



MANUFACTURING AND DISTRIBUTION

Servitization

A key differentiator and source of revenue
for manufacturers and distributors

infor

TM

Servitization means:

Servitization is turning a traditional product offering into a service. This new customer-centric feature becomes a differentiator, adding value, building relationships, preventing commoditization, and adding profits. Data insights, generated from the Internet of Things (IoT) are often at the heart of the new service offering. Sometimes the new offering is used to generate revenue, replace the old product-centric business model, or be a complimentary add-on designed to boost loyalty. Servitization is one more way manufacturers and distributors are increasing their focus on the customer experience while adding to their bottom line.

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Driving forces behind the trend

Servitization didn't emerge overnight. The threat of commoditization and shrinking profit margins have been gradually escalating for decades as knock-offs, global competition, and automated processes have made it harder and harder for manufacturers and distributors to protect exclusivity or proprietary designs. To stand out from the sea of almost-alike sources, manufacturers and distributors have turned to service offerings as a way to differentiate themselves. And, if they do it right, they just might generate some revenue and build loyalty, too.



Risk of product commoditization threatens margins



Knock-offs and me-too suppliers make it harder to retain product exclusivity



Global competition, often from countries with lower operating costs, bring prices down



Customers, including B2B, are comparison shoppers, turning to ecommerce



Highly demanding customers turn to social channels to voice disappointments



Rising costs of resources make existing revenue models less profitable

“More and more manufacturers are competing through a portfolio of integrated products and services. This is a conscious and explicit strategy for manufacturers, with the provision of product-centric services providing a main differentiating factor in the marketplace. And it’s this which has become known as the servitization of manufacturing.”

Dr. Howard Lightfoot,

Manager of Operations Excellence Institute at Cranfield University

(Salesforce.com/blog, 2017)

A closer look at use-cases

Servitization is more than offering repairs and maintenance or setting up a call center to answer customer questions. Yes, those are often part of the strategy. But, it goes further. Servitization is likely to mean a new business model. Here are some examples:

- Instead of selling or renting road-building equipment, the dealer sells “the ability to finish a road based on the number of miles and timeframe.” Then the dealer provides the tools and equipment to get the job done—most efficiently. This may mean tracking productivity of equipment and crew, safety compliance of operators, and monitoring data which shows prime operating conditions, so efficiency improvement can be made. This data comes from sensors embedded on the equipment and Internet of Things (IoT) technology. That data also helps keep the equipment working by optimizing predictive maintenance.
- Instead of selling feed for cattle, the producer contracts with the farmer to provide “healthy livestock weight-gain” which may involve different products, based on changing herd needs and environmental conditions. Herd health is monitored, using sensors, so that appropriate formulation of food/frequency can be created for each animal.
- Instead of selling industrial light fixtures to a new plant being built, the distributor sells “a continuous supply of sufficient lighting plant-wide for one year.” That means the supplier monitors usage (through sensors), needs, changes bulbs before they go out, and adjusts lighting strength depending on day/time/usage so the equipment and energy are used in an efficient manner.



83%

of manufacturers engaged in servitization said it helps them sell more products

(Source: Barclays Annual Manufacturing Report-2017)

74%

of surveyed manufacturers said their servitization efforts help increase customer satisfaction

(Source: Barclays Annual Manufacturing Report-2017)

56%

of manufacturers identify themselves as intermediate or advanced in their evolution to servitization

(Source: Barclays Annual Manufacturing Report-2017)

60%

By 2020, 60% of G2000 manufacturers will rely on digital platforms that enhance their investments in ecosystems and experiences and support as much as 30% of their overall revenue

(Source IDC Top 10 Worldwide Manufacturing Predictions, Kimberly Knickle, November 8, 2017)

75%

By 2020, 75% of all manufacturers will participate in industry clouds, and one-third of those manufacturers will be monetizing their data contributions

(Source IDC Top 10 Worldwide Manufacturing Predictions, Kimberly Knickle, November 8, 2017)

50%

By 2019, 50% of manufacturers will be collaborating directly with customers and consumers regarding new and improved product designs through cloud-based crowdsourcing, virtual reality, and product virtualization, realizing up to a 25% improvement in product success rates.

(Source IDC Top 10 Worldwide Manufacturing Predictions, Kimberly Knickle, November 8, 2017)

Developing the strategy

In the servitization model, the point of sale is not the end of a transaction, but the beginning of a customer relationship. This business model also provides high margin revenue to the company—as well as ongoing responsibility for product performance and maintenance to the customer.

It can be risky, because it requires companies to take on the responsibility for a product's performance throughout its lifecycle. But, if successful, this can foster stronger relationships with customers.

Outcome-based business models, also known as “as-a-service” models, are a relatively recent trend being used by manufacturers and distributors. Why? It's more complex to own and service a product than it is to just to sell it. Now, new technology supports the more complicated process. With the widespread arrival of IoT technologies, this complex business model is now viable.

“Careful observers of outcome-based models will notice several variations. There are self-monitoring services, which replenish themselves automatically; subscription models, which charge a regular, generally time-based fee; and as-a-service businesses, which provide services specially tailored to your individual and dynamic needs,” says the [Annual Manufacturing Report](#).

The report also explains:

For manufacturers in any complex industries, the outcome based economy is about:

- Bundling products and services
- Getting away from one-time transactions
- Going into subscription-based transactions with a recurring revenue relationship



Tips for getting a service operation started:



Service contracts

The ability to offer, manage, and execute service agreements is a critical element. The manufacturer/distributor must have qualified technicians, tools, a service fleet, parts inventory, and tools for tracking the terms of the agreement



Innovation

The organization must be creative problem-solvers with new ideas about ways to help customers solve their needs, today and well into the future.



