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Prepare now for the future of industrial services

A 600-executive survey reveals how services organizations can adapt to a remote-first world by revamping their operating models and carefully tailoring commercial models to match.

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Over the past two years, industrial-services organizations have significantly changed the way they sell, deliver, and make money from services—with equally significant implications for their operating and commercial models. To understand this changing environment, in late 2021 we surveyed more than 600 services executives across industries and regions to identify the trends they see, the impact on the way they work, and what they are doing to prepare their organizations for the future.

The COVID-19 pandemic has accelerated shifts in how we live, work, and do business. Our survey showed us that services organizations are no exception. Among executives, a clear consensus about the services operating model of the future is emerging. These profound trends are fundamentally changing the way services organizations work:

— the rise of the remote-first approach: a catalogue of contactless self-service options led by the Internet of Things (IoT) to explore before in-person or live support comes into play

— the need to match expectations set in the consumer space

— the need to empower the services workforce with more technology and information

— the rise of advanced services offerings—for instance, "as a service" solutions

Given the scale of the changes, these trends are also changing how services generate revenues. However, we do not see a consensus on the best way to protect—and, ideally, increase—revenues in this transition period; there is no one-size-fits-all answer to the commercial challenges. The response depends on industry dynamics, competitive positions, and customer needs.

Operating-model trends—how the delivery of services is changing
The most important service model change emerging from the survey data is the rise of remote-first operations, in part because consumer businesses have raised the bar for service expectations. That calls for more investment to give employees the right tools.

The rise of remote first. Old habits are hard to break—for instance, customers calling for help without first having reviewed online solution guides or service providers visiting a customer in person without first reviewing data from the case. Services executives have long known that technology could significantly enhance productivity and the customer experience. However, getting people to make that shift has been hard.

The COVID-19 pandemic forced progress toward a new way of working as employees worked remotely and limited their contact with other people. Both customers and service providers now say that they like this new regime. More than three-quarters of the executives responding to our survey reported that remote-first, contactless service options have moved beyond the consideration or pilot phase and are either being scaled up or fully deployed in operations (Exhibit 1).
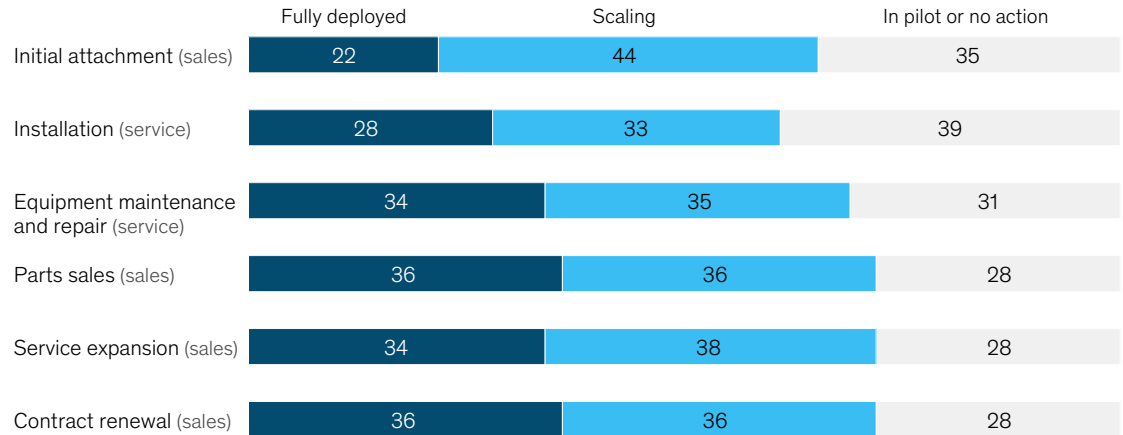
Before the pandemic, even a robotics company had run into widespread resistance from customers when it attempted to persuade them to try a remote-first service model that would free up services teams from the need to perform tests that could be conducted by remote diagnostics. The change was eventually forced by the pandemic's physical-distancing and stay-at-home mandates. At that point, the company deployed connectivity kits to make remote resolution the first level of diagnosis. The change not only reduced cost to service by more than 20 percent but also raised customer satisfaction by five percentage points.

