



WE CONDENSE INNOVATION

DIFT

DIGITAL INTRAPRENEURS FAST TRACK

EXPLORE



SESSION 3

Business Model

Introduction to Servitization

**We are witnessing the end of
ownership, and the rise of
usership**

Servitization

DEFINITION, BUSINESS SIDE

As stated in the previous video, Vandermerwe and Rada in their "Servitization of business: Adding value by adding services" (1988) defined Servitization as "[...] the increased offering of fuller market packages or 'bundles' of customer focused combinations of goods, services, support, self-service and knowledge in order to add value to core product offerings."

In current jargon, Servitization indicates the process by which a company that produces and sells goods or products transforms them into a **sale of services**. It is basically a **transformation journey** that involves a company which intends to provide services and solutions that supplement its traditional product offerings – hence trying to develop capabilities and skills needed.

Servitization

DEFINITION, USER SIDE

On the other side of the story, servitization is the **shift of users' purchasing behaviors**, from owning things to renting them or subscribing to services that give access to them – hence driving supply of servitized offerings.

Indeed, according to “End of ownership Survey”, by Harris international, 2019:

- 57% of interviewed want to own less stuff
- 70% of interviewed that subscribing to products and services frees people from the burden of ownership
- 74% of interviewed believe that in the future people will own fewer physical goods and will buy more subscription services.

Usership: from product to service

THE PARADIGM IS CHANGING

- Usership is about **experiences**, not products
- **Outcomes** of the service become more relevant than ownership of the product
- **Customization** of a service is more important than buying a standardized product
- Users expect **continuous improvement** of the service, rather than planned obsolescence

Servitization might not be mainstream yet, though is already happening...

Servitization examples

IBM consulting and cloud services

IBM, the famous hardware manufacturer, is also famous because of the revenue shift it generated during the last 30 years, a continuous trend whereby the largest part of revenues are today generated by its Services unit – Business Consulting Services and Cloud Services) – rather than Hardware sale or Software licenses.

Servitization examples

Caterpillar digital services

The famous manufacturer of machines for the mining and construction industry provides its client with a suite of digital services (such as CAT Product Link) bundled with machines sale, allowing for:

- Real time fleet performance measurement and optimization
- Fleet security management
- Building site security detection systems
- Direct access to dealer network

As of today more than 850k machines are connected to the CAT Cloud and the Services business has accounted for 33% of total Revenues in 2018.



**PHILIPS****LaaS**

Servitization examples

Philips Light-as-a-Service

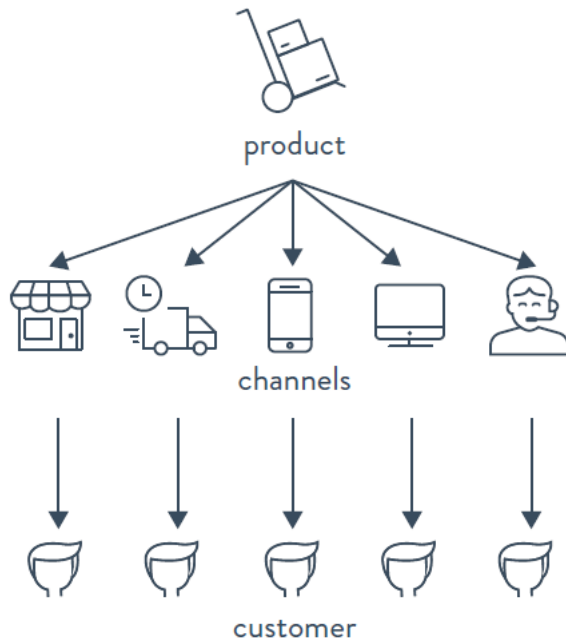
The Lighting Unit at Philips has introduced Light-as-a-Service with the aim to deliver what customers really need and not just sell what Philips produces. Instead of just selling lightbulbs, Philips offers lighting design, installation and maintenance services whereby the client does not own the lighting infrastructure (CAPEX) – it just pays for the services (OPEX) and the continuous update of the asset infrastructure (i.e. in the future new more efficient bulbs will be installed with no additional costs).

The Servitization model explained

A Service is a set of solutions that satisfy users' needs, with high added value, delivered in an experiential way.

