

### Dear readers

The most recent issue of our ICV Think Tank quarterly newsletter unveiled the Servitization & Controlling thematic focal point. We aim to address how companies transform their business models with the help of various forms of services, and what effects such transformations have on controlling. We released in March a publication at Haufe-Verlag on Crisis & Controlling, the annual thematic focus that we just completed (see reading tip).

In this quarterly we aim to provide companies with ideas for dealing with Servitization & Controlling. While this is certainly not a new issue – think, for example, of the operator models at KUKA and Eisenmann at the beginning of the 2000s (see Koll 2010) – it is still highly topical and relevant. To do this we present three perspectives: the subscription-based business model that Munich Re has developed with TRUMPF for production plant and machinery; service excellence; and service controlling at Kärcher.

We hope you enjoy this issue.

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### Reading tip

The conference report **Kundenbindung durch kosteneffiziente Service Excellence (English:**

**Customer Loyalty through Cost-Efficient Service Excellence)**, published in **2016** by Matthias Gouthier, is dedicated to the trade-off between excellent service and low costs. Today's market transparency and steadily mounting cost pressure are increasingly forcing companies

to differentiate themselves from other market participants by offering customers excellent services. When doing so, however, they cannot lose sight of the associated costs. This book uses concepts and best practices to show how this supposed trade-off can be mastered successfully.

### On our own behalf – News from the Think Tank

We remain mired in the greatest crisis since World War II. In order to show controllers a way out of the crisis, we dedicated last year's thematic focal point in the Think Tank to controlling in times of crisis. This Dream Car report with practical examples from Kärcher, TRUMPF and Siemens Energy has been available for purchase at all established channels since the end of March.

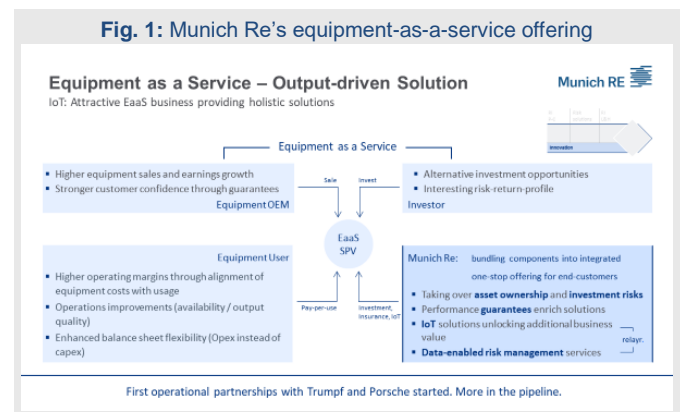


## Subscription models for production plant and machinery | Insuring performance risks?

Munich Re is collaborating with TRUMPF to offer the use of subscription models in production. The corresponding risks that arise can be managed in a collaborative manner so that added value is created for all involved parties.

Munich Re is a leading global provider of reinsurance, direct insurance and insurance-related risk solutions. Munich Re is characterised by its unique risk know-how and extensive financial strength. The group is therefore able to insure against even extraordinary major risks, such as rocket launches or cyber-attacks. Munich Re plays a leading role in the digital transformation of its industry and is thereby expanding its risk analysis skills and range of services. By offering individual solutions and maintaining close proximity to its customers, Munich Re has become a preferred risk partner around the world. The foundation of its business model is the quantification of risk. Fundamentally, risks that can be measured can also be insured. The Internet of Things (IoT) can now generate and measure additional data that were previously not available for such a calculation. This new capability extends the limit of insurability. In order to collect these data as well as to use and integrate them into business models, Munich Re has launched a global IoT initiative that incorporates its core competencies in risk transfer and mitigation. To that end the group exploits the data obtained from networked devices (e.g. sensors) to expand its offering. Munich Re has strengthened itself in this context by acquiring the technology company Relayr. This acquisition has enabled the group to offer end-to-end IoT-based digitisation solutions to industrial companies. These solutions for customers are developed in joint business models, which in addition to technology also include risk management, data analysis and financial instruments. Munich Re also agrees collaborations with external partners to offer customers jointly developed business models in which the partners can contribute their individual strengths. The collaboration with TRUMPF is an example of how the merging of the various offerings of the Munich Re Group – risk solutions, IoT technology, financing and the orchestration of solutions from different market players – make it possible to develop and offer innovative business models for industry. TRUMPF and Munich Re offer a new type of service for laser cutting machines. This jointly developed pay-per-part model enables customers to use fully automatic laser machines from TRUMPF without having to buy or lease them. Customers instead pay a previously agreed price for each cut sheet metal part. This allows them to make their production much more flexible and to react more dynamically to changes in the market environment. The pay-per-part model offers completely new, disruptive business and production opportunities for companies that process sheet metal. Munich Re also plans to offer a performance guarantee, which in the future will

