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3 Imperatives When Developing Products as an IT Services Provider

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Initiatives: Product Planning; Foundations of Product Planning

Many IT services companies seek growth by adding products to their portfolios or pivoting to productized offerings. Offering managers making this transition must recognize the impact on organizational operating models and instill the discipline of product management across their organizations.

Overview

Key Findings

- Solution and technology development processes needed to support client-driven, custom project delivery do not map well to product-oriented disciplines and organizational structure that demand market-driven focus and scope constraints.
- IT services companies often lack the discipline of product management to determine if and how a solution built to address the specific needs of one customer will address the needs of the broader market.
- IT services providers and product-focused companies have drastically different operating processes, business structures, management systems and cultural demands. These differences make it challenging for a product mindset to coexist with a custom services mindset.

Recommendations

Service offering managers in IT services companies planning to add products to their offering strategies should:

- Commit to the discipline of product management by separating product development resources and processes from custom development teams.

- Define and adopt a process to validate opportunities for productization by identifying common customer business needs along with opportunities for evolution and innovation based on customer feedback.
- Build a business case to justify creating independent business units by highlighting the benefits of reducing operational and organizational complexity between product-focused and IT-services-focused groups.

Strategic Planning Assumption

By 2026, 40% of IT services provider engagements will involve the use of products created by the provider as part of the delivery, up from 15% today.

Introduction

The move from IT services provider to IT product provider is seldom a clear-cut transition. There is a spectrum of reusable assets and models that reflects the transition from a primarily skills-based approach to an elevation of skills enhanced by assets, and then to an automation of skills delivered with products.

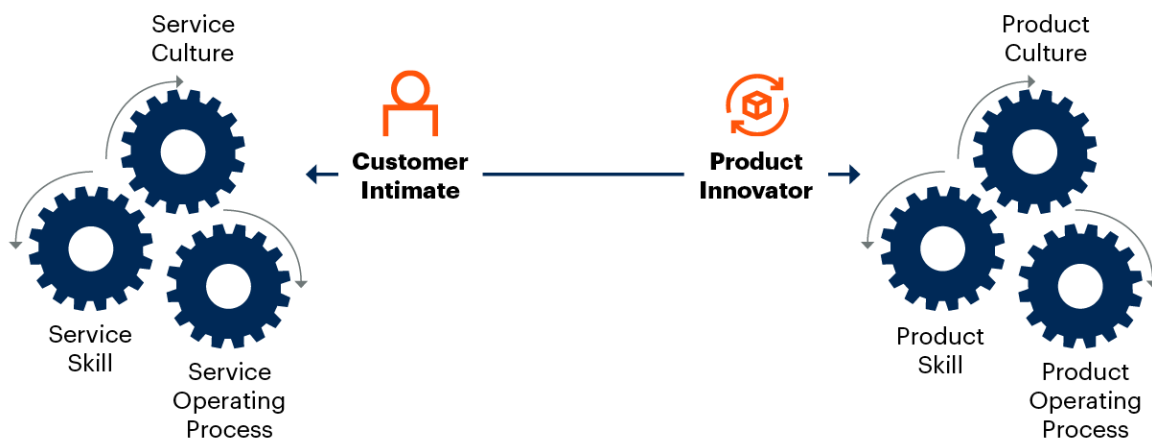
Technology services companies often aspire to monetize the innovations created throughout their customer project work, effectively creating their own products (see Note 1). This aspiration is driven by a view that what they have built as customized development for one customer can be “productized” to address the needs of many others. More significantly, it is driven by the potential for high-value financial return – and increasing returns, to scale – associated with products compared to services (see Note 2).

Increasingly, end user buyers expect their consulting and outsourcing services providers to use prebuilt assets, tools and platforms when delivering IT services. Prebuilt options drive better time to value and/or greater overall value. ¹

However, the operating models and approaches of services companies are very different from those of product-focused companies (see Note 3). IT services companies focus on building customer intimacy to create custom solutions and support their customers, who are typically anxious about the process, requiring constant reassurance, communication, change management and reporting. Product companies, on the other hand, must look beyond an individual customer’s needs and define solutions, messages and go-to-market strategies that target pervasive problems among market segments and are capable of producing sustainable product revenue (see Figure 1).

