

FIELD SERVICE NEWS
think tank sessions



Executive Briefing: Servitization: Challenge and Opportunity

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Introduction

The Field Service News Think Tank Sessions are a unique project where we bring together an intimate group of senior field service management professionals and pick apart some of the pressing issues facing the global field service industry across a days worth of detailed discussion and debate.

The topics are varied, in-depth and full of insight and Field Service News is proud to facilitate these sessions and share with our audience the learnings from these collaborations - which we present to you verbatim to ensure the insight from each panel of industry leaders comes to you undiluted and in its essential form...

Servitization is a topic that I personally have watched evolve from a discussion tucked away in side streams with a handful of attendees at industry conferences to the dominant topic that sits at the heart of many key note presentations given in front of full auditoriums. I have seen this evolution within just a matter of years. Today it is perhaps one of the single most pressing discussions within the boardrooms of many companies from wide and disparate industries.

The poster boys of the servitization movement have been well documented, their case studies well known. We have all heard the story behind Rolls Royce's Power by the Hour. Similarly, many of us will have heard how brands like Alstom, Caterpillar and Phillips have forged a path for the rest to follow when it comes to establishing innovative advanced service-led programs that bring us closer to our customers and offer promises of longer-term contracts and enhanced profit margins.

Yet, as the old adage goes, if it was easy, everybody would be doing it.

Servitization, while at its very root may be a simple concept to get our heads around, the Everything-as-a-Service world we live in today has helped in translating the idea to the masses, the truth is when it comes to implementing such programs, the road to success has many obstacles and challenges to overcome.

In this session of the Field Service Think Tank, we discussed many of these challenges in the open and insightful manner that has become a hallmark of these discussions. However, the one thing that struck me during the session is that although such challenges are prevalent, they are not insurmountable and the prize for achieving such innovations can be game changing.



Kris Oldland, Founder and Editor-in-Chief, Field Service News

Think Tank Session, Online, March 2020

In attendance:

Maarten Wijnheijmer, Global
Aftermarket Sales Director,
Howden

Christo Roux, Director, Field
& Workshop Services, Outotec

Coen Jeukens, VP Global
Customer Transformation,
ServiceMax

Jan Van Veen, Founder
and Managing Director at
moreMomentum

Kris Oldland, Editor-in-Chief,
Field Service News

The Multiple Challenges of Servitization

The discussion of Servitization has become something of a broad church - perhaps an inevitable outcome given the complexity of the topic and the broad spread of disparate industries all seeing a shift towards delivering advanced services as part of their portfolio. However, when it comes to some of the key challenges of adopting such an approach, often we hear similar stories from very different companies...

Kris Oldland, Editor-in-Chief, Field Service News

"I've recently been speaking to and doing some work with an organisation who are really trying to push an advanced services path but they are finding it a challenge. The service leader there who is driving that change described servitization as a dot on the horizon. They are currently transforming from a reactive service business to becoming more proactive and the aftermarket project that has high strategic priority is improving our proposition of long-term service agreements. But one of the challenges they face is actually their strength. In that business, about 45% of the revenue is aftermarket related and they are in a comfortable situation because their customers need their parts and appreciate their expertise. Obviously, this situation doesn't particularly drive the need for service innovation.

"Internally, they have been pushing forward the promotion of the adoption of long term service agreements as a more proactive aftermarket model driving innovation- they are even exploring the potential of outcome-based services. But they've been doing this for some time without a huge amount of success and I think this is down to the fact that if such projects are just a dot on the horizon then you are continually going to battle for priority with the organization's short term objectives and needs. So at the moment there are two answers - by the vision they are definitely moving the right way, but they are yet to see that correlated in the daily actions."

Christo Roux, Director, Field & Workshop Services, Outotec

"I think servitization, or for us we internally talk about 'productization of services', is an area of growth, but when it comes to outcome-based solutions, both in my current role and in a previous role I held within the mining and minerals sector, as an industry, we've found it fairly challenging.

