



Services and remote monitoring

New opportunities and business models in manufacturing firms

Igor Revilla, B+I Strategy

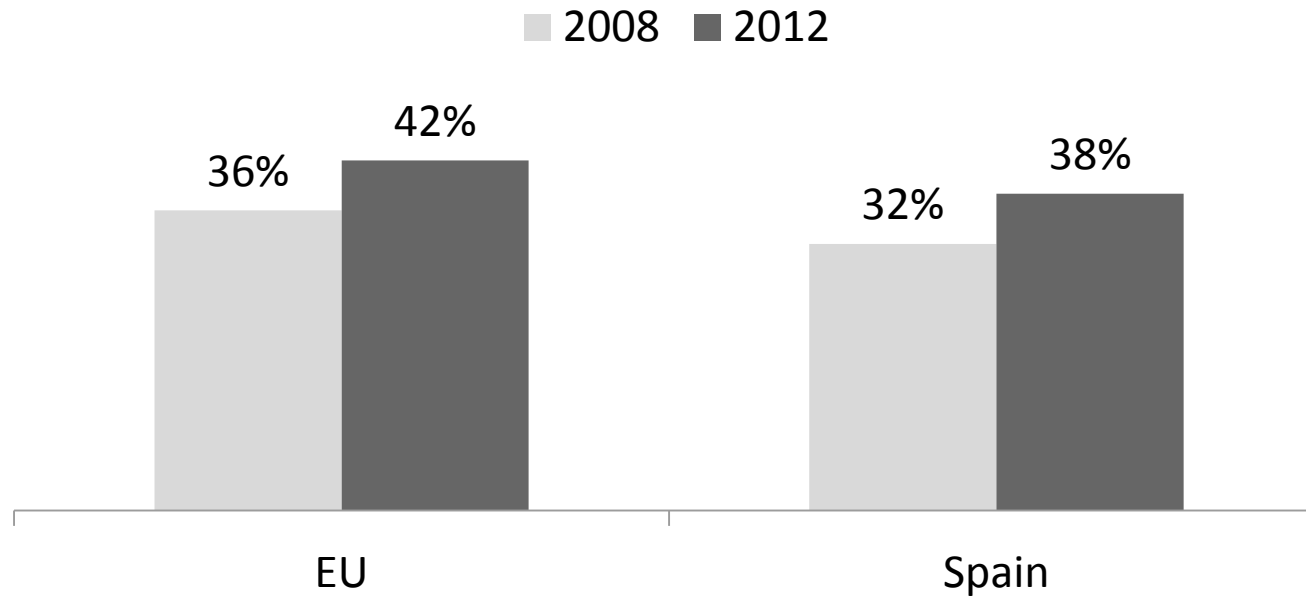
Oñati, September 15, 2016

10+ years doing strategy with manufacturing firms and service firms that work in industrial environments

Research project conducted in 2014 and discussed in several conferences and workshops

