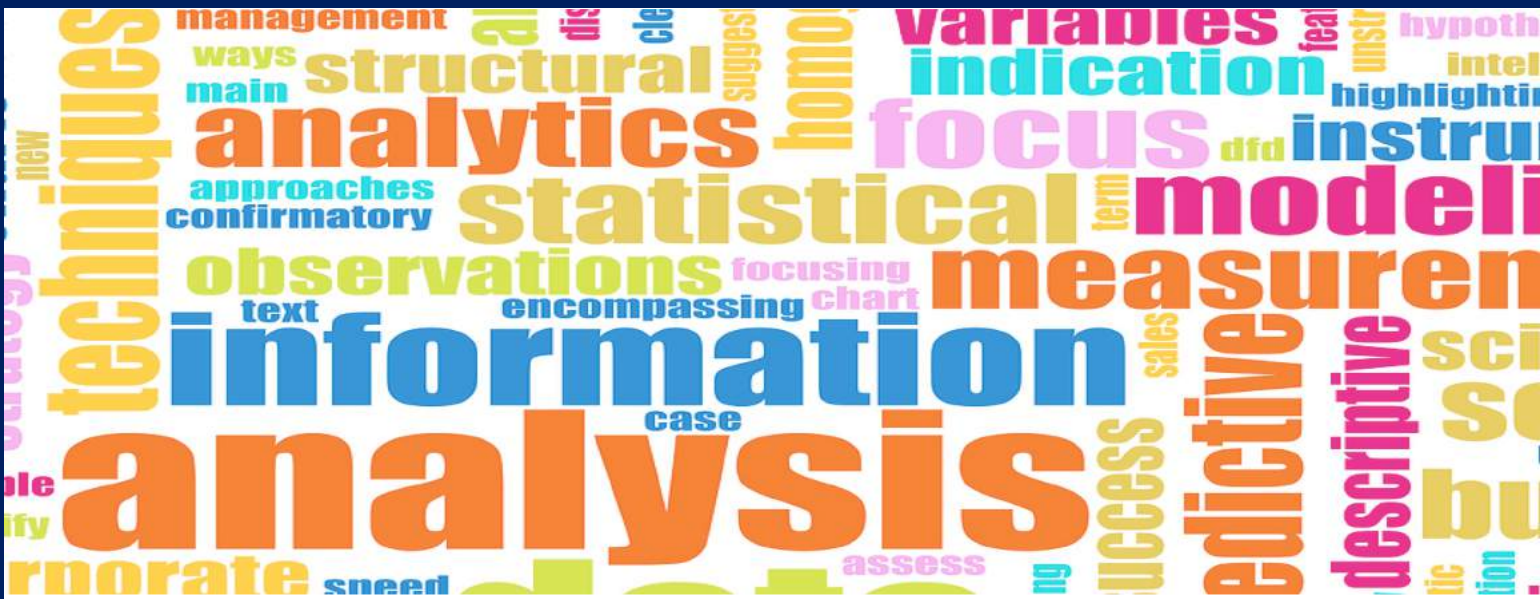# An *SFG℠* Analysts Take

Has Your Services Organization Already Embarked on Its Servitization Journey?

Your Customers Have – and So Have Your Competitors! When Is Your Organization Going to Make Its Move?

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A Special *SFG℠* Analysts Take

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Preface

This *Analysts Take* paper was written exclusively by **Strategies For Growth℠** (**SFG℠**), an independent research analysis and consulting firm, based on data collected and analyzed from a custom survey commissioned by IFS, a leading global enterprise software solutions company.

All narrative and opinions contained in this document represent the express thoughts and opinions of **SFG℠** and the paper's author, Bill Pollock. Only the charts and graphics have been processed and prepared by IFS for the purposes of publishing this paper.

A.   Introduction and Survey Respondent Disposition

Each year, **Strategies For Growth℠** (**SFG℠**) conducts a series of Benchmark and Custom Surveys among its outreach community of more than 20,000 global services professionals. Total responses for the *2019 Servitization Journey Benchmark Survey*, conducted in June/July, 2019, are 174, and it is among this respondent base upon which the survey analysis is based.

An overview of the survey respondent base disposition reflects a microcosmic representation of the global field services community, as follows:

- **63%** Manufacturer/OEMs or Third Party Maintenance (TPM) providers; **21%** Professional Services; **9%** Dealer/Distributors; and **7%** In-house/Self-Maintenance
- **67%** North America; **28%** EMEA; and **5%** Asia-Pacific
- **52%** C-Level/VP/GM; **22%** Services Operations Director; **16%** Services Operations Manager; **10%** Services Technician and Other
- **48%** Small Enterprises (i.e., less than US$100 million); **24%** Medium Enterprises (i.e., between US$100 and US$999 million); and **28%** Large Enterprises (i.e., US$1 billion or larger)
- **23%** Life Sciences and Medical Devices; **19%** IT Infrastructure and Professional Services; **16%** Capital and Industrial Equipment; **10%** High-Tech and Office Equipment; **7%** Energy, Utility and Communications; **6%** Construction and Installation; and **19%** Other (including Property and Commercial Services, Transportation, etc.)

As such, we believe the survey results to represent a realistic reflection of the global services community in which these FSOs serve.

B.   Putting Things in Perspective

Overall, a majority (or near-majority) of survey respondents are currently using, or planning to use, the following factors to set their Outcomes-based service contracts:

- **66%** Performance metrics (e.g., total output, time on task, utilization rate, etc.)
- **51%** Asset uptime (i.e., uptime percentage for length of contract)
- **49%** Time to service (i.e., guaranteed time from ticket-to-close)

Since adopting an Outcomes-based services model, the greatest benefits realized by FSOs have reflected:

- **47%** Improved contract renewals
- **42%** Improved technician utilization
- **36%** Increased predictive outcomes
- **33%** Increase in net new business
- **16%** Increase in zero-touch service
- **15%** Decreased time-from-ticket-to-invoice

The remainder of this *Analysts Take* paper provides additional insight into each of these and other related services areas that are likely to be impacted through the adoption and use of an Outcomes-based services delivery model.

C.   Evolution From Cost Center to Profit Center

SFG℠'s *2019 FSM Benchmark Survey Update* (conducted in January/February, 2019) revealed that while nearly three-quarters (71%) of respondent FSOs were operating service as an independent profit center (or as a pure, third-party service company), there were still 29% that were operating as cost centers. However, it is noted that the percentage of FSOs then running as profit centers reflected a significant uptick from the 65% to 68% range reflected in *SFG℠*'s 2016 - 2018 annual FSM surveys.

However, the results from the *2019 Servitization Journey Benchmark Survey*, conducted a mere six months later, reveal an even higher percentage of FSOs running their services operations as profit centers (i.e., 72%) (Figure 1).

