

# The Road to Customer Intimacy Through a Service- Centred Approach





# The Road to Customer Intimacy

## Through a Service- Centred Approach

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## 1. Executive summary

No one could argue that UK manufacturers aren't facing tough conditions, and indeed have done for some time. The continuing uncertainty surrounding what will happen when Great Britain leaves the European Union and what the long term effects such a move will have dominated conversations throughout 2016, from boardrooms to water coolers. The fluctuation such apprehension has had on currency has been significant for manufacturers, with the current weak pound proving to be a boon for both new and established exporters alike.

Yet the current optimism surrounding exports, something being realised by many businesses for only the first time, must be tempered; firstly, by the realisation that the pound won't stay depressed indefinitely, and secondly, by any exporting gains made being negated by import losses, particularly of raw materials and component parts.

Setting 'Brexit' aside, the ongoing skills gap has risen to the fore once again, though arguably the issue has never truly gone away. The increasing proliferation of digital technology, coupled with data permeating every aspect of industry has seen an urgent need for data scientists, experienced people who not only understand data, but also want to have careers in industry and understand the problem areas.

This urgency has given rise to two important questions. If these people already exist, but operate in other sectors or are studying and have yet to decide

on a final field to enter, how can they be tempted to industry? If they don't already exist, what must happen to create a robust pipeline for the future?

Technology, automation and robotics, data, the cloud, the (industrial) internet of things, analytics and business intelligence, and additive manufacturing (3D printing), all fall broadly under the umbrella of industry 4.0, or alternatively, the fourth industrial revolution. These advanced technologies are having a profound impact, fundamentally reshaping the industrial landscape so much so that it bears little resemblance to that of just a decade ago.

Yet amid this disruption and uncertainty, UK manufacturers are optimistic for the future, with [The Manufacturer's Annual Manufacturing Report 2016](#) recording the second-highest level of optimism in its almost decade-long history. The report also demonstrated a healthy level of investment in automation and technology across all sectors, with a large majority of respondents having undertaken an associated project in the past five years, primarily to improve business efficiency, cut cycle time and boost quality.

Whenever an industry undergoes such widespread transformation, there will always be those who face such change with excitement and relish the new opportunities it presents. Conversely, there will also be those who shy away from the prospect, preferring to focus on business as usual, to endure rather than

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disrupt. Yet, choosing the latter option as a long-term business strategy has become increasingly imprudent, with start-ups and incumbents alike looking to leapfrog intransigent rivals.

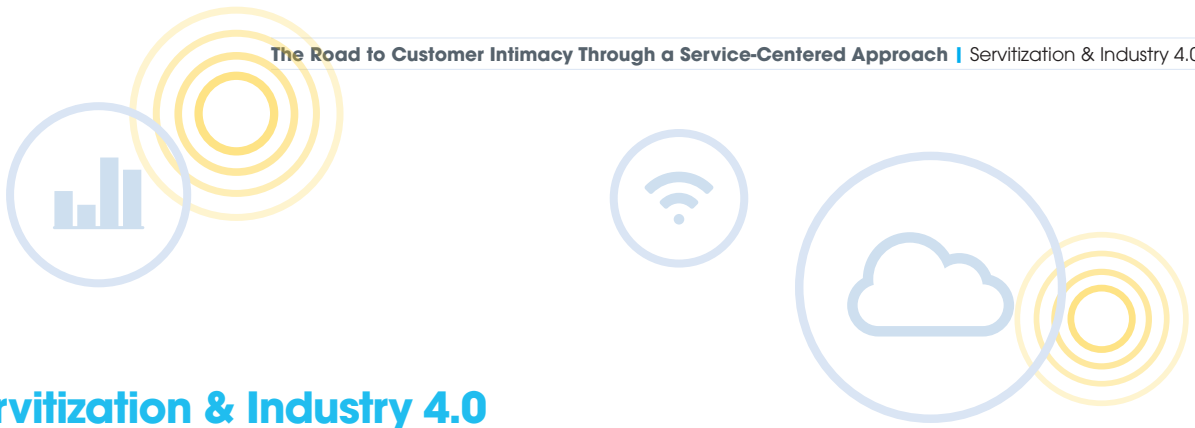
Those truly opting for disruption and innovation aren’t doing it on merely a new product development perspective, rather something far more ambitious. The shift from a purely product-led, ‘make and sell’ business model is being progressively superseded as manufacturers increasingly adopt and embrace servitization – building long-lasting, entrenched customers relationships rooted in service propositions, offering an ongoing capability rather than a standalone product.

