Aberdeen Group
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January 2013

State of Service Management: Outlook for 2013

The transformation of the service organization, as tracked by Aberdeen's Service Management research over the previous eight to 10 years, continues into 2013. This transformation isn't limited to a more profit-centric view of service, but touches upon the changing role of the service organization. No longer is service just about delivering support, but more and more it's about a true understanding of customer needs and the provision of solutions to ensure customer delight, profitability, and maximum value. In essence, the service organization truly understands the customer's pain points and can rely on this information to maximize the value derived from purchased products and services.

This document will highlight trends in service management and focus on the steps taken by the Best-in-Class in maximizing customer satisfaction, retention and overall profitability.

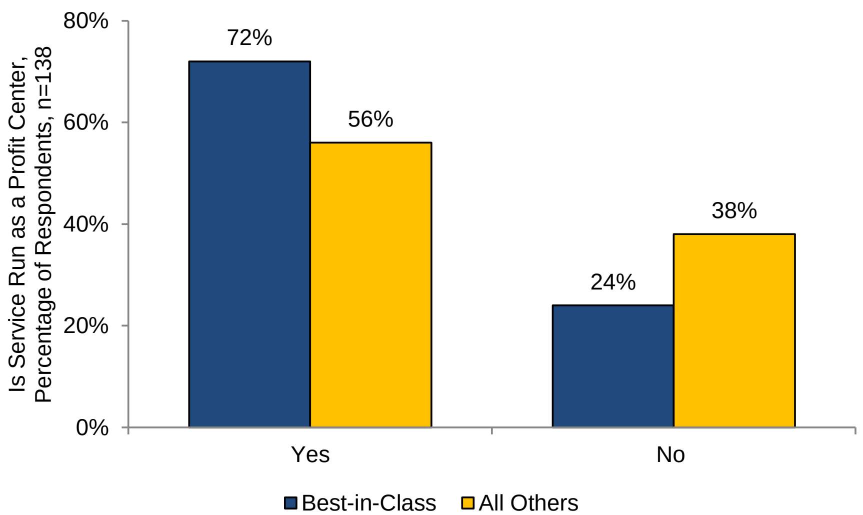
Analyst Insight

Aberdeen's Insights provide the analyst perspective of the research as drawn from an aggregated view of the research surveys, interviews, and data analysis

Being Customer-Centric is Profitable.

Customer service and customer experience management are strategic areas of focus for organizations heading into 2013. These aren't groundbreaking predictions, as customer-centricity has been and will always be a theme for success. The real challenge comes in balancing customer-centricity with operational excellence to ensure that customer needs are met without breaking the bank. This is where the treatment of service as a profit-centric business unit is essential (Figure 1).

Figure 1: Best-in-Class = Profit-Centric View of Service



Source: Aberdeen Group, December 2012

It's not about paying lip service to customer service or marketing around service prowess, but rather is more about developing a strategic plan around the efficient delivery of service and support to customers to improve customer satisfaction, enhance loyalty, and strengthen future revenue streams by truly understanding what customers are unable to do themselves.

Over the previous eight to 10 years, Aberdeen's Service Management research has traced the increasing focus on service as an independent, profit-centric business unit. In a recent survey of 138 service organizations, 58% highlighted that they treated service as a profit center with profit and loss objectives in place. This percentage is slightly lower than a similar state of the market survey conducted by Aberdeen at the end of 2011, where 68% of organizations signaled their management of service as a profit center. This drop highlights the fact that the transition to a profit-centric service model continues to face internal resistance (highlighted later), especially in the light of challenging economic conditions. That said, those organizations that refuse to transition will eventually realize that a profit-centric service organization is a key pillar of business sustainability, and here's why:

- **It is cheaper to service and retain a customer versus acquiring a new customer**. Fifty-one percent (51%) of respondents indicate that the cost of service and customer retention is lower than the cost of customer acquisition, with only 15% stating the opposite. While new customer acquisition and customer growth are vital elements of success, these goals need to be balanced with customer retention and customer management objectives.
- **Margins on service are higher than those on products.** As seen in Figure 2, 45% of organizations claim that the margins on service are higher than those on products. On average, organizations claim that the margins on service are 10.7% higher than those on products owing to higher revenue streams at lower costs (as seen in the preceding bullet point).

