

Things+ in practice A great example of servitization



"We found the servitization support program really helpful in defining our value proposition and designing the best way to deliver it to our customers. We believe that services based on our technology are the key to prosperous and long-term relations with our customers and partners that are going to help us change the way people experience video content," explains Mario Drevenšek, CEO of a small Croatian company [Beyond Seen Screen Ltd.](#), producing software based on video recognition technology.

The company created a platform and an application that enable access to additional information and actions related to the video content that is being watched. The ExRey app on the mobile device is used to scan the video, and the ExRey platform processes the video and provides the information and other possibilities end users are looking for. Based on its products, the company designs services for their different target customer segments. Their potential clients are video production companies, TV networks, marketing agencies, and other organizations that aim at additional monetization of the content they create. The company believes that services based on their technology will transform the way end users experience video content.

Beyond Seen Screen used the tools proposed by the THINGS+ Service Innovation Methodology in order to design a coherent service for their customers that would allow widespread acceptance of their innovative technology. Through each phase of the methodology they elaborated different elements of their offer and how it should be delivered. This resulted in a concept of a B2B service with a specific approach to companies that want to create new channels of promotion and sales through interactivity of promotional video content. The service covers all steps of transformation and management of the video content, which is also supported by an artificial intelligence software and web crawler programs.

Success story from Poland: Things+ opens your eyes and broadens your horizons



"Participation in the program has expanded to include a perspective on the market and customers. He made us aware of the possibilities and our potential, which is why we have developed an innovative project," says Zbigniew Zawisła, CEO from the company Danzap Agro, which started its activity in 1996 as an authorized dealer of milking systems and milk coolers (GEA Farm Technologies, formerly WestfaliaSurge).

In 2005, the company started cooperation with John Deere, a world leader in the sale of agricultural tractors. Therefore, PW DANZAP had to undergo a reorganization, consisting in specializing a suitable, fast-acting service and training of sales representatives. Danzap is today a thriving company dealing with sale of agricultural machinery and spare parts, providing agricultural machinery service (inspections and warranty and post-warranty repairs, agricultural machinery repairs), consultancy regarding the construction and modernization of barns and comprehensive care of milking equipment and milk coolers (sale of spare parts, equipment service).

A new service was developed

As part of the workshops using the service innovation methodology, a new service was developed in the company, related to the scope of existing activities. This service that will also allow the company to enter new markets and reach new customers. The premise of the new service is to launch an early information and warning service for farmers about atmospheric conditions in a given location.

The designed system will be based on collecting weather data from its own local weather stations connected in a network and supported by mechanisms of machine learning and artificial intelligence. The main difference between existing solutions (government RSO system) will be the "locality" of forecasting, i.e. the data will be analysed for small areas. This solution gives greater forecasting precision. Service clients can be divided into two groups: municipalities and individual clients. Farmers will constitute the main group among individual clients. Services supporting modern agriculture will be prepared for them: soil moisture measurements, sowing, fertilization, spraying and harvest planning.

Currently, a competition application has been prepared to obtain financing for the implementation of the project assumptions in the incubation formula. Financing will come from the European Union - Eastern Poland Operational Program, Sub-measure 1.1.1 Starting platforms for new ideas.

Interview with external expert, Technologie- und Gründerzentrum Bautzen, Germany



What is the ideal ratio between providing products and services to customers for a company?
 For strategic long-term reasons a ratio of 20:80 or 80:20 allows a focus on the more profitable segment. For short term or midterm scenario is any ratio that boosts the company's innovative potential and day to day liquidity fully acceptable.

At what stage in its development should a company look into servitisation?
 Servitisation should be investigated periodically at every company stage, at least once a year.

Which industries are most suitable for servitisation?
 All industries can profit from servitisation.

What are some of the major benefits of servitisation for a company?
 Intensified know-ledge of customer needs that may lead to further product developments. Different scale of earnings with typically different time to revenue can lead to a more balanced distribution of earnings and more financial stability.

How long does it take for servitisation to bring income in for the company?
 6-12 Months, depending on marketing lead time up to 2 years.

What are the implications of growth of servitisation for the global market?
 Excellent

What future do you see for servitisation in the manufacturing sector?
 For products with "explainable parts" - software, automated equipment, production machinery a growing amount of revenue may come from service, maintenance, installation.

Does servitisation increase competition between companies that are in the same niche?
 No - it will in fact allow a better focus on specific market segments, thus companies may focus on what they know best.

What advice would you give to companies starting to implement servitisation?
 Create different business scenarios with different tools and most important: talk to your customers and your potential additional customers at an early stage.

Do you see servitisation becoming the main type of income in Industry 4.0?
 Yes.

Why should companies start selling products as services



What can manufacturers do to become more like Netflix and make more profit?

Servitization is a paradigm shift in how companies sell their products. It guides manufacturers away from the traditional direct sales towards business models that are common for services. Here is a simple example. Imagine a company that produces industrial milling (CNC) machines and decides to servitize its business model. They could, for instance, shift away from one single payment towards a subscription model that gives customers more flexibility and is cheaper in the short term.

Rolls Royce among pioneers

Rolls Royce is a poster child for successful servitization. Instead of selling their aero engines, the British manufacturing giant now contracts with many of its customers for "power-by-the-hour" model. Rolls Royce also provides all the necessary support (maintenance and repairs) and makes sure that the engines are always operational. This means that the customer only pays when the engine is working. Since any downtime is bad for both sides - Rolls Royces doesn't get paid and the customer can't fly -, the interests of both companies are much more aligned.

There are other ways how companies can servitize their business. After-sales services, such as maintaining, cleaning and recycling, are most common. Take General Electric, for example. The American industrial giant does not only sell medicine equipment, they also install and maintain them. Other companies decided not to sell their products but rather the know-how that is required to develop these products. Qualcomm, a smartphone chipmaker, makes the most money from patents and other licensing agreements. Alstom, a French industrial conglomerate, on the other hand, offers services that prioritize performance for its clients. If something goes wrong and the trains break down, Alstom incurs penalties - the company has the incentive to provide the best possible product and maintenance to avoid failures.

The auto industry is also increasingly adopting servitized models. Mercedes, for example, has recently rolled out a subscription-based service that allows users to rent a new car literally every day. Customers, currently only in the U.S., don't have any obligations aside from paying a monthly fee between 1095 and 2995 dollars. Other car brands (BMW, Cadillac, Volvo) are introducing similar "Netflix-esque" solutions.

Services bring in more profit

There is a good reason why companies are increasingly servitizing their businesses. Globalization has pushed margins so far down that companies are not able to compete on price alone. So, they started to bundle services and products, delivering additional value for the customer. It's also much easier to servitize products today because new technologies make subscriptions, revenue-sharing and other models possible. These technologies include big data, mobile platforms, advanced sensors and robots, computer cloud, virtual reality and 3D printing.

The incentive for servitization is clear. Companies that expand or combine their product offering with services are up to three times more likely to make profit, according to an enterprise software company IFS. Analysts at McKinsey have come to a similar conclusion - an average EBIT margin on services is 25 percent while product yield only 10 percent. Service-generated revenue is also more stable and less affected by market dynamics.

It's true, however, that the big corporations are usually more successful at servitization. -They have the money and the know-how to experiment with different business models. Small companies, on the other hand, sometimes don't even think of all the other possibilities they have to sell the product. It's, therefore, very important that these companies get support and help,-> says Borut Potočnik one of the Things+ mentors guiding participant companies at the Technology Park in Ljubljana.

Things+ partners



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