

IBM Institute for Business Value

The connected consumer challenge

Extending the electronics experience through services



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IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the author or send an e-mail to iibv@us.ibm.com for more information. Additional studies from the IBM Institute for Business Value can be found at ibm.com/iibv

By Yangjin Kwon

Today's electronics consumers expect much more than quality devices – they demand a quality experience. Their interest has shifted from the device itself to what they can *do* with the device. Electronics companies need to capitalize on this trend by offering not only advanced technology via products, but also services designed to enhance the consumer experience. To successfully expand their focus, device manufacturers will need to build capabilities that foster collaboration, glean customer insight, enhance service operations, and upgrade their software development capabilities and IT infrastructure.

Suffering the effects of decreased product differentiation, stalled growth and lowered margins, device manufacturers are looking for new growth opportunities. At the same time, they are faced with increasingly demanding consumers. With the proliferation of connected devices and continuous improvements in network accessibility, today's consumers expect to do more with their connected devices. They demand high performance and enhanced, integrated device experiences. As a result, there has been a clear shift in value from the devices themselves to the consumer's experiences with them.

Responding to this value shift poses a challenge for many electronics manufacturers. To succeed in today's connected world, they need to seek innovative ways to get closer to consumers. Device manufacturers need to focus on creating products and associated services that together meet consumers' demands for superior experiences, ultimately transforming the way they live, work and entertain themselves.

Our latest industry study provides key insights to help guide electronics companies in this pursuit (see sidebar: Research methodology). To provide the compelling experiences that consumers desire – and those experiences they don't yet know they want – electronics companies must expand their traditional focus on quality product manufacturing to include new capabilities for service excellence:

- *Open collaboration* – Support and facilitate collaboration with consumers, among employees and with external parties to uncover and test new ideas and seamlessly deliver innovative services.
- *Customer insight* – Capture consumer and usage data to generate new insights, and apply those insights to develop intuitive and relevant products and services, as well as personalized and effective marketing strategies.

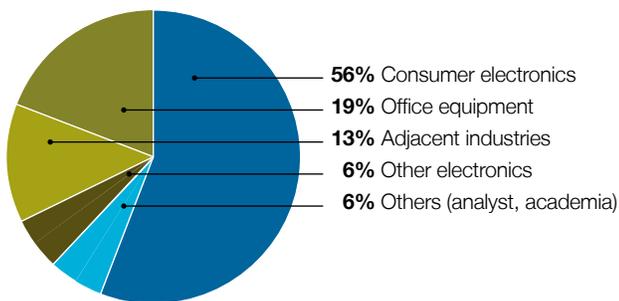
- *Service operation* – Get past the idea of simply manufacturing devices and establish the necessary framework to enable service design, development and operation.
- *Software development* – Keenly focus on software – the driving force behind connected devices and associated services. Develop a plan to quickly and efficiently acquire necessary skills, as well as build long-term competence.
- *Flexible infrastructure* – Manage the consumer experience through flexible yet efficient technical delivery mechanisms. Explore creative options to reduce the initial cost burden and overcome IT complexity.

Research methodology

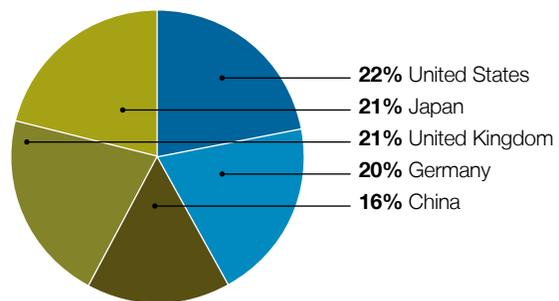
As part of this study, we conducted a global consumer survey of approximately 1,000 consumers in five countries who were current users of connected devices and associated services. In addition, we interviewed 32

electronics industry executives and senior managers. We also interviewed executives from adjacent industries, members of academia and industry analysts. The interviews and survey were supplemented with secondary research, including financial analysis of individual companies.

Industry interviews



Consumer survey



Mandate for change

The electronics business is among the most fast-paced industries today. Device manufacturers face numerous complexities – from continuously changing consumer needs to mounting technological advances.

