



CLOSE RELATIONS

by Malcolm Wheatley



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Close relations

Even for a major hospital, buying a treatment machine from Swedish-headquartered global high-technology manufacturer Elekta is a significant undertaking. As a long term investment, its radiotherapy and radiosurgery machines require rooms to be specially built for them, equipped with extensive radiation shielding.

But it would be a mistake to imagine that Elekta is yet another example of a high-technology manufacturing company focused solely on selling hardware. Instead, says **Elekta's remote services programme director, Daniel Kingham**, the company is in the midst of a transformation program with a clear focus on areas with significant growth potential, such as service, software and image-guided radiation therapy.

"Basically, as we have grown as a company, we have moved from being a hardware sales company to a much more service-driven business," he sums up. "Today, recurring revenue from software and service opportunities makes up a significant proportion of our overall business revenue, ensuring we provide an ecosystem of hardware, software and services, with the core equipment at its heart."

There is a word for such a transition, and such a business model: servitization. Vaguely defined, it essentially embraces the selling of *services* by manufacturers, as well as *products*.

At its simplest, those services can be simple aftersales maintenance and repair offerings, for instance. But increasingly, manufacturers – and especially manufacturers of large, complex products – are seeing in servitization the potential to adopt new and competitively disruptive business models.

Automated replenishment, automated monitoring, and automated remote management, for instance: thanks to the Internet of Things, we can have intelligent devices 'calling home' when consumables need topping-up or replacing, or when maintenance is required.

Similarly, who knows a product best: those who operate it, or those who designed and built it? To some manufacturers – as we will see – servitization means the remote monitoring of equipment, diagnosing potential faults or suggesting fine-tuning tweaks to enhance performance.

At its most extreme, perhaps, is the 'payment by usage' model, pioneered by aero engine manufacturer Rolls Royce with its so-called 'power by the hour' package, where airlines in effect rent aircraft engines from Rolls

Royce, paying for them on the basis of the hours that they fly.

"Servitization is a journey, just like lean manufacturing," says **Tim Baines, professor of operations strategy, and director of the advanced services group at Aston University Business School**, and a leading proponent of servitization. "It's all about mitigating costs, risk, and disruption for customers through bolt-on services rather than products."

Nor do the benefits solely accrue to a manufacturers' customers, of course. Not only do those services represent additional revenues, but they also usually comprise a smoother, more predictable income stream, as well. Moreover, in highly competitive equipment markets, aftersales services can be far more profitable than the core business of equipment manufacture. Finally, in times of economic adversity, when sales of pieces of large and expensive equipment might be difficult, servitization's potential to deliver a 'pay as you go' pay-by-usage model is attractive to customers and equipment manufacturers alike.

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At Elekta, one driver of servitization is that the business can see it happening in other industries, says Kingham. Another, he adds, is that customers are starting to ask for it, especially as a wave of healthcare provider consolidation sees individual facilities merge with others or operating under a managed healthcare provider.

"It's becoming a competitive differentiator," he sums up. "We're becoming a much more service-focused business, building richer relationships with customers."

Midlands-based MNB Precision, for instance, is building just such relationships, having embarked on a servitization journey that aims to – literally – meet its customers’ needs from a suite of offerings brought under a single roof. In the process, it has in-sourced finishing capabilities such as shot-peening, EDM drilling, and spark erosion that formerly outsourced to third parties, and strived to deliver a ‘one stop shop’ for customers looking for an end-to-end service.

“It’s about us getting involved with customers’ early R&D, design, and ideation processes, and discovering what the customer wants to achieve in terms of material, finishes, and tolerances,” says **MNB managing director Luke Benson**. “And then, having everything that we need deliver on that promise located under one roof – our own – so that we offer the customer a service stretching from initial concept through to production and shipment.”

Another driver behind servitization is the emerging data connectivity capabilities stemming from the Internet of Things and the Industry 4.0 paradigm. It’s these technologies, for instance, that actually underpin the automated replenishment, automated monitoring, and automated remote management services that an increasing number of manufacturers are bringing to market.