The need to match B2C expectations. For well more than a decade, the rise of digital natives

Exhibit 1

Remote-first service options are being scaled across organizations.

Where organizations are investing in remote-first operations,[1] %

	Fully deployed	Scaling	In pilot or no action
Initial attachment (sales)	22	44	35
Installation (service)	28	33	39
Equipment maintenance and repair (service)	34	35	31
Parts sales (sales)	36	36	28
Service expansion (sales)	34	38	28
Contract renewal (sales)	36	36	28

Note: Figures may not sum to 100%, because of rounding.
[1]Question: Where is your organization investing in remote-first operations today? n = 600.
Source: McKinsey analysis

has set the bar for remote-first offerings, such as seamless interaction between digital and physical experiences, ease of communication, self-service, and real-time tracking. The pandemic raised standards yet again. Executives told us that as their customers became comfortable with this type of technology-enabled service delivery, expectations have risen across the board, setting new benchmarks for every interaction.

The need to equip workforces with better tech. In line with customer trends, a younger, tech-savvy workforce is demanding access to technology with interfaces akin to those in personal digital interactions. They know that in an era of tight labor markets, having the most relevant information at their fingertips will help them raise their impact. Furthermore, technology can drive additional efficiencies through dynamic dispatching, real-time or AI-enabled remote support, and the faster resolution of issues thanks to quicker, easier access to expert support.
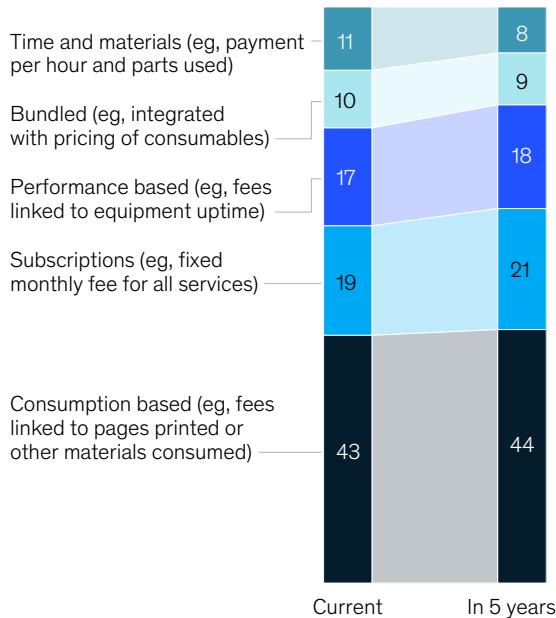
How commercial models are changing

Although the survey results show that the *overall mix* of commercial models is not expected to change much (Exhibit 2), the idea that commercial models will remain mostly unchanged is probably incorrect. Only in the aggregate does the future mix of models appear similar to today's. Underneath these overall numbers, movement between categories will be substantial. For example, many companies anticipate a move from subscription- to performance-based agreements, but most say they expect a trend in the reverse direction.

One executive, for example, reported a big uptick in time-and-materials-based services as result of a new "click here to contact services" button in the company's user interface. Another manufacturer reported using a similar technology for an always-on health-monitoring system that increased revenues from subscription-based services. Both stories illustrate a trend toward a remote-first approach enabled by a digital backbone. However, the outcome in commercial models is very different.

Exhibit 2

Many companies report their commercial models will change, but collectively, these moves largely cancel each other out.

Current and projected revenue mix, %

Category	Current	In 5 years
Time and materials (eg, payment per hour and parts used)	11	8
Bundled (eg, integrated with pricing of consumables)	10	9
Performance based (eg, fees linked to equipment uptime)	17	18
Subscriptions (eg, fixed monthly fee for all services)	19	21
Consumption based (eg, fees linked to pages printed or other materials consumed)	43	44

Note: n = 600.
Source: McKinsey analysis

Executives told us that even within these commercial models, we should expect big changes. For example, outcomes-based contracts tied to response times, on the one hand, and guaranteed-uptime agreements, on the other, have very different risk dynamics. The former is predicated on excellence in operations and carries limited risk for a well-managed service organization. Guaranteed uptime, requiring deep insights into the reliability and performance of products, can pose significant risks if not structured correctly.