For example, both consumer demand and expanding technology have contributed to the rapid – and continued – growth of connected devices. Worldwide smartphone shipments are predicted to grow from 303 million units in 2010 to more than 925 million units by 2015 – a compounded annual growth rate (CAGR) of 25 percent.¹ And this growth is not just in the area of personal devices but also home devices. The installed base of network-enabled TVs is forecast to grow at a CAGR of approximately 70 percent from 2009 to 2014, at which point there will be roughly 220 million network-enabled TVs installed worldwide.²

In the context of this period of rapid growth, two new trends are visible. The first is an increase in the number of different device types, many of which are blurring the lines between smart phones, PCs and entertainment centers. For example, Panasonic's Viera tablet is intended more as a TV companion than a stand-alone device.³ As another example, the Peel universal control lets consumers turn their iPhone or iPod Touch into a TV remote via a free application and a small battery-powered wireless hardware transmitter. Rather than lists of channels, the Peel presents consumers with pictures and summaries of shows grouped by genre on their iPhone or iPod Touch.⁴

In addition to more device diversity, there has also been a significant acceleration in device adoption in a “winner-take-all” market mode. For example, when Apple introduced the iPhone in 2007, one million units were sold in 74 days. In

comparison, when Apple introduced its first generation of the iPad in 2010, one million units sold in less than a month (28 days). And in March 2011, Apple sold close to one million units of its iPad2 during the device's debut weekend alone!⁵

As network accessibility and high-speed connectivity continue to improve, the potential audience for these connected devices expands, as does the quality of their experiences. For example, by 2015, a total of 380 million subscribers in the United States, the European Union, Scandinavia, China, Japan and South Korea are predicted to have access to mobile data through Long Term Evolution (LTE) networks.⁶ In addition, consumers have a variety of connectivity options, with continued growth in fixed and mobile broadband subscriber counts and other wireless infrastructure technology, such as Near Field Communication (NFC) and Bluetooth.⁷ The end result is a growing number of connected consumers with faster access to data and services at their fingertips.

Consumers' voracious appetite for connected devices seems in no way satisfied. These devices allow consumers to do more things faster and more easily – and this is increasingly what they desire and, quite frankly, expect. They expect to synch content on their smartphones, mobile music players, PCs, tablets and in-vehicle systems. And they expect the process to be simple for them. Today's consumers don't want easy-to-understand user manuals for their devices; they want devices so intuitive and consumer centric in their design that they don't require manuals.

“Suddenly, people have started to think differently about electronics... They want software that's intuitive and makes things easy to use. They want applications, content and services.”

Consumer electronics executive, Asia

Looking back, the electronics industry has seen its focus shift through the years – from production quality in the 1990s to efficient distribution and delivery in the early 2000s. Today, the spotlight is clearly on the consumer experience. In this age of experience, electronics companies need to step out of their product-oriented safety zone and seek innovations that extend the value of their physical products. They need to expand their focus to include services associated with products that enhance the consumer’s experience.

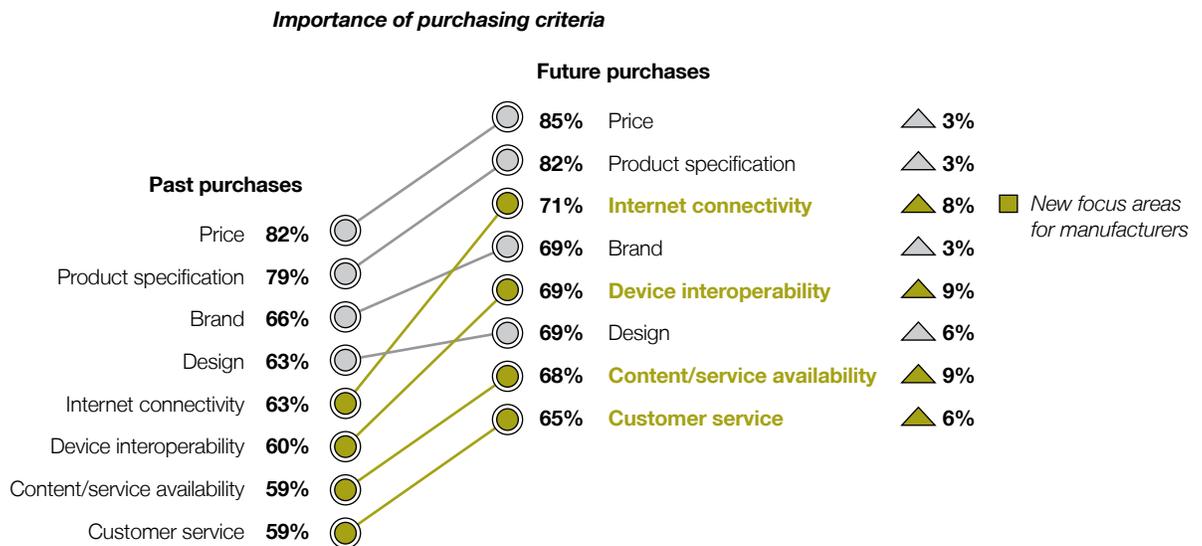
Consumers in the age of experience

Success in this new age of experience demands a deep understanding of consumers and their needs and expectations. According to the IBM 2010 CEO Study, electronics executives clearly understand this requirement. Ninety-four percent of the electronics CEOs surveyed rated “getting closer to customers” as the number one priority for the next five years.⁸

