The Rise of Products-and-Services Business Models

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Foreword by





The shift from product-to-service-based business models is the key trend impacting all industries today. Traditional product companies are retooling to become software-driven enterprises to respond to digital natives. Smart hardware is delivering a broad array of new intelligent services, from autonomous cars to remote health monitoring to the smart-home appliances that manage our daily lives.

Companies able to make the shift and harness the power of data and analytics combined with software and new business models, will be positioned to deliver rich new customer experiences that build loyalty and customers for life. Moving from a traditional 'make, sell, ship' model enables companies to build a direct and continuous relationship with customers that can be highly personalized, resulting in improved customer delight and higher net promoter scores (NPS).

A recent Capgemini research report found that a **small cohort of leaders, comprising 8% of the surveyed organizations, are ahead in their transformation journeys**. These organizations have successfully strategized to transform their end-to-end value chains and operating models; actively focused on outcome-based or service-based business models; and moved away from legacy technology and systems. These leaders do this through holistic and innovative strategy that considers every stage of the product development journey, agile culture, collaboration, and a focus on developing and recruiting the requisite talent and skills.

This research found that traditional legacy systems must give way to a more service-oriented architecture to take advantage of all that intelligent products and services offer. Organizations should invest in comprehensive data-management systems and data-analytics capabilities to enable profitable service-based business models and generate competitive advantage.

Perhaps the most telling finding in the report is the rapid pace at which these traditional companies are making the shift to selling intelligent services. Of the thousand organizations surveyed, an overwhelming majority – 88% – say they plan to deliver intelligent services in the next 3- to- 5 years, up from 35% today.

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cases at scale, with 31% reporting partial scaling. Roughly half **(48%) are stuck in the pilot and proof-of-concept stages** for one or two products, with the remaining 13% stuck in the use case identification stage.

Only a little more than one-third (36%) of the respondents reported feeling prepared for the shift from products into services, despite the seeming imperative to make this transition. Respondents identified five areas they found particularly challenging to scaling intelligent products and services: organizational structure, talent and skills gaps, mastery of the data lifecycle, migrating from legacy systems, and cybersecurity.

The research also identifies steps to take to create opportunities, including creating a holistic strategy with strong governance, embracing agile and innovation culture, embedding technology into existing processes, starting small and scaling gradually, harnessing data to enhance customer experience and remain competitive and taking a longer-term, customer-centric view.

It is time for product managers to seize the intelligent products and services opportunity to transform business models, unleash innovation, and improve customer experience, thereby crafting a profitable and sustainable path forward. The future of industry is intelligent – and it is here now.



Lisa Mitnick

Executive Vice President, Capgemini Invent and Global Offer Leader, Intelligent Products & Services



Part 1

Demonstrating the Value of Products-and-Services

At Products That Count, our global network of 300k+ product managers and leaders are deeply involved in the digital transformation which accelerated exponentially after the pandemic. In this new era, the product is no longer just the product itself. Rather, it is the whole product – the product experience – that matters. **We call this a "products-and-services" business model.** This model adds obvious value for customers, and also for traditional businesses competing with digital natives. In many cases, products-and-services can be leveraged to keep margins high. And it can be a springboard to new growth.

Major companies have been making the shift to new business models in recent years, from Rolls Royce to Caterpillar. Take the Apple Watch, for example. No longer just a standalone product, this device is now being marketed for its potentially life-saving services. Try this: do a Google search for "Apple Watch saves life." Among the 22 million or so results, you will find stories of people falling through ice, in terrible car accidents, suffering from heart murmurs, and more – all to be saved by their Apple Watch. This is due to the device's built-in features including fall and crash detection, medical ID, emergency SOS, and blood sugar monitoring. In effect, buyers of Apple Watches are buying a product, but just as much they are buying the services that the device delivers. The Apple Watch is more than a product: it is a product experience.

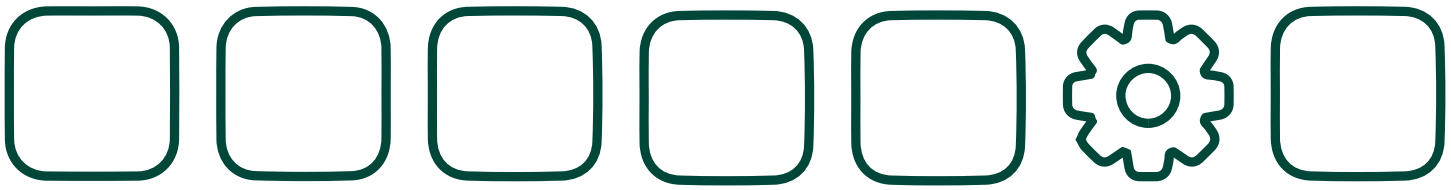
Of course, hardware plus services is now baked into the DNA of many of the fastest-rising companies of recent years. Consider, for example, products like the Nest learning thermostat or Amazon's smart assistant, Alexa. These products require hardware, but are really only valuable when connected to the online services for which the devices are vehicles. Even with Tesla cars, the software is arguably more value-adding and differentiating than the physical body of the automobiles.

