

'Homework': Executive Edition

## Digital Transformation of Services: *It's about the Business Model, not the Tech*

Brief #9

*Companies that have looked to improve the digitalization of their business as a technology-driven change have struggled.*

*Companies that have successfully improved the digital content of their offerings and adjusted their business, selling, and delivery models to transform their offerings to satisfy their customer needs have succeeded.*



By Jay Connor  
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### Overview

Services business models are changing, as digital technologies are enabling new capabilities and offerings to produce the outcomes defined by customers.

Over the last few years, we at *The Insight Group* have been working with our clients to help them adapt to the changing services business models driven by digitalization technologies. In our ongoing discussions with our clients, it is evident that this digitalization trend has been accelerated by the pandemic.

### Adoption

There has been broad interest and accelerated adoption of digital-based business models and technologies across industries, especially evident in IT-related businesses. In IT the transition to business models supported by digital technologies has been evolving quickly. For example, in both hardware (*HW*) and software (*SW*) related businesses offerings, we have observed a shift from selling HW products and SW licenses to cloud-processing capabilities and software as a service model (*SaaS*). In addition, repair and maintenance services that were event-based have evolved to be monitoring and preventive services across a wide variety of industries, including IT. Similar situations have developed in other industries as well: automotive product sales to ride share services, physical distribution of books and music to virtual distribution, printer HW and ink sales to printed page service sales. The list of services offering changes and industries is broad and growing.

### New Digital Competitors

*The Insight Group* recently conducted a study with its key customers to assess what impact the pandemic would have on these digitalization trends. The study summary can be obtained [here](#). We found that the

pandemic accelerated and created a burning platform for business model changes in many of the businesses we interviewed. For instance, service delivery models had to be quickly adapted to use digital technologies to remotely diagnose, maintain, and repair equipment where physical access was no longer permitted. Sales models had to be adapted to ensure remote selling was enabled where direct contact was no longer possible. In addition, the client companies were looking for the best way to continue to grow revenue while at the same time recognizing that digitalization was driving an accelerated shift in what services their customers were looking to buy and how they want to buy these services. We also noted in a few cases, non-traditional competitors were being identified with different, digital approaches to the market, e.g., technology and financial industries. These new digital approaches were considered a significant competitive risk.

## Knowing what to do but not how to do it



Companies appear to be aware of the transition to digitalization and are looking for ways to include the technologies in their business models. Yet even though awareness exists of these digitalization trends, most companies had not yet determined how to begin the transformation. For instance, many companies had started a change initiative or appointed someone to lead, explore, and coordinate the digitalization transition but had not yet implemented any significant initiatives. In our experience, companies that have looked to improve

the digitalization of their business as a technology-driven change have struggled. Companies that have successfully improved the digital content of their offerings and adjusted their business, selling, and delivery models to transform their offerings to satisfy their customer needs have succeeded. This result is also consistent with a study done by IBM ("[Is your Digital Officer MIA?](#)"). This study found that successful initiatives were led by business strategy leaders—not necessarily technology leaders. It is critical to digital transformation success that the leader of the transformation understand the underlying business models and offerings that must change for the digital transformation to succeed.

## Initiatives Focused on Growing Revenue

### ***Offerings Development***

Developing new digital offerings is critical to growing revenue. Customers are looking for service offerings that produce desired outcomes and results—not just products and services. Developing service offerings will require a deep understanding of what outcome the customer desires. For example, customers may choose not buy test equipment when what they really want is the information that the test equipment provides. In this case, instead of offering to sell test equipment, a company could offer a service that provided information and insight into the result of the testing information rather than just sell the equipment. Once the outcome offering is understood, the process of digitizing the offering can begin by focusing on what the customer needs to accomplish as their objective.

## Sales & Delivery Models

With newly digitalized offerings, the sales and delivery models will also have to be evaluated. A typical product company will now create an outcome service model, often referred to as XaaS (everything as a service model), to adapt its revenue, sales coverage, channel, and distribution models to ensure success and alignment. For instance, in our test equipment example, a company could introduce a monitoring and evaluation service offering (IoT)

and/or an AI offering that produces and evaluates data to provide information to its customers instead of selling a piece of test equipment. The potential impact to the sales coverage, sales compensation, distribution, and channel models would also have to be understood and accommodated.

