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Servitisation: What it is and how it can transform companies

By Marc Ambasca-Jones

Speaking at a conference in Atlanta in May 2018, Darren Roos, newly installed CEO at enterprise software supplier IFS, talked up the idea that businesses are reshaping their strategies to take a more service-led approach.

He referred to this trend as “[servitisation](#)”, which at first blush might sound like a clumsy marketing term. In fact, it was first used 30 years ago by Sandra Vandermerwe and Juan Rada from the Geneva-based International Management Institute, in their paper, [Servitisation of business: Adding value by adding services](#).

Until now, it’s been very much a manufacturing thing, but there are plenty of noises coming from the likes of GE Digital and IFS, suggesting the idea is now finding root in any product-orientated business.

GE Digital – thanks largely to its \$915m [acquisition of ServiceMax](#) in 2017 – and IFS are both keen advocates of servitisation. They sell the software that helps make it happen, but they are not alone. Enterprise software from suppliers such as Salesforce, Oracle and SAP is also being used to help facilitate changes in businesses that want to take a more service-led approach, and Gartner, in its [field service management magic quadrant](#), ranks them as serious challengers to the domination of IFS and GE Digital.

It’s an idea that has certainly gained impetus, thanks largely to the growing capability of the [internet of things](#) (IoT). As we keep hearing, there will be approximately [20 billion IoT devices in place by 2020](#), and that level of connectivity is giving organisations an incredible amount of data on how products and services are being used, when they are performing well or when they are showing signs of malfunction, and so on.

Such intelligence is worth something and, in field service circles, it’s already being used to provide [predictive maintenance](#) on products – a sort of weird science whereby the technicians can foresee problems and fix them before they happen. That’s the theory, anyway.

A 2017 report from McKinsey, entitled [Industrial aftermarket services: Growing the core](#), found that margin on new product sales is typically 10%, whereas aftermarket service margin averages 25%. For some, these figures may not be particularly enlightening – value-added services have always been good for business. But this is more than just bolting on a few services to products. This is also about using the product as a catalyst for offering customers something bigger and more ongoing. Companies can shift from selling products in isolation to selling, say, a service level agreement (SLA) offering various outcomes.

At the [conference in May](#), IFS CTO Dan Matthews gave an example. He talked about how an air-conditioning (AC) company would traditionally sell AC equipment, but now these firms are moving to selling guaranteed air temperatures. The upshot is that the business works differently. It is centred on achieving this goal. Sensors, connectivity and service become crucial to fulfilling the SLA. It becomes a service-led business. That’s the theory anyway.

It’s an interesting idea, and one that managed to get a few nods of approval from the IFS World attendees in the Georgia World Congress Center, which played host to events such as table tennis, weightlifting and wrestling during the 1996 Atlanta Olympic Games. The attendees were, if nothing else, maintaining a fair-minded notion of sportsmanship when it came to being deluged with IFS messaging.

Swiss packing company SIG prioritises digital service

So, what do companies really think? Is servitisation just a name for improving efficiencies in product maintenance and after-sales services, or is there more to it? Is the technology enabling new business ideas and capabilities?

Christian Alt, director of digital transformation at ServiceMax customer SIG Holding, a Swiss machine firm operating in the packing space, is a devotee. Interestingly, SIG didn't set out to focus on service. It came about as part of the company's overall and digital transformation strategy.

"We looked at [digitisation](#) holistically, not just at service," says Alt, adding that the company employed the services of a consultant who polled customers on which aspects were the most important in terms of digitisation and change. "We had 180 topics, and this was eventually prioritised into six. Number one was digital service."

It led to the company re-evaluating its service and maintenance provision. Alt says that pre-digitisation, the company's service offering was quite conventional and lacked flexibility. It was people-centric and expensive, and was therefore an inhibitor to company growth.

The prospect of [predictive maintenance](#) was, he says, "exciting" for both SIG and its customers, although the integration of an asset performance management (APM) system, a field service management (FSM) system and its current enterprise resource planning (ERP) software was a "new and complex challenge". But this was nothing compared to the people challenge, he says.

