

THE RISE OF SERVITISATION AND 'AS-A-SERVICE' BUSINESS MODELS



Table Of Contents

Page #

03

Introduction

05

The key idea behind 'as-a-Service'

06

'as-a-Service' models explained

07

'as-a-Service', why now?

08

Advantages of 'as-a-Service': win-win-win

10

Examples of 'as-a-Service' success stories

13

About P2S Management Consulting

This whitepaper provides a thorough exploration of Servitisation and 'as-a-Service' business models, detailing their advantages for manufacturers, customers, and the environment. It includes real-world examples, a timely analysis of why the current market conditions are ripe for the development of such models, and outlines P2S Management Consulting's tailored approach to guide companies in conceptualising and developing 'as-a-Service' models. It is a comprehensive guide for businesses looking to navigate the shift towards service-based models while contributing positively to the planet and a company's bottom line.

Introduction

In 2018, Atlas-Copco, a world-leading provider of sustainable productivity solutions, introduced its Air-as-a-Service model, a paradigm shift in the compressed air industry. Traditionally, customers would invest heavily in air compressors, which come with associated maintenance and upgrade costs. With Atlas-Copco's model, customers no longer purchase air compressors but rather pay for the cubic metres of compressed air they consume. This reduces the upfront capital expenses and shifts the responsibility of maintenance, uptime, and upgrades to Atlas-Copco. The model is eco-friendly too, as Atlas-Copco focuses on energy-efficient solutions, ensuring that customers consume compressed air sustainably.

This is just one example of a manufacturer that developed an 'as-a-Service' offering. Inspired by other manufacturers and by B2C subscription successes like Netflix and Spotify, many manufacturers are complementing their sales portfolio by developing their own 'as-a-Service' offerings.

'as-a-Service', also known as 'Servitisation' or 'XaaS', (hereafter jointly referred to as "as-a-Service"), are innovative subscription-based business models that bundle equipment, services, and software into a continuous solution. Instead of a single outright Capital Expenditure (CapEx) purchase, customers engage in a recurring payment model, tailored around access, usage, output, or performance.

In this article, we will explore successful 'as-a-Service' models such as Rolls-Royce's 'Jet-Engine-as-a-Service', Signify's 'Light-as-a-Service', Engel's 'Injection-moulding-as-a-Service' or Michelin's 'Tyres-as-a-Service' models, and discover how these companies complemented their sales portfolio with new 'as-a-Service' offerings.

The advantage of this model for customers is that it equips them with state-of-the-art technology without the initial hefty price tag. They will pay a fee which typically covers equipment financing, associated services, and performance guarantees. The essence of subscription isn't mere financing; it centres on optimising Overall Equipment Effectiveness (OEE), reducing Total Cost of Ownership (TCO), and working towards a more sustainable way of doing business.

"As-a-Service' in manufacturing signifies a paradigm shift: from selling products to delivering tangible outcomes. This approach forms a symbiotic relationship where the manufacturer's success is directly linked with the customer's satisfaction, creating a business environment that thrives on mutual growth and understanding."

Florian André - CEO at
P2S Management Consulting



"There are two reasons why we are at a pivotal point towards more flexible business models today: (1) Clients want to make their cash flow streams more predictable and resilient to crises and (2) The technology that connects machines and turns sensor data into maintenance insights has finally made X-as-a-Service models a realistic option."

Josef Brunner -
former CEO at Relayr



The key idea behind 'as-a-Service'

Let's take a car as an analogy. Consider what most of us do with our cars. We aim to take the car in at the recommended 10,000km maintenance service intervals to get the oil changed, tyres checked, and so forth. But whether I consistently take my car in for routine maintenance or whether I neglect it, leading to significant repairs, what generates more income for the car dealership? It's a trick question. I probably don't know if I'd overpay bringing in my car too often for maintenance, or if I'd be better off bringing it in less often, but then I could be surprised by the problems (breakdowns, long waiting times, no available spare parts, etc.) that could arise and be expensive.

Now let's imagine that my car is operated on an "as-a-Service" model. The car dealer is now motivated to keep the car functioning for as long as possible. Since I only pay for the hours that the car is operational, the dealer does not benefit if my car breaks down and sits idle by the roadside.

The main difference with the subscription economy is exactly this. It's in the interests of both the customer AND the car dealer to ensure the best and most efficient operation of the vehicle. When a customer understands that their dealer has their best interests at heart and the situation is genuinely win-win, the entire basis of the relationship changes. *I want to provide the dealer with feedback on my car's performance. I'd inform them if I planned a trip to the mountains for skiing and ask them for advice on preparing my car, etc.*

"The fascinating thing about the subscription model is its win-win-win aspect. By selling equipment usership instead of ownership, the dynamics completely change and manufacturers, customers and our planet are better off. The incentives of all involved parties perfectly align."