"This is because if we were able to improve our customers output and their production rates etc there should be mutual benefits from this and the conversation becomes centred around uptime. The challenge we face is the conversation becomes very difficult when companies are running pieces of equipment or process lines that for every minute, they stand idle they lose tens of thousands of dollars in potential revenue. How can we equate that to some sort of value that we bring when it soon becomes a conversation that involves astronomical amount of money?

"For example if we go to our clients and say we saved you 15 hours of down time last month that will equate to a huge amount of money, which way outstrips the service revenue."

Reframing the Service/Product Conversation

One of the biggest shifts within the field service industry within decades has been the impact of servitization as service has stepped out of the shadows and away from its traditional role as the necessary evil required to get the product deal over the line, to one where there is an equal partner in a genuine symbiotic relationship alongside product that benefits both provider and customer alike...

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"In my previous company I worked for Bosch where we were selling security and safety systems. When we're selling on a CAPEX basis to our customers the typical margin for product sales was somewhere between 5 and 10% because we were in a more commoditised business. But we saw the margin contribution on an aftersales revenue was much bigger. So from an internal drive it was very logical to say 'what if we can transfer some of the revenue from the sales domain to the service domain because then we have a higher margin contribution.'

"However, if you have two departments you have organisational issues. So one of the key questions from my perspective is just how much is margin contribution thinking essential in making the transition from traditional reactive to a more proactive, advanced services approach?

Maarten Wijnheijmer, Global Aftermarket Sales Director, Howden

"Even if the official strategy is to prioritise aftermarket and at the top level that is the story, you also need to see what is happening two layers lower in the organisation, which is where the day to day decisions are made. Strategy doesn't land on its own and it is not always understood by the top what is needed to implement their vision to generate more aftermarket business."

Reframing the Service/Product Conversation

Kris Oldland, Editor-in-Chief, Field Service News

"This is a scenario that isn't unfamiliar to me. I've had many similar conversations whether it be in a round table environment or in one on one discussions where these sentiments are echoed.

"It is very easy to take the top-level strategy which could be based around solid data, good understanding and good theory, but I think Martijn explains it very well when he talks of the implementation hitting a road block two layers down from that executive level.

"It is when we get to the nitty-gritty of the day to day decision making that such transitions can get lost.

"One of the things that I have noticed in similar scenarios is that the decision made have been made at the exec level, yet it has not been a completely thought out plan in terms of: 'How do we incentivise?' 'How do we communicate?' 'How do we go through the whole change management process?' 'Are we changing the KPIs that we expect our line managers to hit and also those of their personnel beneath them?' 'Are we changing the reporting structures in place?'"

Christo Roux, Director, Field & Workshop Services, Outotec

"We talk about bundling our offering. So in terms of servitization it has come down to long term service agreements which may include consignment stock, service level agreements, partial or full presence on site, 24 hour call services and so forth.

"For us that is as far as we are going in terms of servitization.

"But outcome-based services in our world is definitely a discussion being held, but the general consensus would suggest that it might have to be something that is separate to this initial approach.

"I don't today see it as something we could integrate into our field service offering particularly easily - so we will still definitely go with our long term service agreements. Through these we have an expected revenue base and also a better resource loading capability and then we can supplement this with all the spot resources we can do as well."

Reframing the Service/Product Conversation

Jan van Veen, Founder, moreMomentum

"I think there are two approaches for consideration here.

"If we are looking at this from the perspective of developing and innovating, then it is not really the KPIs that are the problem as yet. If you start using operational KPIs on an innovation team then something, somewhere will stall.

"I think it is good to have a decision from the executive level on any innovation within a business. However, a decision without a strategy on how we are going to run this innovation simply won't fly. So while it's nice to have a business strategy, often what we are missing is an innovation and change strategy.

"In this context, the approach adopted really depends on what type of innovation we are talking of. If it is small incremental steps, then you can expect the running organisation to do it as a side task. However, if it is a bigger project, then at some point, we need to organise a dedicated task force.

"If we are talking about something that requires new thinking about the business model, and when we are talking about outcome-based services that is exactly what we are doing, then the latter approach is more effective.

"We need to identify the new business logic about what our business mode will be. What is our position in the market? What problems are we aiming to solve for our clients?