Clearly, the future vision of service-led businesses needs software to make it happen, but don't expect it to be plug and play. Alt says it's still early days (SIG has been in pilot phase) and although there have been "surprisingly few issues", he won't be getting live data until the autumn. The roll-out has been steady and he expects to see some benefits from service when the business can analyse the live data. Until then, he says it's about preparing the ground and getting all the SIG staff on-board, at least emotionally.

SIG is some way from being able to analyse the cost benefits of its new system, but customers are already making positive noises. Alt says the initial feedback has been very positive and customers are "excited about the opportunities with Predix APM and ServiceMax". This surpassed even his own expectations.

"We're bringing everything onto one platform," says Alt. "This should help us optimise, not just the business but the whole supply chain."

Despite the slow burn, Alt doesn't seem to have a doubt that this will transform SIG, but it's not in a position yet to start offering outcomes. Certainly, it can improve service provision, not just through predicting machine failure, but also fitting service technicians with the correct parts before they leave the warehouse. With the advent of 3D, or additive, printing, it's even possible to see how this could be improved further. If the predictive system can alert SIG to a potential problem, it can create the part on-site, on-demand, reducing the need for costly parts inventory and ensuring that every service visit is equipped with the right gear.

Going big on digital culture

It's not on SIG's radar at the moment, but Alt acknowledges the sentiment. Machine learning (ML) and [artificial intelligence](#) (AI) will, of course, have a role here too. Processing big data will increasingly become an ML/AI thing anyway, and Alt accepts that. As a [PwC report on predictive maintenance](#) highlighted in 2017, AI is key to helping firms reduce downtime, but the crux of it is culture. It's about changing how people think and work.

"Digital culture is the final aspect to be addressed in our approach," says the report. "In other words, a culture that embraces new, cross-functional ways of working, which allow companies to capitalise on the power of digital technologies. A culture where everyone from the boardroom to the shop floor understands the power of data analytics. Companies with a robust digital culture possess the confidence and ambition to become increasingly data-driven in their decision-making."

This sounds like it could be applied to any business, but what's interesting is that this approach is already creating new business opportunities. The Volkswagen Truck and Bus Group (which is soon to be renamed the Traton Group) launched a digital arm at the end of 2016 called RIO. Last year, the RIO platform went live with the sole aim of helping the trucking industry optimise the supply chain by enabling ecosystems to develop.

RIO CEO Jan Kaumanns says that while [Salesforce](#) software is the enabler, it is not central to it. The company has developed its own solution and integrated with Salesforce. RIO is essentially a portal for the truck industry, from where customers can pick and choose services – third-party service providers will also be able to offer services via the portal.

The bulk of these services are data-driven – everything from truck tracking to driver compliance and vehicle maintenance – and Kaumanns accepts that sensors and connectivity are fundamental to RIO's existence. In essence, RIO is a servitisation business because tech-enabled service is not only at its heart, it is also helping to optimise its customers' service offerings. It is putting the power in the palm of customers, offering choice and building monetisation around it.

“Scaling customer numbers is a priority,” says Kaumanns, adding that to offer breadth across multiple geographic markets, different datasets from different sources have to be combined. “We're not focused on one solution. The customer needs to decide which solution is best for them.”

It's a far cry from the traditional product-based model of after-sales service and maintenance, but perhaps an example of how service is increasingly central to customer thinking. In many respects, we are still at the start. The customer models still seem a little crude, not quite polished – although both IFS and ServiceMax have plenty of customers approaching this from a field service perspective (no doubt a key reason why GE Capital bought the company).

And that's the point. There's more than one approach to this. It's a combination of factors and technologies with big data at its heart. Servitisation, regardless of how you look at it, offers so much in terms of pulling all the loose strands together – FSM, APM, supply chain management and ERP. It can drive down costs and speed up delivery and repairs, and above all, it has the potential to reduce downtime and improve innovation and even sales.

Whatever you want to call it, understanding customers and understanding their products, and making sure those customers are always happy with their products, is, more often than not, a route to profitability.

Read more about servitisation

- Defining your [Enterprise IoT strategy](#) – what does it mean?
- Read about the [outcome economy](#).
- Era of the Smart Factory: [how can manufacturers get to the future quicker?](#)

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