Figure 1: Different Operating Business Models

Different Operating Business Models



Source: Gartner
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To be successful as a product-focused business and maximize the potential of repeatable, reusable products, IT services companies should follow the three steps outlined in this research note when establishing their product management capabilities and business units.

For clarity, this research does not aim to cover the transition toward continuous product-centric services. Gartner defines continuous product-centric services as an external IT services provider having a long-term contract to supply a multidisciplinary team that builds, deploys and supports software using agile and DevOps approaches. (See Market Insight: Grow DevOps Services Into Continuous Product-Centric Services.)

Analysis

Commit to the Disciplines of Product Management

IT services providers looking to become more productized in their offerings approach or to add their own products to their portfolios must commit to the principles of product management. This commitment requires them to shift their focus away from the requirements of a specific customer and toward investing in products that meet the needs of target customers or verticals, and hence a wider market. It also requires a shift toward managing the evolution of a product across the entire product life cycle, from ideation through end of life. (See *Project to Product Is an Essential Transformation for Product Managers*.)

We strongly recommend separating the product development team from those responsible for custom solution delivery. We also recommend the appointment of a product manager, responsible for the product management life cycle, as well as objectives and key results (OKRs) and KPIs focused on product management rather than specific customer obligations. Together, the product and service-offering managers must work closely to ensure the alignment and reusability of the product and the deployment approaches. For example, both should promote the identification and use of reusable assets such as accelerators, prebuilt components, digital templates and preconfigured solutions (see Note 4) across all teams.

This paradigm shift can be a challenge for both sales and delivery within an IT services company as it moves toward creating and using its own products. Rather than treating change requests as a potential source of incremental revenue and utilization, account teams must work with product management, through an agreed process, to assess the request while also managing the customer relationship. Part of this responsibility is looking for an alternative solution using the products' existing capabilities. Account teams must also work with product management to manage communication to the client if a change request is denied as not aligning with the product strategy and direction.

If one of the core reasons for building a product is to drive further IT services engagement and revenue, the evaluation will have an additional dynamic. Where a request is denied or deprioritized by product management, the organization may choose to have the services delivery team undertake the development required and charge the customer. However, before doing so, the organization should first validate that the impact on the product will be minimal or noncritical, and that the development will not incur significant technical debt for the product moving forward. Consideration should also be given as to whether such custom development can kick-start further product enhancements.

Identify Opportunities for Productization and Future Evolution

The same or similar problems existing for different clients within the same process areas and verticals is evidence of a market need. Hence, such needs are often a starting point for products. Service-offering managers should focus on identifying areas of commonality in the business issues addressed (for example, customer requests for specific APIs or functionality). This assessment should involve the wider product team, together with the sales and delivery organizations, and focus on both existing delivery projects and sales pursuits – including those that were unsuccessful. As a general rule, if something has been requested by or built for more than five customers, it should be considered something that can potentially become a standard product.

Custom development projects focused on a common problem are also likely to be an opportunity for creating reusable IP among service delivery teams. This IP includes assets described as accelerators; proprietary methodology; and frameworks primarily created to remove risk from the delivery, streamline product pipeline, protect or increase delivery margin, and reduce effort and time to implementation. Alternatively, these assets may be better-categorized as prebuilt components or preconfigured solutions, which can differentiate and increase IT services revenue. Collecting such assets reduces the workload for multiple delivery teams or projects by enabling reuse while creating more value in the evolution of further assets.

Use Continuous Feedback Between Product and Services to Maximize Effectiveness

The IT services delivery team and service-offering managers are great sources of insight into customers' needs and how they use the product. Delivery teams and account managers should feed this information into product management to support product planning and life cycle management activities. Additionally, product managers must keep the service-offering managers updated on developments in the product to ensure alignment.

