

# ICV Dream Car

Servitization – How manufacturing companies can become service champions?



## From a product or project provider to a provider of integrative solutions

The term servitization describes the process by which a provider evolves from being a pure product or project provider to a service provider and finally to a provider of integrative solutions. The provider deliberately focuses not only on its product, but also on the services provided with the product. This creates the image of a “product plus” for both the provider and the customer. In addition, with servitization, customers benefit from an enhanced value proposition from the provider and individual service offerings that match their requirements. These individual service offerings enable providers to better support customer processes in the future compared to their previous product business.

“vices” are offered to improve the condition of the products. These life cycle services primarily include services such as consulting-related services like training or process consulting.

In the second evolutionary step and thus the third stage toward comprehensive servitization, the full-service provider, the providers expand their service range to include so-called “business services” which further improve the performance of their products. This means that customers can derive greater benefit from the service concept and providers can integrate the services as a core component of their business model. These include new features such as data-based services or enhanced data protection, which appears to be essential for the survival of both the manufacturer or provider and the customer, especially in the context of Industry 4.0.

In the final stage of the servitization growth model, the integrative solutions provider, the provider no longer sells the products themselves, but its products as “product as a service”. In other words, they provide their customers with the product as a service with guaranteed availability, including administration and asset management services. For example, machines or equipment are no longer offered for sale, but output (such as the painting of machine parts) or availability. This stage can also include the creation of platforms or ecosystems with many services or partner offers around the product.

Fig. 1 illustrates well-known examples of successful servitization solutions. In addition to the ICV’s Dream Car report, other great examples can be found in a recent study by Porsche Consulting<sup>1</sup>.

## Is servitization worthwhile for providers?

Of course, servitization is not an end in itself, but it is particularly worthwhile. Generally, a company earns more



**Prof. Dr. Ronald Gleich**

Academic Director of the Centre for Performance Management & Controlling at the Frankfurt School of Finance & Management.



**Nils Gimpl**

Research Assistant & PhD Student, Centre for Performance Management & Controlling at the Frankfurt School of Finance & Management

## Development steps of servitization based on the servitization growth model

The servitization growth model consists of the four stages:

1. Product manufacturer
2. Product manufacturer with added value
3. Full-service provider
4. Provider of integrative solutions

The starting point of the commercial activities of many manufacturing companies are the machines, machine components, or production lines. The range of services is based on this hardware and is supplemented by some necessary services, such as the spare parts business or maintenance. This represents phase 1 of servitization, the product manufacturer stage.

In the first evolutionary step towards servitization and thus the second stage of the growth model, the product manufacturer with added value, in addition to the basic services for the products, further so-called “life cycle ser-

money with services related to its products than with the actual hardware. This has been shown in numerous studies in recent years. EBIT margins of up to 25% with service revenues and higher revenues in general as well as faster growth are propagated for companies with pronounced service proportions. Furthermore, strongly service-oriented companies clearly beat the performance figures of weaker service-oriented peer companies.

Surprisingly few manufacturing companies have a servitization strategy. This is very interesting, since successful companies in the manufacturing industry, for example, have significantly higher service proportions than less successful companies and, as already outlined above, are also considerably more profitable. This is where improvements need to be made, which brings the controlling to the table.

## New tasks in controlling due to servitization

Of course, controllers must first be able to make statements within their own companies as to whether the servitization transformation described above is actually worthwhile and whether new value contributions can be created. The evaluation of the new or

changed business models and the transformation costs would therefore be a first important activity for controlling in the context of servitization.

Further essential tasks and challenges for controlling are:

- ▶ Dealing with changed liquidity flows and financing requirements (e.g., instead of purchasing the machine, payment is made per output (pay-per-use), i.e., the machines must be pre-financed and the revenue then flows another time, such as over the life cycle or contract term).
- ▶ Establishment of an increased life-cycle-related cost view starting in controlling in order to sensitize salespeople and engineers with regard to product-centered services (especially new services of phases 2 and 3 can be important OPEX components for customers and can be a significant selling point).
- ▶ Costing of the various (new) components of the adapted business model (how do you price data access or data protection, for example?).
- ▶ Establishment of customer-centric pricing systems (e.g., availability-based, usage-based, or results-based).
- ▶ Development of extended reporting,

which fits to the business model and the new services (with indicators such as revenue proportion of new services, milestone-based KPIs that provide information on whether certain services were completed on time, or utilization for pay-per-use offers).