In fact, these different commercial models provide both opportunities and a wide range of risks. We heard about three risks in particular:

— *Revenue leakage, damaging financials.* One executive who participated in the survey found that a significant investment in remote connectivity made the customer base less willing to pay for remote service than for in-person help. Yet the remote service was just as effective as the in-person one and had faster response times. Moreover, customers also moved from subscription-based services to on-demand time-and-materials arrangements because they found that the on-demand and subscription responses were equally fast. These moves further eroded revenues.

— *Recognition leakage, damaging morale.* One company successfully launched a managed-service offering that bundled products with services in one convenient monthly payment. Although the workload of the services team increased significantly, the credit for the higher revenues went to the product development team—a recipe for morale issues.

— *Business model leakage, damaging long-term prospects.* In one industry we studied, a third-party company developed an online services marketplace that greatly reduced the influence of the industry's OEMs. Users of this new marketplace could upload data from their equipment, which independent services providers could then use to offer service proposals and quotes. Customers found that the proposals they received through this platform typically arrived faster than those from the OEMs, were of equal or better quality, and were significantly less expensive than the OEMs' services.

How to prepare for the future

Despite the consensus on the basic pillars of the services delivery model of the future, the complexity of the landscape means that commercial models must be tailored to find the sources of value and the revenues from improved efficiency. The survey data suggest a twofold approach: building critical

enablers (such as filling skills gaps and developing new digital muscles) for the new remote-first delivery model while creating a tailored commercial approach over two to five years.

Critical enablers for the operating model
We believe that the operating model has three critical enablers: talent, the digital transformation, and data and analytics.

Talent. Nearly all executives we surveyed noted that their companies faced a skill gap in digital and analytics capabilities. Indeed, by the end of the decade, the demand for new technological skills is expected to rise by 58 percent, exceeding supply by almost 60 percent. Our respondents recognize that attracting and retaining the right talent is critical, but recruiting alone won't solve the problem in a supply-constrained labor market.

Instead, companies are investing significantly to manage talent and build capabilities that would help them evolve their current workforce and attract younger people (Exhibit 3). Training to upskill team members should use best-practice adult-learning principles. For example, one organization successfully accelerated the pace of learning in services sales by using the PRISM method—practice, reinforcement, immersion, social, and

mindset—which relies on dynamic in-field coaching, digital tools for reinforcement, and social groups to reinforce key concepts.

Digital transformation. Executives are investing to digitize and automate nearly all functions. More than 60 percent of our respondents reported that they have either implemented or are scaling up digital and automation solutions. Nearly 40 percent are doing so in-house (with or without third-party support), and 30 percent are partnering through joint ventures.
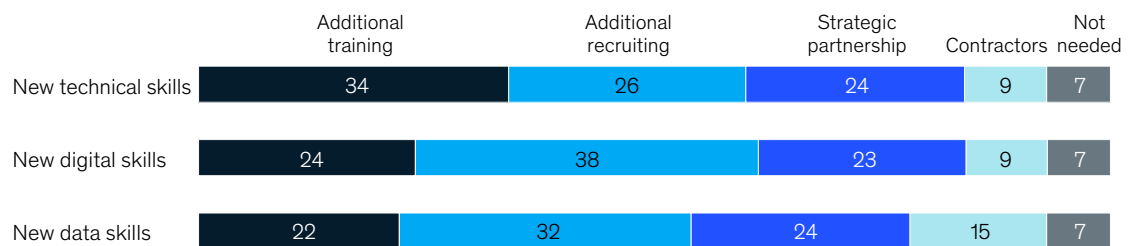
The key lesson is that this is not a one-and-done transformation but an ongoing effort. For example, a gas utility's services team set up a digital factory—an approach that uses agile principles—to quickly develop the company's digital programs. Even after the initial set of programs were finished, the company maintained the digital-factory infrastructure. Over the following two years, the factory deployed more than ten new tools and apps, including solutions for supervising remote sites and augmented-reality devices for remote support.

Data and analytics. Building out data collection, data management, and analytical capabilities is another leading priority for executives. The first step is to build a digital connection, which varies widely

Exhibit 3

Companies look mainly to external sources to fill skills gaps.

