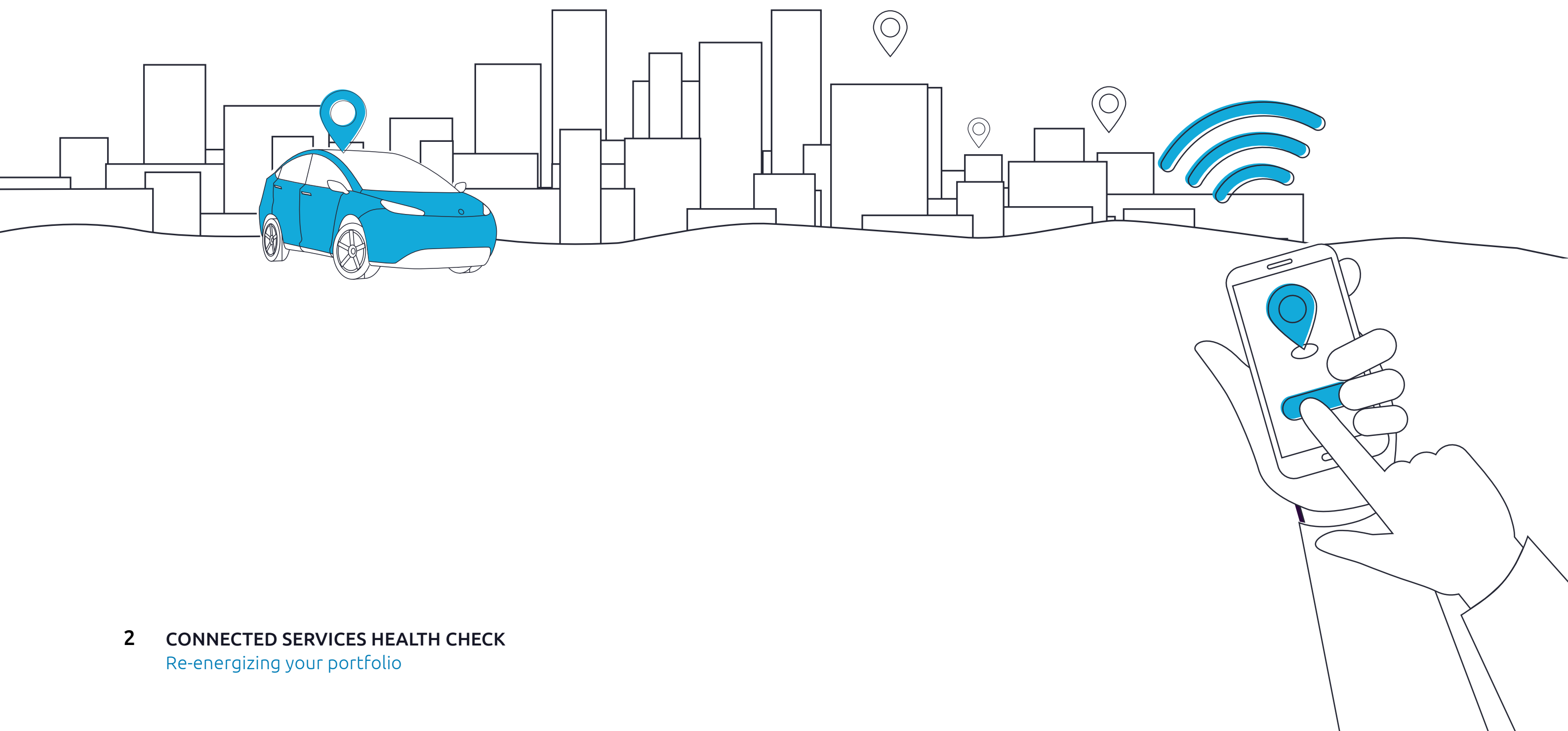
CONNECTED SERVICES HEALTH CHECK:

Re-energizing Your Portfolio

ABSTRACT

Can you hear the noise?