- ▶ Development of service competence in the controlling (as well as creation of suitable tools) and development of new suitable controlling roles or adaptation of existing roles.

The new Dream Car report outlines the controlling of servitization in greater detail, focusing on what we consider to be the six key processes of the IGC process model and offering proposed solutions in each case.<sup>3</sup> In our opinion, there is still a lot to be done at many companies and, if this has not yet been done, the first "servitization plants" should be planted from the controller's point of view. Only then can the enormous upcoming task of servitization be effectively mastered. ■

<sup>1</sup>Cf. Ziegler et al. 2021: *Beyond the product: How industrial goods providers improve their competitive advantage with servitization*, Study Porsche Consulting.

<sup>2</sup>Cf. Gleich et al. 2022 *ICV-Dream Car-Bericht Servitization*, p. 4.

<sup>3</sup>Cf. Gleich et al. 2022 *ICV-Dream Car-Bericht Servitization*.

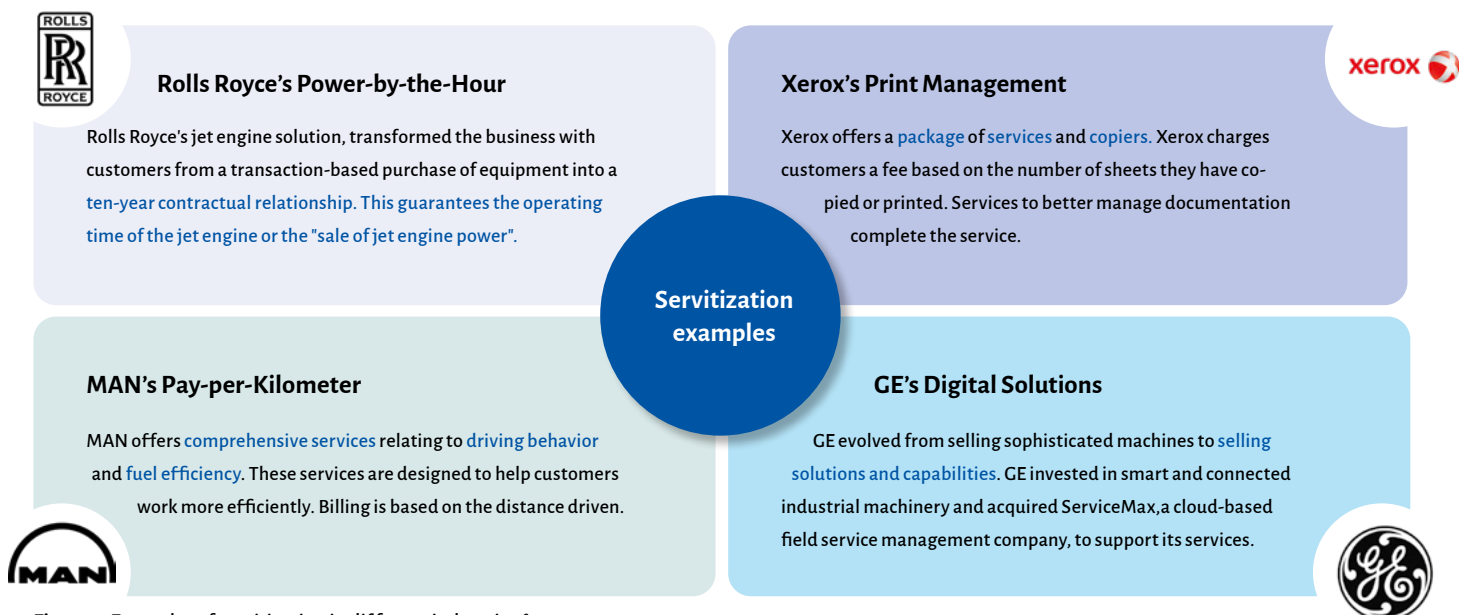


Figure 1: Examples of servitization in different industries.<sup>2</sup>