



26 August 2020

Success in Business Services: *Selling Solutions or Services?*

By Michel Brekelmans

Asia's business services sector consists of a wide range of subsectors, including commercial, industrial and technology services. Despite the ongoing corona crisis, many business service companies benefit from favourable industry and market trends and attractive features of their business model:

*Attractiveness of
Business Services
companies*

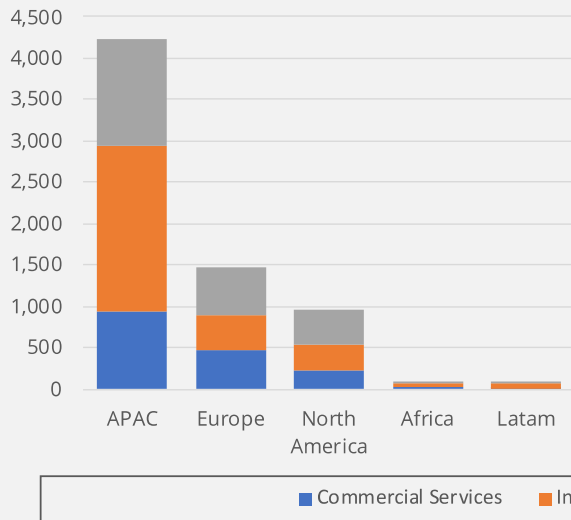
- Continued trend towards outsourcing of non-core services and functions;
- Strong margins resulting from efficient service delivery driven by benefits from scale, focus and technology;
- Long-term customer relationships with recurring revenue base;
- Attractive growth prospects, both organic and via acquisition;
- Benefit from tailwinds in regulatory complexity and/or advancements in sustainability and efficiency

In this paper we identify several key factors that determine success in business services in Asia. Why are some players operating in the same sector and facing the same environmental opportunities and challenges more successful than others?

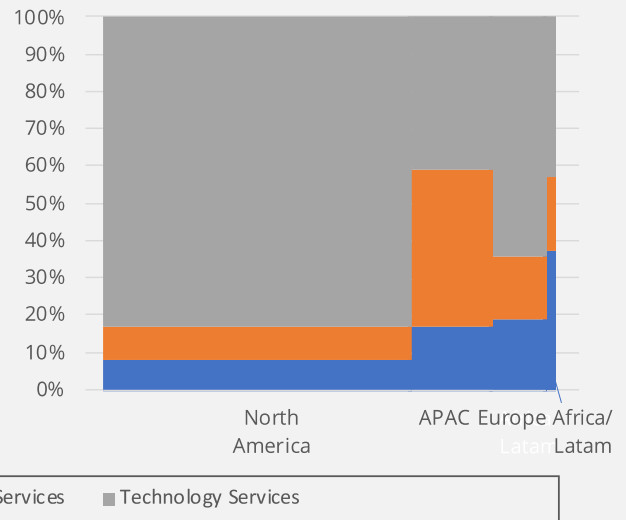
Asia's Business Services Landscape

Asia is home to over 4,000 public companies across the business services sectors. This represents over 60% of all listed companies globally in the business services space. In terms of market capitalisation, Asian companies represent only 29% of the global total behind North America whose companies represent around 56% of the global total pushed by several tech behemoths such as Microsoft, Adobe, Paypal and Cisco.

Global Landscape: Number of Companies
Consumer Products, Services and Retail
(July 2020)



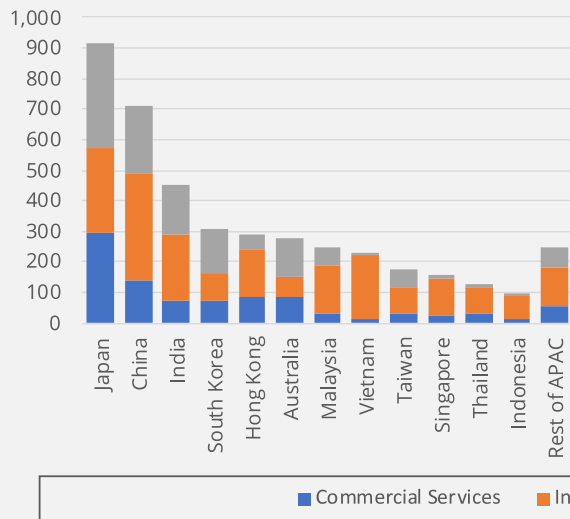
Global Landscape: Market Capitalisation
Consumer Products, Services and Retail
(July 2020)