Your customers, regardless if B2C or B2B, are clamoring for the always-on, always-there digital services that are increasingly linked to the physical products they're buying. And more and more companies are connecting their products to offer new business models and digital services. However, many of them struggle to realize the benefits they initially hoped for. Our research shows that this is mainly due to two shortcomings: First, companies face difficulties with 'what' they offer, e.g., finding the right offering customers are willing to pay for; Second, they face challenges in 'how' to offer, e.g., finding the right channels through which to sell and deliver services. To address these problems, we present a framework that helps companies easily identify why specific services are falling behind expectations, and how to turn this situation around.



SEIZING THE CONNECTED SERVICES OPPORTUNITY

Do your customers really love the products and services you're taking to market? Or is your investment in smart, connected products falling short of the mark?

The market for products and services is growing three times faster than traditional products.[1] And this shouldn't come as a surprise. After all, facing increasing digitalization and constantly changing customer requirements, companies across all industries are in a race for market-leading innovations. This has seen a shift in focus to service innovation, with manufacturers connecting their products to the internet to provide 'connected services'.

It is the latest incarnation of an ongoing transformation evident since the late 1980s when companies began creating additional revenue streams through integrated product-service systems. This became known as 'servitization' and today, manufacturing companies are capitalizing on the massive value of software and digital technologies to take this concept forward with smart, connected products. They are enriching traditional portfolios by harnessing connectivity and data analytics to power a range of connected services fueling growth, improving customer satisfaction, driving sustainability, and increasing revenues.

Or are they? This brings us back to our earlier questions and whether your investments in smart, connected products and services are reaping the expected dividends. In this Point of View we argue that while many companies have started to extend their portfolios with value-adding connected services, some struggle to realize the envisioned benefits. We look at why this is happening and what needs to be done to turn this around and seize the connected services opportunity.

The value of this opportunity is significant. Taking the automotive sector as an example, a global automotive consumer survey conducted by Capgemini Research Institute with more than 3,000 customers revealed that around 50% of customers would be willing to switch to another car brand for better connected services.[2]

1. Source: Fortune Business Insights, Research & Markets
2. Source: Capgemini Research Institute: Next Destination: Software

