

What does servitization mean to you?

Exploring servitization and what it can do for your business.



Contents

What is servitization?

Asking what servitization means in the wider business community can elicit a wide variety of responses. These range from the brutally honest “I have absolutely no idea” and “A difficult word to spell?” to more educated guesses such as “Selling an outcome, rather than just a product.”

Dr Tim Baines, Professor of Operations Strategy, provides a more knowledgeable answer:

“

Let’s take things from a manufacturer’s perspective. For a manufacturing company, servitization is simply about competing through services as well as products—building its revenue stream through services rather than products alone.”

It's happening everywhere,
in a variety of ways

Well-known names are adapting as challengers enter:

Why should you consider servitization?

Quite simply, to increase revenue, enable growth and maintain relevance.

Traditionally, if you are thinking about increasing revenue, the usual aim is to increase sales of your products, but that typically requires investment in plant, marketing and operational staff. Whereas selling a service in addition to your product or selling the outcome to your customer increases revenue without the capital investment.

In every developed economy across the world, services massively outstrips the goods sector.

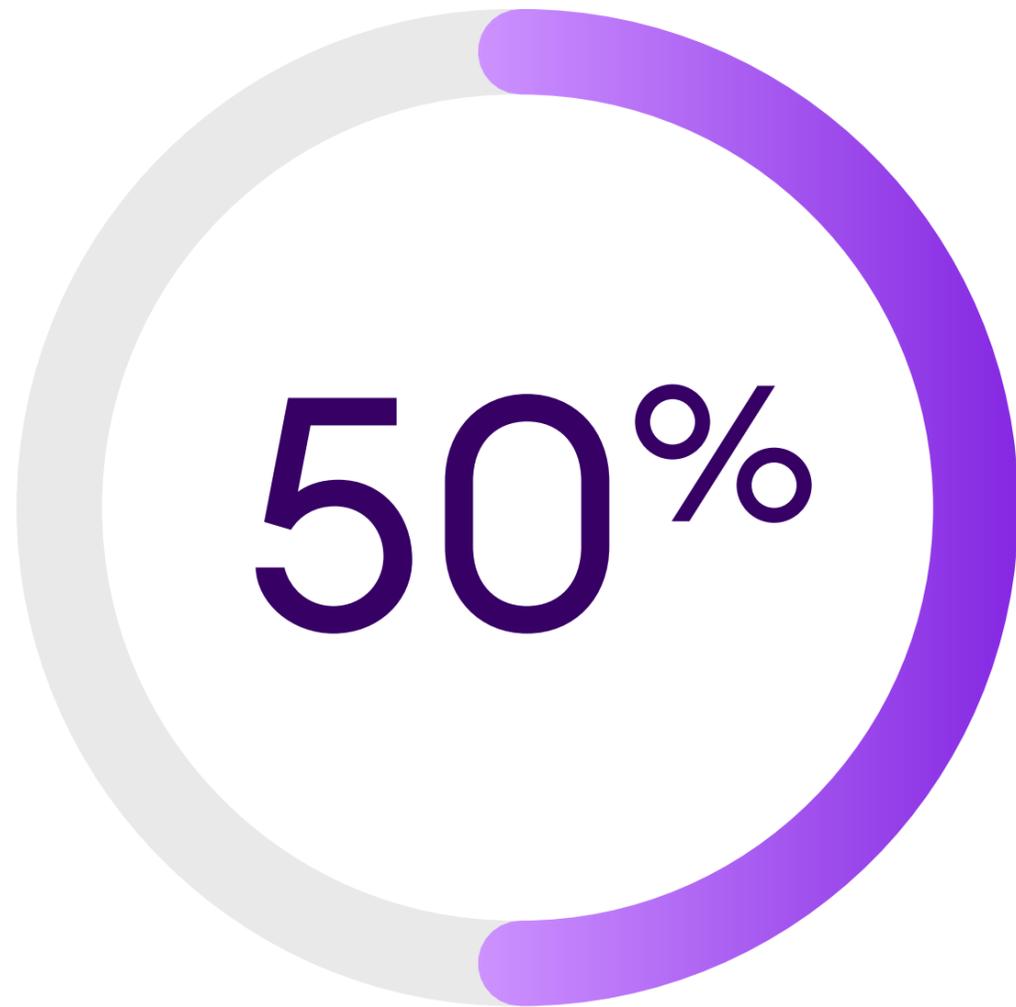
The customer appetite is there, whether they are businesses or end-consumers. They desire:

- Flexibility and reassurance (guaranteed uptime, penalty clauses, defined outcomes, SLAs)
- Quality assurance (automatic upgrades to latest standard)
- Manageable costs (predictable monthly charges with no surprises)

All of which, for you, equates to more long-term, predictable, regular income.

A study by Aston Business School found **5 to 10%** increase in growth rates and **25 to 30%** reduction in costs for companies adopting a servitization model for their business.





of Rolls-Royce's revenue now comes from services rather than just products.



What stops companies embracing servitization?



Watch the webinar to see how to overcome the typical challenges of servitization.

More often than not, the biggest inhibitor is cultural change. There is history and heritage within manufacturing that companies exist to make things, that this is where main revenue is derived and services are an optional bolt-on that provide less significant income.

To get started in servitization in your business you need to think differently and ask yourself: what do my products do? And then ask yourself, how could I supply what they do as a service?

A change of mindset is required, to move the perception of servitization as a threat to an opportunity, and along with it a change of business KPIs and organizational structure.



“

We're selling services?
What about our assets?”

Let's look at the example of Rolls-Royce. When it sells a gas turbine with a total care contract, it always sells the gas turbine—just not always directly to the end customer. It can be sold to a leasing house or perhaps a financing house, who then has an arrangement with the customer for that asset. Complementary services are built on by Rolls-Royce to generate growth and revenue.

The reality that many find difficult is that servitization requires transformation within your company, and this needs to be carefully managed. For example, do you buy in a services company or start from scratch? How will you finance the move from a bumpy schedule to more predictable income streams? And what about skill sets? Where do you retrain and where do you recruit?

The old break/fix model of service provision as a cost to the business changes dramatically in a servitized model. Here, driving usage is critical and an activity for which some companies are using their field service teams. Whether there is a good match of skills, or even the desire to make this shift in orientation for those who can, is a common problem for companies trying to change their business models in this way.

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