BUILDING THE RIGHT FOUNDATION FOR SERVITIZATION

With rapid innovation brought on by emerging technologies and innovation, manufacturers must differentiate themselves if they are to succeed in a marketplace governed by dynamic customer expectations. The rise of the service-based economy can be an important driver for differentiation, particularly when today's supply chains and product design are evolving based on customer preferences. While manufacturing-as-a-service has been around for several years, many companies that embarked on that path are still struggling to derive value from it. This viewpoint examines the key aspects that manufacturers must consider before implementing a Servitization business model.

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Introduction

The concept of Servitization is not new. Simply put, Servitization is the coupling of service offerings with a core product to add value. The earliest examples of successful Servitization programs can be traced back to the 1960s. Among these are Rolls Royce's 'power by the hour' and Xerox's 'document management' solutions.

Over the years, the challenges, success drivers and trends of Servitization have been extensively studied by academics and industry experts. A 2015 study by the University of Cambridge revealed that while Servitization does create new business opportunities, the bundling sometimes does not deliver expected value[1]. On the other hand, a recent study by Infosys Consulting reveals that the benefits of Servitization include nearly 30% reduction in inventory and logistics costs, and up to 25% improvements in flexibility and responsiveness[2]. Thus, when evaluating the benefits of manufacturing-as-a-service, it pays to look beyond direct revenue growth to how Servitization enables brand differentiation, enhanced customer experience and reduced costs.

The Servitization business model

Implementing a Servitization model requires strategic planning and cross-organization alignment from front to back-end and top management to every employee. Unlike process or technology transformation programs, it mandates fundamental business changes in the organization's core value proposition and service orientation. Here are some critical success factors that organizations must focus on:

Be customer-centric – According to Professor Andy Neely, one of the first people to use the term 'Servitization', "[Customers] don't necessarily want a product. They want the capability that the product brings."[3] This is where the heart of Servitization lies. Companies must tune in to the pulse of customers to understand what they want. Infosys recently published a report examining the challenges manufacturers face when adopting Servitization strategies[4]. According to the report, manufacturers must understand the customer market and its varying needs to build a profitable and sustainable Servitization model. Each service offering must be developed to cater to specific outcomes that customers seek while ensuring high performance and quality delivery. For instance, Small Robot Company, an agri-tech company is supplying farmers with a pay-as-you-go service system whereby farmers use soil monitoring, precision spraying and precision robots to improve crop quality. This model eliminates the need for steep upfront investments and helps farmers increase revenue by allowing them to only pay for the healthy crops[5]. Another example is that of an industrial manufacturer that conducted design thinking workshops with their customers, dealerships and employees to derive key insights into the problems that really matter.

Get senior management buy-in – For years, manufacturers have used a product-based operational model. Transforming the business ideology from products to services calls for an organization-wide change management that infuses Servitization into the corporate DNA. Here, the scope of Servitization goes beyond basic and intermediate services such as repair and maintenance to innovative models that deliver integrated product and service solutions to the customer. For example, Caterpillar, the world leading manufacturer of construction and mining equipment, adopted a new enterprise strategy called the Operating & Execution Model in 2010. One of the values was to

increase customer reliance on Caterpillar's services by providing digitally-enabled solutions and aftermarket care[8]. Caterpillar subsequently developed their trademarked CatLink telematics technology to provide users with connected fleet management solutions and timely data insights into equipment health[9]. By 2018, nearly 700,000 of their engines and locomotives were connected to the cloud[10]. Caterpillar's story demonstrates how strategic leadership from the top is critical to guide an enterprise on its Servitization journey.

Encourage cross-functional collaboration – To enable the products-to-services paradigm shift, manufacturers must carefully plan structural imperatives and foster close collaboration among key functions. Most importantly, it should include every business unit from the front-end and all the way through to the backend to ensure Servitization delivers long-term success. As the focus shifts from selling more products to delivering value-based services to customers, the goal is to offset reduced sales through service-based models that engender greater customer satisfaction. Consider how solar companies leverage pay-per-use models whereby they wholly own solar panels that are installed in users' homes. With innovative pricing mechanisms that allow buy-back options for electricity, homeowners only pay for what they use. This requires strong collaboration across marketing, sales, product design, and field technicians to ensure that product design, installation and maintenance enable superior service delivery.

Leverage IoT for smart and connected products – The Infosys report mentioned earlier highlights the challenge of choosing the right technology and implementing it strategically for maximum value. The onset of the Internet of Things (IoT) has far-reaching implications for transforming traditional supply chains into smart ones. A Forbes report predicts that by 2020, 47% of products will be smart, connected and generating Servitization revenue[11]. Moreover, the use of IoT in discrete manufacturing is expected to reach US $49.85 billion by 2023[12]. With product support being an important aspect of Servitization, embedding IoT-enabled sensors into products can help manufacturers generate a variety of insights that provide tangible value to customers. For instance, product tracking for speedy delivery, provenance data for point of origin, and optimum storage and transport conditions for quality assurance, all play a vital role in creating value-driven supply chains. Johnson Controls, a leading manufacturer of HVAC and industrial equipment has been using IoT to connect systems and products for analytics. Their Smart Connected Chillers offering provides technicians with real-time insights into equipment health to ensure efficient operations[13].

Develop the right partner ecosystem – The services ecosystem comprises several players and it is important for these partners to understand the overarching Servitization vision. Without this, the core value of Servitization – putting customers at the heart of the value chain – will fail to generate the desired outcomes. In future, the scope of collaboration can even extend outwards towards other industry players. In fact, IDC predicts that by 2022, 25% of manufacturers will engage in cross-industry collaboration to drive 10% higher revenue through product-as-a-service models, and progress on this path is already underway[14]. In early 2018, BMW fully acquired DriveNow to offer the latest BMW cars for rental. With a registered user base of nearly 1 million in 13 cities, customers can easily rent a car for a fee that includes fuel and insurance and drop it off in designated zones[15]. Now, BMW and Daimler (owner of another ride-sharing service, Car2Go) have announced a US $1.3 billion partnership to enable mobility through autonomous cars, electric scooters, electric charging and more, thereby increasing their market reach[16].

Conclusion

Manufacturing companies across the globe, whether equipment, automotive, energy or technology manufacturers, are looking for innovative ways to differentiate themselves to customers. Manufacturing-as-a-service, or Servitization, has evolved over the years and is gaining higher prominence in today's services-driven marketplace. To create a winning Servitization business model, manufacturers must aim to be customer-centric, ensure top management buy-in, leverage disruptive technologies for smart supply chains, and develop the right partner ecosystem. Deploying a unified framework that supports these goals will be the winning strategy for manufacturers to achieve long-term success from their Servitization programs.

Authors

Jasmeet Singh - *Executive Vice President, Manufacturing, Infosys Ltd.*

Rajiv Puri - *Vice President, Aftermarket, Manufacturing, Infosys Ltd.*

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