However, understanding the need to “get closer” to customers and successfully doing so are two separate things. To help electronics companies gain a deeper understanding of what consumers actually want from their electronics products, as well as what they think about their current connected products, we asked consumers about their purchasing decisions, current service quality and thoughts on collaboration.

Purchasing decisions

Consumers consider a variety of factors when making electronics purchasing decisions. Price and specifications are key factors – and will remain important in the future. However, our survey did reveal some changes in what consumers will consider when making future purchases. Consumers indicated they will place more importance on all purchasing criteria. In particular, the importance of Internet connectivity rises, surpassing both brand and design (see Figure 1). Device interoperability, service availability and customer service also gain greater importance.



Source: IBM Institute for Business Value Connected Devices Consumer Survey. N=988.

Figure 1: Consumers have a growing interest in what they can do with their devices.

When making future purchasing decisions, consumers will place a much greater emphasis on what they can *do* with a device and how they can utilize its capabilities to the fullest extent. To create products that meet the changing demand, device manufacturers need new or renewed focus on emerging criteria.

Service quality

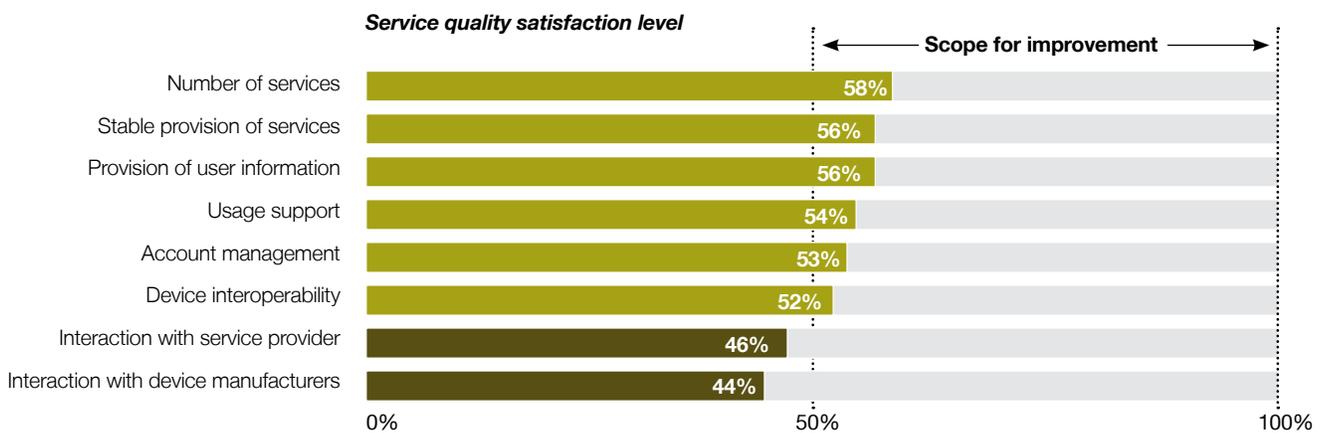
Our survey revealed that consumers are not particularly satisfied with their current service quality. When asked to rate satisfaction with aspects of services they are currently using, consumers rated most at roughly 50 percent (see Figure 2). Obviously, there is great opportunity for progress in all aspects of service, in particular those relating to how service providers and device manufacturers interact with consumers. To improve these interactions, companies should reflect on the breadth and depth of their consumer interactions, as well as consider when

to interact with consumers, how best to reach them and what topics to discuss. Because there is so much room for service improvement, newcomers also have a significant opportunity to gain market share.

Collaboration

Effective collaboration with consumers could go a long way toward improving the lukewarm service quality ratings. Fortunately, the majority of consumers are ready and willing to collaborate. But are electronics companies prepared to leverage this opportunity?

Although only 17 percent of consumers have collaborated with device manufacturers in the past, 73 percent are interested in future collaboration. This not only provides an opportunity to improve service quality through consumer input, but also to embrace collaboration across the lifecycle of a product.



Source: IBM Institute for Business Value Connected Devices Consumer Survey. N=988.

Figure 2: Consumers demand considerable improvements in service quality.

