



Smart service management: driver for higher customer lifetime value

Manufacturers must adopt a customer-centric approach that primarily focuses on enhancing scope and improving execution of services by utilizing a new smart service management model, while creating new revenue streams.



Executive summary

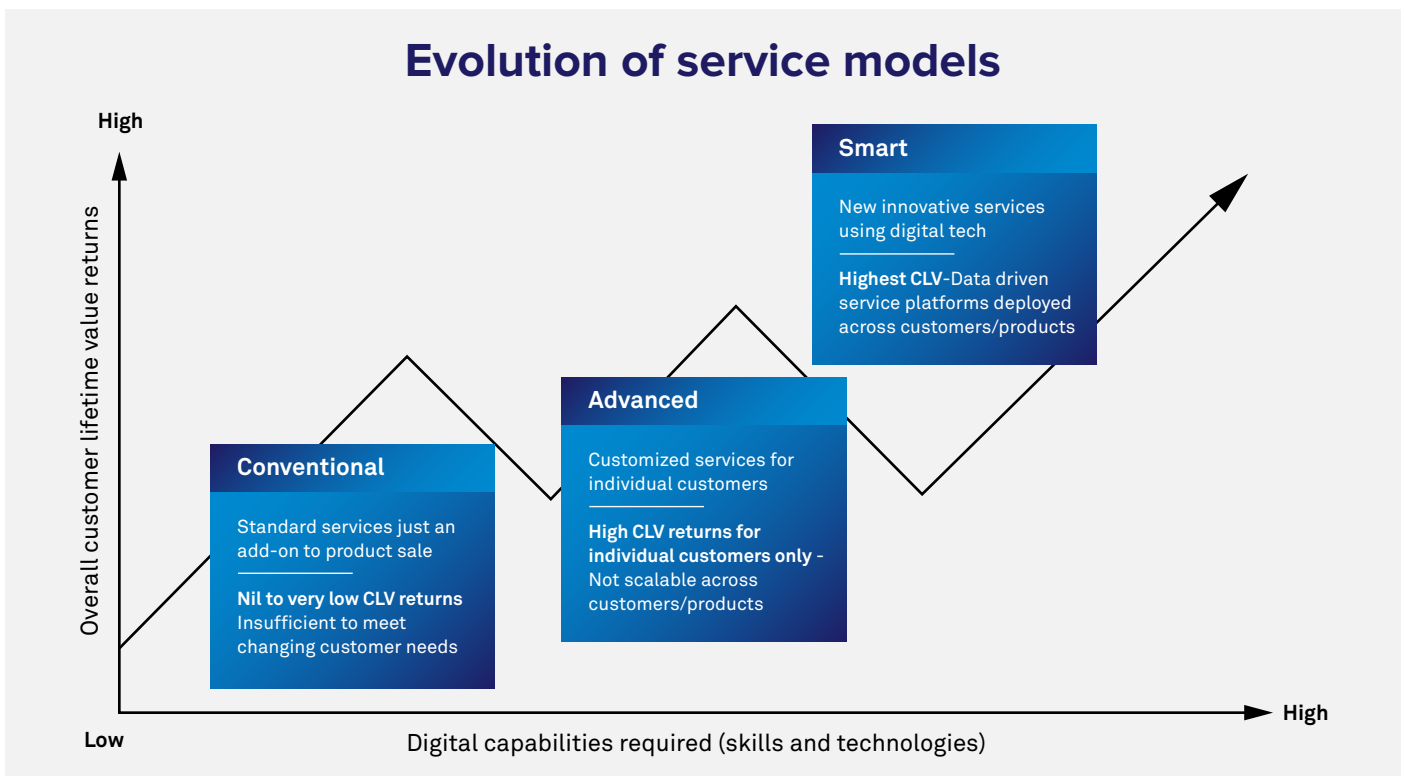
- Manufacturers are evaluating various digital technologies, with high value promises, to implement across the processes in the value chain. However, full value realization can be achieved only with end-to-end implementation of these technologies across the value chain, instead of for specific processes.
- For a successful service transformation journey, manufacturers should assess their business capability strategy, identify the right digital solutions (for each manufacturing process), and integrate them across the entire service value chain.
- Adopting the customer lifetime value metric over other traditional metrics will help manufacturers achieve the long-term gains of the service-based model.

