In a recent study of service leaders at manufacturing and services businesses conducted by The Service Council (TSC), 30% of respondents strongly agreed that it was important to become a digital business. This compares to 59% of 3500 overall business executives polled by the MIT Sloan Management Review in 2017. Overall, 100% of service leaders agree that it’s important to wade into the digital waters, but most are unsure of the destination or how to get there. In our research, we see that service leaders are beginning to take a more comprehensive view of what being a digital business means to their internal operations and the experience delivered to their customers. These leaders are still working on fine tuning their digital strategies while assessing the resources necessary to ensure a successful transformation.

**THE MEANING OF DIGITAL TRANSFORMATION**

The broad range of definitions provided for the term “digital transformation” is emblematic of the general confusion around the term. In our opinion, differing definitions are needed, especially given the various business and customer engagement models adopted by manufacturing or direct service companies. Some of the definitions from service leaders in our community that caught our eye are these:

“Radically change the way we service our clients by creating new business models which utilize the latest technology to transform the customer experience.”

“To us it means the utilization of digital technology to become more transparent to our clients, to better educate our team, and to create analytics that can better operate the systems we maintain and install.”

“It means having the ability to create and deliver more customer value than can be attained without technology. It also means being able to better quantify the real value of services that are often simply implied.”

Several leaders are more operationally inclined when forecasting their digital futures while others are much more customer-centric in their digital mindset. As mentioned earlier, none of these definitions are wrong.

**Key Takeaways**

- 100% of service leaders agree that being a digital business is important for the success of their organizations
- 53% of service leaders believe that they have a clear transformation strategy in place
- 52% see the improvement of customer value as the primary outcome of their digital transformations
- 36% have the talent in place to support a digital transformation
- 40% claim that their current business structures make it difficult to succeed in a digital transformation
- 53% of leaders expect to invest a higher amount in digital business initiatives in the coming 12-18 months

**About the Research**

In December 2017, The Service Council polled 30 senior service leaders (VP-Level+) to uncover from each their definitions of the term “digital transformation” and to attain an assessment of their organizations’ abilities to transform. The leaders represented organizations from a variety of industries.

Of the respondents:

- 51% represented large organizations (>$1b+ in annual revenue)
- 10% represented small organizations (Less than $50m in annual revenue)
- 15% were C-Level officers
We believe that the ultimate goal of digital transformation, whether for the service enterprise or beyond, is to create value for customers. The definition of value differs with the customer based on outcomes desired by customers. The goal is achieved with the aid of information that is generated via the use of digital technologies. This information leads to improved product development, workforce empowerment, customer empowerment, customer transparency, and more targeted business processes.

As mentioned earlier, all the leaders polled believe in the importance of a digital future, some are just more reluctant to accept it. That said, more than 8 out of 10 are certain that they and their organizations don’t spend enough time implementing digital business initiatives. This is important, as organizations must organize themselves around a digital strategy, and place the necessary resources to begin to execute against this strategy. While the benchmarks for a complete digital experience have yet to be established in the industrial space, they are being established in pockets in the consumer space, and industrial businesses will be held accountable to consumer-like experiences in the near future.

ARE THE DIGITAL LEADERS IN PLACE?

Only 53% of service leaders believe that their organizations have the leadership talent in place to drive a successful digital transformation. This is striking, given that a number of respondents were assessing their own capabilities along with those of other leaders at the organizations. Most believe that they will be able to bridge the digital leadership gap with the aid of training and education, while others are looking to recruit digital leaders from other organizations and industries. It’s worth noting that more than 50% of organizations believe that they will recruit new digital leadership from outside of their industries, whereas 28% of organizations believe that the required digital leadership is available within their industries. We see similar trends in the search for digital talent at other levels of the organization.

Digital leadership is vital as it lays the table for a digital future. Eighty-one percent (81%) of respondents state the development and communication of this digital vision is the most important action that a digital leader must take in order to lead a digital transformation. Digital leaders are also necessary to ensure that resources are available to execute in furtherance of that vision.

Top Actions for the Digital Leaders:

- Develop and communication a clear vision – 81%

Do Organizations Need a Chief Digital Officer?

In parallel with the greater interest in the term digital transformation, there has been greater interest in the title of the Chief Digital Officer. This figure is intended to be a leader who can bridge the gap between the needs of IT and the lines of business. Therefore, their approach to automation weights the needs of all parts of the organization. Only 7% of leaders in our community had such a Chief Digital Officer in place, with another 21% considering someone for this role in the future. While the role doesn’t exist yet, nearly two-thirds of service leaders indicate having representation at the Digital decision-making level.

Figure 1: Service Representation at the Digital Decision-Making Level

It might be worth it for organizations to consider a Chief Digital Officer. In assessing the mistakes that most leaders make when it comes to digital transformation, service leaders indicate the areas listed below. In our opinion, these seem to align perfectly with the job description of a Chief Digital Officer.

