

RETHINKING SERVICE INNOVATION:

HOW BUSINESS MODEL
TRANSFORMATION
DRIVES GROWTH



Introduction

The advent of new technologies and processes has led to a revolution in customer expectations. Customers now expect personalized offerings, visibility, speedy delivery, and more. Service-focused companies (“companies”) are facing significant competitive pressure to keep up with technological changes to meet customer preferences, while at the same time trying to achieve growth objectives.

To better understand these challenges, Oxford Economics partnered with SAP to survey 750 executives at midsize service-focused companies from a variety of industries. The survey revealed several key takeaways, including:

1. Growth objectives include increasing the customer base, revenue, and operational capabilities.
2. New business models are leveraged to meet growth targets and changing customer expectations.
3. Time-consuming processes get in the way of profitability.
4. Technology, when used to drive process efficiency and data integration, is key to enabling growth and profitability.

How do you plan to stay competitive?

“Innovation driven growth, sustainable practices, and client centricity are our lodestars for the next two years, securing our competitive footing in a dynamic market.”

Direct report to the Chief Financial Officer at a professional services firm in South Korea

Goals and Challenges

In an increasingly competitive market, companies are focused on growing the business and providing services that are more profitable than in years past. Executives say their organization’s top business objectives for the next two years include increasing market share (44%), attracting new customers (40%), growing revenue (40%), improving margins/profitability (34%), and innovating with new products, services, and business models (32%). Achieving these business objectives is no easy feat.

Growth does not come easily. Respondents cite the top risks standing between them and their growth as: new innovations making their offering obsolete, an inability to find the right talent, macroeconomic issues, failing to meet their growth agenda, and barriers that prevent scalability (Figure 1).

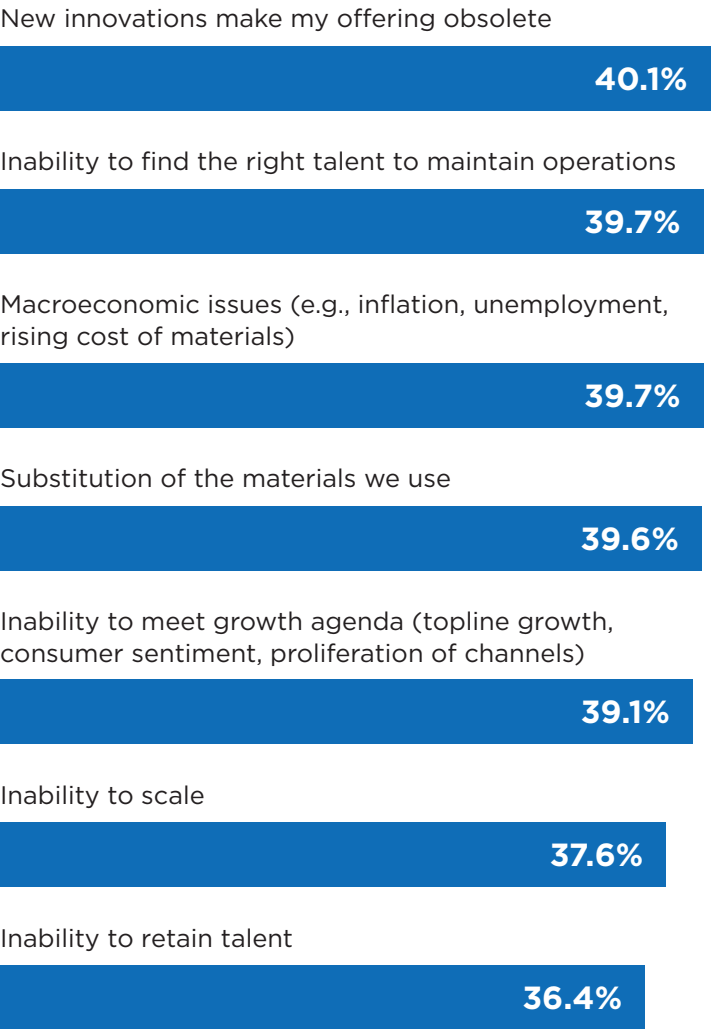
How do you plan to stay competitive?

