



Service-ology

How the convergence of service and technology is creating a new breed of consumer

Dramatic shifts in economics, technology, and global consumer demand have had a major impact on manufacturing today. The convergence of forces has brought together aging Baby Boomers, self-focused Millennials, and advanced technology. The result is a new breed of manufacturing that combines a customer-centric approach with customization technology—something we call “service-ology.” In this report, we’ll examine this hybrid economy, look at how manufacturers are responding, and offer suggestions on how manufacturers can build deeper relationships with customers.

The rise of the consumer economy

The world economy has seen major changes in the last two decades, as both industrial nations and emerging markets have been severely affected by recession, political turmoil, and fast-paced changes in technology. Manufacturing hit a period of decline, as plants closed or outsourced production to countries with lower labor costs. In 1950, 30% of all US jobs were in manufacturing. By 2011, manufacturing jobs had dropped to 9% and services accounted for over 80% of jobs.¹

Common economic theory states that as nations grow richer they will always transition to a service economy.² But, some analysts theorize that the current large-scale shift to a service economy is more than just a natural evolution of the economic cycle. The voice of the consumer has been amplified by many influencing factors, technology being the most obvious and pervasive.

Aberdeen points to omnichannel shopping and social media as the top drivers for the rise of the empowered customer. “The empowered customer has changed the business landscape. Successful buyer/seller relations today can no longer be managed through a “one-size-fits-all” approach, businesses need to tune into the rapidly changing needs of their buyers in order to delight them in an effective and timely fashion,” says Aly Pinder in “The Voice of the Customer.”³

Manufacturing technology has enabled a new “I want it my way and now” service-demand mindset, merging marketing and predictive analytics with product customizations.

It started with letting consumers choose options for a made-to-order car; specify components for a laptop; design their own brand name shoes online; and use configuration tools and 3D modeling to custom design windows and doors for their homes. Customization on a wide variety of goods is now possible, and expected, as is speed of delivery. Consumers also expect meaningful experiences from their purchase decisions. They have been conditioned—and spoiled—by companies like Amazon®, Ebay®, Google®, and Pandora®—all of which remember their past buying behaviors and predict future preferences and choices.

Beyond more options and better service, consumers also demand value. It is not uncommon to see consumers in the aisles of stores using their smart phones to price compare with other stores and online outlets. Social media outlets also let consumers consult with other buyers and vent frustration if a product doesn’t meet their expectations. The consumer is clearly in a position of power.

The convergence of these forces has created a hybrid economic state, where service is the driving force and technology is the great enabler. Manufacturers are stuck in the middle, trying to meet the rising expectations of customers, while maintaining prices and dealing with reductions in resources, thin margins, and the loss of skilled workers.

How manufacturers are responding

Some manufacturers have recognized the new power of the consumer and have already begun the transformation to a custom-centric approach. Mass customization is becoming one of the hallmarks of manufacturing today. Engineer-to-order, made-to-order, private labeling and limited batch runs are replacing yesterday's model of high volume mass production. Postponement of assembly is one of the tactics manufacturers employ to give customer more options on product variation, while preserving economies of scale. Product configuration tools, online portals, and advanced logistics and fulfillment programs help make fulfillment and pick-and-pack warehouse order completion feasible.

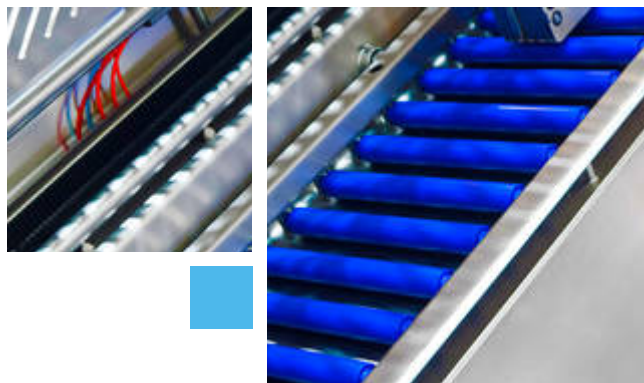
Certainly, customization of products is one of the most obvious ways to cater to customer demands and that approach is getting a lot of attention. But is that enough? Are there other tactics manufacturers can embrace to build upon this customer centric mindset? As manufacturers—large and small—struggle to rebound from the recent economic downturn, they're searching for ways to build relationships with customers and foster a sense a loyalty.