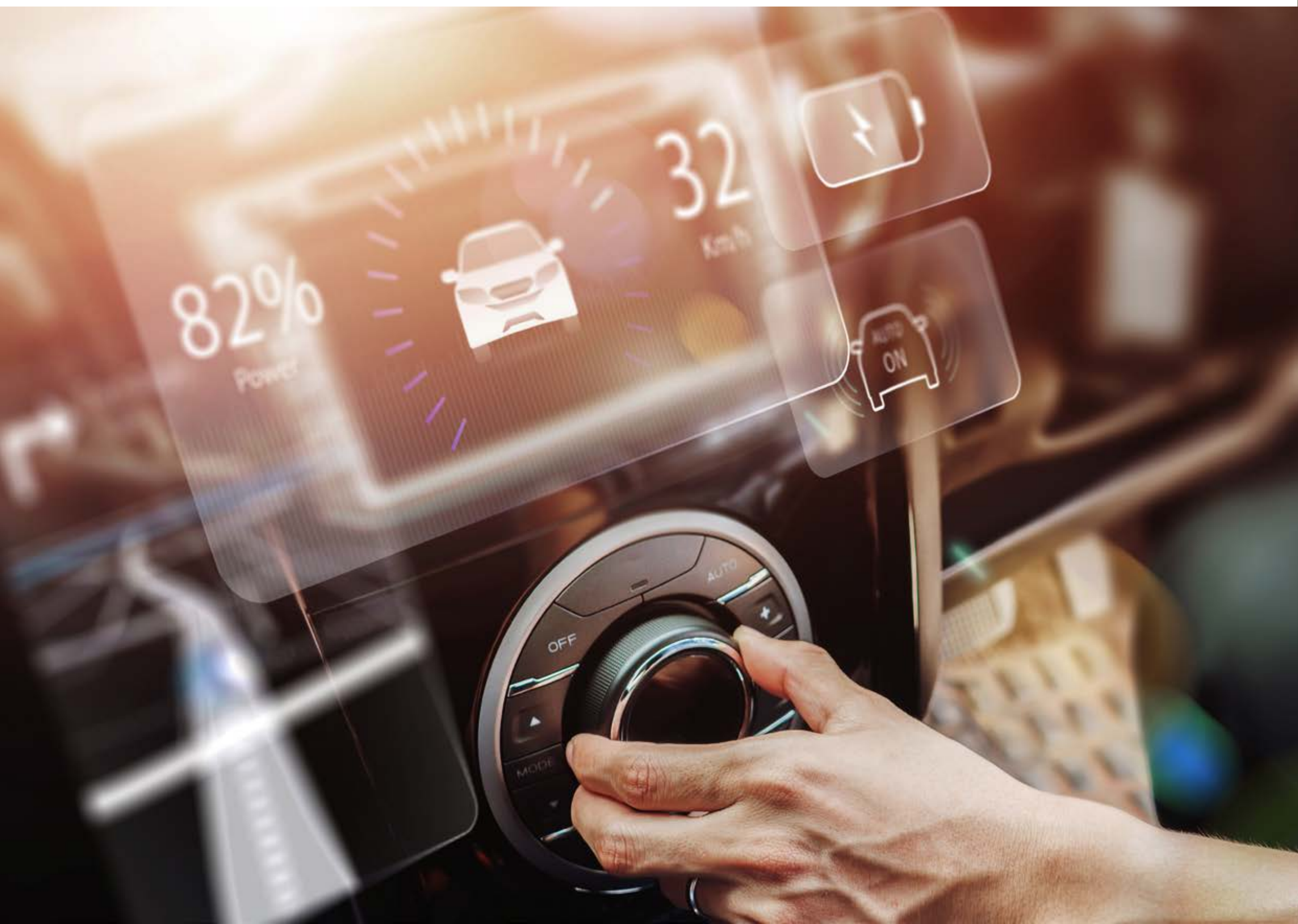
CROSSING THE TRADITIONAL VERSUS DIGITAL DIVIDE

The scope is broad ranging — and steadily increasing. From condition monitoring and predictive maintenance to pay-per-use and pay-per-output models, a growing number of companies are expanding their offerings with products and services. However, while there are plenty of technical solutions on the market with more and more machines and devices being connected, many companies are not achieving the desired revenue. In a nutshell, their products and services are not selling as planned.

In principle it is a multi-dimensional problem with many interdependent issues. If you identify a service that is performing poorly, what can you do with it? What are the root causes? For instance, should you invest more money in the service, or terminate it? Should you change what you are offering? Is the offer good, but in need of being marketed differently? Should you change the price? Or the sales channel? Or the monetization model?

Most important of all: how do you turn this around? It is certainly not an easy task. Nonetheless it's one that's vital to get to grips with. If you don't, the market disruptors will disrupt your business with potentially devastating results.

After supporting a broad number of clients to set-up and optimize their connected service portfolios, we can group the issues that companies face with specific services in two clusters: 'what' to offer and 'how' to offer. What services do customers really value and what are they willing to pay for? And how should these services be sold and delivered to customers?



WHAT DO CUSTOMERS WANT?

If you don't know what your customers want, how will your product teams and service designers create winning connected services? Our work with clients in this area shows that companies struggle to develop services that both solve genuine customer pain points and for which there is a high willingness to pay.

For example, a leading manufacturer of agricultural machines used to sell a 'basic' connectivity service that more or less connected tractors to the internet. Farmers needed to buy this service to be able to use further value adding services like condition monitoring and remote diagnostics.

However, the pure connectivity itself didn't add any direct value to the farmer. Unsurprisingly, take up of the connectivity service was poor and farmers were missing out on all additional services. The manufacturer managed to turn this around by bundling services in a way that the basic package included both connectivity and a first set of value-adding services, including condition monitoring and machine optimization, as well as data extracts and reports. Bingo! The basic package now addresses a set of specific customer pain points: increasing machine uptime and performance and ensuring transparency.

But solving a customer need is not sufficient for success. One example of this is the navigation system in a new car. While most customers would like to use such a system to help them get from A to B, they are not willing to pay for the added value it brings due to the availability of free systems, such as Google Maps.