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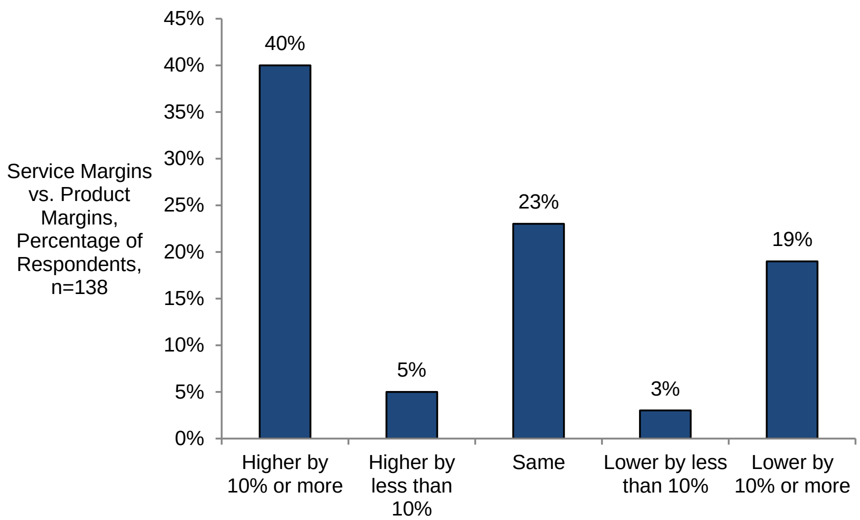
Figure 2: A Profitable Venture



Source: Aberdeen Group, December 2012

- **Retained customers make up a significant component of revenue streams.** While service revenue accounts for 26% of total company revenue, as seen from respondents to Aberdeen's State of the Market survey, existing customers make up a significant component of total revenue. Organizations report that retained customers from the end of 2011 made up more than 80% of total revenues in 2012, tied to their spend on existing or newly introduced products and services.
- **Satisfied customers significantly impact revenue growth.** Organizations that were able to return a greater than 90% level of customer satisfaction saw significant advantages in customer retention, loyalty, and overall revenue growth compared to those with satisfaction level of less than 50% (Table 1). While organizations have long known that customer-centricity is vital, they are now able to understand the financial ramifications of their customer service strategies.

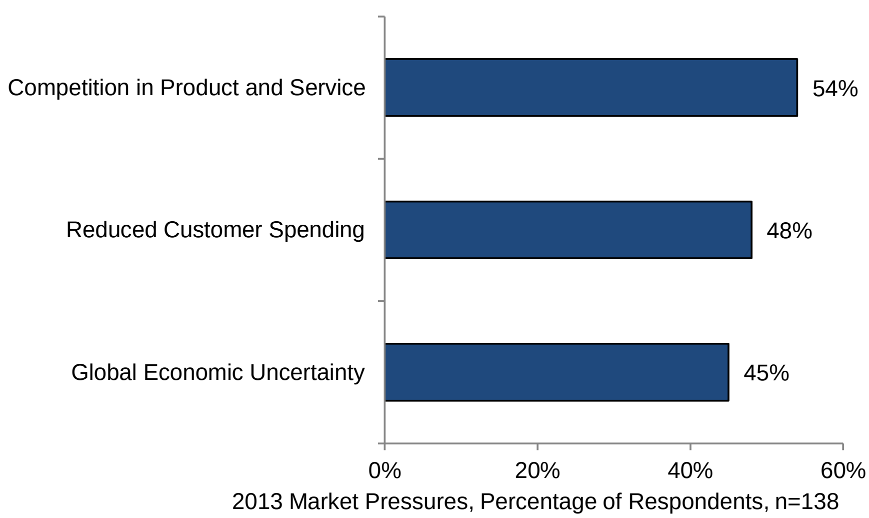
Table 1: Satisfied and Committed Customers Lead to Revenue Growth

Metrics	Average Result	
	Customer Satisfaction > 90%	Customer Satisfaction < 50%
Customer Retention	89%	48%
Customer Loyalty Score	77	32
Revenue Growth (Previous 12 Months)	3.7%	-1.7%
Service Revenue Growth (Previous 12 Months)	6.1%	-2.9%

Source: Aberdeen Group, December 2012

If the financial reasons outlined above aren't enough to justify a greater push into service, then external market conditions might just do the trick. Fifty-four percent (54%) of organizations see service as a means to fend off competitive pressures from other manufacturing or service organizations. In a tight economic environment, customers not only guard their total spend, but are also presented with a wider variety of options when considering where to spend their money (Figure 3). Improved service and support can therefore serve as a strategic differentiator in helping organizations fight off lower-priced products and services.