Florian André - CEO at
P2S Management Consulting



'as-a-Service' models explained:

In traditional product-based business models, manufacturers produce a range of products from which customers can select. Once purchased (i.e. once ownership is transferred from the manufacturer to the customer), the responsibility is on the customer to ensure the product's maintenance, performance, and repairs. Decisions about when to dispose of the product and methods of disposal also lie with the customer.

'as-a-Service' models are focused on OPEX – Operating Expenses, rather than purchasing the physical equipment, i.e. traditional CAPEX – Capital Expenses; therefore avoiding the expensive upfront costs, as well as all the risks and hassle that may be associated with owning equipment. Customers directly benefit from improved performance and reduced investment needs while providers retain ownership of the equipment, remaining responsible for all costs related to the installation, operation, and maintenance of the equipment.

The manufacturer monitors the product's performance and steps in for its maintenance. Furthermore, decisions regarding product replacement—done without compromising the promised performance—are made by the manufacturer.

'as-a-Service' models reshape the dynamics between the manufacturer, product, and customer. From the manufacturer's perspective, this model fosters lasting customer relations, assures predictable and recurring revenues, and allows them to extend their expertise beyond mere product creation.

For customers, it offers a chance to curb capital costs, reduce potential risks, and benefit from the manufacturer's expertise over a longer duration.

"Despite the high level of interest and investments, the reality is that most companies are just getting started. Most companies tend to struggle with the process of designing subscription business models, with the development of truly differentiated offers, and with the monetisation and pricing of these offers."

Stephan Liozu - Consultant at
P2S Management Consulting



'as-a-Service', why now?

Traditional equipment sales see difficulties in several industries. Multiple factors indicate that it's time to look for a new approach on how value is brought to customers.

- 1 Changing customer demands:** Customers demand greater flexibility and less risk exposure. They no longer simply ask about low product prices but about the tangible results derived from assets.
- 2 Technological advances:** Recent breakthroughs in IoT, 5G, and Big Data have transformed traditional business models, facilitating a surge of digital solutions that refine or in some cases enable 'as-a-Service' offerings.
- 3 A push for sustainability:** With a rising global emphasis on green initiatives, the 'as-a-Service' model, which naturally reduces resource waste and extends product lifespans, fits well with sustainable practices. As manufacturers retain ownership of the equipment, they have an incentive to extend the lifespan of equipment and provide upgraded, more efficient equipment, resulting in lower energy consumption, reduced emissions, and improved sustainability.
- 4 Declining equipment sales:** As the traditional equipment margins and yearly sales volumes decline across various sectors, aftersales services have become the primary profit source for many. Consequently, equipment manufacturers are exploring new ways to bolster their market presence and expand beyond mere equipment sales. The 'as-a-Service' model is becoming an increasingly popular choice.

Advantages of 'as-a-Service': Win-win-win for manufacturers, customers, and our planet

For Manufacturers:

- 1 Stable revenue streams:** The subscription-based nature of 'as-a-Service' ensures a steady and predictable inflow of revenue, making it easier for manufacturers to allocate resources effectively and forecast financials accurately. This stability is crucial for long-term planning and sustainability.
- 2 In-depth customer insights:** Equipment connectivity in 'as-a-Service' models enables manufacturers to gather detailed data on how customers use their equipment. This information allows them to create bespoke solutions and enhance customer experiences by offering tailored consulting services and recommendations based on actual usage patterns.
- 3 Boosted customer loyalty:** Long-term subscription relationships foster loyalty and create opportunities for cross-selling other products or services. The recurring nature of the 'as-a-Service' model provides numerous customer touchpoints, strengthening the relationship over time.
- 4 Enhanced company valuation:** Successfully developing 'as-a-Service' can lead to growth that surpasses the market average, thereby increasing the company's valuation. Shareholders are particularly fond of recurring revenue as it indicates stability and future growth potential.
- 5 Strategic edge:** Being a pioneer in adopting 'as-a-Service' in your niche can differentiate your company from competitors and potentially deter them from entering the same space. This first-mover advantage can be critical in establishing market leadership.
- 6 Better profit margins:** According to a 2019 study by McKinsey & Company, service sales in a 'as-a-Service' model can significantly boost Earnings Before Interest and Taxes (EBIT) margins, which are up to four times higher compared to a traditional sales model.
- 7 Avoiding price wars:** Shifting the focus from price to value allows manufacturers to highlight their unique service offerings, reducing the need to engage in price wars with competitors.
- 8 Portfolio diversification:** Complementing traditional product sales with 'as-a-Service' offerings can appeal to a broader customer base and reduce risks associated with dependence on a single revenue stream.