HOW TO SUCCESSFULLY DELIVER AND MONETIZE SERVICES

Besides the 'what', companies struggle with 'how' to successfully deliver and monetize their services. It is increasingly clear that companies have difficulties utilizing the right channels for marketing and sales of connected services. They struggle to decide whether to use existing or new channels — or perhaps both. Further, sales partners and dealers often lack the necessary training, upskilling and incentives to sell connected services to customers in a way that they will understand, value, and use.

A frosty reception

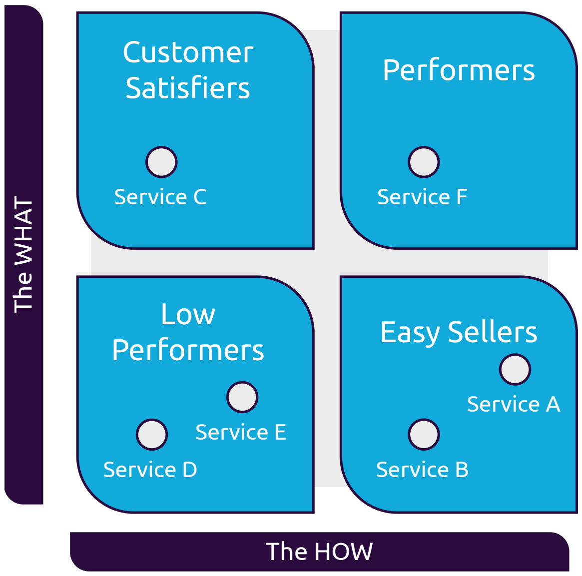
Let's look at an example of a great product that was not properly marketed: smart fridges. A leading manufacturer of home appliances launched a new model of fridges that included both a display and multimedia functionality. These fridges were sold at the same retail stores in which traditional, non-connected fridges were sold. Initial customer interest was low. There was a simple reason for this. When you walk around the section of a store selling televisions, you will notice that all TVs are powered on, and customers can see what they are paying money for. However, in the fridge section the appliances are normally switched off, so how can customers experience the added value of new functionality? In the case of our exemplar smart fridge, customers were not willing to pay a price premium for something they couldn't see. So, here we see that the best way of selling traditional products doesn't always work for smart connected ones. In this instance, the right choice of sales channels is a central factor.

A matter of trust

Brand credibility is another interesting example of why companies fail when launching products and services. Staying with the example of home appliances, the thinking is clear: I always buy my televisions from the same brand, and I trust it to make great TVs. However, I don't buy my TV shows from the manufacturer, rather I get these from other companies like Apple, Amazon, and Netflix. Manufacturers of all manner of product face a similar challenge as soon as they extend their services beyond the physical product to areas of the value chain in which the customer might expect other types of companies to have greater expertise. If this is the case, creating a new brand, or acquiring or partnering with reputable players might be the way to go.

A FRAMEWORK FOR SUCCESS – WHERE DO YOUR SERVICES SIT?

Capgemini has developed a framework that can help you tackle these challenges, and thus optimize your connected product and service portfolios. This framework enables us to map all the complex and interrelated problems to two simple and easily measured dimensions — 'how' (axis x) and 'what' (axis y). If we correlate these dimensions, we get four quadrants. Each quadrant gives us specific indications of why a service is performing poorly, and what actions should be undertaken to fix it.



Here's how the framework brings value:

- The 'how' dimension on the x axis measures how well you are marketing, selling and delivering a service, for example are you using the best channel? For this dimension, we need the **service take rate** - the percentage of your customers buying the service for the first time. And we need the industry average take rate. By putting these numbers in relation to each other - service take rate divided by the **industry average take rate** - we can compare the market success of different services.

- The 'what' dimension on the y axis measures whether you have the right offering - are you solving a genuine customer pain point and does the customer understand the benefits of the service and thus has a high willingness to pay? For this dimension, we use the **percentage of customers that repurchase a service** after the first purchase.

> We have defined the connected service quadrants in our matrix as: Low Performers, Customer Satisfiers, Easy Sellers and Performers, with each cluster indicating a specific set of strengths and weaknesses - see following pages for details of the matrix quadrants.

TIME FOR A HEALTH CHECK?