In times of uncertainty and squeezed margins, servitization offers a means to regulate ‘peak and trough’ revenue streams, fostering more predictable and secure cash flows. For example, a study by Aston Business School’s Advanced Services Group, a world-leading centre of excellence in research and practice on servitization, identified that manufacturers can create a sustained annual business growth of 5-10% by offering advanced services to new and existing customers.

Encouragingly, manufacturers’ awareness of servitization has grown significantly over the past 12 months, both in the use of the term itself and an understanding of what it represents. However, upon learning of the concept, the first questions to be answered are still; how does servitization apply to my business and, how can I adopt it? Neither have become any easier to answer as servitization represents something different for every business

and sector; there is, as yet, no ‘silver bullet’ solution. With the conversation having matured from merely what is servitization, to how can I adopt the concept, this white paper explores servitization in the most practical of senses. If your business has already made the first step, or is considering embarking on its own servitization journey, this is vital reading for you and your business’ decision-makers to question your existing processes and ensure you get the most out of your transformation journey.

This white paper brings together research conducted by both The Manufacturer and Aston Business School’s Advanced Services Group, and the insights gained from an exclusive servitization roundtable event which brought together senior leaders from across UK manufacturing. The roundtable took place on October 18 alongside Servitization 2016, an annual day-long conference delivered by The Manufacturer’s Thought Leadership Network.



## 2. Servitization & Industry 4.0

It wasn't so long ago that servitization and the industrial internet of things (IIoT) – the ability to remotely monitor and control products in real-time, while collecting and analysing substantial volumes of data - were considered two separate conversations.

However, these two streams have now merged, with IIoT now a key enabler of servitization, particularly in regards to accessing the higher levels. According to the Advanced Service Group's Dr Andreas Schroder, IIoT and associated technologies are having a profound impact on forward-thinking manufacturers' service offerings as they move further up the value chain from 'base' (product provision) services, through 'intermediate' services (product condition) to 'advanced (customer-centric) services, i.e. those built around outcomes focused on capabilities.

In his introduction to the servitization roundtable, Schroder explained that, by embracing IIoT, manufacturers can achieve greater service efficiency, further their service reach and create stronger business risk assessments for the future. Contrary to some perceptions, he added that IIoT actually extends, rather than replaces a manufacturer's base services, "Supporting both product and service offerings, as opposed to creating a trade-off."

IIoT is a fundamental building block of Industry 4.0, leveraging the increased mobility and connectivity of technology, the compute power offered by the cloud to gather and analyse large volumes of data in real-time, and autonomous systems making swift decisions based on that data.

All of these elements are readily available today, have reached a sufficient price-point to drive widespread adoption, and are crucial if a manufacturer wishes to monitor and appraise assets out in the field, whether a commercial aero engine cruising at 39,000 feet, an office photocopier or anything in-between.

As Schroder phrased it, servitization is a journey, representing a business evolution rather than an overnight revolution. As that journey progresses and a business looks to offer more advanced services, the need to invest in an adequate technological infrastructure becomes a prerequisite. However, that in itself raises certain challenges - particularly for SMEs (small to medium-sized enterprises), around financing.

Global OEMs, for example, often have easier access to the investment capital to fund the necessary initial expenditure; however, for an SME that can be a daunting prospect, deterring them from progressing further along their servitization journey.