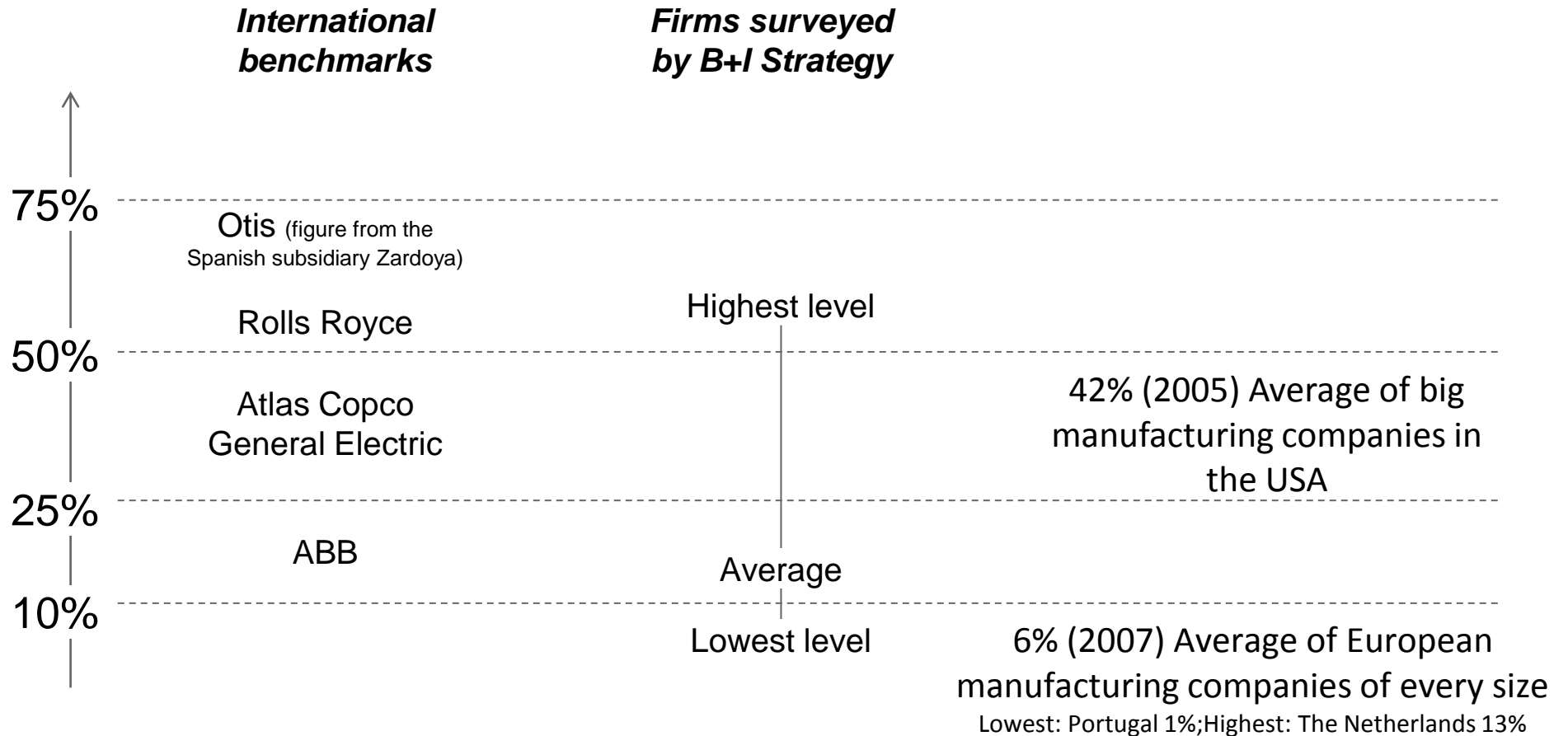


Share of service-related jobs in the manufacturing sector



Source: "Manufacturing Europe's future" (Veugelers, 2013)

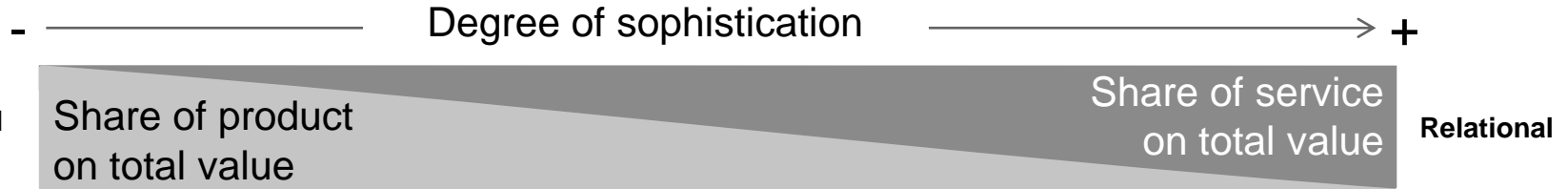
Share of services in total revenues



76% declares that *“in the future, services will be more relevant in our offer than they are now.”*

59% declares that *“the need to develop our service offer to enhance our competitiveness is under discussion in our organization.”*

SIX development paths that explain a high proportion of actual business practices



The MAINTENANCE path – Focus on increasing product availability



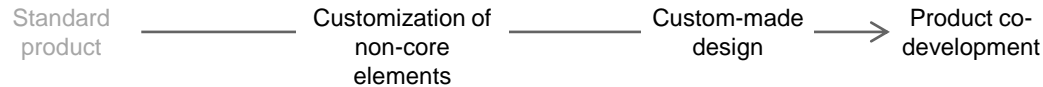
The INTEGRATION path – Focus on simplifying purchase and start-up



The “service integration” sub-path



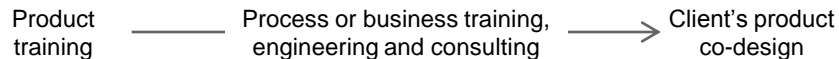
The CUSTOMIZATION path – Focus on meeting the specific needs of every client



The REFURBISHMENT path – Focus on extending the lifespan of the product



The PROFESSIONAL SERVICES path – Focus on improving client’s processes



Access, use or outcome-focused business models

SIX development paths that explain a high proportion of actual business practices

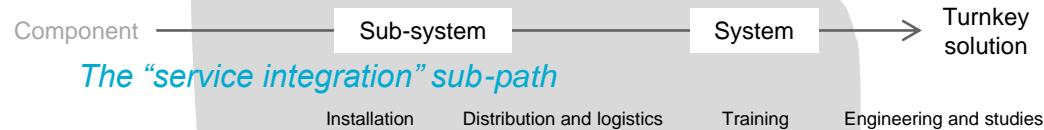
Quite common



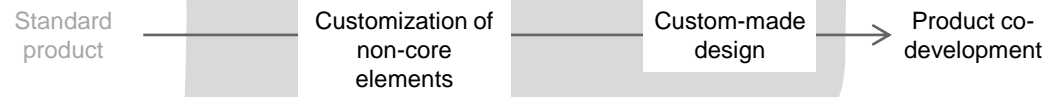
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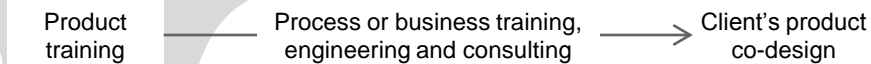
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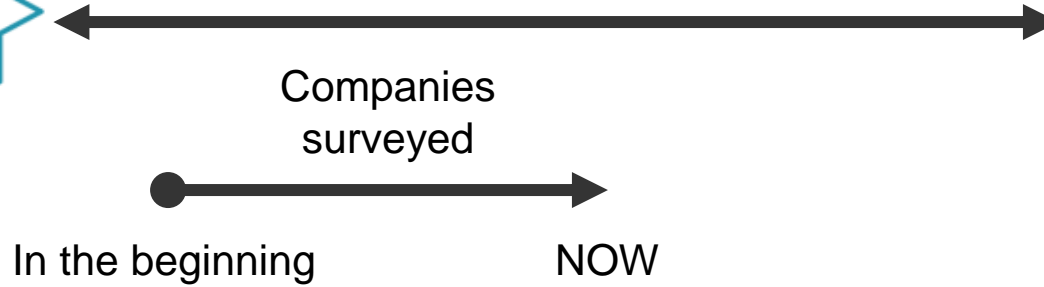