In what areas are consumers willing to collaborate? While they are willing to offer new ideas, participate in development activities and provide input on usage, they are less interested in endorsing a product or service (see Figure 3). This could be due to a hesitancy to offer personal support for a product or brand before becoming completely familiar with and knowledgeable about it. Rather, consumers seem to prefer fully digesting a product and sharing their experiences on their own terms.

Areas willing to collaborate

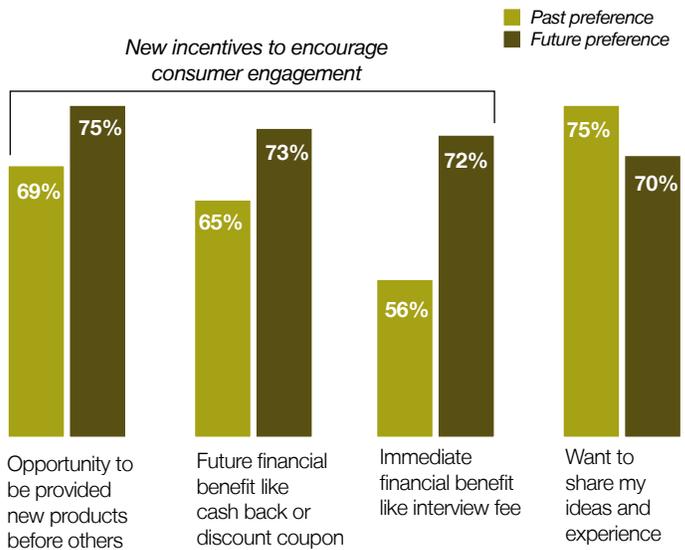


Source: IBM Institute for Business Value Connected Devices Consumer Survey. N=988.

Figure 3: Consumers are willing to collaborate with electronics manufacturers.

In addition to understanding the areas in which consumers are willing to collaborate, it's also important to consider their motivations, how these motivations change over time and how to cater to these motivations. For example, the most common driver for past collaboration was the desire to share ideas and experiences. While still motivated by the opportunity to share ideas, consumers now are more enticed by incentives such as first use of products and financial benefits (see Figure 4). We do not necessarily believe consumers will collaborate *only* when offered some material benefit. However, we do recommend companies get creative in offering incentives to motivate consumers to share their needs and ideas.

Collaborating conditions



Source: IBM Institute for Business Value Connected Devices Consumer Survey. N=988.

Figure 4: Most consumers prefer incentives to motivate future collaboration.

Our survey results make it clear that electronics manufacturers need to maintain an open line of communication. But what is the best method? We found consumers want to talk directly to manufacturers, using online communication methods. E-mail is the most popular method (35 percent), followed by communication via the manufacturer's Web site (23 percent). Third-party Web sites (14 percent) and personal blogs (6 percent) are less popular.

Finally, as manufacturers build their circle of collaboration, they need to use it to clearly communicate the value of the services offered. Our survey revealed that 80 percent of those who expect to spend more on services in the future are early adopters. Therefore, electronics companies are going to have to make a compelling value proposition to convince average consumers to open their wallets wider for services.

Challenges in the age of experience

In addition to assessing consumers’ attitudes, we also interviewed electronics industry executives to gauge their knowledge of, interest in and motivations relating to services.

Our survey revealed that 88 percent of executives view services as a way to become more competitive by differentiating their offerings. We found that most electronics executives are not driven by the potential for new revenue streams or deeper customer relationships. Rather, most believe that services offerings will add more value to their hardware and, therefore, make them more competitive. Many feel that if they don’t branch into services, they will be at a competitive disadvantage.

We also asked electronics executives about the opportunities they foresee from a venture into services. Although some predict services will lead to improved operational efficiency, the majority believe the greatest opportunities are in the areas of innovation and growth. Ninety-seven percent believe services will lead to product and service innovation, while 83 percent predict it will lead to new opportunities. They believe a more intimate consumer connection, which is enabled through service, will in turn help companies introduce more innovative and relevant products and services. More customer

“It is getting harder to maintain a leadership position in the industry if you stick to products only. We need to reconfigure the hardware to meet customers’ needs and provide solutions and services that customers want to enhance their experience around the products.”

Consumer electronics executive, Asia

intimacy also will open up new avenues to monetize the consumer relationship – in ways manufacturers never would have imagined in an unconnected world – such as through online advertising or mobile payment services.

Before any of these opportunities can be realized, however, electronics manufacturers must recognize some fundamental differences between manufacturing and service. These range from the types of relationships formed with consumers and vendors to the differences between product and service consumption (see Figure 5).

