

Reimagining software services for the cloud and the digital world

Customers expect software firms to do more to help deliver outcomes. Software vendors must therefore evolve their professional-services capabilities to meet the new needs.

Chandra Gnanasambandam, Rahul Mangla, and Jigar Shah



The growing prevalence of subscription business models and next-generation technologies is fueling large-scale digital transformations to make companies more productive, smarter, and faster. These trends portend a significant change in the way B2B software vendors support newly digital companies.

In the past, the professional-services arms of software companies focused on installing, customizing, and deploying applications for customers. Today, they must help customers to design, implement, and adopt new technologies (for example, machine-learning-based applications and blockchain) and to migrate workloads to the cloud. In short, software companies are now called on to be partners, not just vendors. And this means that the software industry is being challenged to reassess its entire approach to professional services.

We find that many software vendors encounter challenges navigating these shifts. Until now, their primary focus has been research and development, sales, and marketing. For some companies, the professional-services unit was viewed as a cost center or, at most, a low-margin revenue generator. Many professional-services businesses therefore haven't invested in the new tools and capabilities they need to propel their operations. That's a mistake. Software vendors must strengthen their professional-services offerings to meet their customers' new demands and to maintain or increase their market share.

To transform the services business and position it for the future, software companies must act along five dimensions: defining the strategic vision for services, reimagining the services portfolio, investing in skills, adapting the services-sales model, and delivering services more efficiently.

Define a strategic vision for the services business

The first step in such a transformation is to define the vision and strategy. Specifically, software

vendors need to consider the service business's role (market making or value delivery), economic purpose (growth or profit maximization), and size (the share of the services ecosystem in the company's revenues). That effort should include a thoughtful evaluation of the company's product capabilities and market landscape as well as the maturity of the partner ecosystem. Services should evolve to fit a product's evolution—as customers move their applications to the cloud, for example, the services organization must move away from serving on-premises products.

The role of the services organization must also match the company's goals. A vendor with new products may need the organization to play a greater market-making role by helping to increase their rate of adoption. But a software vendor with a mature product line may instead need a services organization that helps the vendor's partners provide third-party services to the vendor's customers. Leaders must determine whether the services organization should be a growth engine to drive the adoption of products or an efficient operation to maximize profits.

Finally, it's crucial to establish the desired size of the services business and how much work should be left to third parties (Exhibit 1). We find that top vendors seek to provide 10 to 15 percent of the professional services their products require, with the balance provided by partners. For new, unestablished software products, however, a vendor might provide 40 to 50 percent of the services for the first two years and then taper off as third parties take over.

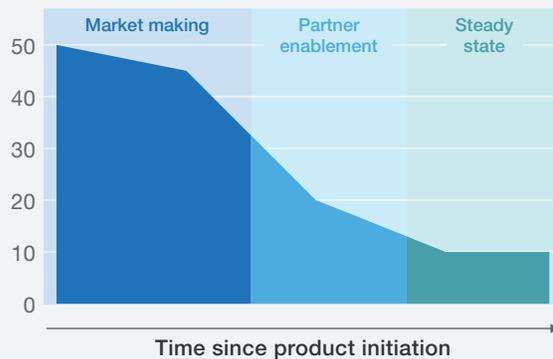
Reimagine the services portfolio

To help customers succeed throughout a digital transformation, B2B software vendors must typically provide a mix of advisory, implementation, and customer-success services—on top of basic installation. Advisory services make it possible for vendors to help conceptualize and design large, complex digital-transformation projects. A

Exhibit 1

The role and size of the professional-services organization must be defined for each product area and customer segment.

Vendor share of market for professional services, %



McKinsey&Company

big multinational company moving its finance functions to the cloud, for example, would probably need its software-as-a-service vendor to help it design cloud-based processes, the on-premises and cloud architecture, data models, and more.

Implementation services can help vendors give customers the speed they require by helping them to deploy transformative products rapidly and to use advanced technologies, such as the Internet of Things (IoT) and machine learning. A manufacturing company looking to implement an IoT-based digital supply-chain solution, for instance, might use a vendor's implementation services to establish proof of concept and rapidly integrate it with the company's existing supply-chain-management system.

Customer-success services, another integral component of the new professional-services offerings, help customers maximize the value of

their software purchases—for example, by using analytics to increase business value. For the vendor, these services not only promote adoption and usage but also reduce churn and therefore boost subscription revenues, which capital markets value disproportionately.

Invest in skills

We often find that to accomplish this substantial portfolio shift and offer these new capabilities, software leaders must fundamentally rethink their people and partner strategy. Training and hiring for the new roles requires a wholly different approach.

