

White Paper

Service Life-Cycle Management: The Foundation for Servitization Success

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IDC OPINION

The ability to sell outcomes over transactions is changing the way aftermarket service organizations interact with customers. Customers expect more, and now they have the information to shift allegiances when their needs and expectations are not met. Customers recognize that consumables or standard service contracts are becoming a commodity whereby long-standing relationships have become fragile. Aftermarket service organizations, especially in industries where the cost of asset downtime is measured in millions of dollars, have begun a shift to explore the potential of data to drive a new set of decisions and experiences for customers. Data-driven decisions are now a litmus test for aftermarket excellence. However, many aftermarket service organizations are slowed by silos of data residing in a variety of business functions leading to a limited view of information. Handoffs occur with little to no coordination because the business is reactive due to its lack of visibility across functional teams. Organizations that are stuck in the past, riddled by fragmented technology infrastructure and siloed operations, are rapidly becoming outpaced by peers that can turn data and insights into decision intelligence in real time for the benefit of the customer and the service team.

SITUATION OVERVIEW

Manufacturers and service organizations navigate a complex world, often selling and working within dealer networks, which can add a barrier to connecting with the customer. As customer expectations shift, often rapidly, the aftermarket service organization is left to adjust at warp speed. Despite this clear disadvantage, the aftermarket could cement the relationship with a customer for life — customers often buy products or equipment once every five years, decade, or even 50 years. But service often works within a cadence of multiple times a year, quarterly, or more frequently. Each aftermarket service engagement is an opportunity to deliver a wow experience that can result in differentiation, revenue, profitability, and growth. However, each of these interactions runs the risk of being disconnected, inconsistent, or below a customer's expectations of quality.

This disconnect is exacerbated by the technology infrastructure that is in place to support the enterprise. Functions within the aftermarket often have different systems for the varied processes meant to deliver one outcome to customers. For example, a dealer may have a semiautomated warranty claims system while the original equipment manufacturer (OEM) manages a legacy or homegrown parts planning database to understand future service demand. One system, dependent on the other, isn't integrated to share data in real time or near real time and in most cases doesn't recommend next actions. This highlights the often historical nature of systems within the aftermarket offering the service team outdated information to make decisions at the point of need.

To ensure quality service outcomes can be delivered every time, organizations must prioritize insight-driven decision-making that can consider data from across the enterprise. Too often, organizations must rely on fragmented data from point offerings and applications that only provide a limited view into what is needed to deliver a quality service life-cycle experience. This siloed approach and technology constraint doom aftermarket organizations to a status quo that keeps them in a reactive and cost-centric environment. As noted by IDC research, more aftermarket service leaders recognize a need to drive revenue, improve service outcomes for customers, and ensure that innovations within the service life cycle can lead to expansion into new markets for growth (see Figure 1).

FIGURE 1

Priorities for Aftermarket Services



Q. In the next 12–24 months, what will your organization be prioritizing?

n = 369 for all aftermarket service leaders

Source: IDC's Product Innovation and Aftermarket Services Strategies Survey, June 2023

To achieve these aforementioned priorities, aftermarket service organizations need to shift into high gear whereby a platform approach to data enables functions across the service team, and broader partner networks can make better decisions based on real-time recommendations and data. As the stakes are raised for aftermarket service organizations to drive revenue or enhance the customer experience, decision velocity will be critical. Service revenue growth is not a given. Aftermarket organizations must empower workers to meet the needs of customers going beyond that of competitors.

A New Value Proposition: Life-Cycle Approach to Serving the Customer

The service life cycle transforms the relationship between a manufacturer or aftermarket business and the customer. Data insights should not just inform tactical/efficiency decisions like reserving the right spare part or preparing a recall due to a spike in warranty claims. Intelligence in the aftermarket must drive customer value as well as operational efficiency and organizational benefit. Recognizing that value rarely comes from a transaction-driven model, aftermarket service organizations need to become relationship and life cycle focused.