Ownership vs Servitization models

OWNERSHIP MODEL



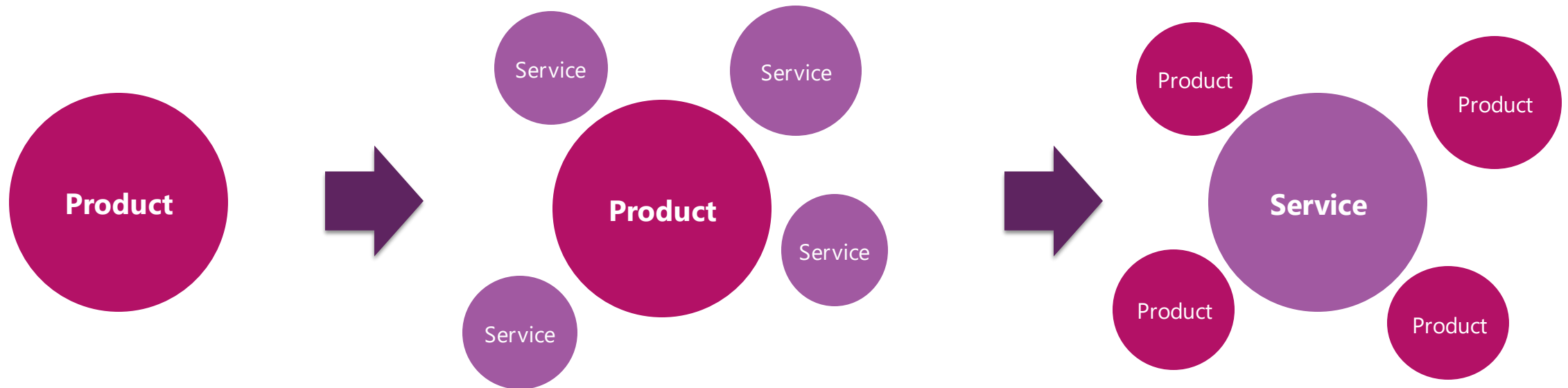
SERVITIZATION MODEL



Ownership model is the traditional one, whereby a product is build, distributed through channels and eventually bought by customer who will own it indefinitely.

Servitization model instead puts experience and services around the customer, who is actually subscriber to a service rather than being owner of a product – here channels only have the role of enhancing the whole experience of the user (from searching for information, to purchasing the service, to its delivery and improvement over time).

Transition from Ownership to Servitization, in 3 steps



1) Ownership: the Company is selling products. The relationship with the consumer is mainly limited to the transaction moment.

2) Midway: the Company is selling products, and provides additional services related to the product as well

3) Servitization: the Company is just selling the service and giving out for free the use of products needed to accomplish the service. The relationship with the customer is continuous over time and revolves around provision of service.

Main changes occurring after transition

BUSINESS MODEL

Shifts from transactional model to subscription / outcome based / asset-sharing models.

PRODUCT DEVELOPMENT

Customers consider maintenance and continuous improvement as given - and included in the pricing as well.

REVENUE FLOW

Flows change from single sale to recurrent. They might be smaller in size but more frequent and solid against shocks.

CHANNELS

Channels are the touchpoints through which the service is provided – they play a role during the whole customer journey, (from search, to purchase, to delivery and improvement over time).

PRODUCT OWNERSHIP

Service provider owns the product throughout its lifecycle. Customer only uses it.

LOYALTY

Customer retention is crucial – business will work as long as customers will be loyal, and they will be loyal as you continuously take care of them.

Make servitization work: a change of approach is needed in each function

	BEFORE TRANSITION		AFTER TRANSITION
PRODUCT DEVELOPMENT	Hit products	→	Never-ending products (stay in BETA forever)
MARKETING	Big blitz launch day	→	Ongoing experience and relationships
SALES	Selling products	→	Selling outcomes/usage
FINANCE	Unit margins	→	Customer lifetime value
IT	Rigid standards	→	Enabling agility

Benefits of successful servitization businesses

- **Revenue growth**

since you are now fulfilling shifted customer needs (usership).

- **Customer retention**

since you are now providing an ever-improving service.

- **Greater resilience**

on the market, since subscription revenue flows are more resistant to external shocks.

- **Scalability**

since in order to grow you don't need to produce more products, but just need to make them available to customers and reach full capacity/use.

- **Environmental and social benefits**

arising from asset-sharing.

How to create a servitization business model

First, identify the driver of your service

FROM ASSET TO EXPERIENCE

Start from of the product asset at your disposal, then try to identify the kind of experience you intend to provide through that asset. Worthless to say, the whole value proposition definition and validation process will be extremely useful in this phase.



ASSET ORIENTED

Provide services that **complete the overall experience** customers have while owning your product, for example:

- bundled added-value services
- consulting services



USE ORIENTED

Provide an asset for use by the customers, for example:

- Asset leasing
- Asset renting/sharing
- Asset pooling



RESULT ORIENTED

Provide assets or services aimed at **creating specific gains** for the customer, for example:

- activity management
- functional results

Choose the right revenue model

ADAPT THE REVENUE MODEL TO THE EXPERIENCE

There are several different models you can apply in order to generate revenues in a servitization business - there is no rigid rule on which to apply though, and no need to stick to one model if it does not fit well with the kind of experience you intend to provide.



OUTPUT BASED

Customer pays based on the output achieved by using the product.



SUBSCRIPTION

Customer pays a fixed periodic fee that is set in advance.



OUTCOME BASED

Customer pays based on the financial results achieved by using the product.



FREEMIUM

Customer pays a fixed fee based on which service/product component she/he decides to use.



USAGE BASED

Customer pays based on the product capacity used.



HYBRID

Mix of the previous five models.

Focus on service quality

PROVIDE BEST-IN-CLASS SERVICES

Once the whole business model is based on providing services, and not product, the approach need to change accordingly: servitization models need to provide trustable, tangible, reactive, empathetic and certified services to a new breed of advanced customers.



TRUSTABLE

Knowledge and courtesy of employees and their ability to convey trust and confidence



TANGIBLE

Appearance of physical facilities, equipment, personnel, and communication materials



REACTIVE

Willingness to help customers and provide prompt service



EMPATHETIC

Caring, individualized attention the firm provides its customers



CERTIFIED

Ability to perform the promised service dependably and accurately

SESSION 3

Business Model