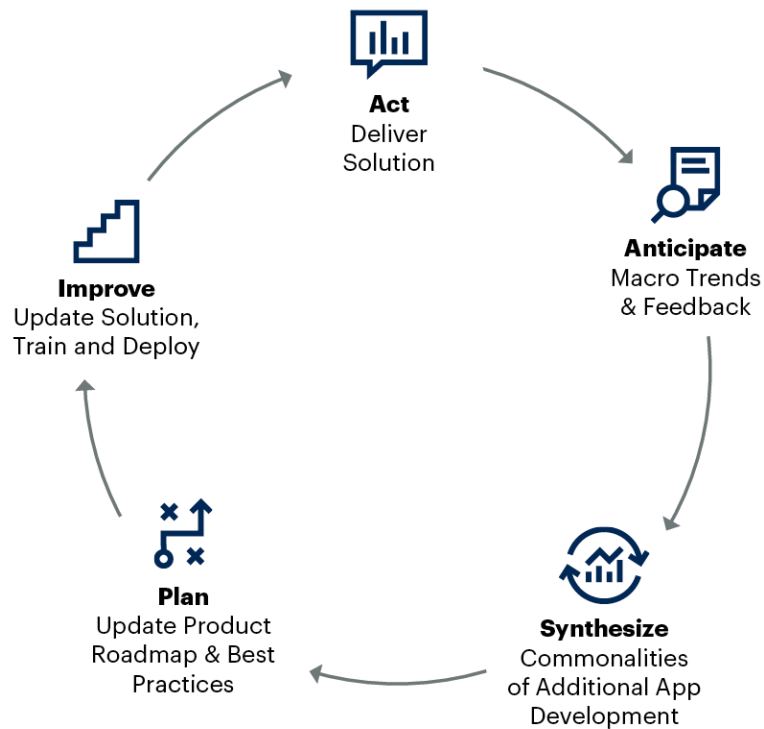
Product and services teams must work in concert with one another. Offering and product managers must remember this is an iterative cycle of activities (see Figure 2) that enables the organization to maximize the effectiveness of its product and services capabilities by:

- Developing reusable IP in their product management strategies
- Finding commonalities between custom app development and initial solutions
- Identifying new product feature enhancements and examples of operational excellence from client, services and market-level feedback

- Training resources, with each new iteration, on updated value to the customer, clear messaging and deployment updates (This gives the services and development resources updated context so they can speak to customers more on their terms.)

Figure 2: Solution Delivery and Development Feedback Cycle

Solution Delivery and Development Feedback Cycle



Source: Gartner
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Build a Business Case for Independent Product-Focused Business Units

IT services and products often go “hand in glove.” IT services companies frequently partner with product companies to provide implementation and managed services, and vice versa. However differences between the operating models, OKRs and KPIs of an IT services organization and those of a product-focused organization often lead to conflict and suboptimal results when the two coexist in an organization.

Such hybrid operating models are fraught with issues that cause confusion, tension and managerial complexity, which, in turn, lead to operational complexity and suboptimal performance. For example, when demand outstrips supply of suitable resources within the services business unit, delivery and commercial management may be tempted to fill the shortage with resources from the product-focused team to generate increased revenue and satisfy customers' requirements. Such actions, while delivering short-term revenue, have an adverse effect on the product business, often delaying development and increasing time to market and thus time to cash.

Setting up product-focused business units or companies to be independent from the IT services business, or migrating the existing services business to providing only technology products, reduces the operational complexity of trying to manage the two streams together. This approach also gives the business an opportunity to report on the budget and delivery success of product and IT services separately rather than leveraging one against the other by, for example, reducing product margin to maintain IT services margin and revenue. Service-offering managers should look to build a business case highlighting these concerns and justifying the benefits of establishing independent business units or companies.

When the organization has both services- and product-focused business units, even as separate entities, the two units should collaborate closely – much in the same way product-focused organizations create centers of excellence (CoEs) within their services organizations that focus on services related to specific products. By leveraging the services organization's customer intimacy, product managers can gain valuable insight into the problems their prospects and customers face, and gain feedback on the product. Additionally, product managers can provide the services team with guidance on market trends and issues that may help their customers, even if they don't utilize the organization's products.

OKRs should be defined for both teams that promote collaboration and prompt both units to solicit or identify sales opportunities for each other. The IT services team should promote the product organization's products whenever ethically possible. Similarly, where a sale is being led by the product organization, it should maximize its use of the services organization for implementation and ongoing operations, as applicable. OKRs should also promote the reuse of assets and continuous feedback among business units.

Evidence

¹ 2020 Gartner End-User IT Services Survey: This study was conducted to understand changes in the buying patterns for IT services after COVID-19 (see Figure 3).