“Navigating uncertainty requires risk management, relentless innovation and an unwavering focus on customer value will be our path to sustained competitiveness.”

Direct report to the Chief Digital Officer at a software company in Japan

Figure 1: Which of the following threats present your organization with the greatest amount of risk over the next two years?

Select all that apply.

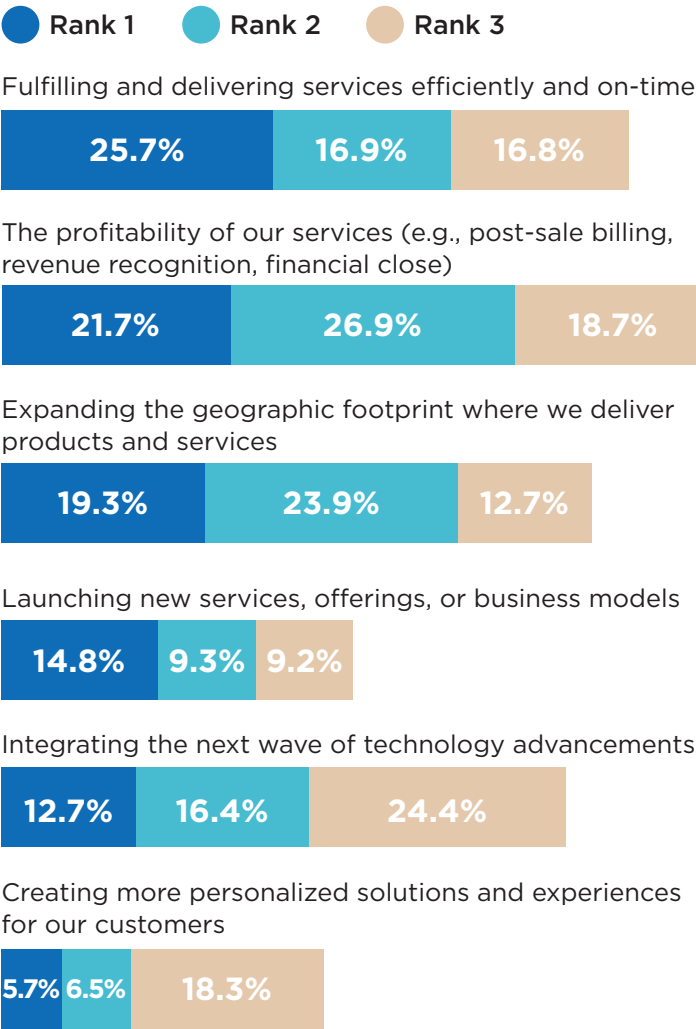


Profitability and Competitive Advantage

Efficient service delivery is a priority—26% ranked fulfilling and delivering services efficiently and on-time as the top priority for securing competitive advantage. Companies also view service profitability, expanding their geographic footprint, and launching new services and offerings as key to achieving competitive advantage (Figure 2).

Figure 2: Which new service initiatives or support capabilities is your organization most focused on in its search for competitive advantage?