At this point we can establish an optimum way of building out these new ways of thinking within the business and begin to establish satellite teams. Such teams should be entrepreneurial leaning teams who are tasked with outlining the solution and taking that to the market by identifying the early adopters – who are not necessarily the current key clients of the running organisation."

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"I think with a lot of organisations who have successful servitization models you are either a thought leader and you are pre-empting disruption, you have a niche market and it is suddenly a hit, or you have an organisation who is really listening to the voice of the customer.

"One of the most important questions you can ask a customer in this final scenario is around their end goals. For example, you ask the customer 'you have just bought a piece of equipment for a X million, but what was the purpose of that acquisition- do you want to own the equipment or do you want to use the equipment?

"If we focus on the use of the equipment as provider the question we must then address internally is what additional services can we now use in the domain?"

The Internal Structure of Servitization

As many organisations have discovered the long and hard way, implementing the right internal structure is absolutely essential for any organisation exploring an advanced services model. This is a vital part of the process that allows the internal space to develop and incubate a servitized offering both robust enough and mature enough to attract customers...

Kris Oldland, Editor-in-Chief, Field Service News

"Another company I have worked with has organised their services within business units so each and every business unit is responsible for developing their own service offerings. However, what I believe they also need is a platform to establish new servitized offerings, a central competence group that is guiding the teams to what is possible.

"Having covered the establishment of such groups in the past I've seen them have a real impact. Such groups, I think, should keep strategy simple and make it practical. Keeping it simple means taking baby steps, but at least you are taking them and moving forward. Making it practical is to enable these business divisions to actually deliver the projects. They are not going to invent the wheel themselves – so you have to bring it to them.

"Another organisational question in this area, is whether service is best structured as a separate business with its own P&L or as part of the product teams?

"The challenge is that if service is joined up, the focus will mainly be on the new builds or implementations, because that is where the big money is. Service is usually many smaller orders as opposed to the one big hit of the product sale. The service side of the organisation has to fight for priority and capacity and a shared understanding of the value of the long-term service relationship may ensure the organisation will accept the required investments in this case. On the other hand, if a company splits the operations, the problem becomes the handover from new build to service and customer relationship management. Ultimately, both models have challenges, the key is to realise what is the 'inside of the battle' and to establish the common ground to work together for the greater good."

Christo Roux, Director, Field & Workshop Services, Outotec

"In our organisation up until two years ago we had two different business units, based on two different technologies but our board reorganised and we now have three units with service being the third. Service now has a seat at the executive table and that has been the real game-changer. Now service has a very high profile, it is no longer that secondary part of the discussion which just gets added to the end of the product sale. Service is now an intrinsic part of the overall sales process. What we have found is that when you have that executive board level representation, focus and support, that does make a difference to how you can servitize.

For a long time, service has proven that in the lows of capital expenditure, service maintains the revenue stream. People always need to maintain their equipment and keep service running, so we were always a constant revenue stream at constant margins. This was largely driven by a change in the CEO seat and a lot of credit for this shift in mindset has to go to the new CEO who had the understanding and the vision to bring service into the executive conversations."

Selling the Concept of Servitization

Perhaps the biggest hurdle companies face when it comes to innovation is convincing others, especially customers, to get on board with the vision. Often companies wait for the proof of concept before they to sign up. After all, nobody wants to be the fool that backed a project that was untested - especially when it comes to an area as mission critical as field service delivery. So how do we go from service design innovation, to successfully selling servitization?

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"In my previous role with Bosch selling safety and security systems. What we did from servitization model within the organisation was to seek out a customer that was already mature enough to want to run. In our particular case that was Schipol airport in Amsterdam.

Here there were thousands of cameras and as an OEM I would love to sell thousands of cameras to any customer, but the margins on these is very low. So we started a conversation that where we asked the airport 'what do you really need, do you really need the cameras?'

The airport told us that what they really needed was the camera feeds. Now that makes the make and model of the camera irrelevant. However, they then went even further, as when there are ten thousand feeds coming in it is an almost impossible task to monitor them. So the airport went further by saying 'we don't want all the feeds, we only want the feeds that require an action.' This insight allowed us to begin to establish a product-output-outcome view.