The matrix can act as a dashboard in which you regularly track the development of your services, and the effectiveness of the measures you apply to selected services. In essence, it's a health check for your connected products and services.

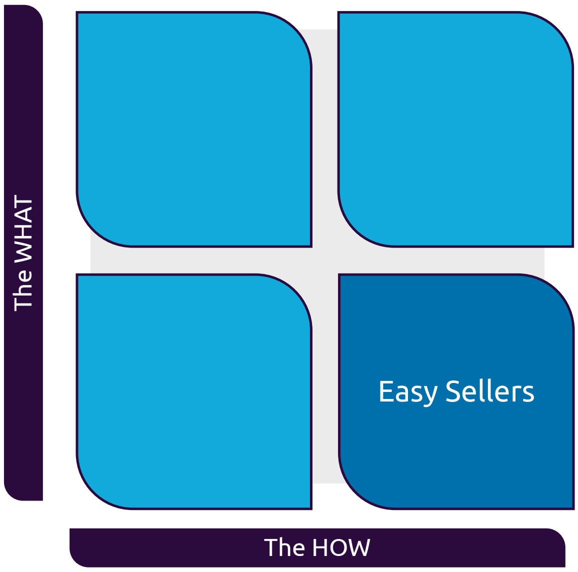
By using the matrix to classify and compare services with each other, it quickly becomes clear which ones are 'running well' and which need an injection of new thinking. The matrix quadrants build the basis for defining next best actions per connected service. Services positioned in the overlap of two clusters require additional evaluation in order to decide upon the most suitable actions

> Where are your services in the matrix?
>
> Find out in which quadrant each of your services is sitting - and how to improve the position of under-performing ones - in the following pages

QUADRANT: EASY SELLERS

Are you experiencing a low repurchase rate even though the initial take rate (the percentage of your customers buying the service for the first time) is relatively high? While the assumption based on the initial take rate is that it is being properly marketed and sold, the low repurchase rate tells us that customers are unlikely to be seeing the true value of the service.

We call services that rank high on the 'how' and low on the 'what' **Easy Sellers**.



What's going wrong?

If this sounds like your experience, we have identified a range of potential causes:

- The service does not solve a genuine customer problem
- Customers might not understand the added value of the service
- There is a low willingness to pay for the service
- The service lacks a good user experience, resulting from downtimes, bugs, or outdated interfaces

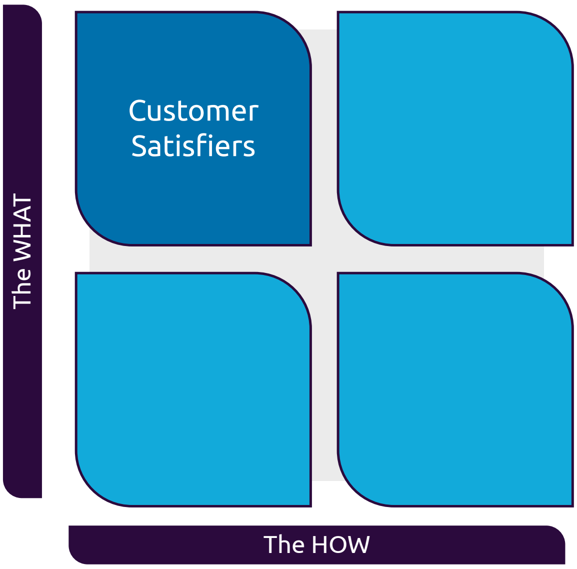
What do you need to do about it?

So, what can be done about it? Here are our recommendations:

- Re-evaluate the value proposition of the service based on extensive customer research
- Ensure that the service offers good usability and sufficient functionality
- Ensure the service integrates well in the customer journey (and related processes and systems if applicable)
- Evaluate the potential for improving the perceived value of a service through bundling with other services

QUADRANT: CUSTOMER SATISFIERS

Perhaps your new connected services solve the pain points of specific customers but are failing to successfully capitalize on the market. Sounds familiar? Services that rank low on the 'how' and high on the 'what' are referred to as **Customer Satisfiers**.



What's going wrong?

