

# Servitization – industry’s next cultural shift



In an exclusive interview for AUTOMATED, Jonathan Wilkins talks to Ian Blackman, technical manager at the International Institute of Obsolescence

Management about how

servitization is causing a cultural change in industry.

**AUTOMATED:** How would you define servitization?

**Blackman:** Servitization is a new business model that is completely reinventing the manufacturing industry because it involves a cultural shift from products to services. In this new business model, the client buys an outcome rather than a product. For example, a company would buy ‘mileage’ instead of tyres or ‘thrust’ instead of jet engines.

Servitization means that instead of selling a product, manufacturers redevelop their offering to answer the strategic needs of customers. They focus on solving problems instead of meeting product specifications. The manufacturer also increases the range of services it offers to include through life support, in the form of spare parts provision, helpdesk, periodic maintenance, repair and overhaul.

**AUTOMATED:** Could you please give me a few examples of servitization in practice?

**Blackman:** Perhaps the most famous example is Rolls Royce’s ‘power by the hour’, in which the client does not buy aircraft engines, but the availability of such engines. The programme has been running since 1962 and means that the client only pays for what they use. In 2002, the company launched a range of additional features, including condition monitoring with the aim of minimising downtime.

Another example comes from construction expert Caterpillar, whose leasing agreement is effectively a type of servitisation because it includes remote equipment tracking and monitoring to develop precise preventative maintenance.

The UK Ministry of Defence (MoD) has been using a servitization model for decades. Instead of giving manufacturers and contractors a set of product specifications, the MoD explains what it wants to achieve, giving the manufacturer design flexibility when coming up with the best solution to solve a problem.

**AUTOMATED:** Which industries are leading the servitization trend?

**Blackman:** The concept was born in aerospace and defence, but it has quickly caught on in construction and infrastructure projects. Applications like lifts, escalators, power systems or heating, ventilation and air conditioning systems are particularly suitable for the new business model.

Another sector where the servitization model is on the rise is the automotive industry. This is where the cultural shift is even more prevalent and reflects buyer preferences. The new generation of drivers currently taking to the roads does not value owning a vehicle as much as its predecessors did. The real value for young drivers lies in flexibility. Why buy a car, when you could rent any car at any given time, often with a driver included?

**“Servitization incentivises manufacturers to make products that last longer”**

**AUTOMATED:** What are the main reasons for the rise of servitization?

**Blackman:** Any competition-based economic system creates a natural drive to continuously improve service and retain customers. Servitization is the next step in this evolution because it takes the hassle of maintenance, repair and replacement from the client side and puts it on the original equipment manufacturer (OEM).

For industrial applications that use legacy systems,

servitization is also about extending the life of existing assets and supporting older platforms. In many ways, servitization ties in with through life support and helps companies deal with obsolescence management.

**AUTOMATED:** What are the benefits of servitization for industry?

**Blackman:** For servitization to work, companies need to implement a greater closeness of business aims. This means that, instead of profiting from each other they need to work together to set objectives and contract conditions that are beneficial for both client and supplier.

The existing model favours equipment breakdowns, because when a product breaks the client has to purchase additional products from the OEM or other similar companies. Servitization turns this model on its head and creates a partnership between buyer and seller.

Servitization incentivises manufacturers to make products that last longer. It also creates additional revenue streams for manufacturers, which come from services rather than products. This means manufacturers benefit from better commercial resilience and long-term contracts, resulting in more stable cash flow and increased business opportunities. The continuous stream of revenue also allows manufacturers to continuously innovate and improve products.

**AUTOMATED:** What are the main challenges of servitization and how can manufacturers overcome them?

**Blackman:** Servitization requires excellent risk management and cost awareness. If a manufacturer miscalculates the value of a support contract, the error can have very negative consequences on the business. In many cases, the move to servitization starts with a fact-finding mission and an analysis of how a company could offer proactive maintenance for its products.

However, the biggest challenge comes from the cultural change that the new business model entails. It is about who leads the change within the organisation and how they manage to overcome existing mindsets of product-led companies.

**AUTOMATED:** What are your predictions for how servitization will change industry?

**Blackman:** I have seen some wild statistics that 65 per

cent of companies will need to switch to a servitization model in the next five years. I suspect the move will be much more gradual and slower, but I think it will eventually happen.

Manufacturers of all sizes need to be aware of this cultural shift and consider how they can adapt their business models to respond or even lead the change. Burying your head in the sand at this point could have disastrous consequences for your business. Instead, companies should welcome the change and find a solution that works best for themselves and their customers.

**AUTOMATED:** We have one final question we ask everyone we interview. Who is your tech hero?

**Blackman:** I would have to say Roger Mayer. He's most known for developing electric guitar effects, including the Octavia effect that Jimi Hendrix popularised in the song Purple Haze.

Mayer started off as an acoustic engineer working for the British Admiralty on underwater projects but he found his true calling in music. Guitar effects were virtually unknown before him. He worked with the likes of Jimmy Page, Big Jim Sullivan, Jeff Beck and Bob Marley. His effects are still used by many musicians today!

