

Blueprint for Service Success

Your How-To Guide on
Service Transformation

accenture



The expectations of industrial companies' customers are changing. Customers want to know the answer to questions like: How can I augment the life cycle of my existing assets? How can I make my assets more flexible to address increasing requirements for speed and personalization? How can I get the product but only pay for the value of services I receive?

Industrial customers are less interested in buying a product than an outcome and increasingly find value in services and support. As a result, services have become a critical means for companies to differentiate themselves as well as stabilize cash flow, lower volatility and enhance resilience.

For that reason, we investigated the best service management approaches that can be applied to successfully transform and grow your future service business.

We surveyed 748 industrial service business executives from across 14 countries to understand the approaches they are taking. The research revealed that a stronger focus on service-driven business models is helping industrial companies better balance pre- and post-COVID-19 economic challenges. Those with a strong market position in digital-driven services flourished as customers sought more remote services. More than 60% of respondents said their service business accelerated during the pandemic, and they plan to augment services.

This finding shows how services, particularly digital-driven ones, help industrial companies ride out economic cycles. Digitalization can also establish new recurring service revenue streams and make services more attractive to maximize customer lock-in.

Our research found that approximately 29% of industrial company revenue, on average, is currently generated by services. (See Figure 1a.) That figure is expected to grow significantly in the next few years.

Growing core services while developing and scaling new ones, combined with recurring revenue, will be an even stronger lever for profitable growth and customer value in the future. (See Figure 1b.)

See Figure 1b: Service portfolio

New Service Business

Asset/Process Operations	Asset/Process Optimization	Site Maintenance
Inventory Management	Product as a Service	Quality Management

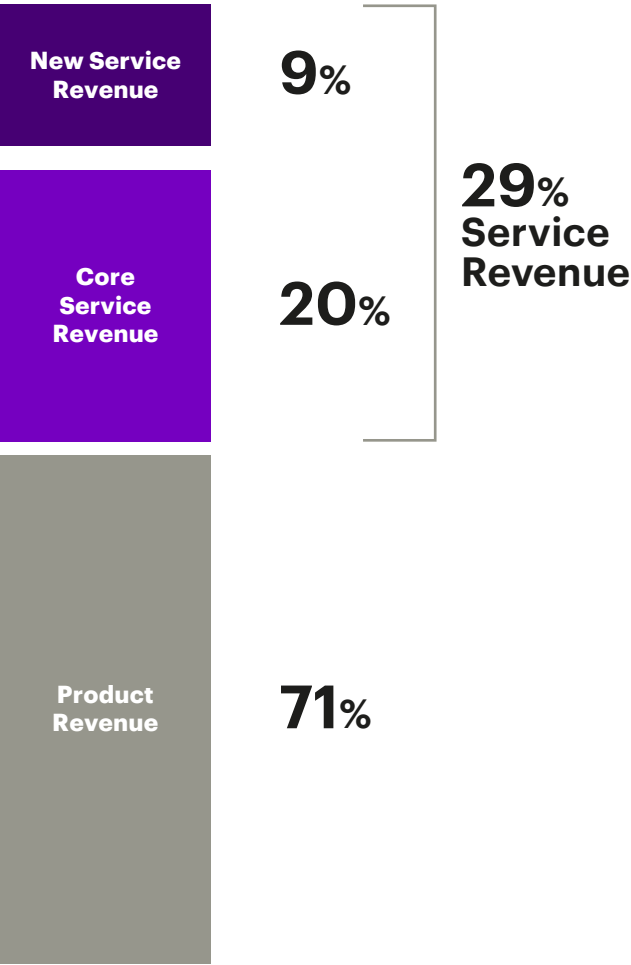
Recurring Revenue Business Models

Full Labor Contract	Full Coverage Contract	Pay per Availability
Pay per Use	Pay per Outcome	Subscription

Core Service Business

Customer Care / Technical Support	Training	Installation, Integration and Commissioning
Planned Maintenance	Unplanned Maintenance	Retrofit, Overhaul and Update
End of Life	Spare Parts	

Figure 1a: Total revenue distribution



Building revenue streams from services

What does the journey to grow new services look like? Here, we highlight the digital foundation Biesse Group, an industrial equipment manufacturer, developed to create new revenue streams. An Industrial Internet of Things (IIoT) solution delivered new customer capabilities and services for its machinery aftermarket business.

By implementing connected asset management across its machinery, Biesse Group aimed to improve operational efficiency, reduce costs, and open new revenue streams, such as machine usage analysis and production process optimization.

It also identified a range of services to help increase performance and productivity to satisfy customer appetite for new digital capabilities.

Biesse Group and Accenture designed an IIoT operating model, business case, solution, and roadmap using a platform with flexible architecture and preconfigured technologies. The solution included preventive maintenance alerts and machine management, manufacturing events analysis and remote software distribution, and a pay-per-use model allowing customers to tailor services.

Thanks to these value-added services, Biesse Group created new revenue streams, improved customer service and loyalty, increased productivity, and minimized outages. Real-time customer data and alerts also helped reduce warranty and maintenance costs. Performance and usage insights enhanced product development and the customer experience.