1. Inability to align technology to business needs
2. Lack of understanding of digital technologies and their impact
3. Lack of direction
4. Focus on incremental change vs. business transformation
➢ Convert digital vision into an executable plan – 61%
➢ Develop the right talent for a digital transformation – 35%
➢ Promote a data-centric culture and one of collaboration – 26%

DOES A STRATEGY EXIST?

As leaders are tasked with development of a digital strategy and vision, it is worth investigating how many organizations believe that they actually have a strategy in place. Eight out of 10 leaders polled indicate that their organizations do have a digital strategy in place, with one half indicating that the strategy was put in place in the last 12-24 months. The focus of the digital strategy balances the desire to improve on how things have been done at all levels of the organization while seeking out fundamentally new ways to conduct business. This is where leadership plays a vital role, in balancing the ambition to uncover new business models with need to execute on continuous improvement programs.

From a strategy assessment perspective, 53% of service leaders agree that their organization has a clear and coherent digital business strategy, while 30% disagree. What’s perhaps a bigger concern is the fact that only 35% believe that digital initiatives are actually a core part of their organization’s overall strategy. For the most part, leaders believe that digital initiatives are used to support certain business objectives or programs, but that they are not interwoven into the central objectives and plans of the organization. The success of digital transformations is not predicated solely on the immediate purchase of digital technologies. What is essential is the consideration of the impact of these technologies on the core components of customer management, workforce empowerment, product development, and process control. The service leader can ask two central questions: 1) How do these technologies help improve the way we approach a certain problem, and 2) how do these technologies allow us to completely reframe the issue or the problem? The answers to these questions will help leaders prioritize the investments in digital technologies and frame the improvements that are necessary to ensure continued transformation.

THE DIGITAL TECHNOLOGY PORTFOLIO

To achieve the outcomes outlined in Figure 2, service leaders indicate that the following areas are where they need to focus to enable successful digital transformations:

1. Technology integration – 58%

Prioritizing Digital Outcomes

Service leaders are focused on customer-centric outcomes in their digital strategies. Achieving these outcomes requires a closer understanding of what customers value in their interactions with organizations.

Figure 2: Desired Digital Outcomes for the Service Leader

<table>
<thead>
<tr>
<th>Desired Outcomes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drive More Value to Customers</td>
<td>52%</td>
</tr>
<tr>
<td>Be More Responsive to Customer Needs</td>
<td>42%</td>
</tr>
<tr>
<td>Be More Efficient</td>
<td>26%</td>
</tr>
<tr>
<td>Be More Proactive</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: TSC Data Q1 2018

This becomes incredibly difficult as customer value expectations are governed by multiple factors. Their expectations around customer experience could be governed by their consumer interactions with service organizations. These expectations evolve over time, so what’s extremely valuable today may not hold as much value tomorrow.

Finally, value must also be delivered to all stakeholders at the customer organization. Our 2016 research found that service sales teams are encountering a more senior buyer for service contracts and related products. The top demands of these senior buyers?

1. Better access to service and asset performance data via portals or self-service resources
2. Improved pricing considerations for service contracts
3. Improved access to self-service information and knowledge resources
4. Increased access to remote monitoring and diagnostic services
5. Better response times in field service and customer support scenarios
2. Customer touchpoint management – 45%
3. New product and service development – 42%
4. Customer understanding – 35%
5. Worker enablement – 35%

To an extent, this shows great maturity on behalf of the leaders to recognize that real improvement in customer touchpoint management or product development can only come from a better understanding of existing processes and failings. This requires an investment in a data-driven mindset and the goal to become a data-enabled service organization. While the term “data-driven” is often recommended for the organization of the future, our preference is for the term “data-enabled.” This is based on multiple experiences with service organizations that have failed to understand the problems that they are looking to solve, or the value drivers that they are looking to enable prior to making investments in data mining and analysis resources.

For data-enablement to take place, organizations must also recognize that existing systems that govern the end-customer experience must connect and interact with one another. In a simplistic customer management scenario, the systems or interfaces that interact with the customer must be integrated with case and entitlement management functionality. If service response is needed in the form of a field service or service parts dispatch, then these systems must also connect with the system that holds and records the customer interaction. Similarly, there need to be tie-ins to supply chain, inventory, and other financial systems to ensure the best visibility into the impact of a transaction. Unfortunately, systems within the confines of a service organization don’t talk to each other, and neither do those between various business functions that touch the customer.