This research was conducted online with an external partner, from October through December 2020, among 732 respondents from organizations with annual revenue of over \$50 million in North America (the U.S. and Canada), Western Europe (the U.K., France and Germany), Southern Europe (Spain and Italy) and Asia/Pacific (Australia, Hong Kong, India, Singapore and Japan). Industries surveyed include banking, manufacturing, communications, media, government, retail, wholesale, insurance, utilities, transportation, healthcare provider and education.

Respondents are director-level-or-higher decision makers or decision influencers in the selection of consulting or outsourcing services for their organizations. They were involved in the selection, evaluation or day-to-day management of at least one of the following consulting or outsourcing services in the past two years: business advisory consulting, technology advisory consulting, staff augmentation, software engineering, IT managed services and BPO.

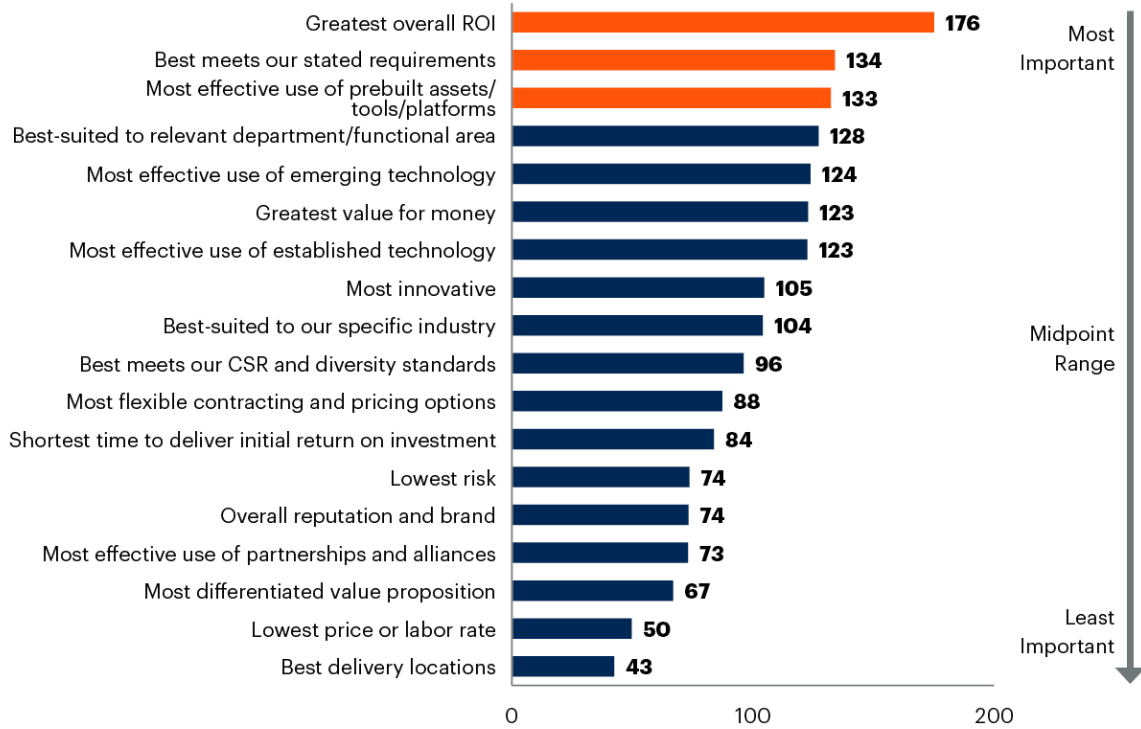
The survey was developed collaboratively by a team of Gartner analysts and was reviewed, tested and administered by Gartner's Research Data and Analytics (RDA) team.

Disclaimer: Results of this study do not represent global findings or the market as a whole but do reflect the sentiments of the respondents and companies surveyed.

Figure 3: Most Important Considerations in a Consulting or Outsourcing Services Provider

Most Important Considerations in a Consulting or Outsourcing Services Provider

Mean Index Score



n = 732

Q: "Of this list, which is the most important and which is the least important consideration in a consulting or outsourcing service provider?"