Access, use or outcome-focused business models

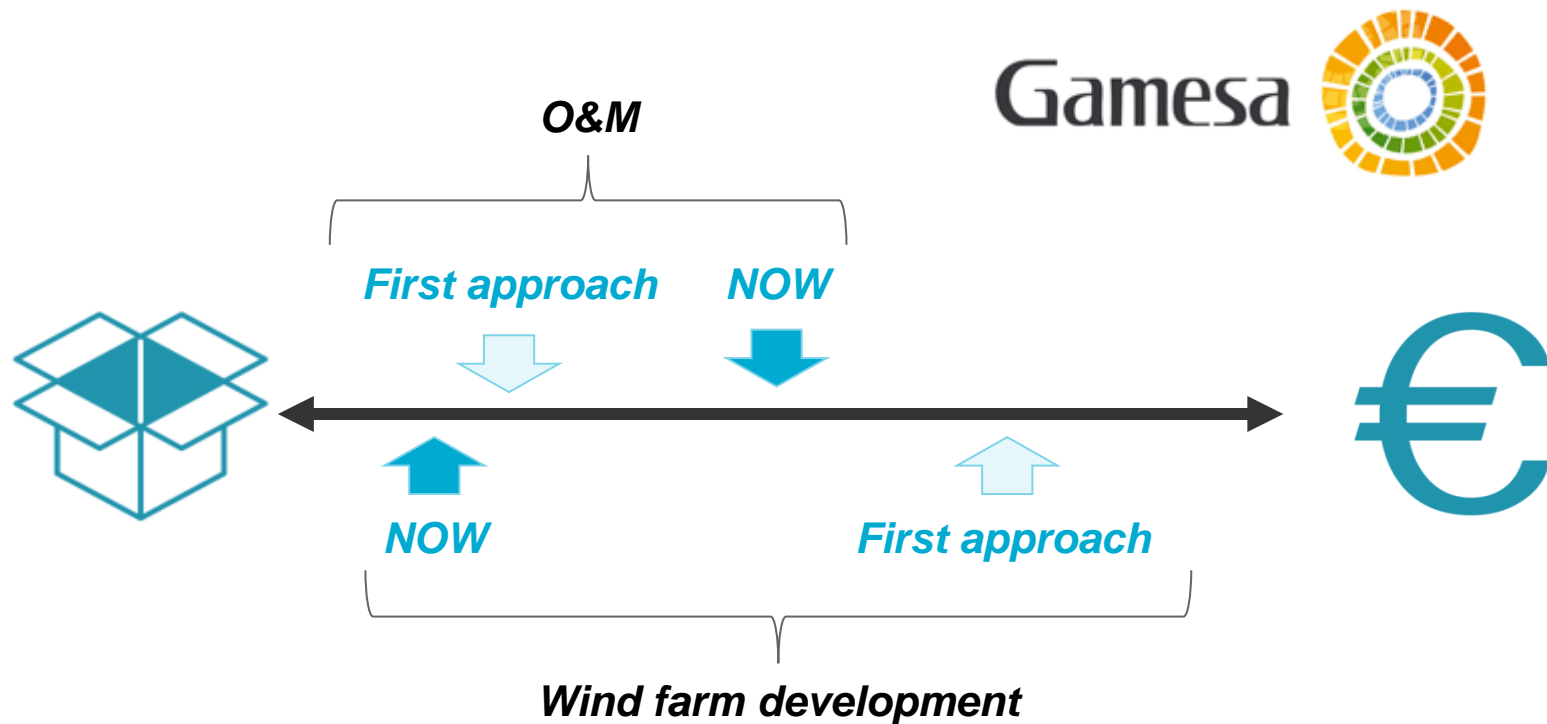
**Services as a way to
support the service
business**



**Services as a
business**



Reasons to servitize

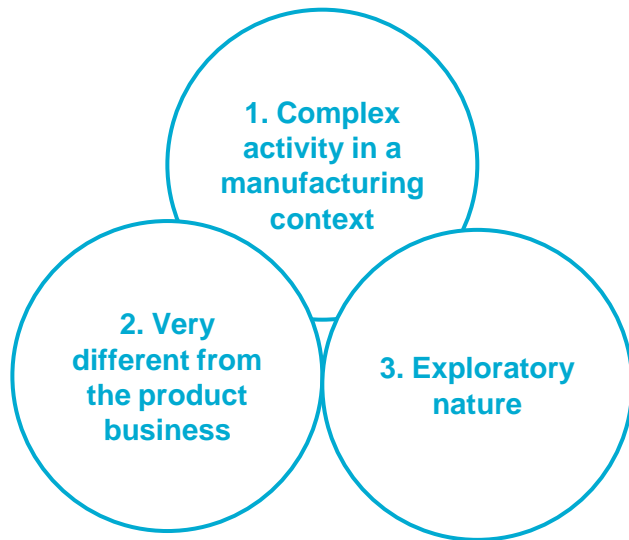


“Simply, for most companies, the pain has not been worth the gain.” (Krishnamurthy et al., 2003).

Lodefalk (2012) shows that services are positively associated with exports.

...

“It is likely more **a question of execution** of a servitization strategy (how well the company builds the right organizational capabilities and culture), rather than the act of servitizing, that leads to improved financial performance.” Neely, A., Beditinni, O. & Visnjic, I. (2011).



Apparently **servitization is more likely to boost profits...**

- Once the company reaches a **critical mass of service sales** (around 20-30%, according to some researchers).
- When services are **strongly connected with the core activities** of the product business.
- When it is dealt with **proactively**.

Service businesses are complex to manage by product business firms

Difficulty of **being paid** for the service provided

Difficulty of getting the client **understand and value the service**, and even more, be willing to pay for it

Difficulty and cost of building an **international service infrastructure**

Mistake of not **measuring** profit of service activities accurately

Difficulty of **moving focus from the product to the integral value proposition**, when business success in the past has been based on the product

Difficulty and cost of developing **new sales capabilities**, focused on understanding client's needs

Mistake of not **allocating the resources** needed to develop the service business

Tendency to **prioritize product sales**, due to its higher unit size

...