Still, this model is relatively new. Large legacy enterprises may be resistant to the products-and-services revolution. To enable that sort of change requires a massive cultural shift from the inside out – very similar to the shift required with the digital transformation. In the same way, PMs at traditional organizations may need to deal with internal politics or general resistance to change. Of course, any organization is potentially facing existential risks when ignoring seismic changes – just ask Kodak or Blockbuster Video.

Hesitant legacy companies can take cues from Fortune 500s like Rolls Royce and Caterpillar. Rolls Royce, producer of luxury cars and jet engines, sells their engines as a subscription service. Businesses purchasing the service from Rolls Royce get end-to-end care over these jet engines. For Rolls Royce, this model offers many benefits: it makes financials more predictable and also creates stickiness, as customers appreciate the level of hands-on attention over their significant purchase.

When it comes to Caterpillar, the tractor and equipment manufacturer has leveraged its incredible global logistics chain – which it has developed for moving heavy equipment around the world – into a service. Because they became so good at this from moving their own products from place to place, they were able to develop another business model, moving the equipment belonging to other businesses.

It's easy to see that services have huge potential to both enhance products and expand beyond physical product sales. But once you have tested the waters of delivering whole product experiences, how do you scale?



Part 2

Challenges to Scaling the Products-and-Services Experience

Scaling is perhaps the biggest obstacle when transitioning into products-and-services. According to Capgemini, "just 7% of organizations implement use cases at scale. Many organizations are yet to advance beyond pilots and PoCs for one or two products, let alone achieve adoption across business units, functions, or geographies."

The challenges to scaling digitally connected businesses are many. These include the makeup of organizations, employee skills, team culture, technology enablement, application of new digital technologies, ecosystem partnerships, and funding. That is true no matter what stage of the journey a company is on, whether early stage, proof-of-concept and piloting, or approaching scale. To find out exactly what types of challenges PMs and product leaders are dealing with right now, in terms of scaling products-and-services businesses, we turned to our network. We asked them, *where are you in your intelligent products and services journey and what are some of the challenges to scaling?*

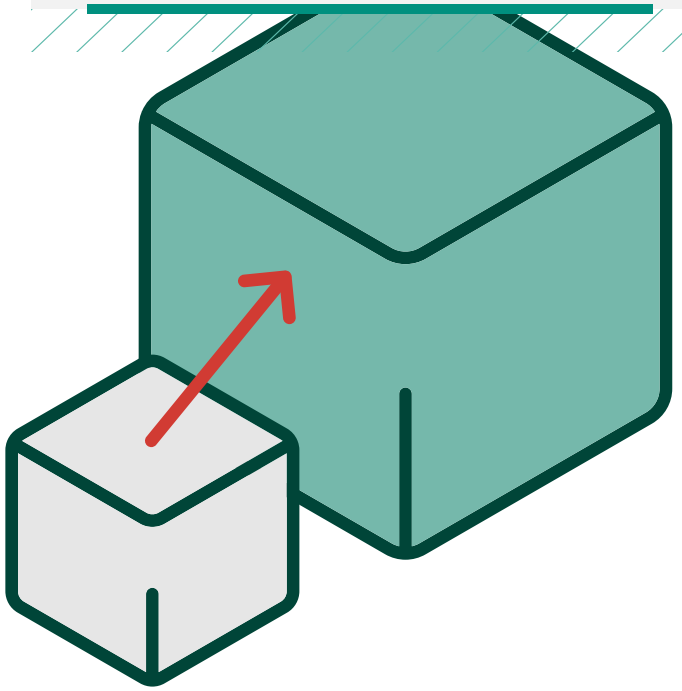
First, of course, scale depends on the size of companies and their target markets. Scale may mean one thing to a startup, and something completely different from the perspective of a large organization. Similarly, enterprise and consumer businesses will likely seek differing levels of scale.

No matter the circumstances, the key to scaling is discovering a repeatable proof of concept. This may involve working around or tapping into existing supply chains and software ecosystems, rather than reinventing the wheel.

Another consideration is the unique challenges within different sectors – as we discovered at a recent roundtable discussion with some product leaders in our network. For example, something B2B PMs grapple with is disconnect along the value chain. Specifically, in the B2B world the customer – i.e. the buyer – is often not the end user. Furthermore, it is sometimes the case, for example in the worlds of medicine and education, that funding comes from yet another link in the chain, often the government. At that point, the PM is in a tricky position. Listening closely to users, the PM may find a clear value proposition for scaling a particular prod-

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ucts-and-services model. However, the PM then needs to convince the customer, and possibly the funder, of that value – potentially challenging considering the disconnect between these actors in the value chain.