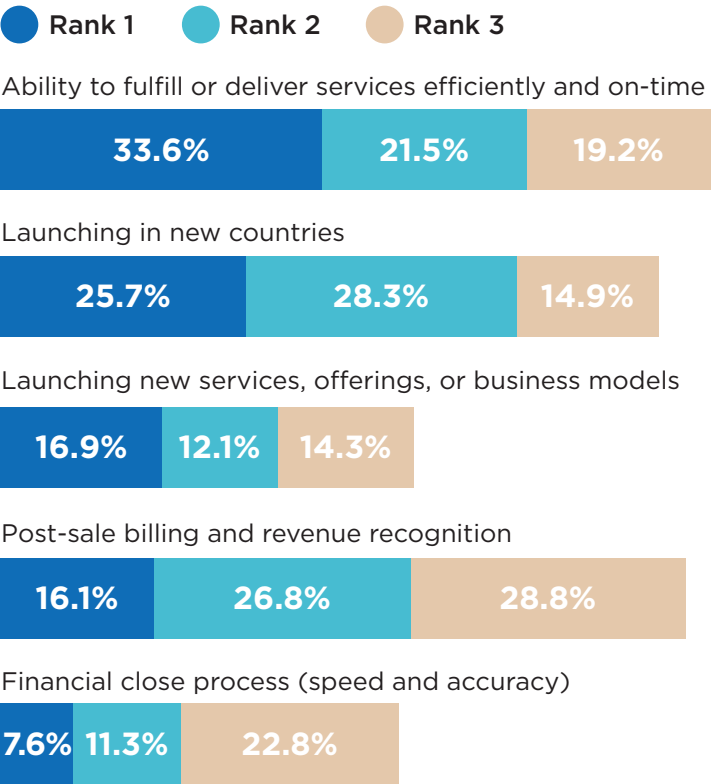
Rank.



Yet time-consuming operations hold back service-centric initiatives, as many of the same items listed as key to obtaining competitive advantage are reported as challenges. For example, a third of companies rate the ability to fulfill or deliver services efficiently and on time as the most difficult aspect of service delivery. Respondents also cited challenges in expanding into new markets and launching new services (Figure 3).

Figure 3: What part of delivering products and services to clients/customers is most difficult to manage?

Rank.



Many companies are searching for ways to overcome management issues and streamline how they deliver services to their customers in hopes of achieving their financial aspirations. When asked which capabilities impact profitability, more than a third of respondents say the ability to easily replicate and adjust successful projects during the bidding process is the most impactful. The second most highly ranked is the ability to create project plans based on accurate cost and price rates at the country, office, service line, role, and personnel levels (Figure 4).

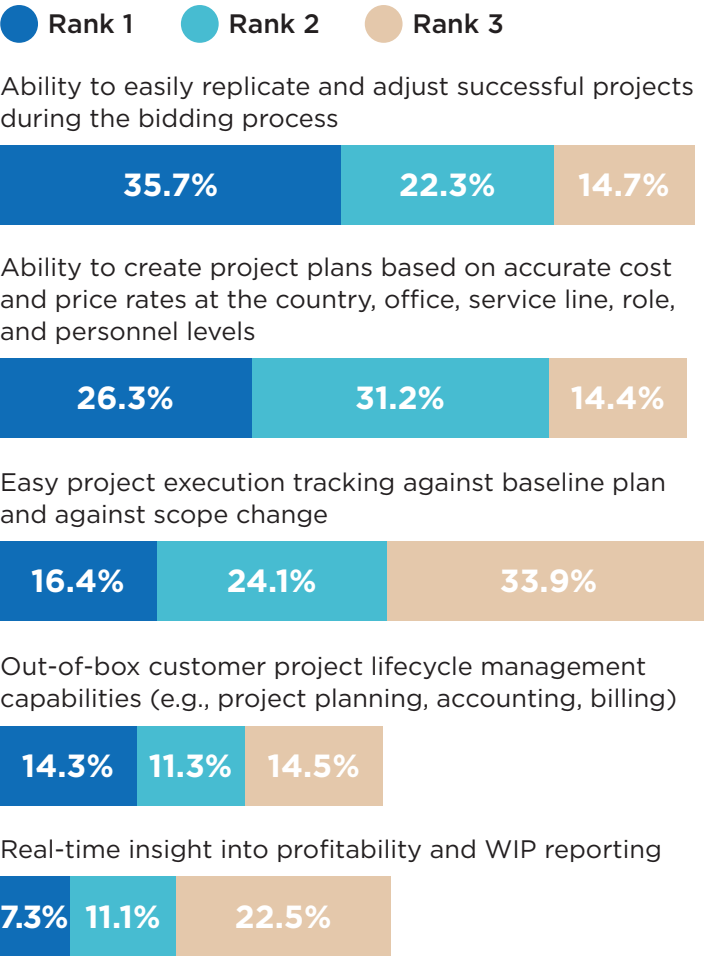
Improving operational capabilities is key to increasing profitability, competitiveness, and efficiency. While many companies are looking to expand offerings and capabilities to meet growth goals, they also need to have the right operational backbone to do so.