Figure 1: How Service Is Managed
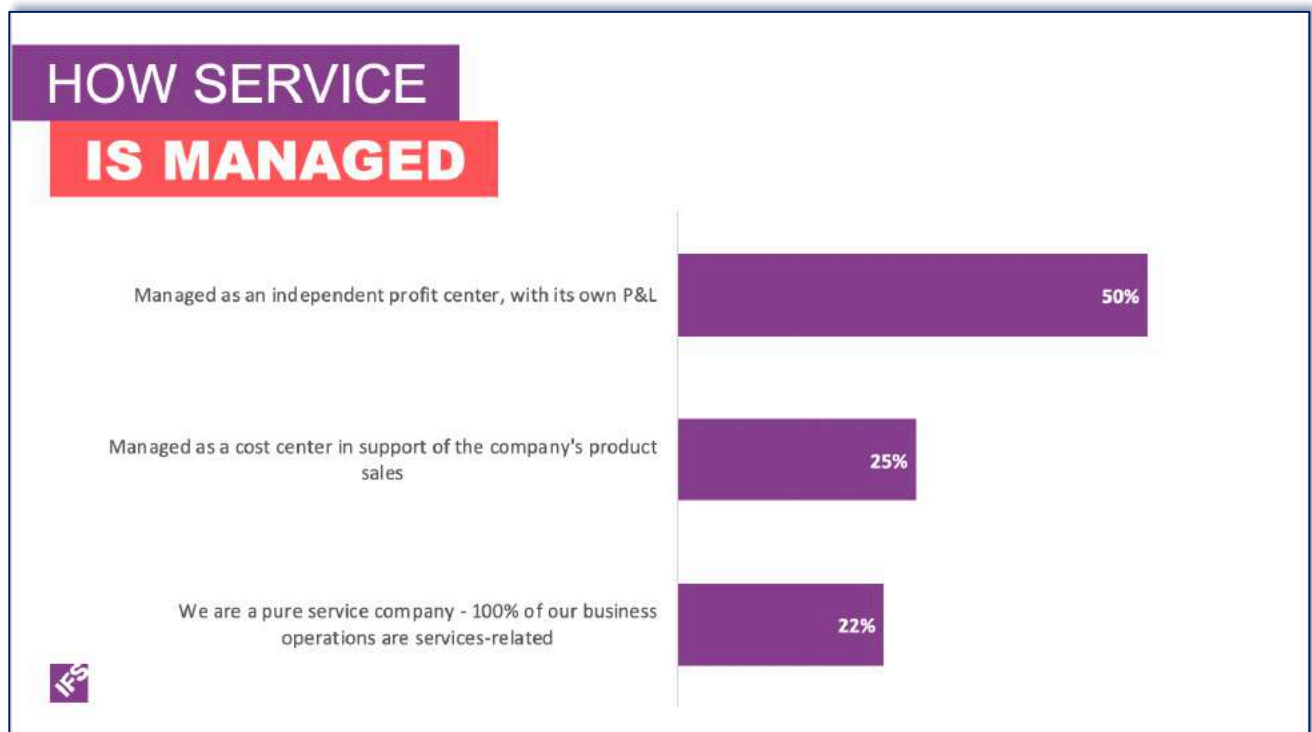
The percentage of services organizations running service as an independent profit center may vary – sometimes significantly – from one category or industry segment to another. For example, this percent increases to 74% for those operating as profit centers among FSOs with the highest customer satisfaction ratings (i.e., attaining at least 90% customer satisfaction). The percent is also virtually the same for FSOs that qualify for Best Practices status (i.e., attaining both 90% or higher customer satisfaction, and 30% or greater services profitability).

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D. Currently Using / Planning for Outcomes-Based Service

Currently, more than one-quarter (28%) of FSOs are using an Outcomes-based model for service delivery offered through their Service Level Agreements (SLAs). This percent is significant, as it has risen from a virtual "zero" basis in less than two-years (Figure 2).

Figure 2: Organizations Using/Planning Outcomes-Based Service

However, this percent is also expected to rise significantly, as nearly one-third (32%) of respondents plan to introduce Outcomes-based services into their portfolio of offerings in the next one-to-two years. If so, the percent of FSOs using an Outcomes-based services model would then represent an approximate 60% majority by 2021.

In fact, this percent may be even greater, as one-in-six respondents (17%) indicate they are "unsure" whether their respective services organization would make that move over the next couple of years. If the same percent of the "unsures" ultimately make that move as those respondents who cited either "yes" or "no" for the original question, the projected percent of FSOs employing an Outcomes-based services model would increase to a near-three-quarters majority (i.e., 72%).

E.   Outcomes Being Used to Gauge Servitization Performance

A two-thirds (67%) majority of FSO respondents cite performance metrics (i.e., total output, time-on-task, utilization rate, etc.) as the principal factor they prefer using to gauge the success of their Outcomes-based service delivery model.

The only other factor cited by a majority of respondents is asset uptime (i.e., uptime percentage for length of contract) (52%), followed closely by time-to-service (i.e., guaranteed time from ticket-to-close) at just below 50% (i.e., 48%).

More than one-third (35%) also cite fail rate (i.e., number of incidents for length of contract) as a primary factor (Figure 3).

Figure 3: What Outcomes Are Organizations Using?

Other criteria cited by respondents include:

- Using the same metrics that customers use
- Building remote services capabilities into a Customer Relationship Management (CRM) platform
- Software usage / transactions handled
- Customer satisfaction
- Location serviceability
- Product as a service (PaaS) / XaaS

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F.   Improvements Seen as a Result of Outcomes-Based Service

Among those FSO respondents that have already adopted an Outcomes-based service model, at least one-third (33%) or more have realized significant improvements in Key Performance Indicators (KPIs) including (Figure 4):

- **47%** Improved contract renewals
- **42%** Improved technician performance
- **36%** Increased predictive outcomes
- **33%** Increase in net new business