Organizational and cultural issues

Position in the value chain



35%

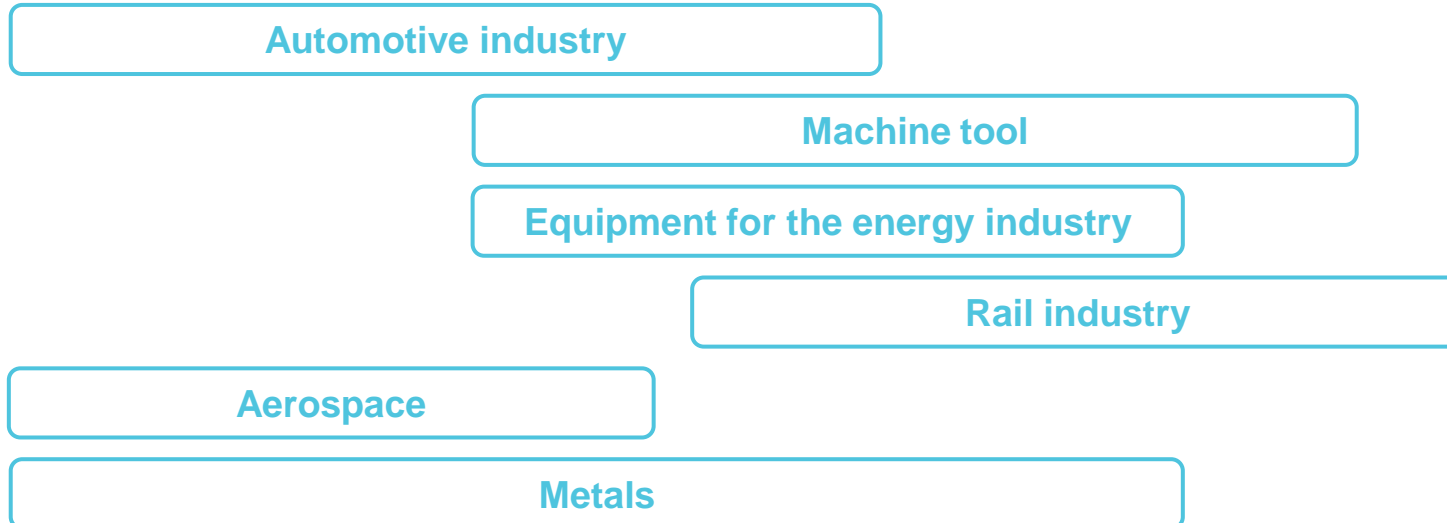
35% of companies surveyed sell exclusively through distributors, integrators or assemblers



Created by Vignesh Nandha Kumar from Noun Project

Bad news?

Most competitive Basque industry clusters:



Position in the value chain

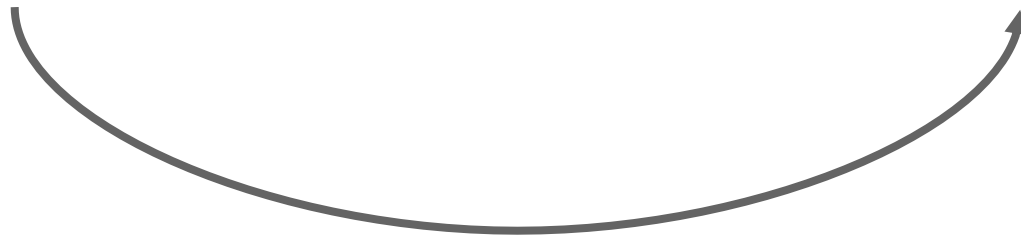


ToolCare

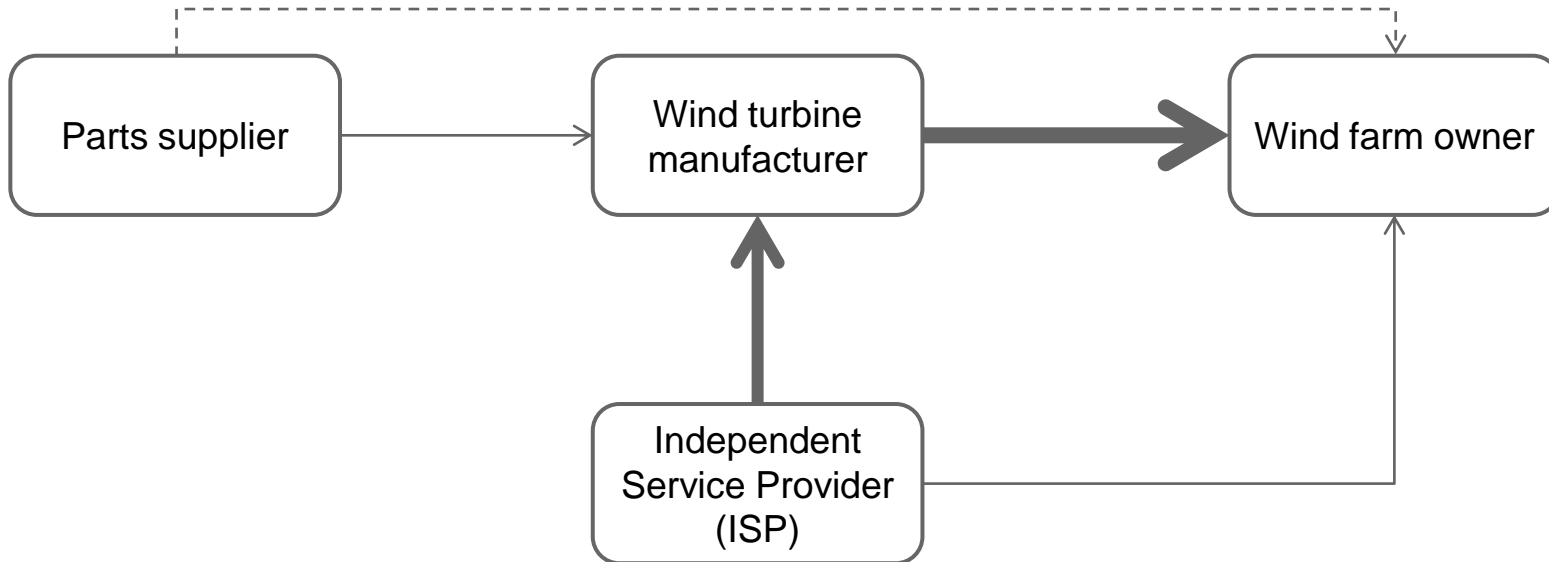


Product-focused

Use-focused



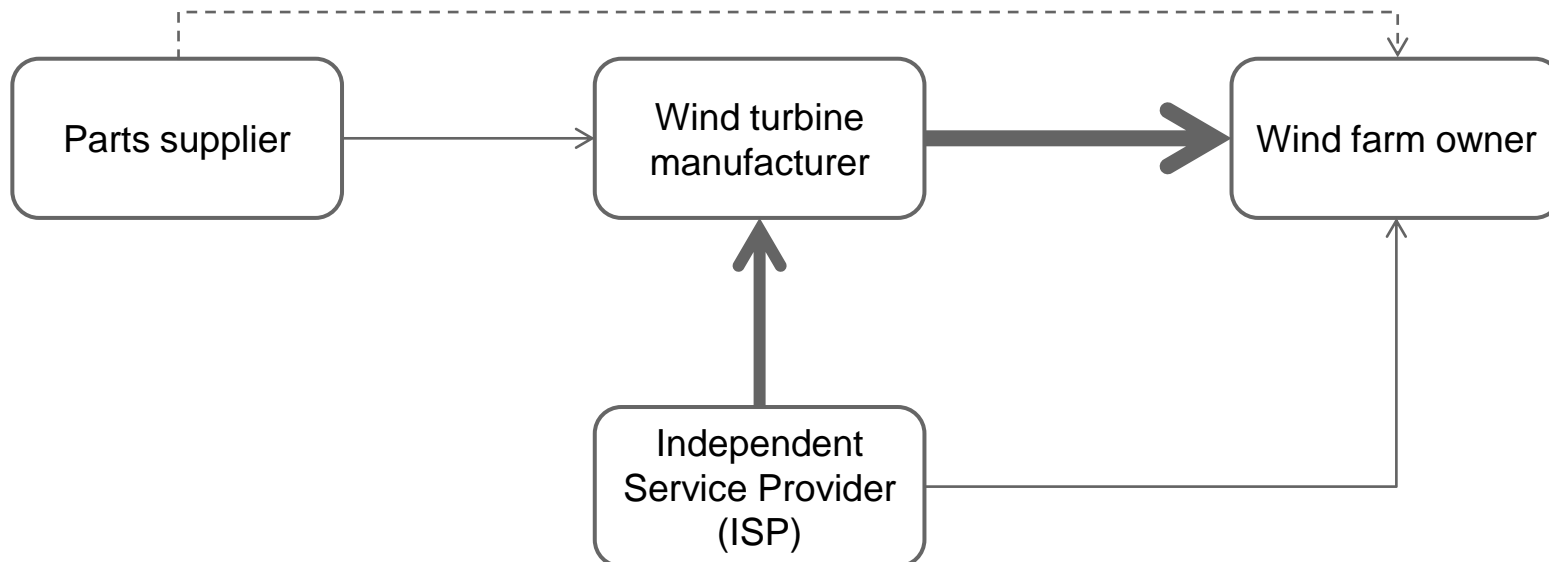
The service ecosystem



Created by Vignesh Nandha Kumar
from Noori Project

No way to alter
the status quo?