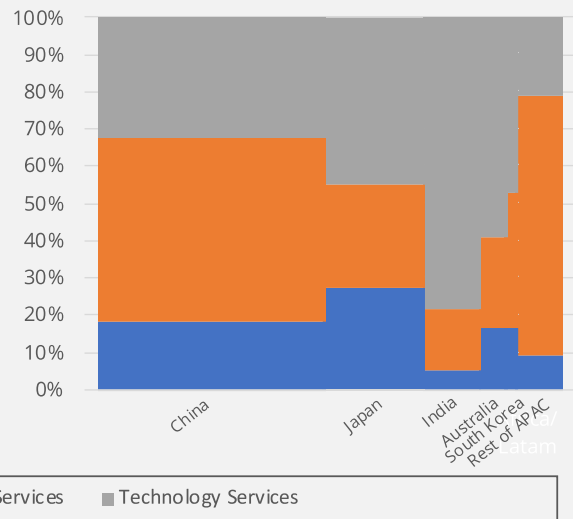
Source: SCP/Asia Research & Analysis

Within Asia, Japan has the most listed companies in the business services space, followed by China, India and South Korea. In terms of market cap, China represents almost half of all public consumer company value in Asia, followed by Japan with around 20% share.

APAC Landscape: Number of Companies
Business Services
(July 2020)



APAC Landscape: Market Capitalization
Business Services
(July 2020)

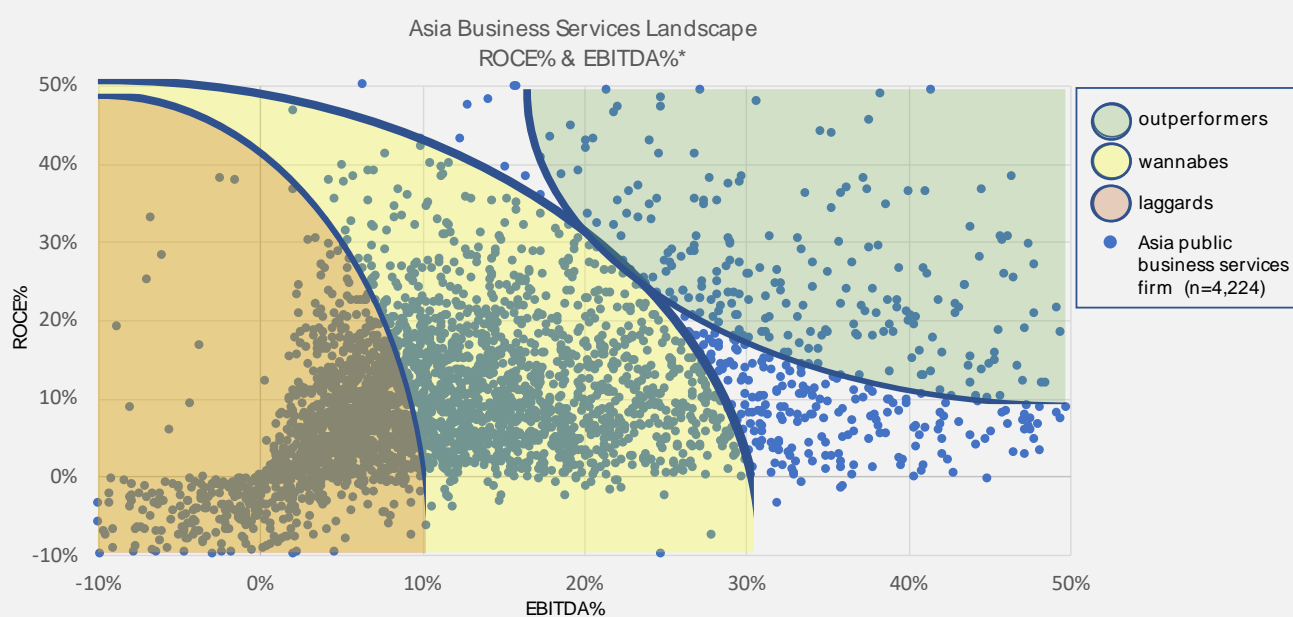


Source: SCP/Asia Research & Analysis

Success in Business Services in Asia

The fortunes of different players has varied markedly throughout the COVID-crisis with some players being impacted severely as services delivery become impaired by lockdowns and budget pruning and others benefitting strongly from changes in customer behaviour and channel dynamics caused by the pandemic.

We looked across the entire landscape of listed business service companies in Asia to help identify a group of outperformers using several methods. One approach was to look at players with consistently high performance on EBITDA% and ROCE% which helped us identify the best performers in Asia.



Note: * using latest financials as at 18 July 2020; Outliers not shown in chart (ROCE% or EBITDA% < -10%)
Source: SCP/Asia Research & Analysis

Strategies for Success

By analysing the strategies and business models of the top performers we identified several best practices that can be adopted by other players in the region. These best practices can be grouped under 3 headers:

- Service Strategy
- Commercial Approach
- Operational Control

The **service strategy** deals with the question of what type of services we offer to whom. Different services and end-customers have different economics depending on the perceived level of value add, competitive

intensity and cost structure. Company profitability is dependent on the relative exposure to high and low value service areas and customer segments.

Successful players frequently **rebalance their service portfolio** to achieve better profitability. For instance, successful players in the facility management space have evolved their service offering from basic cleaning and security services to include higher value added services in building maintenance service and providing energy saving solutions.