Figure 4: Where Organizations See Improvements from Outcomes-Based Service
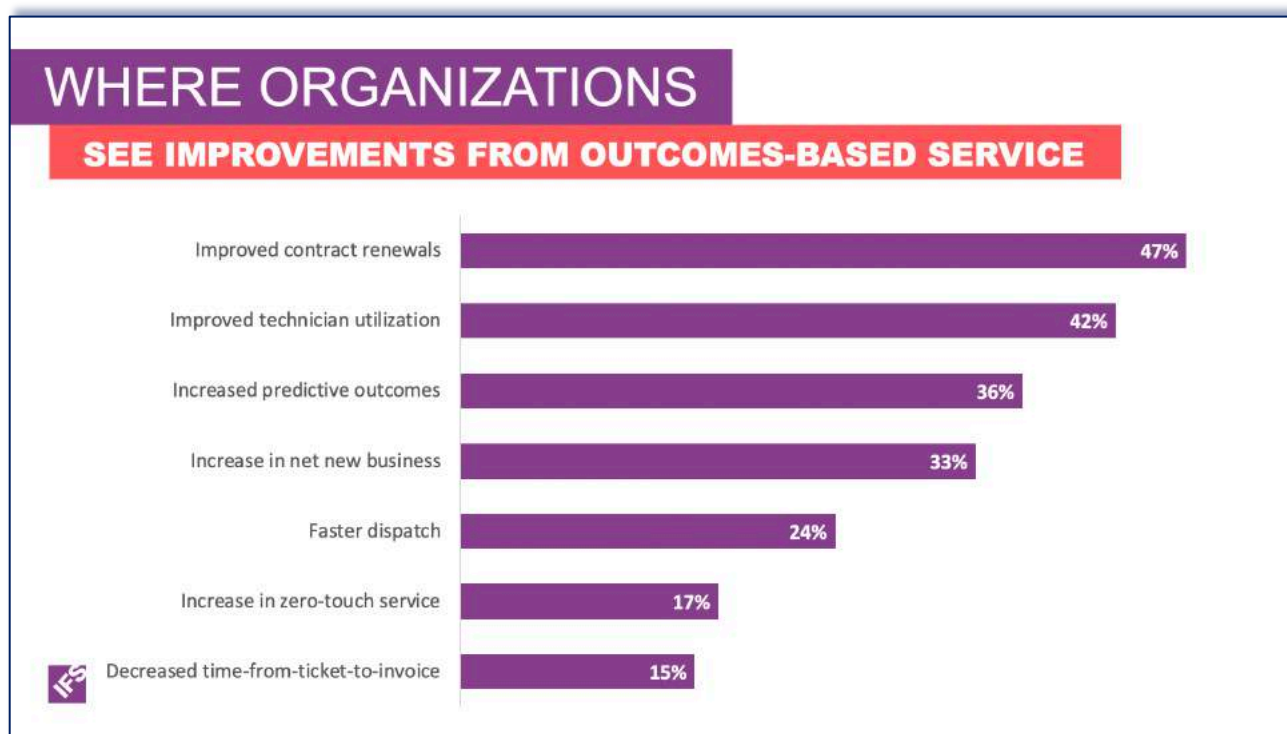
These improvements are significant in that they do not only reflect beneficial ways in which these FSOs can support their customers, but also providing them with the ability to leverage those improvements into more of a predictive, rather than, reactive mode – all while leading to increases in net new business. As a result, the impact of moving to an Outcomes-based service delivery model not only improves the operational efficiency of the FSO – it also leads to incremental business development.

However, there are still several other improvements that may be realized, including:

- **24%** Faster dispatch
- **17%** Increase in zero-touch service
- **15%** Decreased time-from-ticket-to-invoice
- **15%** Selecting the most cost-effective pricing model
- **12%** Others, including: increased profits, faster upgrades, etc.)

G. Technologies Being Used in Support of Servitization

Of course, Servitization does not naturally happen in isolation – there are many factors that must be considered – and implemented – in order to create an environment within which this transformation may be realized. As may be expected, technology plays a critical role in the the ability to make this transition, as reflected by the various technological tools and applications currently being utilized (and planned) by FSOs in support of their Outcomes-based services initiatives.

Overall, there are seven technology platforms and solutions that are currently being used by a majority of FSOs. Those approaching a two-thirds (i.e., 67%) majority include contract management (65%), Enterprise Resource Planning (ERP) service module (64%), and Spare Parts/Inventory Management (SP/IM) system (64%) (Figure 5).

Figure 5: Technologies Used in Support of Servitization
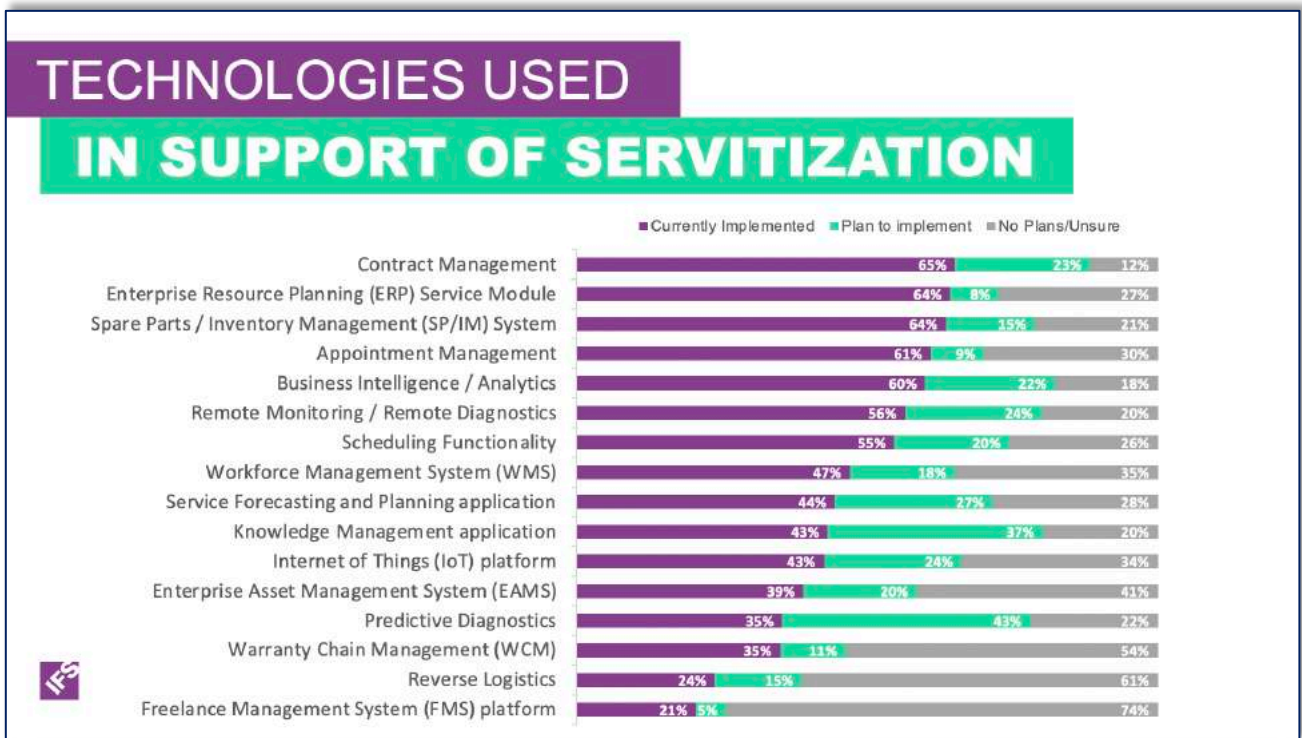
However, those technologies cited for reflecting the highest levels of forecasted adoption (i.e., in the next 12 months) include:

- **43%** Predictive diagnostics
- **37%** Knowledge management application
- **28%** Service forecasting and planning application
- **24%** Internet of Things (IoT) platform
- **24%** Remote monitoring / remote diagnostics
- **23%** Contract management
- **22%** Business intelligence / analytics

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### H. Technologies Being Used to Support Outcomes-Based Service (continued)

Delving a bit deeper, the technologies that are currently being deployed specifically to support an Outcomes-based services delivery model typically reflect a virtual "who's who" of the most commonly reviewed (i.e., in trade publications and Webinars, at services conferences, etc.) "new" and "emerging" technologies that are, in large part, responsible for providing the foundation upon which Servitization can be built.