One roundtable delegate made the observation that better educating financial institutions, such as banks and investment platforms, could pay dividends in that regard. In his experience, many such institutions had an excellent knowledge of make-sell business models, but still struggled to fully appreciate the advantages of a service-based alternative. Were that to change, more appropriate finance packages could be delivered to support SMEs on their transformation journey. Another delegate made reference to one of the presentations delivered at Servitization 2016, which noted that for first time this year, businesses consider security in the cloud to be as good, if not better, than on-premise platforms. This represents a sea-change in sentiment, with UK manufacturers in particular, historically hesitant towards fully embracing cloud applications, and this positive momentum needs to be maintained.

IIoT is intrinsically linked to the gathering and analysing of data, the speed and volumes required can only be accommodated via the cloud. With IIoT a key enabler of servitization, in turn the cloud is a core element of IIoT. The more manufacturers become familiar with using cloud applications for daily processes, the less of a risk represented by moving towards 'advanced services in the future.



### 3. The Impact on People & Culture

Now that the conversations around servitization have matured from merely what it is, to how can the concept be adopted, its potential impact on a business' employees and culture is growing in relevance.

This shift in tone was echoed in both the roundtable discussion, with many delegates offering their own experiences and insights, and in wider conversations within industry by The Manufacturer, Microsoft and the Advanced Service Group alike.

When transitioning to a services-based model, there appears to be a number of significant challenges businesses encounter, many of which centre around the training and day-to-day practices of sales members.

Several of the roundtable delegates described the difficulties encountered when their business had moved from selling a product, something sales members had been trained in and undertaking for their entire career, to selling an outcome.

There is still a widespread practice among manufacturers that when selling a product, additional service capabilities are offered for free in order to help steer an individual sale to completion, or foster goodwill for repeat business. The disadvantage that subsequently places on a manufacturer can be great, particularly when applied to 'long-tail' products, i.e. low volume, high value.

The initial high cost of long-tail products typically runs concurrently with services being given away at no additional price; however, the depreciation of the product over its long lifecycle means the opportunity cost of that practice can be keenly felt by manufacturers. To counter this, roundtable delegates agreed that businesses must consider the value of products over their entire lifecycle, from 'cradle to grave', rather than just the initial sale.

The other aspect delegates were in agreement on was the quagmire around incentivising both internal team



members and external clients when first embarking on a servitization journey.

Managing how existing customers react when your business begins to charge for a service it previously gave away for free can be proactively countered through effective communication and a clear demonstration of the added value being offered.

Similarly, communication between operations and sales departments is vital if sales members are to fully grasp the true value, and potential future opportunity cost to the business, of what they are giving away. Subscribing to the adage, you can't manage what you can't measure, one delegate explained how her company had attributed a cost metric to each of the services currently given away, encompassing labour, parts, internal resources and utilities.

These were shared with each member of the sales team and included as part of their monthly key performance indicator (KPI) review meetings. To date, the method has proven successful, with a direct correlation between a drop in the number of services being offered for free and an increase in the revenue being generated by services.

It isn't solely sales teams who need to understand the value of services, however, there is also an onus on marketing departments to understand the new proposition. It can be relatively straightforward

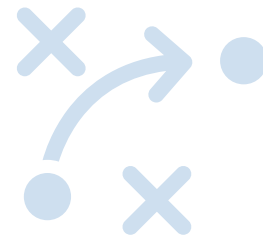
to put together a visually appealing advertising campaign for a new product line, whereas representing a service through promotional materials can be far more challenging.

Get it right however, and successfully promoting and selling your business' knowledge or capability, rather than a standalone product, makes it very difficult for other businesses - both domestic and overseas - to compete against you.

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## 4. Business Transformation

Several industry reports have suggested that by 2020, as much as 65% of manufacturers worldwide will switch from a focus on products and production to instead build their revenue streams through services.

The primary premise of these services is to support clients to deliver value to their own customer-base. Such a premise requires a fundamental shift in the way an organisation considers where, and how, value is created in its own business. Consequently, embracing servitization won't just affect a single business department in isolation, it will permeate every aspect of an organisation, both physically and digitally.

