Servitization & Controlling – Insights from the ICV Think Tank

Every year, the Think Tank of the ICV (International Association of Controllers) asks its members for trends as well as underserved topics to address and develop its annual topic. This article deals with this year's main topic, "Servitization & Controlling."

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Challenges of controllers associated with a business model shift toward servitization: What are the costs incurred in delivering a service on top of a product? How should this service be priced and billed? How is success measured? When confronted with service-based business models, companies historically focused on products often need to rethink the applied controlling concepts.

Servitization describes the change and enhancement of product-based business models through various forms of services (Klein, 2019). While such models are still rarely addressed from the perspective of controlling, they are becoming increasingly important as digitization becomes more widespread. With the changes inherent, not only are business models transformed, but also how they are measured and controlled. As business partners, controllers have to help management to address changed cost objects and structures, as the boundaries of fixed and variable as well as direct and indrect costs blur in service environments. Another challenge ahead is profitability and marginal cost analysis (Cinquini & Tenucci, 2011, p. 11). Controllers must drive the change and use their business and data understanding to steer the upcoming business models with the right concepts.

The Think Tank develops its results by combining application examples from corporate practice to support the academic findings of the ICV.

Various business models require an array of concepts in controlling. One example of such a business model is the subscription model.

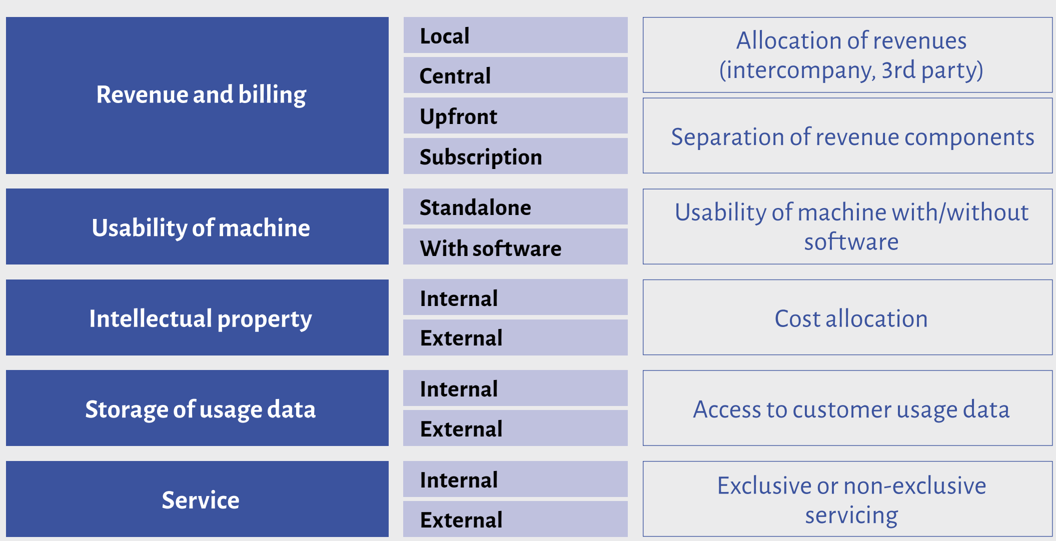
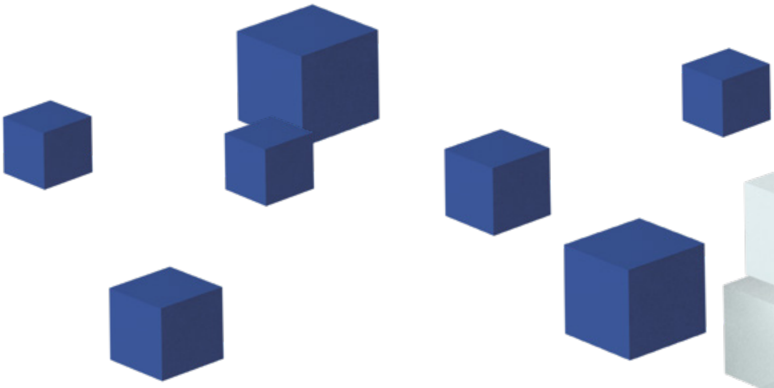
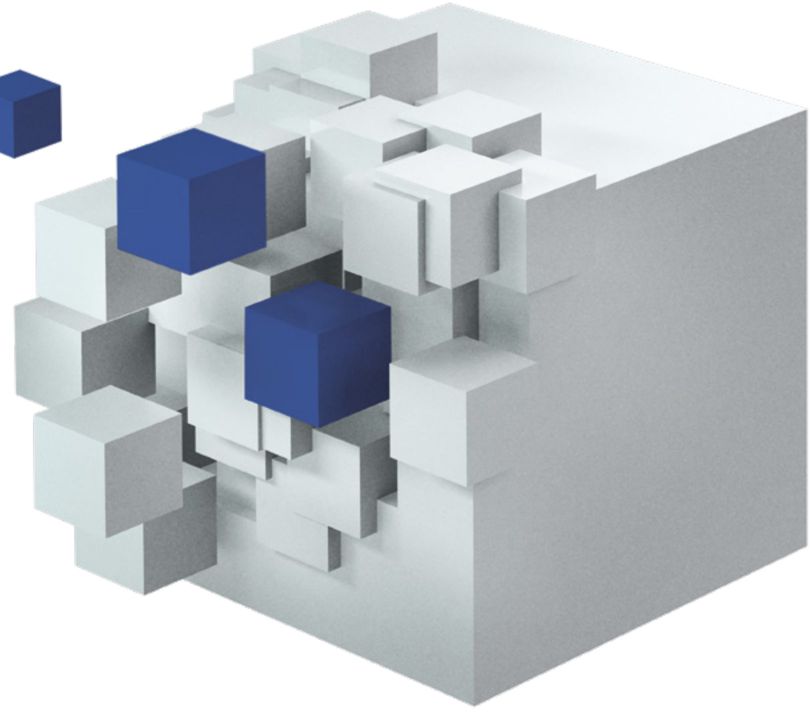