In fact, a majority of FSOs claim to currently be using the following technologies to power their respective Servitization initiatives:

- **54%** Service management platform (i.e., FSM, or Enterprise Asset Management)
- **51%** Enterprise Resource Planning (ERP)

Just bubbling under the 50% mark, predictive maintenance is cited by 48% as also being one of their current Outcomes-based services technologies (Figure 6).

Figure 6: What Technologies Support Outcomes-Based Service?
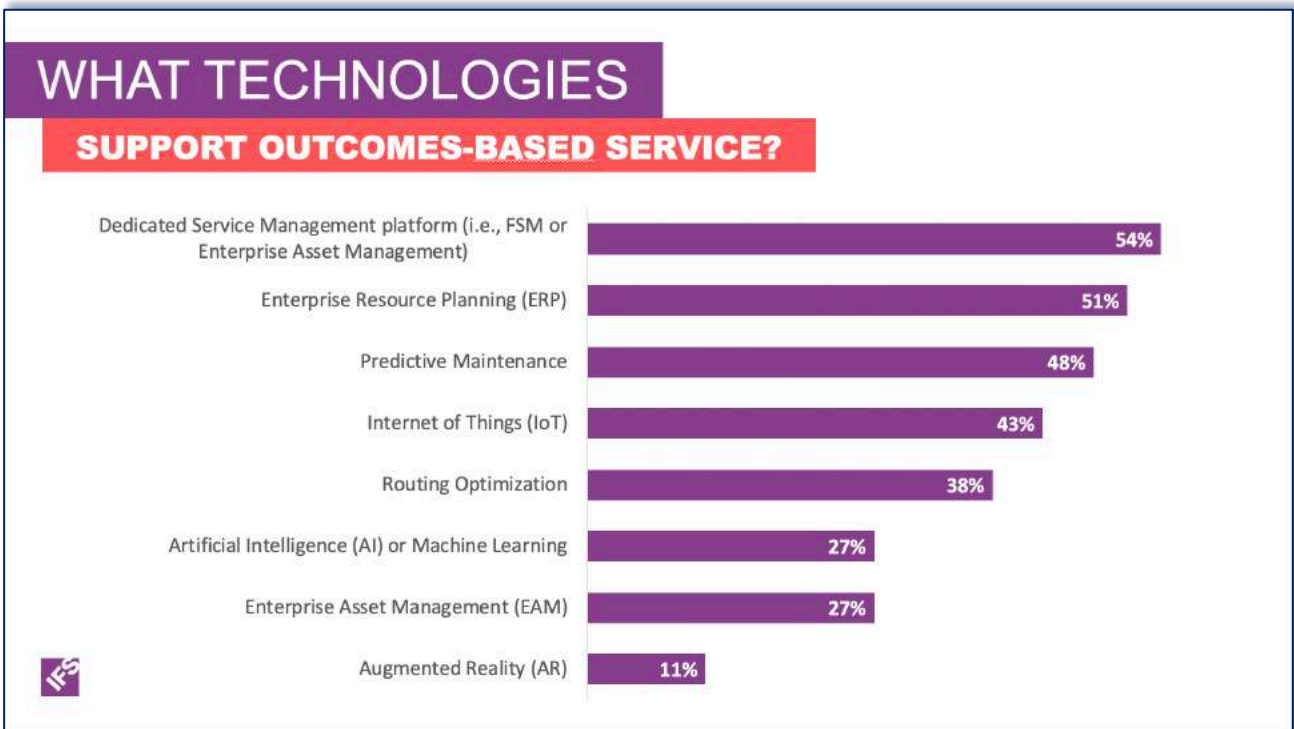
However, there are still several other technologies that are also cited by respondents, including:

- **38%** Routing optimization
- **27%** Artificial Intelligence (AI) or Machine Learning
- **27%** Enterprise Asset Management (EAM)
- **11%** Augmented Reality (AR)

I. Roadblocks Standing in the Way of Outcomes-Based Service

Field services managers are faced with multiple challenges, primarily focused in the areas of (1) management buy-in to transformation initiatives; and (2) the costs associated with acquiring, implementing and deploying new technology. As such, there are many potential roadblocks that may interfere with an FSO's ability to successfully make the transition from a traditional Service Level Agreement (SLA) contract model to a Servitization Outcomes-based model.

The top challenge, as cited by a plurality of survey respondents at 26%, is obtaining management buy-in from the top, followed closely by the cost of introducing new technologies into existing services operations (23%) (Figure 7).

Figure 7: What Roadblocks Stand in the Way of Outcomes-Based Service?
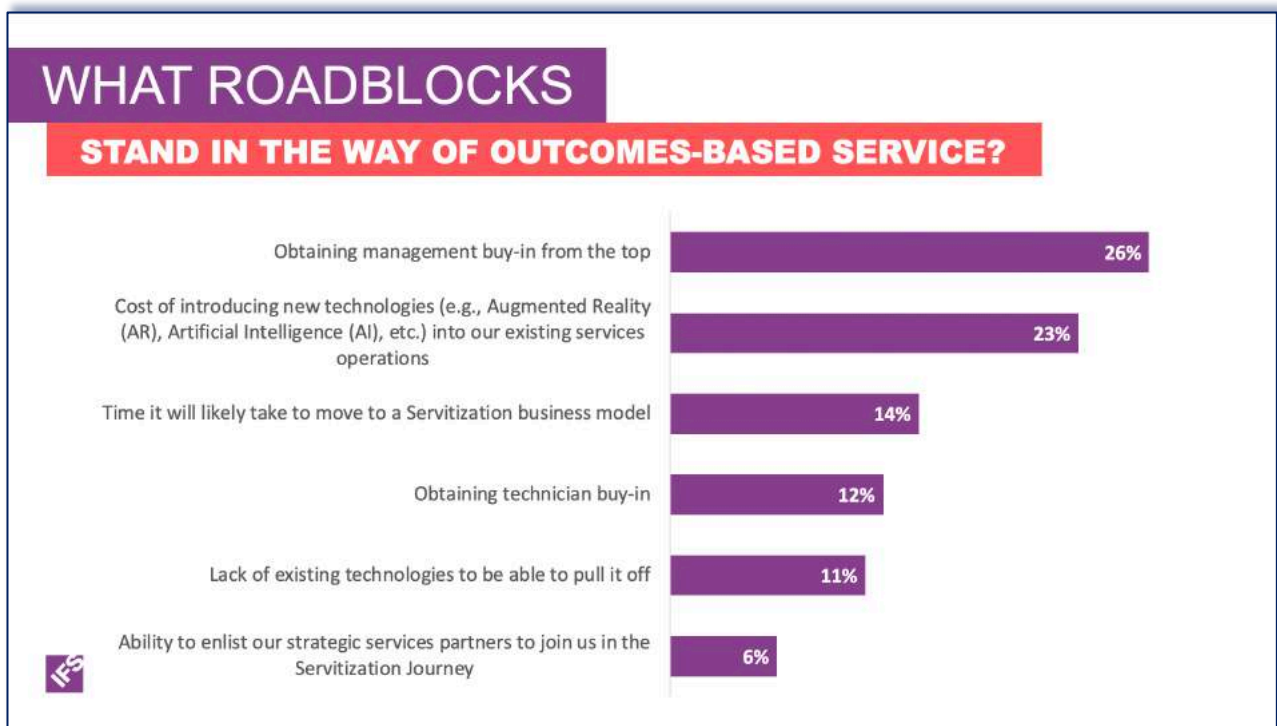
To a somewhat lesser degree, there may still be several other potential roadblocks standing in the way, including:

- **14%** Time it will likely take to move to a Servitization business model
- **12%** Obtaining technician buy-in
- **11%** Lack of existing technologies to pull it off
- **6%** Ability to enlist our strategic service partners to join us in the Servitization Journey

It is interesting to note, however, that the following five factors receive zero responses, including lack of a corporate services mentality/philosophy; lack of a full understanding as to what exactly is the Servitization Journey; ability to convince customers that the Servitization Journey will lead to better, more cost-efficient, services delivery; and senior management unwillingness to change our existing business model which has been relatively successful so far.

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J.   Why Organizations Are Adopting Servitization

When thinking about the overall Servitization Journey, the single-most commonly cited reason for moving forward on the Journey is centered around the ability to meet (or exceed) customers' services expectations (i.e., cited by 46% as the top reason).

Most of the other cited reasons are clustered in the 10% to 18% range, including ability to improve our overall services delivery (18%), ability to price our services offerings more profitably (13%), ability to incorporate new technologies into our overall services delivery model (11%), and ability to streamline our services offerings (10%) (Figure 8).

Figure 8: Why Are Organizations Adopting Servitization?

As was previously borne out in *SFG℠*'s *2019 Field Service Management Benchmark Survey Update*, the primary factor driving FSOs in just about everything they do is the ability to meet and/or exceed their customers' expectations for service. It is duly noted, however, that the 46% that cited this factor in the 2019 Servitization Journey survey (compared to only 10% to 18% for all other factors) reflects the greatest plurality attained thus far in any of *SFG℠*'s field service-related surveys conducted in recent years. As a result, we would suggest that the Servitization-oriented FSOs represent the most customer-focused organizations in the overall competitive landscape.

K. Percent of Assets Currently Connected / Planned for Connectivity

Presently, only one-quarter of respondents (25%) report that a majority of the customer equipment they support in the field is connected (i.e., *via* the Internet of Things/IoT). This leaves three-quarters (75%) for which less than half of the equipment they serve is presently connected.

However, these percentages are expected to flip-flop over the next five years (or sooner), as by 2024, a majority of the equipment supported in the field is projected to be connected (i.e., as cited by 57% of current survey respondents) (Figure 9).

Figure 9: Percent of Connected Assets – IoT Today and Tomorrow
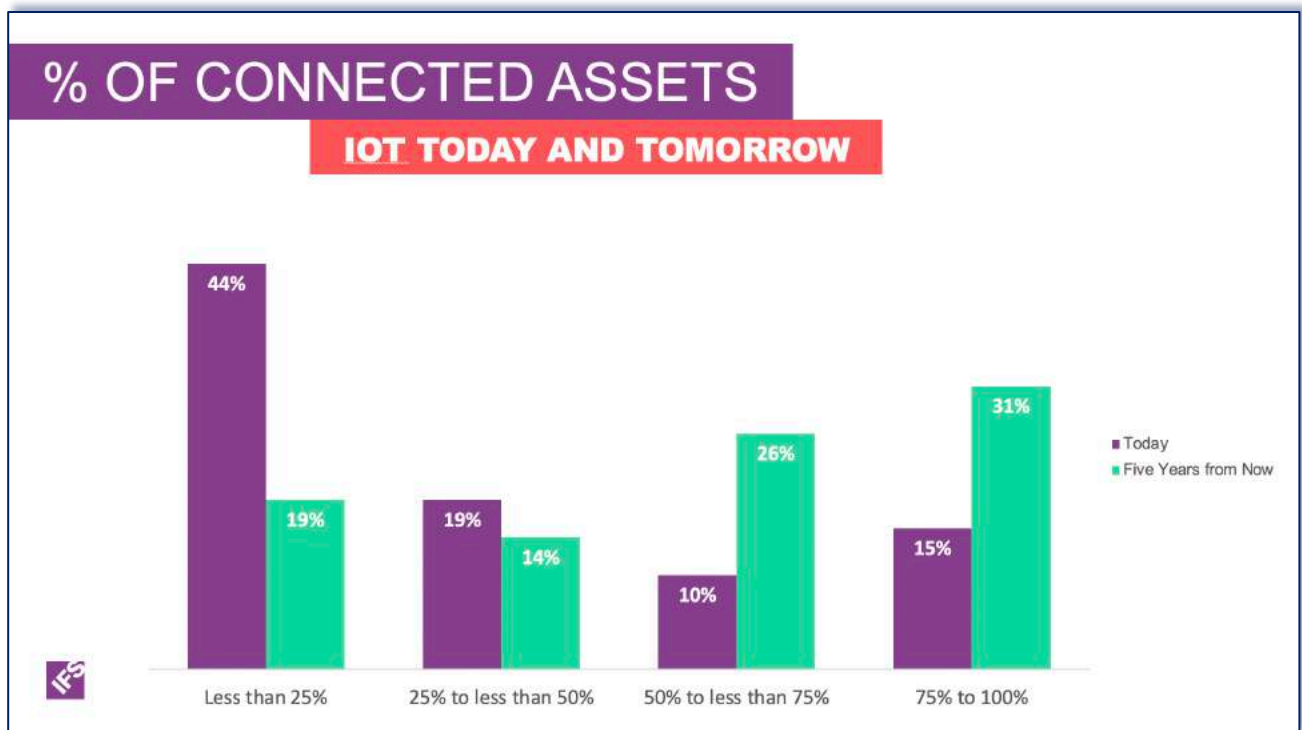
The most progressive FSOs today are represented by the one-in seven (i.e., 15%) that report at least 75% of the equipment they support as currently connected. However, this percent is also projected to more than double over the next five years to 31% anticipating supporting a majority-connected customer installed base.

Conversely, the number of respondents citing that less than one-quarter of their respective equipment bases are currently connected is projected to decline significantly, from 45% today, to only 18% by 2024 – a decrease of roughly 60%.