Instead of providing standardized training for all members of the services organization, a company should help its employees to learn through the lens of the specific services they will provide. Training ought to focus on this type of role-based learning; an architect and a salesperson, for example, would benefit from very different kinds of training, and account managers transformed into customer-success managers would need broader training. Learning journeys are an effective tool to manage the different training programs required to accommodate all the new services customers need (Exhibit 2).

Even with the most thorough training, the nuances of professional-services roles are learned on the job, especially when customers go through their own digital transformations. Supporting the professional-services team with a resource library that its members can access in any situation will be critical. The customer-success organization, for example, would be able to draw on a tactical tool kit and resource repository if a customer struggled to start a new installation.

Professional-services organizations now require many different skill sets to support their customers' digital transformations, so they must often hire external talent—a process that should start with data. The ability to mine profile and skills data on LinkedIn can be a key differentiator in hiring;

Exhibit 2 Learning journeys and maps are effective tools to guide retraining of the professional-services workforce.

Respondents undergoing a transition, %



McKinsey&Company

cluster analyses on LinkedIn data, for instance, can help sort skills into categories used to find candidates and make decisions. Companies that mine these data with machine-learning tools can hire more effectively.

It's not only the software vendors' professional-services organizations that need to adapt. So must systems integrators and the relationships in this ecosystem; for example, when a customer adopts a bleeding-edge software solution, the vendor's professional-services organization should provide implementation services to establish the new product in the marketplace. As the product matures, however, the implementation tasks can be transferred to systems integrators. To make this shift possible, vendors should invest in training the partner community. Like similar efforts in the vendor's own services organization, these are most effective when conducted through the lens of role-based learning.

Transform services sales

As the services portfolio shifts, so should the go-to-market model that sells it. In the past, gener-

alist account managers sold services. But today, when these services involve much more than just implementation, the savviest vendors recognize that they must rethink their approach to service sales (Exhibit 3).

As the need for more types of services grows, roles in the sales process must adapt, along with the orchestration among them. A salesperson courting a bank that's looking to digitize more of its operations, for example, might need to work with services-organization specialists who can guide both the prospect and the salesperson through specific regulatory requirements.

In the same vein, the coverage model also needs to evolve. In the past, a sales organization might have been staffed mostly by generalists, with a small subset of specialists. Now that customers demand so many highly specific services, however, the proportions of specialists and generalists have nearly flipped.

Other aspects of sales that must evolve include the way success is measured (something vendors

Exhibit 3 A changing product portfolio requires a transformation in the sales of software services.

Changes in software services



McKinsey&Company

should consider early on) and the organizational model, which involves weighing trade-offs, such as revenue accountability versus speed of innovation. Institutional capabilities should also be reexamined, especially because services organizations often lag behind their product counterparts in developing a granular understanding of customer needs at the account level.

Focus on efficient delivery

As customers demand that more services be bundled with—or even be enabled by—the platform itself, software vendors must adapt the way they think about managing the cost of services. This isn’t cost cutting; it’s investing intelligently in the right areas. The key is establishing a balance among services resources and maintaining that balance vigilantly.

Talent is the most prominent driver of costs, which is why investing in skills is so important. Finding the

right balance between people hired from inside and outside the organization, and the training involved for each, is also critical. So is deciding how much to use offshore talent and contractors.

A perception has increasingly taken root, for example, that the offshoring or nearshoring of talent is less effective or impossible when software vendors shift focus away from account management and toward customer success. We’ve found that while customer-success managers certainly need to spend time at customer sites, the services engine can continue to employ nearshore and offshore resources. Newer offshoring locations, such as Eastern Europe, offer access to excellent talent.

The use of contractors must also be managed carefully. Contractors are alluring because they bring high-quality skills without overhead and can be deployed on short notice. But they are expensive,

have built-in incentives to become indispensable, and may form important customer relationships that really ought to be held by full-time employees.

Through a structured, concerted effort targeting these and other cost drivers, enterprises can often improve the run-rate cost of services operations by 10 to 25 percent. In addition to margins, there's another benefit to improving efficiency in this way: it boosts customer satisfaction and creates headroom for investment in new capabilities and skills.



Professional services have historically been a required—but often uninspired—offering to help software companies win more enterprise customers. But the world has shifted as those customers adopt subscription products and pursue digital transformation. Today, they are moving much faster,

so they need software companies that move with them as partners, not just vendors.

This is a great opportunity for software companies to cement long-term relationships and loyalty. But it also challenges them to rethink their services business models, to develop new capabilities, and to find the right balance among advisory, implementation, and customer-success services. ■

Chandra Gnanasambandam is a senior partner in McKinsey's Silicon Valley office, where **Rahul Mangla** and **Jigar Shah** are associate partners.

Copyright © 2018 McKinsey & Company.
All rights reserved.