Figure 1: Dimensions for the selection of controlling concepts





"When confronted with service-based business models, companies historically focused on products often need to rethink the applied controlling concepts."

In addition to the stated challenges regarding cost and profit controlling, controlling of subscription models requires the preparation and support of the examination of financing partnerships. Due to a shorter notice period, the cash flow profile of a business changes. In addition, customer data is continuously analyzed. The shorter notice period and the resulting revenue volatility require constant churn analysis, as well as forecasts of terminations based on usage profiles and other customer data. To do so and anticipate the volatile cash flows, the organization must apply modern forecasting, analytics, and machine learning methods. To that end controlling must be available with its expertise regarding all aspects of company data. It needs to provide analyses to support the transformation of the business model, and at the same time develop analyses for the day-to-day business under the new business model. An overview of topics that controllers must analyze and structure for this transformation can be seen in Figure 1.

Controlling offers the capabilities and tools to develop measurements of the quality of services as well as the return profile of subscription models.

Service excellence is a concept targeted at generating customer delight and therefore loyalty. The associated measurement is complex because it relates to the entire organization. In addition, customer delight and outstanding customer experiences are not objectively measurable quantities, but rather subjectively perceived indicators. It is therefore a major challenge to generate standardized metrics from the "soft" facts. The metrics used to date to measure customer satisfaction such as Net Promoter Scores (NPS) are only a first step. In addition, the data situation in many organizations is deficient. Finally, the responsibility for service excellence is not clearly defined in many organizations and therefore individual goals are not set. Controlling therefore can help shape service excellence in the company and thus contribute to corporate success.

In addition to the NPS and traditional financial KPIs, additional KPIs can be applied to enable a customer view on investments and returns. For repeat-service business models, such as subscription models, CAC, ARPU, churn, and retention time as well as various costs can be combined to calculate the CLV.

As it calculates the value generated per average customer over its customer lifetime by the initiative at hand, the CLV is particularly useful for estimating the value that is created in a year to materialize in the following years. In addition, due to this feature, it is especially suitable for initiatives involving larger investments due to their inability to fulfill corporate breakeven-period requirements. Especially in planning and communication with board members, the CLV can help to generate an idea of an initiative's economics. Initially, retention times, customer acquisition costs, and average revenue per user are planned using assumptions. However, controllers need to constantly challenge and validate these. ■

References:

Cinquini, L., Tenucci, A. (2011). Management Accounting for Service: A Research Agenda. Conceptual Paper.

Klein, A. (2019). Servitization als Wettbewerbsfaktor – Chancen für Geschäftsmodelle und interne Prozesse. Freiburg: Germany

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