Pivot to a powerful services business

The trend toward service-driven business models has been developing for years and is accelerating, with companies achieving varying degrees of success. To better derive industrial companies' success attributes and understand the challenges they are facing, we grouped the survey sample into four service categories.

Four Service Categories

Using financial data gathered in the survey, we analyzed the results along the following financial parameters: overall profitability, service business profitability, new service revenue and annual recurring revenue from services. We chose these areas because they best indicate:

- The positive impact of services on the overall business especially in the form of higher margins
- The extent to which companies are already involved in the new service business
- Business resilience during downturns

From our findings, we identified four categories of service players according to different service management maturity levels: Champions, Masters, Strivers and Traditionalists. (See Figure 2a.) While Champions and Masters excel, Strivers and Traditionalists have not kept up for different reasons. (See Figure 2b.)

Figure 2a: Four categories of service players

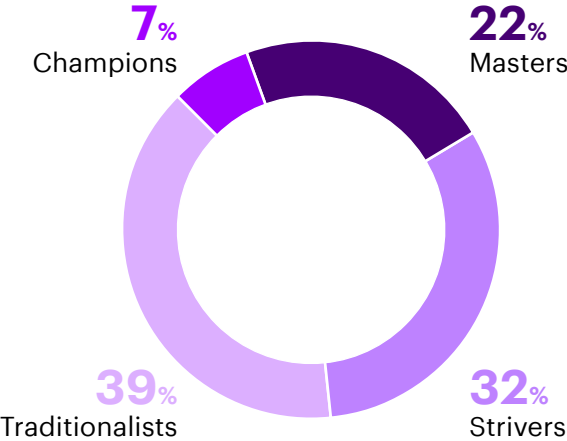
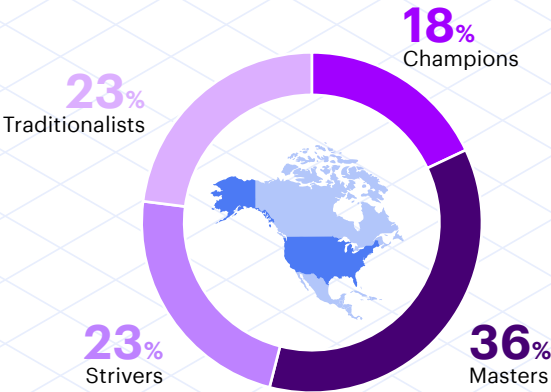


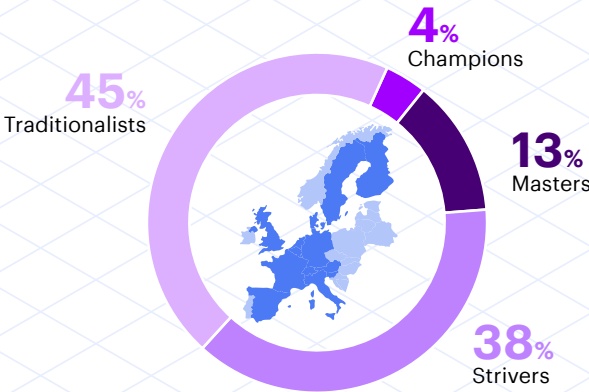
Figure 2b: Service categories at a glance				
	<u>Champions</u>	<u>Masters</u>	<u>Strivers</u>	<u>Traditionalists</u>
EBIT	<u>34%</u>	<u>23%</u>	<u>17%</u>	<u>22%</u>
SEBIT	<u>60%</u>	<u>38%</u>	<u>15%</u>	<u>25%</u>
ARR	<u>41%</u>	<u>44%</u>	<u>36%</u>	<u>25%</u>
NSR	<u>37%</u>	<u>32%</u>	<u>34%</u>	<u>17%</u>
EBIT – earnings before interest and tax		ARR – annual recurring revenue (out of total service revenue)		
SEBIT – services earnings before interest and tax		NSR – new service revenue (out of total service revenue)		

Figure 2c: Geography and industry (Total sample = 748)