Manufacturing		Service
Intimacy with channels (e.g., on and offline retailers, network operators)		Intimacy with end users
One-time transaction		Ongoing relationship
Hardware manufacturing and delivery are separable. <i>Consumption happens after the production.</i>		Service production and delivery are inseparable. <i>Consumption happens at the same moment as production, meaning production and delivery are equally important.</i>
Activities are relatively linear and easily definable in modules.	Activities are complex and require interactions with multiple functions within the company.	

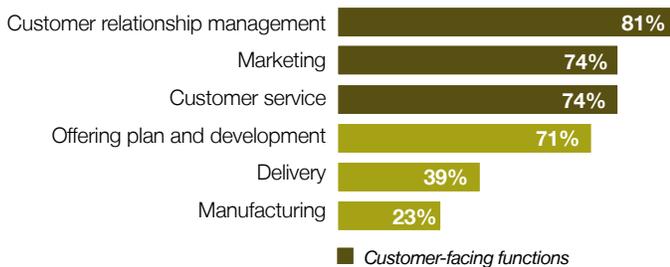
Source: IBM Institute for Business Value.

Figure 5: Electronics manufacturers must recognize the fundamental differences between manufacturing and service.

Electronics executives also must wrestle with how the incorporation of services will affect various functions within their companies. The majority of executives believe that customer relationship management, followed by marketing and customer service, will feel the most effects, with offering plan and development just behind these customer-facing functions (see Figure 6).

Device manufacturers, most of which sell products online or via retail outlets, now find themselves facing a direct relationship with consumers. Therefore, customer-facing functions need to anticipate how to proactively respond to and benefit from the incorporation of services.

Corporate functions most impacted by services



Source: IBM Institute for Business Value electronics industry executive interviews.

Figure 6: Executives cite customer-facing functions as the areas most impacted by a move to services.

Customer-facing functions

In anticipation of these changes, electronics executives should reconsider how their companies interact with consumers today. To begin the transition, they need to shift their mindset from one-time transactional product sales to building relationships with individual consumers. They also need to expand their messaging, moving from communication focused only on product features to messages about the consumer's experience with the product. In addition, customer-facing functions can prepare to shift from their typical demand generation activities to activities designed to generate and utilize customer insights for future innovation. In fact, all functions can strategize the best ways to use the additional – and more reliable – consumer data that can be obtained through the direct relationship that services offers.

Offering plan and development

Obviously, a move to services and more complicated connected products will also have a strong impact on offering plan and development. For example, project management will become more complex because the creation of service-enabled devices requires the involvement of multiple functions within the organization. In addition, more complex products tend to have more development hiccups, particularly relating to hardware and software integration. The growing importance of embedded software, which plays a key role in connectivity and enabling services, is also an issue for device manufacturers, as software development is not a core competency area for most. Electronics manufacturers need to prepare for more structured and rigorous development coordination to combat these forces.

“The product roadmap should be in line with the service roadmap from the beginning... We have started thinking about services first before we think about hardware devices.”

Consumer electronics executive, Asia

Organizational change

Electronics executives expressed relative confidence in their companies' abilities to adapt to the tactical requirements associated with becoming a service provider, such as the need for new processes and supporting technology infrastructure. What they are more concerned about are the less tangible but more fundamental challenges associated with cultural and organizational change.

When asked what roadblocks they anticipate on the path forward, 71 percent of executives cited organizational misalignment and lack of required skills. Fifty-eight percent cited lack of top management's awareness of the importance of services. These concerns are valid. Organizations optimized for manufacturing could experience delays in decision making regarding important investments or overlook potentially innovative service ideas. Expanding into services requires a company-wide shift in mindset, with each area centering itself on customer needs.

New capabilities for the age of experience

To deliver a superior consumer experience through services, electronics companies need to build new competencies and expand their focus areas. Based on our research, we identified five key capabilities to help guide them.

Open collaboration

Electronics companies need to establish open collaboration with consumers, among employees and with external parties to identify and validate new service ideas.

With consumers

As our survey revealed, consumers are willing to collaborate – but are much more likely to do so with the right incentives. Because active consumers are a scarce resource, companies will compete to capture these valuable consumers by dangling carrots such as new product experiences and financial incentives.

Electronics manufacturers also need to provide the right forums to facilitate collaboration with consumers. As they told us in our survey, consumers prefer direct online communication with device manufacturers. Therefore, electronics companies should prioritize their online touch points. From its own Web site to its representation on external sites (e.g., YouTube, Twitter, Facebook, etc.), a device manufacturer needs to speak with one voice through unified messages aimed at its target consumers.

