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RESEARCH REPORT

2023 STATE OF THE MARKET: DIGITAL TRANSFORMATION AND SERVICE TECHNOLOGY REPORT

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INTRODUCTION

While digital transformation has been an integral part of service organizations growth strategy for several years, the pandemic certainly accelerated it. Global aftershocks from the pandemic, including supply chain disruptions, changing customer expectations, and rising inflation rates, have put new pressures on service leaders and dramatically increased the speed of digitization efforts.

As fears of a recession loom, IT spend appears to remain strong. Gartner reports that IT spending will expand 5.1% in 2023 despite economic uncertainty. Data also suggests that operational strategies will be less focused on growth, and more focused on building a resilient business. According to Forrester, 80% of companies will shift their IT spending from creativity to resilience, while Gartner reports that CIOs' future tech plans will remain focused on optimization rather than growth.

EXECUTIVE OVERVIEW

In October of 2022, Service CouncilTM launched its state of the market survey, "2023 State of the Market: Digital Transformation and Service Technology." This summary report provides highlights of the state of the market for digital transformation in the service and support industry. We launched this survey with the purpose of hearing firsthand from service leaders in field service, customer support and customer experience, on different aspects of their digital transformation and technology investment strategy.

The intent of this survey is to:

- Establish what defines digital transformation and understand where the industry currently is on its digital journey
- Enable organizations to benchmark their digital success and efficacy against peers
- Identify existing technology infrastructure and prioritization of technology investments for 2023 and beyond

SURVEY DEMOGRAPHICS

The sample size for the survey was 100 respondents. 84% of respondents were Director-level or above, and 16% were Managers or Supervisors (Figure 1). 83% resided in North America and 15% resided in EMEA.

The survey takers represented a wide range of industries, including high tech (25%), industrial manufacturing (17%), healthcare/medical (13%) and food and beverage (12%). Other industries represented included construction, automotive, facilities services, agriculture, and consumer goods.

31% described their primary role in technology evaluation and investments as a decision maker, while 25% described their role as a final approver. The remaining respondents described themselves as either an influencer, evaluator, or recommender.