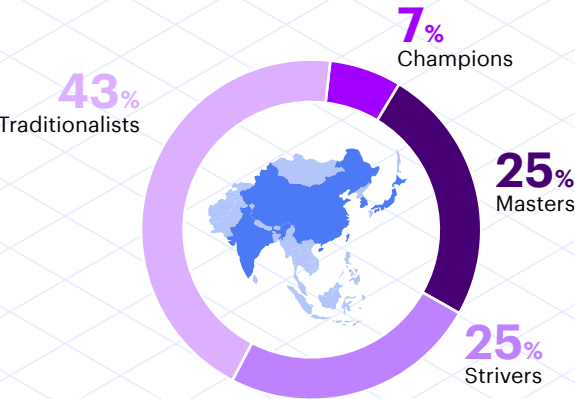
North America



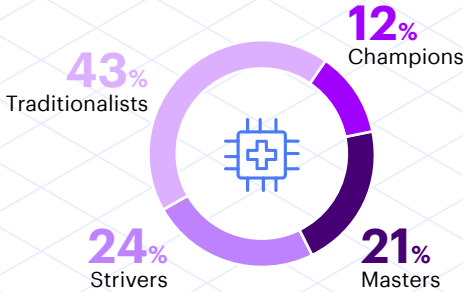
Central Europe



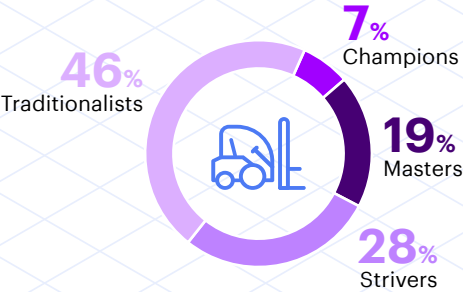
Growth Markets



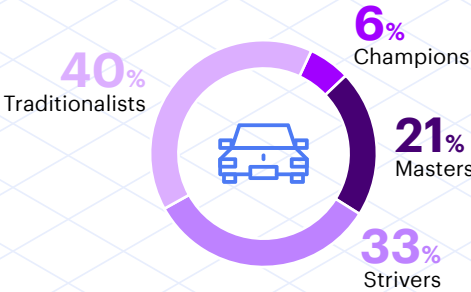
Med Tech



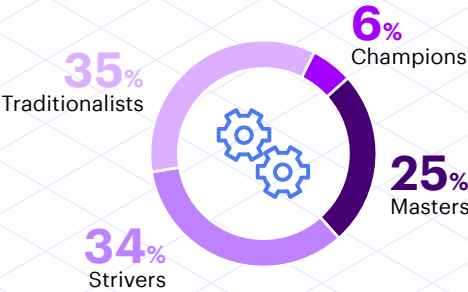
Heavy Equipment



Automotive Supplier



Industrial Equipment



Pivoting approaches

Industrial companies stand at a pivot point in developing their services business. Our research confirms that new services, offered through recurring revenue business models, can represent a significant share of profit and stable business growth.

Because many companies, however, lack the required experience and capabilities to implement them successfully in the short term, they also risk diluting margins. That's why the most successful industrial companies identified in our research are careful to pivot in a way that balances core and new offerings.



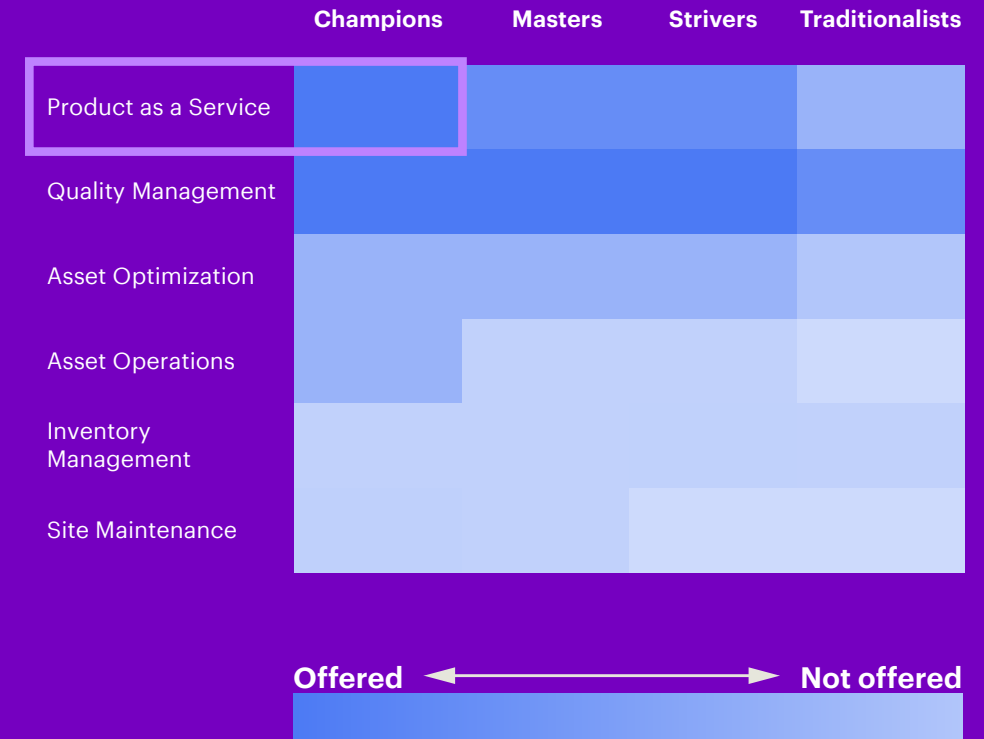
Figure 3: Offering focus by service category

All survey respondents offer these services with varying levels of success.

Core Service Offerings



New Service Offerings



Each service category below illustrates different pivoting approaches, with varying success. (See Figure 4.)

Champions

Within the Masters category, a few Champion companies outshine their peers with the highest service profitability and portion of new service revenue out of total service revenue. Champions have configured new services so they are more efficient than those offered by Masters. Champions have achieved product as a service, where pricing is based on pay-per-use or pay-per-outcome. They also offer robust core services.

Masters

As the name suggests, this category has mastered the pivot. Masters grow core services while developing and scaling new ones to achieve stable, robust service profitability. Of all categories, Masters have the highest proportion of annual recurring revenue out of total service revenue, making services a driver for business stability.