The product is the camera, the output is the feed, but the outcome is the actionable feed. This made it much easier for Bosch to say that of course, we understand what it is to supply cameras. However, we also know from a video management system and intelligent video analysis how to use that in combination with the cameras. That is the digital layer above the products that is so crucial in complex servitization projects such as this. So in this particular example the solution sold to the airport was the entire infrastructure, but the outcome they were paying for was the delivery of actionable feeds."

Maarten Wijnheijmer, Global Aftermarket Sales Director, Howden

"I think perhaps one of the most important points around servitization is that you cannot sell the concept to everyone immediately. Although an even more important point around servitization is that, if you want to keep it simple and practical, you don't need to sell it to everyone immediately either. The trick is to start with customers that recognize the value, test the proposition with them and then scale-up."

Selling the Concept of Servitization

Christo Roux, Director, Field & Workshop Services, Outotec

"When it comes to selling service, we find that one of the challenges is that there are quite different levels depending on the organisation we are talking to who need to be brought into the conversation. Also, we find that in today's marketplace people move fairly rapidly.

"The days that we used to have a maintenance manager that was fifteen years in the position are in the past and that just doesn't happen anymore. As a result we tend to be dealing with different individuals within the same company relatively regularly which of course can change any momentum that you might have built up within the relationship and the understanding of how you could bring a servitized offering to them.

"Also, when someone takes on a new role, often what they need to do is make some radical changes and get some short-term wins. When you are talking about a long-term offering and how you can bring the value together to the organisation, that can quite often take a secondary stance. It is quite difficult to establish long-term conversations in this scenario. When you have longer term relationships and when you are able to get into a position where you can have a longer term offering and then start proving those values that you bring through your services I think that makes a big difference."

Jan van Veen, Founder, moreMomentum

"When it comes to selling services, I have seen some successful companies who really got it right by also having high attachment rates as the product sales team sells services but also having a service sales team for follow up service sales. What really did the trick there, besides training and content, was an incentive scheme which only allowed the product sales team to receive commission if there was a service contract attached to the sale.

"This was not necessarily contribution margin, because then you are saying one is better than the other. I think this is a mistake because ultimately we want both. Without equipment, we have no service, so we don't want people to sacrifice equipment sales because we get better margins on service. So, in this particular example, the organisation ensured that when selling equipment they were also consistently simultaneously selling a service contract. Additionally, they implemented strict rules around discounting service contracts. There is only one person in the organisation who can agree to a discount and that is the top director of sales and it is not easy to get it approved. With a system in place like this they of course saw an increase in the sales of services."

"Beyond this initial sale, the next step in terms of selling service, is to have a follow up conversations exploring cross-selling and up-selling ideas and to have a farming or nurturing team. This second team could either be part of part of the total account management team or localised to focus on selling services offerings depending on the organisational set up."

What is Driving the Move to Servitization

Given the challenges in both implementing and selling servitization based strategies (both internally and externally) why is there such a strong traction driving the concept forwards? Largely this could be attributed to the fact that the companies that have got 'it' right have not just succeeded, they have become icons within their respective industries. But is this all that drives companies to servitization or is there more to consider...

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"I think that one of the elements for a lot of organisations is that we know the disruption is out there and maybe the competition is not the competition you are currently aware of but maybe it is a start-up coming up with a solution completely different to what you are used to, and if you are in a comfortable position then of course the urgency to initiate change is very difficult.

"I once gave a presentation which was about what really killed the dinosaurs. It wasn't the meteorite it was their incapability to adapt. I think that agility and the ability to adapt is one of the most important things within business.

"I think a lot of organisations, even if they are very comfortable with their current business models and revenue streams, would be wise to have within the organisation, a group of radical thinkers to have the ability to work in a confined area where they can explore what will happen to the organisation should something impact their current normal."

Maarten Wijnheijmer, Global Aftermarket Sales Director,
Howden

"I think that servitization needs top-down leadership and if you have a CEO and leadership team who believe in servitization this changes everything. Often it is the case that in a previous company, CEO's have already seen the impact and so they don't want to wait until a "do or die" scenario is evolving here."