Exposure to different services areas and customer segments plays a big role in explaining operational performance with EBITDA% margin difference up to 5-10x between laggards and top performers. Business service providers that fail to provide sufficient value-add in their service deliver merely become manpower suppliers and or often only able to charge a small mark-up over the prevailing rate for labour.

*Commercial strategy
best practices play a
key role in
determining success in
business services*

Effectiveness of the **commercial approach** is dependent on a range of factors, including sales team size, organization, sophistication of the pitch, pricing strategy and post-sales customer engagement. Effectiveness of the commercial approach directly impacts the company's sales growth performance, cross selling and profitability.

Successful business services players **invest in sales team capacity and capabilities**. Underperformance can sometimes be explained by a lack of commercial resources and a haphazard approach in client development. Instead, the leading players actively manage the sales process through the use of CRM and other sales tools. Tools like Salesforce are used to monitor sales performance and manage when sales managers need to follow up with clients and check what support they need.

Another major difference in strategy is in organization design. Successful business service players have **organized themselves around customer segments rather than service lines**: sales and operations are focused on serving a full range of specific needs in different customer segments. By contrast, laggards are often organised by product segment where sales and operations are solely focused on a specific service area regardless of the wider needs of individual customers. This siloed structure prevents cross-selling across service areas and often fails to recognize the wider needs of the customer resulting in single serviced sales versus capturing the potential of bundled sales.

Related is the focus on **selling solutions rather than merely providing headcount**. By focusing on industry specific customer needs and aligning with customer objectives, successful business service players are able to propose solutions and create confidence with the customers.

Think back again to the facility management industry. Successful players recognise they are not selling cleaning service. Instead they are providing hygiene and disinfection. They provide the things that are priority on the client's mind and are more focussed on performing on a higher level. They provide services to a hotel that are differentiated to what is offered to a mall or a factory operator.

*Understanding
customer needs
holistically is key in
selling solutions*

So for a school they don't provide security but they provide child safety. And cleaning services in a factory are all about machine maintenance and downtime prevention. Solutions is how the successful players do it. By speaking to customer's language and understanding their needs you differentiate from the mass and this creates the trust and customer loyalty that allows you to charge that little bit of premium that takes you from being average into the outperformance category.

Successful business service players **select customers based on profit potential rather than scale**. They take a proactive approach in targeting customers that are more likely to be attracted to its value proposition and are willing to pay a premium price. At the same time they also decide which customers not to target based on their willingness to pay.

Leaders in the business service sector **invest in intensive client engagement** once a deal is sealed. The common practice in the industry is for an operations or delivery team to take over once a sales has been made. At best the sales rep steps again in when the time comes for contract renewal but often there is a major disconnect between the senior executives involved in selling a new project versus the day-to-day execution team on the ground.

Recently, I worked with a company that had implemented a best in class aftersales program for business services. They have a program where the entire management team in the company has to visit clients every month. In total 80 managers are involved in the program; not just in Sales but also in Operations, Finance, HR, Legal etc. Each person has to do 15 visits every month. And the clients are different every month. Even the most senior executives of the company are involved. Each

leader has to do 15 meetings in a year including completing a Net-Promotor Score (NPS) survey together with the customer.

The customers really value this type of program. They feel there is support from the entire company and the program builds a lot of trust. Most other companies just sell the contract and hand it to the frontline thus easily allowing frustrations to remain unresolved and hampering the long term relationship.

***Premium pricing is
the holy grail in
achieving superior
performance***

The combined impact of the above commercial approach, from selecting the right customers, to selling solutions rather than products and intensive aftersales follow-ups, allows the leading business service players to **charge a premium** that more than sufficiently covers the incremental costs and allows for superior profitability.

That brings us to the last key success factor in business service: **Operational control** is the third pillar explaining outperformance by Asia's leading business service players.

Operational control tools and systems are critically important in **managing operating costs** such as non-billable overtime, penalties and staff utilization. Companies with effective and real-time tools for monitoring staff attendance and timing as well as a supportive company culture can help minimize cost overruns and staff attrition.

Furthermore, **investment in automation and robotics technology** is important in managing service delivery costs in countries with rapidly growing labour costs such as China and Thailand.

In summary, performance across Asia's business services sector differs significantly across different players, even amongst players who compete in the same market. There are many strategies that executives of business services companies can deploy to improve performance. We identified the three key areas, service strategy, commercial strategy and operational control, that business executives should prioritise if they target to be amongst the leaders in the industry.

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Michel Brekelmans is Managing Director at SCP/Asia, a business consulting firm supporting PE/VC investors, portfolio companies and corporate clients across Asia in strategy development and execution, M&A services and performance improvement. Before setting up SCP/Asia, Michel spend 20 years at L.E.K. Consulting based in Singapore and China since 2002. He was a Senior Partner at L.E.K., member of L.E.K.'s Asia Regional Management Committee and led L.E.K.'s offices in Singapore and Greater China. He can be reached at m.brekelmans@scpartnersasia.com.



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