Strivers

Companies in this group understand they need to pivot but rush into new services, often without a clear strategy or goal. While ambitious, their relentless striving has been at the expense of core services. They may have invested in the wrong areas or in too many fields at the same time. Although they

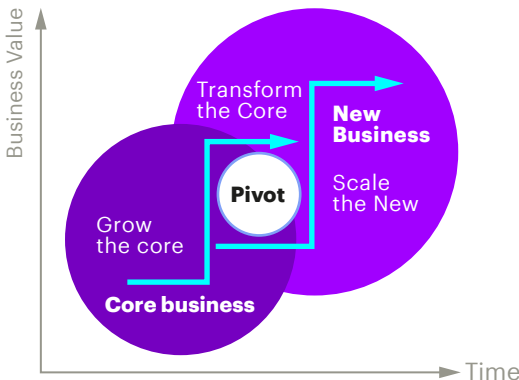
have achieved a very high share of new service revenue, overall services profitability suffers from a lack of focus.

Traditionalists

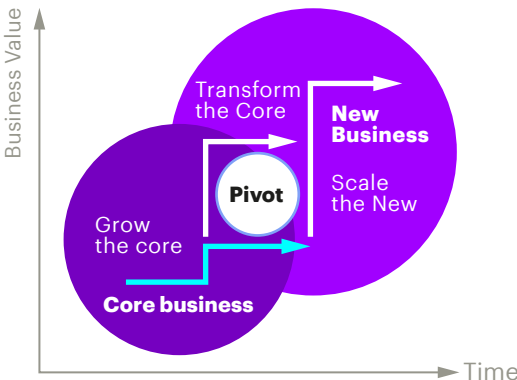
Compared to the other categories, Traditionalists focus more on improving core business capabilities, which they manage profitably and seek to grow. As a result, they have the smallest share of new service revenue out of total service revenue. This may serve them well now but is not sustainable for future success. They do not see an urgent need to transform the core while scaling a new service business. They may struggle to build new services and execute a broader service transformation. In some cases, they have failed to pivot at all.

Figure 4: Pivoting approaches

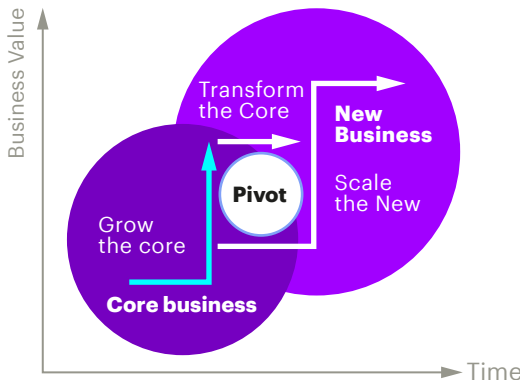
Champions and Masters



Strivers



Traditionalists



The COVID-19 stress test

Thanks to well-established digital-driven services, Champions, Masters and Strivers rode out the COVID-19 storm. For more than 40% of the Champions and Strivers, as well as 33% of Masters, the global pandemic accelerated their service business.

Traditionalists, however, didn't pass the COVID-19 stress test. One out of two observed a severe negative impact on the overall service business because they lacked digital services to fulfill the demand for remote services.

Pivoting pitfalls

What's causing industrial equipment companies the most difficulty as they attempt to pivot?

About

57%

of respondents said they lack strong service capabilities

Our research indicates that the majority of survey respondents struggle with two areas, regardless of how well they currently perform financially:

Few service capabilities

Companies are concerned about their ability to build service sales and delivery skills/resources, as well as digital and analytics capabilities.

Collaboration confusion

Although ecosystem partnering around services has been an industry hot topic for years, all service categories struggle to find the right collaboration model for legal agreements and data sharing. IT and cloud providers, often a go-to-market ally for digital-driven services, can potentially own key data and become a competitor.

In addition to these top-of-mind issues, Strivers and Traditionalists are hindered by the following difficulties:

Poor investment focus

Strivers and Traditionalists struggle with lack of service investment, most likely due to a lingering product- and engineering-driven company mindset. Where they have invested, certain patterns prevent them from making progress.