How organizations plan to build the skill set of the future,[1] %

	Additional training	Additional recruiting	Strategic partnership	Contractors	Not needed
New technical skills	34	26	24	9	7
New digital skills	24	38	23	9	7
New data skills	22	32	24	15	7

Note: Figures may not sum to 100%, because of rounding.
[1]Question: How will your organization build the skill set needed in the future? n = 600.
Source: McKinsey analysis

by product offering and industry context, to the installed base. This approach makes it possible to use AI and the IoT to generate more sophisticated offerings—the core focus of services executives in the next five years (Exhibit 4).

Approaches to enhancing the collection and management of data vary widely among companies, depending on specific use cases and the existing data infrastructure. However, these working methods should be viewed as required investments that enable future commercial models while de-risking the cannibalization of current value pools.

Working together. Talent, digital, and data and analytics, working together, are required to enable not only a next-generation operating model based on customer expectations but also near-term growth. Many companies can't eliminate their services backlog solely through tech capacity and availability. Together, the enablers can improve capacity through upskilling, making servicing processes more efficient, or eliminating the need for them altogether. Therefore, the enablers should be viewed not just as operational considerations but also as a way to unlock revenues.

Build the next-generation commercial model
The next generation of commercial models faces complexities that traditional models

didn't: impact-based agreements, the capture of revenue from remote work, and the risk of third-party disrupters. Two ways of dealing with these challenges show promise.

Capture the latent commercial opportunity today. Too often, under an "ops first, commercial second" mindset, the commercial engine of services lags behind other parts of the business. However, significant near-term growth opportunities can finance investments and prepare the sales organization for more sophisticated future sales processes.

Near-term moves include increasing the visibility of the installed base (and better understanding the scope of commercial opportunities), increasing the generation and prioritization of leads, enhancing the offering's design, sharpening service-agreement churn responses, and segmenting strategies for pricing parts and service. Getting these basics right can help increase the sales team's focus on services and perhaps even perfect the organization's services pitch to reintroduce itself to its customer base before it introduces future next-generation offerings.
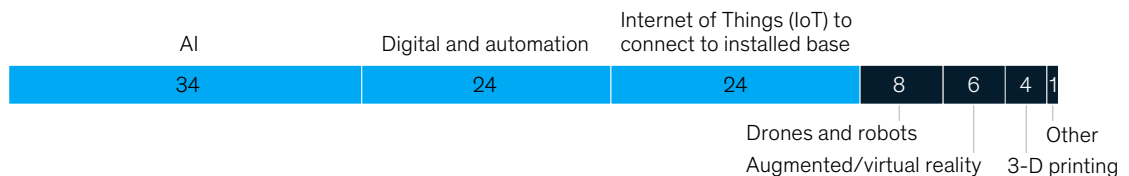
Create an offering-centric organizational structure. Next-generation service offerings will feel very different from today's: they will require a degree of

Exhibit 4

Executives believe that AI, digital, and the Internet of Things are critical to enable more sophisticated services offerings.

How organizations plan to build the skill set of the future,[1] %

AI	Digital and automation	Internet of Things (IoT) to connect to installed base				
34	24	24	8	6	4	1

Drones and robots
Augmented/virtual reality
3-D printing
Other

customization for specific segments and customers instead of one-size-fits-all charges for time and materials. Although each commercial offer could vary dramatically by industry and end customer, there are organizational prerequisites for building these offers:

— Adopt a product-centric lens to develop the offering: consider technology, service levels, and pricing holistically to develop innovative services.

— Develop a portfolio management approach to services: prioritize and enhance new-product offers with the highest rates of adoption by customers and gross margin dollars generated.

— Build the muscle to calculate the specific cost savings for each customer as a result of

new services products and articulate that value clearly.

— Make an explicit point of generating revenue from the cost savings. Too often, the easy way out is to allow assumptions about share gains or customer retention to trump the difficult work of developing new offer structures.

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Clearly, services are changing rapidly. There is a strong consensus on future operating models but a wide range of commercial options that executives will need to assess carefully. Choosing well could provide entirely new business models, with revenue streams to match.

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