Integration of systems is necessary to ensure that the next wave of digital technologies (Figure 3) can truly have the impact that is desired. The focus on analytics requires that the data fed into analytical or predictive models is accurate and truly representative of what’s happening in the business. The same can be said about IoT and Artificial Intelligence. In the use of workforce empowerment tools like mobile and Augmented Reality, the information available must be accurate, timely, and informative to drive the action that is necessary. More so, as we begin to capture more information in the field via real-time sensors or mobile devices, it is essential that this information is incorporated into decision-making algorithms or frameworks.

Proactive: A Broader Definition
Thirty-eight percent (38%) of service leaders have a strategy or roadmap in place for most available digital technologies (our survey had a list of 10). Most have a roadmap in place for some and are actively considering the impact of others.

Figure 3: Digital Tools with Impact

<table>
<thead>
<tr>
<th>Technology</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Analytics</td>
<td>93%</td>
</tr>
<tr>
<td>Internet of Things</td>
<td>77%</td>
</tr>
<tr>
<td>Artificial Intelligence</td>
<td>68%</td>
</tr>
<tr>
<td>Mobile</td>
<td>58%</td>
</tr>
</tbody>
</table>

Source: TSC Data Q1 2018

Analytics play a central role in the digital future, as they touch upon and enable all the key outcomes listed in Figure 2. In addition to allowing the service organization to become more responsive and efficient, they can enable a more proactive customer management approach. This proactive approach isn’t limited to predictive maintenance, enabled with the aid of sensors and the Internet of Things. In our opinion, a proactive service approach touches upon four major areas:

1. Predictive Maintenance
2. Proactive Operations and Resource Planning
3. Proactive Customer Health Management
4. Proactive Installed Base Management

We find that organizations have come to terms with what it means to be proactive and have reached the stage of identifying the data that is needed to enable proactive support. Most are currently in the stage of collecting that data, whether directly from customer surveying programs or with the aid of tools like mobility or the Internet of Things.
EXECUTING THE DIGITAL VISION: TALENT

While digital technologies typically receive the bulk of the focus in any conversation around digital transformation, it is vital to consider the impact that digital tools will have on the way employees work, interact, collaborate, and learn. There is a lot of talk about role replacement in the age of artificial intelligence, but there needs to be more of a discussion around role augmentation and repositioning with the aid of digital tools.

Service leaders believe that more than 50% of employees will have their roles change as a result of their organizations’ digital transformations and most leaders are optimistic about the openness of their employees to adapt to change. This is good, as openness to change is seen as an extremely valuable trait to possess in the era of transformation. According to service leaders, the top five traits that will be relevant in the future are:

- Openness to change (65% of respondents)
- Customer orientation and mindset (65% of respondents)
- Creativity and innovativeness (58% of respondents)
- Business knowledge and acumen (42% of respondents)
- Ability to work collaboratively (39% of respondents)

We’re surprised that more leaders aren’t prioritizing analytical or technical skills, given the increasing reliance on data and technology. Those skills might be applied to more specific roles, while service leaders look for innovative and customer-focused minds to helm the front-lines of future organizations.

SUMMARY: CULTURE IS THE DIGITAL THREAD

Only a third of leaders believe that they currently have the talent in place to support their digital business strategy. Of those forecasting a talent shortfall, most are looking outside their industries or to technology companies to bridge the perceived digital talent gap. In bringing in new entrants to their organizations, service leaders must be mindful of the digital culture and mindset that they are harnessing. A transformation is one that inherently reflects change, and change management is often the stumbling block that can derail much smaller technology or business implementations.

In our opinion, the mindset needed for a successful digital transformation must be built on three foundational elements:

- Data-Enabled. Do employees and teams have the information necessary to make business decisions? Only 33% of leaders have a high degree of confidence in the data that they use to make business decisions, making it much more likely that data available to employees is accurate and actionable.
- Agile. Can organizations become more flexible in decision-making and project management? Eight out of 10 service leaders agree that their teams are actively focused on increasing their agility to respond to rapidly changing market and business conditions.
- Collaborative. Can employees break down functional barriers and truly innovate with the customer in mind? Six out of 10 service leaders agree that their organizations are increasingly organized around cross-functional project teams for digital initiatives. This form of collaboration and cooperation must be developed and incentivized around all business initiatives.
Forty percent (40%) of responding service leaders claim that their current organizational structures and principles are barriers preventing a successful digital transformation. Some have looked to building net new digital businesses that can approach the challenge free from the legacy of the traditional service or manufacturing business. These approaches have tended to yield the most forward momentum when it comes to digital progress. Yet, these organizations still must make the investment in transferring the digital mindset to their “traditional” businesses and their employees. In addition, we find that these digital businesses can often lose sight of the customer in the race to account for all types of digital technology.

Service organizations are up to the digital challenge and more than one half of leaders anticipate investing a higher amount of resources in digital business planning and initiatives in the coming 12-18 months. Given the impact that service has on the customer, it seems vital that service leaders be centrally involved in the future of organization-wide digital initiatives.

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