Figure 3: Market Drivers for Improved Service in 2013



Source: Aberdeen Group, December 2012

Service improvement is one thing, but improving service performance while delivering a profit is another. Therefore, Aberdeen's determination of Best-in-Class organizations in a comprehensive service organization review (such

Insight: Benchmark Performance

While the following metrics weren't used to determine Best-in-Class, these organizations revealed significant out-performance in comparison to All Others:

SLA Compliance
Best-in-Class — 89%
All Others — 69%

Contract Renewal
Best-in-Class — 88%
All Others — 69%

Serviceable Asset Uptime
Best-in-Class — 88%
All Others — 68%

First-Time Fix
Best-in-Class — 71%
All Others — 59%

Service Workforce Utilization
Best-in-Class — 75%
All Others — 66%

as this one), includes strategic customer-facing and profitability metrics (Table 2). Organizations were rewarded not only for current performance, but also for their ability to improve key metrics over the previous 12 months.

Table 2: The Top Performers

Metrics	Average Result	
	Best-in-Class	All Others
Customer Satisfaction	90%	69%
Customer Retention	90%	68%
Service Margins	40.2%	22.3%
Service Revenue Change (Previous 12 Months)	12.1%	1.9%
Service Cost Change (Previous 12 Months)	-3.1%	2.0%

Source: Aberdeen Group, December 2012

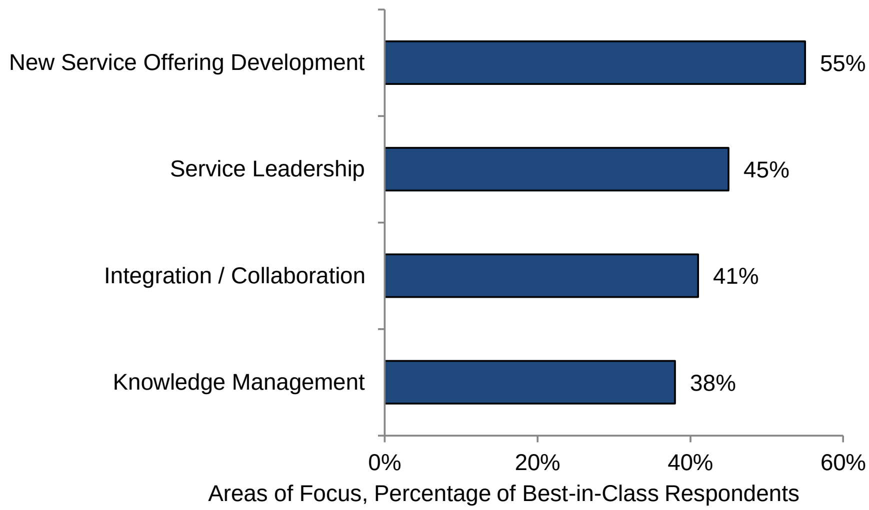
This improved profitability, as seen in the Best-in-Class, is directly attributable to a disciplined approach toward meeting and exceeding customer expectations regarding service, resulting in higher satisfaction and retention rates — which ultimately yield more spend, and thus more revenue for the business. While metrics around efficiency, utilization, and compliance weren't included in the Best-in-Class determination, it is evident from the results (in the sidebar on page 4) that these are key areas of focus for leading organizations as they strive to improve on customer and financial results. It should also be noted that leading organizations have also been the most successful in improving customer satisfaction over the previous 12 months (8.0% vs. 3.9% for All Others), further highlighting how these organizations continue to invest in the improvement of their service businesses.

Outlook for 2013

For Best-in-Class service organizations, the top goal for 2013 is to increase service revenues, as seen by 34% of leading respondents. Another 24% are looking to improve customer satisfaction or retention which is essential to attaining revenue growth (as seen in Table 1). Only 19% of non-Best-in-Class organizations cite revenue growth as their top goal for 2013, highlighting their continued focus on improving service performance prior to establishing a focus on revenue growth.

To attain revenue and customer satisfaction objectives, the Best-in-Class are prioritizing the following areas of focus (Figure 4):

Figure 4: The Path to Continued Success



Source: Aberdeen Group, December 2012

New Service Offering Development and Management

Since revenue has been and continues to be high on the Best-in-Class priority list, these organizations are beginning to leverage the vast amount of customer data available through service transactions to hone in on customer pain points and provide solutions that maximize overall value. One example is frequent repairs on a particular product, which may alert the servicing organization to a training or replacement issue that can improve product performance in the future. In this scenario, while the speed of repair is vital to the service experience, the provision of added insight or training services can potentially remove or reduce the occurrence of future issues, therefore reducing downtime and maximizing customer value. In addition, the provision of these services establishes the service organization as a partner with the customer, as opposed to a transaction-oriented vendor.