How do you plan to stay competitive?

“Optimizing our cloud infrastructure for scalability and cost-efficiency for better data protection and easy exchange of information inside the organization so that we improve on our product and service quality and delivery time.”

Chief Technology Officer at a professional services firm in Australia

Figure 4: Which of the following capabilities are most impactful on profitability performance?
Rank the top 3.



Innovating with New Business Models

To remain competitive, companies are revamping how they deliver services. Many are leveraging new business models such as subscriptions, direct-to-consumer offerings, and service bundles, but they struggle to operationalize these changes and realize a profitable difference. Having visibility of operations and resources and an integrated data source is key to this realization.

Executives view bundled offerings as particularly important to innovating how they monetize digital services. When asked which capability would most improve their ability to do this, the ability to easily create bundles that combine products, subscriptions, and services ranked the highest. A third of respondents say out-of-the-box subscription and service contract capabilities that support how services are delivered would most improve the ability to monetize content and new business models. Further, executives are more interested in having easy measurement and tracking of profitability across multiple fee and delivery models (36% vs. 25% total; see Figure 5).

If services providers plan on achieving their growth aspirations, finding ways to leverage the power of multiple business models at once—and making sure these models incorporate digital components wherever possible—will be critical. Today, however, executives lack the kind of visibility needed to support these goals.

Figure 5: In your opinion, which of the following capabilities would most improve your organization's ability to monetize digital content and new business models?

Select one.

Ability to easily create bundles that combine products, subscriptions, and services

41.7%

Out-of-the-box subscription and service contract capabilities that support how we deliver services

33.7%

Easy measurement and tracking of profitability across multiple fee and delivery models

24.5%

How do you plan to stay competitive?

“Implementing flexible pricing models will empower us to stay competitive amidst evolving market dynamics.”

Direct report to Chief Human Resources Officer at a professional services firm in Brazil

Executives lack a full view of available resources, limiting their ability to manage efficiently. When asked which capabilities would most improve the ability to manage resource allocation and composition, respondents say having an easier matching of resource availability and skills to project needs has the greatest impact (Figure 6). Executives from the professional services industry are more interested in having an easier matching of resource availability and skills than the total population (68% vs. 61%), and they are less interested in having out-of-the-box resource search and assignment tools that optimally align resource supply to project demand. Product development executives are more interested in having easy project execution tracking against the baseline plan and scope change compared with the remainder of respondents surveyed (54% vs. Finance and IT at 41%, for example).

Further, many companies do not have full visibility of their data, which can increase reliance on manual processes and significantly slow data analysis. Having the right data from the start can increase profitability. Companies need a comprehensive view of available services to improve resource allocation and composition. Executives say the ability to easily replicate and adjust successful projects during the bidding process (36%) and the ability to create project plans based on accurate cost and price rates at the country, office, service line, role, and personnel levels (26%) would most significantly improve profitability performance (Figure 4).

Figure 6: In your opinion, which of the following capabilities would most improve your ability to manage resource allocation and composition?

Rank.