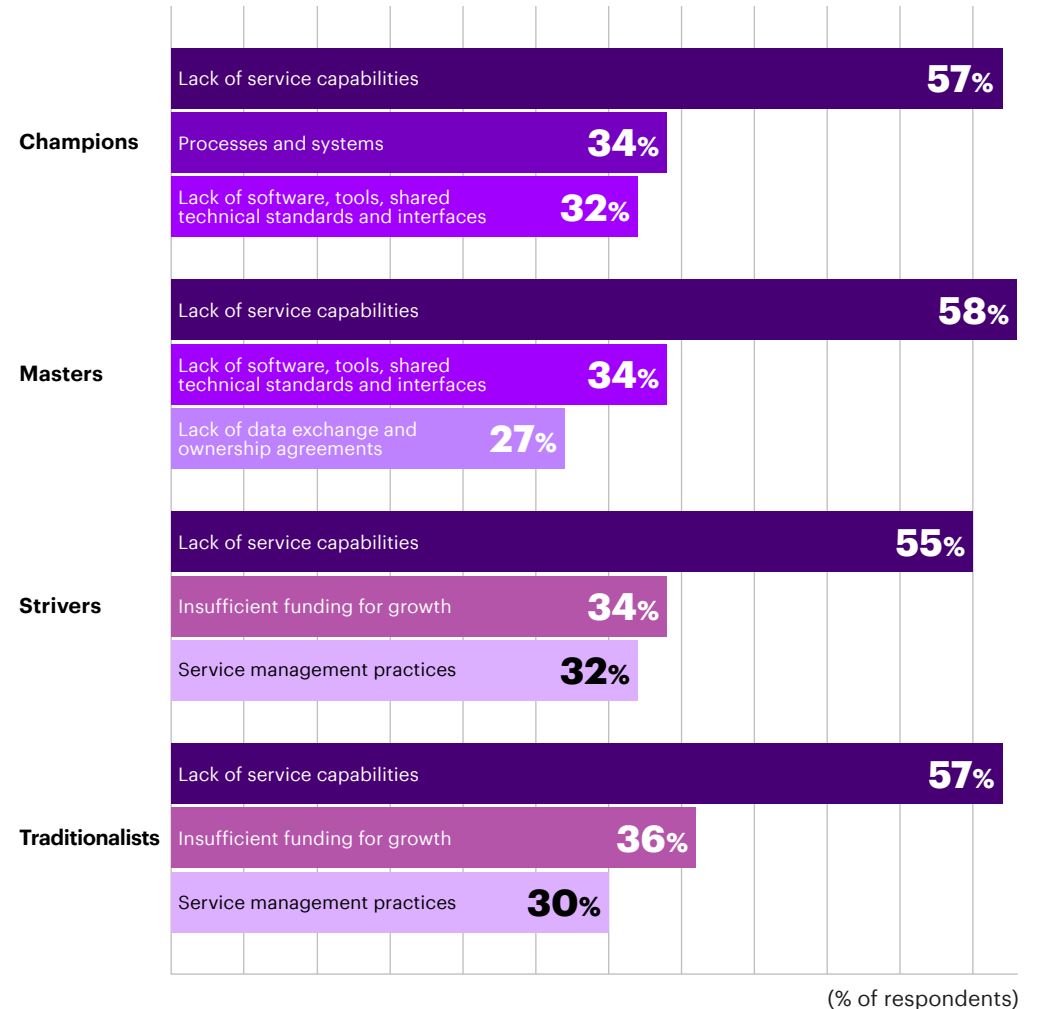
Although Strivers have invested heavily in new services, they still require streamlined processes to eliminate redundancies, increase service delivery flexibility, and create scalable, efficient operations for a solid core service foundation. Only through a robust IT foundation can they successfully grow the business.

Traditionalists have a balanced investment focus across IT hardware and infrastructure, data availability, analytics and digital capabilities to secure and develop their core service business. Yet, the IT has not attained the maturity level to support new services.

Inadequate service management practices

Strivers and Traditionalists lack effective service management practices and related key performance indicators (KPIs) such as integrated product-services sales and customer insights. In some cases, companies never adapted product business practices to their services business. In addition, both categories struggle to balance short-term and long-term KPIs like return on investment (ROI) to allow new services the time to gain market traction.

Figure 5. Pivoting challenges by service category



Four focus areas for successful service transformation

What does it take to successfully grow core services while pivoting to new ones? Based on our research findings, we concluded that a successful, value-oriented service transformation needs to consider four focus areas seen in Champions and Masters.

1

Integrated sales approach and ambitious targets

2

Sustainable, systematic digital services investment

3

Effective, scalable delivery

4

Proactive service ecosystem management

1

Integrated sales approach and ambitious targets

Approximately 87% of all survey respondents seamlessly align product and service units in an integrated sales approach. But there are many ways to achieve this. Champions and Masters distinguish themselves from Strivers and Traditionalists as follows:

Cost transparency

With full transparency into service delivery costs, Champions can package services and products to satisfy market demand and margins. For instance, they can determine whether it would be more profitable to provide a product for free and offer related services—or sell a product outright.

Product-service alignment

Not only do Champions have full transparency on potential cannibalization effects between service and product businesses, they actively monitor them.

As product as a service reduces the demand for product purchases, the two businesses stay aligned to monitor product sales shrinkage and track whether the new service business is growing as anticipated.

Customer intimacy along the entire lifecycle

Only Masters and Champions make the customer lifecycle the linchpin of a successful go-to-market service strategy. Champions also distinguish themselves with a 360-degree view of the customer to understand their business and needs. More than 50% of Champions use their field force to foster customer intimacy and identify cross- and upselling opportunities. The sales force is also incentivized and trained to sell complex bundles as well as products and services.

Strategic service sales

Champions and Masters regard clearly defined service sales targets, integrated into the sales strategy, as the top prerequisite for a joined-up sales approach.

Service sales targets act as the main component to proactively push customer-specific sales initiatives.

