



5 steps to successful servitization

What is servitization?

Servitization is one logical step in the transformative journey of how companies work with customers and generate revenue. In the not-too-distant past, a manufacturing company likely focused on the sale of its products -- say, an industrial-strength drill -- as a standalone offering. Service contracts represented a cost to the company. When products failed, it was considered too expensive for a product-focused company to service its own equipment. Companies allowed third-party vendors to provide the service contracts; while the companies generated revenue solely from the products themselves.

[The landscape has shifted](#), however, and now servitization -- the process of generating revenue from services instead of products -- is opening the door to better customer outcomes, decreased operational costs, and even new innovations.

Take the example of SandvikCoromant, a manufacturer of cutting tools and services for the metal-cutting industry. It sought to take its service-side business to the next level, so the company developed a solution that connects to the Azure IoT cloud to collect data in real-time and get data out of the machining process such as temperature, load, and vibration.

Rolls-Royce wanted to improve aircraft performance, safety, and maintenance for their jet engines. It used an intelligent cloud and machine learning (in the form of Cortana) for three key outcomes: more efficient flight and maintenance plans, targeted and actionable fuel efficiency insights, and quickly generated reports and dashboards that tell compelling stories and deliver high-quality insights.



Why servitization?

Servitization is the next generation of manufacturing revenue. While the idea has been around for years, the 2008 recession ushered it along even faster. Companies needed new revenue streams in the wake of reduced spending and found them with service offerings. Even in an economic downturn, existing items needed to be fixed and new ones did not necessarily need to be bought. Today, one out of four field service operations [is generating new revenue from servitization](#), per Aberdeen Group research.

When firms servitize, they tend to [expand their potential offerings](#). Servitized companies can offer equipment-focused product life cycle offerings (including maintenance services), asset-focused managed services (more complex than a single piece of equipment and often involving different pieces of equipment purchased at different points in time), and process-focused advisory services (consulting to other firms on how to migrate all the way to a servitized model).

Servitization opens up all of these potential offerings and revenue streams, and ultimately it's about delivering valued -- i.e. differentiated -- business outcomes. These possibilities alone don't make the idea of servitization profitable, however. Companies still must minimize costs associated with servicing their products in the field. This eBook guides you through how to keep costs low to achieve success in a servitization model.



Step 1: Use field service management software

In short, field service management software allows organizations [to better \(a\) manage and \(b\) deliver service to their various customers](#). It does this by integrating the separate aspects of a service business, including:

- Customer information
- Scheduling and routing
- Inventory
- Invoicing
- Technician skill sets
- Training and knowledge

These systems, which in a paper-driven world tend to be separate “silos” not speaking directly to one another, are now transparently connected. Using field service management software, someone in your office who is focused on scheduling also has access to inventory. Now a technician’s time is maximized through advanced scheduling and automated routing and inventory can be considered to strive for the highest first-time fix rate possible. Invoicing within field service management software can often be completed onsite, via mobile, reducing the time to payment, and inventory levels are updated to ensure reorders are completed as needed.

Field service management software is [about optimizing your field service shop to fit in the most appointments per day and improve customer satisfaction and organizational productivity](#). As a result, it is the first vital step in moving toward servitization.



Step 2: Connect smart devices to field service software

Connected field service, the ability for a field service management organization to remotely monitor, troubleshoot, and heal devices -- sometimes without any human intervention or initiation -- is gaining momentum with companies closely monitoring their bottom lines. Connected field service [leverages the potential of predictive maintenance through machine learning to drive better business outcomes](#). The term comes from Internet-connected devices. Estimates claim we'll have 80 billion of these devices by 2025. These connected devices send status information directly to an Internet hub and to your field service management software to determine self-healing steps and automatically dispatch a technician when self-healing cannot solve the problem. Previously, a customer called with a concern. Now, you call a customer and say, "We detected a problem and have dispatched a technician to resolve it."

The cost savings with connected field service happens because most devices can be repaired remotely and often with no human intervention. This means technicians are sent only when necessary while customers experience optimal performance from devices.

[This is a game-changer in some ways for agile/discrete manufacturing](#), although one concept is important to remember. The Internet of Things, or IoT, powers connected field service. IoT is not necessarily a new technology. The first wave of IoT integrations was more about a race to connect as many devices as possible. While that certainly helped in getting the idea of connected field service to scale, the new focus is on leveraging the data collected to make more intelligent business decisions.

As noted above, connected field service changes the very definition of service. Rather than being reactive, it is now proactive and predictive.



Step 3: Integrate field service across your business

Running your business on one platform is a true competitive advantage. A single platform provides access to quality, real-time (cloud-backed) information and gives the ability to share it and use it for decision-making. Organizational decision-making has long been rooted in asymmetrical information, usually because it is not in real-time. [Asymmetrical information leads to shoddy decision-making](#), and that leads to revenue erosion. With real-time integration, you can prevent this problem. A single platform gives technicians the ability to identify opportunities in the field and request follow-up from sales. It also ensures that technicians have a full 360-degree view of customer cases so they have all of the information when arriving on-site.