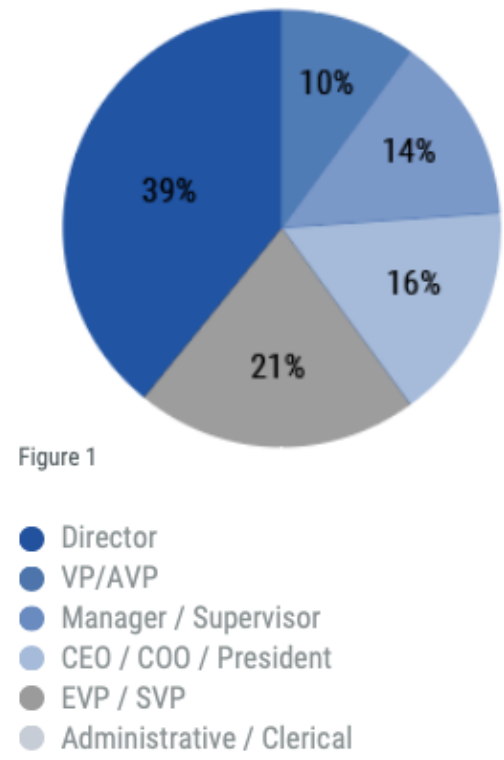


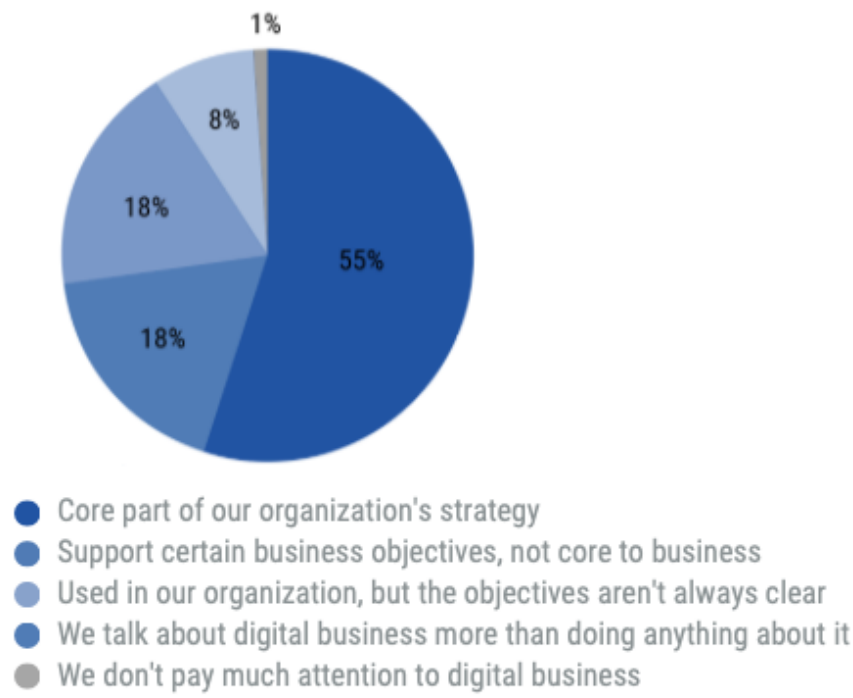
Figure 1

DEFINING DIGITAL TRANSFORMATION

When asked how they would characterize their company's digital vision, over half (55%) of survey respondents described it as a core part of their organization's strategy. 18% said that digital transformation supported certain objectives but wasn't core to their business. Surprisingly, a combined 27% answered that either their company didn't have a clear strategy, talked about a strategy but hadn't taken any action towards implementing it, or didn't pay attention to digital transformation altogether (Figure 2).

Figure 2

How would you characterize your company's digital vision?

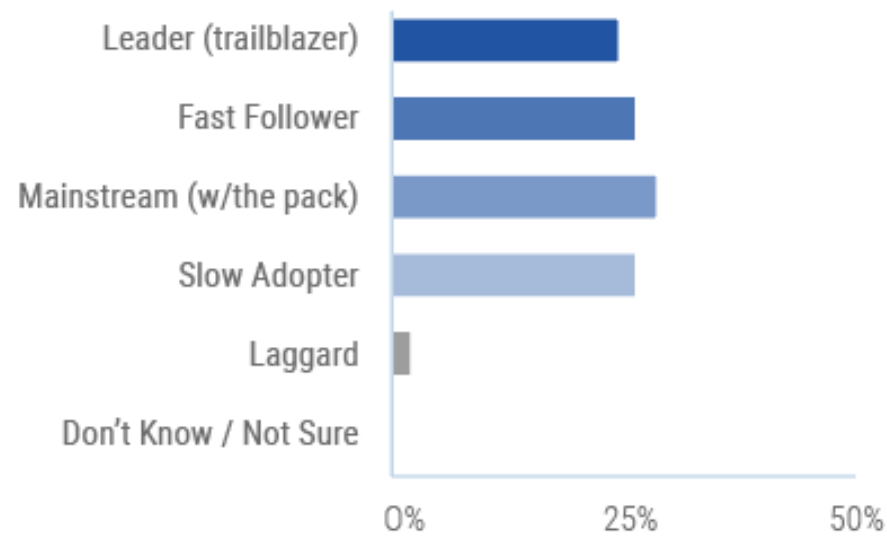


Over half of respondents described their organization's approach to digitization and technology as either average or below average (classified as "mainstream adopter" or "laggard"), while 23% described their organization's approach as a fast follower and 22% felt their organizations was a trailblazer (Figure 3).

These results show that there is some room for growth among organizations, both in developing a strategy and honing their organization's approach to digital transformation. While the overall industry has grown in terms of their digital maturity, many companies still appear to be struggling. The necessity of digitization will only increase as customer and employee expectations evolve, Where an organization is in their journey may be the deciding factor in whether they sink or swim.