With far more experience in the nuts and bolts of making products, manufacturers often find the warm and fuzzy aspects of customer relationships to be a challenge. For some manufacturers, the starting place is simply identifying touch-points and initiating a dialogue. Aberdeen reports, "Customer interactions have become an opportunity to resolve an issue but also a channel for valuable insight."⁴ The Aberdeen report also indicates that 84% of top performing organizations captured customer feedback via one or more channels, and another 79% were able to identify each customer touch-point across the organization.

These touch-points tend to be far more numerous—and meaningful—than simply receiving a customer's product order and entering it the system. "The customer has become much more than a product delivery channel and instead has morphed into an integral stakeholder with the clout to determine the viability of the organization, and their voice can no longer be taken for granted," the report states.

In fact, many forward-thinking manufacturers go a step further and invite customers to play an active role in product design and the development of product roadmaps for ongoing enhancements. Manufacturers today embrace collaboration with customers. Through customer councils, roundtables, and "voice of the customer" programs, they are able to routinely survey customers on applications, product preferences, and use-cases.

Engaging with the end-user gives engineers and product development experts keen insights into the thoughts of the target market, views into buying considerations, and insights on how the product is actually used (or not used).



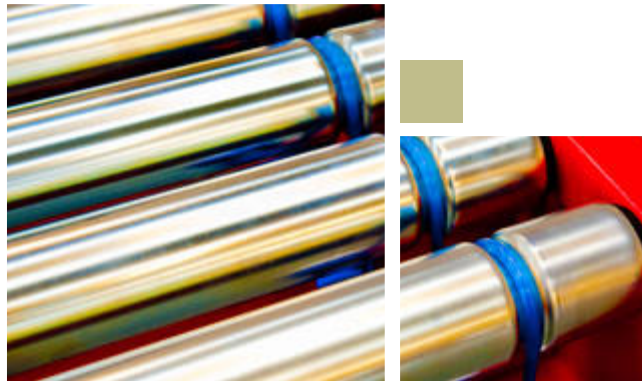
Actionable advice

Manufacturers are on their way to achieving a new blended manufacturing-service business model. Customer expectations are driving this evolution, and savvy manufacturers that are getting on board are finding this new mind-set offers a competitive edge. For those manufacturers that haven't embraced this model, investing in technology can help manage the complexity and heightened expectations for speed, value, and product customization.

The benefits are compelling, according to McKinsey and Company, especially for global manufacturers struggling with lack of customer loyalty. "Mass customization has the potential to help companies increase revenue and gain competitive advantage, improve cash flow, and reduce waste through on-demand production. Mass customization can also generate valuable data that may be used in the development of standard products and in online marketing and public-relations campaigns," the article says.⁵

The basic principles of customer satisfaction cannot be taken for granted, either. Manufacturers, now more than ever, must strive to provide customers with consistent quality, on-time, as-promised delivery, and accurate billing and account records. Once those basics are mastered, manufacturers can expand their serve offerings and enhance their value-add programs, such as extended warranties and after-market service.

As the global service economy continues to gain momentum, the manufacturing sector needs to evolve to remain competitive—and relevant.



¹ Giuseppe Berlingieri, "Outsourcing and the shift from manufacturing to services," winter 2013/ 2014 CEP Discussion Paper No. 1199

² Berthold Herrendorf, Richard Rogerson and Ákos Valentinyi (2013) 'Growth and Structural Transformation', in Handbook of Economic Growth Vol. 2B edited by Philippe Aghion and Steven Durlauf, Elsevier

³ Aly Pinder, Voice of the Customer: Empowered Customers Bring a Wealth of Business Insight , April, 2013

⁴ Omer Minkara, Customer Feedback Management: Leveraging the Voice of the Customer to Amplify Business Results, April, 2012

⁵ McKinsey and Company, "How technology can drive the next wave of mass customization" February, 2014

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