Rank 1 Rank 2 Rank 3

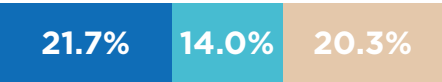
Easier matching of resource availability and skills to project needs



Resource utilization reporting that supports reducing bench time



Out-of-box resource search and assignment tools that optimally align resource supply to project demand



Tighter integrations across our software, connecting project management tools and resource management tools



Siloed data repositories also inhibit decision-making—and with only about one-third reporting established single financial repositories that contain complete transactional detail, silos still exist far more than they should (Figure 7). However, those closest to financial data are slightly more likely to say their company has already implemented such features; finance (42%) and IT executives (43%) say they have a single source of financial information (compared to less than one-third from other executive roles).

If companies integrate processes and data across the company, they can realize the benefits to a significant extent. Executives see the benefits of such integration as being able to: create innovative models at scale (83%), deliver real-time insights on KPIs (73%), and share knowledge and ideas to drive continuous innovation (73%).

How do you plan to stay competitive?

“We will be using data analytics to personalize interactions, anticipate customer needs, and provide superior customer services.”

Chief Information Officer at wholesale distributor in the United Kingdom

Figure 7: Which of the following capabilities has your organization implemented to make faster, more informed decisions? Which would you like to see implemented in the future?

Select one per row.

- Does not apply

Have today

Would like to see in the future

A single financial repository with complete transactional detail



Improved receivables management capabilities



Tight integration of WIP, project billing, and receivables to improve working capital



Company-wide use of best practices across the value chain



A comprehensive tracking system that manages sustainability



Automated routine processes



Easy macro-to-micro analytics across all transactional details



A faster and always-compliant financial closing process



Flexible and highly adaptable reporting structures (e.g., company reorganizations, acquisitions, divestitures)



How technology can help

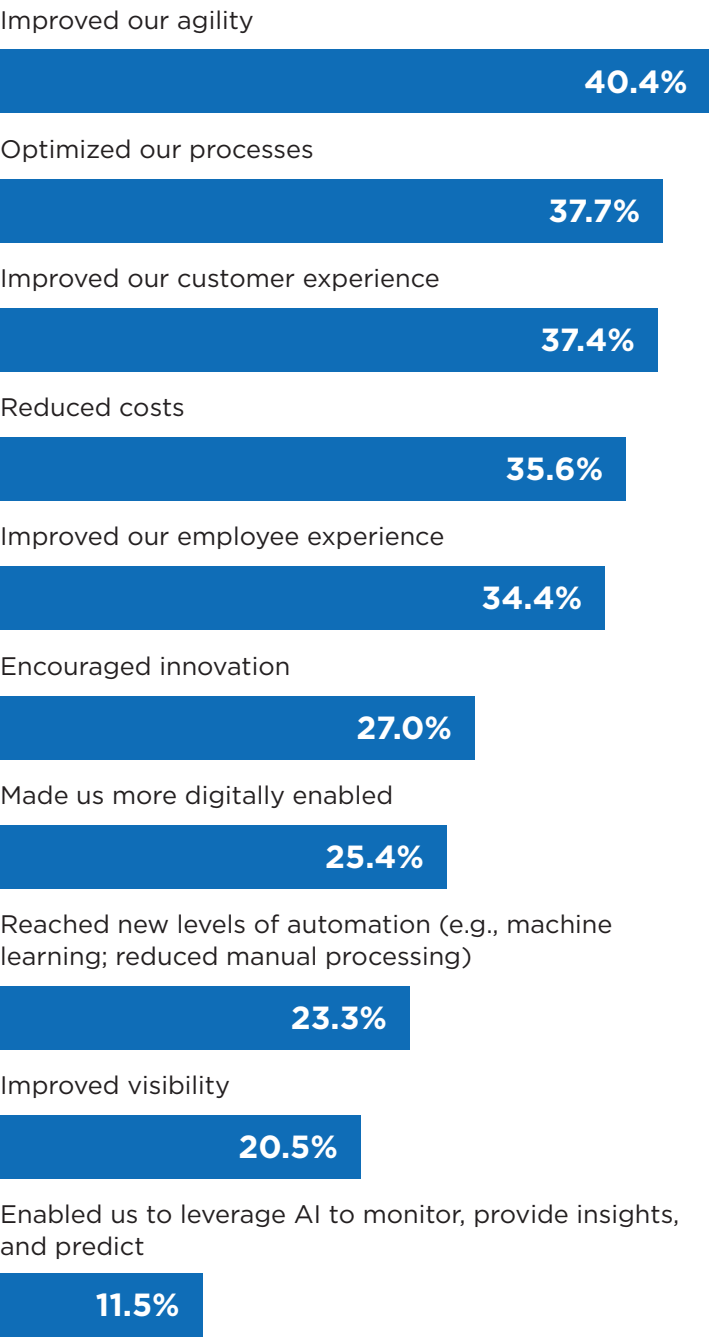
Technology plays an important, positive role in achieving growth and profitability goals, according to executives.

