SERVITISATION FOR MANUFACTURERS

NUCROFT
TRANSFORMING HOW MANUFACTURERS ENGAGE WITH THEIR MARKETPLACE
CONTENTS

01 What is servitisation?

02 Part 1 Servitisation: Let’s get to grips with it

06 Part 2 How servitisation can grow your business and make you more money

10 Part 3 Are you asking ‘would my customers be interested in servitisation?’

12 Part 4 How to begin your servitisation journey
WHAT IS SERVITISATION?

In the past there were two ways in which you (perhaps the proverbial mousetrap producer) could offer more value to your customers:

1. **Product innovation** - design and build a better mousetrap

2. **Cost reduction** - produce a mousetrap more efficiently

There is a now third way:

3. **Servitisation** - provide a mouse-free environment

SERVITISATION MEANS...

- Instead of only offering traditional products which provide you with a one-off purchase value, you also offer **service-based products**

- Offering service-based products means that you gain a **healthy regular income** without having to worry about how to make that next product-only sale

- Providing services to your customer base not only increases your revenue but also builds a **strong trust-based relationship** with them - this means further opportunities for product or service-based sales with them in the future

WE’RE GOING TO:

- Explain the issues and opportunities surrounding servitisation

- Discuss how servitisation can increase your profits

- Recommend the first practical steps you can take towards servitisation

WHO ARE NUCROFT

Nucroft work with manufacturing and industrial companies to change how you approach your marketplace.

From transforming your branding and marketing communications, to introducing you to innovative new business models and strategies to grow your business.
Servitisation is the biggest ‘big idea’ since just-in-time and lean manufacturing practices emerged in the 1980s and it’s being enabled by various technologies:

• Remote sensors
• Connectivity
• The ‘internet of things’ (IoT)
• Data analysis

It offers you the promise of higher profits and competitive advantages. But you’re probably worrying about the potential implications for your company if you embark on a servitisation journey...

Say NO to choice paralysis - it’s holding you back from increasing your profits

Just as no two manufacturing firms are exactly the same, there is no standardised application of ‘servitisation’.

The range of options can seem bewildering, but confusion is not an excuse for choice paralysis. No manufacturing company should bury its head in the sand in response to servitisation.

To keep your company growing, you need to understand and evaluate your servitisation options, even if that leads to an informed decision to ‘wait and see’. This evaluation must be completed in the context of the customer relationships you currently have along with those you desire to have. The ‘journey’ to servitisation is not one that you should undertake on your own: it should be travelled in partnership with your customers and other partners in your supply chain. This is why marketing and organisational considerations should be at the heart of planning your journey and are just as important as any technological considerations.

Remember:

• Servitisation offers you increased profits and competitive advantages
• Worrying about taking the plunge leads to choice paralysis - which only leads to status-quo and stagnation
• If nothing else, you should at least begin to evaluate your servitisation options within the context of your customers
SERVITISATION: ADDING TO YOUR PRODUCT OFFERINGS

Servitisation shifts the emphasis from equipment ownership and maintenance towards customers receiving outputs, outcomes, and long-term solutions.

This is a service-dominant (SD) logic as opposed to a goods-dominant (GD) logic. Focusing on serving the needs of a particular segment or market niche builds strong relationships between you and your customers. Servitisation should not be seen as an alternative to traditional business and marketing approaches or strategies, but as an enhancement of them within that niche market.

You should still pursue design or production innovation, in addition to the marketing and organisational change that servitisation represents.

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SERVITISATION IN ACTION: WASTE SPECTRUM

Who:
Waste Spectrum manufacture waste disposal incinerators.

Goal:
Avoid competing on price alone for products.

Solution & how:
They adopted a servitisation model by moving to a 5-year leasing plan. Using sensors attached to their equipment, they could remotely monitor their equipment: both how it was used, and to become aware of potential problems before their customers.

How it works:
Customers have the option of leasing or purchasing units, as well as choosing from a range of cover packages offering different parts and servicing options.