Source: 2020 Gartner End-User IT Services Survey

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Acronym Key and Glossary Terms

Productization of IT Services	The creation of physical products, based on proprietary IP, that can be sold on their own or as a means to promote IT services and provide differentiation for the provider (e.g., accelerators, methods, frameworks)
Productizing IT Services	Developing repeatable IT service offerings involving a high degree of standardization or commonality; often leveraging IP such as accelerators, methodologies, frameworks and key approaches, to address a defined market need
Continuous Product-Centric Services	An external IT services provider having a long-term contract to supply a multidisciplinary team that builds, deploys and supports software using agile and DevOps approaches
Product-Centric IT Services	The consulting, implementation, integration, management and support services focused on a specific technology product, suite or platform

Note 1: Example Products Created by IT Services Providers

- Accenture Connected Ports – Solution that harnesses IoT to give port operators an end-to-end view of equipment and operations
- Datamatics TruBot – RPA product
- Deloitte ChangeScout – Change management solution (built on the Salesforce platform)
- Genpact Cora – Pretrained AI accelerators for the financial services and life science industries
- PwC Digital Fitness – An app that assesses employees’ digital fitness, identifies gaps and suggests learning programs
- Cognizant BigDecisions – Platform for data management, analytics and AI

Note 2: Financial Returns Associated With Project Services Versus Product Companies

While project services business models typically deliver moderate, incremental growth, product companies often are high-risk, high-reward ventures with attractive gross margins (over 70%) and high-multiple valuations (about three to seven times the investment budgets). (See [Private SaaS Company Valuations: 2019, SaaS Capital](#).)

Note 3: Difference in Approach Between Product-Focused and Services-Focused Organizations

Table 1 summarizes some key differences in approach between product-focused and services-focused organizations.

Table 1: Difference in Approach Between Product-Focused and Services-Focused Organizations

Issues	Product-Focused	Services-Focused
Value Proposition	<p>"What's the business problem you are trying to solve?"</p> <p>Target the solution at a specific problem and customer profile.</p>	<p>"What do you need to be delivered?"</p> <p>Discover customers' unique needs, and devise a range of possible solutions.</p>
OKRs and KPIs	Revenue, Margin, Market Share, CX	Utilization, Revenue, Margin, Market Share, CX
Cost Structure and Cash Flow	<p>"Build-Sell" – Large investments in product planning and development before sales</p> <p>Combination of recurring and product-based revenue (including "close to the product" services revenue – install, configure, train, etc.)</p> <p>Note: Revenue recognition rules may apply depending on the contracting and commercial model used.</p>	<p>"Sell-Build"/Sell-Implement-Run – Investments in resource capacity planning to maximize labor utilization</p> <p>Revenue recognized across the duration of the engagement</p> <p>Project-based, annuity-based revenue</p>
Product/Solution Definition	Based on the business needs of target customer or market personas and validated with the market before investment is approved	Based on the specific requirements of each customer and costed or invoiced accordingly
Technical Resources	Skills aligned with a product's technology and target market or business process	A broad range of skills to serve discovery needs and a range of technical solutions
Request for New Feature or Functionality	Approved or denied based on the impact to the product strategy and the revenue upside potential for the given target market	Approved based on individual clients' willingness to pay and competitive compares
Partners and Channels	Partner with resellers, other product companies and technology services, implementing their products.	Partner with firms supplying variable labor and firms with products to resell or that require implementation effort.

Source: Gartner

Note 4: IT-Services-Related Assets Spectrum

Digital technologies have advanced to enable assets that improve business processes, and many providers are building asset-based solutions (see Figure 4) that leverage these technologies to solve specific client business problems for noncommodity functional and industry processes. These providers have built products and platforms, alongside business process expertise, into ready-to-deploy solutions designed to more effectively manage business processes.

Figure 4: Service-Related Assets Spectrum

Service-Related Assets Spectrum

Asset Type	Asset Type Description	Typical Provider Benefit	Monetization
Products/ platforms	Ready-to-deploy solutions for multiple clients	Revenue or margin	Managed services
			Product license/ support/ subscription
			Consulting and implementation services
Preconfigured Solutions	Assets that provide specific functionalities and are used as part of a solution (e.g., industry-specific functionalities/configuration)	Differentiation	Intellectual property fee
Prebuilt Components			Services revenue
Accelerators	Standards, processes, procedures, toolkits, methodologies, frameworks, automation and reusable code libraries	Productivity, speed or quality	Increased margin

Source: Gartner
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Product Planning Primer for 2021

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