Figure 3

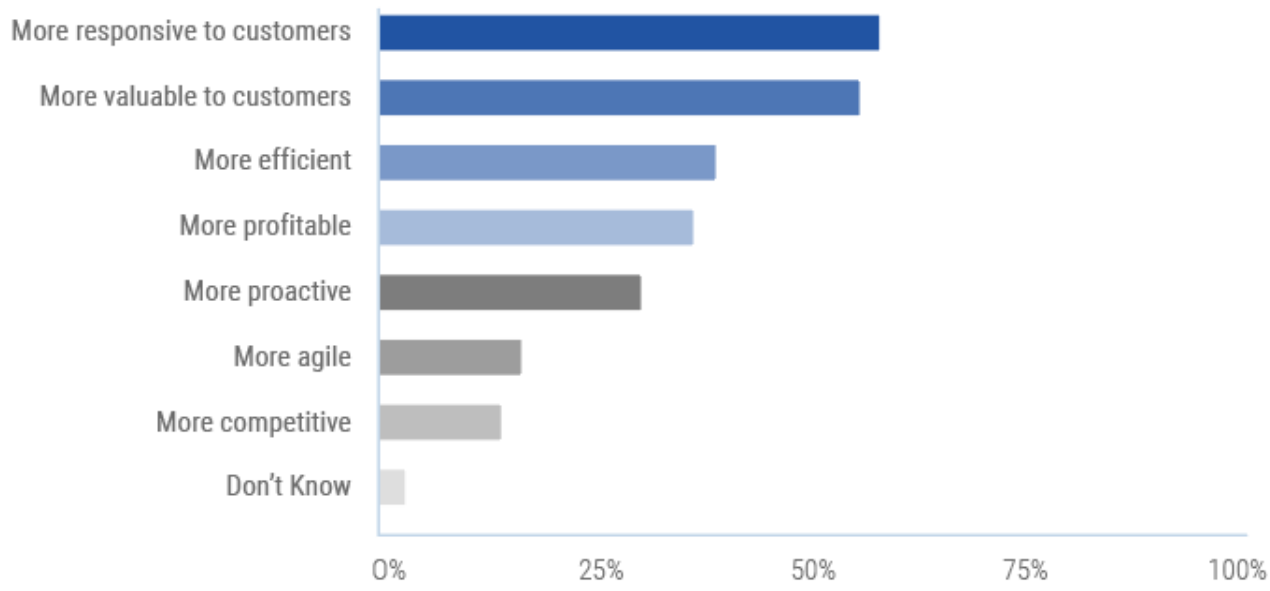
How would you assess your organization's approach as a digital business?



2022 was "The Year of the Customer," as organizations turned to customer experience to drive service transformation, bolster their competitive edge, and grow the bottom line. It appears that this trend will continue in 2023. When asked what the desired outcome of their service organization's digital transformation was, respondents overwhelmingly said that it was to become more responsive and valuable to customers. Respondents also said that becoming more efficient and profitable was also an important consideration (Figure 4).

Figure 4

What is the desired outcome of your service organization's digital transformation? (Top 2)