This has increased customer satisfaction and loyalty, meaning repeat custom along with the regular subscription revenue, as well as word-of-mouth recommendations. 20% of revenue is now coming from services, and more bespoke support packages are in the pipeline.

Case study courtesy of The Advanced Services Group at Aston Business School.
The key area for advanced servitisation opportunities lies in pursuing a differentiated strategy, focusing on a narrow range of customers:

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<thead>
<tr>
<th>Broad range of customers</th>
<th>Overall cost leadership strategy</th>
<th>Differentiation strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Narro range of customers</td>
<td>Focus strategy (low cost)</td>
<td><strong>Advanced servitisation opportunities</strong></td>
</tr>
<tr>
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<td></td>
<td><strong>Focus strategy (differentiation)</strong></td>
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**OPPORTUNITY FOR GREATER PROFITS WITH ADVANCED SERVITISATION:**

New technology is driving the move towards so-called advanced servitisation, where services such as availability and performance contracts (for example, ‘power by the hour’) are fully integrated into the offer, rather than bolted-on. Lower costs for servitisation technology allow these advanced services to be offered by SME manufacturers, not just large organisations.

Remember:
- Your focus becomes outputs, outcomes and long-term solutions in partnership with your customers
- Servitisation means adding to your product offerings - it will not replace your traditional products
- Your target market for these service-based products will be a niche market
- Advanced servitisation costs are affordable to SME manufacturers
SERVITISATION: SKILLS & RESOURCES

The main challenge of servitisation lies in the marketing and organisational changes required to implement what is effectively a new business model. Servitisation offers great opportunities for higher margin revenue streams, but it also requires far-reaching skill and capability acquisition. It will affect all areas of your business, from Sales and Marketing through to IT, HR and Finance.

New functions and roles will need to emerge in your organisational structures:

1. Unify all the data that was previously held by different functions and departments under the management of a board-level Chief Data Officer.

2. IT moves to the centre of product development, collaborating with R&D and Manufacturing teams. This ensures that connectivity, sensor technology and data analysis are incorporated in new products (also called Development Operations).

3. Customer relationship management (also called Customer Success Management) brings together sales, marketing and service teams to ensure that customers gain maximum value from the additional services they receive.

WHAT IF YOU DON’T ALREADY HAVE THE SKILLS?

You can fill skills gaps in data analytics, communication and consultancy by hiring staff from outside your traditional ‘gene pool’ or re-training existing staff.

Remember:

- You may need to restructure your organisation in order to offer servitisation
- You will need to fill any skills gaps

THE MAIN CHALLENGE OF SERVITISATION LIES IN THE MARKETING AND ORGANISATIONAL CHANGES REQUIRED TO IMPLEMENT WHAT IS EFFECTIVELY A NEW BUSINESS MODEL.
Remote monitoring means less of your time is required, and you can charge for the service

Adapting your product so that you can remain connected to it after it leaves your factory means you can monitor (and could charge for) how your customer uses it. For example, the sensors embedded in equipment will allow you to remotely monitor (and to some extent control) your customer’s operations. Updates and some repairs can also be undertaken remotely.

You can use the generated data to develop further service-based products

The huge amount of data generated by connected products will provide your company with much more detail on how your equipment is actually being used and how this varies from customer to customer. This will allow you to develop more sophisticated service and pricing packages to be targeted at different segments and individual customers.

Using service-based solutions to create closer relationships with customers increases your profit and growth

Servitisation blurs the traditional boundaries between you and your customer, emphasising partnership, co-production and co-creation of services. Customer relationships will become much closer as more information is exchanged over time and on a continuous basis.

Selling and supplying tangible equipment will no longer be an end in itself; what will matter is how that equipment plays a part in delivering valuable outputs, outcomes and solutions. There will be many exchanges: not just of money, but of knowledge and shared experience.