protect customers against the financial effects of potential production downtime. The role that Munich Re plays in such a concept is that of the intermediary between customer and manufacturer (see Fig. 1). It acts as an orchestrator, financier and risk manager. As the financier, Munich Re buys the equipment from its partners and offers it to the customers as a service. The partner benefits from the sale and from the maintenance contract because it services the equipment. The OEM also retains direct contact with their end-customers for the entire duration of the



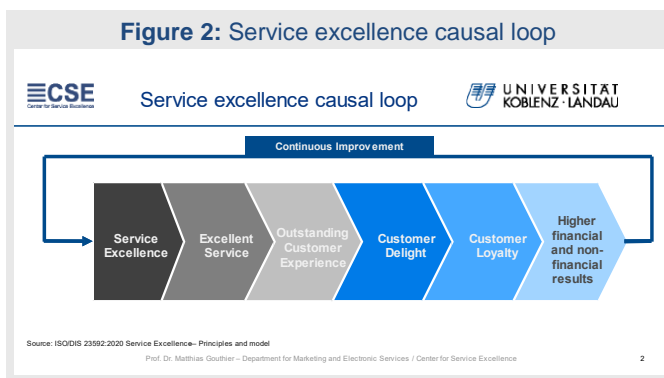
contract. Munich Re manages the resulting utilisation and performance risks based on previously agreed contractual conditions, such as an individual minimum utilisation. For this service Munich Re receives a risk premium that is factored into the price. These risks are not covered in conventional leasing offers. The end customers can concentrate on their core competencies because they obtain everything from a single source thanks to Munich Re's integrated offer and orchestration. As a result, they benefit from greater flexibility and consistency amid less complexity. The interaction of the partners in the pay-per-part model is therefore essential. They provide the customer interface and advise the customers regarding the implementation of their requirements. They also render standardised and high-quality service. This is the only way to ensure the availability and quality of the equipment.

Several important changes result from this business model for the providers' controlling function. The residual values of the machines, which are recognised in the balance sheet as fixed assets, can be estimated more precisely. Additional value contributions can be realised together with customers and partners through data analysis, and transparency can be generated, e.g. about the carbon emissions caused by the production plant and machinery.

## Service excellence in B2B business models | Delighting customers with excellent service

Companies that aim to create strong and loyal customer relationships through delightful customer experiences can orientate themselves to the new ISO standard for service excellence. The sometimes soft measurement of employee and customer delight results in new design leeway for controlling.

Companies in the business with B2C customers have long sought to differentiate themselves from their competition by providing consistently outstanding service. Examples of this approach include IKEA, The Ritz-Carlton, Bank of America, Walt Disney and Singapore Airlines. Service excellence is defined by an organisation's ability to offer excellent service continuously (see ISO/DIS 23592:2020 Service Excellence). But service excellence plays an increasingly important role in B2B business too. Up to 30% more revenue and margins of up to 25% are potentially attributable to aftersales and services in industrial companies (see Hartje, Mühlen, Philipp, 2019). In addition to this financial opportunity, stronger customer loyalty is another advantage. The service excellence causal loop describes how an excellent service experience leads to delight. This delight then evolves into loyalty, which leads to the positive results mentioned above (see Fig. 2).



Customers were surveyed to determine what constitutes excellent service (see Johnston 2004). From the customer's perspective, excellent service is characterised by four dimensions. First, excellent service is based on fulfilling the promise made to customers and sending the first signal of reliability. Second, dealing well with problems and inquiries and taking responsibility for them eases the burden on the customer and creates trust. Third, this underlying trust is then expanded further through professional but personal interaction. Fourth, this positive perception is reinforced when the customer gets the feeling that the service provider has walked the famous extra mile for them to anticipate and address their problems.

The ISO/DIS 23592:2020 Service Excellence standard sets out that good service management leads to customer satisfaction and service excellence leads to customer delight. Service management in this context involves the provision of the service and, based on this, the management of customer feedback. Service excellence builds on this by providing an exceptional individual service unit. The highest level of customer delight is then

reached when the individual service unit surpasses the customer's expectation, true to the motto: "100+1".

