SERVITIZATION: PREPARING THE MANUFACTURING INDUSTRY FOR WHAT’S NEXT

KEY QUESTIONS:

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What does servitization mean for manufacturing today?

P5
Why is servitization such a hot topic and what does it require of my business?

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What are the real and lasting business benefits of servitization?
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Servitization is not a particularly new phenomenon. The term was defined in the late 1980s in an article in the European Management Journal1, but the concept of bundling service packages with products to add value goes back to the 1960s and the innovative, ‘power-by-the-hour’2 concept of Bristol Siddeley, a British aero engine manufacturer later acquired by Rolls-Royce. It offered a complete engine and accessory service that enabled operators to forecast service and replacement costs more accurately and eliminated the need for them to purchase stocks of engines and spares. Yet despite being around for 50 years, it’s only relatively recently that servitization has become a talking point, especially in the manufacturing industry.

Some of the main drivers behind the servitization revival are growing competition at local and global level and the commoditization of products. Margins are being squeezed, so new revenue streams are required. Instead of accepting the ‘received wisdom’ that competitiveness can only be achieved by offering cheaper, faster or better products, manufacturers are increasingly seeing themselves as service organizations, offering total solutions rather than just products. Take Rolls-Royce, for example. Instead of asking its customers what they want (A: ‘aero engines’), it asks them what they want to achieve (A: maximize flying time). So Rolls-Royce offers TotalCare®, enabling customers to purchase the power of an engine while Rolls-Royce delivers the support that ensures the engines deliver power3. In other cases, adding service has been found to result in:

- 5–10% annual increase in service revenue for OEMs
- Maintenance cost reductions of 25–30%
- At least 10% reduction in fuel consumption
- CO2 emissions down by 10–15%

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1 www.sciencedirect.com/science/article/pii/0263237388900333
2 https://en.wikipedia.org/wiki/Power_by_the_Hour
SERVITIZATION—WHY IS IT TRENDING?

A major part of what makes servitization hot today is the emergence of new technologies and capabilities that enable much more advanced and complete service options. The Internet of Things (IoT); advances in sensor and beacon technologies; the ability to quickly convert operational data into real business intelligence through advanced analytics; the ubiquity and range of mobile technologies and devices—these and other innovations are paving the way for a totally different take on the role of the contemporary manufacturer.

TECHNOLOGIES DRIVING CHANGE

So what’s required of manufacturers who want to servitize their business? Like any other major innovation in the industry, servitization means that enterprises will need to confront change to be able to grasp the opportunities it presents. Some of these will be technology-based. A study from the Cambridge Service Alliance in 2015 found consensus among capital equipment manufacturers (CEM) on five key technology requirements to enable servitization in the future:

1. **PREDICTIVE ANALYTICS** to predict specific failure modes
2. **REMOTE COMMUNICATIONS** to resolve issues remotely
3. **CONSUMPTION MONITORING** to create customer-specific service offerings
4. **PUSHING INFORMATION** to employees/customers via mobile platforms
5. **MOBILE PLATFORMS** to access business software remotely for maintenance techniques, product details, etc.

Manufacturers will need to assess the individual value of these, and other, technologies for their operations to ensure medium-term service competitiveness.

RETHINKING THE ORGANIZATION

Servitization comes with a number of organizational challenges as well that may cause manufacturers to question the process. Will it be necessary to invest in new equipment? Do we have the people with the required skill sets to deliver on our service promises? What will adding service entail in terms of new regulations and compliance issues? All are valid issues, and enterprises will also have to learn that, to win new customers by adding service, sales cycles will be longer. Instead of selling wares, they will be selling value, such as lower costs or higher revenue, and that often requires more persuasion. Therefore, among other things, they will need the right enterprise software in place to facilitate this change.

However, these are challenges that companies need to overcome if they are to continue to be competitive in their markets—indeed for some, it will be a matter of survival or not. Yet the Barclay Annual Manufacturing

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* http://cambridgeservicealliance.eng.cam.ac.uk/news/ServitizationTechnologies
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Report 2016 found that only just over 40% of managers saw organizational transformation as an obstacle to increasing their service portfolio—whereas 74% viewed servitization as a means of establishing closer customer relationships. Moreover, 44% and 46% saw it as a source of increased revenue and improved profitability, respectively.

SERVITIZATION IN PRACTICE

Manufacturers that are already reaping the benefits of servitization include players in a wide array of sectors.

Dutch technology firm, Philips, provides one of the world’s busiest airports, Amsterdam-Schiphol, with ‘lighting as a service’. Because efficient LED lamps are highly expensive, the airport authority opted for a servitization package from Philips to provide lighting. In line with its eco-friendly policies, Schiphol airport has reduced electricity consumption by 50% without having to buy a lamp.

