

The Rise of Service In the Technology Industry

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There's something afoot in the technology industry...

Long the domain of product loving venture capitalists, CEO/Engineers and high flying companies built on top of disruptive technology, leading high tech markets around the world have a secret. They are becoming service industries.

For four decades the high tech business – and its financial and customer ecosystem - focused almost exclusively on products. Boards of Directors sought the resources and management skills required to run product companies. They prioritized the development, marketing and sales of products over all other disciplines.

Until 2000 it was a good strategy indeed. Customers aggressively pursued the next “new” thing. Companies and their shareholders were happy. Life was good.

But beginning in 2000 things began to change. Customers, saddled with a high cost of technology ownership, a slowing economy, unused “shelfware” and systems that could not work together began re-thinking what was important to them.

With struggling product sales and customers becoming more interested in vendors that actually delivered on their promises, services began to take on a new focus. The numbers tell the story. Services have grown from 33% of total revenues for enterprise software companies in 1999 to 60% today. During this period 74% of top line growth for these companies can be accounted for by growth in the services business compared to just 26% of growth from product revenues.

Among enterprise hardware companies, services have grown from 22% of revenues to nearly 37% over the same period. This has represented a stunning 98% of total revenue growth.

And consumer service and support – long the financial train wreck of the technology industry – is beginning to look interesting. With many consumer technology markets becoming commoditized, services are taking on a new role as differentiator. And with products becoming ever more complex and integrated some consumers are willing to pay

for the services that will minimize their investments of time and frustration. Best Buy and its novel “Geek Squad” subsidiary peg the consumer technology services market at \$20B.

Even Wall Street is starting to get in on the act. There is growing interest in the services “business within the business”. While most analysts still assign higher multiples to product –oriented companies many are starting to realize the considerable economic impact of the services business. Led by IBM’s considerable strategic and financial bet on services the future of the technology industry looks more and more like a services-led future.

The larger question is how this product industry will make the transition to a services industry. With most companies still managed by product executives, investments in services innovation lagging far behind the commitment to products and Wall Street still “under-valuing” the financial attractiveness of services the question remains: how well will this market be served?

SSPA and TPSA believe that the answers will be found in a broader industry commitment to services innovation, management and marketing. With the support of hundreds of leading technology companies we will seek to do the hard work, create the financing, develop the people and educate The Street.

So why should these companies care about learning a new trick? Because one thing about technology markets still remains true: To the winners go the spoils...