Traditional methods of pricing, based on cost of manufacturing, will be replaced by techniques that charge on availability, performance and outcomes. Forecasts and assumptions will have to be made about future demand and lifetime value. Increasingly, you will have to think about and anticipate the needs of your customers’ customers and the end-user.
ONE (ALMOST) FITS ALL: REDUCING COSTS

Use just one base servitisation system and make bespoke alterations for each customer. This means less cost for you per similar service per customer.

MOVING FORWARD:

Trust is required

There may be some customers who are resistant to the idea of a supplier having access or control over their operations - and this is where trust becomes a requirement. Some customers will be more open than others to the adoption of servitisation. In any event, a servitisation process cannot be imposed on a sceptical customer or bought off-the-peg. It will have to be co-created with your customer over time.

Be aware of the potential pitfalls

By working closely with your customers, you are more likely to hit that sweet spot: successfully supplying services which align with your customers’ demands and capabilities.

SERVITISATION IN ACTION: NICKLIN TRANSIT PACKAGING

Who: Nicklin Transit Packaging design and manufacture bespoke transit packaging products.

Solution & how: Adopted an advanced services strategy which includes condition monitoring. Also offer bespoke packaging design for their customers and consultancy on the financial impact of packaging on their customers’ bottom line.

How it works: Sensor technology monitors the impacts and stresses on packaging whilst in transit in the supply chain. Nicklin improved its packaging design process by using finite element analysis software and now offer a ‘transit packaging optimisation audit’. This helps customers improve stock management, use storage space more efficiently, reduce waste, improve cash flow and overall profitability. This is especially important for customers who operate ‘just-in-time’ delivery schedules.

These additional service offerings have helped to double their turnover and made Nicklin market leaders in their field.

Case study courtesy of The Advanced Services Group at Aston Business School.
There are two pitfalls for you to avoid:

1 Lack of agility: by not providing the innovative services required by your more ambitious customers, who may then switch to suppliers who can.

2 Developing services that more cautious customers are resistant to, not ready for, or do not need – i.e. pushing a solution that is looking for a problem.

Now that you are aware of the potential pitfalls you have the opportunity to avoid them.

The most important thing is for you to take time to create trusting relationships with your customers. They need to believe in you and your brand in order to take a longer-term service step with you. Keep putting customer-service at the forefront. Make sure that you’re honest and worthy of their trust. If you do all this and you haven’t already earned their trust, then it’s certain to come in time when you gain further service-based experience with your more adventurous and trusting customers.

Remember:

- Remote monitoring means less of your time is required, and you can charge for the service
- You can use the generated data to develop further service-based products
- Using service-based solutions to create closer relationships with customers increases your profit & growth
- You can reduce costs by using a single service-based product for multiple customers, changing bespoke elements as required
- Your customers need to trust you in order to embark on a servitisation agreement with you
- You’re now aware of the potential pitfalls, and have the opportunity to avoid them

THE MAIN CHALLENGE OF SERVITISATION LIES IN THE MARKETING AND ORGANISATIONAL CHANGES REQUIRED TO IMPLEMENT WHAT IS EFFECTIVELY A NEW BUSINESS MODEL.
Adapting your product so that you can remain connected to it after it leaves your factory means you can monitor (and could charge for) how your customer uses it.
From your customer’s perspective

Tangible goods, which have already been produced, can be partially evaluated before purchase because they have physical attributes. By contrast, intangible services are harder to evaluate before they are purchased. Services are produced and consumed simultaneously, and this raises the perceived risk from your customer’s point of view.

Customers need to have a great deal of trust in you before they will purchase a product with a high service content.

Co-producing and co-creating services with customers - it’s a partnership

Increasingly, services are offered to customers as a ‘value proposition’, which promises some kind of outcome. They then become a ‘value actualisation’ during usage and consumption by the customer. Therefore, the customer plays an active part in ‘co-producing’ the service; they do not consume it passively. If the customer has also been involved in designing and co-creating the service, then this further increases their involvement in an ongoing partnership. This makes service marketing a much more complex and interactive process compared to traditional sales transactions.