As such, the current survey results have painted a picture of a significantly transforming installed base of equipment, moving from a majority non-connected to connected within an approximate five year (or less) timeframe.

L.   Contract Structure

As Servitization continues to transform the field services industry, so, too, will the way in which services will likely be offered to the global services community. For example, today, 90% of service contracts are built on the basis of traditional Service Level Agreements (SLAs) that focus on such parameters as on-site response time, number of scheduled preventive maintenance service calls, guaranteed uptime (i.e., with vendor sanctions for non-compliance), and the like.

However, within the next three to five years, this percent is expected to drop by more than 60% to roughly only one-quarter (26%) of all service contracts. Conversely, the percent of FSOs offering SLAs/contracts based on Outcomes/uptime, is projected to more than double, from 26% today, to 53% by 2022 - 2024. As such, this represents a total reversal of the way SLAs/contracts will be offered in the not-too-distant future (Figure 10).

Figure 10: Contract Structure – Today and Tomorrow
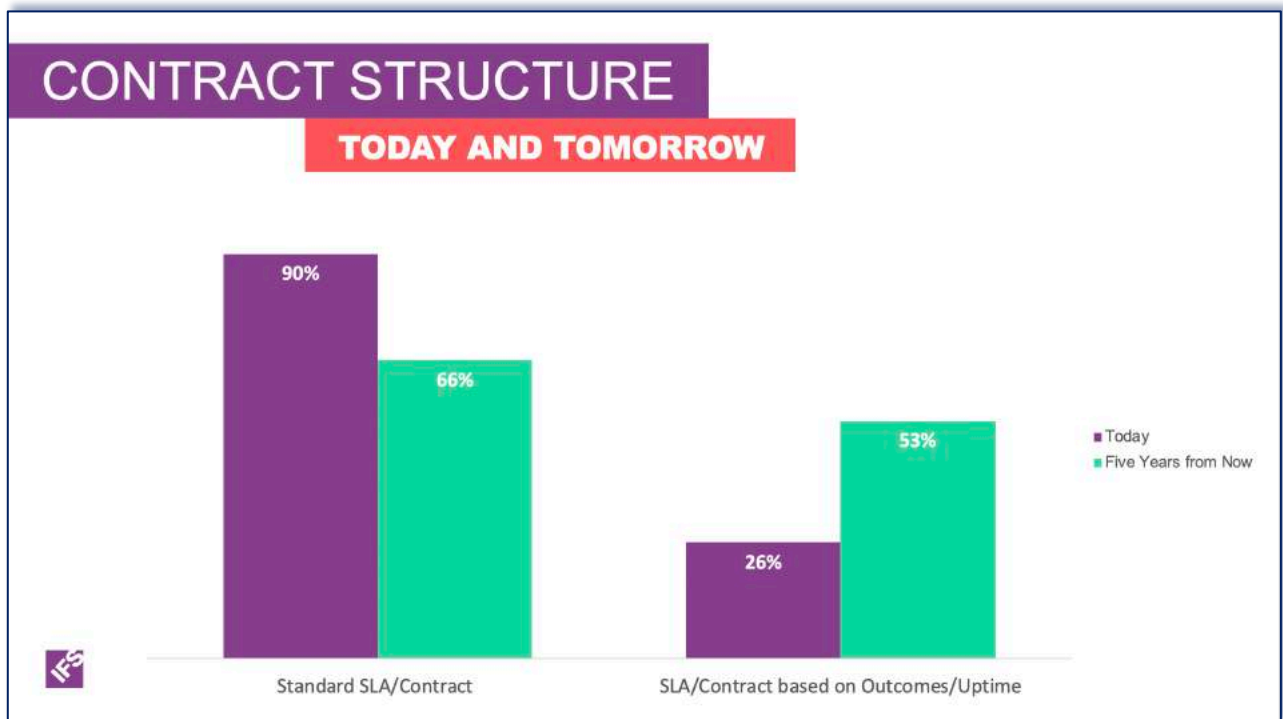
It is also noted, however, that these findings reflect a greater – and most likely, a faster-moving – transition from relying on standard SLAs to moving toward Outcomes/uptime-based contracts (i.e., as initially quantified in the earlier-conducted 2019 FSM survey update).

M. Factors Influencing the Current Service Model

There are a multitude of factors that may influence the perceptions of an organization's current service model among survey respondents. However, changes in the industry (40%), growing customer pressure (39%) and new technology enablers (36%) appear to be the primary ones cited (Figure 11).

Figure 11: What Factors Have Influenced Your Current Service Model?
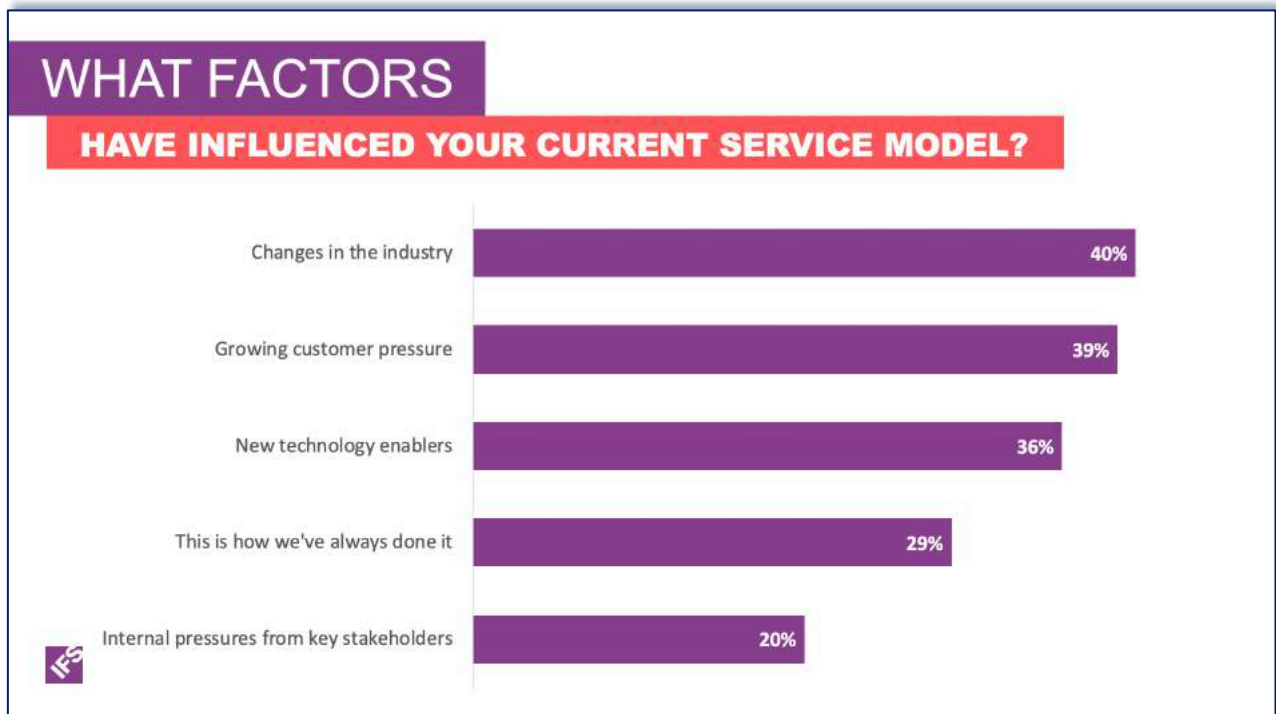
However, other factors may also play an important influencing role, including:

*   **29%** This is how we've always done it
*   **20%** Internal pressures from key stakeholders

Of the two, "This is the way we've always done it" may represent the most "dangerous" factor, as it does not portend well for the organization if there is a "No need to fix it, since it's not broken" approach to service delivery in general, and Servitization, in particular.