Servitization can only work if you can meet service agreements at a profit. When everything in your field service organization is operating silo-by-silo, it is hard to do this. For example, if inventory data isn't seamlessly integrated with scheduling, a first-time fix may not be achieved because of a needed part. Your profits are quickly eroded with every truck roll. Systems working together in harmony allows you to delight customers and keep your costs down.



Step 4: Leverage machine learning and augmented reality

The use of [machine learning has exploded in recent years](#). Machine learning is a type of artificial intelligence (AI) that provides computers the ability to learn without being explicitly programmed with that set of information. It's the development of computer programs that can grow and change based on interactions with new data sets.

The idea is crucial within field service because machine learning underscores the idea of predictive service. If your field service organization can predict when service is needed, you can do inventory ordering better, you can schedule technicians more effectively, and you can easily tell which products are overperforming and underperforming.

Augmented reality (AR), or the integration of digital information into a user's real-time environment, is perhaps most notable in popular culture through Pokémon Go. In a business sense, it's seen in products like HoloLens. The capabilities of AR are transforming some legacy industries -- [such as elevators](#).

The easiest way to conceptualize the power of AR in field service is to think about the aging of a highly skilled workforce. Younger technicians can more quickly develop skills via augmented reality in the field and in training. A technician can simulate the exact work that needs to be done to make sure he or she is doing it correctly. On certain client calls, a younger technician could go on-site and be guided by a more experienced technician working from a different location. The possibilities for closing manufacturing skills gaps are immense and can be scaled quickly.

Automating aspects of your business allows you to be more effective in dealing with customers, which is a hallmark of driving service revenue. Machine learning can increase technician productivity -- and increased technician productivity leads to more engaged customers. More engaged customers are the baseline on which service revenues rest. Augmented reality will allow customers to receive expert technician work, even if the experienced technicians are not available in person for their cases at those moments.



Step 5: Allow field service to power the innovation engine

Product and service innovation comes from insights into how customers are deriving value from them, their unmet needs, and your challenges in meeting their expectations. Having a 360-degree view of your customer interactions across channels, and the product telemetry from connecting your smart products to field service, gives you a new catalyst for innovation.

Much business growth comes from [asking the right questions and solving the right problems](#). In this case, some questions may include:

- What products or configurations are deployed?
- What parts have been replaced?
- Where is the service resolution performing well vs. not as well?
- Are we over- or under-engineering our products? Should we retire a supplier or a product? Should we upsell to a more reliable model or sell an extended warranty? Should we redesign the product with lower-cost parts to increase margins, or with better supplier parts to reduce failures?
- What features are being used -- or not? Is this an opportunity for training, consulting, or a product redesign? Do we need to design in more sensors to understand how customers are using our product?
- Where are our competitors succeeding and failing? What can our product telemetry and service technicians tell us about competitors' products and configurations?



As you continue the innovation process

A major bonus here: You don't have to rely on product surveys that may take months to collect -- and may still not be reliable -- because you can see actual usage. Sensors also add to product cost, so making sure the sensors deliver these insights is also key to a manufacturer's servitization success. And because we're on a common platform, we can also correlate insights from social sentiment, call desk interactions, and service history. Imagine being able to compare your original design intent with the products actually built, configured, and maintained at customers' sites. Connecting field service to your product innovation processes and systems (commonly referred to as [Product Lifecycle Management -- PLM](#)), takes us another step closer to creating [digital twins](#), allowing manufacturers to use 3D modeling to simulate physical assets, their performance, and problem resolution. New parts and product designs can be simulated in 3D models, and physical parts and products can be prototyped using [additive manufacturing](#) techniques.

This innovation step is more about iterating on what you normally do (with new real-time product and customer telemetry), as opposed to embracing a "We have always done it that way" mindset. It means: *Are your leaders attuned to new business potential? Do they see the potential benefits?*



The big picture on servitization

All manufacturing companies are transitioning to technology companies.

With this shift comes a fundamental revenue stream shift. It is much less about increasing sales through products and much more about increasing profitability through better business outcomes for your customers from the services you provide. That is the essence of servitization.

If your goals include:

- Increased customer satisfaction / better customer experience
- Decreased cost
- More productive workers
- Improvements all along the innovation and product lifecycle
- New service offerings such as equipment-focused or consulting in nature

... then servitization is a logical direction to move your manufacturing business. The steps above are the bedrock of moving your company from the products-driven, traditional/legacy economic model to the service-driven, customer-focused newer model.

Below, you can see servitization in action, in a major enterprise manufacturing context with Rolls-Royce. If you still have additional questions about the model and navigating to it, don't hesitate to reach out to Microsoft about our suite of solutions.



See servitization in action

Contact us for more information
on how we can help you.

Master the service call ➞