What is Driving the Move to Servitization

Kris Oldland, Editor-in-Chief, Field Service News

"Servitization requiring top down leadership is such a crucial aspect that I have witnessed in every single company that has developed a successful servitization strategy.

"One of the first people I interviewed around this topic was Des Evans, the former CEO of MAN Trucks UK. Des is a very humble man and explained the success at his organisation was very much the result of a collegiate approach.

"I absolutely believe that, but I also think that Des is underplaying his role a tad here and doing himself something of a disservice. Knowing other people involved in the project and who worked in and around the success that MAN UK had via servitization, Des' passion and leadership were crucial. From what I understand he essentially brought an infectious drive to the organisation that combined with his gravitas really pushed the strategy forward."

Jan van Veen, Founder, moreMomentum

"I think there are two things that need to be considered. One is the belief in the direction, the other is that you need to be able to innovate and try and explore and that you have resources available to do so.

"Often within companies everything can be so short term oriented, if that is the attitude of top and middle management then innovations will never flourish because such projects are just a disturbance of what is really important which is hitting your monthly and quarterly numbers. "

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"I think, from the OEM perspective, companies are looking at opportunities around servitization which could lead to an internal drive to move in this direction. However, this is not always the case. With the famous example of Rolls Royce for instance, it was not so much the internal drive but the external pull.

"Also, when we look at servitization we look at companies from a maturity scale perspective. As with everything we first need to crawl before we can walk and then eventually we can run. So if your service capabilities are currently more in the reactive mode then while it is very nice to look at that dot on the horizon, to get there, there are many intermediate steps.

"However, in addition to looking at the development from your own organisations, I would also try to flip the coin to look at how mature are our customers in terms of appetite for buying these services if you had them available. Even if you had a fully servitized offering are you sure your customers are willing to buy it?"

Making Servitization Work

As we've seen so far within this executive briefing report, servitization is challenging and complex. Yet, it is also an exceptionally profitable path to follow if we get it right. Similarly, we are living in an age of disruption and many organisations are facing a 'do or die' moment - evolve or become a historical footnote in the history of your industry. Given the stakes - it is important to make such innovation work, so the question we should be asking is no longer if we should we introduce advanced services into our portfolio - we now need to be asking how?

Jan van Veen, Founder, moreMomentum

"To play this game, then it is about having a vision, it is about have the space to be working on it, this would require some top line management support to give you the freedom and the budget to keep working on it, and quite often that means, that you have to find your early adopter clients that may not be your mainstream market clients because they are not interested yet.

"However, if you find a niche somewhere which is ready, which may even partner with you to start partnering and developing your solution until it is ready for the mainstream market.

"If we talk about do or die, if we expect some kind of disruption, the winners are now preparing themselves for when that disruption becomes more significant. "

Kris Oldland, Editor-in-Chief, Field Service News

"Often is the case as we have seen in the majority of poster boy cases for servitization such as Rolls Royce, Alstom, MAN Trucks (UK) etc that it was either a customer or market push that drove the innovation not the service organisation.

"The real question in terms of how we make servitization work on a wider scale is how do we flip the balance in that so we can go to our customers and essentially convince them that we as service providers, do actually know their business better than they do, which although we often don't like to admit it openly, can indeed be the case. How do we approach servitization as a provider push?"

Making Servitization Work

Maarten Wijnheijmer, Global Aftermarket Sales Director,
Howden

"Incentives are very important, they have immediate impacts and things start happening.

"Making things simple is making objectives specific and small enough to consume. Making things practical is knowing how to make this happen and that centres around understanding our customer value.

"I have a rule internally that if you cannot monetize it, it may not be worth developing. This is where my focus is currently, in that we're trying to define what is the offering that we can bring to the table. We are not the first ones in our market to develop such offerings, so what we do develop has to be very, very good and if we cannot put a dollar value on where we differentiate, it then it is simply not going to fly."

Christo Roux, Director, Field & Workshop Services, Outotec

"I think servitization is an area that needs the senior management support and must be a top-down initiative if you want it to be successful.