“There’s a much greater availability of data, but it’s complex to analyse and interpret, and customers need closer links with the manufacturer in order to acquire that understanding,” notes **Max Roberts, UK & Ireland regional vice-president for manufacturing at customer relationship specialist Salesforce**. “As a result, manufacturers are seeing that there’s potentially a very attractive revenue stream on offer, and that servitization is the route to capturing that revenue stream.”

At innovative washroom hand-drier manufacturer Savortex, for example, the Internet of Things is not only being used to help corporate customers track washroom usage – thereby enabling them to match cleaning to actual hour-by-hour washroom usage – but also deliver real-time messaging via a built-in high-definition screen. The messaging in question, says **Savortex’ managing director Syed Ahmed**, can be either firms’ internal communications, or revenue-earning external advertising.

“Manufacturers have traditionally wanted to sell a product and move on, whereas servitization calls for a different mindset,” he observes. “They have to think in terms of a service-driven business model, not a transaction-driven business model, and that will take some time to bed in.”

Moreover, replacing that transaction-driven business model with a more service-centric one can allow a manufacturer to grow more quickly, especially when attempting to sell expensive pieces of complex equipment to a market that is either cash-constrained

or risk averse. Consequently, servitization is precisely the approach being adopted by rice milling machine manufacturer Koolmill Systems, which has developed an innovative low-power, low-waste milling process for rice.

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Jan Godsell, professor of operations and supply chain strategy at the University of Warwick

“3.5 billion people eat rice daily, but millions of tonnes of the global harvest is thrown away or damaged during traditional milling process,” says Koolmill managing director Alec Anderson. “Our equipment enables rice milling businesses to obtain five tonnes of saleable rice from eight tonnes of harvested crop from the paddy field, as opposed to obtaining five tonnes of saleable product from 10 tonnes of harvested crop – and to do so at a higher quality, using less water and less power.” But rice millers in Asia – often small, family-owned businesses – can be slow to see the advances of Koolmill’s technology, preferring to stick with the traditional technology that they know. The answer: servitization, with Koolmill not only supplying milling machines, but maintaining and repairing them, and taking them back at the end of contracts, ready to be stripped down, refurbished, and sent back to another rice miller.

“The idea is to use servitization to reduce the perception of risk, enabling milling businesses to get the benefit of advanced technology without any downside – they can pay by the hour, or by the tonne of milled rice produced,” he explains. “Servitization changes the business proposition, by building a service-based relationship which makes it less risky for a rice miller to make the choice to go with our technology.”

According to those close to servitization, the ‘R’ word – relationship – is one that is difficult to avoid for those businesses seeking to successfully adopt the strategy.

To begin with, a one-off product-centric transaction is replaced or supplemented by a whole series of service

transactions, and moreover a series of transactions with potentially different customers within the customer business. While a piece of equipment might be sold to a customer's manufacturing function, for instance, its maintenance might be bought by the customer's engineering or facilities management function, while its consumables would be bought by the customers' procurement function, in the normal way of business.

"The skill set required to manage these relationships over the long term is completely different from the skill sets required to build the buyer-seller relationships involved in one-off equipment sales," says **Richard Wilding, professor of supply chain strategy at Cranfield University School of Management**. "First, that involves a recognition that business success isn't about a series of short, successful sprints, but is more akin to winning a marathon. Second, it involves recognising that this involves building multi-level relationships that stretch right across the two organisations, buyer and seller. And third, it involves recognising that the services involved may well be what the relationship is founded upon, and so shouldn't be regarded as somehow subsidiary; the product becomes the qualifier, and the service is the competitive differentiator."

Back at Elekta, remote services programme director Kingham affirms that servitization is definitely having an impact., he explains, the company has invested in a service excellence capability to match its pre-existing product excellence.

"There's no doubt that we are engaging with customers differently, and to do that we have had to focus. We now have dedicated customer experience professionals, for instance, and have moved from expecting customers try to contact local engineers when they require assistance, to a handful of worldwide customer support centres that can manage a majority of customer issues in local language far faster and often resolve them remotely. In addition, we've invested in our remote monitoring capability so that potential problems predicted and prevented."