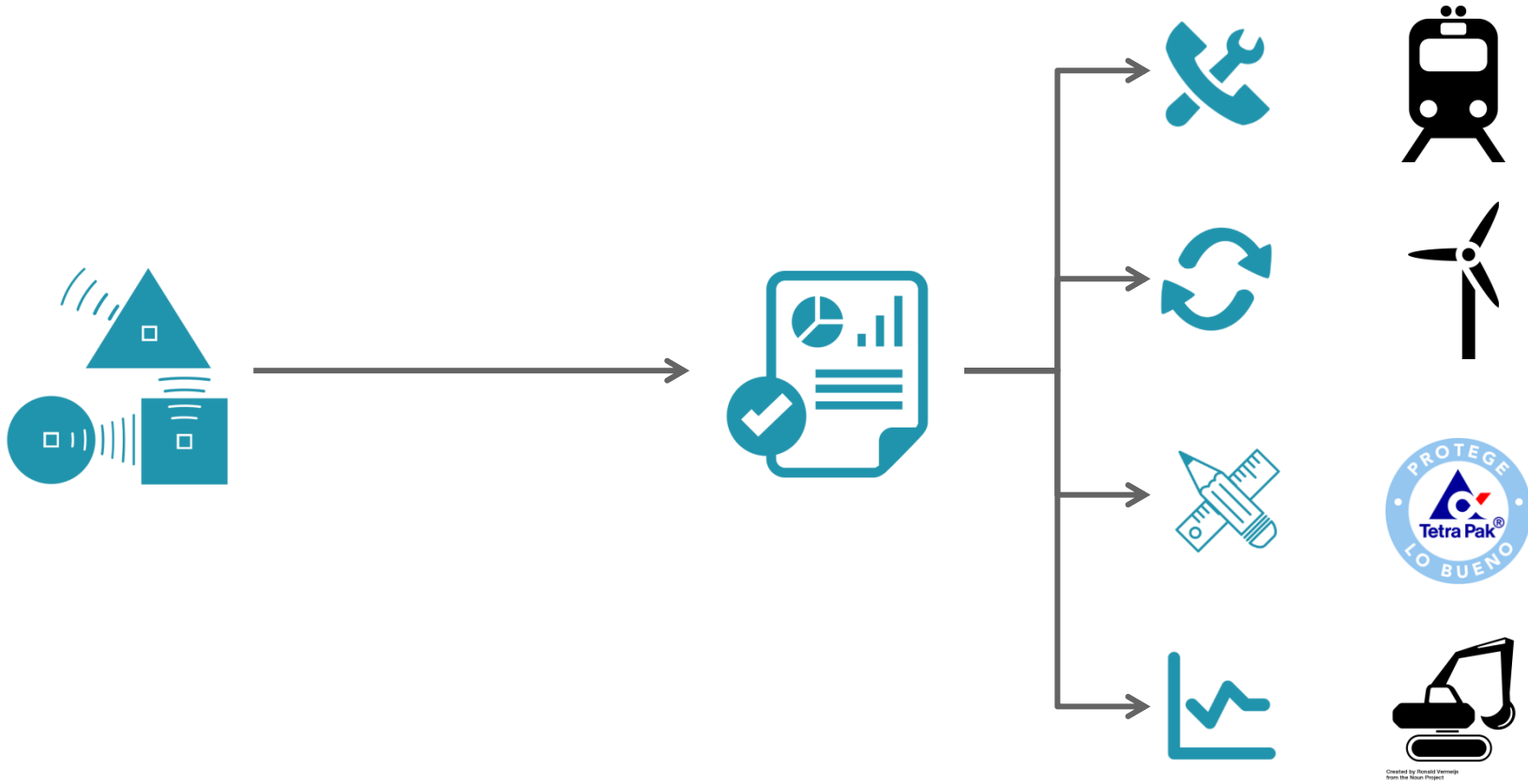
moventas



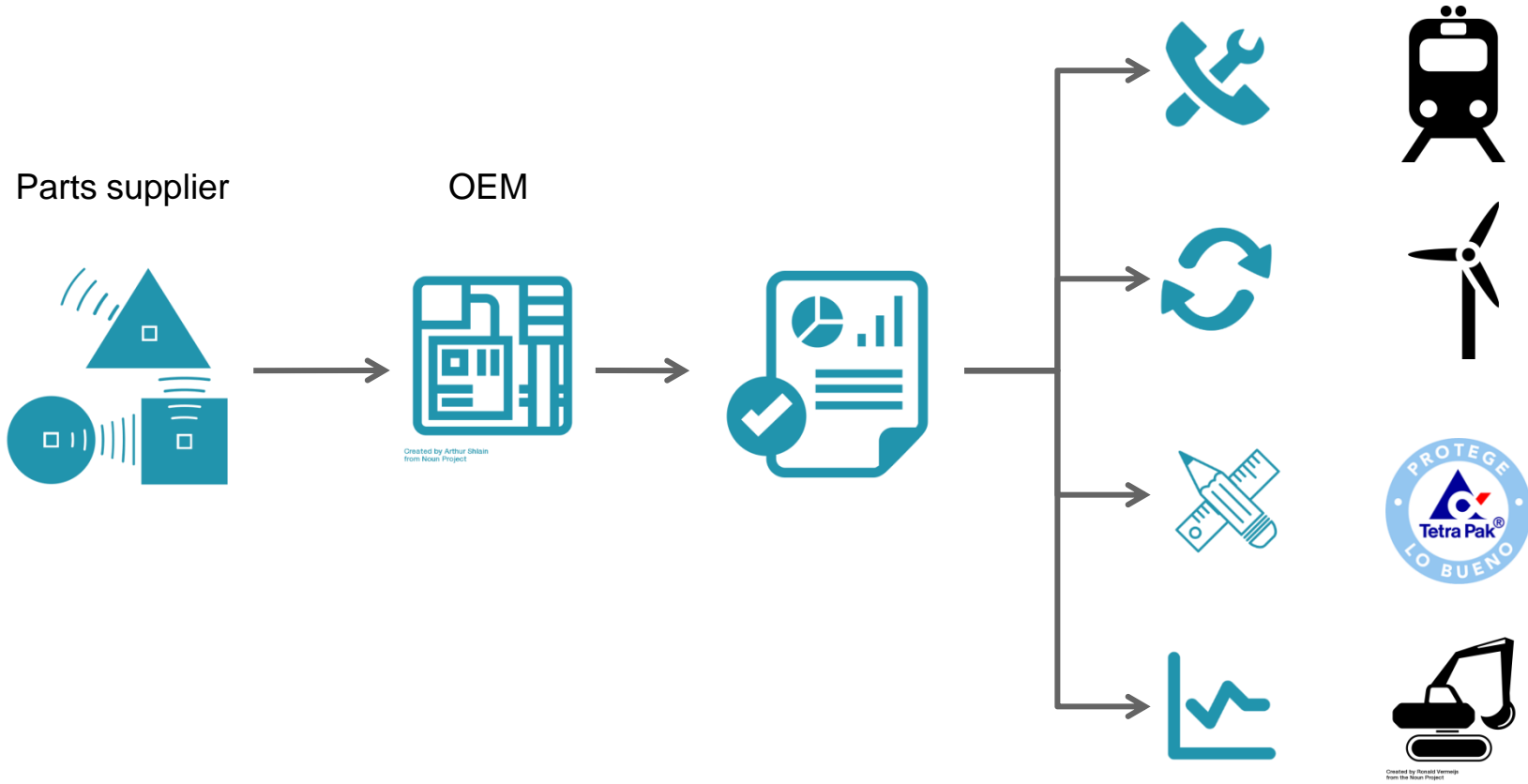
The service ecosystem



Remote monitoring, driver for servitization



Services or service-oriented products?



Position in the value chain



35%

35% of companies surveyed sell exclusively through distributors, integrators or assemblers



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Good news!