The identification of the need for these services is one thing, but the development of the infrastructure to successfully develop, administer and build revenue from them is another. As in the case of traditional product development, successful service development requires an investment in the functions of sales, marketing, operations support, and business analysis as well as in the automation of capabilities tied to service offer creation, billing, service contract management, service renewal, and more. The Best-in-Class recognize this and continue to focus on these areas for investment from a technology and personnel perspective. In fact, 41% of the Best-in-Class indicate that "Service sales" is the function that will receive the most significant amount of attention from an automation point-of-view in the next 12 months.

Insight: Automation

Top Functions for Automation Investment in Next 12 Months (Percentage of Best-in-Class):

- √ Service sales - 41%
- √ Service marketing - 28%
- √ Technical information management - 28%
- √ Customer feedback management - 24%
- √ Asset management - 21%
- √ Service contracts - 21%

Leadership

A service leader (or group of leaders) in the role of the Chief Service Officer is essential to champion the cause and manage the growth of a profit-centric service organization. Such a leader, with profit and loss responsibility, is necessary to ensure the transition of the service organization from a lowest cost of delivery-type of business to one that focuses on value and profit maximization. This shift requires foresight, investment, and execution; responsibilities that can be overseen by the Chief Service Officer as opposed to various service functional leaders (field service, parts, contact center, etc.)

Seventy-two percent (72%) of Best-in-Class organizations have an executive leadership structure in place. These leaders are much more likely to have:

- An independent service organization as opposed to one reporting to operations (62% vs. 49% for All Others)
- Dedicated teams around sales, marketing, IT, and product development focused solely on service

Table 3: Service-Centric Teams

Dedicated Service Functions	Currently in Place	
	Best-in-Class	All Others
Operations Support	59%	55%
Sales	48%	41%
Customer Retention	45%	31%
IT	41%	32%

Source: Aberdeen Group, December 2012

Dedicated service teams can have a significant impact on business metrics. Organizations with a dedicated service sales team in place experienced a 7.4% increase in service revenues over the previous 12 months versus a 3.8% increase for those without a dedicated service sales team.

Integration / Collaboration and Knowledge Sharing

Service leadership is also necessary to increase and improve collaboration across the enterprise. There are significant advantages when service works collaboratively with sales, marketing, product development, human resources, and other counterparts. Collaboration with sales can drive a more complete picture of the customer, which enables a better customer experience. Collaboration with design and product development can lead to a better understanding of service procedures while also improving product quality. Therefore it isn't surprising to see that service organizations are keen on collaborating with other organizational groups to improve performance.

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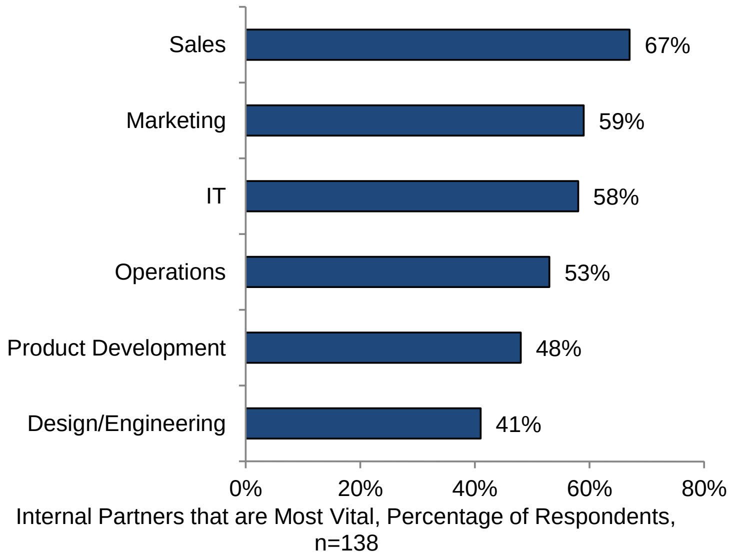
Figure 5: Relying on Internal Partners for Success



Source: Aberdeen Group, December 2012

For it to be successful, collaboration can't just be tied to ad-hoc data sharing, however. For true collaboration to occur across the organization there needs to be;

- **Systematic sharing of information between business groups**
  - Customer information and history
  - Service transaction history
  - Asset / product performance history
  - Customer feedback
- **Co-development of processes**
  - Customer management (service, sales and marketing)
  - Service procedures (Design, technical publications, and service)
  - Quality assessment (Design, service, engineering, manufacturing)
  - Workforce management (Service and HR)
- **Integration of IT systems**