Tony Chapman, general manager for customer services at Siemens' Digital Factory and Process Industries and Drives division, concurs. Siemens, he relates, operates a servitization business model in respect of large industrial customers such as glass manufacturer Pilkington, delivering energy savings through capital investments in

both Siemens and non-Siemens production equipment and factory infrastructure. Funded by Siemens Financial Services in terms of the initial capital expenditure, customers then pay a monthly charge based on the savings reaped from its reduced energy consumption.

"It's not about selling products," he emphasises. "It's about understanding customers' needs, and then talking to finance directors, energy managers, and chief executives to construct a package of investments that deliver on those needs. Regular performance reviews between us and the customer – to review the achieved savings – are vital, and if senior-level understanding and buy-in aren't present, then we wouldn't go ahead; the quality of the relationship is paramount."

That said, warns **Jan Godsell, professor of operations and supply chain strategy at the University of Warwick**, those customer relationships need to be flexible enough to deal with both servitized and non-servitized customers.

"Not every customer will want to be locked into a servitization relationship with a supplier – even those customers that can see the benefits of it," she stresses. "A successful servitization strategy involves being agile enough to offer servitization to those customers who want it, and retaining the ability to transact traditionally with those who don't. Different customers will want different things, and manufacturers need a business model that reflects this."

Moreover, adds **Barton Goldenberg, an author, speaker, and Customer Relationship Management (CRM) advocate and pioneer**, manufacturers need to give careful thought to how to leverage those customer relationships in order to continually build and enhance their service excellent proposition. And for manufacturers coming from a purely transactional background, he points out, this can prove to be a difficult proposition.

"There's a tendency to say, 'Yes, we know what customers want'," he observes. "But usually, they don't. And by not taking the time and trouble to actually find out what customers really want – and engaging with them to build that understanding – the danger is that they'll do a terrible job. Which is a mistake, because while products are relatively easy for competitors to copy, copying a service is much more difficult, because it's harder for competitors to see the inner workings."

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As Goldenberg sees it, there are three critical customer relationship agendas for manufacturers embracing servitization.

The first is to develop that 'many to many' relationship between the manufacturer and the customer: the customer will want to interact with a wide range of people within a manufacturer – R&D, aftersales service, operations, and so on – and not be restricted to engaging solely with the sales function.

The second is to leverage technologies – both existing and emerging – to facilitate the communication and data capture process. For a 'many to many' servitization relationship to work, it's vital that the manufacturing business has a holistic view of its individual relationships with the customer, stresses Goldenberg. Whether it's customer-specific portals, CRM systems, social media, 'branded communities' or the Internet of Things, "it's obvious that technology can help," he sums up.

And third, he emphasises, it's not a one-off process. Instead, he characterises the required relationship-building as a closed loop, continually reinforced by customer insight and reaction, with relationship-owners within the business sharing information and views on how to progress.

Aston University Business School's Baines concurs, arguing that especially in the context of large and complex equipment, where servitization involves the provision of advanced services, customer relationship success depends on people and technology working in tandem.

"The challenge lies in developing and maintaining a high level of customer intimacy, and this has to happen

in the form of interactions between people – people at the buying organisation, and people at the selling organisation," he points out. "And the more that this interaction is supported by appropriate systems, the better it will work. What sort of system? As a technology, ERP has some potential, but there are gaps. If it's a choice between ERP and CRM, then it has to be CRM, because CRM better supports the customer intimacy paradigm."

More than that, adds Salesforce's Roberts, CRM operationalises that customer intimacy, delivering a consistency of data right across the business – across different segments, geographies, and revenue opportunities, thereby providing opportunities to benchmark and compare the efficacy with which servitization and other strategies are pursued from a sales point of view.

Moreover, he adds, CRM in conjunction with that consistency of data provides a 'glue' that enables manufacturers to restructure their sales teams, eliminating some of the inefficiencies and duplication that occur when multiple sales personnel, from multiple parts of the business, are selling to the same end customer.