Most competitive Basque industry clusters:

Automotive industry

Machine tool

Equipment for the energy industry

Rail industry

Aerospace

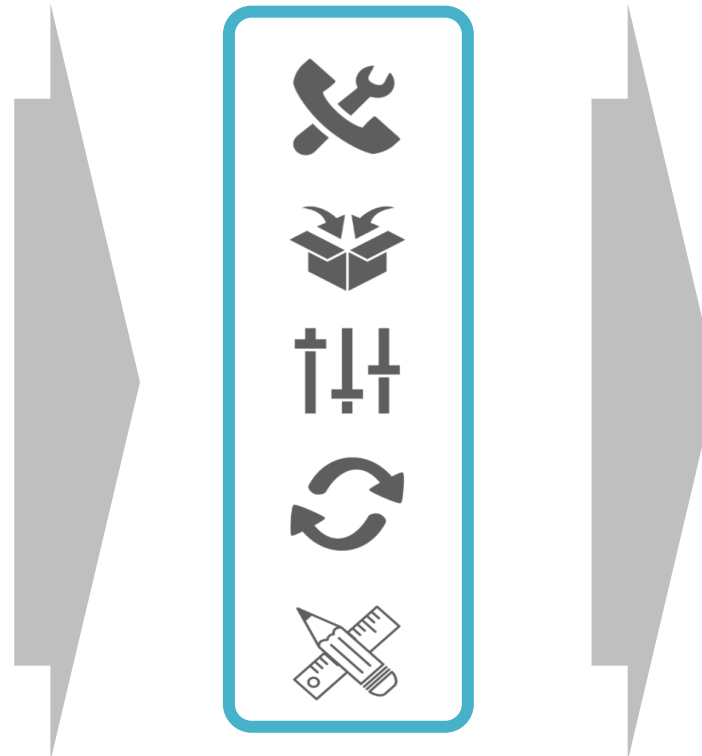
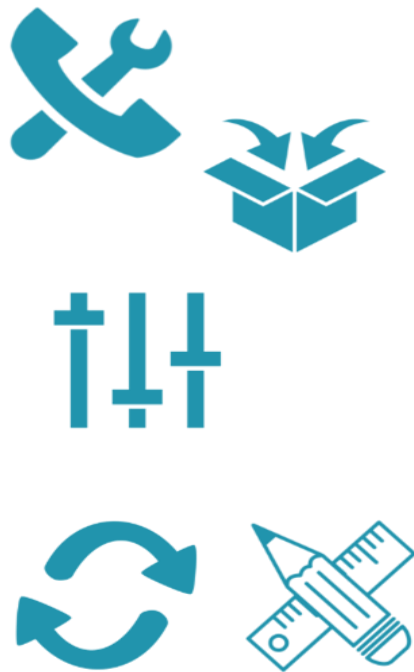
Metals

Service evolution in capital goods industry

Limited service-based offering, focused on one or two development paths

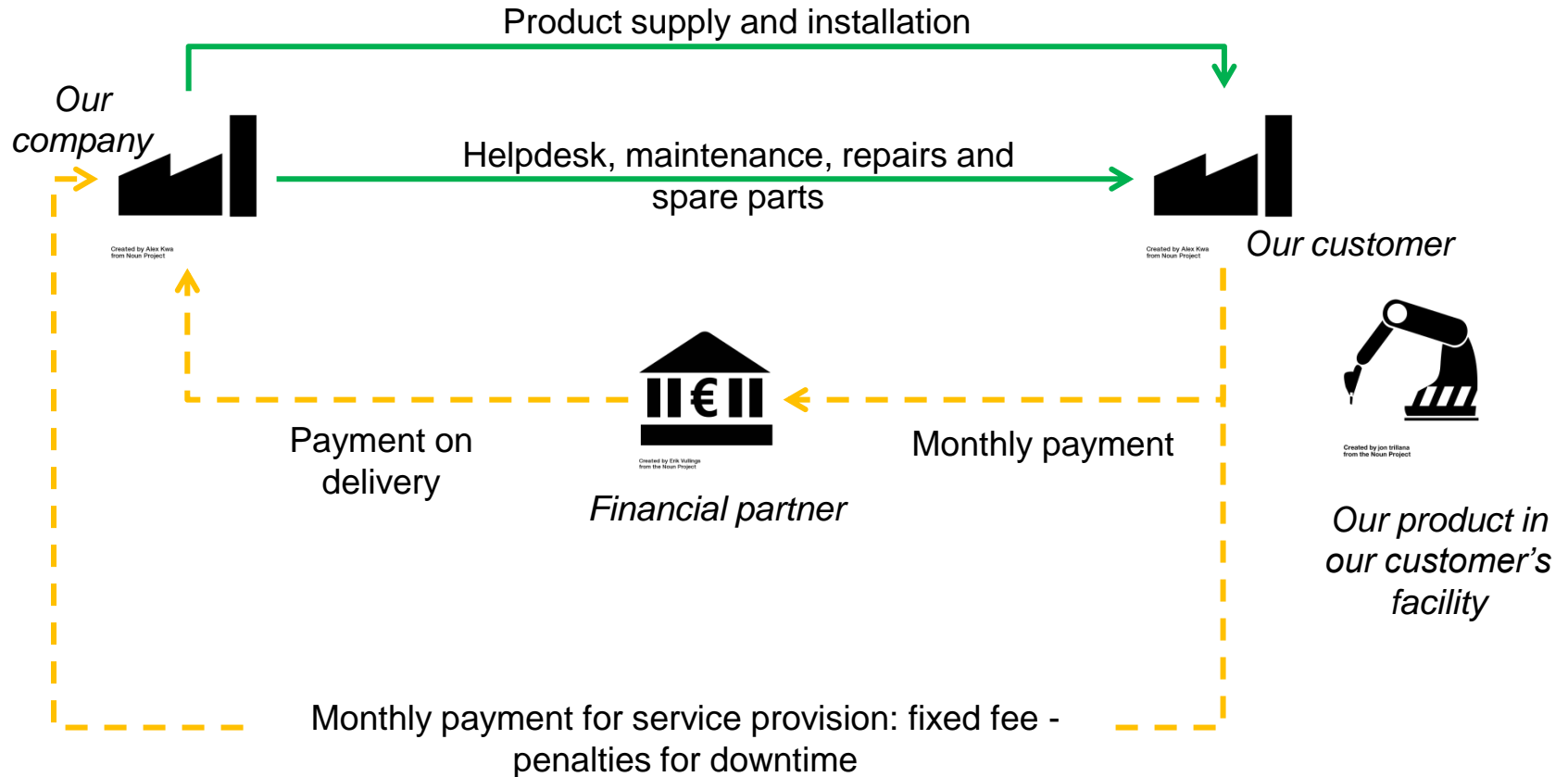
Comprehensive offering, which combines diverse services