The core of service excellence efforts should therefore be to pursue customer delight. The ISO/DIS 23592:2020 Service Excellence standard proposes a service excellence model that consists of the following four dimensions. First, operational service excellence shapes the structures for processes and technologies, and the monitoring of service excellence. Second, leadership and strategy describe the commitment of executives. Third, culture and employee engagement emphasise that central components of service excellence include not only a customer-centric culture, but also the commitment and qualification of employees. Finally, the fourth dimension explains how outstanding customer experiences can be derived from understanding customer needs and analysing customer behaviour.

The most relevant element for controlling is the monitoring of activities and results. The standard described above requires organisations to develop internal and external metrics that measure the elements of the four dimensions. These key performance indicators should help monitor, improve and innovate the organisation. A new standard currently being developed, ISO/TS WD 23686 – Operationalising and Measuring Service Excellence, proposes using objectives and key results (OKR) as a framework for operationalising and measuring service excellence.

Controlling, however, faces several challenges when performing this task. The associated measurement is complex because service excellence relates to the entire organisation. In addition, customer delight and outstanding customer experiences are not objectively measurable quantities, rather subjectively perceived indicators. It is therefore a major challenge to generate standardised metrics from the "soft" facts. The metrics used to date to measure customer satisfaction are mostly inadequate. In addition, the data situation in many organisations is deficient. Finally, the responsibility for service excellence is not clearly defined in many organisations and therefore individual goals are not set. Controlling therefore has the opportunity to help shape service excellence in the company and thus to contribute to corporate success.

## Service controlling at Kärcher | Ideas from the controlling of a diversified service landscape

In order to adapt controlling to new business models in both services and products, Kärcher relies on a flexible control model. In this case, the characteristics of a business model define the application of controlling concepts.

Kärcher is the world market leader for cleaning technology. The group, which consists of 130 companies in 73 countries, offers a product and service portfolio that ranges from mass-produced cleaning equipment to individual solutions and tailored projects. The group sells these products and services through different sales channels, depending on the country. In order to cope with this high degree of complexity, Kärcher has developed a center-oriented concept in controlling to measure the contribution of individual service units, which are managed as profit centers.

Three factors have been particularly important for the success of this controlling concept. First, the group measures the profitability of its service units by depicting them as profit centers. This makes it essential that revenues and costs are allocated accurately via internal charging. This transparency is made possible by an interface to the CRM system, in which the expenses of the service technicians and employees are measured per order and the contract data are recorded. In addition, this methodology allows Kärcher to integrate new services in a flexible manner into the corporate controlling framework, regardless of the invoicing model. One of these new services is Cleaning on Demand, i.e. dynamic and demand-oriented cleaning. For this purpose, sensors are used in buildings to optimise the building cleaning process. This involves assessing usage data to determine how heavily the building is frequented, and reading directly from sensors the need for cleaning. A cleaner or a cleaning tool is therefore used only when an actual need for cleaning exists.


One advantage of the more flexible control is also a stronger focus on the customer, as value and data flows can be analysed together.

This understanding – combined with an understanding of the various business models – can provide engineers and planners with valuable insights regarding customer deployment.

In order for controlling to react to the multitude of possible business models, the corresponding controlling concepts are applied as required. The characteristics of the business models are crucial for this application of the controlling concepts (see Fig. 3). The calculation of revenue depends, for example, on the type of invoicing.

Figure 3: Integrated controlling model

A MULTITUDE OF DIFFERENT CHARACTERISTICS DEFINE THE FRAMEWORK FOR THE CONTROLLING CONCEPTS			
Characteristics of the business model	Importance for the controlling concepts		
Invoicing	Local	Central	Revenue allocation (intercompany, 3rd party)
	Up-front	Subscription	Separation of revenue into individual components?
Usability of the machine	Independent	Only with software	Is the machine usable on a standalone basis (e.g. without autonomy software)?
Intellectual property	Internal	External	Who generates the value added with e.g. the software? → Cost allocation
Customer data	Internal	External	Does Kärcher have access to the customer data?
Service	Internal	External	Is the service rendered by Kärcher's own technicians or by external service providers?
...			...

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This variety of possible revenue and cost components of the new business models is precisely the reason why Kärcher has structured controlling so that new initiatives can be depicted flexibly via profit centers. The company can therefore determine and depict earnings contributions quickly, regardless of whether a new business model is based on a product or a service.

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