

INSIDE

# What is servitization and why does it matter to you?

11 pieces of advice



If you're reading this you're probably someone that is familiar with the benefits of servitization, or you might be someone that has clicked your way to this article because you have observed the major trend that an increasing part of manufacturers' revenue comes for services and you wonder why that is. For example, here in Sweden leading manufacturers like SKF have 30% of their revenue from services and Volvo have a goal of 50%. For those of you that fit the second category I will briefly touch upon the what and why of servitization. First category readers can skip a paragraph (time is money).

## David Joelsson

— Business Designer at Humblebee

Servitization is defined by Kowalkowski and his colleagues as “the transformational process of shifting from a product-centric business model and logic to service-centric approach”.

There are several reasons for this transformation and this is my 3 favorites.

1

Good services improve your customer's utilization of the product you deliver and thereby also improve customer satisfaction and strengthen your competitiveness.

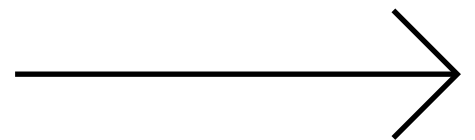
2

In addition to helping the product to function, the services themselves also have the potential to generate revenue with good margins, and with an increased part of the revenue coming from services you are less sensitive to economic fluctuation.

3

Providing services generates more interactions with the customer, helps your employees learn more about the customer, and strengthen the customer relationship. This has the effect that you are competing based on long-term rather than short-term relationships.

6 pieces of  
advice about  
servitization on a  
strategic level and  
5 on a hands-on  
level for managers.





1 - 6

Strategic advice





# one

## Create a separate service organization

Bring your existing service together under one roof and create a service organization. Selling and providing services requires a mindset that differs from the traditional manufacturing mindset. You need a salesforce with a different set of skills and incentives that focus on value in use rather than value in exchange. Also, without a separate service organization your manufacturing culture is likely to steer the entire innovation budget to (often incremental) product innovation.





two

## Go from reactive to proactive services

I hope that you provide quick service when there is a problem with your product. The next step is to become proactive in your service provision. Make sure that you offer great maintenance service that guarantees efficient use of your product. Always.






# three

## From efficient use to efficient process

When you have your proactive services in order, it is time to go from improving the customer's use of the product to improving the customer's business process. This requires substantial efforts in trying to learn more about the customer's way of working. Good thing that you have proactive services where your employees interact with the customer and continuously learn about their way of working. When you know more about the situations and processes in which your product is used, you have the chance to take on more responsibility and create more value together with the customer.








four

## Charge for your services

To really become a service oriented company the service organization needs to be transformed from cost center to profit center. Manufacturers have traditionally given away services for free to get market advantages. Your employees will never see the value of services if that doesn't change. Naturally no customer is in love with the idea of starting to pay for something that they previously got for free. But there are strategies for this. For example, redesigning the service and providing a basic service for free and an extended service for fee, or starting to use a service partner and explaining that the new partner cannot work for free. In the long run the customer will come around as long as they experience value from the service.





five

## Take over parts of the customer's process

If you do this successfully you will create a great lock-in effect and really deepen the relationship with the customer. When your customer's process is dependent not only on your product but also people of your organization, you will have created a close and long-term relationship.





## Turn product into service

In other words don't sell products, sell functions, value or experiences. One of the most common examples of this is Roll Roys transformation from selling jet engines to selling time in the air, including installation, check-ups and maintenance, nicely communicated as power by the hour. Customers no longer had any problems predicting maintenance costs and didn't need to worry about planes not starting or planes being replaced earlier than necessary. They could instead focus on providing a great flying experience to their customers. Roll Roys created a closer customer relationship and could also make direct profit from all quality improvements of their engines. A more recent example is Sunfleet. They sell transportation rather than cars, so their customers don't have to worry about maintenance, changing tires, washing, choosing insurance, the cars second hand value, etc. One can only wonder when this business model completely replaces the traditional product centric car selling model. Will Sunfleet's main owner Volvo Cars (or one of its major competitors) adopt a service centric business model and free us all from the hassle of owning a car?





7 - 11

Hands on advice



# seven

## Define what jobs your customer is doing

Service is all about value-in-use for the customer. Make an effort to really understand the customer's processes. Which jobs are your customer carrying out? Why and how are they doing it? To understand this you need to put yourself in the shoes of your customer's employees and try to experience the situation the same way they do. This should not be done in front of a whiteboard in a conference room. You need to document experiences from the real context. After you have developed a profound understanding of the customer's process you ask yourself how your company helps to facilitate that process. That is your current service! Can this be improved? Maybe you can take on a larger responsibility? Revealing pains or increasing good experiences for your customer? At this point ideas usually starts popping up.







# eight

## Customer Journey first - Service Blueprint second

Both customer journey maps and service blueprints are great tools for visualizing a service. The service blueprint, first introduced in the early 80s by the mother of service marketing, Lynn Shostack, is great for creating an overview of what is needed for a well-functioning service delivery. But, from my experience it is dangerous to start with the blueprint too early when designing a service. The risk is that you start focusing on internal organizational issues instead of what the customer do and experience. So, before diving into the blueprint and fixing the internal structures, you should map up the customer journey, define the touch points where the customer interacts with the service, and make sure that all digital as well as physical touch points enhance the user experience, and coherently communicate your brand values.





# nine

## Use service interactions to learn

Service provision will increase the number of customer interactions and every interaction is a possibility to learn about their processes, problem, motivations, goals, etc. Make a habit of sharing and discuss what you learn with your colleagues. Continuously update your customer journey map after new insights.





# ten

## Understand the customer's customer

This has great potential since the work your customer is doing is fundamentally about helping their customers. When you familiarize yourself with the processes of your customer's customer you will get a wider understanding of your customer's business model. Knowing how your customer interacts with their customers will give you insights about how the services you design and provide relates to your customer's revenue generating activities and not only the cost structures.





# eleven

## Read the classics, take a course or give me a call

Did you think that clicking on a link and reading a short white paper would be enough to master the transformation from a product-centric to a service centric business model and mindset? I'm sorry, it is never that easy. But it is a start. The papers listed below could be a next step (most of what I have written here is based on them), or you can give me a call or send me an email. I'm happy to have a chat about servitization and service design.



# References

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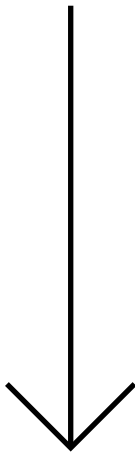
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Thanks for reading. If you'd like to meet and talk about service opportunities at your company, get in touch.



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