In a completely different sector, consider the youth sports app market. This is a highly fragmented market catering to the millions of parents with children playing sports. There are many competing product and service companies, some more established than others. These apps let families keep track of everything from scheduling to play-by-play, and increasingly the trend is for live video during game-play. Considering that each video stream is only going out to a small audience (families involved in that one game), rather than one stream going to many, the economics here are difficult. Do you install hardware in each stadium? Or just put a smartphone on a grip? Should you explore a joint venture partnership with companies in other segments? Do you pull the trigger on innovation now, or wait to see how the market develops?

In addition to economics, there is the need to balance tech with market savvy, involving considerations of how and when a company enters the market. Also, with so many small companies there is a potential gap between people and necessary skills, which may require looking at joining ventures. Such partnerships remain rare, but products-and-services companies in a market such as this may need to get creative in order to achieve optimal vertical integrated capability.

Part 3

Products-and-Services in a Down Economy

Considering the state of the economy at the dawn of 2023, what can product companies glean from the products-and-services model? Many organizations are reducing staff, none perhaps more publicly than Elon Musk, who fired half of Twitter's staff late last year. In a recent Products That Count poll of product managers, 53% of respondents said their organizations have reduced hiring and increased layoffs in recent months.

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Beyond staff, many companies are finding other ways to cut costs. As companies cut back on capital expenditures, the ability to offer more cost-effective value-added services – i.e. operational expenditures – may offer an intriguing lifeline. Thus, rather than selling one expensive product, more modest, lower risk services are a great option when big long-term investments are off the table.

In this way, not only are PMs delivering value, but they are also constructing a narrative that works in a difficult economic environment. We are hearing product leaders talk about a renewed commitment to listening to the customer. This involves evolving to fit into the way B2B customers are thinking about capital expenditures and operating expenses (i.e. CapEx and OpEx). It isn't just sales or marketing who need to consider those things. Product decisions need to involve upstream adjustments in consideration of evolving buying environments.

Once product leaders understand what the buying environment looks like, including budget allocations and customer segmentation, then it's time to figure out how to build a competitive team. What do you need to do in the backend for it to happen? How do you fit that into a company's infrastructure in a seamless way?

Being competitive in the products-and-services space necessitates internal and external considerations. For the external customer dimension, product needs to know what buyers are willing to do and pay for. Then internally, the product organization may need to completely transform, and rapidly, to move agilely in a products-and-services direction. That is of course not easy, but such a transformation may be critical to your organization's survival, perhaps especially in a challenging economy.

The good news is that product managers and leaders have innovation in their DNA, and have long been adopting the position of business leaders whose work is driving revenue. As this eBook makes clear, more and more revenue is moving towards products-and-services. In fact, according to the Capgemini Research Institute, **in the next 3 years 28 percent of organizational revenue is expected to come only from intelligent services, as opposed to 13 percent today**. If the winds of innovation are blowing in that direction, and products-and-services can also help make your organization recession-proof, that's a win-win.

In sum

This eBook offers a snapshot of the rise of the products-and-services business model at the dawn of 2023. As the cutting-edge research of the Capgemini Research Institute shows, this "whole product" approach is rapidly on the rise. The value of this model is clear, despite challenges related to scaling and a slowing economy.

As Lisa Mitnick points out in the Foreword here, a small subset (just 8%) of product leaders are at the vanguard of this new product transformation. **That represents a great opportunity for you.** It is our hope that by presenting the information contained in this eBook, you will be able to leapfrog the competition by harnessing the power of products-and-services.

Good luck in your products-and-services journey!



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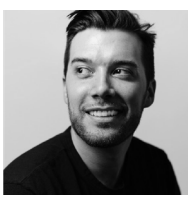
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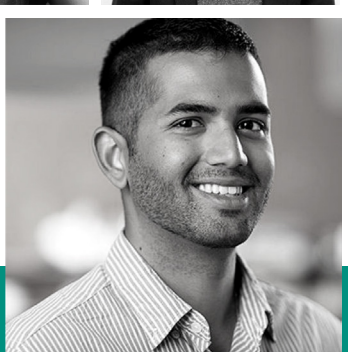
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- Best practices from Netflix product VP, Box CPO and more
- A focus on answering the question, “What makes a great product?”
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Products That Count helps 300,000+ product managers accelerate their careers. It engages >20% of all product professionals globally through highly-rated programs, such as an award-winning podcast show, curated executive roundtables, and coveted Product Awards. It partners with leading brands, including Capgemini, SoFi, Amplitude, Cisco and Teladoc, to accelerate the rise of product to the C-suite and transform product teams into a competitive advantage.

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