The benefits of establishing an aftermarket service model whereby a platform integrates data across the enterprise cannot be overstated. First off, a platform approach enables cross-enterprise decisions, which is challenging in legacy, fragmented technology environments. Automated recommendations based on actions that occur in other service functions are also an opportunity to increase relevance and positive impact of an intelligence platform. Data must flow across the service life cycle to enable insight-driven actions and unlock the intelligence hidden in aftermarket data.

These actions provide opportunities for improved worker engagement and empowerment as the workforce has the on-demand insights to make the right decisions for the benefit of the customer and the business. These decisions are even more impactful when connected data enables them to happen in real time.

This level of decision support also has a direct impact on operational metrics such as asset uptime and service parts inventory optimization. No longer are service teams unable to meet fluctuating service demand due to not having the right spare parts to resolve an issue. In other instances, the right parts can be planned as a spike in warranty claims and trigger a service capacity shift.

HOW THE SHIFT TO AN AFTERMARKET SERVICE CULTURE ADDRESSES CHANGING CUSTOMER EXPECTATIONS

In conjunction with better decisions, aftermarket service intelligence is the foundation for new revenue opportunities and an enhanced customer experience.

The shift in the aftermarket away from siloed activities to end-to-end value orchestration ensures the customer is at the center of the engagement, even if

the aftermarket business thrives. IDC's research on service innovation (source: IDC's *Product Innovation and Aftermarket Services Strategies Survey*, June 2023) highlighted that aftermarket service leaders are now more likely to prioritize metrics like customer satisfaction, retention, and employee satisfaction as a determinant of success — and future revenue. Internal operational goals are good, but the customer and service worker need to be the priority.

Furthermore, in a service life-cycle environment, the service team is not an island. The team expands to include a variety of stakeholders both within the service function and beyond. The sales and marketing teams should be an extension of the service team tailoring products and offerings based on aftermarket insights to align with future buyer needs. The engineering team should leverage warranty and defect data to improve product quality in future products. Likewise, other functions should help the service team deliver better outcomes to customers efficiently. The opportunity of a shift in the entire organization's culture toward service centricity and insight-driven decisions should encourage multidirectional collaboration. Technology can ensure this collaboration is automated not requiring slow-moving conversations but contextualized insight based on shared data.

CHALLENGES

Aftermarket service organizations are on the precipice of disruption. The status quo is no longer good enough. Customer expectations for better service and support, workforce attrition, and rising executive demands for growth are just a few of the challenges driving aftermarket service leaders to rethink their approaches. However, change is not only difficult but recognizing pending disruption is often hard.

Manufacturers and OEMs haven't historically faced aggressive competition as customers have been wedded to the relationships built with dealers and the brands. However, third-party service provider's competition is forming and the share of wallet for the manufacturer of the aftermarket service organization is no longer a given. A number of drivers are increasing the urgency for the aftermarket service business to not only deliver to a standard but excel at service quality (see Figure 2).

FIGURE 2

Drivers of Service Life-Cycle Management



Q. What are the top 5 drivers for your organization's service life-cycle management efforts?

n = 369 for all aftermarket service leaders

Source: IDC's Product Innovation and Aftermarket Services Strategies Survey, June 2023

Many of the challenges facing aftermarket service organizations revolve around data silos that impede insight. Service teams not informed by real-time data are doomed to make shortsighted decisions that only benefit a few stakeholders, possibly with negative impacts on the enterprise or customer.

Aftermarket service excellence will be buoyed by technology. Artificial intelligence, machine learning, generative AI, advanced analytics, and the Internet of Things (IoT) are transformative technology enablers for the aftermarket. Manufacturers and the primary aftermarket service providers have the advantage of data capture and ownership. The key to success is ensuring that data is not just captured but utilized for decisions and actions. Data and

insights are the starting point for servitization and business model transformation.

