CUSTOMERS WANT TO BUY MORE ADVANCED SERVICES

SERVITIZATION FROM THE CUSTOMERS PERSPECTIVE

There is a strong trend towards servitization in several industries. Still a lot of companies are struggling to capture the expected benefits. One success factor with servitization is understanding the logic behind the customer purchase decision. The customer and the service provider can experience benefits from adapting more advanced services when this understanding is established.

Servitization trend for OEMs

2-3 times greater revenue and profit margin can be achieved for services on installed base than only for products. However, the service demand needs to come from the customer, who must be willing to pay for the extended service offering. Buying services can offer a way for customers to predict and reduce the overall cost base. As some activities previously handled by the customer are transferred to the service provider, buying services enables the customer to reduce risk and to focus on its core business. Other benefits for the costumer are connected to avoidance of downtime, quick problem solving, reduction of fixed assets - adding up to competitive advantages.

In a recent Triathlon study on the OEM perspective of servitization, it was shown that servitization is an increasingly important area for manufacturing companies. The study investigated what actions manufacturing companies need take to increase their service sales and to successfully offer more advanced services. OEMs were found to lack knowledge about the customer value of services and purchasing decision characteristics.

The customer perspective

Triathlon has since then performed an additional study on servitization, focusing on the customer perspective. The customer reasoning behind service buy decisions were investigated for companies in the public and goods transport industries. The result from the study is clear, the amount and level of advanced services are expected to increase. Two groups were investigated, differing in maturity regarding purchasing services. Still, they have in common that both groups strive for more advanced services. In the more mature group, the previous step was from extensive product related services to business services and the group is now going towards output services. In the less mature group, there has been a shift towards extensive product related services from basis of product related services.

Triathlon study: Servitization from the customer perspective
Purpose: Investigate why companies buy advanced services
Industries: Public and goods transport
Performed: Q1-Q2 2018

The study shows that 78 % of the companies from both groups state that risk reduction, cash flow management and access to supplier competence are important factors when purchasing advanced services.

The main difference between the groups is that the companies demanding more advanced services have identified a need to increase their flexibility and to increasingly focus on their core business. This can be put in relation to the more resistant companies where they seek stability and buy services to solve a specific problem.

CUSTOMER EVALUATION OF SERVICES

Customers experience service providers to not have enough knowledge of their demands and operations. Servitization from the customer perspective was investigated in in the Triathlon study, describing the drivers and stoppers for purchasing more advanced services to increase the understanding of customers.

Customer operational need

The customer strategy defines the overall attitude towards outsourcing parts of its operations. Today some customers believe they know the product and surrounding operations better than the OEMs. This results in resistance to outsourcing operations although there is an operational need.

> ***"It's especially the flexibility that made us choose service agreements. We want to be flexible when our business change – losing customers, gaining customers"*** – Customer in the goods transport industry

When customers evaluate the operational need of more advanced services, alignment with needs in flexibility, access to competence and asset management are important factors. If the OEM has operational knowledge and can perform it better than the customer, the customer will become a service adapter.

Purchasing decision criteria

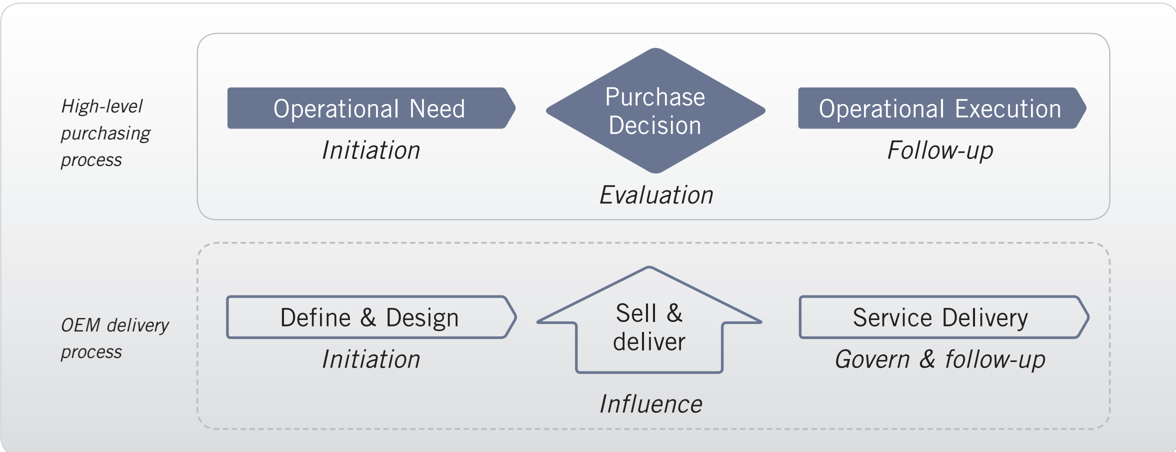
When the customer has identified an operational need of more advanced services, potential service providers are to be evaluated. Depending on the product requirements, there are different number of OEMs that meet the basic demands. Sometimes the buying organization needs to go with one specific provider due to the detailed requirements, in that case the purchasing decision becomes a question of what level of services to purchase.