Sony Ericsson, for example, has successfully created a “content triangle” using its corporate Web site, Facebook and YouTube. Content shared on one site is always linked to the other two, driving traffic between the three. In particular, Sony Ericsson has used its Facebook page to recruit ambassadors, encouraging consumers' involvement through features such as “Question of the week,” “Fan of the week” and quick surveys. The strategy appears to be working, with the company's Facebook page growing from three hundred thousand fans to three million fans in just nine months – and continuing to grow to more than six million fans.⁹

Finally, electronics companies need to establish collaboration guidelines to both facilitate the free flow of communication and, at the same time, create boundaries for this flow. For example, if conducting a live collaboration forum with consumers, a company could suggest discussion themes, assign facilitators, designate a timeline and communicate how they plan to use the information received to help ensure an organized event that generates useful insights.

Among employees

Ideally, collaboration among employees should be embedded in the corporate culture and woven into everyday business processes. By connecting employees via collaboration and social networking technologies, companies provide a forum where ideas can be shared, refined and prioritized.

For example, consumer electronics retailer Best Buy has successfully promoted open collaboration among employees – and even extended this collaboration to serve consumers. Best Buy created Twelpforce, a program that uses Twitter, a microblogging and social networking site, to solve customer service issues. Employees offer technology advice and answers for consumers who Tweet questions or complaints about electronics devices.¹⁰ As of April 2011, Best Buy had amassed more than 43,000 Tweets and almost 35,000 followers.¹¹

“The value of services is derived from data and analytics. We and our partners must share data and insights both ways.”

Office equipment manufacturer executive, United States

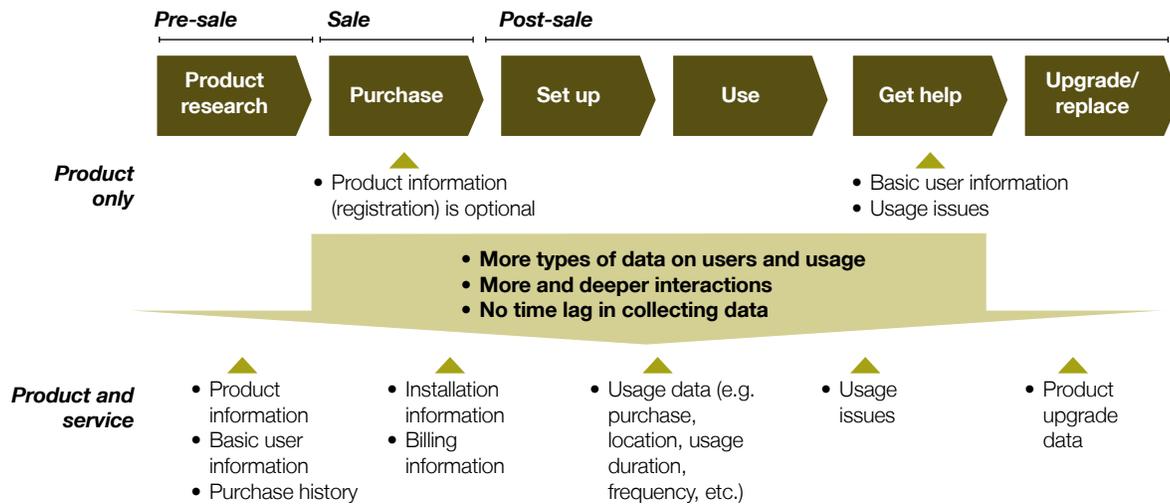
With external parties

In the connected world, no single company can provide the ultimate experience consumers want. Rather, companies have to work more tightly with organizations within their own industry, such as component manufacturers, as well as players outside their industry, such as content providers and Internet service companies. However, external collaboration is a new concept for many electronics organizations. We suggest they adopt collaborative best practices from organizations in adjacent industries, as well as educate themselves about potential partners’ revenue models and industry culture. In addition, because collaboration is a give-and-take process, device manufacturers must be willing to share insights and, at the same time, clearly state their goals and expectations.

Customer insight

Electronics companies need to take a fresh look at consumers, viewing them through a new lens that reflects their evolving role. The consumer is no longer simply a buyer, payer and user of a product. Today’s consumers can also serve as designers and cocreators of experience, as well as ambassadors and quality control experts.

Electronics manufacturers that offer services have the opportunity to interact directly with end users and, as a result, gain more visibility into their experiences. Service offerings open the door to more consumer interaction, as well as the ability to continuously gather data throughout the lifecycle – from purchase through usage (see Figure 7).