N. Service Outlook – Level of Agreement

Survey respondents appear to have a clear and distinct view of how they feel specifically about Outcomes-based services contracts (i.e., there is little middle ground), as evidenced in their responses to the following set of statements (Figure 12).

The highest level of agreement (and the only response cited by a majority of respondents) is reflected for a single statement, with all of the remaining statements receiving far fewer "agree" responses, as follows:

- **84%** Outcomes-based service represents a fundamental shift in service delivery
- **42%** Our business will make a determination about outcomes-based service when there are more successful use cases
- **35%** We are confident that our business, headcount, and service apparatus can support an outcomes-based service model
- **24%** We are confident that our technology investments are sufficient to support an outcomes-based service model
- **10%** Our business has no interest in outcomes-based services

Figure 12: Service Outlook – Level of Agreement
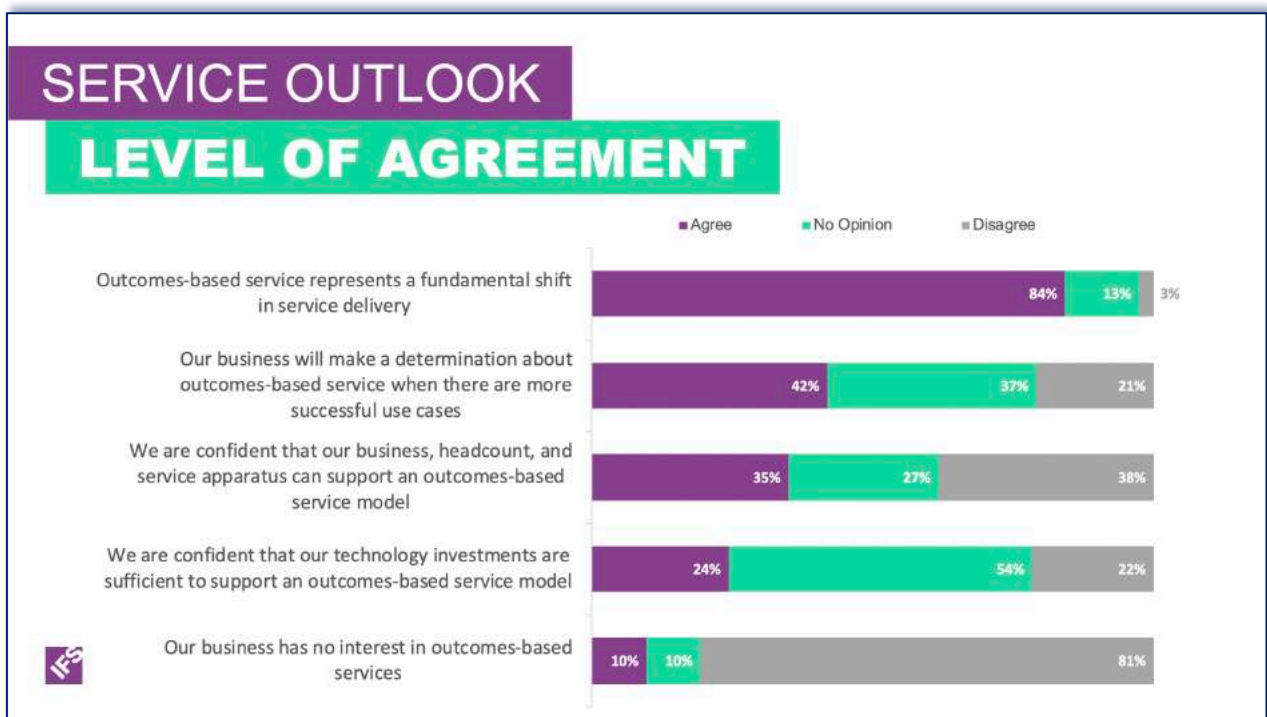
Still, the net-net responses suggest that while most respondents see Outcomes-based services as a "fundamental shift" in the way they have been doing business historically, levels of confidence in their ability to adapt remain relatively high (i.e., for a concept still in its infancy), and once they can garner more information, they will be better able to make a more informed (and, most likely, transformative) decision with respect to how best to proceed down the path to Servitization.

O.   Service Outlook – Level of Agreement (continued)

However, merely understanding – and agreeing with – the concept of Servitization is not even half of the battle! Once an organization embarks on the Servitization Journey, it will need to know what it takes to fully make the transformation – as well as how to position and price it in its relevant marketplace.

From the survey results, it is clear that two factors stand above all others with respect to their contribution to the organization's overall pricing model. They are (Figure 13):

- **62%** Projected total cost of service for the lifetime of a contract (i.e., service and associated costs)
- **57%** Service history for client and asset types.

