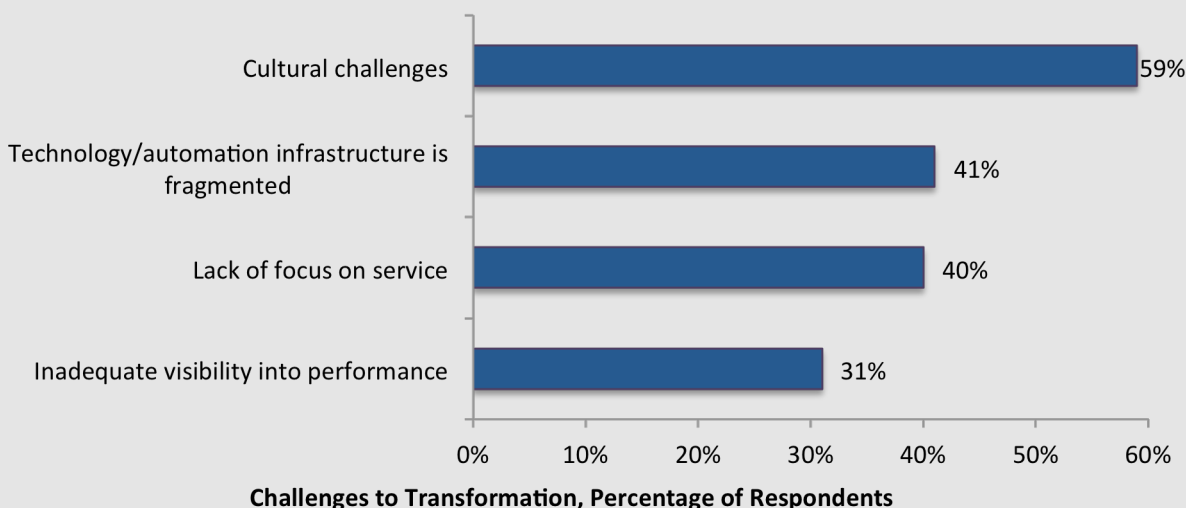
With greater customer communication and intimacy comes a better understanding of customer needs. This enables the servicing organization to transform its positioning to that of a solution and value provider, as opposed to a support organization. This enables differentiation, wards off competition, and also promotes the generation of new revenue generating services. With the aid of service information, history, or outcomes, 44% of organizations indicate that they have developed and started offering new services to fulfill customer needs. These services are aimed at increasing the value that customers derive from their relationship with the servicing group and primarily come in the form of:

- Process optimization services
- Education and training services
- Consulting services
- Benchmarking and efficiency services

Once again, these services are enabled as a result of insight into service and product performance and a better understanding of customer needs and value drivers. Then and only then can the customer be provided a path to maximize the return on the relationship with the servicing organization.

This transformation from reactive support vendor to business partner is not easy and often requires a significant cultural overhaul. The success of such a transformation cannot occur without the buy-in of the entire organization. It can't just be an executive or service initiative, but has to be one that is endorsed and supported by the entire organization.

**FIGURE 6: GETTING IN THE WAY**



Source: The Service Council Data, 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](http://www.theservicecouncil.com). For general inquiries please submit an email to [info@theservicecouncil.com](mailto:info@theservicecouncil.com).