Source: IBM Institute for Business Value analysis.

Figure 7: Companies offering both products and services have more opportunities for consumer interaction and data collection.

Companies can then use analytics to turn the data into valuable insights and integrate these insights into their strategies and business processes. For example, understanding when and how consumers use a product and what services they use can lead to new product and service innovation, as well as timely end-of-life decisions, which can be extremely important in this fast-paced industry. In addition, customer insight can also help companies better target their marketing tactics and campaigns to the right audiences, as well as assist in budget and resource allocation using techniques such as optimization of the customer portfolio.

Service operation

For manufacturing-oriented companies, creating and delivering service could be an entirely new operation. To be successful, they need to establish a service organization and create effective service operations that are embedded in daily business processes, particularly those associated with service design, sourcing and managing partners, and service performance management.

“Instrumented products provide more intelligence about their customer. This changes how to market to customers.”

Office equipment manufacturer executive, United States

Service organization

Expanding a focus on manufacturing excellence to also include service excellence will require creating either a separate organization or a service team integrated within the product organization. Each option comes with pros and cons. For example, a separate service organization could leverage common infrastructure and resources across various development projects. However, there is a risk that the product and service organizations might operate as silos rather than integrated partners. After examining the advantages and disadvantages of both options, each company must consider its unique characteristics, such as number of product categories and resource availability, and then evaluate which option best aligns with its services vision.

Clearly designated roles and responsibilities are also critical to success. Traditional electronics companies produce products that require minimal local attributes and then deliver them across the globe. However, services need to be highly personalized for local consumers. As a result, it is extremely important to distinguish between local team and headquarter roles to help enable operational efficiency, superior service delivery and, most important, deeper customer intimacy.

“Manufacturers need to be global to achieve operation efficiency for devices. However, at the same time, they need to be local to provide services that meet local consumers’ needs.”

Consumer electronics executive, Asia

Service design

Scenarios mapping the end-to-end consumer experience – from purchase to usage in a home or work environment – can be helpful first steps in defining and determining the right service offerings. To help generate innovative product ideas, electronics companies have used various observation methods to better understand how consumers use their products. Even the chip maker, Intel, has hired anthropologists and social scientists to better understand consumers and how they use devices on a day-to-day basis.¹² The same techniques and resources can and should be applied to service design as well.

In addition, companies need to create service roadmaps and align them with their product roadmaps. In fact, service and product roadmaps should be in synch from the very beginning of the planning process to help ensure product specifications support the functionalities required for specific services and to help avoid additional development cost due to changes in hardware design required by services.

Partner management

In most cases, service offerings require a variety of partners such as content providers, developers and network operators. Picking the right ones and maintaining an amicable relationship with them will be critical. From negotiating a mutually agreed upon revenue model to defining intercompany product and service testing, well-defined processes and procedures will help ensure a quality partnership.

For example, Apple has made concerted efforts to engage the developer community as a partner by creating an attractive revenue-sharing model and supporting developers with well-established development tools.¹³ These efforts appear to be working; in a recent survey, developers cited the iPad and iPhone as the top two mobile platforms for which they are most interested in developing applications.¹⁴

Service performance management

The establishment of key metrics will be crucial in measuring service performance. As our survey results confirm, consumers have high expectations regarding service quality. However, without service quality and efficiency metrics, it's nearly impossible to get an accurate performance view and difficult to make improvements. Companies should utilize the more direct and intimate end-user relationship that results from services, as well as the supporting infrastructure, to collect and monitor service quality data in realtime and, if necessary, take action to improve performance and communicate improvement plans with consumers.

Software development

Software enables device intelligence and product differentiation – it is the backbone of connected devices. As a result, device manufacturers need to beef up their software capabilities and address issues such as a limited understanding of software among many industry leaders and scarce software resources within the industry. For example, Samsung Electronics has expanded its search for skilled software developers by aggressively seeking talent on a global basis – not just in India, but also in other emerging countries such as Poland, Bangladesh, China and Vietnam.¹⁵

In addition to seeking talent, companies should focus on how they can build software-related knowledge and assets. We suggest electronics executives focus on three key actions:

- Build a common software platform that flexibly accommodates changes and helps increase component reusability.
- Standardize and internalize software methodologies to reduce dependency on specific individuals and optimize software resource allocation.
- Don't recreate the wheel; identify the core capabilities needed within the company and leverage external parties with skilled resources in noncore areas such as testing to rapidly increase the scale and quality of software development.