Figure 13: Criteria Used to Price Service Contracts
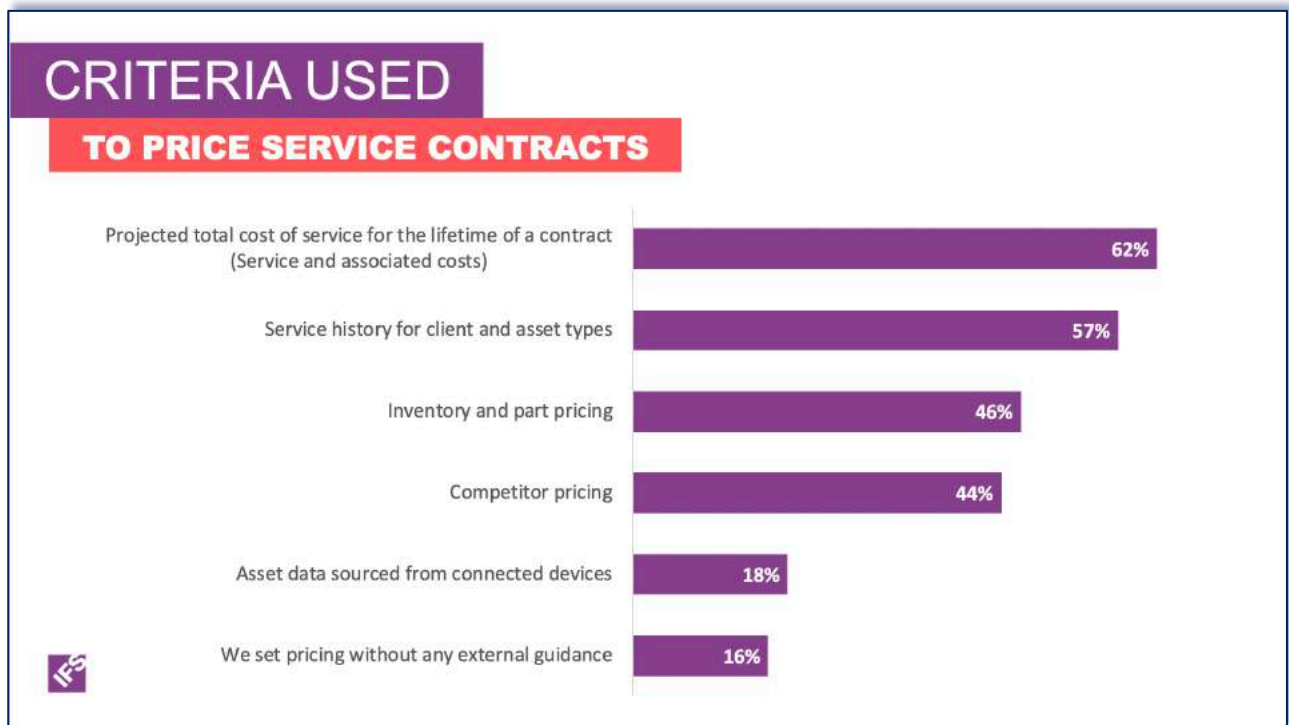
However, there are still two other factors that are also cited as key considerations by just under half of respondents, including:

- **46%** Inventory and parts pricing
- **44%** Competitor pricing

Finally, asset data sourced from connected devices (18%) rounds out the cited responses. Still, there are one-out-of-six respondents (16%) that claim, "We set pricing without any external guidance". [Note: Please do not try this at home!]

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P.   Summary and Key Takeaways

Based on the results of *SFG℠*'s *2019 Servitization Journey Benchmark Survey*, the key takeaways are:

- Presently, nearly three-quarters (72%) of respondent FSOs are operating service as an independent profit center (or as a pure, third-party service company), although there are still one-quarter (25%) that are operating as cost centers

- Currently, more than one-quarter (28%) of FSOs are using an Outcomes-based model for service delivery and their Service Level Agreements (SLAs), compared to a virtual "zero" basis only two years earlier

- A two-thirds (67%) majority of FSO respondents cite performance metrics (i.e., total output, time-on-task, utilization rate, etc.) as the principal factor they prefer using to gauge the success of their Outcomes-based service delivery model

- Among those FSO respondents that have already adopted an Outcomes-based service model, at least one-third (33%) or more have realized significant improvements in Key Performance Indicators (KPIs) including improved contract renewals (47%), improved technician performance (42%), increased predictive outcomes (36%) and an increase in net new business (33%)

- Overall, there are seven technology platforms and solutions that are currently being used by a majority of FSOs, including three approaching a two-thirds (i.e., 67%) majority: contract management (65%), Enterprise Resource Planning (ERP) service module (64%), and Spare Parts/Inventory Management (SP/IM) system (64%)

- A majority of FSOs claim to currently be using a service management platform (i.e., FSM, or Enterprise Asset Management) (54%), and Enterprise Resource Planning (ERP) (51%) to power their respective Servitization initiatives

- The principal roadblock, as cited by a plurality of survey respondents at 26%, is obtaining management buy-in from the top, followed closely by the cost of introducing new technologies into existing services operations (23%)

- When thinking about the overall Servitization Journey, the single-most commonly cited reason for moving forward on the Journey is centered around the ability to meet (or exceed) customers' services expectations (i.e., cited by 46% as the top reason)

- Presently, only one-quarter of respondents (25%) report that a majority of the customer equipment they support in the field is connected (i.e., *via* the Internet of Things/IoT); however, by 2024, this percent is projected to more than double, to 57%

- Today, 90% of service contracts are built on the basis of traditional Service Level Agreements (SLAs) that focus on such parameters as on-site response time, number of scheduled preventive maintenance service calls, guaranteed uptime (i.e., with vendor sanctions for non-compliance), and the like; however, within the next three to five years, this percent is projected to drop by more than 60% to only 26%

- Changes in the industry (40%), growing customer pressure (39%) and new technology enablers (36%) appear to be the primary factors influencing the perceptions of an organization's current service model

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P.   Summary and Key Takeaways (continued)

- Currently, 84% of FSO respondents believe that Outcomes-based service represents a fundamental shift in service delivery; and roughly half that amount (42%) have adopted a "wait and see" approach for making a determination about outcomes-based service until such time when there are more successful use cases to review and assess

- It is clear that two factors stand above all others with respect to their contribution to the organization's overall pricing model, including projected total cost of service for the lifetime of a contract (i.e., service and associated costs) (62%), and service history for client and asset types (57%)

Overall, the results from *SFG℠*'s *2019 Servitization Journey Benchmark Survey* clearly reflect the great strides that the global services community has made in its move toward adopting Servitization in just the past two years alone. Most of the data collected and analyzed in the current survey appear to support the notion that the transition from a traditional services delivery model to one predicated on the concept of Servitization is apparently moving at an accelerating rate.

As a result, we strongly believe that the concept of Servitization – and the desire to move toward that business model – has built up quite a bit of momentum of late, and is likely to carry over throughout 2020 – and far beyond.

About The Author

About *Strategies For Growth℠*

Bill Pollock is President & Principal Consulting Analyst at *Strategies For Growth℠* (*SFG℠*), the independent research analyst and services consulting firm he founded in 1992.

Previously, Bill served as President & Chief Research Officer (CRO) at The Service Council; Vice President & Principal Analyst, heading up Aberdeen Group's Service Management Practice; and Managing Analyst, Services Industry at Gartner.

Bill has been cited as "One of the Twenty Most Influential People in Field Service" by *Field Service News* (UK); one of the "Top 10 People Every Field Service Pro Should Follow" by *Field Service Digital*; one of Capterra's "20 Excellent Field Service Twitter Accounts"; and one of Coresystems' "Top 10 Field Service Influencers to Follow".

Bill has also had more than 350 articles, columns and features published on topics including Field Service Management (FSM), Service Lifecycle Management (SLM), Customer Relationship Management (CRM), Warranty Chain Management (WCM), Reverse Logistics, Augmented Reality (AR), the Internet of Things (IoT) and others for leading international services publications.

He writes monthly feature articles for *Field Service News*, *Field Service Digital*, *Field Technologies Online*, and *Future of Field* Service, and is a regular contributor to *Warranty Week* and other services-related publications.

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