For many manufacturing companies, developing a customer-centric service model means transforming both customer experience (CX) and business goals. Companies that are empowered by an integrated view of processes, data, technologies, people, and understand their customers' demands and objectives, see tangible returns. In fact, **as per Forbes, 87% companies consider customer experience their top growth driver.**

Customer centricity for equipment manufacturers, for example, can be tied to **the growth of smart products and the servitization of data from those products.** Building digital capabilities along the service value chain and integrating it with other business functions can help develop additional capabilities, such as predictive maintenance, installed base monetization, and AI-driven lead generation. These capabilities are a prerequisite for manufacturers who eventually wish to adopt product-as-a-service (outcome-based) business model. This digital capability-based approach can not only enhance customer centricity by increasing customer lifetime value, but also create new revenue streams for manufacturers.

The evolution of service

The service business has evolved with changing customer expectations. Advances in technology and competitive pressure to scale have fueled this evolution. Manufacturers with conventional service offerings are finding that one-size-fits-all solutions simply don't work, and that customized offerings are difficult to scale. This results in poor customer experiences, leading to a negative impact on overall customer lifetime value (CLV). A smart service model, by comparison, can be easily customized and efficiently scaled, allowing manufacturers to retool their service business to match market demands and capitalize on emerging opportunities.



Source: Wipro Insights Analysis

To make the change, manufacturers need to carve out business units exclusively focused on services. They must then staff these units with modern, tech-savvy, data-oriented people and support them with the right technology and infrastructure. The value proposition of a service-focused strategy is simple: services provide stable revenue and often higher margins than a product/equipment sale. They can also add value in terms of forecasting/demand planning, facilitating better asset management and delivering a superior CX.

Service-focused strategies create a win-win situation for manufacturers and customers. They provide income stream predictability, customer-centric solutions, and enable manufacturers to learn more about their products for future iterations. Customers, on the other hand, benefit from increased equipment uptime and reduced need to interact with field technicians. By making a service-based strategy the core of their business model, coupled with leading digital technologies, manufacturers can measure the impact that services have on CLV.

Why is service vital for manufacturers?

Historically, product-centric organizations still regard selling products/platforms as a core business and services are the giveaways to secure the deal. Companies should relinquish a singular product mindset by combining **servitization** (making money servicing the product) into a holistic product-service concept. In this model, completely new services can become part of the product-service product line. Services improve the CX. And a better CX translates to a perceived higher product value. This is key to achieving higher CLV returns.

Benefits of adopting services strategy over product-first strategy



Recurring revenues



Improved demand planning



Better asset/installed base management



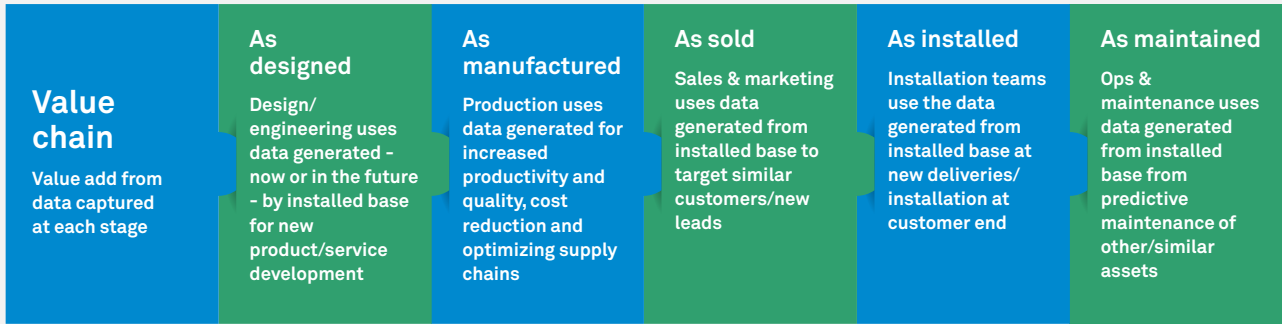
Superior customer experience

Source: Wipro Consulting and Manufacturing Insights

Adopting a focused approach toward the service business can help manufacturers create a sustainable path for growth. This is highlighted in a **McKinsey analysis** that estimated an average EBIT margin for services to be 25%, compared with 10% for new equipment. A key element of this approach is smart management and converting it to a source of repeated revenues and profits by utilizing the operating performance data of assets in the field.