There is a wide range of problems causing this issue:

- Lack of brand perception
- Lack of appropriate marketing
- Wrong channels for marketing and for sales
- Sales force lacking mindset and skillset to sell services (regardless of whether this is a company's own sales force or partners/ dealers)
- Wrong sales incentives for services (or no incentives at all)
- Wrong pricing models

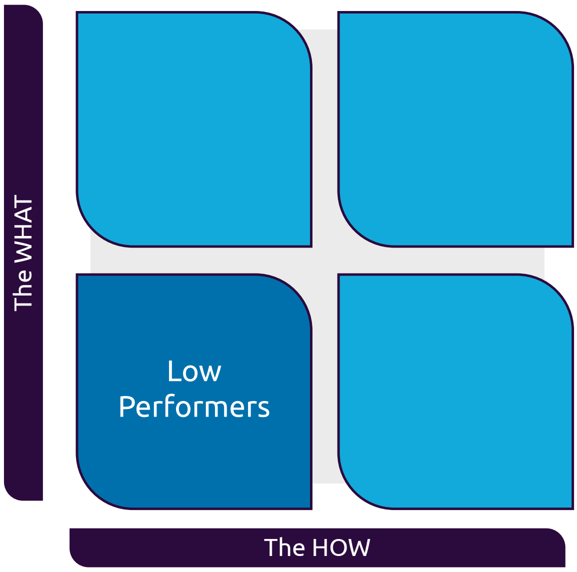
What do you need to do about it?

Here are our recommendations for fixing this situation

- Evaluate potential joint ventures or new brands for go-to-market
- Re-evaluate marketing and communication activities
- Evaluate potential new sales channels (e.g., indirect vs. direct)
- Evaluate the need for new capabilities, roles, and incentives in the sales force

QUADRANT: LOW PERFORMERS

If your service is in the **Low Performers** quadrant, it's in a bit of a mess. It is located in the bottom left quadrant of our matrix because the service is performing poorly on both dimensions.



What's going wrong?

Where should we start? Rather than listing everything that's going wrong, it is easier to simply combine all the problems in the previous two quadrants to get the big picture of why **Low Performers** are failing to deliver on the promise of connected products and services.

What do you need to do about it?

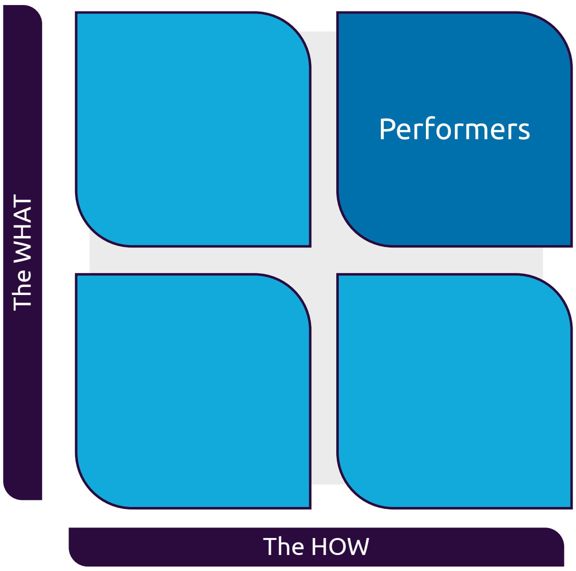
Your approach and business model for the Low Performers demands a complete overhaul. And again, we refer back to the previous two quadrants for recommended actions.

In addition, these services are also potential candidates for discontinuation and should be evaluated on a case-by-case basis. In this respect, we recommend taking a leaf out of Google's book. The company has no hesitation in killing services that don't perform well, from Google Bookmarks and Fitbit Coach to Google Public Alerts and Loon. It also discontinued both Google Home Max and its Nest Secure alarm system.

Our experience is that manufacturing companies are pretty bad at killing services, even if they are failing and no one knows how to turn things around. Don't hang on to them. Think like Google!

QUADRANT: PERFORMERS

It goes without saying that if there are low performers there are also those that perform better than others. We refer to these services as **Performers**. They excel in both dimensions and can be found in the top right quadrant of our matrix.