This is an opportunity to build trust, gain knowledge and increase profits

This increased complexity and interaction may present a challenge, but it provides your company with opportunities to build trust and brand loyalty with your customers. In turn, you can use the deeper insights you have about your customers’ needs to influence their purchase decisions and develop additional services for them.
How to Promote Servitisation to Your Customers:

1. Target your more adventurous (and already trusting) customers first. Work closely with them to create tailor-made service-based products.

2. The resulting service product can be used as a base for the same/similar service products (when you strip away the bespoke elements).

3. Use these original customers and resulting service products as case studies to build trust with others by advertising these services both to your less-adventurous/trusting customers and your potential/target customers.

4. Rinse and repeat.

Remember:

- Customers need to have a great deal of trust in you before they will purchase a product with a high service content
- Creating service-based products with your customer is a partnership
- You’re beginning to think about how you can engage some of your customers with servitisation - starting with your most adventurous customers with whom you have already built a trusting relationship
- Other customers will follow - they’ll come on board when they trust you and you’re able to prove the value of servitisation to them

Servitisation in Action: Mechatronic Solutions

Who: Mechatronic Solutions are a provider of automation equipment to manufacturers.

Solution & how: They designed SCS - a Service Credit System. Future advanced services will include leasing of machinery for functional use by the customer, with Mechatronic taking care of any problems.

How it works: With SCS, customers purchase a block of credits & ‘cash-in’ these credits for required services: installation, training, routine maintenance, diagnosis, repair & reconfiguration of machinery. This provides choice and flexibility for customers. Future advanced services will include leasing machinery combined with a complete service package - all included in a monthly subscription for the customer. This has significantly contributed to the company’s growth in the 5 years.

Case study courtesy of The Advanced Services Group at Aston Business School.
What should you do to assess, approach, agree and adopt the best form of servitisation for your company and your customers?

**ASSESS**
You should look carefully at your existing customers and score them on these dimensions:

1. Levels of trust and closeness of relationship – will they listen and understand both the benefits and the implications of extra services?

2. Capabilities and attitudes towards innovation and risk – will they be active partners on the journey, willing and able to co-create new services?

3. Extent to which servitisation would benefit their customers – will it enhance their offering and how will it affect the value chain?

The aim is to identify your best customer to work with on developing and testing a new service. Only a customer who currently scores highly on all 3 of these dimensions should be considered.

Some initial ideas for service concepts should be generated. What services could be developed and what would be the approximate costs and benefits? Which services would have the most positive impact on profitability for the manufacturer and added value for the customer? What technology would be required and how would it impact both organisations? How will the service change your brand and market position?

**APPROACH**
At this stage, it is important to remember that servitisation cannot be just ‘sold’ to your customer like another transaction. The concept must be introduced as an opportunity for both of you to work together on developing new activities which will change the nature of your relationship and quite possibly the business models that both of you use. This will require high levels of trust and a wide network of communication involving a range of departments discussing additional dimensions, such as operations, data analysis, and service outcomes.
The servitisation journey requires a long-term commitment on both sides. Whilst there may be some difficult challenges, it’s also an exciting opportunity for you to grow together. Both parties must be prepared to learn and may need to acquire additional expertise from outside or develop it from within.

**AGREE**

With agreement from your customer to embark on the journey, the service new product development (SNPD) process can move to detailed concept development. This involves drawings and flowcharts (known as service blueprints) which clearly describe the process of the service and its outcomes.

This is an iterative process, with feedback from all stakeholders (suppliers, manufacturer employees and customer employees) contributing to the design of the ‘service architecture’, so that there is clear understanding and agreement on all sides about what the service is, why it is being developed and how it will work. Key performance indicators must also be agreed. Wherever possible, some modelling of the process should be carried out to test and improve the concept, before full implementation.

**SERVITISATION IN ACTION: HAIGH ENGINEERING**

**Who:** Haigh Engineering is a manufacturer of maceration machines for the health sector and bespoke screening and waste separation systems for the waste water treatment sector.