With their current, legacy IT solutions, executives face challenges in growth, agility, and speed. More than half (58%) of respondents noted their current IT infrastructure is unable to scale processes and systems to match organic business growth and (51%) noted a lack of ability to adjust or replan based on new information or shifting priorities. Furthermore, many (49%) see their people slowed down by low-value manual tasks in legacy systems. These pain points suggest that majority of respondents have outgrown their systems, in both size and functionality.

With cloud solutions, companies overcome many of these challenges. Nearly four out of five (78%) service-focused companies have adopted cloud solutions. For those companies, the most highly ranked benefit is improved agility. Rounding out the top five benefits of the cloud are: optimized processes, improved customer experience, reduced cost, and improved employee experience (Figure 8).

Figure 8: Which of the following benefits have been most significant as a result of your adoption of cloud solutions?

Select up to three.



Businesses have clearly invested in a variety of foundational technologies—but without tightly integrated data processes, executives say achieving a cohesive technology ecosystem will be challenging. Services respondents say that creating innovative business models at scale (83%), delivering real-time insights on key performance indicators (74%), sharing knowledge and ideas to drive continuous innovation (73%), and protecting and using employee productivity data to improve efficiency (75%) all rely heavily on open data flows.

AI as a critical value driver for businesses

AI technology solutions are making a positive impact on how companies provide services to their customers. 22% of respondents currently use artificial intelligence/machine learning at the company in some respect today and 53% plan to use it in the next 12 months.

Respondents generally agree that AI will become a critical component in how product and service innovation happens in the near future. When asked the extent to which they believe AI will have a positive impact on business areas, nearly half (45%) of respondents say that products and services will benefit significantly. The opportunity to connect powerful AI tools with customer behavior history, previous service packages, and internal resource availability is a strong recipe for success.

How do you plan to stay competitive?

“Integrate artificial intelligence to enhance efficiency and decision-making.”

Direct report to the Chief Human Resources Officer at a software company in the United States

Conclusion

Service-focused companies have a growth mindset, but they need the right technology and foundation to drive growth and profitability. Executives in service-driven companies should consider the following steps to capture value from their transformation efforts:

1. Embrace AI, cloud technology, and automation to increase efficiency and optimize service delivery. These technologies have the ability to drive efficiency and innovation, and leverage technology to help human capital be the most efficient.
2. To realize the full capabilities of cloud solutions and AI technologies, companies should select a trusted provider with an established track record for guidance.
3. To execute “everything as a service” seamlessly, companies need to integrate data and optimize the back office to support bundling products and launching new services.

About SAP

SAP is a market leader in enterprise application software. We help companies of all sizes and industries run at their best. With 80% of our customers being small and midsize companies, SAP is the growth engine that can take you anywhere—no matter where you take your business next. Our cloud ERP gives customers the confidence to be up and running quickly with technology that allows them to keep growing effectively and efficiently. We can scale to support the most extensive product lines, complex service offerings, and ambitious sustainability goals, helping you stay ahead of the competition. Our advanced analytics, AI, and Internet of Things (IoT) technologies turn customers’ businesses into intelligent enterprises. Our end-to-end suite of applications and services enables our global customers across 25 industries to operate profitably and adapt continuously. Please contact your SAP partner to learn more.