About

48%

of Champions said they have full transparency over service costs compared to 14% of Strivers

2

Sustainable, systematic digital services investment

Digital first

Although Traditionalists have invested in IT infrastructure, it's not mature enough to act as a steppingstone to new services. Unlike Strivers and Traditionalists, Champions (40%) and Masters (42%) prioritize investment in cloud-based IT systems, data storage and interfaces as a solid foundation for services growth.

Systematic investment approach

Champions take a strategic investment approach to develop profitable new services. They clearly define investment requirements for pilots and further development stages to finance innovation and take services to market.

IT + skills + efficiency = growth

Champions have a clear implementation plan to operate new digital business models. They build on their IT foundation, invest in training and upskilling service personnel, and relentlessly identify efficiency improvements. Strivers, however, miss this crucial point, resulting in poor profitability and low reinvestment in new services.

Think long term

To help new services gain market traction, Masters and Champions set long-term targets, measured through return on service investment. They don't focus purely on profitability, which risks killing initially low-performing offerings that promise significant benefits over the long term, like asset optimization.

Of the Champions

40%

**prioritize investment
in cloud-based
IT systems, data
storage and interfaces
as a solid foundation
for services growth**

3

Effective, scalable delivery

Comparable offerings

Champions recognize the importance of standardizing customer service level agreements (SLAs) and contracts to make offering comparison simple and lay a foundation for efficient delivery. Standard contracts, for instance make customer care easier for the field force.

Standardized delivery processes

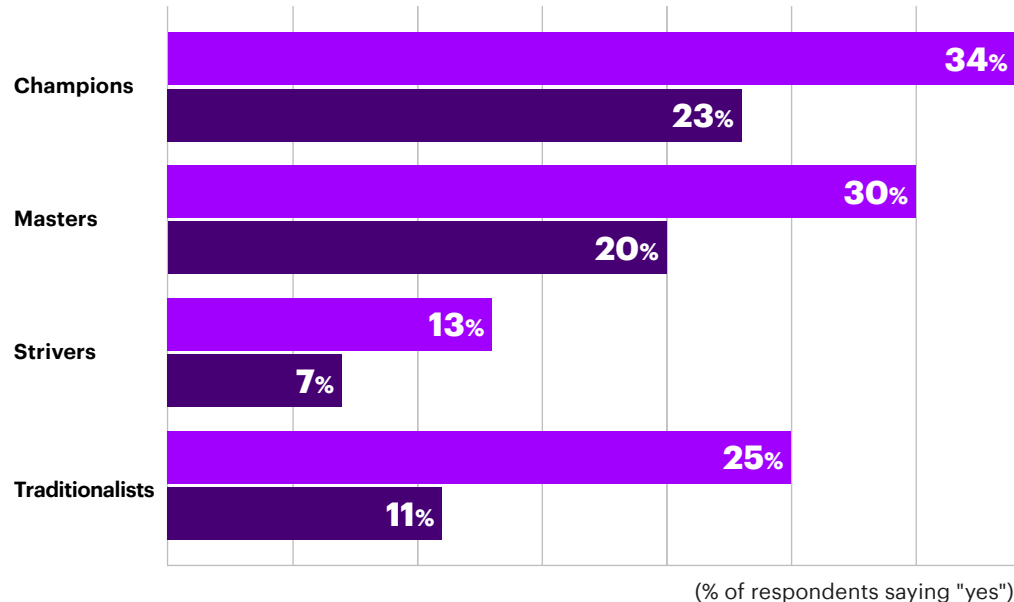
Champions prioritize having the right, standardized processes and systems in place. Strivers, on the other hand, have not fully standardized core and new service processes (see Figure 6), resulting in poor profitability.

Of the Champions

43%

**have fully
standardized SLAs
compared to 18%
of Strivers**

Figure 6: Core and new service delivery process standardization



Are all **Core Service** delivery processes standardized across your company?

Are all **New Service** delivery processes standardized across your company?

3

Effective, scalable delivery

Digitization and automation

Champions digitize and automate new services, especially product as a service, using IoT, artificial intelligence and robotic process automation. The new services are increasingly operated in the cloud to bring smart connected products to life. (See Figure 7.)

Knowledge management and continuous learning

Like the other categories, Champions find this area difficult to manage but set themselves apart by tracking and updating service delivery knowledge and toolkits to improve field force effectiveness and efficiency.

High customer participation

Champions not only provide information for customers, they allow them to participate in delivery with self-service tools. For instance, customers can optimize equipment configuration based on intelligent analytics dashboard suggestions.

Figure 7: Digitized and automated service delivery processes

Priority	Champions	Masters	Strivers	Traditionalists
1.	Product as a Service	Training	Unplanned Maintenance	Training
2.	Training	Unplanned Maintenance	Training	Unplanned Maintenance
3.	Quality Management	Installation & Integration	Site Maintenance	Spare Parts
4.	Asset/Process/ Site Operations	Asset/Process/ Site Operations	Quality Management	Site Maintenance
...		(6) Product as a Service	(8) Product as a Service	(10) Product as a Service

New Services

4

Proactive service ecosystem management

Although most companies across service categories found ecosystems challenging, Champions pull ahead of the pack by focusing on:

Strategic management

While 75% of all respondents have dedicated ecosystem partner management processes, Champions focus on finding the right combination of ecosystem partners. Once identified, Champions employ standardized processes to onboard partners.