As previously mentioned, this shift to a services-based business model is a journey, it's not a transformation that will - or even should - happen overnight. Like any journey, it's not enough to simply describe the start, end points and any destinations you hope to reach along the way. Every step has to be mapped out with clear objectives, the people responsible for achieving them and anticipated dates of delivery.

Every business is unique and so each individual journey is going to have some variation; however, the overarching structure typically remains the same: exploration, traction, acceleration and exploitation.

It was noted by Tim Baines, professor of operations strategy at the Advanced Service Group, during his presentation at Servitization 2016, that how fast a manufacturer moves through these four phases depends on a number of factors, including market pull, its distribution network, its level of readiness (both in terms of the product and organisation), and technological push.

Encouragingly, Baines added that though there was a variety of different pathways, none can be classed as either the right or wrong option as there isn't a one-size-fits-all solution. What's most important is

to outline the risk and opportunities to your business of both embracing servitization and not, and in doing so a compelling business case for servitization should become clear.

Taking the time to make a detailed map of your business' transformation path won't make this journey any easier, however it will make each step and the overall goal more clear to every stakeholder, from the shop floor to the board room.

Roundtable delegates were unanimous in the need for a board-level sponsor or champion to drive this transition and keep it on track; without which, a true transformation can be very difficult to realise. The benefits of achieving a number of 'quick-wins' were also extolled in regards to helping maintain focus within the business and fostering momentum.

According to Schroder, one of the big challenges many businesses face when initially embracing servitization is a lack of engagement from customers. This can be the result of several factors; the principal being that a service contract is offered in the same way that standalone product contracts were tendered previously.

It was suggested during the roundtable that this potential pitfall could be avoided by offering your business' sales team commercial training to better educate them on the value of your services. However, there was a definite split between those delegates who felt that existing sales members could be effectively retrained, and those who felt that there was a fundamental incompatibility between selling products and selling services. In their eyes, additional training wasn't a viable option and a completely new approach to recruitment and training was required.





## 5. Where Within Your Business is Your Customer Value Created?

Once a manufacturer realises the short-sighted and unsustainable nature of focusing purely on selling a product, and starts a servitization business transformation, the resulting discussions it has with customers – existing and new – changes dramatically.

Not only has the central tenet shifted from, “We’ll offer you this product with these services”, to “We’ll offer you this capability”; but the entire approach has to be geared towards understanding what outcome each customer wants to deliver. As a result, the conversation becomes much more of a consultation, rather than a straightforward product demonstration.

This consultative approach requires an appropriate mindset and methodology to correctly ascertain exactly what the customer’s critical processes are, and, once identified, pinpoint how your service offering can help maximise those processes. It may even be the case that selling a service requires speaking to a new point of contact within a customer’s organisation, a more senior individual for example,

negating personal relationships often forged over many years.

However, any expenditure necessary such as additional recruitment, training or networking is almost immediately offset by the effect offering a consultation has on your business progression along the value chain.

Also helping to drive the growing popularity of servitization is an external change occurring across almost all markets, from logistics and healthcare, to energy generation and construction, that of businesses shunning owning a product outright and instead focusing on a capability.

Take a heavy-duty, scissor lifting platform, or ‘cherry picker’. To buy such equipment outright represents a significant investment for a business, a potential contributing factor towards limiting its future growth opportunities.

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As the platform is expensive, bulky, depreciates overtime and requires periodic specialist maintenance, a business is likely to value the physical equipment far less than it does the outcome it provides, i.e. working at height. In turn, any manufacturer able to provide ‘working at height’ as an outcome is likely to be valued more highly than those pushing a more traditional standalone offering.

That scenario works fine if the customer comprehends your business’ proposition and the benefits of a service-based outcome; but what about if your customer doesn’t accurately measure internal KPIs, or focuses on entirely the wrong metric to measure? What if your customer is unfamiliar with servitization?

In that situation, roundtable delegates reinforced the importance of adopting a consultative approach, one where you explore a customer’s business in partnership to help inform their decision-making - driving both businesses forward in tandem.