About Oxford Economics

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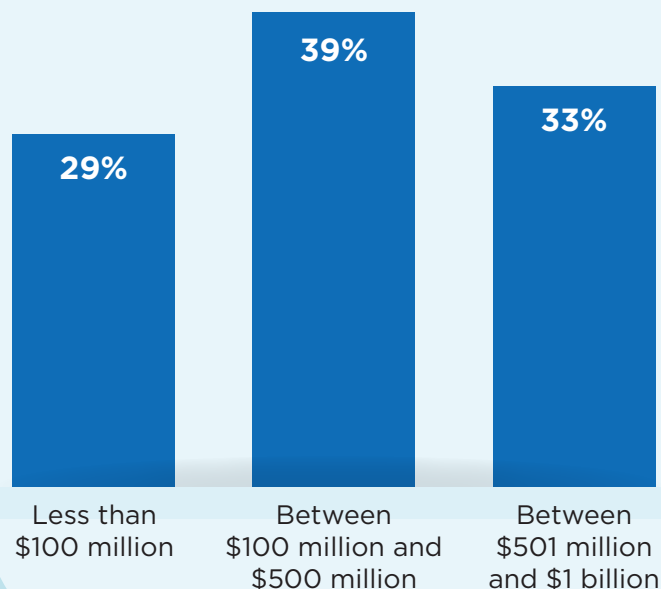
Respondent breakdown

This report focuses on the responses of 750 executives in finance, IT, product development, sales, and executive office roles:

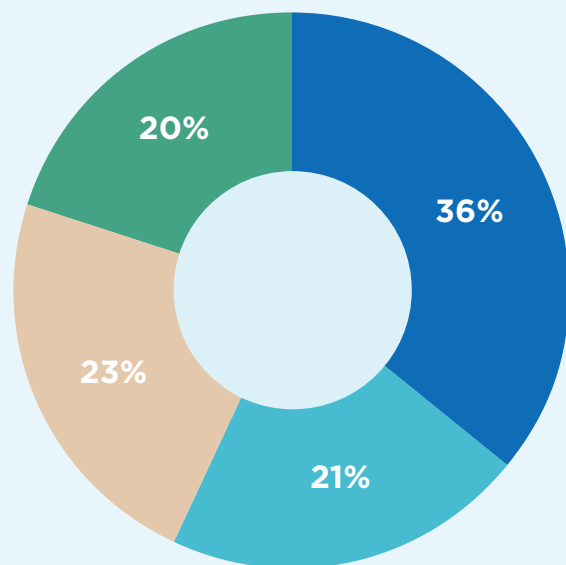
■ **Executive titles:** Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Marketing Officer, Chief Purchasing Officer, Chief Technology Officer, Chief Information Officer, Chief Digital Officer, Chief Product Officer, Chief Sustainability Officer, Chief Procurement Officer, and their direct reports.

■ **Sectors:** Professional services, industrial manufacturing, high-tech hardware, high-tech software, media, entertainment and communications, mills products, banking, wholesale distribution, consumer products, automotive, travel and transport, public sector, and retail

■ **Revenue (USD):**



■ **Company size:**



- Between 200 and 499 employees
- Between 500 and 999 employees
- Between 1,000 and 2,499 employees
- Between 2,500 and 5,000 employees

■ **Locations:** United States, India, Brazil, Saudi Arabia, France, China, Japan, Canada, Italy, Netherlands, United Kingdom, Australia, Germany, Singapore, South Korea, Mexico, Malaysia, Switzerland, Austria, Taiwan, New Zealand, Indonesia, Ireland, Philippines, Spain, Denmark, Finland, Norway, Sweden

■ **Dates fielded:** October – November 2023