"When it comes to outcome-based services I think this is very industry specific and it also depends on the maturity of the industry and the maturity of your customers. There are some generalisations and some shared approaches that are applicable to service across verticals but also there are some challenges within individual sectors will face that can be vertically specific and this needs to be understood when exploring whether such an approach could work for your organisation."

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"Servitization is everywhere. No matter what industry conference we attend we will find a number of key discussions on this topic.

"However, I think the first thing that is required internally is to get the attention to it and there are a couple of ways of doing this.

"We can use a message of hope by outlining what a great value promise it contains. You can use a message of fear, is it a matter of do or die in your industry? Or is it a matter of pragmatic reality – we might be comfortable with our current revenue streams, but we also must take care of a 'what if' scenario and we must be realistic in this.

"These are the three core scenarios that have proven to capture the attention of the board in terms of servitization.

"However, we should also remember that getting this attention has to be geared not only at the executive level, but also as Martijn outlined across the various deeper levels of the organisation as well."

Servitization, Leadership and Maturity

Servitization is a topic with many facets and much nuance. However, the consistent points outlined by the Think Tank members in attendance of this session is that organisational maturity is important in the equation, as is strong leadership are key to success...

Coen Jeukens, VP Global Customer Transformation, ServiceMax

"Servitization requires a well thought out change strategy and part of this strategy has to be understanding our own maturity as a company, but also we need to understand the maturity of our customers as well. If there is no overlap, then maybe servitization for your organization is not right at this time. The mapping of maturity of those two axes of internal and external is crucial if we are to establish whether we are at the crawl, walk or run stage of our development.

"Once we have established that we as an organisation are mature enough to develop a servitization strategy, and we have also established that there is a customer out there mature enough to work with us in such a manner. Then we are in a situation where we can work with a launch customer in a small development group to create something with that launch customer together to prove some early success. Only once you can showcase those early successes and that customers really do want to buy this type of solution, can you begin to elaborate on the workflow and introduce other methodologies such as agile and scrum moving forward."

Jan van Veen, Founder, moreMomentum

"There is always a challenge of getting buy-in, but how much buy-in do we need can really depend on the maturity of the project. If it is in its incubation phase, then that buy-in could be as simple as allowing the space and some resources to develop the ideas. If we are talking about integrating the new development into your existing business then more buy-in will be required. I think it is always important to look at the bigger game, what is the bigger problem we are trying to solve? Service is one of the three core elements of a solution, if you can understand this and where your development is going to sit in the wider picture you are likely to have greater internal success."

Maarten Wijnheijmer, Global Aftermarket Sales Director, Howden

"The first thing that is required for a successful servitization project is a clear vision and the drive from the top. There is a big difference between the companies who have this and those that don't. I also fully agree in the importance of service innovation capability, a creative group that has the space to develop ideas. The third thing I believe that we need is buy-in but this needs to be in the deeper layers of the organisation as well.

"It needs to land there, not just because of incentives but they need to understand it as well. This is the fourth aspect for me. This understanding will be best delivered with some early success. This early success will come from working with customers who are mature enough to understand these new concepts and with these on-board it is easier to leverage those case studies to help drive the project further."

About ServiceMax

We lead the way in field service management. We continue to innovate within the industry and evolve with our customers as their needs change and grow.

The combined power of ServiceMax – with field service management and realtime communication solutions – enable our customers to transform their service from reactive break-fix model to predictive service that minimizes unplanned downtime.

Our focus is on the outcomes generated from the use of field service technology — outcomes that matter and make a positive impact on your business. For us, it's never been just about the products; it's about what you can gain, whether that's more productive equipment, more efficient technicians, great customer experience or perhaps most importantly, increased revenue.

The knowledge that comes with more than 10 years of experience has enabled us to help hundreds of companies around the world. Our customers do amazing things with ServiceMax technology to enhance their field service operations. ServiceMax processes more than two million work orders every month, created by more than 350,000 technicians around the world, servicing more than 200 million units of equipment.

Find out more about how ServiceMax can help drive your digital transformation @ www.servicemax.com

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