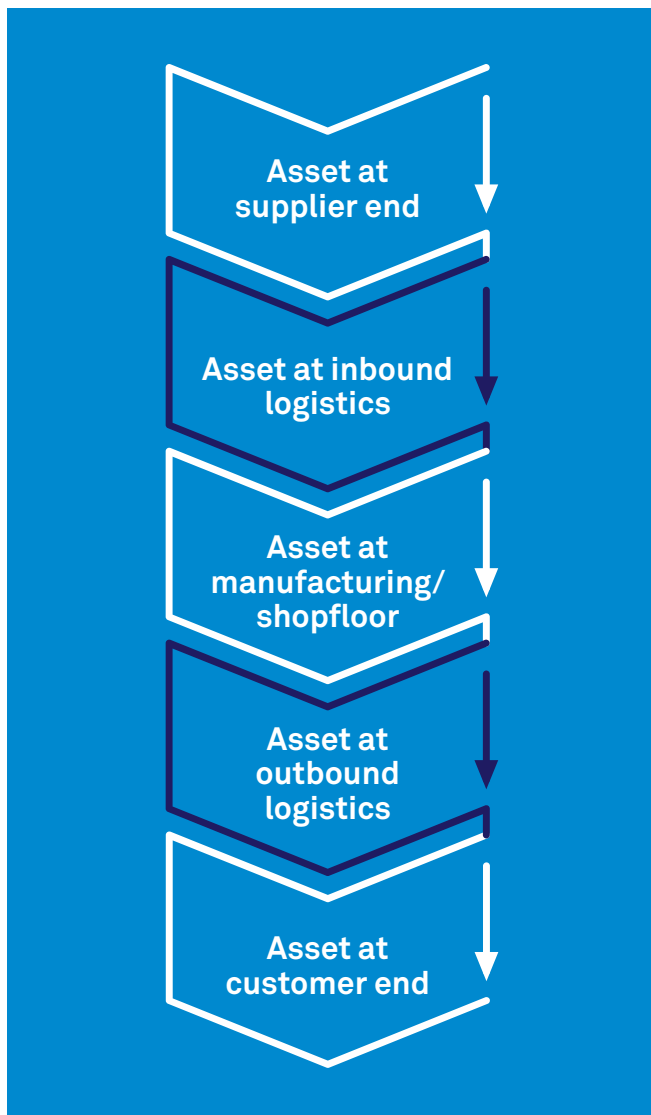
The smart services model seeks to maximize the return-on-investment over the entire lifecycle of an asset. By developing an integrated view – taking feedback from assets at every stage of their lifecycle, making decisions based on predictive maintenance, and evaluating new product development – high-level business investments can be made with greater clarity, adding to the overall enterprise value.

Asset management through entire product lifecycle



Source: Wipro Consulting and Manufacturing Insights

Digitalization enables effective asset management, which is essential to deliver a smart holistic services package. **Asset Management** involves handling the asset throughout its lifecycle at various stages of the supply chain, from concept and business case to dismantling.






Source: Wipro Consulting and Manufacturing Insights



Industry 4.0 digital technologies help unlock hidden value from installed assets by collecting, monitoring, and analyzing data from the assets. This data analysis creates new avenues for growth across the

services value chain. Technologies like connected products, analytics algorithms and cross-customer analytics are enabling manufacturers to take advantage of these opportunities

	Technology themes	Value add
	Connected products for collecting performance data on asset usage	<ul style="list-style-type: none"> • Decreased maintenance costs • Increased service uptime • Lower field FTE
	Analytic algorithms to predict future performance and improvements/optimization potentials of assets	<ul style="list-style-type: none"> • Predictive maintenance • Energy consumption optimization • Assets upgrade potentials
	Cross customer analytics to identify new service and product sales opportunities	<ul style="list-style-type: none"> • Lead generation • New sources of revenue from cross-sell/up-sell