Location

In the servitization business model it often makes sense to be close to the customer, even having locations at their facility or in their back yard.



Vertical Integration

Visibility throughout the organization is essential to ensure a broad commitment to putting the customer first, continually improving the customer experience.



Preventive care

The manufacturer/distributor will need technology systems which can monitor machine performance and predict maintenance requirements. Being proactive is the key to keeping the shop floor running without unexpected shutdowns or delays.



Parts and assets in inventory

The service operation relies on the availability of replacement parts, even the slow-moving, or costly parts. Predictive analytics will help forecast demand so excessive just-in-case stock won't tie up capital.



Service-centric workforce

The organization needs to adopt a customer-centric approach which is authentic and technically adept. Skilled service technicians must be recruited and retained—no easy task in today's highly competitive labor market.



Organizational processes

The service operation must be streamlined and ultra-efficient to keep the call desk, service center, and schedule/dispatch operating smoothly.



Sensor-generator data

Internet of Things (IoT) technologies add advanced capabilities, letting the service provider monitor performance of machines or equipment, looking for data points which signal a failure is imminent and can be prevented.

Servitization and the customer experience

A servitization business model often runs parallel with an overall strategy to enhance the customer experience. The customer experience is created from numerous touchpoints, beginning before the customer places an order and continuing after the product or service is delivered. This diagram illustrates the many ways the customer experience can be enriched through technology.

Marketing—A complete view of the customer, sales and service history, upgrade potential, and likely next purchase.

E-Commerce—Online portals for order entry, tracking purchase delivery, entering service requests, monitoring accounts including warranty and service contract status.

Engagement—From configurations tools for customized products to applications that support collaboration and real-time decisions on change orders and product enhancements.

ETO/MTO—Ability to manage the complexity of Engineer-to-Order, and Make-to-Order processes.

Inventory—Strategic plan for inventory of specialized products and ones with short lifecycles.

Service—“Product as a service” and after-market service to keep machines and processes running smoothly, in the plant or in the field.



More resources



Defining servitization and why it matters

This blog post on Manufacturing Matters provides an overview of the servitization trend and discusses why it is important to manufacturers as they move to a digitalized world and customer experience is a top priority.



Infor CloudSuite Field Service

With Infor CloudSuite Field Service, you get a fully integrated, end-to-end solution that gives you advanced service-focused functionality along with company-wide access to data. You'll be able to make the most of your service opportunities, giving you the competitive edge to build solid, long-term relationships with customers.



Equipment Core Blog: Digital tools to enhance the capabilities of technicians

As senior technicians are lost to retirement, dealerships find themselves with fewer, and less experienced technicians to complete the work. Digital tools offer an opportunity for dealerships to enhance the capabilities of their technicians and improve productivity in the shop and field.



Are you prepared for the arrival of the Internet of Things?

The Internet of Things (IoT) provides many opportunities for forward-thinking companies to open new revenue streams and develop new products and services. IoT technologies can have an impact on your sales, marketing, and customer support strategies and boost customer engagement.



Perspectives: The power of customer engagement

Businesses across all industries are undergoing digital transformation and exploring the opportunities presented by the growing Internet of Things. To compete in the digital future, companies need to strengthen customer engagement, deliver positive impact for customers, and develop authentic, meaningful, long-term relationships.



Monetizing the data exhaust

Do you have applications, connected devices, and other systems that create a constant stream of data? Have you thought about monetizing these data byproducts? According to The Economist, 60% of companies are already generating revenue from their data.

The view of servitization from the C-level suite

Servitization offers a variety of benefits and will be valued differently by each of the roles in the organization. It's important to obtain buy-in from the top decision-makers in the organizational structure if you are proposing a new service-centric business model. These profile views will help you tailor your pitch to C-level officers.



The Chief Executive Officer (CEO)

The CEO will appreciate the view of the customer and the opportunities to build long-term relationships. Growth is frequently a priority for the CEO. Servitization provides many avenues for growth, from new revenue streams to building relationships with customers which can continue to expand and evolve as the customer base has changing needs and expectations. Opportunities abound, all stemming from the use of data and the ability to analyze and monetize data.



The Chief Information Officer (CIO)

The CIO will see the value of data generated from sensors and the use of technology to align with customers. The CIO will also appreciate that the use of IoT technology can drive many aspects of operational efficiency and give users the detailed data they have been requesting for years. The Business Intelligence capabilities and streamlined reporting that comes from deploying IoT strategies will have many across-the-board applications—beyond service alone.



The Chief Financial Officer (CFO)

The CFO will appreciate that servitization provides new revenue streams and increases profitability—in an era where margins are very thin and costs of resources are volatile. Service is less susceptible to supply chain issues and availability of resources. Service revenue is largely predictable and it offers cross-sell and upsell opportunities as well. The CFO will be impressed by the amount of sales the service technician can make from the field when acting as the trusted advisor.

Urgency behind the call to action

The digital era is here. Enterprises which are slow to embrace modern concepts risk becoming obsolete. This can happen, seemingly, overnight. Customers today have little patience for organizations which are slow to respond, hold onto antiquated systems, or lack meaningful data insights. For organizations which falter or stumble in the digital journey, there is always another more nimble company which can easily step in. Start-ups, born with a digital makeup are abundant, hungry and, often, quite assertive about usurping marketing share and displacing companies with old-school business models and outdated technology.

How do you get started?

Servitization is just one aspect of a larger modernization and digital transformation process. You need the strategy before you invest in any technology. Working with a reliable, respected technology provider gives you many benefits, from access to experts to help orchestrating the broad objectives, and prioritizing the specific products and applications.



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