Also on the subject of environmental benefits, servitization approaches at MAN Truck and Bus UK have cut customers’ fuel consumption by at least 10% and reduced CO2 emissions by up to 15%.

Xerox makes most people think of photocopying machines and other products. Yet the American global corporation has made a significant shift from a product- to service-centered business model, focusing on business outsourcing, document and digital printing and software solutions. Using these solutions, enterprises such as Reuters report a 19% reduction in total cost of ownership, PricewaterhouseCoopers (PwC) are 100% compliant with security requirements, and the U.K. Department of Work and Pensions have reduced electricity consumption by 36%.

Beijer Electronics, a Swedish-based producer of electronics hardware with markets worldwide, is another case in point. Forecasts showed that within six years, the automation industry’s hardware focus will be transformed and sales growth rate will decline. How, then, was the company to secure its future? The survival path Beijer chose was to add software that helps customers control and manage their hardware. And that’s where the company sees future revenue growth and new business opportunities. One of the tools Beijer is using is a CRM solution from IFS that is integrated with its business software. Among other things, it puts accurate customer information directly into the hands of sales staff, enabling them to tailor offerings to different categories of customers. Beijer is also looking at mobile CRM as a means to speed up information flows and access sound business intelligence in the field. One effect of this is that Beijer’s customers get through-life service that enables them, in turn, to resolve their customers’ problems and create the feeling that they and Beijer are ‘in this together’, thereby encouraging greater customer loyalty.

Barclay Annual Manufacturing Report 2016 states: 74% of managers saw servitization as a means of establishing closer customer relationships.

Philips and Servitization:
Schiphol airport has reduced electricity consumption by 50% without having to buy a lamp.

About Beijer Electronics:
Beijer Electronics, a leading provider of high-tech industrial automation and robust data communication solutions based in Sweden.

Beijer Electronics and Servitization:
• CRM for sales to tailor offerings for customers
• Mobile CRM to speed up information flows in the field.
• Benefit: customers get the feeling that they and Beijer are ‘in this together’.

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6 Ibid.
7 www.ifsworld.com/corp/sitecore/media-library/assets/2016/03/21/14/11/beijer-electronics/
These and other companies that have added advanced services as a means of increasing the value of their offering tend to use some or all of the technologies underlined in the [Cambridge Service Alliance study](http://cambridgeservicealliance.eng.cam.ac.uk/news/ServitizationTechnologies), including predictive analytics, remote communications, mobile platforms and consumer monitoring.

**SERVITIZATION—WHAT'S NEXT?**

Companies that have added service to their offerings, adapted their organizations to enable this and acquired the requisite technology (often in the form of integrated, full-scope enterprise software) have confronted the question of ‘What’s next?—and reaped significant benefits. In fact, adding service contributes to much of what is the very essence of good business, viz. actively looking to the future and seeking to shape it, to create opportunities rather than merely grasp those that arise.

Benefits reported include:

- Enhanced revenue—reported growth between 2x and 4x
- Better margins—increases of 3–10% reported
- Sustainable business growth—increases of up 5–10% reported
- Greater customer satisfaction—they are getting what they want
- More repeat business, greater market share, and a better reputation
- Predictable income streams

For decades, IFS has worked with manufacturers to help them design, make and sell their products. Now, IFS is taking the next step and enabling them to efficiently add service to their offering. Combining a comprehensive suite of enterprise software that covers [ERP](http://cambridgeservicealliance.eng.cam.ac.uk/news/ServitizationTechnologies), [EAM](http://cambridgeservicealliance.eng.cam.ac.uk/news/ServitizationTechnologies), and [service management](http://cambridgeservicealliance.eng.cam.ac.uk/news/ServitizationTechnologies) with [IFS Enterprise Operational Intelligence™ (IFS EOI™](http://cambridgeservicealliance.eng.cam.ac.uk/news/ServitizationTechnologies) and advanced analytics, IFS enables manufacturers to actively take part in the transformation process, giving them the capabilities and insights to make decisions based on real-time statuses to not only meet customer needs but also anticipate them.

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ABOUT IFS

IFS develops and delivers enterprise software for customers around the world who manufacture and distribute goods, maintain assets, and manage service-focused operations. The industry expertise of our people and solutions, together with commitment to our customers, has made us a recognized leader and the most recommended supplier in our sector. Our team of 3,500 employees supports more than ten thousand customers worldwide from a network of local offices and through our growing ecosystem of partners.

For more information about IFS, visit IFSworld.com

ABOUT CORNING DATA

Corning Data has provided professional technical services for nearly 40 years. By Partnering with world-class technology providers such as DSI, IBM, IFS, and Oracle, we offer our customers the world class solutions. And by employing only senior-level talent, our customers receive support and services from true experts.

For more information about Corning Data, visit CorningData.com