**Goal:** Move to regular income from services rather than just the one-off payments for the equipment.

**Solution & how:** Implementing service contracts with their customers. Proactive maintenance is included which improves the performance of their machines as well as identifying potential problems before they occur.

**How it works:** They are now enhancing the service by including internet-connected sensors in their machinery to remotely monitor performance, which improves product performance and reliability. They receive regular payments from their customers for this service. This counteracts the cyclical changes in demand for products by providing a steady reliable income stream. Haigh now stands out from competitors due to their reliability and strong customer relationships. Their specialist knowledge and use of data gives them the edge, leading to their service-based revenue increasing significantly.

Case study courtesy of The Advanced Services Group at Aston Business School.
ADOPT

With agreement on the detailed service concept, implementation plans need to be developed which will physically realise the service. This will include specifications of supporting goods and infrastructure, training needs, and so on.

When the service is rolled out, there should be a continuous process of testing and learning, with feedback from all stakeholders. Once the service has been proven, then opportunities for further rollout (with the initial customer and others who would also benefit) can be explored.

Remember:

Follow the ‘4 As’ for developing service-based business opportunities:

- **Assess** - identify your best candidate customer to work with, and generate some service-based product ideas for them

- **Approach** - don’t go for the hard sell: this is a transformative journey and an exciting opportunity for you and your customer to grow your businesses (and profits) in tandem

- **Agree** - be clear and precise during the SNPD process, generate KPIs, then move to the modelling stage of the process to test and improve the concept

- **Adopt** - develop thorough implementation plans, continually test and learn, and use the feedback to improve the service-based product

- Implement the service-based product with the customer

- Investigate opportunities to use this service-based product (you may need to change bespoke elements) with other current and potential customers

IDENTIFY YOUR BEST CUSTOMER TO WORK WITH ON DEVELOPING A NEW SERVICE. THE CONCEPT MUST BE INTRODUCED AS AN OPPORTUNITY FOR BOTH OF YOU TO WORK TOGETHER ON DEVELOPING NEW ACTIVITIES.
SO... NOW WHAT?

Servitisation offers you increased profits, competitive advantages, and better relationships with your customers. It requires you to work closely with your customers in order to achieve mutual goals, creating long-term partnerships and opportunities for business growth and a reliably regular healthy income.

Your traditional products will remain, but you’ll be offering added value and establishing yourselves as experts in your market by creating service-based products which provide solutions to fulfil the needs of your customers and grow their businesses alongside your own.

Establishing trusting relationships with your customers is key here. The customers who don’t already trust you will be excited to venture into service-based products with you if you can prove you have already undertaken successful servitisation with other customers.

So, begin with your most adventurous customer who trusts you the most.
All you need to do is create one successful service-based product for that customer; this will begin the chain of events to business growth and extra revenue.

You can then use that one service-based product, remove the bespoke elements, and roll it out as a base product for your other customers. The costs are much less at this point, as the planning and development work have already been completed.

You just need to tailor it to each customer as required. At this point you should also begin promoting it to potential customers to increase your customer base.

When you have successfully supplied a customer with a service-based product they will become more receptive to creating further similar projects with you. This begins a pulsing circular process of creating new service-based products with particular core customers, and then rolling them out to your wider customer base at a much-reduced cost to you.

Each stage grows the relationships you have with those customers, creates further opportunities to grow the business they give to you, and allows you to provide those service-based products to other current and potential customers; meaning a potential explosion of growth to your business and profits.
CREATE. PROVIDE. CASE STUDY. ROLL OUT TO WIDER CUSTOMER BASE. ATTRACT NEW CUSTOMERS.
Seizing the Servitisation Opportunity - Half a Day with Our Experts

Identify your specific opportunities for servitisation and the route to finding them with the help of a half-day strategy session with our experts David Pannell and Mark Prince. They will gather with your decision-makers to enable a strategic view of your servitisation opportunities alongside how it will promote business growth.

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