Access, use or outcome-focused business models, built upon a sophisticated service portfolio



Basic framework in access-focused business models

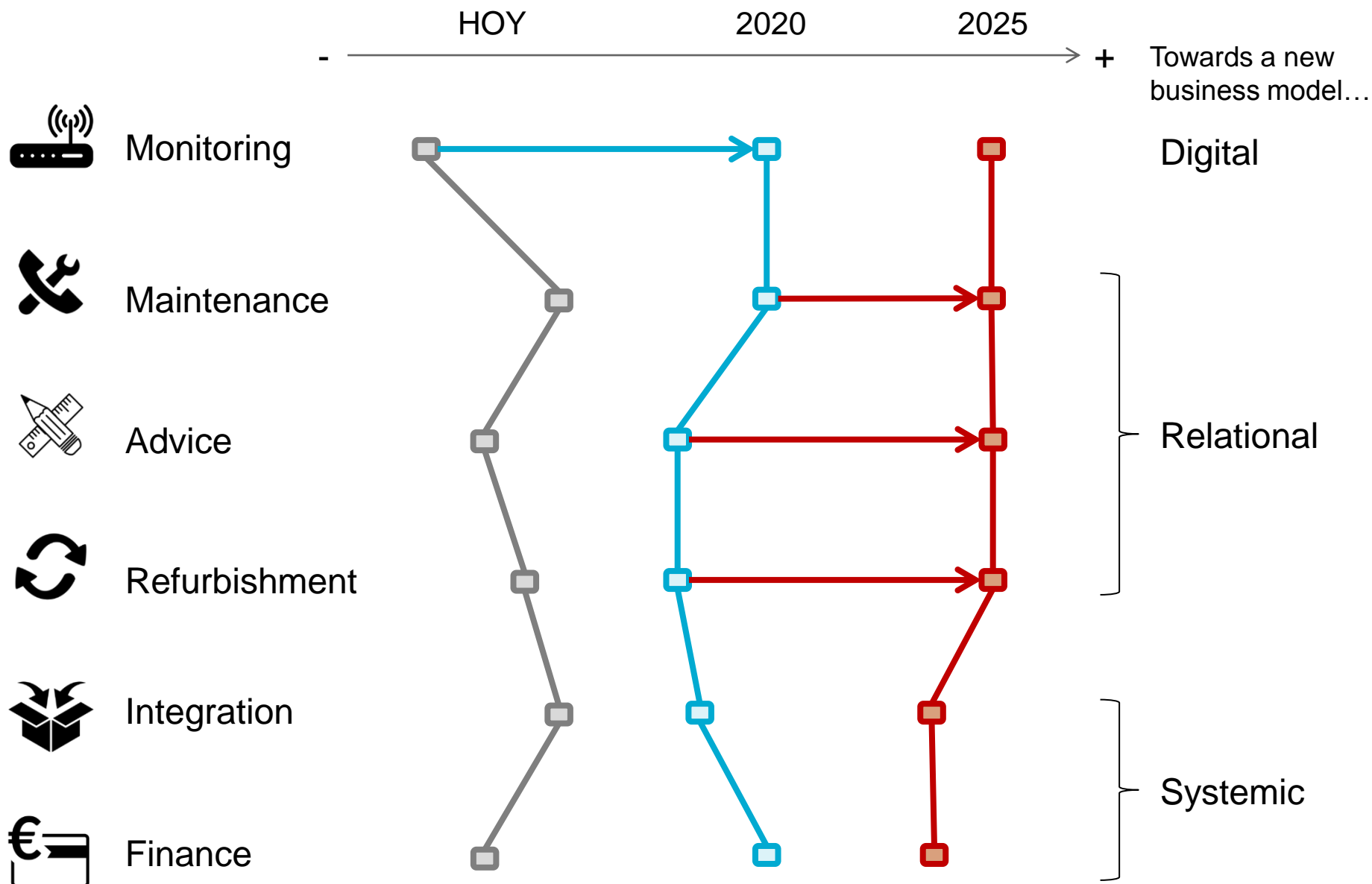
- Service flow
- - - -> Economic flow



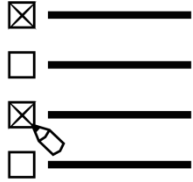
Our profit is based on:

- Our product's performance along its life
- Our efficiency in service provision

Are we facing a paradigm shift?



Some practical recommendations



Make your own choice, before your customers or competitors make it for you

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from Noun Project

***Listen to and observe your customer,
your customer's customer, the
consumer, the new entrants...***



Imagine, be creative

Prototype and test



Created by Ilya Kolbin
from Noun Project



***Capture and use data. Know your product...
and your finance!***

Created by Shmidt Sergey
from Noun Project

***Promote the cultural and
organizational change***



Additional conclusions are available upon request:

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