Things can still go wrong

While it might seem anomalous to talk about 'problems' in this quadrant, two issues must be borne mind:

- Services that are today's top performers might become outdated or commoditized tomorrow
- How do you protect these services from 'copycats' to maintain your market differentiation?

What do you need to do about it?

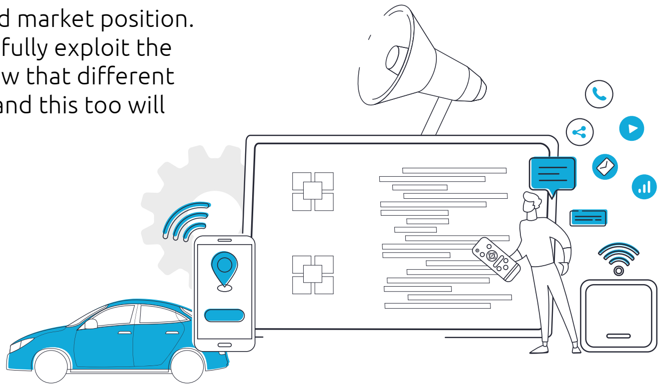
To maintain the value of these connected products and services, we recommend:

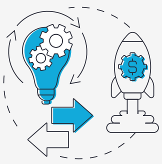
- On a case-by-case, decide if you are going to 'milk the cow' (invest little and earn high revenues and margins), or continuously reinvest to stay ahead
- Evaluate how to optimize price and how to increase efficiency to increase service margin
- Reiterate the service to avoid commoditization. For example, increase the number of features and the level of integration into the customer journey/ processes/tools so that you continue being better than similar yet cheaper services

EXPLOITING THE POTENTIAL OF CONNECTED SERVICES

Each company has its own unique strategy, mission, vision, and market position. Thus, the recommendations need to be aligned with these to fully exploit the potential of each connected product and service. We also know that different sectors are at different levels of connected service maturity, and this too will shape the response to these recommendations.

The framework outlined in this document should be viewed as a first step towards bringing your connected product and services strategy to life. There are many other considerations that tie directly to your individual business strategy and aspirations for a connected enterprise.





New business models and skillsets

Questions need to be answered around what new business models you need to prioritize and how to create the right skillsets and mindset to deliver connected offerings. And do you have the right organization and governance to drive innovation? That's not all. There's a whole new raft of thinking needed around product and experience design. How do you design products and services that solve genuine customer pain points? Can you identify the products and services for which there is a high willingness to pay?

As you get ready to scale your connected products and services, how do you transition from a minimal viable product to industrialized growth? You will also need to consider the best approach to empowering your sales force and/or dealers to sell your connected offering.

A successful portfolio

There's a lot to take on board and few companies not born digital have the internal resources to do this alone. At Capgemini Invent, we help our clients create transparency across their portfolios, and we identify which 'levers' need to be pulled to make those portfolios successful. Importantly, we do this jointly and empower our clients' own teams to maintain this momentum themselves for the long term.

The result? A connected product and services strategy and offers that deliver the customer loyalty and boost in revenue promised at the advent of connected 'servitization'. For example, with predictions that include the global revenue for vehicle data monetization to range between $80bn to $800bn by 2030,[3] is it any wonder that the race is on to ensure the questions of 'how' and 'what' of connected products and services are answered sooner, rather than later?

3. Source: Capgemini Invent: Monetizing Vehicle Data – How to fulfill the promise

OUR RECOMMENDATIONS

for connected services success

Get ready to re-energize your connected products and services journey. If you don't act now, you'll always be chasing the pack. So, why not lead it instead?

At Capgemini Invent, we work with our clients from strategy and product design to implementation, operations, and support of their connected services offerings. We use industrialized methodologies and tools to drive speed-to-value and effectively monetize data, and we bring expertise in change and enablement to enthuse, empower, and upskill people in new ways of working in the connected enterprise.

To find out more about Connected Products and Services from Capgemini Invent: Visit- https://www.capgemini.com/service/invent/intelligent-products-and-services

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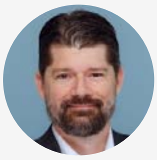

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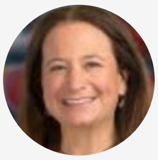

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