Collaboration with intent

Champions continuously manage ecosystem relationships and search for new partners to offer fresh ideas and capabilities, enabling consistent service innovation. In addition, they ringfence key areas for knowledge and data-sharing to avoid clashes with IT and cloud providers.

75%

of all respondents have dedicated ecosystem partner management processes



Your how-to services guide

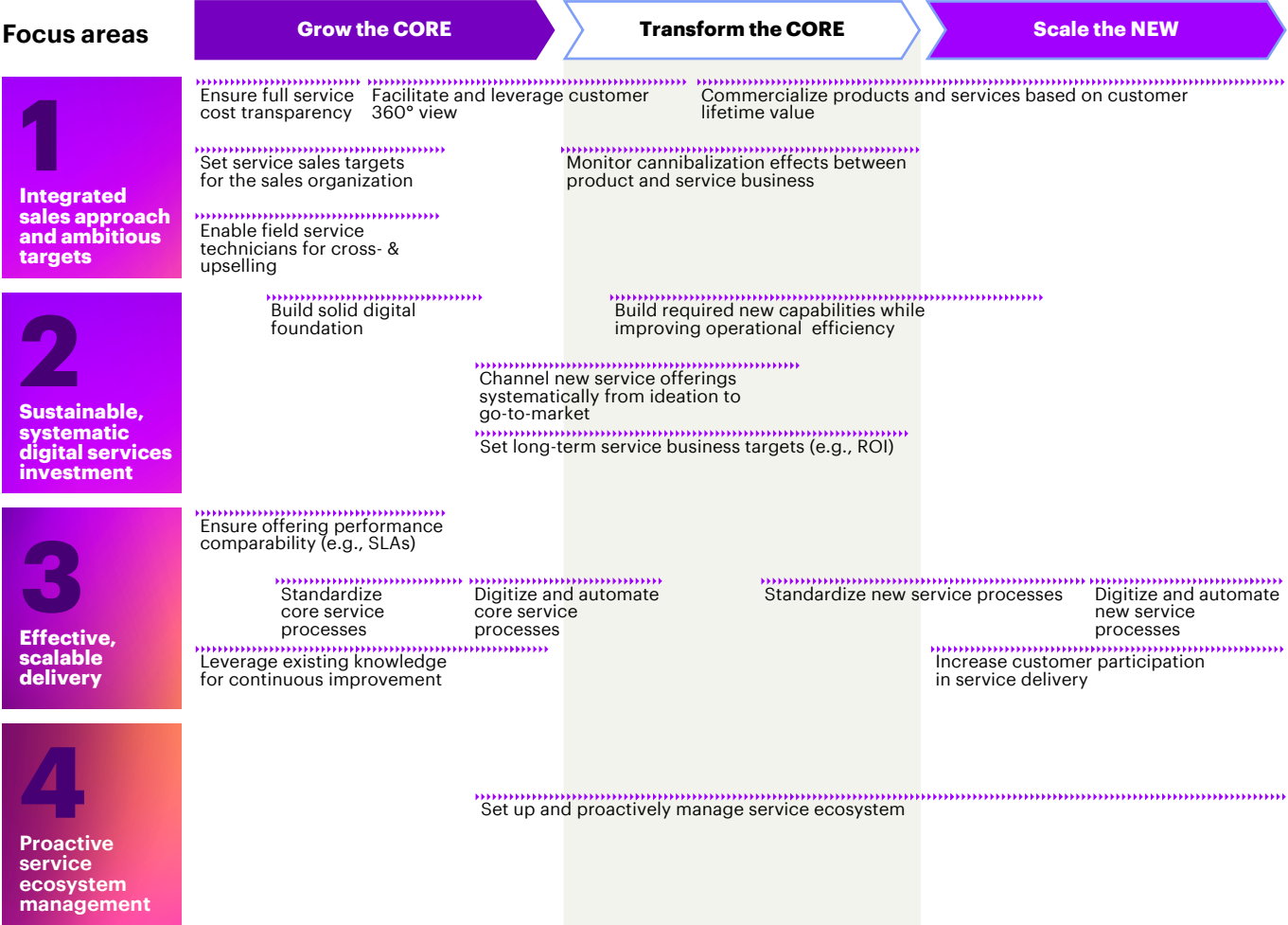
Our research of 748 services executives globally shows that successful industrial companies put rigorous structures, systems and processes in place to transform their service businesses.

Champions and Masters exploit a strong market position in core services to fund long-term investments in new ones, without diluting margins. Their structured, balanced approach enables them to get services to market quickly and continuously improve them.



How do they do it? We've mapped their approach to help you build new services and exploit the resulting profit pools. The focus areas and pivot structure can serve as your "service blueprint" to become a Champion in your industry. Within each phase along the pivot structure—grow the core, transform the core and scale the new business—are activities mapping to each focus area, some of which are done in parallel. (See Figure 8.)

Figure 8: Your pivot roadmap



Change is here

Now is the time to act. The research confirms our industry vision where services increasingly constitute an even greater proportion of overall revenue to drive competitiveness and profitability. How do we believe industrial equipment companies can achieve this vision?