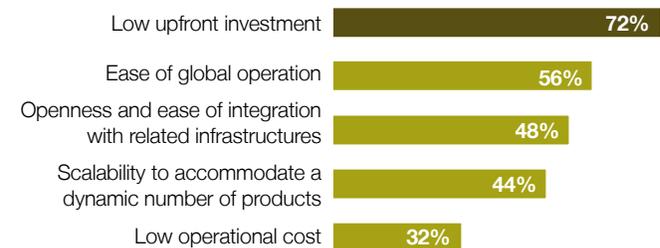
“Software is increasing in importance...yet, we don't have the best practices, organizational structure and mature capabilities to leverage software to the fullest extent.”

Office equipment manufacturer executive, United States

Flexible infrastructure

To effectively provide services, electronics companies need a flexible infrastructure that allows them to create and provide the services as well as manage the devices. This obviously requires some investment. However, executives cited “low upfront investment” as the top criteria for setting up the supporting infrastructure (see Figure 8).

Important attributes of supporting infrastructure



Source: IBM Institute for Business Value electronics industry executive interviews.

Figure 8: The majority of electronics executives want a low initial investment in infrastructure.

Many manufacturers are uncertain about future services success and understandably hesitant to invest heavily at this point. Given this reluctance – as well as the fact that electronics companies do not have in-house expertise for complex IT services – we suggest device manufacturers explore creative and flexible ways to both reduce the cost burden and overcome IT complexity. For example, outsourcing to a third party or employing a service delivery platform (SDP) in a cloud environment could allow electronics companies to achieve a flexible infrastructure without large up-front capital costs. These options may relieve the pressure to build in-house skills to implement, manage and expand the platform. At the same time, they could reduce operational expense and allow the company to share the deployment risk with an experienced vendor.

A flexible infrastructure can also be more than just the avenue for connectivity; it can also provide a new way to enhance the consumer experience. For example, Amazon Cloud Drive is a service that lets consumers store music, photos or videos on cloud servers and access them from anywhere through a Web browser or application.¹⁶ This provides consumers with flexibility in terms of device usage, allowing them to access their data from anywhere – even if their device memory fails.

B2B in the age of experience

The age of experience not only affects the electronics business to consumer (B2C) market, but also the business to business (B2B) segment. Many B2B companies (e.g., office equipment manufacturers, B2B divisions of consumer electronics companies, network equipment providers, medical equipment manufacturers and industrial automation companies) are also expanding their focus to include the end users and their experiences with products.

Although hardware products are still the main focus for most of these companies, they are also adding high-value services relating to the end users' broader experiences and processes associated with the products. Examples include diagnostic assessment services (e.g., reactive status maintenance), prognostic assessment services (e.g., predictive maintenance), workflow management and process automation/optimization services.

An example of a B2B move into services can be found in Xerox, which has strategically focused on transforming itself from a pure office products and production equipment manufacturer to a global leader in business process and document management. In early 2010, Xerox acquired Affiliated Computer Services Inc., a business process outsourcing (BPO) and IT services firm, to help accelerate its growth in services. By combining Xerox's strengths in document technology with ACS's expertise in managing and automating work processes, Xerox hoped to create new market opportunities in BPO, as well as help fulfill its vision of "owning" all aspects of document management.¹⁷ The strategy seems to be working; Xerox's services business has increased and was more than 60 percent of its total revenue in 2010.¹⁸

Are you ready to extend the electronics experience?

As electronics industry leaders contemplate the move to services to deliver a more compelling consumer experience, we suggest they consider some strategic questions:

- Does your company have a clear understanding of why you need to provide a total experience with your products and services?
- What kinds of opportunities do you expect by adding service offerings to your products?
- Do you know what experiences your customers expect from your service?
- For which services should you partner and for which should you invest in building your own capabilities?
- Do you understand how interaction with consumers changes in the service business?
- What challenges do you anticipate your company facing? Do you have plans to overcome these challenges?
- Do you have a clear understanding of the risks and inhibitors that could keep you from becoming a service provider?

Conclusion

Consumers are making electronics choices today based on the experiences a particular device can offer. This value shift is forcing electronics companies to expand their traditional product attribute-based view to include service. Pursuing services in no way means these companies should abandon their focus on manufacturing devices. Rather, they should extend their focus to include related services that address consumers' demands for enhanced experiences.

While there will be some hurdles on the path to services, we believe electronics manufacturers can successfully transform to win in the age of experience. We suggest they prepare for their journey by focusing on collaboration, customer insight, service operations, and software and technological capabilities.

To learn more about this IBM Institute for Business Value study, please contact us at iibv@us.ibm.com. For a full catalog of our research, visit:

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