Advantages of 'as-a-Service': Win-win-win for manufacturers, customers, and our planet

For Customers:

- 1 Cashflow ease:** The payment structure of 'as-a-Service' preserves cash, which is especially valuable in unpredictable financial climates where liquidity is key.
- 2 CapEx to OpEx transition:** This shift from capital expenditure (CapEx) to operational expenditure (OpEx) provides customers with greater financial flexibility and benefits their balance sheets by reducing the need for large upfront investments.
- 3 Varied ownership options:** Catering to the growing demand for diverse ownership models provides customers with options that best suit their operational and financial needs.
- 4 Mitigated operational risks:** Transferring risks like breakdowns to manufacturers ensures uninterrupted equipment performance, which is crucial for maintaining operational efficiency.
- 5 Affordability for occasional use:** The "pay-as-you-go" model aligns with the requirements of infrequent equipment users, making it a cost-effective option for those with variable equipment needs.
- 6 Increased productivity:** Real-time data integration in the 'as-a-Service' model can lead to increased efficiency in the manufacturing supply chain, boosting overall productivity.
- 7 Stable financial planning:** Businesses can plan their budgets more confidently with fixed or usage-based fees, rather than dealing with the unpredictable and often unexpected costs associated with ownership.

For Our Planet:

- 1 Aligned objectives:** XaaS promotes product longevity, efficient usage, repairability, and effective end-of-life strategies, all of which are principles of the circular economy. This alignment is crucial for sustainable business practices.
- 2 Resource conservation:** Equipment that is durable and repairable translates to fewer raw materials used and significant energy savings, contributing to overall resource conservation.
- 3 Regulation adherence:** The XaaS model aligns with sustainability initiatives like the European Commission's Green Deal, which champions sustainability and the creation of green jobs. This alignment ensures compliance with regulations while contributing to broader environmental goals.

Examples of 'as-a-Service' success stories

Next, we will look at some examples of how the 'as-a-Service' model has worked successfully in different industries such as transportation, metalworking, HVAC, lighting, tools or injection moulding. These examples illustrate how 'as-a-Service' can change the way businesses operate, how customer service is improved, and how it contributes to create a better, more sustainable future.

Tyres-as-a-Service



Michelin transformed its tyre sales approach by introducing the EFFITIRES subscription. This solution, backed by Michelin Solutions and the EFFIFUEL ecosystem, provides detailed analytics on vehicle metrics, leading to fuel and cost savings. Instead of the traditional tire purchasing model, customers now appreciate its pay-per-driven-km approach. As of recent records, EFFITIRES manages over 500,000 vehicles, showing the immense trust industries have in this service-oriented approach.

Industrial-printer-as-a-Service



Facing challenges in the traditional print industry, Heidelberg brought a game-changing approach with the Heidelberg Subscription. Customers now pay a monthly fee based on their print volume, eliminating the need for massive upfront investments in machinery. Enhanced by a partnership with Munich Re, Heidelberg not only offers machinery but also continuous support, tailored consumables, and expert insights. This comprehensive service model predicts a promising revenue potential of €200 million soon.

Power-tools-as-a-Service



Addressing the evolving needs of the construction sector, Hilti shifted from merely selling tools to offering the Hilti Fleet Management service. With no upfront tool costs, fixed monthly fees, and continuous tool renewals, clients gain both financially and operationally. With over a decade of experience in this service, Hilti boasts impressive numbers, managing over a million tools for hundreds of thousands of customers. This transition was not without its challenges. Dr. Christoph Loos, Hilti's CEO, highlighted the substantial shift in sales strategy and the intricate journey of adapting to the long sales cycles of conceptual sales. This proactive shift safeguarded Hilti during economic downturns, notably increasing its sales by 26% during the 2008 Financial Crisis.



Examples of 'as-a-Service' success stories

Injection-Moulding-as-a-Service



Engel's innovative approach to the injection moulding sector focuses on charging customers based on the actual usage of their equipment. This has dramatically reduced initial costs for customers while ensuring a consistent revenue stream for Engel. In addition to the financial perks, Engel's model emphasises sustainability, leading to a significant reduction in power consumption and CO2 emissions, benefiting both the environment and the end consumers.

Light-as-a-Service



Moving beyond selling light bulbs, Signify introduced a model where customers pay for the actual light they use. This model's sustainability is evident as Signify's lights last up to 75% longer, leading to substantial waste reduction. For instance, energy usage at Schiphol Airport was cut by 50% after adopting Signify's service. Their earnings from this model rocketed from €42 million in 2016 to €184 million in 2020, underscoring the immense potential of service-centric approaches.