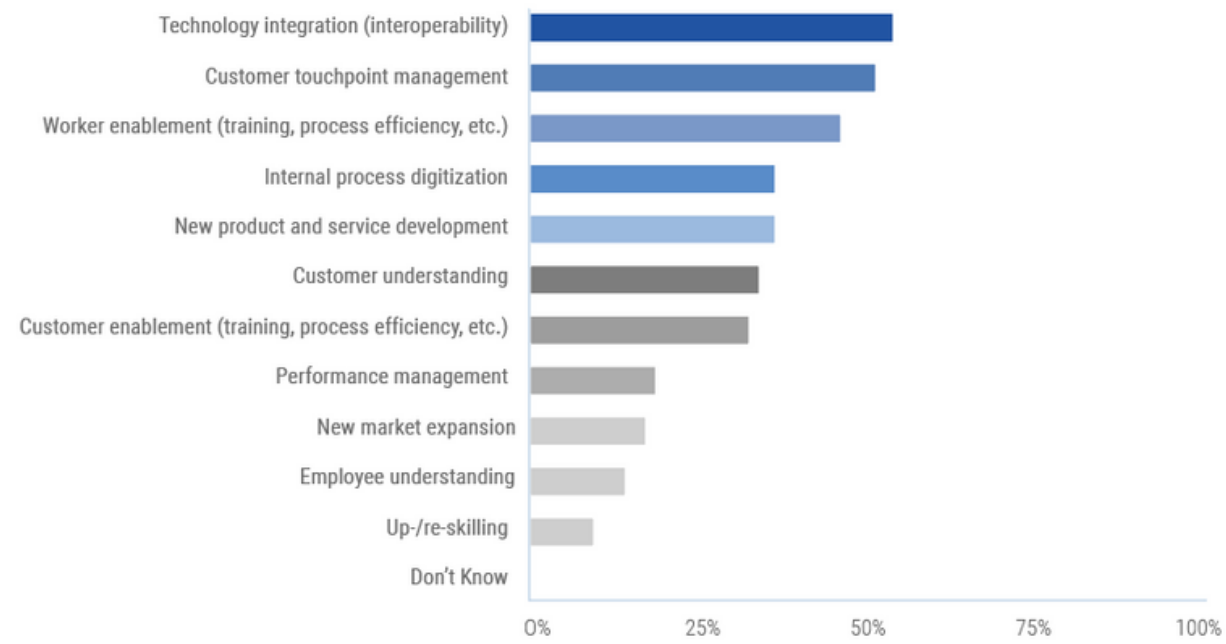
DEFINING DIGITAL TRANSFORMATION

There are many areas that organizations are turning their attention towards in their digital transformation strategy, with the number one area of focus being technology integration (interoperability). The importance of, and renewed interest in, interoperability was a recurring theme at the 2022 Smarter ServicesTM Executive Symposium, which was held in September and attended by over 300 industry executives. This is due in large part to the pandemic, which accelerated digital transformation in some areas as organizations scrambled to adapt to the "new normal." However, this resulted in a patchwork effect of disparate technology and systems. Now, organizations are turning their attention to fixing the gaps in their digitization efforts, so that the various data inputs and outputs can all work together in a single, democratized language.

As discussed earlier, the importance of creating a frictionless customer and employee experience continues to remain a key focus for service leaders, as customer touchpoint management and worker enablement (training, process, efficiency, etc.) were the second and third area of focus for organizations (Figure 5).

Figure 5

Which of these are areas of focus in your service digital transformation? (Top 3)



CURRENT IT INFRASTRUCTURE VS. PLANNED IT INVESTMENT

Customer Relationship Management (CRM) continues to be the most widely used technology, with 80% of service and support organizations employing it. This is followed by contact center and tech support technology and business intelligence, each being used by 71% of organizations, and Field Service Management (FSM) / Service Lifecycle Management (SLM) software at 60%. Enterprise Resource Planning (ERP) came in surprisingly low, with 48% of organizations utilizing this software (Figure 6). Additionally, supply chain management was also very low on the list, with only 38%, and reverse logistics came in last with only 22%.

CURRENT IT INFRASTRUCTURE VS. PLANNED IT INVESTMENT

This is more troubling when we looked at planned technology investments and expansions, where only 19% of organizations are planning a new implementation of reverse logistics software and 11% are planning new implementation of service parts management (Figure 7).

With supply chain shortages predicted to continue well into 2023 and beyond, it is critical that service leaders put higher priority on service parts planning and refurbishment through circular economy strategies. The disposition of parts is an essential element of frictionless field service execution (people, technology & data the other 3 essential elements). This is especially important considering that in the Service Council's 2022 Voice of the Field Service Engineer survey, frontline agents reported that 3 of the top 5 capabilities they wish they had in the field were parts visibility, parts ordering and truck-to-truck parts transfer.

Figure 6
Are you currently using any of these technologies?

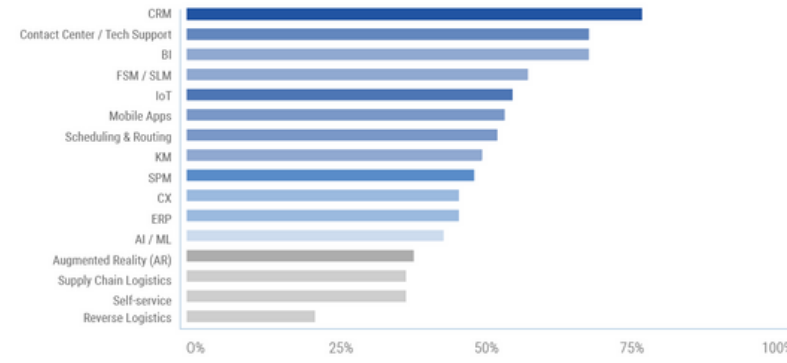
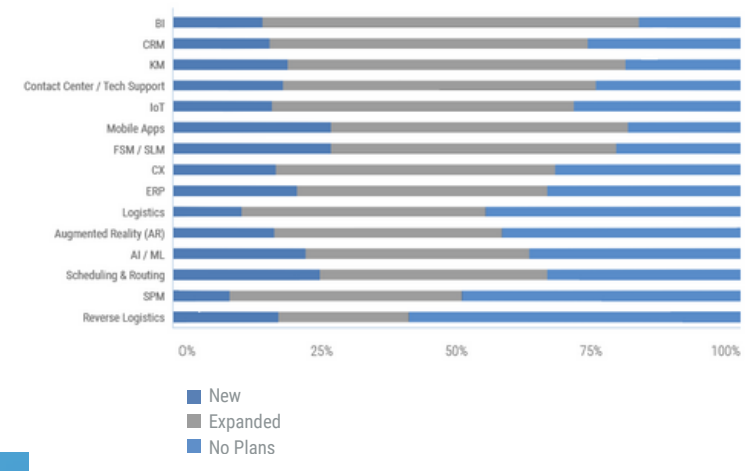


Figure 7
Are you currently using any of these technologies?