And finally – and most compellingly – time and again CRM is shown to increase selling effectiveness, and therefore sales.

"With the better availability of time and data that CRM provides, businesses can market themselves more effectively, sell more effectively, and plan campaigns more effectively," he sums up. "The result: a higher level of sales, from the same level of actual sales activity,"

MAX ROBERTS *interview*

Few manufacturers would contemplate a servitization-based business model without a ERP system. But many might contemplate it without a CRM system, concedes **Max Roberts, UK & Ireland regional vice-president for manufacturing at customer relationship specialist Salesforce.**

Yet in doing so, he argues, they're probably making a mistake – a mistake that might well torpedo the whole initiative.

"Servitization is a complete contrast from building products and moving them out of the door," he stresses. "It's about building and sustaining long-term relationships, generating revenue in a very different way. To succeed, manufacturers will need different skills, different business processes, and a different mindset. And in the same way that ERP provides the functional underpinning for the business's

manufacturing operations, CRM provides the functional underpinning for its servitization operations."

That said, he acknowledges, it can be difficult for some manufacturers – especially manufacturers operating in a B2B environment – to see and understand the business case.

"In manufacturers specialising in large and complex products, management ranks are usually top-heavy with engineering skills: they understand the product, and they understand the technologies involved," he explains. "But the servitization of those products is a very different matter, and far less technically complex. It's about customer service, spotting revenue opportunities, maintaining consistent dialogue, and anticipating customer needs. And how do you do that – and do it to a standard acknowledged as excellent? The answer is CRM."

CASE STUDY: KOENIG & BAUER

Germany's Koenig & Bauer (KBA) is the inventor of the printing press and today the global leader in banknote and security presses, the global and technology leader in large format sheetfed offset presses for packaging and newspaper printing and systems for glass and metal decoration.

Known for its focus on building long-term customer relationships, the business was an enthusiastic adopter of Salesforce's CRM technology, with a worldwide rollout linking KBA's global network offices, providing a single holistic view of each customer and prospect.

More recently, says **Thomas Goecke, Head of Marketing & CRM at KBA Sheeffed Solutions**, KBA has extended that single holistic view to the actual printing presses in use by its customers around the world, using Internet of Things technology to remotely monitor printing press performance, and making the data available within its Salesforce CRM system. Multiple KBA personnel then make use of that same printing press-centric view, helping the customer boost printing performance.

For by remotely analysing the data in question, explains Goecke – data such as average printing speed, average length of print run, maximum printing speed, set up time – KBA's service engineers can make detailed suggestions as to how to raise printing speeds, or reduce downtime.

"An increase in average print speed of say a thousand sheets an hour can make an enormous difference to a printer's revenues and capacity utilisation, but without a detailed understanding of the bottle necks in his production, it can be difficult for customers on their own to achieve performance," he points out.

Moreover, KBA operates a benchmarking service, he adds, providing customers with anonymised 'like for like' comparisons of the printing performance achieved by different customers using the same printing press within the same market segment.

"We do all this because increasingly, printing presses are becoming commoditised," observes Goecke. "We have to excite the customer, engage with them differently, and engage with them much more comprehensively than we could in the past. It is easier than ever for customers to switch suppliers, and our service offerings help us to both add value and differentiate ourselves."

Moreover, he adds, the service offerings also change the nature of the relationship that KBA has with its customers, to the mutual benefit of both.

"We strongly believe that servitization will help us to blur the boundaries between equipment sales and services, enabling us to both better serve our customers and make them more successful," he explains. "It's a paradigm change; now, customers don't just talk to our service engineers when things go wrong, they also talk to them when things are going well – because the data that is captured can help things to go even better."

And the key technology that delivers this, he emphasises, is KBA's Salesforce CRM platform, which provides the customer-centric and printing press-centric views that allow KBA's sales personnel and aftersales service engineers to see and action revenue-earning activities.

"The system of record is our ERP system, but the system of engagement is our Salesforce CRM system: in other words, it's Salesforce, and Salesforce CRM, that actually enables us to unlock the opportunity that a service-based offering provides."