Following the pivot roadmap could help companies transform services and reap the benefits from this changing landscape. Accenture believes that services will contribute up to 60% or as much as two-thirds of overall revenue for industrial companies in the next five to 10 years.

The exact figure will vary depending on industry and company maturity, as well as how successfully a company travels along the roadmap and implements the entire pivot.

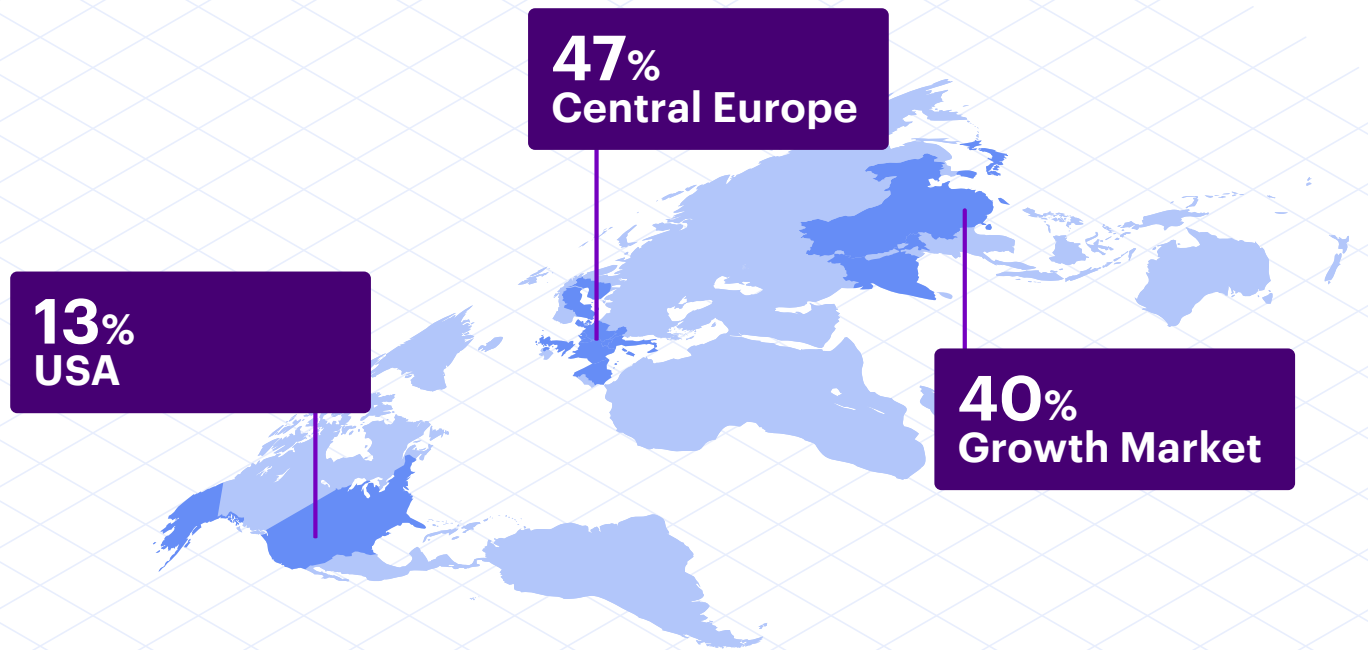
Industrial companies that haven't yet mastered their services business need to transform now or risk falling behind. Those that can keep up with or even outpace the current Champions by transforming their business have the potential to deliver what services customers want while significantly improving profitability and resilience in an uncertain business climate.

Industrial Equipment companies need to adapt their services strategies now or risk falling behind.

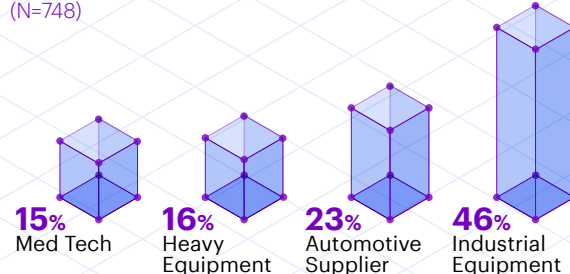
About the research

From June to September 2020, Accenture conducted a comprehensive and representative online survey with 748 industrial executives in senior positions in the service business.

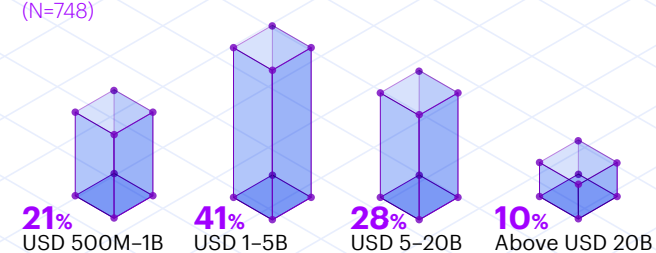
The companies were based in 14 countries and operate in four industries—industrial and electrical equipment, heavy equipment, automotive suppliers, and medical equipment. The companies were split into four revenue groups starting with a revenue threshold of at least \$500 million annual revenues.



Industries
(N=748)



Revenue
(N=748)



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