THE BATTLE FOR MARKET SHARE

Another interesting insight from the survey was around the use of enterprise technology. When asked what software they used to manage their service business, CRM was only slightly ahead of FSM/SLM, at 33% and 32% respectively. Additionally, ERP came in at 21%.
When looking at organizations' investment plans for 2023, new and expanded investments for both CRM and FSM software are both high (74% and 79%, respectively). Additionally, while current ERP investments were fairly low, 67% of organizations have new and expanded ERP investments planned for 2023.

There has been a lot of development around the sophistication of CRM software and its applicability to the field service and manufacturing segments. Additionally, there has been a renewed focus on FSM software and building a single pane of glass solution that can address the issue of interoperability mentioned earlier. These trends are reflected in the industry at large as well, with many leading CRM and ERP providers fueling consolidation by way of merger and acquisition of best of breed FSM solutions.

As more and more businesses turn their attention to the concept of interoperability and building a digital thread throughout their organization, competition between CRM, FSM/SLM and ERP software providers will increase exponentially.

RECOMMENDATIONS FOR ACTION & KEY TAKEAWAYS

Digital Transformation is a continuum; there is no beginning or an end. Many digital transformation initiatives were accelerated as a result of the pandemic. Due to this, we'd like to caution readers that modernization of certain workflows may have created disparate data siloes that can be disruptive to internal employee workflows and, equally important, external customer workflows.

Additionally, you may be able to fix more problems by taking away vs. adding. Simplicity in the technology stack is a concept that can help support the elimination of the siloed architecture previously discussed. An overly sophisticated stack that features the latest "bells and whistles" technology, but lacks cohesion, can negatively impact the frontline. Lastly, , digital transformation is a multi-year effort. It is never too early to begin making incremental step changes towards improvement of technology alignment and functional roadmaps.

Another interesting trend that Service Council has been tracking is the increasing empowerment for service leaders in building an IT Roadmap. According to Forbes, 40% of IT spending is outside of the CIO's control. SurveyMonkey also reports that nearly 1 in 3 non-IT stakeholders influence purchasing decisions, while nearly 3 in 4 technology buyers say that end users have a say in decision-making. The criticality of involving the technology user in the digital transformation process is something that Service Council has long recommended, so data like this is especially promising.

A final takeaway that we will leave readers with is the connection between technology and key performance indicators (KPIs). According to previous research conducted by Service Council™ (The Impact of CSAT on Operational Performance, 2020), the achievement of operational performance across critical KPIs can be directly linked to the presence of certain types of technologies. (Figure 8).

Technology	Increase in Total Revenue	Increase in Average Customer Spend	Increase in Total # of Customers	Increase in Sales Quota Attainment	Increase in New Contract Sales	Increase in CSAT	Increase in Profitability
Artificial Intelligence (AI)	30%	20%	59%	20%	20%	50%	30%
Augmented Reality (AR)	50%	38%	50%	38%	25%	63%	38%
Chat Bots	42%	25%	56%	8%	17%	58%	50%
Internet of Things (IoT)	37%	27%	59%	16%	37%	68%	53%
Knowledge Management	33%	21%	42%	16%	33%	68%	54%
Live/Video Chat	30%	20%	50%	20%	15%	68%	40%
Service Parts Management (SPM)	35%	20%	45%	15%	35%	65%	60%

(Data represented is the percentage of respondents who witnessed an increase in operating and customer metrics. Green shaded areas represent the leading technology class witnessing an increase).

Figure 8

As an example, nearly 70% of respondents witnessed an increase in CSAT after implementing Internet of Things (IoT), knowledge management (KM) and live or video chat technology. As organizations map out their digital transformation strategy for 2023 and beyond, technology investments or expansions will be a key differentiator.