Source: Wipro Consulting and Manufacturing Insights

How to quantify the impact of services to customer lifetime value

Great customer service leads to better, continued customer engagement. And better customer engagement can increase the retention rate and raise the CLV. Managing customer journeys instead of touchpoints through continuous service have become the focus because of its overall role in increasing CLV. To mature from traditional metrics to CLV, it is critical to adopt a services-based approach rather than a transactional product-based approach.

A recent [Pointillist survey](#) found that 90% of high-performing CX teams agree that a journey-based approach is important for determining the right customer lifetime value.

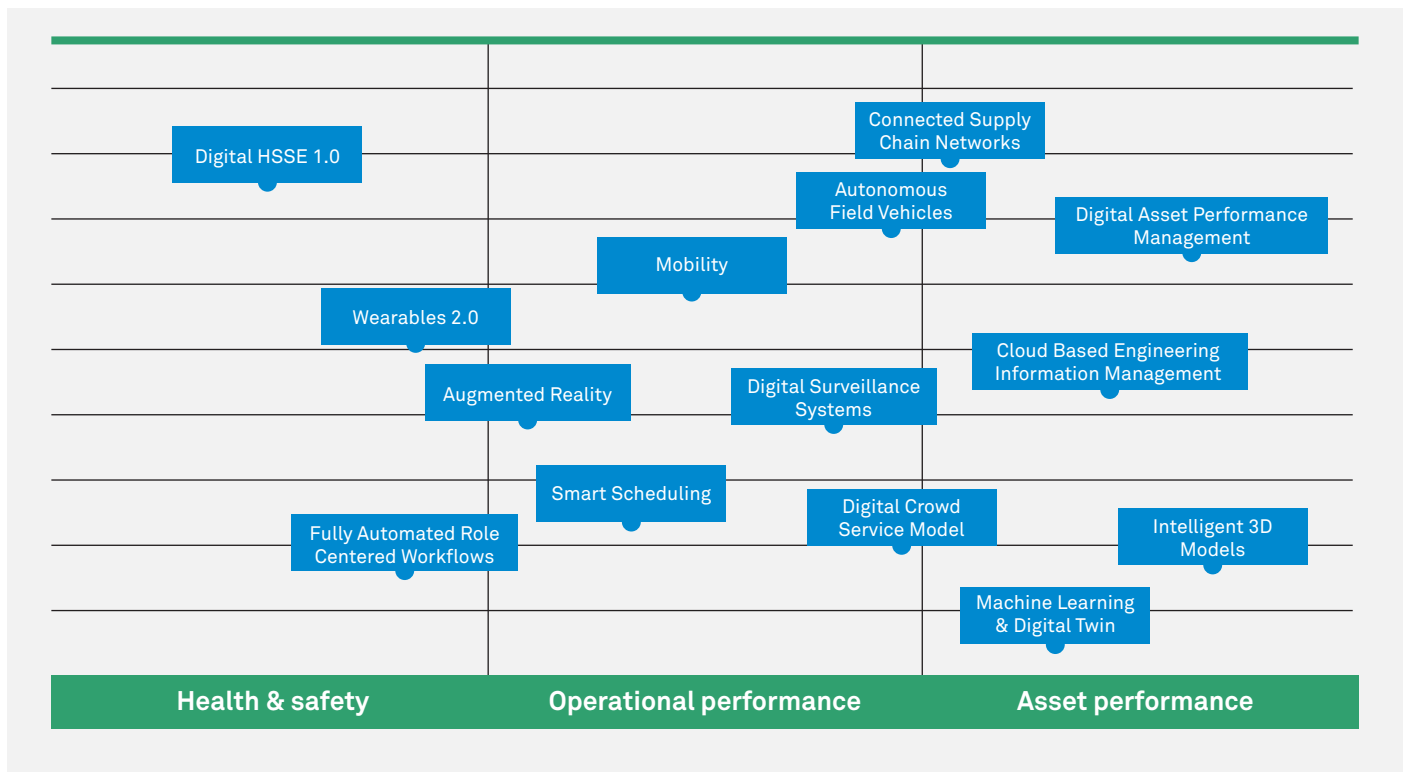
Customer lifetime value is an effective tool to measure the performance of holistic service concepts. It is based on the premise that some customers bring more profits to a business than others. Therefore, manufacturers must utilize the knowledge about the customers and unlock value of their installed base. That's where CLV comes in.