Conversely, under new digital business models services-based companies will be looking to become more “productized/mass configured” for many of their offerings. This means that services companies will be looking to take highly customized fee-based offerings (e.g., business process outsourcing) and standardize them to menu-based configured offerings. For example, customized help desks have moved to a more menu-driven approach. This approach has allowed service call centers to increase productivity through higher call volumes. Standardization will also enable customers to buy in a manner that is easier for them such as self-service. To accomplish this, services companies will invest in tools and processes that promote more standardized delivery methods, processes, and tools. Services companies that implement this well will be able to grow revenue more rapidly. A deeper discussion into the changes necessary in sales and delivery models to execute a more outcome-based service model will be contained in a later brief.



*THE RAPID INTRODUCTION OF DIGITAL BASED TECHNOLOGIES IS SHIFTING THE FOCUS TO SERVICE OFFERINGS THAT DELIVER TO ADDRESS THE OUTCOMES THAT CUSTOMERS REQUIRE BY USING TECHNOLOGY TOOLS AND PROCESSES TO DELIVER THE RESULT.*

## Revisiting the product and services offerings of your company: Steps to Consider

Considering the increasing digitalization of the service business model and the acceleration caused by the pandemic to adopt these technologies, we at *The Insight Group* suggest the following for companies that are looking to evolve their business models to compete in the market defined by the digital transformation of their business:

1. *Understand the needs and requirements of your customers.* Customers are looking for a clearer understanding of what your offering does to effectively create the customer outcome required.
2. *Map out a program that adapts or creates new offerings that meet the defined requirements.* Many of these offerings will require the adoption of digitalization technologies to implement.
3. *Focus on offerings that deliver customer lifetime value.*
4. *Review your sales and distribution channel models to understand the impact of introducing new offerings that rely on digitalization technologies.* Adjust and adapt your current models to incorporate new channels and adjust your sales model to the digitalization approaches. This includes on-going relationship management.

5. *Evaluate your delivery model to incorporate digitalization consistent with the requirements of the offering.*
6. *Approach your customer by seeking to understand what outcome or result they are looking for you to provide and how they want you to provide it.*

***The rapid introduction of digital based technologies, (Cloud, IoT, Video, Block Chain, etc.) is happening now.***

This shift will focus on service offerings to be created that focus more on what outcomes customer require using technology tools and processes to deliver the desired result.

## Perspectives

The Insight Group hopes this brief—focused on implementing the digital transformation of service organizations—can help you adapt to the emerging challenges and opportunities to drive future success. Additional comments and evaluation of the changing services environment is ongoing. We continue to welcome your feedback as we all navigate and innovate within the 'new normal' of business. We hope our extensive experience managing and developing effective best practices for remote and at-home work has been valuable to you as you transform your organization. Look for a follow-on brief covering in more detail the impacts of moving to digital-based offering will have on your sales and delivery models for your services business.

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### About the Author:

**Jay Connor** has 37 years of executive, operational, and sales experience in the IT industry. Prior to joining The INSIGHT Group, Jay worked in executive VP positions for, HP, Compaq, and Digital Equipment. He has extensive background in leading successful transformations including the services integration for the HP/Compaq merger, the transformation of HP Corporate Account and Pre-sales organizations, as well as developing the sales and go to market strategy for the HP/EDS merger. In addition, Jay held the position of Worldwide VP, COO for Professional Services for Compaq and the Global Practice VP Consulting and Integration for HP. Both positions involved successfully managing large service organizations. More recently Jay held the position of VP, Sector General Manager and Account Executive for a number of HP's major accounts.

At INSIGHT, Jay's broad experience focuses on providing solutions that best satisfy clients' needs in the areas account and sales management, service and sales management, financial strategy, and mergers and acquisitions. Contact Jay at [jayconnor@insight-group.com](mailto:jayconnor@insight-group.com)

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