The two most important evaluation criteria are Total Cost of Ownership and the supplier's understanding of the operations in which they should provide services in. Another important decision criteria, identified in the study, is the image of the OEM. Does the OEM appear to be an integrated service provider? If yes, it increases the confidence in the service provider and its ability to deliver services. Customers are more likely to go for a supplier with a service image.

Operational execution & follow-up

For customers that go all the way to buy more advanced services from a supplier, the next step is to follow-up on the value delivered with the services. This is an area where customers in general are struggling. Often the same department handling product purchases is also responsible for purchase and follow-up of services. Over time the purchasing organizations develop competence to follow-up on services (assuming they have not stopped buying services).

There is a significant difference between customer organizations with a strategy for service adaptation and those without. Having service adaptation as a strategy results in clear follow-up, high level of knowledge in KPIs and pressure on the next purchase. Customers that buy services more ad hoc lack competence of what and how to measure. Financial follow-up requires new methods and whilst the lowered fixed assets have been seen as a driver towards service adaptation, new legislations create challenges. Instead, financial benefits must show on other parts of the services.



Legislations adapt to servitization

- IFRS 16 changes the principles for Lease contracts including stricter accounting rules
- There are some optional exemptions from the legislation, where the Lease must not go into the balance sheet and IFRS 15 can be used instead
- OEMs and customers need to be aware of, and know how to approach changing regulations

> ***"It will go into the balance sheet, but we still have all the benefits"*** – Customer in the transport industry

WHO WILL BE THE SERVICE PROVIDER?

100% of the customers interviewed in the Triathlon study see a future increase of advanced services in their purchasing portfolio. But who will be the service provider?

Customers are doubting OEMs' capabilities

For customers to take the purchasing decision, there are a number of requirements that need to be fulfilled. The less mature service customers in the Triathlon study tend to experience a knowledge gap at their suppliers. This creates an opportunity for new players to take the role as integrated service provider in the value chain, in between the OEM and the customer. Today new actors are already in operation delivering satisfying results, according to the study.

In industries where advanced services are more commonly used, services are becoming commoditized and differentiation is needed for suppliers to remain competitive. As an OEM, it is time to improve the image as service provider if an increased part of the value chain is preferred over a less integrated role.

> ***"Service deals are technology driven, and now things will happen that hasn't happened in 90 years. It will be a big change for the industry (...) it will be more convenient for companies without less experience to buy service contracts specified with a cost per kilometer"*** – Customer Public Transport industry

How can OEMs support in the transition?

There are strong reasons to why and how an OEM can benefit from being a service provider, but first the position needs to be achieved by gaining customers in the field. As an OEM, there are some actions to take to support the customer in becoming a service adapter and secure that you will be the service provider;

- ☑ **Know your product better than your customer.** The customer is using and taking care of the product every day. When all surrounding service activities are handled by the customer, they possess the knowledge, and you must prove to know it better.
- ☑ **Know your customer's operations.** This cannot be emphasized enough. Acquire knowledge in HOW they operate and WHY.
- ☑ **Be a service provider.** As and OEM, you have traditionally sold a product. As long as not changing the image to also being a service provider, it will be hard to convince the customer that you hold the needed capabilities.
- ☑ **Find right in the customer organization.** Probably the established purchasing department does not have experience nor competence to adopt services themselves. Find where to influence the organization, or even find your new purchaser.
- ☑ **Support with methods to utilize existing KPIs.** Buying a service should lower the work load. Still, customers experience increased administrative work. Providing the right tools to measure value according to existing models and KPIs will lighten their burden.

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