Laser-cutting-as-a-Service

Trumpf, a leading high-technology company producing laser cutting equipment, introduced the Pay-per-Part model, a notable shift from the traditional machinery purchasing approach. Instead of investing in costly equipment, customers only pay for the actual parts they produce. This model is particularly beneficial for companies that require precision parts but might not have consistent production needs or the initial capital to invest in advanced machinery. By aligning costs with actual production output, Trumpf allows businesses to have flexible production capabilities, optimising costs based on demand. Furthermore, Trumpf ensures that the machines are always in optimal condition, reducing downtime and ensuring consistent product quality for the end users.

Jet-Engine-as-a-Service:



Back in 1962, Rolls-Royce revolutionised the aviation industry with its "Power-by-the-Hour" model. This approach shifted the traditional purchase model, allowing airlines to pay a flat hourly rate per engine whilst Rolls-Royce managed everything from installation to decommissioning. This not only reduced airlines' immediate financial burdens but also brought expertise directly from the manufacturer. The approach has been so successful that, in 2022, Rolls-Royce celebrated the 60th anniversary of this model, reaping over 400% more revenue from services than from the sale of traditional equipment.



Examples of 'as-a-Service' success stories

Heating-as-a-Service



Viessmann, renowned for its heating systems, ventured into the 'as-a-Service' space with its Pay-per-kWh model. Instead of buying a heating system, customers pay for the actual heat energy they consume. This approach eliminates the need for homeowners and businesses to invest in and maintain heating infrastructure. Viessmann takes on the responsibility of installing, maintaining, and ensuring the efficiency of the heating systems. By charging per kilowatt-hour, Viessmann aligns its revenue with the performance and efficiency of its systems, guaranteeing customers optimal heating solutions while also promoting energy conservation.

Cooling-as-a-Service



Energy Partners, a solutions provider in the energy sector, introduced the Cooling-as-a-Service model, tailored for industries and businesses that require cooling solutions but want to avoid the capital expenditure and maintenance hassles associated with cooling systems. Customers pay based on the cooling they consume, transferring the onus of system efficiency, maintenance, and upgrades to Energy Partners. In terms of energy efficiency (energy and CO2 savings), improvements of more than 40% were measured in the Cooling-as-a-Service model, compared to a traditional sales model. This approach is particularly beneficial for sectors like food production, where cooling plays a crucial role in preserving produce quality. With this model, businesses can ensure optimal cooling without concerning themselves with the intricacies of system management.

About P2S Management Consulting: Experts in 'as-a-Service' business model transformations

P2S Management Consulting specialises in facilitating successful transformations to subscription and 'as-a-Service' business models. Our firm is proficient in managing steady transformations, utilising a blend of expertise, extensive experience, and effective execution strategies. We are committed to assisting companies in developing and initiating their own subscription and 'as-a-Service' business models.

Structured Transformation Strategy: The Subscription Action Plan™

Acknowledging the complexity and specific challenges of the 'as-a-Service' sector, we have developed the Subscription Action Plan™, a detailed guide that outlines each stage from conceptualisation to successful launch. This roadmap comprises over 20 specialised workshops, aimed to systematically tackle the main challenges associated with subscription and 'as-a-Service' business models.

Practical Workshop Approach

Our workshops are based on comprehensive research and practical experience, combined with a solid understanding of industry dynamics. We integrate insights from successful 'as-a-Service' transformations, merging tried-and-true strategies with contemporary academic insights. Each session is carefully designed to address different components of the 'as-a-Service' transformation, offering a cohesive and structured approach that prepares companies to introduce their 'as-a-Service' offerings with clarity and confidence. Examples include assessing the right products, defining the pricing strategy, setting up the financing structure, assessing the risks, drafting the contracts, etc.

About P2S Management Consulting: Experts in 'as-a-Service' business model transformations

Expertise Network: The Subscription Experts Ecosystem™

To complement our Subscription Action Plan™, we have created the Subscription Experts Ecosystem™, a network consisting of over 20 industry professionals and partners. This collective enhances our consulting capabilities, not only offering guidance but also facilitating connections with the right partners to achieve 'as-a-Service' goals. This network, including 'as-a-Service' financing entities, technology providers, law practices, plays a vital role in the successful completion of each 'as-a-Service' project.

Your Pace, Our Dedication

We understand that transformation is a journey, not a sprint. Typically, a subscription business model under our guidance takes between 9 to 18 months, a period carefully structured to ensure quality and precision. Our team is committed to supporting you at every step, ensuring each milestone is reached with accuracy, enthusiasm, and a high standard of excellence.

With P2S Management Consulting, you are not just adapting to a new business model; you are taking active steps towards shaping the future of your industry.

Embark on this transformative journey with us and redefine your business's potential.

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