This building of deeper customer relationships, an essential factor when fostering a higher perceived value offering, is a growing trend within manufacturing; however currently the focus would appear to be on collaboration, rather than full integration.

According to The Manufacturer’s Annual Manufacturing Report, almost 40% of those UK manufacturers surveyed employ performance measures designed to reflect outcomes aligned to individual customers. This is going beyond basic quality control - “Does it work as specified and did it arrive on time” - to a more personal and tailored relationship.

This is adequate for those offering base services, but to achieve advanced - even intermediate - services, there is still a long way to travel. Yet, the means of doing so may well be at hand, with 10% of respondents stating that they are already making use of IIoT technologies in order to manage support, maintenance spare parts and repair.

With manufacturers awareness of both servitization and IIoT rising, coupled with finance becoming more readily available and inherent hesitation towards automaton and technology - particularly the cloud - alleviating, these figures are sure to grow significantly as businesses look to capitalise on the benefits of servitization, and the marketplace increasingly looks to seek such propositions out.

## 6. Concluding Comment

The manufacturing sector is in a state of flux driven by a number of external market forces: the new connected customer, increasing influence of emerging economies, changing demographics, sustainability, and complex regulations. The sector is also going through significant digital business transformation, creating new business models, revenue streams and efficiencies.

Technology plays an increasingly strategic role to foster a culture of innovation and differentiation in the marketplace. As discussed in this white paper, technology - particularly around digital and connected ecosystems - is a core enabler of servitization.

Advanced technological capabilities require manufacturers to transform their business processes to enable systems of intelligence that help draw better insight out of data and convert it to intelligent action. Previously, businesses designed, built, produced, and shipped a product, then customers bought it - that was the end of the cycle. Now, organisations are building in continuous feedback loops - sensors in products, after-market services, customer feedback from a variety of channels.

Transformation requires these rich systems of intelligence, which represent the combination of technology, people, and process that enable these feedback loops. These systems define an organisation's competitiveness and ability to change the entire landscape of the industries in which it participates.

Manufacturers need to enrich their market offerings to deliver not just a manufactured product, but also value-added business services, to provide a complete connected customer experience. Connecting people, processes, things, and data securely across the company is the cornerstone of digital business. Technology can not only help you accomplish specific goals, but it can also enhance the fundamental agility

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and insight of your organisation by empowering your people to recognise and act as quickly as today's fast-changing world requires.

Enabling your people to work flexibly - in the office, on the go, and at home - and easily collaborate with colleagues, partners, and even customers around the world is key to innovation. When everyone in the company embraces what is now digitally possible, the business can respond faster and deliver the experiences customers expect.

At Microsoft, we think about the success our customers can have with technology - building tools so that others can innovate, build their own technology, and create solutions that make things happen. This platform approach is the cornerstone of our strategy to ensure that what we build can be amplified and delivered in ways that help our customers succeed through the support of our rich partner ecosystem.

More importantly, we're prioritising flexibility, integration, and trust. Our cloud enabled solutions help you optimise operations and develop new services-based business models that deliver significant new results. We can help you achieve

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enterprise excellence across the value chain by delivering data insights from any source, putting people at the centre of the process, enabling flexibility across the enterprise, and delivering productive experiences on every screen.

Through digital innovation, we help you create innovative products and services, execute with excellence, maintain smoother operations and compliance, and become a customer-centric organisation, all powered by the intelligent cloud. One example of this is anticipating maintenance needs and avoid unscheduled downtime with the help of the Predictive Maintenance solution from Microsoft, which predicts equipment failures before they happen in either your or your customers' facilities, and systematically prevent them using advanced analytics techniques like machine learning.

The Microsoft Remote Monitoring solution is another example. By connecting and monitoring your devices to analyse untapped data, and improving business outcomes by automating processes, we help you understand how your product is used, how it performs, and how it is wearing out, aiming at reducing operational cost and achieving excellence.

To learn more about Microsoft's IIoT technology, please visit:

[www.microsoft.com/en-gb/cloud-platform/internet-of-things](http://www.microsoft.com/en-gb/cloud-platform/internet-of-things)



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