A collaborative approach is also one that leading organizations support when budgeting and planning for service automation projects. Forty-eight percent (48%) of the Best-in-Class versus 31% of All Others plan and budget for automation projects via a joint taskforce that involves service leadership, IT, and finance. This goes a long way toward ensuring that service automation needs are balanced and supported by current IT standards, which leads to faster deployment times, less customization, and improved

Insight: IT for Service

Organizations report that 27.7% of their IT budgets will be dedicated to service in 2013. Compared to 2012, this represents (percentage of respondents)

√ An Increase - 33%

√ The Same - 41%

√ A Decrease - 6%

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Return on Investment (ROI). By incorporating finance, service leaders can establish a plan for scalable solution implementation while also developing a financial model to measure and ascertain a true ROI.

Table 4: Automation Priorities

Solutions Prioritized for the Next 12 Months	Percentage of Best-in-Class Respondents	Percentage of All Respondents, n=138
Knowledge Management	41%	34%
Business Intelligence	38%	29%
End-to-End Service Management	34%	23%
Customer Relationship Management	34%	33%
Customer Portals	34%	28%
Remote Service / Smart Services	24%	22%

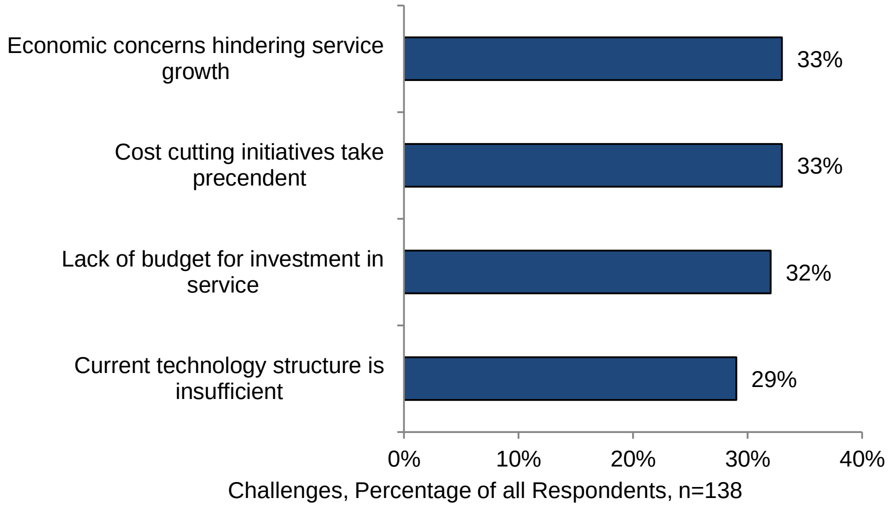
Source: Aberdeen Group, December 2012

As seen in Table 4, prioritized projects for the Best-in-Class tie into the key goals of revenue growth and improved customer management. Business Intelligence and Remote Solutions provide the means for improved data collection and analysis in order to support newer revenue streams. Knowledge management tools can be used to improve resolution rates across the service enterprise while promoting better collaboration. Likewise, customer management systems can provide the organization with a single view of the customer in order to promote an integrated experience across all customer touch points. Service management systems can afford business leaders with an integrated view of the entire service organization, removing the need to rely on multiple and often disparate systems to truly understand the reach and performance of the entire service organization.

Summary

The transition to a profit and solution-centric service business isn't easy. In challenging economic and competitive climates, such as the one we face now, it is easy to view service as a cost center and to cut back on the tools and infrastructure necessary to support service business growth (Figure 6).

Figure 6: The Service Roadblocks



Source: Aberdeen Group, December 2012

However, a cost-centric view of service is shortsighted and ignores the role that customers play in ensuring business success. Best-in-Class organizations are upping their investment in service in spite of challenging economic times, and continue to raise the visibility and stature of service within their organizations. As a result, these organizations are able to align themselves as solution partners with customers, enabling the development of a more strategic, long-term and profitable relationship.

For more information on this or other research topics, please visit www.aberdeen.com.

Related Research	
Service Excellence and the Path to Business Transformation; June 2012 *Service to Services: Revenue and the Development of New Opportunities*; June 2012 *State of Service Management: An Industry Perspective*; March 2012	*Service in 2012: The Continued Search for Revenue*; February 2012 *State of Service Management: Forecast for 2012*; January 2012

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