In contrast to other traditional metrics such as revenue per customer, CLV allows manufacturers to accurately measure how valuable a customer is to the company, not on a purchase-by-purchase basis, but across the whole relationship.

$$\text{Customer Lifetime value} = \text{Margin} \times \frac{\text{Retention rate}}{1 + \text{Discount rate} - \text{Retention rate}}$$

A framework for success

While many digital capabilities are already mature, others are evolving to improve service performance and promise significant values and benefits.



Source: Wipro Consulting and Manufacturing Insights

The biggest gains will be made by companies that understand the value of the data collected, both in terms of customer benefit and the service/monetization possibilities based on the insights gathered. These new services can be truly transformative to the manufacturers and their customer base. The key to realizing these gains is accurately understanding the required business capabilities as well as new business models and knowing how digital capabilities will enable the implementation of these smart service solutions from an end-to-end perspective. It is not the selective implementation of new technologies and service offerings based on them, but a comprehension of the entire transformation process along the value chain. A scattered approach will not

deliver the expected and promised benefits but only drives high investments and low acceptance. New services and technologies will only be successful if companies properly implement the necessary changes in the organization and processes in line with an understanding of technology.

The ideal framework takes an integrated view of processes, data, technologies, and people as the fundamental building blocks, and combines those elements with industry best practices and capabilities. This transformation toward a smart service management model will be key for manufacturers to achieve sustainable growth through new revenue streams.

Service business Process framework

Service offer and pricing		Service Marketing			Service Sales					Service Execution					Support								
Service offer & OCP	Pricing	Marketing & Sales Planning	Marketing Execution	Marketing Intelligence	Marketing Value Proposition	Customer Channel Mgmt.	Customer Relationship Mgmt.	Service opportunity Mgmt.	Quotation Mgmt. & negotiation follow up	Project order & contract Mgmt.	Billing	Service Partner Mgmt.	Customer Service Mgmt.	Remote Monitoring	Schedule Service	Fulfill Service	Close Service	Partner Delivery Mgmt.	Supply Chain	Cyber Security	FSE Mgmt.	Content & Data Mgmt.	OHS Mgmt.

- Service Portfolio Management
- Service Market Analytics
- Service Lead and Opportunity Management
- Service Configuration Management
- Service Contract Management
- Remote Monitoring / Preventive Maintenance
- Case & Warranty Management
- Installed Base Management / Asset Performance Management
- Installation & Commissioning
- Field Service Execution
- Scheduling & Dispatching
- Knowledge Management
- Supply Chain Management
- Spare Parts Management

Business Operating model

Business Operations

Business Capabilities

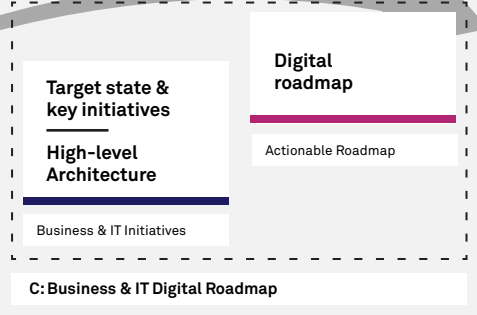
A: Business capabilities & Maturing assessment as against strategic objectives

Application landscape

Business application

IT integration Platform

B: IT Capabilities



Source: Wipro Consulting and Manufacturing Insights

In the upcoming articles, we will describe some integrated digital capabilities along the service value chain that are fundamental components of smart service management:

- Smart Service Data Monetization
- Predictive Maintenance
- Unlocking Value of the Installed Base in Service Sales and Service Execution

About the author



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