Servitization Business Models Demand Intelligence

IDC defines servitization as products as a service. This includes selling usage, uptime, power by the hour, remote monitoring, and service analytics. The aftermarket is a fertile ground for value delivery to customers, but traditional service products don't measure up to changing customer expectations around value. In particular, in complex, discrete industries such as industrial equipment manufacturing, aerospace, or agriculture, the impact of equipment downtime is not just costly — it can be devastating. Servitization allows for a new relationship between the manufacturer or service provider and the customer whereby shared goals can lead to shared value-based outcomes.

To shift to a servitization business model, aftermarket service organizations must adopt a few best practices:

- Educate all business functions on the value of service as a driver of brand loyalty and differentiation, driving both new and recurring revenue
- Adjust KPI to focus on value to customers and not solely operational efficiency
- Increase data flow to enable real-time insights into equipment performance

Servitization is more than a path to revenue, though that is a desirable byproduct. Within a servitization business model, aftermarket service organizations are well equipped to establish loyalty within the customer base. Customers want to know that an organization has its best interest in mind when engaged in a partnership.

Historically, within standard service contracts, the relationship between a customer and the service organization was still relatively transactional — buy parts and labor for a predefined period of time. Within a servitization business model, the customer and the service organization work together to understand long-term goals, align KPI, and share the risks associated with assets and equipment.

The result can be increased recurring revenue for the service business, but that isn't the primary North Star. Within this model too, aftermarket organizations need to be mindful that the cost to serve may could increase in order to achieve the outcomes/performance levels contracted. For this reason, it is critical that the service team has the data to be efficient, an accurate understanding of delivery costs, the insights to be predictive/proactive, and the visibility into performance to adjust in real time to changes at the customer.

THE AI MOMENT

Technology will enable the shift to a service life-cycle management (SLM) business model in the aftermarket. Historically, data resided in silos only benefitting individuals or singular functions. Artificial intelligence is enabling aftermarket service organizations to better plan for service demand despite the volatility that is inherent.

IDC defines AI as techniques that help computers mimic human behavior, also allowing for learning without being programmed. In IDC's July 2024 *Future Enterprise Resiliency and Spending Survey, Wave 7*, only 6.5% of organizations sampled weren't doing anything significant regarding generative AI.

Data across the enterprise must become the path to new value discussions, service products, and revenue opportunities in the aftermarket. Otherwise, organizations will remain in limbo and customers will look elsewhere for value. IDC's 2024 research highlights that only 27.6% of organizations are looking to AI in 2025 to create and deliver new AI-enabled products/offerings that increase revenue and extend market reach, with most focused on either task or process automation. This lack of linkage between data and insights that can drive innovation is a clear challenge for organizations as much of the data to make decisions resides in silos. Organizations noted that the top 2 areas they needed support from partners regarding AI initiatives over the coming 18 months were security, privacy, and trust of data and AI systems and data/intelligence architecture design and engineering (41.6% and 34.3%, respectively). Aftermarket service organizations have volumes of data within their install base; however, the ability to turn these disparate systems and data sets into action is still elusive. Actions taken on siloed information will not benefit the broader aftermarket enterprise but instead solve singular issues with limited value. AI has the ability to analysis volumes of data from across disparate enterprise applications and make targeted recommendations for the aftermarket to act on.

CONCLUSION

Aftermarket service organizations have the opportunity to evolve to meet the needs of the future. Aftermarket service organizations must prioritize insightdriven decision-making to enhance customer experiences and drive revenue growth. A holistic, cross-functional platform approach integrating data across the enterprise is essential for delivering consistent, high-quality service and improving operational metrics. Servitization must not be an objective solely to drive revenue, it is a path to transform customer relationships by focusing on shared goals and long-term value, rather than transactional interactions. And finally, aftermarket service organizations need to recognize the opportunity is now to leverage advanced technologies like AI enabling real-time insights, predictive actions, and improved capacity to meet evolving customer expectations.

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