

## DIGITISATION AS A STEPPING STONE FOR SERVITIZATION

From streaming platforms, over to mobility and manufacturing, servitization is everywhere. Servitization is when industries switch from selling products to an outcome as a service. This implies that they emphasise the purchase of the service a product provides rather than the product itself. One of the biggest examples in manufacturing is Rolls-Royce. Rolls-Royce customers pay for the amount of time an engine is in flight. Instead of paying for the engine, the client pays for the amount of time an engine stays in flight and is in use. In addition to that, streaming platforms such as Netflix and Spotify are renowned for delivering media as a service rather than consumers having to purchase discs or individual files.

The manufacturing industry, in particular, has immense further potential to servitize their products. In most industries, servitization usually manifests as a subscription model such as a certain amount of money being charged to the consumer to access the service for a set duration of time. Within the manufacturing industry, there are three key aspects of servitization. The first is building and selling a product, the second being after sales servicing and repairs, etc., and the third being the advanced services where customer relationship and outcomes are more central.

The shift towards servitization is a huge change from traditional practices where manufacturers would sell their products and then charge for repair and maintenance work, which is often needed. Such business models are usually not very profitable for clients.

The TotalCare service package offered by Rolls-Royce rents out engines to customers. By monitoring the engines' data, Rolls Royce is able to find out if the engine requires any maintenance which is then carried out when necessary, avoiding any unplanned downtimes of the engine. Through the service package, the gap between customers and manufacturers is easily filled which brings many business benefits to Rolls-Royce.

Caterpillar also provides a great example of how they became a servitized manufacturing company beyond just manufacturing. Cat® Product Link is a service provided to customers where they can track and monitor services remotely. Clients are updated on monitoring the maintenance of the equipment in order to extend the life and reduce

its downtime. To make decisions that boost performance, Caterpillar monitors the assets remotely via data sent from Caterpillar vehicles.

**Digital servitization.** Additionally, digital servitization is also an essential aspect where this concept has taken root. For the manufacturing industry, servitization primarily developed as a way to retain customers and to receive recurring revenue. However, for digital servitization, the manufacturing industry is focused on gathering and analysing data.

The adaptation of digital technology to evolve business models and become more tech-savvy is transforming organisations. Digital servitization is essentially leading the shift from product-focused to a more service-centric business model. More and more companies are making this shift to become less analog and more digital.

No matter how challenging it is for organisations to focus on servitization, a number of businesses are exploring advanced services and the servitization business model. Baines et al., explains the benefits of servitization as a way to grow revenue and profit, improve customer service, innovate the product, gain a competitive edge, and develop new ways to increase revenue.

Though a few organisations have faced challenges of adapting servitization, most businesses have done it smoothly and are benefitting from making the move. Servitization allows companies to improve upon their competitive advantages and develop new capabilities. It also enables them to make a strategic road map towards innovation and development.

The key drivers of servitization are consumer behaviour and their influence on market trends. The growth in communication technologies together with Internet of things (IoT), more and more customers are demanding digital servitization of products.

Smart technologies lead to smarter manufacturing processes that can be also used in agriculture and farming. The shift to servitization provides a competitive advantage for the industries



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making the change. This practice opens up a realm of possibilities for interactions between consumers and producers. This can strengthen the relationship, drive-up sales, and even increase customer retention.

However, the shift to servitization comes with its own challenges. For instance, some firms may insist on holding on to the product-centric approach and refuse to change their business models:

1. In order to change to a more service-focused approach, the organisation structure has to be adjusted.
2. The change in business model implies that a new one has to be developed in its place.
3. Providing services means an added element of customer relationship management.
4. Products need to be augmented with IoT in order to provide smart technologies.
5. The risks of making the shift to servitization also need to be evaluated before a firm is ready to commit to this approach.

The automotive industry is amongst those which recognise the value of servitization as a subscription business model. Daimler has ventured into this area offering subscription pricing for customers to get access to SUVs, coupes, and high performance AMG cars. They regard this as a way to stay ahead of their customers' needs and wants. This explains the popularity of the Car as a Service (CaaS) modelling approach used by companies such as Uber. The standard business model of delivering automobiles has evolved into customers using an app to summon a vehicle, using car-sharing apps along with automotive for deliveries. Tesla is leading this CaaS trend and is becoming a new driving force for the way people utilise automobiles.

The automotive industry is amongst those who recognise the value of servitization as a business model. A business model focused on recurring revenue has the potential to completely transform organisational operations. The most significant change would be the need to focus on after-sales services. These involve searching for ways to improve customer loyalty and provide seamless billing for the ease of customers.

Within the organisation, it will be necessary to ensure that the relationship with external partners such as leasing companies, insurance providers, dealerships etc. is optimised. They can utilise the same vehicles multiple times, repair these at low costs and still manage to offer their consumers a competitive price. By utilising the CaaS model, automobile companies can generate revenue throughout the life of a car. To mitigate the risk that customers do not wanting to subscribe to older cars specialised subscription vehicles will be needed.

The CaaS model has numerous benefits from the customers' perspective. For instance, it allows consumers to enjoy convenience whilst going from one place to another. The consumer can subscribe to concierge services while the stressful components of owning a car such as maintenance, repair, etc., are taken care of by the automobile company. In addition to that, it also offers them the flexibility of having different cars for different occasions. They can change their cars with ease and do not have to be tied down to one specific vehicle.

Furthermore, the purchase of a car is an expensive and

long-term decision with regard to financial commitments. This restricts car ownership to customers with good credit and the ability to access car financing. However, with CaaS, essentially anyone willing to pay subscription charges can have access to a car at their ease. In addition to that, it also offers them the flexibility of having different cars for different occasions. They can change their cars with ease and do not have to be tied down to one specific vehicle.

**Successfully servitizing the business.** In order to successfully servitize their products, the organisation needs to specifically define the consumer process where their product is in use. In addition to that, they must determine the components and other products that are closely interlinked to their own product. After that, they must match the pain points customers are facing to what service around their own product they can offer.

Moreover, it is also important to measure the customer demand and optimise the sales funnel of the digital customer journey. If an organisation is successfully able to servitize its product they can make a case for profitability and enjoy the 10x valuation of recurring revenue.

Keeping all of the above in mind, it is evident that data and insights of customers' wants and needs is the primary driver and requirement for successful servitization. Therefore, organisations have a need to invest in digitisation as well as technological product upgrades. Furthermore, there are benefits to consumers to utilise a servitized product rather than the mere product, as demonstrated for CaaS.

Lastly, to successfully servitize organisations need to gain incredible insight into customer preferences and not just the feature of the product itself. This is where digitisation acts as a stepping stone for servitization.

## References

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